Pebblebrook Hotel Trust
Form 10-Q
October 23, 2017

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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 001-34571

PEBBLEBROOK HOTEL TRUST
(Exact Name of Registrant as Specified in Its Charter)

Maryland	27-1055421
(State of Incorporation or Organization)	(I.R.S. Employer Identification No.)
7315 Wisconsin Avenue, 1100 West Bethesda, Maryland	20814
(Address of Principal Executive Offices)	(Zip Code)

(240) 507-1300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 20, 2017
Common shares of beneficial interest ($0.01 par value per share)	68,949,530

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.

Pebblebrook Hotel Trust
Consolidated Balance Sheets
(In thousands, except share data)

	September 30, 2017 (Unaudited)	December 31, 2016
ASSETS		
Investment in hotel properties, net	$ 2,464,186	$ 2,672,654
Ground lease asset, net	29,185	29,627
Cash and cash equivalents	14,185	33,410
Restricted cash	6,473	7,419
Hotel receivables (net of allowance for doubtful accounts of $356 and $494, respectively)	35,757	27,687
Prepaid expenses and other assets	43,902	38,462
Total assets	$ 2,593,688	$ 2,809,259
LIABILITIES AND EQUITY		
Unsecured revolving credit facilities	$ 30,000	$ 82,000
Term loans, net of unamortized deferred financing costs	672,391	671,793
Senior unsecured notes, net of unamortized deferred financing costs	99,513	99,460
Mortgage debt, net of unamortized loan premiums and deferred financing costs	71,027	142,998
Accounts payable and accrued expenses	150,100	149,283
Advance deposits	20,045	19,110
Accrued interest	3,250	2,284
Distribution payable	31,711	33,215
Total liabilities	1,078,037	1,200,143
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred shares of beneficial interest, $.01 par value (liquidation preference $250,000 at September 30, 2017 and at December 31, 2016), 100,000,000 shares authorized; 10,000,000 shares issued and outstanding at September 30, 2017 and December 31, 2016	100	100
Common shares of beneficial interest, $.01 par value, 500,000,000 shares authorized; 68,812,575 issued and outstanding at September 30, 2017 and 71,922,904 issued and outstanding at December 31, 2016	688	719
Additional paid-in capital	1,683,785	1,776,404
Accumulated other comprehensive income (loss)	(768)	(2,312)
Distributions in excess of retained earnings	(172,576)	(169,227)
Total shareholders' equity	1,511,229	1,605,684
Non-controlling interests	4,422	3,432
Total equity	1,515,651	1,609,116
Total liabilities and equity	$ 2,593,688	$ 2,809,259

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

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Pebblebrook Hotel Trust
Consolidated Statements of Operations and Comprehensive Income
(In thousands, except share and per-share data)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Revenues:				
Room	$144,770	$152,693	$412,862	$432,547
Food and beverage	42,839	42,564	134,858	142,933
Other operating	14,184	13,706	41,968	42,000
Total revenues	201,793	208,963	589,688	617,480
Expenses:				
Hotel operating expenses:				
Room	34,453	34,541	102,076	100,860
Food and beverage	29,913	28,917	91,403	95,486
Other direct and indirect	52,504	53,468	158,953	164,795
Total hotel operating expenses	116,870	116,926	352,432	361,141
Depreciation and amortization	25,210	25,407	77,456	76,327
Real estate taxes, personal property taxes, property insurance, and ground rent	11,345	12,360	37,095	37,253
General and administrative	4,467	6,779	17,045	19,936
Impairment and other losses	3,191	12,148	4,240	12,148
Total operating expenses	161,083	173,620	488,268	506,805
Operating income (loss)	40,710	35,343	101,420	110,675
Interest income	1	627	97	1,872
Interest expense	(8,969)	(10,257)	(28,015)	(32,490)
Other	132	1,548	132	(324)
Gain on sale of hotel properties	290	—	14,877	40,326
Equity in earnings (loss) of joint venture	—	(61,268)	—	(64,501)
Income (loss) before income taxes	32,164	(34,007)	88,511	55,558
Income tax (expense) benefit	(1,593)	(1,528)	(181)	(18)
Net income (loss)	30,571	(35,535)	88,330	55,540
Net income (loss) attributable to non-controlling interests	128	(112)	341	194
Net income (loss) attributable to the Company	30,443	(35,423)	87,989	55,346
Distributions to preferred shareholders	(4,023)	(5,553)	(12,070)	(15,638)
Issuance costs of redeemed preferred shares	—	(2,921)	—	(7,090)
Net income (loss) attributable to common shareholders	$26,420	$(43,897)	$75,919	$32,618
Net income (loss) per share available to common shareholders, basic	$0.38	$(0.61)	$1.08	$0.45
Net income (loss) per share available to common shareholders, diluted	$0.38	$(0.61)	$1.08	$0.45
Weighted-average number of common shares, basic	68,814,805	71,922,904	69,854,618	71,894,313
Weighted-average number of common shares, diluted	69,202,920	71,922,904	70,228,074	72,376,349

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Pebblebrook Hotel Trust
Consolidated Statements of Operations and Comprehensive Income - Continued
(In thousands, except share and per-share data)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Comprehensive Income:				
Net income (loss)	$30,571	$(35,535)	$88,330	$55,540
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments	733	3,007	1,544	(13,112)
Comprehensive income (loss)	31,304	(32,528)	89,874	42,428
Comprehensive income (loss) attributable to non-controlling interests	131	(102)	346	151
Comprehensive income (loss) attributable to the Company	$31,173	$(32,426)	$89,528	$42,277

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

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Pebblebrook Hotel Trust
Consolidated Statements of Equity
(In thousands, except share data)
(Unaudited)

	Preferred Shares		Common Shares							
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non-Controlling Interests	Total E
Balance at December 31, 2015	14,000,000	$140	71,735,129	$717	$1,868,047	$(4,750)	$(105,765)	$1,758,389	$2,445	$1,760,
Issuance of shares, net of offering costs	5,000,000	50	—	—	120,771	—	—	120,821	—	120,821
Redemption of preferred shares	(9,000,000)	(90)	—	—	(217,870)	—	(7,090)	(225,050)	—	(225,05
Issuance of common shares for Board of Trustees compensation	—	—	21,407	—	606	—	—	606	—	606
Repurchase of common shares	—	—	(88,510)	(1)	(2,495)	—	—	(2,496)	—	(2,496
Share-based compensation	—	—	254,878	3	5,354	—	—	5,357	828	6,185
Distributions on common shares/units	—	—	—	—	—	—	(82,877)	(82,877)	(269)	(83,146
Distributions on preferred shares	—	—	—	—	—	—	(15,638)	(15,638)	(9)	(15,647
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	(13,112)	—	(13,112)	—	(13,112
Net income (loss)	—	—	—	—	—	—	55,346	55,346	194	55,540
Balance at September 30, 2016	10,000,000	$100	71,922,904	$719	$1,774,413	$(17,862)	$(156,024)	$1,601,346	$3,189	$1,604,
Balance at December 31, 2016	10,000,000	$100	71,922,904	$719	$1,776,404	$(2,312)	$(169,227)	$1,605,684	$3,432	$1,609,
	—	—	—	—	(62)	—	—	(62)	—	(62

Issuance of shares, net of offering costs										
Issuance of common shares for Board of Trustees compensation	—	—	16,711	1	502	—	—	503	—	503
Repurchase of common shares	—	—	(3,335,278)	(33)	(95,948)	—	—	(95,981)	—	(95,981
Share-based compensation	—	—	208,238	1	2,889	—	—	2,890	827	3,717
Distributions on common shares/units	—	—	—	—	—	—	(79,268)	(79,268)	(269)	(79,537
Distributions on preferred shares	—	—	—	—	—	—	(12,070)	(12,070)	(15)	(12,085
Net contribution from non-controlling interests	—	—	—	—	—	—	—	—	106	106
Other comprehensive income (loss):										
Unrealized gain (loss) on derivative instruments	—	—	—	—	—	1,544	—	1,544	—	1,544
Net income (loss)	—	—	—	—	—	—	87,989	87,989	341	88,330
Balance at September 30, 2017	10,000,000	$100	68,812,575	$688	$1,683,785	$(768)	$(172,576)	$1,511,229	$4,422	$1,515,

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

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Pebblebrook Hotel Trust
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	For the nine months ended September 30, 2017	2016
Operating activities:		
Net income (loss)	$88,330	$55,540
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	77,456	76,327
Share-based compensation	3,717	6,185
(Gain) loss on derivative instruments	(132)	324
Amortization of deferred financing costs and mortgage loan premiums	1,200	694
Gain on sale of hotel properties	(14,877)	(40,326)
Impairment and other losses	3,849	12,148
Non-cash ground rent	2,200	2,019
Equity in (earnings) loss from joint venture	—	65,706
Other	1,861	1,799
Changes in assets and liabilities:		
Restricted cash, net	1,412	733
Hotel receivables	(7,932)	(7,203)
Prepaid expenses and other assets	(2,963)	(1,311)
Accounts payable and accrued expenses	(2,563)	10,545
Advance deposits	935	2,427
Net cash provided by (used in) operating activities	152,493	185,607
Investing activities:		
Improvements and additions to hotel properties	(63,545)	(88,815)
Deposit received on hotel properties	2,000	3,000
Deposit for joint venture redemption	—	(10,000)
Proceeds from sale of hotel properties	203,479	107,565
Purchase of corporate office equipment, software, and furniture	(39)	(46)
Restricted cash, net	(466)	1,135
Net cash provided by (used in) investing activities	141,429	12,839
Financing activities:		
Gross proceeds from issuance of preferred shares	—	125,000
Payment of offering costs — common and preferred shares	(62)	(4,176)
Payment of deferred financing costs	(145)	(993)
Contributions from non-controlling interest	106	—
Borrowings under senior revolving credit facilities	220,502	364,000
Repayments under senior revolving credit facilities	(272,502)	(399,000)
Proceeds from term loans	—	150,000
Repayments of mortgage debt	(71,737)	(90,447)
Repurchase of common shares	(95,981)	(2,496)
Redemption of preferred shares	—	(225,050)
Distributions — common shares/units	(81,039)	(77,849)
Distributions — preferred shares	(12,070)	(17,746)

Proceeds from refundable membership deposits	402	1,145

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Pebblebrook Hotel Trust
Consolidated Statements of Cash Flows - Continued
(In thousands)
(Unaudited)

Repayments of refundable membership deposits	(621)	(553)
Net cash provided by (used in) financing activities	(313,147)	(178,165)
Net change in cash and cash equivalents	(19,225)	20,281
Cash and cash equivalents, beginning of year	33,410	26,345
Cash and cash equivalents, end of period	$ 14,185	$ 46,626

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

PEBBLEBROOK HOTEL TRUST
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Organization

Pebblebrook Hotel Trust (the "Company") was formed as a Maryland real estate investment trust in October 2009 to opportunistically acquire and invest in hotel properties located primarily in major United States cities, with an emphasis on major gateway coastal markets.

As of September 30, 2017, the Company owned 28 hotels with a total of 6,970 guest rooms. The hotels are located in the following markets: Atlanta (Buckhead), Georgia; Boston, Massachusetts; Miami (Coral Gables), Florida; Minneapolis, Minnesota; Naples, Florida; Nashville, Tennessee; Philadelphia, Pennsylvania; Portland, Oregon; San Diego, California; San Francisco, California; Santa Monica, California; Seattle, Washington; Stevenson, Washington; Washington, D.C.; West Hollywood, California; and Los Angeles (Beverly Hills), California.

Substantially all of the Company’s assets are held by, and all of the Company's operations are conducted through, Pebblebrook Hotel, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At September 30, 2017, the Company owned 99.7% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 0.3% of the common units are owned by the other limited partners of the Operating Partnership. For the Company to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), it cannot operate the hotels it owns. Therefore, the Operating Partnership and its subsidiaries lease the hotel properties to subsidiaries of Pebblebrook Hotel Lessee, Inc. (collectively with its subsidiaries, "PHL"), the Company’s taxable REIT subsidiary ("TRS"), which in turn engages third-party eligible independent contractors to manage the hotels. PHL is consolidated into the Company’s financial statements.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim financial information. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements include all adjustments considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and comprehensive income and consolidated statements of cash flows for the periods presented. Interim results are not necessarily indicative of full-year performance, as a result of the impact of seasonal and other short-term variations and the acquisitions and or dispositions of hotel properties. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

The Company and its subsidiaries are separate legal entities and maintain records and books of account separate and apart from each other. The consolidated financial statements include all of the accounts of the Company and its subsidiaries and are presented in accordance with U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation. Investments in entities that the Company does not control, but over which the Company has the ability to exercise significant influence regarding operating and financial policies, are accounted for under the equity method.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management’s best judgment, after considering past, current and expected events and economic conditions. Actual results could differ from these estimates.

Fair Value Measurements

A fair value measurement is based on the assumptions that market participants would use in pricing an asset or liability in an orderly transaction. The hierarchy for inputs used in measuring fair value are as follows:

1. Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

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2. Level 2 – Inputs include quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, and model-derived valuations whose inputs are observable.
3. Level 3 – Model-derived valuations with unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement.

The Company's financial instruments include cash and cash equivalents, restricted cash, accounts payable and accrued expenses. Due to their short maturities, the carrying amounts of these assets and liabilities approximate fair value. See Note 6 to the accompanying financial statements for disclosures on the fair value of debt and derivative instruments.

Investment in Hotel Properties

Upon acquisition of a hotel property, the Company allocates the purchase price based on the fair value of the acquired land, land improvements, building, furniture, fixtures and equipment, identifiable intangible assets or liabilities, other assets and assumed liabilities. Identifiable intangible assets or liabilities typically arise from contractual arrangements in connection with the transaction, including terms that are above or below market compared to an estimated market agreement at the acquisition date. Acquisition-date fair values of assets and assumed liabilities are determined based on replacement costs, appraised values, and estimated fair values using methods similar to those used by independent appraisers and that use appropriate discount and/or capitalization rates and available market information.

Acquisition costs are expensed as incurred and are included in general and administrative expenses on the statement of operations.

Hotel renovations and replacements of assets that improve or extend the life of the asset are recorded at cost and depreciated over their estimated useful lives. Assets under capital leases are recorded at the present value of the minimum lease payments. Repair and maintenance costs are expensed as incurred.

Hotel properties are recorded at cost and depreciated using the straight-line method over an estimated useful life of 10 to 40 years for buildings, land improvements, and building improvements and 1 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets. Intangible assets arising from contractual arrangements are typically amortized over the life of the contract.

The Company is required to make subjective assessments as to the useful lives and classification of properties for purposes of determining the amount of depreciation expense to reflect each year with respect to the assets. These assessments may impact the Company’s results of operations.

The Company reviews its investments in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, when a hotel property experiences a current or projected loss from operations, when it becomes more likely than not that a hotel property will be sold before the end of its useful life, adverse changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, the Company performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel exceed its carrying value. If the estimated undiscounted future cash flows are less than the carrying value of the asset, an adjustment to reduce the carrying value to the related hotel’s estimated fair market value is recorded and an impairment loss is recognized. In the evaluation of impairment of its hotel properties, the Company makes many assumptions and estimates including projected cash flows both from operations and eventual disposition, expected useful life and holding period, future required capital expenditures, and fair values, including consideration of capitalization rates, discount rates, and comparable selling prices. The Company will adjust its assumptions with respect to the remaining useful life of the hotel property when circumstances change or it is more likely than not that the hotel property will be sold prior to its previously expected useful life.

The Company will classify a hotel as held for sale and will cease recording depreciation expense when a binding agreement to sell the property has been signed under which the buyer has committed a significant amount of nonrefundable cash, approval of the Board of Trustees has been obtained, no significant financing contingencies exist, and the sale is expected to close within one year. If the fair value less costs to sell is lower than the carrying value of the hotel, the Company will record an impairment loss. The Company will classify the loss, together with the related operating results, as continuing or discontinuing operations on the statements of operations and classify the assets and related liabilities as held for sale on the balance sheet.

Revenue Recognition

Revenue consists of amounts derived from hotel operations, including the sales of rooms, food and beverage, and other ancillary amenities. Revenue is recognized when rooms are occupied and services have been rendered. For retail operations, revenue is recognized on a straight-line basis over the lives of the retail leases. The Company recognizes revenue related to membership initiation fees and deposits over the expected life of an active membership. For membership initiation deposits, the difference between the amount paid by the member and the present value of the refund obligation is deferred and recognized within other operating revenues on the consolidated statements of operations over the expected life of an active membership. The present value of the refund obligation is recorded as a membership initiation deposit liability in the consolidated balance sheets and accretes over the nonrefundable term using the effective interest method using the Company's incremental borrowing rate. The accretion is included in interest expense.

The Company collects sales, use, occupancy and similar taxes at its hotels which are presented on a net basis on the statement of operations. Accounts receivable primarily represents receivables from hotel guests who occupy hotel rooms and utilize hotel services. The Company maintains an allowance for doubtful accounts sufficient to cover estimated potential credit losses.

Income Taxes

To qualify as a REIT for federal income tax purposes, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90 percent of its adjusted taxable income to its shareholders. As a REIT, the Company generally is not subject to federal corporate income tax on that portion of its taxable income that is currently distributed to shareholders. The Company is 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, PHL, which leases the Company’s hotels from the Operating Partnership, is subject to federal and state income taxes. The Company accounts for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Share-based Compensation

The Company has adopted an equity incentive plan that provides for the grant of common share options, share awards, share appreciation rights, performance units and other equity-based awards. Equity-based compensation is measured at the fair value of the award on the date of grant and recognized as an expense on a straight-line basis over the vesting period. Share-based compensation awards that contain a performance condition are reviewed at least quarterly to assess the achievement of the performance condition. Compensation expense will be adjusted when a change in the assessment of achievement of the specific performance condition level is determined to be probable. The determination of fair value of these awards is subjective and involves significant estimates and assumptions including expected volatility of the Company's shares, expected dividend yield, expected term and assumptions of whether these awards will achieve parity with other operating partnership units or achieve performance thresholds.

Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing the net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is computed by dividing net income (loss) available to common shareholders, as adjusted for dilutive securities, by the weighted-average number of common shares outstanding plus dilutive securities. Any anti-dilutive securities are excluded from the diluted per-share calculation.

Recent Accounting Standards

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers, 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. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In July 2015, the FASB voted to defer the effective date to January 1, 2018 with early adoption beginning January 1, 2017. The Company is finalizing its evaluation of 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, ASU No. 2014-09 will not impact the recognition of hotel sales. The Company expects to use the modified retrospective method for adoption. The Company has substantially completed its analysis and does not expect adoption of this standard will have a material impact on its consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similarly to existing guidance for operating leases today. The Company is the lessee on ground leases and an office lease and expects to record right of use assets and lease liabilities for these leases under the new standard. This guidance is effective for the Company on January 1, 2019, however, early adoption is permitted. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is evaluating the effect that ASU 2016-02 will have on its consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU-2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Payment, which clarifies and provides specific guidance on eight cash flow classification issues with an objective to reduce the current diversity in practice. This guidance is effective for the Company for years beginning after December 15, 2017, but earlier adoption is permitted. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which clarifies how companies should present restricted cash and restricted cash equivalents in the statement of cash flows. This guidance requires companies to show the changes in the total of cash, cash equivalents, restricted cash equivalents in the statement of cash flows. This guidance is effective for the Company for years beginning after December 15, 2017, including interim periods within those years and should be applied retroactively. Early adoption is permitted. The Company does not anticipate that this guidance will have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU clarifies the definition of a business with the objective of adding guidance to assist companies with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The changes to the definition of a business will likely result in more of the Company's property acquisitions qualifying as asset acquisitions, which will permit capitalization of acquisition costs. This standard is effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company is currently evaluating the effect that the adoption of this ASU will have on its financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity will account for the effects of a modification unless the fair value of the modified award is the same as the original award, the vesting conditions of the modified award are the same as the original award, and the classification of the modified award as an equity instrument or liability instrument is the same as the original award. This standard is effective for annual periods beginning after December 15, 2017 and early adoption is permitted. The Company does not expect the adoption of ASU 2017-09 to have a material impact on its financial position or results of operations.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better align risk management activities in financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. The Company is currently evaluating the effect that the adoption of this ASU will have on its consolidated financial statements.

Note 3. Acquisition and Disposition of Hotel Properties

Dispositions

The Company will report a disposed or held for sale hotel property or group of hotel properties in discontinued operations only if the disposal represents a strategic shift that has, or will have, a major effect on our operations and financial results. All other disposed hotel properties will have their operating results reflected within continuing operations on the Company's consolidated statements of operations for all periods presented.

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On June 20, 2017, the Company sold the Dumont NYC for $118.0 million and recognized an immaterial gain on sale. In March 2017, the Company recognized an impairment loss of $1.0 million related to this hotel property when the property was designated as held for sale. The impairment loss was determined using level 2 inputs (third-party offer price less estimated costs to sell) under authoritative guidance for fair value measurements. Proceeds from the sale were used to repay amounts outstanding on the Company's revolving credit facility and general corporate purposes.

On June 23, 2017, the Company sold the parking garage at the Revere Hotel Boston Common for $95.0 million. The Company recognized a gain of $13.9 million related to the sale of this parking garage. Proceeds from the sale were used to repay amounts outstanding on the Company's revolving credit facility and general corporate purposes.

For the three and nine months ended September 30, 2017, the Company's consolidated statements of operations included operating income of zero and $4.2 million, respectively, related to the Dumont NYC and the parking garage at the Revere Hotel Boston Common. For the three and nine months ended September 30, 2016, the Company's consolidated statements of operations included operating income of $1.3 million and $4.2 million, respectively, related to the parking garage at the Revere Hotel Boston Common.

The sales of the hotel property and parking garage described above did not represent a strategic shift that had a major effect in the Company’s operations and financial results, and therefore, did not qualify as discontinued operations.

Note 4. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Land	$ 448,401	$ 503,571
Buildings and improvements	2,191,449	2,287,104
Furniture, fixtures and equipment	240,674	231,211
Construction in progress	10,841	9,253
Investment in hotel properties	$ 2,891,365	$ 3,031,139
Less: Accumulated depreciation	(427,179)	(358,485)
Investment in hotel properties, net	$ 2,464,186	$ 2,672,654

On September 10, 2017, Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel (formerly The Westin Colonnade Coral Gables) ("Hotel Colonnade") located in Coral Gables, Florida and LaPlaya Beach Resort and LaPlaya Beach Club ("LaPlaya") located in Naples, Florida were impacted by the effects of Hurricane Irma. Hotel Colonnade did not suffer any material damage and remains open. LaPlaya was closed in anticipation of the storm and remains closed as a result of the damage sustained from Hurricane Irma. The Company expects LaPlaya to re-open in stages beginning in the fourth quarter of 2017.

The Company’s insurance policies provide coverage for property damage, business interruption, and reimbursement for other costs that were incurred relating to damages sustained during Hurricane Irma. Insurance proceeds are subject to deductibles. As of September 30, 2017, the Company recognized an impairment for the damage to LaPlaya and a corresponding insurance receivable for the anticipated insurance recovery, which resulted in a net impairment loss of $2.8 million. In addition, the Company recorded a loss of $0.4 million related to closure costs. The net impairment loss and closure related costs are recorded in impairment and other losses in the Company’s consolidated statement of operations. The Company expects to incur additional costs related to the cleanup of the property and preparation of the property for reopening which are expected to be recovered through insurance proceeds. The Company is continuing to evaluate the financial impact of Hurricane Irma and its ability to recover, through our insurance policies, any loss due to business interruption or damage to LaPlaya.

Note 5. Investment in Joint Venture

On July 29, 2011, the Company acquired a 49% interest in a joint venture (the "Manhattan Collection joint venture"), which owned six properties in New York, New York. The Company accounted for this investment using the equity method. On October 19, 2016, the Company liquidated its interest in the joint venture and became the 100.0% owner of two hotels, the Manhattan NYC and Dumont NYC, which were previously owned by the joint venture. For the three and nine months ended September 30, 2016, the Company had $(61.3) million and $(64.5) million, respectively, in equity in earnings (loss) from the joint venture.

Note 6. Debt

Senior Unsecured Revolving Credit Facilities

The Company's $750.0 million unsecured credit facility provides for a $450.0 million unsecured revolving credit facility and a $300.0 million unsecured term loan (the "First Term Loan"). The revolving credit facility matures in January 2019 with options to extend the maturity date to January 2020. The First Term Loan matures in January 2020. The Company has the ability to increase the aggregate borrowing capacity under the credit agreement to up to $1.0 billion, subject to lender approval. Borrowings on the revolving credit facility bear interest at LIBOR plus 1.55% to 2.30%, depending on the Company’s leverage ratio. Additionally, the Company is required to pay an unused commitment fee at an annual rate of 0.20% or 0.30% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The credit agreement that governs the revolving credit facility and the First Term Loan contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio, and a maximum percentage of secured debt to total asset value.

As of September 30, 2017 and December 31, 2016, the Company had $30.0 million and $82.0 million, respectively, in outstanding borrowings under the revolving credit facility. As of September 30, 2017, the Company had $420.0 million borrowing capacity remaining under the revolving credit facility. As of September 30, 2017, the Company was in compliance with the credit agreement debt covenants. For the three and nine months ended September 30, 2017, the Company incurred unused commitment fees of $0.3 million and $0.7 million, respectively. For the three and nine months ended September 30, 2016, the Company incurred unused commitment fees of $0.3 million and $0.7 million, respectively.

On May 17, 2017, PHL entered into a $10.0 million unsecured revolving credit facility ("PHL Credit Facility") to be used for PHL's working capital and general corporate purposes. The PHL Credit Facility matures in May 2018. Borrowings on the PHL Credit Facility bear interest at LIBOR plus 1.55% to 2.30%, depending on the Company's leverage ratio. The PHL Credit Facility is subject to debt covenants substantially similar to the covenants under the Company's amended and restated credit agreement. Additionally, PHL is required to pay an unused commitment fee at an annual rate of 0.20% or 0.30% of the unused portion of the PHL Credit Facility.

As of September 30, 2017 and December 31, 2016, PHL had no borrowings under its revolving credit facility. As of September 30, 2017, the Company had $10.0 million borrowing capacity remaining under the PHL Credit Facility.

Unsecured Term Loan Facilities

As of September 30, 2017, the Company had $300.0 million outstanding under the First Term Loan which matures in January 2020. This term loan facility bears interest at a variable rate of LIBOR plus 1.50% to 2.25%, depending on the Company's leverage ratio.

On April 13, 2015, the Company entered into a second unsecured term loan facility (the "Second Term Loan"). The Second Term Loan has a $100.0 million capacity, which may be increased to up to $200.0 million, subject to lender approval, and matures in April 2022. On January 5, 2016, the Company exercised its option to increase the borrowing capacity under the Second Term Loan to $175.0 million. As of September 30, 2017, the Company had $175.0 million outstanding under the Second Term Loan. The Second Term Loan bears interest at a variable rate of LIBOR plus 1.70% to 2.55%, depending on the Company's leverage ratio.

On June 10, 2015, the Company entered into a third unsecured term loan facility (the "Third Term Loan"). The Third Term Loan has a $125.0 million capacity, which may be increased up to $250.0 million, subject to lender approval, and matures in January 2021. On January 5, 2016, the Company exercised its accordion option to increase the borrowing capacity under the Third Term Loan to $200.0 million. As of September 30, 2017, the Company had $200.0 million outstanding under the Third Term Loan. This Third Term Loan bears interest at a variable rate of LIBOR plus 1.45% to 2.20%, depending on the Company's leverage ratio.

As of September 30, 2017 and December 31, 2016, the Company had $675.0 million and $675.0 million, respectively, in aggregate outstanding borrowings under the three unsecured term loan facilities. Each of the term loan facilities is subject to debt covenants substantially similar to the covenants under the credit agreement that governs the revolving credit facility and First Term Loan. As of September 30, 2017, the Company was in compliance with all debt covenants of its term loan facilities. The Company has entered into interest rate swaps to effectively fix the LIBOR rates for all of its unsecured term loan facilities, except for $75.0 million on the Second Term Loan (see “Derivative and Hedging Activities” below).

Senior Unsecured Notes

On November 12, 2015, the Company issued $60.0 million of senior unsecured notes (the "Series A Notes") bearing a fixed interest rate of 4.70% per annum and maturing in December 2023. On November 12, 2015, the Company issued $40.0 million of senior unsecured notes (the "Series B Notes") bearing a fixed interest rate of 4.93% per annum and maturing in December 2025. The Series A Notes and the Series B Notes are subject to debt covenants substantially similar to the covenants

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under the credit agreement that governs the revolving credit facility and the First Term Loan. As of September 30, 2017, the Company was in compliance with all such debt covenants.

Derivative and Hedging Activities

The Company enters into interest rate swap agreements to hedge against interest rate fluctuations. All of the Company's interest rate swaps are cash flow hedges. Unrealized gains and losses on the effective portion of hedging instruments are reported in other comprehensive income (loss) and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Ineffective portions of changes in the fair value of a cash flow hedge are recognized as other expense in the consolidated statements of operations and comprehensive income.

As of September 30, 2017, the Company had interest rate swaps with an aggregate notional amount of $300.0 million to hedge the variable interest rate on the First Term Loan and, as a result, the First Term Loan had a weighted-average effective interest rate of 2.83% per annum through July 13, 2017 and a weighted-average effective interest rate of 3.41% from July 13, 2017 through January 15, 2020, based on the Company’s leverage ratio at September 30, 2017.

The Company entered into interest rate swap agreements with an aggregate notional amount of $100.0 million to effectively fix the LIBOR rate for the entire duration of the Second Term Loan, and, as a result, the Second Term Loan had a weighted-average effective interest rate of 3.36% per annum, based on the Company’s leverage ratio at September 30, 2017. The remaining $75.0 million borrowing under the Second Term Loan remains floating at a variable rate of LIBOR plus 1.70% to 2.55%, depending on the Company's leverage ratio.

The Company entered into interest rate swap agreements with an aggregate notional amount of $200.0 million to effectively fix the LIBOR rate for the entire duration of the Third Term Loan, and, as a result, the Third Term Loan had a weighted-average effective interest rate of 3.11% per annum, based on the Company’s leverage ratio at September 30, 2017.

The Company records all derivative instruments at fair value in the consolidated balance sheets. Fair values of interest rate swaps are determined using the standard market methodology of netting the discounted future fixed cash receipts/payments and the discounted expected variable cash payments/receipts. Variable interest rates used in the calculation of projected receipts and payments on the swaps are based on an expectation of future interest rates derived from observable market interest rate curves (Overnight Index Swap curves) and volatilities (level 2 inputs). Derivatives expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company incorporates these counterparty credit risks in its fair value measurements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions.

As of September 30, 2017, the Company's derivative instruments were in both asset and liability positions, with aggregate asset and liability fair values of $1.5 million and $1.9 million, respectively, in the accompanying consolidated balance sheets. For the three and nine months ended September 30, 2017, there was $0.7 million and $1.5 million in unrealized gain (loss), respectively, recorded in accumulated other comprehensive income. For the three and nine months ended September 30, 2016, there was $3.0 million and $(13.1) million unrealized gain (loss), respectively, recorded in accumulated other comprehensive income. For the three and nine months ended September 30, 2017, the Company recorded a gain (loss) of $0.1 million and $0.1 million, respectively, for the ineffective portion of the change in fair values of the interest rate swaps. For the three and nine months ended September 30, 2016, the Company recorded a gain (loss) of $1.5 million and $(0.3) million, respectively, for the ineffective portion of the change in fair values of the interest rate swaps. For the three and nine months ended September 30, 2017, the Company reclassified $0.8 million and $2.6 million, respectively, from accumulated other comprehensive income (loss) to interest expense. For the three and nine months ended September 30, 2016, the Company reclassified $1.5 million and $4.7 million, respectively, from accumulated other comprehensive income (loss) to interest expense. The Company expects approximately $1.2 million will be reclassified from accumulated other comprehensive income (loss) to interest expense in the next 12 months.

Mortgage Debt

Each of the Company’s mortgage loans is secured by a first mortgage lien or by leasehold interests under the ground lease on the underlying property. The mortgages are non-recourse to the Company except for customary carve-outs such as fraud or misapplication of funds.

On March 1, 2017, the Company repaid the $44.1 million mortgage loan on the Sofitel Philadelphia, without penalty, using proceeds from the senior unsecured revolving credit facility.

On June 1, 2017 , the Company repaid the $25.5 million mortgage loan on the Hotel Zelos San Francisco, without penalty, using proceeds from the senior unsecured revolving credit facility.

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Debt Summary

Debt as of September 30, 2017 and December 31, 2016 consisted of the following (dollars in thousands):

	Interest Rate	Maturity Date	Balance Outstanding as of September 30, 2017	Balance Outstanding as of December 31, 2016
Revolving credit facilities				
Senior unsecured revolving credit facility	Floating [(1)]	January 2019	$30,000	$ 82,000
PHL unsecured revolving credit facility	Floating [(2)]	May 2018	—	—
Total revolving credit facilities			$30,000	$ 82,000
Term loans				
First Term Loan	Floating [(3)]	January 2020	300,000	300,000
Second Term Loan	Floating [(3)]	April 2022	175,000	175,000
Third Term Loan	Floating [(3)]	January 2021	200,000	200,000
Total term loans at stated value			675,000	675,000
Deferred financing costs, net			(2,609)	(3,207)
Total term loans			$672,391	$ 671,793
Senior unsecured notes				
Series A Notes	4.70%	December 2023	60,000	60,000
Series B Notes	4.93%	December 2025	40,000	40,000
Total senior unsecured notes at stated value			100,000	100,000
Deferred financing costs, net			(487)	(540)
Total senior unsecured notes			$99,513	$ 99,460
Mortgage loans				
Sofitel Philadelphia	3.90%	June 2017	—	44,320
Hotel Zelos San Francisco	5.94%	September 2017	—	25,718
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	71,153	72,852
Mortgage loans at stated value			71,153	142,890
Mortgage loan premiums and deferred financing costs [(4)]			(126)	108
Total mortgage loans			$71,027	$ 142,998
Total debt			$872,931	$ 996,251

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(1) 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 applicable credit agreement) plus an applicable margin. The Company has two six-month extension options.

(2) Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) an Eurocurrency Rate (as defined in the applicable credit agreement) plus an applicable margin.

(3) Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rate for the First Term Loan, a portion of the Second Term Loan and the Third Term Loan. At September 30, 2017 and December 31, 2016, the Company had interest rate swaps on the full amounts outstanding, except for $75.0 million on the Second Term Loan. See "Derivative and Hedging Activities" above.

(4) Loan premium on assumed mortgage loan recorded in purchase accounting for the Hotel Zelos San Francisco.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates, taking into consideration general market conditions and maturity of the debt with similar credit terms

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and is classified within level 2 of the fair value hierarchy. The estimated fair value of the Company's fixed rate debt (unsecured senior notes and mortgage loans) as of September 30, 2017 and December 31, 2016 was $170.4 million and $242.9 million, respectively.

The Company was in compliance with all debt covenants as of September 30, 2017.

Note 7. Equity

Common Shares

The Company is authorized to issue up to 500,000,000 common shares of beneficial interest, $.01 par value per share ("common shares"). Each outstanding common share entitles the holder to one vote on each matter submitted to a vote of shareholders. Holders of the Company's common shares are entitled to receive dividends when authorized by the Company's Board of Trustees.

On March 5, 2014, the Company filed a prospectus supplement with the SEC to sell up to $175.0 million in common shares under a new "at the market" offering program (an "ATM program"). At the same time, the Company terminated its prior $170.0 million ATM program. As of March 1, 2017, $159.8 million in common shares remained available for issuance under the $175.0 million ATM program, and as of that date the Company terminated the program.

On February 22, 2016, the Company announced that the Board of Trustees authorized a share repurchase program of up to $150.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. As of September 30, 2017, the Company repurchased 3,245,820 common shares for an aggregate purchase price of $93.4 million, or an average of approximately $28.77 per share, under this program. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares. As of September 30, 2017, $56.6 million of common shares remained available for repurchase under this program.

On July 27, 2017, the Company announced that the Board of Trustees authorized a new share repurchase program of up to $100.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. This $100.0 million share repurchase program will commence upon the completion of the Company's $150.0 million share repurchase program.

Common Dividends

The Company declared the following dividends on common shares/units for the nine months ended September 30, 2017:

Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
$0.38	March 31, 2017	March 31, 2017	April 17, 2017
$0.38	June 30, 2017	June 30, 2017	July 17, 2017
$0.38	September 30, 2017	September 29, 2017	October 16, 2017

Preferred Shares

The Company is authorized to issue up to 100,000,000 preferred shares of beneficial interest, $.01 par value per share ("preferred shares").

As of September 30, 2017 and December 31, 2016 , the Company had 5,000,000 of its 6.50% Series C Cumulative Redeemable Preferred Shares ("Series C Preferred Shares") and 5,000,000 of its 6.375% Series D Cumulative Redeemable Preferred Shares ("Series D Preferred Shares") outstanding.

The Series C Preferred Shares and Series D Preferred Shares (collectively, the "Preferred Shares") rank senior to the common shares and on parity with each other with respect to payment of distributions. The Preferred Shares are cumulative redeemable preferred shares, do not have any maturity date and are not subject to mandatory redemption. The Company may not redeem the Series C Preferred Shares or Series D Preferred Shares prior to March 18, 2018 and June 9, 2021, respectively, except in limited circumstances relating to the Company's continuing qualification as a REIT or as discussed below. On or after those dates, the Company may, at its option, redeem the applicable 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 through the date of redemption. Upon the occurrence of a change of control, as defined in the Company's declaration of trust, the result of which the Company’s common shares and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the

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NYSE MKT or NASDAQ, or any successor exchanges, the Company may, at its option, redeem the Preferred Shares in whole or in part within 120 days following the change of control by paying $25.00 per share, plus any accrued and unpaid distributions through the date of redemption. If the Company does not exercise its right to redeem the Preferred Shares upon a change of control, the holders of the Preferred Shares have the right to convert some or all of their shares into a number of the Company’s common shares based on a defined formula subject to a share cap. The share cap on each Series C Preferred Share is 2.0325 common shares and each Series D Preferred Share is 1.9794 common shares.

Preferred Dividends

The Company declared the following dividends on preferred shares for the nine months ended September 30, 2017:

Security Type	Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
6.50% Series C	$ 0.41	March 31, 2017	March 31, 2017	April 17, 2017
6.50% Series C	$ 0.41	June 30, 2017	June 30, 2017	July 17, 2017
6.50% Series C	$ 0.41	September 30, 2017	September 29, 2017	October 16, 2017
6.375% Series D	$ 0.40	March 31, 2017	March 31, 2017	April 17, 2017
6.375% Series D	$ 0.40	June 30, 2017	June 30, 2017	July 17, 2017
6.375% Series D	$ 0.40	September 30, 2017	September 29, 2017	October 16, 2017

Non-controlling Interest of Common Units in Operating Partnership

Holders of Operating Partnership units have certain redemption rights that enable the unit holders to cause the Operating Partnership to redeem their units in exchange for, at the Company’s option, cash per unit equal to the market price of the Company’s common shares at the time of redemption or the Company’s common shares on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of share splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the Operating Partnership's limited partners or the Company's shareholders.

As of September 30, 2017 and December 31, 2016, the Operating Partnership had 236,351 long-term incentive partnership units (“LTIP units”) outstanding. Of the 236,351 LTIP units outstanding at September 30, 2017, 100,222 LTIP units have vested. Only vested LTIP units may be converted to common units of the Operating Partnership, which in turn can be tendered for redemption as described above.

Note 8. Share-Based Compensation Plan

The Company maintains the 2009 Equity Incentive Plan, as amended and restated (the "Plan"), to attract and retain independent trustees, executive officers and other key employees and service providers. The Plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. Share awards under the Plan vest over a period determined by the Board of Trustees, generally over three to five years, with certain awards vesting over periods of up to six years. The Company pays or accrues for dividends on share-based awards. All share awards are subject to full or partial accelerated vesting upon a change in control and upon death or disability or certain other employment termination events as set forth in the award agreements. As of September 30, 2017, there were 1,283,793 common shares available for issuance under the Plan, assuming performance-based equity awards vest at target.

Service Condition Share Awards

From time to time, the Company awards restricted common shares under the Plan to members of the Board of Trustees, officers and employees. These shares generally vest over three to five years based on continued service or employment.

The following table provides a summary of service condition restricted share activity as of September 30, 2017:

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	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2016	135,891	$ 30.82
Granted	58,839	$ 29.64
Vested	(57,559)	$ 31.50
Forfeited	(366)	$ 28.01
Unvested at September 30, 2017	136,805	$ 30.03

The fair value of each of these service condition restricted share awards is determined based on the closing price of the Company's common shares on the grant date and compensation expense is recognized on a straight-line basis over the vesting period. For the three and nine months ended September 30, 2017, the Company recognized approximately $0.5 million and $1.4 million, respectively, of share-based compensation expense related to these service condition restricted shares in the consolidated statements of operations. For the three and nine months ended September 30, 2016, the Company recognized approximately $0.5 million and $1.3 million, respectively, of share-based compensation expense related to these service condition restricted shares in the consolidated statement of operations. As of September 30, 2017, there was $2.7 million of total unrecognized share-based compensation expense related to unvested restricted shares. The unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 1.9 years.

Performance-Based Equity Awards

On January 30, 2013, the Board of Trustees approved a target award of 72,118 performance-based equity awards to officers and employees of the Company. In January 2016, these awards vested and the Company issued 120,730 and 56,562 common shares to officers and non-executive management employees, respectively. The actual number of common shares that ultimately vested were based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2013 through December 31, 2015.

On December 13, 2013, the Board of Trustees approved a target award of 252,088 performance-based equity awards to officers and employees of the Company. The awards vest ratably on January 1, 2016, 2017, 2018, 2019 and 2020. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined on each vesting date based upon the two performance criteria as defined in the award agreements for the period of performance beginning on the grant date and ending on the applicable vesting date. In January 2016, one-fifth of these awards vested and the Company issued 25,134 of common shares which represented achieving 49% of the 50,418 target number of shares. In January 2017, one-fifth of these awards vested and the Company issued 12,285 of common shares which represented achieving 25% of the 49,914 target number of shares.

On February 4, 2014, the Board of Trustees approved a target award of 66,483 performance-based equity awards to officers and employees of the Company. In January 2017, these awards vested and the Company issued 112,782 and 25,619 common shares to officers and non-executive management employees, respectively. The actual number of common shares that ultimately vested was based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2014 through December 31, 2016.

On February 11, 2015, the Board of Trustees approved a target award of 44,962 performance-based equity awards to officers and employees of the Company. These awards vest on January 1, 2018. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award (except for 8,559 target awards to non-executive management employees which have no maximum) and will be determined in 2018 based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2015 through December 31, 2017.

On July 27, 2015, a target award of 771 performance-based equity awards was granted to an employee of the Company. These awards vest on January 1, 2018. The actual number of common shares that ultimately vest will be determined in 2018 based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2016 through December 31, 2017.

On February 10, 2016, the Board of Trustees approved a target award of 100,919 performance-based equity awards to officers and employees of the Company. These awards vest on January 1, 2019. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award (except for 17,372 target awards to non-executive management employees which have no maximum) and will be determined in 2019 based on three performance criteria as defined in the award agreements for the period of performance from January 1, 2016 through December 31, 2018.

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On February 15, 2017, the Board of Trustees approved a target award of 81,939 performance-based equity awards to officers and employees of the Company. These awards vest on January 1, 2020. The actual number of common shares that ultimately vest will range from 0% to 200% of the target award and will be determined in 2020 based on two performance criteria as defined in the award agreements for the period of performance from January 1, 2017 through December 31, 2019.

The grant date fair value of the performance awards, with market conditions, were determined using a Monte Carlo simulation method with the following assumptions:

Performance Award Grant Date	Percentage of Total Award	Grant Date Fair Value by Component ($ in millions)		Volatility	Interest Rate	Dividend Yield
January 30, 2013						
Relative Total Shareholder Return	30.00%	$0.7		31.00%	0.41%	2.20%
Absolute Total Shareholder Return	30.00%	$0.5		31.00%	0.41%	2.20%
EBITDA Comparison	40.00%	$0.7		31.00%	0.41%	2.20%
December 13, 2013						
Relative Total Shareholder Return	50.00%	$4.7		29.00%	0.34% - 2.25%	2.40%
Absolute Total Shareholder Return	50.00%	$2.9		29.00%	0.34% - 2.25%	2.40%
February 4, 2014						
Relative Total Shareholder Return	30.00%	$0.7		29.00%	0.62%	2.40%
Absolute Total Shareholder Return	30.00%	$0.5		29.00%	0.62%	2.40%
EBITDA Comparison	40.00%	$0.8		29.00%	0.62%	2.40%
February 11, 2015						
Relative Total Shareholder Return	30.00%	$0.9		22.00%	1.02%	2.50%
Absolute Total Shareholder Return	40.00%	$0.7		22.00%	1.02%	2.50%
EBITDA Comparison	30.00%	$0.7		22.00%	1.02%	2.50%
July 27, 2015						
Relative Total Shareholder Return	30.00%	—	(1)	22.00%	0.68%	2.50%
Absolute Total Shareholder Return	40.00%	—	(1)	22.00%	0.68%	2.50%
EBITDA Comparison	30.00%	—	(1)	22.00%	0.68%	2.50%
February 10, 2016						
Relative Total Shareholder Return	70.00%	$1.6		25.00%	0.71%	3.00%
Absolute Total Shareholder Return	15.00%	$0.2		25.00%	0.71%	3.00%
EBITDA Comparison	15.00%	$0.4		25.00%	0.71%	3.00%

February 15, 2017					
Relative and Absolute Total Shareholder Return	65.00% / 35.00%	$2.7	28.00%	1.27%	5.60%

(1)Amounts round to zero.

In the table above, the Relative Total Shareholder Return and Absolute Total Shareholder Return components are market conditions as defined by ASC 718. The EBITDA Comparison component is a performance condition as defined by ASC 718,

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and, therefore, compensation expense related to this component will be reassessed at each reporting date based on the Company's estimate of the probable level of achievement, and the accrual of compensation expense will be adjusted as appropriate.

Dividends on unvested performance-based equity awards accrue over the vesting period and will be paid on the actual number of shares that vest at the end of the applicable period. The Company recognizes compensation expense on a straight-line basis through the vesting date. As of September 30, 2017, there was approximately $6.8 million of unrecognized compensation expense related to these performance-based equity awards which will be recognized over the weighted-average remaining vesting period of 1.7 years. For the three and nine months ended September 30, 2017, the Company recognized $(0.2) million and $1.5 million, respectively, in expense related to these awards. For the three and nine months ended September 30, 2016, the Company recognized $1.5 million and $4.0 million, respectively, in expense related to these awards.

Long-Term Incentive Partnership Units

LTIP units, which are also referred to as profits interest units, may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. LTIP units are a class of partnership unit in the Operating Partnership and receive, whether vested or not, the same per-unit profit distributions as the other outstanding units in the Operating Partnership, which equal per-share distributions on common shares. LTIP units are allocated their pro-rata share of the Company's net income (loss). Vested LTIP units may be converted by the holder, at any time, into an equal number of common Operating Partnership units and thereafter will possess all of the rights and interests of a common Operating Partnership unit, including the right to redeem the common Operating Partnership unit for a common share in the Company or cash, at the option of the Operating Partnership.

As of September 30, 2017, the Operating Partnership had two classes of LTIP units, LTIP Class A and LTIP Class B units. All of the outstanding LTIP units are held by officers of the Company.

The Company granted 929,099 LTIP Class A units to executive officers of the Company at and shortly after the completion of its initial public offering in December 2009. These LTIP units vested ratably on each of the first five anniversaries of their dates of grant and were valued at $8.50 per LTIP unit at the date of grant using a Monte Carlo simulation method model.

On December 13, 2013, the Board of Trustees approved a grant of 226,882 LTIP Class B units to executive officers of the Company. These LTIP units are subject to time-based vesting in five equal annual installments beginning January 1, 2016 and ending on January 1, 2020. The fair value of each award was determined based on the closing price of the Company’s common shares on the grant date of $29.19 per unit. The aggregate grant date fair value of the LTIP Class B units was $6.6 million.

As of September 30, 2017, the Company had 236,351 LTIP units outstanding. All unvested LTIP units will vest upon a change in control. As of September 30, 2017, of the 236,351 units outstanding, 100,222 LTIP units have vested.

For the three and nine months ended September 30, 2017, the Company recognized $0.3 million and $0.8 million, respectively, in expense related to these units. For the three and nine months ended September 30, 2016, the Company recognized $0.3 million and $0.8 million, respectively, in expense related to these units. As of September 30, 2017, there was $2.4 million of total unrecognized share-based compensation expense related to LTIP units. This unrecognized share-based compensation expense is expected to be recognized over the weighted-average remaining vesting period of 1.2 years. The aggregate expense related to the LTIP unit grants is presented as non-controlling interest in the Company’s consolidated balance sheets.

Note 9. Income Taxes

The Company's TRS, PHL, is subject to federal and state corporate income taxes at statutory tax rates. The Company has estimated PHL's income tax expense (benefit) for the three months ended September 30, 2017 using an estimated combined federal and state statutory tax rate of 38.0%.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state and local jurisdictions, where applicable. As of September 30, 2017 and December 31, 2016, the statute of limitations remains open for all major jurisdictions for tax years dating back to 2014 and 2013, respectively.

Note 10. Earnings Per Share

The following is a reconciliation of basic and diluted earnings per common share (in thousands, except share and per-share data):

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	For the three months ended September 30, 2017	2016	For the nine months ended September 30, 2017	2016
Numerator:				
Net income (loss) attributable to common shareholders	$26,420	$(43,897)	$75,919	$32,618
Less: dividends paid on unvested share-based compensation	(104)	(121)	(311)	(362)
Undistributed earnings attributable to share-based compensation	—	—	—	—
Net income (loss) available to common shareholders	$26,316	$(44,018)	$75,608	$32,256
Denominator:				
Weighted-average number of common shares — basic	68,814,805	71,922,904	69,854,618	71,894,313
Effect of dilutive share-based compensation	388,115	—	373,456	482,036
Weighted-average number of common shares — diluted	69,202,920	71,922,904	70,228,074	72,376,349
Net income (loss) per share available to common shareholders — basic	$0.38	$(0.61)	$1.08	$0.45
Net income (loss) per share available to common shareholders — diluted	$0.38	$(0.61)	$1.08	$0.45

For the three and nine months ended September 30, 2017, 6,319 and 18,380, respectively, of unvested service condition restricted shares and performance-based equity awards were excluded from diluted weighted-average common shares, as their effect would have been anti-dilutive. There were 31,311 and 117,201 unvested shares and awards excluded from diluted weighted-average common shares for the three and nine months ended September 30, 2016, respectively, as their effect would have been anti-dilutive. The LTIP units held by the non-controlling interest holders have been excluded from the denominator of the diluted earnings per share as there would be no effect on the amounts since the limited partners' share of income (loss) would also be added or subtracted to derive net income (loss) available to common shareholders.

Note 11. Commitments and Contingencies

Management Agreements

The Company’s hotel properties are operated pursuant to management agreements with various management companies. The terms of these management agreements range from five years to 21 years, not including renewals, and five years to 52 years, including renewals. Many of the Company’s management agreements are terminable at will by the Company upon paying a termination fee and some are terminable by the Company upon sale of the property, with, in some cases, the payment of termination fees. Most of the agreements also provide the Company the ability to terminate based on failure to achieve defined operating performance thresholds. Termination fees range from zero to up to five times the annual base management and incentive management fees, depending on the agreement and the reason for termination. Certain of the Company’s management agreements are non-terminable except upon the manager’s breach of a material representation or the manager’s failure to meet performance thresholds as defined in the management agreement.

The management agreements require the payment of a base management fee generally between 2% and 4% of hotel revenues. Under certain management agreements, the management companies are also eligible to receive an incentive management fee if hotel operating income, cash flows or other performance measures, as defined in the agreements, exceed certain performance thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Company has received a priority return on its investment in the hotel. Combined base and incentive management fees were $5.9 million and $17.4 million for the three and nine months ended September 30, 2017, respectively, and $6.0 million and $17.7 million for the three and nine months ended September 30, 2016, respectively. Base and incentive management fees are included in other direct and indirect expenses in the Company's consolidated statements of operations and comprehensive income.

Reserve Funds

Certain of the Company’s agreements with its hotel managers, franchisors and lenders have provisions for the Company to provide funds, typically 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’ furniture, fixtures and equipment.

Restricted Cash

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At September 30, 2017 and December 31, 2016, the Company had $6.5 million and $7.4 million, respectively, in restricted cash, which consisted of reserves for replacement of furniture and fixtures or reserves to pay for real estate taxes or property insurance under certain hotel management agreements or loan agreements. For purposes of the statement of cash flows, changes in restricted cash caused by changes in required reserves for real estate taxes or property insurance are shown as operating activities. Changes in restricted cash caused by changes in required reserves for furniture and fixtures replacement are shown as investing activities.

Ground and Hotel Leases

The Hotel Monaco Washington DC is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2059. The hotel is required to pay the greater of an annual base rent of $0.2 million or a percentage of gross hotel revenues and gross food and beverage revenues in excess of certain thresholds, as defined in the agreement. The lease contains certain restrictions on modifications that can be made to the hotel structure due to its status as a national historic landmark.

The Argonaut Hotel is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2059. The hotel is required to pay the greater of an annual base rent of $1.3 million or a percentage of rooms revenues, food and beverage revenues and other department revenues in excess of certain thresholds, as defined in the agreement. The lease contains certain restrictions on modifications that can be made to the structure due to its status as a national historic landmark.

The Hotel Zelos San Francisco is subject to a long-term hotel lease agreement for the right to use the ground floor lobby area and floors five through nine of the building and underlying land. The hotel lease expires in 2097. The hotel is required to pay the greater of a fixed rent or percentage rent. The fixed rent increases annually by at least 2% and at most the lesser of (i) the increase in the consumer price index ("CPI") and (ii) 4%. Percentage rent is based on gross hotel and gross food and beverage revenues in excess of certain thresholds (adjusted for CPI increases), as defined in the lease agreement.

The Hotel Zephyr Fisherman's Wharf is subject to both a long-term primary ground lease agreement and a secondary sublease agreement. Through 2016, the primary ground lease required the hotel to make annual base rental payments of $0.1 million and percentage rental payments based on 5% of room revenues and 7.5% of retail revenues attributed to guest rooms and retail space added to the hotel property in 1998. Beginning in 2017, the primary ground lease requires the hotel to pay percentage rent based on 6% of total room revenues and 7.5% of total retail and parking revenues. The primary ground lease expires in 2062. The secondary sublease required the hotel to make rental payments based on hotel net income, as defined in the agreement, related to the rooms and retail space in existence prior to the 1998 renovation. The secondary sublease expired in April 2016 at which time the hotel became subject to only the primary ground lease through its maturity in 2062.

The Hotel Zeppelin San Francisco (formerly Prescott Hotel) is subject to a long-term hotel lease for the right to use floors three through seven, the basement and the roof of an adjacent, attached building containing 64 of the 196 guest rooms at the property. The hotel lease expires in 2059, with a one-time extension option of 30 years. The Company is required to pay annual base rent of approximately $0.5 million, beginning in October 2017. The annual base rent is subject to a fixed increase every year during the remaining lease term. The building portion of the long-term hotel lease was determined to be a capital lease.

The Hotel Palomar Los Angeles - Beverly Hills is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2107, including 19 five-year extension options. The hotel is required to pay annual base rent of approximately $3.8 million through January 2021 and the base rent will be adjusted for CPI increases at each five-year extension.

The Union Station Hotel Nashville, Autograph Collection is subject to a long-term ground lease agreement on the land underlying the hotel. The ground lease expires in 2105. The hotel is required to pay the greater of annual base rent of

$0.1 million or annual real property taxes.

The ground leases and the Hotel Zelos San Francisco hotel lease are considered operating leases. The Company records expense on a straight-line basis for leases that provide for minimum rental payments that increase in pre-established amounts over the remaining terms of the leases. Ground rent expense was $3.5 million and $10.2 million for the three and nine months ended September 30, 2017, respectively, and $3.2 million and $9.1 million for the three and nine months ended September 30, 2016, respectively. Ground rent expense is included in real estate taxes, personal property taxes, property insurance and ground rent in the Company's consolidated statements of operations and comprehensive income.

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Litigation

The nature of the operations of hotels exposes the Company's hotels, the Company and the Operating Partnership to the risk of claims and litigation in the normal course of their business. The Company has insurance to cover certain potential material losses. The Company is not presently subject to any material litigation nor, to the Company’s knowledge, is any material litigation threatened against the Company.

Note 12. Supplemental Information to Statements of Cash Flows

	For the nine months ended September 30,	
	2017	2016
	(in thousands)	
Interest paid, net of capitalized interest	$24,690	$30,013
Interest capitalized	$—	$492
Income taxes paid	$594	$369
Non-Cash Investing and Financing Activities:		
Distributions payable on common shares/units	$28,269	$29,616
Distributions payable on preferred shares	$3,442	$3,442
Issuance of common shares for Board of Trustees compensation	$503	$606
Accrued additions and improvements to hotel properties	$1,400	$738
Write-off of fully depreciated building, furniture, fixtures and equipment	$10,000	$—
Write-off of deferred financing costs	$776	$550

Note 13. Subsequent Events

On October 13, 2017, the Company amended and restated the credit agreement governing its senior unsecured revolving credit facility and the First Term Loan. The $450.0 million revolving credit facility's maturity date was extended to January 2022, with options to extend the maturity date to January 2023, pursuant to certain terms and conditions and payment of an extension fee. Borrowings under the revolving credit facility bear interest at LIBOR plus 1.45% to 2.25%, depending on the Company's leverage ratio. The maturity date of the Company's First Term Loan was extended to January 2023.

On October 13, 2017, the Company amended and restated the credit agreement governing the Second Term Loan and entered into a second credit agreement, in effect separating it into two tranches, consisting of a $65.0 million unsecured term loan maturing in April 2022 (the "Second Term Loan") and a $110.0 million unsecured term loan maturing in October 2024 (the "Fourth Term Loan").

As a result of the amendments and restatements of the credit agreements governing the senior unsecured revolving credit facility and the First Term Loan, Second Term Loan and the Third Term Loan, and the entry into the credit agreement governing the Fourth Term Loan, the financial and other covenants of the revolving credit facility and the four term loans are substantially identical. Borrowings under the First Term Loan, Second Term Loan, and Third Term Loan bear interest at LIBOR plus 1.40% to 2.20%, depending on the Company's leverage ratio. Borrowings under the Fourth Term Loan bear interest at LIBOR plus 1.70% to 2.60%, depending on the Company's leverage ratio. The agreement governing the Series A Notes and Series B Notes was also amended to match the financial and other covenants in its amended and restated senior unsecured revolving credit facility. In addition, PHL amended the agreement governing the $10.0 million PHL Credit Facility to extend the maturity date to January 2022 on substantially similar terms as the Company's senior unsecured revolving credit facility.

The Company did not make any changes to its interest rate swap agreements.

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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this report. Pebblebrook Hotel Trust is a Maryland real estate investment trust that conducts its operations so as to qualify as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Substantially all of the operations are conducted through Pebblebrook Hotel, L.P. (our "Operating Partnership"), a Delaware limited partnership of which Pebblebrook Hotel Trust is the sole general partner. In this report, we use the terms "the Company", "we" or "our" to refer to Pebblebrook Hotel Trust and its subsidiaries, unless the context indicates otherwise.

FORWARD-LOOKING STATEMENTS

This report, together with other statements and information publicly disseminated by us, 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"). We intend 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 include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may", "will", "should", "potential", "could", "seek", "assume", "forecast", "believe", "expect", "intend", "anticipate", "estimate", "project" or similar expressions. Forward-looking statements in this report include, among others, statements about our business strategy, including acquisition and development strategies, industry trends, estimated revenues and expenses, estimated costs and durations of renovation or restoration projects, estimated insurance recoveries, our ability to realize deferred tax assets and expected liquidity needs and sources (including capital expenditures and our 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 our control and which could materially affect actual results, performance 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, changes in visa and other travel policies by the U.S. government making it less convenient, more difficult or less desirable for international travelers to enter the U.S., increases in employment costs, energy costs and other operating costs, or decreases in demand caused by events beyond our control including, without limitation, actual or threatened terrorist attacks, cyber attacks, any type of flu or disease-related pandemic, or downturns in general and local economic conditions;
- the availability and terms of financing and capital and the general volatility of securities markets;
- our dependence on third-party managers of our hotels, including our inability to implement strategic business decisions directly;
- risks associated with the global economy and real estate industry, including environmental contamination and costs of complying with the Americans with Disabilities Act and similar laws;
- interest rate increases;
- our possible failure to qualify as a REIT under the Code and the risk of changes in laws affecting REITs;
- the timing and availability of potential hotel acquisitions and our ability to identify and complete hotel acquisitions in accordance with our business strategy;
- the possibility of uninsured losses;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns; and
- the other factors discussed under the heading "Risk Factors" in this and our prior Quarterly Reports on Form 10-Q filed in 2017 and our Annual Report on Form 10-K for the year ended December 31, 2016.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the federal securities laws, we disclaim 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 our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview

Although many economic conditions signal strength in the market, the U.S. lodging industry is expected to continue to generate moderate revenue growth for the remainder of 2017. Corporate business travel demand remains soft but steady. Leisure travel demand is solid but international inbound travel demand continues to exhibit weakness. In addition, supply has increased, on average, in many of the larger urban markets such as New York, Boston, Los Angeles, Miami, Nashville, Portland and Washington, D.C. As a result, we expect that the urban markets will continue to underperform the U.S. lodging industry's modest RevPAR growth for the remainder of 2017. Hurricanes Harvey and Irma, along with the wildfires in the Pacific Northwest have disrupted travel throughout the country, however, they are not expected to have a lasting impact on the hotel industry.

In the nine months of 2017, we have completed three significant, comprehensive renovations across Hotel Palomar Los Angeles - Beverly Hills, Revere Hotel Boston Common and Hotel Zoe San Francisco (formerly The Tuscan Fisherman's Wharf). We believe that our capital reinvestments and redevelopment projects will drive continued operating cash flow growth and higher long-term economic values across our portfolio, however, we remain cautious in the short term. Our properties are affected by the increases in supply and the changes in demand currently experienced in markets where our hotels are located. During the third quarter, our hotels performed better than expectations, even with the negative impact from several natural disasters that occurred during the quarter. Our recently redeveloped hotels, including Union Station Hotel Nashville and Hotel Zeppelin San Francisco, led the portfolio in the third quarter as these hotels continue to ramp up their performance. Our 189-room LaPlaya Beach Resort & Club ("LaPlaya") property closed starting September 9, 2017 following a mandatory hurricane evacuation order issued by Collier County. We estimate that LaPlaya sustained approximately $12.0 to $15.0 million of wind and water damage from the hurricane including repair, remediation, replacement and clean up work. We maintain property, flood and fire insurance which is subject to a deductible of approximately $2.8 million. We anticipate that areas of the property's lobby, restaurant and public areas, as well as some guestrooms, will become available in late November 2017 as progress is made on restoration work. The full restoration is expected to be completed in the first quarter of 2018.

During the nine months ended September 30, 2017, we sold the Dumont NYC and the parking garage at the Revere Hotel Boston Common for sales prices aggregating $213.0 million. We repaid the $44.1 million mortgage loan on the Sofitel Philadelphia and the $25.5 million mortgage loan on the Hotel Zelos San Francisco. We also repurchased 3,245,820 common shares for an aggregate purchase price of $93.4 million, or an average of approximately $28.77 per share, under our existing share repurchase program.

While we do not operate our hotel properties, both our asset management team and our executive management team monitor and work cooperatively with our hotel managers by advising and making recommendations in all aspects of our hotels' operations, including property positioning and repositioning, revenue and expense management, operations analysis, physical design, renovation and capital improvements, guest experience and overall strategic direction. Through these efforts, we seek to improve property efficiencies, lower costs, maximize revenues and enhance property operating margins, which we expect will enhance returns to our shareholders.

Key Indicators of Financial Condition and Operating Performance

We measure hotel results of operations and the operating performance of our business by evaluating financial and non-financial metrics such as room revenue per available room ("RevPAR"); average daily rate ("ADR"); occupancy rate ("occupancy"); funds from operations ("FFO"); and earnings before interest, income taxes, depreciation and amortization ("EBITDA"). We evaluate individual hotel and company-wide performance with comparisons to budgets, prior periods and competing properties. ADR, occupancy and RevPAR may be impacted by macroeconomic factors as well as regional and local economies and events. See "Non-GAAP Financial Matters" for further discussion of FFO and EBITDA.

Hotel Operating Statistics

The following table represents the key same-property hotel operating statistics for our hotels for the three and nine months ended September 30, 2017 and 2016.

	For the three months ended September 30,	For the nine months ended September 30,

	2017	2016	2017	2016
Same-Property Occupancy	89.5 %	89.7 %	85.7 %	86.9 %
Same-Property ADR	$256.56	$264.46	$249.24	$252.83
Same-Property RevPAR	$229.68	$237.15	$213.54	$219.64

The table above includes information from all of the hotels we owned as of September 30, 2017, except for Hotel Zeppelin San Francisco (formerly Prescott Hotel) for the first quarter of both 2017 and 2016 because it was closed during the first quarter of 2016 for renovation. It also excluded the Dumont NYC for the second and third quarters of both 2017 and 2016, because we

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sold this property during the second quarter of 2017, and LaPlaya for the third quarter of 2017 and 2016, because it was closed during the third quarter of 2017 due to the impact from Hurricane Irma. These hotel results for the respective periods include information reflecting operational performance for some hotels prior to our ownership of those hotels.

Non-GAAP Financial Measures

Non-GAAP financial measures are measures of our historical or future financial performance that are different from measures calculated and presented in accordance with U.S. GAAP. We report FFO and EBITDA, which are non-GAAP financial measures that we believe are useful to investors as key measures of our operating performance.

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

The following table reconciles net income (loss) to FFO and FFO available to common share and unit holders for the three and nine months ended September 30, 2017 and 2016 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$30,571	$(35,535)	$88,330	$55,540
Adjustments:				
Depreciation and amortization	25,155	25,350	77,284	76,152
Depreciation and amortization from joint venture	—	2,233	—	6,700
(Gain) loss on sale of hotel properties	(290)	—	(14,877)	(40,326)
Impairment loss	2,800	12,148	3,849	12,148
Impairment loss from joint venture	—	62,622	—	62,622
FFO	$58,236	$66,818	$154,586	$172,836
Distribution to preferred shareholders	(4,023)	(5,553)	(12,070)	(15,638)
Issuance costs of redeemed preferred shares	—	(2,921)	—	(7,090)
FFO available to common share and unit holders	$54,213	$58,344	$142,516	$150,108

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. We believe that EBITDA provides investors a useful financial measure to evaluate our operating performance, excluding the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization).

The following table reconciles net income (loss) to EBITDA for the three and nine months ended September 30, 2017 and 2016 (in thousands):

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	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$30,571	$(35,535)	$88,330	$55,540
Adjustments:				
Interest expense	8,969	10,257	28,015	32,490
Interest expense from joint venture	—	2,301	—	6,859
Income tax expense (benefit)	1,593	1,528	181	18
Depreciation and amortization	25,210	25,407	77,456	76,327
Depreciation and amortization from joint venture	—	2,233	—	6,700
EBITDA	$66,343	$6,191	$193,982	$177,934

Neither FFO nor EBITDA represent cash generated from operating activities as determined by U.S. GAAP and neither should be considered as an alternative to U.S. GAAP net income (loss), as an indication of our financial performance, or to U.S. GAAP cash flow from operating activities, as a measure of liquidity. In addition, FFO and EBITDA are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Results of Operations

At September 30, 2017 and 2016, we had 28 and 29 wholly owned properties and leasehold interests, respectively. All properties owned during these periods have been included in our results of operations during the respective periods since their dates of acquisition and through the dates of disposition, as applicable. Based on when a property was acquired or disposed, operating results for certain properties are not comparable for the three and nine months ended September 30, 2017 and 2016. The properties listed in the table below are hereinafter referred to as "non-comparable properties" for the periods indicated and all other properties are considered and referred to as "comparable properties":

Property		Location	Acquisition/Disposition Date	Non-comparable property for the three months ended September 30, 2017 and 2016	Non-comparable property for the nine months ended September 30, 2017 and 2016
Viceroy Miami		Miami, FL	June 1, 2016		X
The Redbury Hollywood		Hollywood, CA	June 1, 2016		X
Dumont NYC	[1]	New York, NY	October 19, 2016		X
DoubleTree by Hilton Hotel Bethesda -Washington DC		Bethesda, MD	November 2, 2016	X	X

[1] We obtained full ownership of this property as a result of the joint venture redemption transaction in October 2016. We subsequently sold this property on June 20, 2017.

Comparison of the three months ended September 30, 2017 to the three months ended September 30, 2016

Revenues — Total hotel revenues decreased by $7.2 million due to the revenue decline at the non-comparable properties of $3.4 million, a decline in revenues at the Revere Hotel Boston Common due to the sale of the parking garage in June 2017, a decline in revenue at Sofitel Philadelphia due to the Democratic National Convention, which occurred in 2016 and a decline in revenue at LaPlaya Beach Resort and LaPlaya Beach Club due to its renovation and closure in September 2017 due to hurricane damage. These declines were offset by increases in revenue at Hotel Monaco Washington DC and Union Station Hotel Nashville, Autograph Collection due to renovations which were ongoing during 2016.

Hotel operating expenses — Total hotel operating expenses decreased $0.1 million which was a result of increases in revenues and expenses at Hotel Monaco Washington DC and Union Station Hotel Nashville, Autograph Collection following the completion of their renovations offset by a decline in expenses of $2.4 million from the non-comparable properties.

Depreciation and amortization — Depreciation and amortization expense decreased by $0.2 million primarily due to the reduction in depreciation from the non-comparable properties offset by additional depreciation on an increase in assets as a result of the renovations at the Hotel Palomar Los Angeles - Beverly Hills, Union Station Hotel Nashville, Autograph Collection and Revere Hotel Boston Common.

Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent decreased by $1.0 million primarily due to a lower real estate tax assessment of a California property and a reduction in real estate tax as a result of selling the parking garage at the Revere Hotel Boston Common and the non-comparable properties. This was offset by increased ground rent expense for the Hotel Zephyr Fisherman's Wharf.

Corporate general and administrative — Corporate general and administrative expenses decreased by $2.3 million due to an decrease in share based compensation expense. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, insurance, state franchise taxes and other expenses.

Impairment and other losses — Impairment and other losses decreased by $9.0 million. In 2016, we recognized a $12.1 million loss related to the DoubleTree by Hilton Hotel Bethesda -Washington DC and in 2017, we recognized a $3.2 million loss related to the property damage sustained by LaPlaya as a result of Hurricane Irma.

Interest income — Interest income decreased by $0.6 million as a result of the repayment of a note receivable by the Manhattan Collection joint venture in October 2016.

Interest expense — Interest expense decreased by $1.3 million as a result of the repayments of mortgage loans with proceeds from property sales, resulting in lower mortgage debt balances during the quarter.

Gain on sale of hotel properties — Gain on sale of hotel properties increased by $0.3 million. In 2017, we sold the Dumont NYC and the parking garage at the Revere Hotel Boston Common . The increase in gain during this period is due to adjustments made related to these sales.

Equity in earnings (loss) of joint venture — Equity in earnings (loss) of joint venture decreased from $(61.3) million in 2016 to zero in 2017 as a result of redeeming our interest in the Manhattan Collection joint venture in October 2016.

Income tax (expense) benefit — Income tax expense was comparable to the same period in the prior year.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the LTIP unit holders.

Distributions to preferred shareholders — Distributions to preferred shareholders decreased by $1.5 million as a result of the redemptions of all of the Series A Preferred Shares in March 2016 and all of the Series B Preferred Shares in September 2016 which were offset in part by the issuance of the Series D Preferred Shares in June 2016.

Issuance costs of redeemed preferred shares — These issuance costs relate to the Series B Preferred Shares which we redeemed in September 2016. These costs are included in the determination of net income attributable to common shareholders.

Other comprehensive income (loss) — Other comprehensive income (loss) increased by $63.8 million as a result of the increase in net income.

Comparison of the nine months ended September 30, 2017 to the nine months ended September 30, 2016

Revenues — Total hotel revenues decreased by $27.8 million, of which $6.8 million was contributed by the comparable properties and a net decrease of $21.0 million was contributed by the non-comparable properties. Hotel Zeppelin San Francisco (formerly Prescott Hotel) and Union Station Hotel Nashville, Autograph Collection had increases in occupancy and ADR resulting from ramping up following their renovations in 2016. Additionally, revenues increased at the Hotel Monaco Washington DC as a result of the presidential inauguration and Women's March during the first quarter of 2017. These gains were offset by declines in revenues at Hotel Palomar Los Angeles - Beverly Hills and Hotel Zoe San Francisco (formerly The Tuscan Fisherman's Wharf) due to their renovations.

Hotel operating expenses — Total hotel operating expenses decreased by $8.7 million. The comparable properties contributed a net increase of $4.4 million, primarily due to increases in revenues and expenses at Hotel Monaco Washington DC and Hotel Zeppelin San Francisco (formerly Prescott Hotel) following their renovations. These increases were offset by a reduction in costs from the renovation at the Hotel Zoe San Francisco (formerly The Tuscan Fisherman's Wharf). The net increase of $4.4 million from the comparable properties was offset by a $13.1 million decrease contributed by the non-comparable properties.

Depreciation and amortization — Depreciation and amortization expense increased by $1.1 million primarily due to the additional depreciation from the assets added from the renovations of the Hotel Zeppelin San Francisco (formerly Prescott Hotel), Hotel Palomar Los Angeles - Beverly Hills, and Union Station Hotel Nashville, Autograph Collection, partially offset by a reduction in depreciation from properties sold during 2016.

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Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent decreased by $0.2 million primarily due to a lower real estate tax assessment of a California property and a reduction in real estate tax as a result of selling the parking garage at the Revere Hotel Boston Common and the non-comparable properties. This was offset by increased ground rent expense for the Hotel Zephyr Fisherman's Wharf.
Corporate general and administrative — Corporate general and administrative expenses decreased by $2.9 million primarily as a result of the decrease in share based compensation expense. Corporate general and administrative expenses consist of employee compensation costs, legal and professional fees, insurance, state franchise taxes and other expenses.
Impairment and other losses — Impairment and other losses decreased by $7.9 million. In 2016, we recognized a $12.1 million loss related to the DoubleTree by Hilton Hotel Bethesda -Washington DC and in 2017, we recognized a $3.2 million loss related to property damage sustained by LaPlaya as a result of Hurricane Irma and an impairment loss of $1.0 million related to the Dumont NYC.
Interest income — Interest income decreased by $1.8 million as a result of the repayment of a note receivable by the Manhattan Collection joint venture in October 2016.
Interest expense — Interest expense decreased by $4.5 million as a result of the repayments of mortgage loans with proceeds from property sales, resulting in lower mortgage debt balances.
Gain on sale of hotel properties — Gain on sale of hotel properties decreased by $25.4 million. In 2017, we sold the Dumont NYC and the parking garage at the Revere Hotel Boston Common resulting in a total gain of $14.9 million. In 2016, we sold a land parcel adjacent to the Revere Hotel Boston Common, Viceroy Miami and The Redbury Hollywood hotels, resulting in a total gain of $40.3 million.
Equity in earnings (loss) of joint venture — Equity in loss of joint venture decreased from $(64.5) million in 2016 to zero in 2017 as a result of redeeming our interest in the Manhattan Collection joint venture in October 2016.
Income tax (expense) benefit — Income tax expense remained consistent compared to the prior year.
Non-controlling interests — Non-controlling interests represent the allocation of income or loss of our Operating Partnership to the common units held by the LTIP unit holders.
Distributions to preferred shareholders — Distributions to preferred shareholders decreased by $3.6 million as a result of the redemptions of all of the Series A Preferred Shares in March 2016 and all of the Series B Preferred Shares in September 2016 which were offset, in part, by the issuance of the Series D Preferred Shares in June 2016.
Issuance costs of redeemed preferred shares — These issuance costs relate to the Series A and Series B Preferred Shares which we redeemed in March and September 2016, respectively. These costs are included in the determination of net income attributable to common shareholders.
Other comprehensive income (loss) — Other comprehensive income (loss) increased by $47.4 million as a result of an increase in net income and the change in the fair values of our interest rate swaps.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

Recent Accounting Standards

See Note 2, “Summary of Significant Accounting Policies,” to our consolidated interim financial statements for additional information relating to recently issued accounting pronouncements.

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Liquidity and Capital Resources

We expect to meet our short-term liquidity requirements through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under our senior unsecured revolving credit facilities. We expect our existing cash balances and cash provided by operations will be adequate to fund operating requirements, service debt and fund dividends in accordance with the REIT requirements of the federal income tax laws.

We expect to meet our long-term liquidity requirements, such as hotel property acquisitions, property redevelopment, investments in new joint ventures, and debt principal payments and debt maturities, through the net proceeds from additional issuances of common shares, additional issuances of preferred shares, issuances of units of limited partnership interest in our Operating Partnership, secured and unsecured borrowings, hotel property sales and cash provided by operations. The success of our business strategy may depend in part on our ability to access additional capital through issuances of debt and equity securities, which is dependent on favorable market conditions.

We strive to maintain prudent debt leverage and intend to opportunistically enhance our capital position.

Senior Unsecured Revolving Credit Facilities, Unsecured Term Loan Facilities and Senior Unsecured Notes

Our $750.0 million unsecured credit facility provides for a $450.0 million unsecured revolving credit facility (the "Revolver") and a $300.0 million unsecured term loan (the "First Term Loan"). The Revolver matures in January 2019 with options to extend the maturity date to January 2020 and the First Term Loan matures in January 2020.

As of September 30, 2017, we had $30.0 million outstanding under the Revolver and $300.0 million outstanding under the First Term Loan. As of September 30, 2017, we had $420.0 million borrowing capacity remaining under the Revolver. We have the ability to further increase the aggregate borrowing capacity under the credit agreement to up to $1.0 billion, subject to lender approval. We intend to repay indebtedness incurred under the Revolver from time to time out of cash flows from operations and, as market conditions permit, from the net proceeds of issuances of additional equity and debt securities and from the net proceeds of dispositions of hotel properties.

Interest is paid on the periodic advances under the senior unsecured revolving credit facility at varying rates, based upon either LIBOR or the alternate base rate, plus an additional margin amount. The interest rate depends upon our leverage ratio pursuant to the provisions of the credit facility agreement. We entered into interest rate swap agreements to effectively fix the interest rates of the First Term Loan. The First Term Loan had a weighted-average effective interest rate of 2.83% through July 13, 2017 and a weighted-average effective interest rate of 3.41% from July 13, 2017 through January 15, 2020, based on the Company's leverage ratio at September 30, 2017.

On April 13, 2015, we entered into a second unsecured term loan facility (the "Second Term Loan"). The Second Term Loan has a $100.0 million capacity, which may be increased up to $200.0 million, subject to lender approval, and matures in April 2022. On January 5, 2016, we exercised the option to increase the borrowing capacity to $175.0 million and borrowed the additional $75.0 million resulting from such increase. We entered into interest rate swap agreements with an aggregate notional amount of $100.0 million to effectively fix the LIBOR rate for the entire duration of the Second Term Loan, and, as a result, the Second Term Loan had a weighted-average effective interest rate of 3.36%, based on the Company’s leverage ratio at September 30, 2017. The remaining $75.0 million borrowing remains floating at a variable rate of LIBOR plus 1.70% to 2.55%, depending on the Company's leverage ratio.

On June 10, 2015, we entered into a third unsecured term loan facility (the "Third Term Loan"). The Third Term Loan has a $125.0 million capacity, which may be increased up to $250.0 million, subject to lender approval, and matures in January 2021. On January 5, 2016, we exercised the option to increase the borrowing capacity to $200.0 million and borrowed the additional $75.0 million resulting from such increase. The Third Term Loan bears interest at a variable rate of LIBOR plus 1.45% to 2.20%, depending on the Company's leverage ratio. We entered into interest rate swap agreements with an aggregate notional amount of $200.0 million to effectively fix the LIBOR rate for the entire duration of the term loan, resulting in a weighted-average effective interest rate of 3.11%, based on the Company's leverage ratio at September 30, 2017.

On November 12, 2015, we issued $60.0 million of senior unsecured notes (the "Series A Notes") bearing a fixed interest rate of 4.70% per annum and maturing in December 2023. On November 12, 2015, we issued $40.0 million of senior unsecured notes (the "Series B Notes") bearing a fixed interest rate of 4.93% per annum and maturing in December 2025.

On May 17, 2017, PHL entered into a $10.0 million unsecured revolving credit facility (the "PHL Credit Facility") to be used for PHL's working capital and general corporate purposes. The PHL Credit Facility matures in May 2018. Borrowings on the PHL Credit Facility bear interest at LIBOR plus 1.55% to 2.30%, depending on the Company's leverage ratio. As of September 30, 2017 and December 31, 2016, PHL had no borrowings under the PHL Credit Facility.

On October 13, 2017, we amended and restated the credit agreement governing its senior unsecured revolving credit facility and the First Term Loan. The $450.0 million revolving credit facility's maturity date was extended to January 2022,

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with options to extend the maturity date to January 2023, pursuant to certain terms and conditions and payment of an extension fee. Borrowings under the revolving credit facility bear interest at LIBOR plus 1.45% to 2.25%, depending on its leverage ratio. The maturity date of the Company's First Term Loan was extended to January 2023.

On October 13, 2017, the Company amended and restated the credit agreement governing the Second Term Loan and entered into a second credit agreement, in effect separating it into two tranches, consisting of a $65.0 million unsecured term loan maturing in April 2022 (the "Second Term Loan") and a $110.0 million unsecured term loan maturing in October 2024 (the "Fourth Term Loan").

As a result of the amendments and restatements of the credit agreements governing the senior unsecured revolving credit facility and the First Term Loan, Second Term Loan and the Third Term Loan, and the entry into the credit agreement governing the Fourth Term Loan, the financial and other covenants of the revolving credit facility and the four term loans are substantially identical. Borrowings under the First Term Loan, Second Term Loan, and Third Term Loan bear interest at LIBOR plus 1.40% to 2.20%, depending on the Company's leverage ratio. Borrowings under the Fourth Term Loan bear interest at LIBOR plus 1.70% to 2.60%, depending on the Company's leverage ratio. The agreement governing the Series A Notes and Series B Notes was also amended to match the financial and other covenants in its amended and restated senior unsecured revolving credit facility. In addition, PHL amended the agreement governing the $10.0 million PHL Credit Facility to extend the maturity date to January 2022 on substantially similar terms as the Company's senior unsecured revolving credit facility.

We did not make any changes to its interest rate swap agreements.

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Debt Summary

Debt as of September 30, 2017 and December 31, 2016 consisted of the following (dollars in thousands):

	Interest Rate	Maturity Date	Balance Outstanding as of	
			September 30, 2017	December 31, 2016
Revolving credit facilities				
Senior unsecured revolving credit facility	Floating [1]	January 2019	$30,000	$ 82,000
PHL unsecured revolving credit facility	Floating[2]	May 2018	—	—
Total revolving credit facilities			$30,000	$ 82,000
Term loans				
First Term Loan	Floating [3]	January 2020	300,000	300,000
Second Term Loan	Floating [3]	April 2022	175,000	175,000
Third Term Loan	Floating [3]	January 2021	200,000	200,000
Total term loans at stated value			675,000	675,000
Deferred financing costs, net			(2,609)	(3,207)
Total term loans			$672,391	$ 671,793
Senior unsecured notes				
Series A Notes	4.70%	December 2023	60,000	60,000
Series B Notes	4.93%	December 2025	40,000	40,000
Total senior unsecured notes at stated value			100,000	100,000
Deferred financing costs, net			(487)	(540)
Total senior unsecured notes			$99,513	$ 99,460
Mortgage loans				
Sofitel Philadelphia	3.90%	June 2017	—	44,320
Hotel Zelos San Francisco	5.94%	September 2017	—	25,718
The Westin San Diego Gaslamp Quarter	3.69%	January 2020	71,153	72,852
Mortgage loans at stated value			71,153	142,890
Mortgage loan premiums and deferred financing costs [4]			(126)	108
Total mortgage loans			$71,027	$ 142,998
Total debt			$872,931	$ 996,251

(1) Borrowings bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) an Adjusted Base Rate (as defined in the applicable credit agreement) plus an applicable margin. We have two six-month extension options.

(2) Borrowings bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) an Eurocurrency Rate (as defined in the applicable credit agreement) plus an applicable margin.

(3) Borrowings under our term loan facilities bear interest at floating rates equal to, at our option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. We entered into interest rate swaps to effectively fix the interest rate for the First Term Loan, a portion of the Second Term Loan and the Third Term Loan. At September 30, 2017 and December 31, 2016, we had interest rate swaps on the full amounts outstanding, except for $75.0 million on the Second Term Loan.

(4) Loan premium on assumed mortgage loan recorded in purchase accounting for the Hotel Zelos San Francisco.

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On March 1, 2017, we repaid the $44.1 million mortgage loan on the Sofitel Philadelphia, without penalty, using proceeds from our senior unsecured revolving credit facility.

On June 1, 2017, we repaid the $25.5 million mortgage loan on the Hotel Zelos San Francisco, without penalty, using proceeds from our senior unsecured revolving credit facility.

Issuance of Shares of Beneficial Interest

On March 5, 2014, we entered into equity distribution agreements (collectively, the "Equity Distribution Agreements") with each of Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Raymond James & Associates, Inc. (collectively, the "Sales Agents"), providing for our sale from time to time of our common shares having an aggregate offering price of up to $175.0 million, pursuant to a prospectus supplement we filed with the SEC, through any of the Sales Agents, acting as sales agent and/or principal, through an at-the-market offering program (our "ATM program"). At the same time, we terminated our prior $170.0 million ATM program. No common shares were issued or sold under our ATM program during the nine months ended September 30, 2017. As of March 1, 2017, $159.8 million in common shares remained available for issuance under the $175.0 million ATM program, and on that date the program was terminated.

On February 22, 2016, we announced that our board of trustees authorized a share repurchase program of up to $150.0 million of the Company's outstanding common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. As of September 30, 2017, we had repurchased 3,245,820 common shares for an aggregate purchase price of $93.4 million, or an average of approximately $28.77 per share, under this program. As of September 30, 2017, $56.6 million of common shares remained available for repurchase under this program.

On July 27, 2017, we announced that the Board of Trustees authorized a new share repurchase program of up to $100.0 million of the Company's outstanding common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. This $100.0 million share repurchase program will commence upon the completion of the Company's $150.0 million share repurchase program.

Sources and Uses of Cash

Our principal sources of cash are cash from operations, borrowings under mortgage financings and other debt, draws on our credit facilities, proceeds from offerings of our equity securities and hotel property sales. Our principal uses of cash are asset acquisitions, debt service, capital investments, operating costs, corporate expenses and dividends.

Cash Provided by Operations. Our cash provided by operating activities was $152.5 million for the nine months ended September 30, 2017. Our cash from operations includes the operating activities of the 28 hotels we owned as of September 30, 2017. Our cash provided by operating activities was $185.6 million for the nine months ended September 30, 2016 from the operating activities of the 29 hotels we wholly owned.

Cash Provided by Investing Activities. Our cash provided by investing activities was $141.4 million for the nine months ended September 30, 2017. During the nine months ended September 30, 2017, we invested $63.5 million in improvements to our hotel properties, received a deposit of $2.0 million for a hotel property, received $203.5 million in proceeds from the sale of one hotel property and a parking garage and had an increase in restricted cash of $0.5 million. Our cash provided by investing activities was $12.8 million for the nine months ended September 30, 2016. During the nine months ended September 30, 2016, we invested $88.8 million in improvements to our hotel properties, received $107.6 million in proceeds from the sales of two hotel properties and a land parcel adjacent to one of our hotels, had a net deposit of $7.0 million for a deposit made for the Manhattan Collection joint venture redemption transaction offset by a refund we received for a property under contract and had a decrease in restricted cash of $1.1 million.

Cash Used in Financing Activities. Our cash used in financing activities was $313.1 million for the nine months ended September 30, 2017. During the nine months ended September 30, 2017, we borrowed $220.5 million under the revolving credit facilities, repaid $272.5 million under the revolving credit facilities, repaid $71.7 million of mortgage debt, repurchased $96.0 million of common shares under our share repurchase program and for tax withholding purposes in connection with vested share-based equity awards, paid $93.1 million in distributions and paid $0.3 million in other transactions. For the nine months ended September 30, 2016, cash used in financing activities was

$178.2 million. During the nine months ended September 30, 2016, we borrowed $364.0 million under the Revolver, repaid $399.0 million under the Revolver, borrowed $150.0 million under our term loan facilities, repaid $90.4 million of mortgage debt, repurchased $2.5 million of common shares for tax withholding for vested share-based equity awards, received $120.8 million of net proceeds from the issuance of 5,000,000 Series D Preferred Shares, used $225.1 million to redeem all of our Series A and Series B Preferred Shares, paid $1.0 million in deferred financing fees and paid $95.6 million in distributions.

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Capital Investments

We maintain and intend to continue maintaining all of our hotels, including each hotel that we acquire in the future, in good repair and condition and in conformity with applicable laws and regulations and when applicable, in accordance with the franchisor's standards and the agreed-upon requirements in our management agreements. Routine capital investments will be administered by the hotel management companies. However, we maintain approval rights over the capital investments as part of the annual budget process and as otherwise required from time to time.

From time to time, certain of our hotel properties may undergo renovations as a result of our decision to upgrade portions of the hotels, such as guestrooms, meeting space and restaurants, in order to better compete with other hotels in our markets. In addition, after we acquire a hotel property, we are often required by the franchisor or brand manager, if there is one, to complete a property improvement plan ("PIP") in order to bring the hotel property up to the franchisor's or brand's standards. Generally, we expect to fund renovations and improvements with available cash, restricted cash, borrowings under our credit facility, or proceeds from new mortgage debt or equity offerings.

For the nine months ended September 30, 2017, we invested $63.5 million in capital investments to reposition and improve the properties we own. We expect to invest approximately $15.0 million to $30.0 million in capital investments for our hotels through the remainder of 2017 not including capital expenditures related to the repair and remediation of LaPlaya damaged in Hurricane Irma. We have invested approximately $22.5 million in the Revere Hotel Boston Common renovation and $17.0 million in Hotel Zoe San Francisco (formerly The Tuscan Fisherman's Wharf) renovation. We completed the $12.0 million renovation of the Hotel Palomar Los Angeles - Beverly Hills during the first quarter of 2017.

Contractual Obligations and Off-Balance Sheet Arrangements

The table below summarizes our contractual obligations as of September 30, 2017 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Payments due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Mortgage loans [1]	$77,134	$4,966	$72,168	$—	$—
Term loans [2]	746,192	22,333	337,871	385,988	—
Unsecured notes [1]	135,605	4,859	9,730	9,717	111,299
Borrowings under credit facilities [3]	31,095	847	30,248	—	—
Hotel and ground leases [4]	756,375	7,318	14,743	14,890	719,424
Capital lease obligation	36,542	292	634	707	34,909
Refundable membership initiation deposits [5]	31,919	308	—	—	31,611
Purchase commitments [6]	5,639	5,639	—	—	—
Corporate office lease	3,280	385	803	848	1,244
Total	$1,823,781	$46,947	$466,197	$412,150	$898,487

(1) Amounts include principal and interest.

(2) Amounts include principal and interest. Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. The Company entered into interest rate swaps to effectively fix the interest rates for the term loans. At September 30, 2017 and December 31, 2016, we had interest rate swaps on the full amounts outstanding, except for $75.0 million on the Second Term Loan. Interest expense on the $75.0 million that is subject to floating interest rates is calculated based on the interest rate as of September 30, 2017.

(3) Amounts include principal and interest under the two revolving credit facilities. Interest expense is calculated based on the weighted-average interest rate for all outstanding credit facility borrowings as of September 30, 2017. It is assumed that the outstanding borrowings will be repaid upon maturity with fixed interest-only payments until

then.

(4) The long-term ground leases on the Hotel Monaco Washington DC and Argonaut Hotel provide for the greater of base or percentage rent, adjusted for CPI increases. The long-term hotel lease on the Hotel Zelos San Francisco provides for base rent plus percentage rent, adjusted for CPI increases and contains a base rent floor and ceiling. The long-term leases on the Hotel Zephyr Fisherman's Wharf provide for base plus percentage rent through 2016 and rent as a percentage of revenues and net income, as adjusted and defined in the agreements, in 2017 and thereafter. The long-

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term hotel lease on Hotel Zeppelin San Francisco (formerly Prescott Hotel) was determined to be both an operating and capital lease. The lease contains a fixed base rental increase every year during the lease term. The long-term ground lease on the Hotel Palomar Los Angeles - Beverly Hills provides for base rent, adjusted for CPI increases every five years. This lease has 19 five-year renewal options and the table assumes the exercise of all 19 renewal options. The long-term ground lease on the Union Station Hotel Nashville, Autograph Collection provides for annual base rent equal to the greater of $0.1 million or annual real property taxes. The table above reflects only minimum base rent for all periods presented and does not include assumptions for CPI adjustments.

(5) Represents refundable initiation membership deposits from club members at our LaPlaya Beach Resort and LaPlaya Beach Club.

(6) Amounts represent purchase orders and contracts that have been executed for renovation projects at the properties. We are committed to these purchase orders and contracts and anticipate making similar arrangements in the future with the existing properties or any future properties that we may acquire.

Off-Balance Sheet Arrangements

As of September 30, 2017, we had no off-balance sheet arrangements.

Inflation

We rely on the performance of the hotels to increase revenues to keep pace with inflation. Generally, our hotel operators possess the ability to adjust room rates daily, except for group or corporate rates contractually committed to in advance, although competitive pressures may limit the ability of our operators to raise rates faster than inflation or even at the same rate.

Seasonality

Demand in the lodging industry is affected by recurring seasonal patterns which are greatly influenced by overall economic cycles, geographic locations, weather and customer mix at the hotels. Generally, our hotels have lower revenue, operating income and cash flow in the first quarter of each year and higher revenue, operating income and cash flow in the third quarter of each year.

Derivative Instruments

In the normal course of business, we are exposed to the effects of interest rate changes. We may enter into derivative instruments including interest rate swaps, caps and collars to manage or hedge interest rate risk. Derivative instruments are subject to fair value reporting at each reporting date and the increase or decrease in fair value is recorded in net income (loss) or accumulated other comprehensive income (loss), based on the applicable hedge accounting guidance. Derivatives expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the interest rate hedge agreements. The Company believes it minimizes the credit risk by transacting with major creditworthy financial institutions.

We have interest rate swaps with an aggregate notional amount of $300.0 million to hedge the variable interest rate on the First Term Loan and, as a result, the First Term Loan had a weighted-average effective interest rate of 2.83% through July 13, 2017 and a weighted-average effective interest rate of 3.41% from July 13, 2017 through January 15, 2020, based on our leverage ratio at September 30, 2017.

We entered into swap agreements to hedge the variable interest rates on the full amounts outstanding on the Second Term Loan and the Third Term Loan, except for $75.0 million of the Second Term Loan. The Second Term Loan and the Third Term Loan had weighted-average effective interest rates of 3.36% and 3.11%, respectively, based on the Company’s leverage ratio at September 30, 2017.

We have designated these pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. For the nine months ended September 30, 2017, there was $1.5 million in unrealized gain recorded in accumulated other comprehensive income. For the three and nine months ended September 30, 2017, we recorded a gain (loss) of $0.1 million and $0.1 million, respectively, for the ineffective portion of the change in fair values of the interest rate swaps. For the three and nine months ended September 30, 2016, we recorded a gain (loss) of $1.5 million and $(0.3) million, respectively, for the ineffective portion of the change in fair values of the interest rate swaps.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Sensitivity

We are exposed to market risk from changes in interest rates. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting

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such debt to fixed rates when we deem such conversion advantageous. From time to time, we 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 us to the risks that the other parties to the agreements will not perform, we 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 guidance included in ASC 815 "Derivatives and Hedging."

As of September 30, 2017, $105.0 million of the Company's aggregate indebtedness (12.0% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under the term loan facilities that have been effectively swapped into fixed rates. If interest rates on our variable rate debt increase or decrease by 0.1 percent, our annual interest expense will increase or decrease by approximately $0.1 million, respectively.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

There have been no changes to our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The nature of the operations of our hotels exposes the hotels and us to the risk of claims and litigation in the normal course of business. We are not presently subject to any material litigation nor, to our knowledge, is any litigation threatened against us, 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 our liquidity, results of operations or our financial condition.

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the "Risk Factors" section of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced	Approximate Dollar Value of Shares that May Yet Be Purchased Under the

			Plans or Programs	Plans or Programs (1)
July 1, 2017 - July 31, 2017	—	$ —	—	—
August 1, 2017 - August 31, 2017	3,800	$ 31.40	3,800	—
September 1, 2017 - September 30, 2017	—	$ —	—	—
Total	3,800	$ 31.40	3,800	$ 56,600,000

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(1) On February 22, 2016, the Company announced its Board of Trustees authorized a share repurchase program of up to $150.0 million of the Company's outstanding common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. The amount in this column does not include the approximate dollar value of shares that may yet be purchased under the $100.0 million share repurchase program that was announced on July 27, 2017, which will commence upon the completion of the Company's $150.0 million share repurchase program. See Note 7 to the accompanying financial statements for more information about the $100.0 million share repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
31.1†	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2†	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1††	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2††	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS XBRL	Instance Document (1)
101.SCH XBRL	Taxonomy Extension Schema Document (1)
101.CAL XBRL	Taxonomy Extension Calculation Linkbase Document (1)
101.LAB XBRL	Taxonomy Extension Label Linkbase Document (1)
101.DEF XBRL	Taxonomy Extension Definition Linkbase Document (1)
101.PRE XBRL	Taxonomy Extension Presentation Linkbase Document (1)

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† Filed herewith.

†† Furnished herewith.

(1) Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language): (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.

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SIGNATURES

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

		PEBBLEBROOK HOTEL TRUST
Date:	October 23, 2017	/s/ JON E. BORTZ
		Jon E. Bortz
		Chairman, President and Chief Executive Officer