

Section 1: 10-K (10-K)

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

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: 001-14765

HERSHA HOSPITALITY TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland 25-1811499
(State or Other Jurisdiction of Incorporation or (I.R.S. Employer Identification No.)
Organization)

44 Hersha Drive Harrisburg PA 17102
(Address of Registrant's Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (717) 236-4400

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

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
Class A Common Shares of Beneficial Interest, par value \$.01 per share	HT	New York Stock Exchange
6.875% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$.01 per share	HT-PC	New York Stock Exchange
6.50% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$.01 per share	HT-PD	New York Stock Exchange
6.50% Series E Cumulative Redeemable Preferred Shares of Beneficial Interest, par value \$.01 per share	HT-PE	New York Stock Exchange

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

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (i) 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 (ii) 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 (Sec.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, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes No

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

The aggregate market value of the outstanding Class A common shares held by nonaffiliates of the registrant, computed by reference to the closing sale price at which Class A common shares were last sold on June 30, 2019, was approximately \$621.2 million.

As of February 25, 2020, the number of Class A common shares outstanding was 38,653,744 and there were no Class B common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement, to be filed with the Securities and Exchange Commission not later than 120 days after the end of the registrant's last fiscal year pursuant to Regulation 14A, are incorporated herein by reference into Part II, Item 5 and Part III.

HERSHA HOSPITALITY TRUST

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CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

Unless the context otherwise requires, references in this report to: (1) "we," "us," "our," the "Company" and "Hersha" mean Hersha Hospitality Trust and its consolidated subsidiaries, including Hersha Hospitality Limited Partnership, taken as a whole; (2) "HHLP" and "our operating partnership" mean Hersha Hospitality Limited Partnership; and (3) "common shares" mean our Class A common shares of beneficial interest, \$0.01 par value per share.

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"), as amended, including, without limitation, statements containing the words, "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" and words of similar import. Such forward-looking statements relate to future events, our plans, strategies, prospects and future financial performance, and involve known and unknown risks that are difficult to predict, uncertainties and other factors which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers should specifically consider the various factors identified in this report including, but not limited to those discussed in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations" that could cause actual results to differ. Statements regarding the following subjects are forward-looking by their nature:

- our business or investment strategy;
- our projected operating results;
- our distribution policy;
- our liquidity;
- completion of any pending transactions;
- our ability to obtain future financing arrangements or refinance or extend the maturity of existing financing arrangements as they come due;
- our understanding of our competition;
- market trends; and
- projected capital expenditures.

Forward-looking statements are based on our beliefs, assumptions and expectations, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. Readers should not place undue reliance on forward-looking statements. The following factors could cause actual results to vary from our forward-looking statements:

- general volatility of the capital markets and the market price of our common shares;
- changes in our business or investment strategy;
- availability, terms and deployment of capital;
- availability of qualified personnel;
- changes in our industry and the market in which we operate, interest rates, or the general economy;
- decreased international travel because of geopolitical events, including terrorism, outbreaks of disease, and current U.S. government policies;
- the degree and nature of our competition;
- financing risks, including the risk of leverage and the corresponding risk of default on our mortgage loans and other debt and potential inability to refinance or extend the maturity of existing indebtedness;
- levels of spending in the business, travel and leisure industries, as well as consumer confidence;
- declines in occupancy, average daily rate and RevPAR and other hotel operating metrics;
- hostilities, including future terrorist attacks, or fear of hostilities that affect travel;
- business interruptions due to cyber-attacks;
- financial condition of, and our relationships with, our joint venture partners, third-party property managers, franchisors and hospitality joint venture partners;
- the degree and nature of our competition;
- increased interest rates and operating costs;
- ability to complete development and redevelopment projects;
- risks associated with potential acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history, and dispositions of hotel properties;
- availability of and our ability to retain qualified personnel;
- our ability to maintain our qualification as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code;

- environmental uncertainties and risks related to natural disasters and increases in costs to insure against those risks;
- changes in real estate and zoning laws and increases in real property tax rates; and
- the factors discussed in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2019 under the heading “Risk Factors” and in other reports we file with the U.S. Securities and Exchange Commission (“SEC”) from time to time.

These factors are not necessarily all of the important factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by any of our forward-looking statements. Other unknown or unpredictable factors, many of which are beyond our control, also could harm our results, performance or achievements.

All forward-looking statements contained in this report are expressly qualified in their entirety by the cautionary statements set forth above. Forward-looking statements speak only as of the date they are made, and we do not undertake or assume any obligation to update publicly any of these statements to reflect actual results, new information or future events, changes in assumptions or changes in other factors affecting forward-looking statements, except to the extent required by applicable laws. If we update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

PART I

Item 1. Business

OVERVIEW

Hersha Hospitality Trust is a self-advised Maryland real estate investment trust that was organized in 1998 and completed its initial public offering in January of 1999. Our common shares are traded on the New York Stock Exchange under the symbol "HT." We invest primarily in institutional grade hotels in major urban gateway markets including New York, Washington, DC, Boston, Philadelphia, South Florida and select markets on the West Coast. Our primary strategy is to continue to own high quality luxury, upscale, upper midscale and extended-stay hotels in metropolitan markets with high barriers to entry and independent boutique hotels in markets with similar characteristics. We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax purposes.

We strive to create value through our ability to source capital and identify high growth acquisition targets. We seek acquisition candidates located in markets with economic, demographic and supply dynamics favorable to hotel owners and operators. Through our due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel's ability to attract key demand segments, enhance hotel operations and increase long-term value. To drive sustainable shareholder value, we also seek to recycle capital from stabilized assets in markets with lower forecasted growth rates. Capital from these types of transactions is intended to be and has been redeployed into high growth acquisitions, share buybacks and reduction of debt.

As of December 31, 2019, our portfolio consisted of 38 wholly owned limited and full service properties with a total of 6,104 rooms, 1 hotel owned through a consolidated joint venture with a total of 115 rooms, and interests in 9 limited service properties owned through joint venture investments with a total of 1,425 rooms. These 48 properties, with a total of 7,644 rooms, are located in California, Connecticut, Delaware, District of Columbia, Florida, Maryland, Massachusetts, New York, Pennsylvania, and Washington and operate under leading brands owned by Marriott International, Inc. ("Marriott"), Hilton Worldwide, Inc. ("Hilton"), InterContinental Hotels Group ("IHG"), Hyatt Corporation ("Hyatt"), and Pan Pacific Hotels and Resorts ("Pan Pacific"). In addition, some of our hotels operate as independent hotels.

We are structured as an umbrella partnership REIT, or UPREIT, and we own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership (the "Partnership"), for which we serve as the sole general partner. As of December 31, 2019, we owned an approximate 90.0% partnership interest in our operating partnership including all of the general partnership interest.

The majority of our wholly-owned hotels are managed by Hersha Hospitality Management, L.P. ("HHMLP"), a privately held, qualified management company owned by certain of our trustees and executive officers and other unaffiliated third party investors. Other third party qualified management companies manage certain hotels that we own through joint venture interests. We lease our wholly-owned hotels to 44 New England Management Company ("44 New England"), our wholly-owned taxable REIT subsidiary ("TRS"), or one of its wholly owned subsidiaries. Each of the hotels that we own through a joint venture investment is leased to another TRS that is owned by the respective joint venture or an entity owned in part by 44 New England.

Our principal executive office is located at 44 Hersha Drive, Harrisburg, Pennsylvania 17102. Our telephone number is (717) 236-4400. Our website address is www.hersha.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this report.

AVAILABLE INFORMATION

We make available free of charge through our website (www.hersha.com) our code of ethics, corporate governance guidelines and the charters of the committees of our Board of Trustees (Acquisition Committee, Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Sub-Committee of the Audit Committee). We also make available through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. All reports that we have filed with the SEC including this annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, can also be obtained free of charge from the SEC's website at www.sec.gov.

INVESTMENT IN HOTEL PROPERTIES

Our operating strategy focuses on increasing hotel performance for our portfolio. The key elements of this strategy are:

- working together with our hotel management companies to increase revenue per available room, or RevPAR, and to maximize the average daily rate, or ADR, and occupancy levels at each of our hotels through active property-level management, including intensive marketing efforts to tour groups, corporate and government extended stay customers and other wholesale customers and expanded yield management programs, which are calculated to better match room rates to room demand; and
- maximizing our hotel-level earnings by managing hotel-level costs and positioning our hotels to capitalize on increased demand in the high quality, upper-upscale, upscale and extended-stay lodging segments, which we believe can be expected to follow from improving economic conditions, and maximizing our operating margins.

ACQUISITIONS

We selectively acquire high quality branded luxury, upper-upscale, upscale, upper-midscale and extended-stay hotels in metropolitan markets with high barriers-to-entry and independent boutique hotels in similar markets. Through our due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel's ability to attract key demand segments, enhance hotel operations and increase long-term value. In executing our disciplined acquisition program, we will consider acquiring hotels that meet the following additional criteria:

- nationally-franchised hotels operating under popular brand families, such as Marriott, Hilton, IHG, Hyatt, Accor, and Four Seasons;
- hotels in locations with significant barriers-to-entry, such as high development costs, limited availability of land and lengthy entitlement processes;
- hotels in our target markets where we can realize operating efficiencies and economies of scale; and
- independent boutique hotels in similar markets.

All asset acquisitions are comprehensively reviewed and approved by the Acquisition Committee of our Board of Trustees, which consists solely of independent trustees.

Since our initial public offering in January 1999 and through December 31, 2019, we have acquired, wholly or through joint ventures, a total of 120 hotels, including 28 hotels acquired from entities controlled by certain of our trustees and executive officers. Of the 28 acquisitions from entities controlled by certain of our trustees and executive officers, 25 were newly constructed or substantially renovated by these entities prior to our acquisition. We utilize our relationships with entities that are developing or substantially renovating hotels, including entities controlled by certain of our trustees and executive officers, to identify future hotel acquisitions that we believe may be attractive to us. We intend to continue to acquire hotels from entities controlled by certain of our trustees and executive officers if approved by a majority of our independent trustees in accordance with our related party transaction policy.

DISPOSITIONS

We evaluate our hotels and the markets in which they operate on a periodic basis to determine if these hotels continue to satisfy our investment criteria. We may sell hotels opportunistically based upon management's forecast and review of the cash flow potential of each hotel and re-deploy the proceeds into debt reduction, acquisitions of hotels and share buybacks. We utilize several criteria to determine the long-term potential of our hotels. Hotels are identified for sale based upon management's forecast of the strength of each hotel's cash flows, its ability to remain accretive to our portfolio, and the expectations for the market in which the hotel operates. Our decision to sell a hotel is often predicated upon the size of the hotel, strength of the franchise, property condition and related costs to renovate the property, strength of market demand generators, projected supply of hotel rooms in the market, probability of increased valuation and geographic profile of the hotel. All asset sales are comprehensively reviewed by the Acquisition Committee of our Board of Trustees. Since our initial public offering in 1999 through December 31, 2019, we have sold a total of 78 hotels, including certain hotels contributed to joint ventures in which we maintain an ownership interest.

For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operation" and Note 2, "Investment in Hotel Properties".

FINANCING

We intend to finance our long-term growth with common and preferred equity issuances and debt financing with staggered maturities. Our debt includes unsecured debt in the aggregate of \$951 million which is comprised of a \$457 million senior unsecured credit facility (which includes a \$207 million unsecured term loan and \$250 million unsecured revolving line of credit), and two unsecured term loans totaling \$493.9 million. Our debt also includes secured mortgage debt on our hotel properties. We intend to use our revolving line of credit capacity to pay down mortgage debt, repurchase common shares subject to market conditions, and fund future acquisitions, as well as for capital improvements and working capital requirements. Subject to market conditions, we intend to repay amounts outstanding under the revolving line of credit portion of our credit facility from time to time with proceeds from periodic common and preferred equity issuances, long-term debt financings and cash flows from operations. When purchasing hotel properties, we may issue common and preferred limited partnership interests in our operating partnership as full or partial consideration to sellers.

SUSTAINABILITY

Our proprietary sustainability platform, EarthView®, was created in 2010 and is one of the most established sustainability programs in the industry. Through EarthView, we incorporate economic, environmental, and social initiatives into our overall business strategy. Our approach to sustainability not only drives lower operating expenses and higher real estate value, but is also a framework for identifying efficiencies in current practices, areas for hospitality innovation, and future market trends.

We have been recognized for our approach to driving positive environmental and community impact, and for our leadership in sustainability. In 2019, Hersha participated in the Global Real Estate Sustainability Benchmark (GRESB) assessment, earning GRESB's "Green Star" and ranking in the top 15% of all GRESB participants for the fifth year in a row. We have also been selected as "Leader in the Light" by NAREIT in the Lodging & Resorts sector four times for our superior sustainability practices. Additionally, we are included in America's Most Responsible Companies 2020 by Newsweek, ranking 279 out of 2,000 US companies on environmental, social, and governance (ESG) practices.

We are committed to transparent reporting of our ESG results. As such, Hersha publishes an annual sustainability report that is prepared in accordance with relevant international standards and best practices, specifically the Sustainable Accounting Standards Board (SASB) for the Real Estate Sector and the Task-force for Climate Financial Disclosures (TCFD). Our reporting of key environmental metrics - including energy, greenhouse gas emissions, water, and waste as it compares to our baseline year of 2010 - is third-party verified.

For more information on these and our other sustainability practices, including environmental and community impact results, as well as enterprise-wide policies, please see our current and historical sustainability reports, available on our website <https://www.hersha.com/earthview/>

FRANCHISE AGREEMENTS

Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards and centralized reservation systems. Most of our hotels operate under franchise licenses from national hotel franchisors, including:

Franchisor	Franchises
Marriott International	Ritz-Carlton, Marriott, Westin, Residence Inn by Marriott, Courtyard by Marriott, TownePlace Suites, Sheraton Hotels
Hilton Hotels Corporation	Hilton Hotels, Hilton Garden Inn, Hampton Inn
Hyatt Hotels Corporation	Hyatt, Hyatt House, Hyatt Place
IHG	Holiday Inn, Holiday Inn Express, Holiday Inn Express & Suites, Candlewood Suites
Pan Pacific Hotel Group	Pan Pacific

We anticipate a majority of the hotels in which we invest will be operated pursuant to franchise licenses.

The franchise licenses generally specify certain management, operational, record-keeping, accounting, reporting and marketing standards and procedures with which the franchisee must comply. The franchise licenses generally obligate our lessees to comply with the franchisors' standards and requirements with respect to training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided by

our lessees, display of signage, and the type, quality and age of furniture, fixtures and equipment included in guest rooms, lobbies and other common areas. In general, the franchise licenses require us to pay the franchisor a fee typically ranging between 6.0% and 9.3% of such hotel's revenues annually.

PROPERTY MANAGEMENT

We work closely with our hotel management companies to operate our hotels and increase hotel performance for our portfolio.

Through our TRS and our investment in joint ventures, we have retained the following management companies to operate our hotels as of December 31, 2019:

Manager	Wholly Owned		Joint Ventures		Total	
	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Hersha Hospitality Management, L.P.	37	6,018	7	1,087	44	7,105
South Bay Boston Management, Inc.	—	—	2	338	2	338
Marriott Management	1	86	1	115	2	201
Total	38	6,104	10	1,540	48	7,644

Each management agreement provides for a set term and is subject to early termination upon the occurrence of defaults and certain other events described therein. As required under the REIT qualification rules, all managers, including HHMLP, must qualify as an "eligible independent contractor" during the term of the management agreements.

Under the management agreements, the manager generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by the manager in performing its authorized duties are reimbursed or borne by our applicable TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. Our managers are not obligated to advance any of their own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel.

For their services, the managers receive a base management fee, and if a hotel meets and exceeds certain thresholds, an additional incentive management fee. For the year ended December 31, 2019, these thresholds were met for one management agreement with a related party manager and incentive management fees of \$161 thousand were earned. The base management fee for a hotel is due monthly and is generally equal to 3% of the gross revenues associated with that hotel for the related month.

CAPITAL IMPROVEMENTS, RENOVATION AND REFURBISHMENT

Under certain loan agreements, we have established capital reserves for our hotels to maintain the hotels in a condition that complies with their respective requirements. These capital reserves typically range from 3% to 5% of a hotel's gross revenues and are included in escrow deposits on the consolidated balance sheet. In addition, we may upgrade hotels in our portfolio in order to capitalize on opportunities to increase revenue, and, as deemed necessary by our management, to seek to meet competitive conditions and preserve asset quality. We will also renovate hotels when we believe the investment in renovations will provide an attractive return to us through increased revenues and profitability and is in the best interests of our shareholders. We maintain a capital expenditures policy by which replacements and renovations are monitored to determine whether they qualify as capital improvements. All items that are deemed to be repairs and maintenance costs are expensed and recorded in Hotel Operating Expenses in the Consolidated Statements of Operations.

OPERATING PRACTICES

Our hotel managers utilize centralized accounting and data processing systems, which facilitate financial statement and budget preparation, payroll management, quality control and other support functions for the on-site hotel management team. Our hotel managers also provide centralized control over purchasing and project management (which can create economies of scale in purchasing) while emphasizing local discretion within specific guidelines.

SEASONALITY

Our hotels' operations historically have been seasonal in nature, reflecting lower revenues and occupancy rates during the first quarter of each year when compared to the remaining three quarters. This seasonality causes fluctuations in our quarterly operating revenues, profitability, and cash flow.

COMPETITION

The U.S. hotel industry is highly competitive. Our hotels compete with other hotels for guests in each of their markets on the basis of several factors, including, among others, location, quality of accommodations, convenience, brand affiliation, room rates, service levels and amenities, and level of customer service. In addition to traditional hotels, our properties also compete with non-traditional accommodations for travelers such as online room sharing services. Competition is often specific to the individual markets in which our hotels are located and includes competition from existing and new hotels operated under premium brands in the focused-service and full-service segments. We believe that hotels, such as our hotels, that are affiliated with leading national brand families, such as the Marriott, Hilton, Hyatt, IHG, or Pan Pacific will enjoy the competitive advantages associated with operating under such brands. Increased competition could harm our occupancy and revenues and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which may materially and adversely affect our operating results and liquidity.

The upper-upscale and upscale limited service segments of the hotel business are highly competitive. There are many competitors in our markets and new hotels are routinely being constructed. Additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms.

We also compete for hotel acquisitions with entities that have investment objectives similar to ours. We face competition for the acquisition of hotels from institutional pension funds, private equity funds, REITs, hotel companies and others who are engaged in the acquisition of hotels. Some of these competitors have substantially greater financial and operational resources and access to capital than we have and may have greater knowledge of the markets in which we seek to invest. This competition may reduce the number of suitable investment opportunities offered to us, increase the bargaining power of property owners seeking to sell to us and decrease the attractiveness of the terms on which we may acquire our targeted hotel investments, including the cost thereof, making it more difficult for us to acquire new properties on attractive terms.

EMPLOYEES

As of December 31, 2019, we had 49 employees who were principally engaged in managing the affairs of the Company unrelated to property operations. We believe that our relations with our employees are satisfactory.

TAX STATUS

We elected to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 1999. As long as we qualify for taxation as a REIT, we generally will not be subject to federal income tax on the portion of our income that is currently distributed to our shareholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to federal income tax on our taxable income at regular corporate tax rates. Additionally, we will generally be unable to qualify as a REIT for four years following the year in which qualification is lost. Even if we qualify for taxation as a REIT, we will be subject to certain state and local taxes on our income and property and to federal income and excise taxes on our undistributed income.

We own interests in several TRSs. We may own up to 100% of the stock of a TRS. A TRS is a taxable corporation that may lease hotels from our operating partnership and its subsidiaries under certain circumstances. Overall, no more than 20% of the value of our assets may consist of securities of one or more TRS. In addition, no more than 25% of our gross income for any year may consist of dividends from one or more TRS and income from certain non-real estate related sources.

A TRS is permitted to lease hotels from us as long as the hotels are operated on behalf of the TRS by a third party manager that qualifies as an "eligible independent contractor." To qualify for that treatment, the manager must satisfy the following requirements:

1. such manager is, or is related to a person who is, actively engaged in the trade or business of operating "qualified lodging facilities" for any person unrelated to us and the TRS;
2. such manager does not own, directly or indirectly, more than 35% of our shares;
3. no more than 35% of such manager is owned, directly or indirectly, by one or more persons owning 35% or more of our shares; and
4. we do not, directly or indirectly, derive any income from such manager.

The deductibility of interest paid or accrued by a TRS to us is limited to assure that the TRS is subject to an appropriate level of corporate taxation, and in certain circumstances, other limitations on deductions of interest may apply. A 100% excise tax is imposed on transactions between a TRS and us that are not on an arm's-length basis.

REGULATION

General

Our hotels are subject to various U.S. federal, state and local laws, ordinances and regulations, including regulations relating to common areas and fire and safety requirements. We believe that each of our hotels has the necessary permits and approvals to operate its business.

Americans with Disabilities Act

Our hotels must comply with applicable provisions of the Americans with Disabilities Act of 1993, or ADA, to the extent that such hotels are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our hotels where such removal is readily achievable. We believe that our hotels are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, non-compliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our hotels and to make alterations as appropriate in this respect.

Environmental Matters

Under various laws relating to the protection of the environment, a current or previous owner or operator (including tenants) of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic substances at that property and may be required to investigate and clean up such contamination at that property or emanating from that property. These costs could be substantial and liability under these laws may attach without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and the liability may be joint and several. The presence of contamination or the failure to remediate contamination at our hotels may expose us to third-party liability or materially and adversely affect our ability to sell, lease or develop the real estate or to incur debt using the real estate as collateral.

Our hotels are subject to various federal, state, and local environmental, health and safety laws and regulations that address a wide variety of issues, including, but not limited to, storage tanks, air emissions from emergency generators, storm water and wastewater discharges, lead-based paint, mold and mildew and waste management. Our hotels incur costs to comply with these laws and regulations and could be subject to fines and penalties for non-compliance.

Environmental laws require that owners or operators of buildings with asbestos-containing building materials properly manage and maintain these materials, adequately inform or train those who may come into contact with asbestos and undertake special precautions, including removal or other abatement, in the event that asbestos is disturbed during building renovation or demolition. These laws may impose fines and penalties on building owners or operators for failure to comply with these requirements. In addition, third parties may seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

Some of our hotels may contain or develop harmful mold or suffer from other adverse conditions, which could lead to liability for adverse health effects and costs of remediation. The presence of significant mold or other airborne contaminants at any of our hotels could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected hotel or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from guests or employees at our hotels and others if property damage or health concerns arise.

INSURANCE

We require comprehensive insurance to be maintained by our hotel management companies, including HHMLP, on each of our hotels, including liability and fire and extended coverage in amounts sufficient to permit the replacement of the hotel in the event of a total loss, subject to applicable deductibles. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace the applicable hotel after such applicable hotel has been damaged or destroyed. Under such circumstances, the insurance proceeds received by us might not be adequate to restore our economic position with respect to the applicable hotel. If any of these or similar events occur, it may reduce the return from the attached property and the value of our investment.

FINANCIAL INFORMATION ABOUT SEGMENTS

We allocate resources and assess operating performance based on individual hotels and consider each one of our hotels to be an operating segment. No operating segment, individually, meets the threshold for a reportable segment as defined within ASC Topic 280 – Segment Reporting, nor do they fully satisfy the requisite aggregation criteria therein. As a result, the Company does not present separate operating segment information within the Notes to the Consolidated Financial Statements. See “Note 1 - Organization and Summary of Significant Accounting Policies” in Item 8 of this Annual Report on Form 10-K for segment financial information.

Item 1A. Risk Factors

You should carefully consider the following risks, together with the other information included in this Annual Report on Form 10-K. If any of the following risks actually occur, our business, financial condition or results of operations may suffer. As a result, the trading price of our securities could decline, and you may lose all or part of any investment you have in our securities.

Risks Related to the Economy and Credit Markets

Difficult economic conditions may adversely affect the hotel industry.

The performance of the hotel industry has historically been linked to key macroeconomic indicators, such as GDP growth, employment, corporate earnings and investment, and travel demand. If the U.S. economy should falter for any reason and there is an extended period of economic weakness, a recession or depression, our revenues and profitability could be adversely affected.

Economic conditions may reduce demand for hotel properties and adversely affect the Company's profitability.

The performance of the lodging industry is highly cyclical and has traditionally been closely linked with the performance of the general economy and, specifically, growth in the U.S. gross domestic product, employment, and investment and travel demand. The Company cannot predict the pace or duration of the global economic cycle or the cycles of the lodging industry. In the event conditions in the industry deteriorate or do not continue to see sustained improvement, or there is an extended period of economic weakness, the Company's occupancy rates, revenues and profitability could be adversely affected. In addition, other macroeconomic factors, such as consumer confidence and conditions which negatively shape public perception of travel, may have a negative effect on the lodging industry and may adversely affect the Company's business. Furthermore, some of the Company's hotels are classified as upper upscale or upscale. In an economic downturn, these types of hotels may be more susceptible to a decrease in revenue, as compared to hotels in other categories that have lower room rates. This characteristic may result from the fact that upper upscale hotels generally target business and high-end leisure travelers. In periods of economic difficulties, business and leisure travelers may seek to reduce travel costs by limiting travel or seeking to reduce costs on their trips. In addition, in periods of weak demand, as may occur during a general economic recession, profitability is negatively affected by the relatively high fixed costs of operating upper upscale and upscale hotels. Consequently, any uncertainty in the general economic environment could adversely affect the Company's business.

A recession could result in declines in our average daily room rates, occupancy and RevPAR, and thereby have a material adverse effect on our results of operations.

The performance of the hotel industry has traditionally been closely linked with the general economy. During the recession of 2008 and 2009, overall travel was reduced, which had a significant effect on our results of operations. While operating results have subsequently improved, there can be no assurance that any increases in hotel revenues or earnings at our properties will continue for any number of reasons, including, but not limited to, slower growth in the economy, changes in unemployment, underemployment, administration policies and changes in travel patterns. A stall in the economic recovery or a resurgent recession would have a material adverse effect on our results of operations. While we believe the U.S. economy continues on a trajectory of slow, steady growth, other economies around the world, including Europe, Canada, Japan and China, have demonstrated sluggish, stagnant or slowing growth in recent quarters. It remains to be seen what effect, if any, the slowing in these economies will have on us. If a property's occupancy or room rates drop to the point where its revenues are insufficient to cover its operating expenses, then we would be required to spend additional funds for that property's operating expenses.

In addition, if operating results decline at our hotels secured by mortgage debt, there may not be sufficient operating profit from the hotel to cover the debt service on the mortgage. In such a case, we may be forced to choose from a number of unfavorable options, including using corporate cash, drawing on our revolving credit facility, selling the hotel on disadvantageous terms, including at an unattractive price, or defaulting on the mortgage debt and permitting the lender to foreclose. Any one of these options could have a material adverse effect on our business, results of operations, financial condition and ability to pay distributions to our shareholders.

Disruptions in the financial markets could adversely affect our ability to obtain sufficient third-party financing for our capital needs, including expansion, acquisition and other activities, on favorable terms or at all, which could materially and adversely affect us.

In the recession of 2008 and 2009 and some recent years, the U.S. stock and credit markets have experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings less attractive, and in some cases have resulted in the unavailability of financing, even for companies which otherwise are qualified to obtain financing. Continued volatility and uncertainty in the stock and credit markets in the U.S. and abroad may negatively impact our ability to access additional financing for our capital needs, including expansion, acquisition activities and other purposes, on favorable terms or at all, which may negatively affect our business. Additionally, due to this uncertainty, we may in the future be unable to refinance or extend our debt, or the terms of any refinancing may not be as favorable as the terms of our existing debt. If we are not successful in refinancing our debt when it becomes due, we may be forced to dispose of hotels on disadvantageous terms, which might adversely affect our ability to service other debt and to meet our other obligations. A prolonged downturn in the financial markets may cause us to seek alternative sources of potentially less attractive financing and may require us to further adjust our business plan accordingly. These events also may make it more difficult or costly for us to raise capital through the issuance of new equity capital or the incurrence of additional secured or unsecured debt, which could materially and adversely affect us.

Changes in the method pursuant to which the LIBOR rates are determined and potential phasing out of LIBOR after 2021 may affect our financial results.

The chief executive of the United Kingdom Financial Conduct Authority ("FCA"), which regulates LIBOR, has recently announced (the "FCA Announcement") that the FCA intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is not possible to predict the effect of these changes, other reforms or the establishment of alternative reference rates in the United Kingdom or elsewhere. Furthermore, in the United States, efforts to identify a set of alternative U.S. dollar reference interest rates include proposals by the Alternative Reference Rates Committee of the Federal Reserve Board and the Federal Reserve Bank of New York. The U.S. Federal Reserve, in conjunction with the Alternative Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with the Secured Overnight Financing Rate ("SOFR"), a new index calculated by short-term repurchase agreements, backed by Treasury securities. The Federal Reserve Bank of New York began publishing SOFR rates in 2018. The market transition away from LIBOR and towards SOFR is expected to be gradual and complicated. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate and SOFR a secured lending rate, and SOFR is an overnight rate and LIBOR reflects term rates at different maturities. These and other differences create the potential for basis risk between the two rates. The impact of any basis risk between LIBOR and SOFR may negatively affect our operating results. Any of these alternative methods may result in interest rates that are higher than if LIBOR were available in its current form, which could have a material adverse effect on results.

Any changes announced by the FCA, including the FCA Announcement, other regulators or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments we incur may change. In addition, although certain of our LIBOR based obligations provide for alternative methods of calculating the interest rate payable on certain of our obligations if LIBOR is not reported, which include requesting certain rates from major reference banks in London or New York, or alternatively using LIBOR for the immediately preceding interest period or using the initial interest rate, as applicable, uncertainty as to the extent and manner of future changes may result in interest rates and/or payments that are higher than, lower than or that do not otherwise correlate over time with the interest rates and/or payments that would have been made on our obligations if LIBOR rate was available in its current form.

RISKS RELATED TO THE HOTEL INDUSTRY

Our hotels are subject to general hotel industry operating risks, which may impact our ability to make distributions to shareholders.

Our hotels are subject to all operating risks common to the hotel industry. The hotel industry has experienced volatility in the past, as have our hotels, and there can be no assurance that such volatility will not occur in the future. These risks include, among other things: competition from other hotels; over-building in the hotel industry that could adversely affect hotel revenues and hotel values; increases in operating costs due to inflation and other factors, which may not be offset by increased room rates; reduction in business and commercial travel and tourism, including as a result of legislation or executive policies; strikes and other labor disturbances of hotel employees; increases in energy costs and other expenses of travel; civil unrest; adverse effects of general and local economic conditions; and adverse political conditions. These factors could reduce revenues of the hotels and adversely affect our ability to make distributions to our shareholders.

The value of our hotels depends on conditions beyond our control.

Our hotels are subject to varying degrees of risk generally incident to the ownership of hotels. The underlying value of our hotels, our income and ability to make distributions to our shareholders are dependent upon the operation of the hotels in a manner sufficient to maintain or increase revenues in excess of operating expenses. Hotel revenues may be adversely affected by adverse changes in national economic conditions, adverse changes in local market conditions due to changes in general or local economic conditions and neighborhood characteristics, competition from other hotels, changes in interest rates and in the availability, cost and terms of mortgage funds, the impact of present or future environmental legislation and compliance with environmental laws, the ongoing need for capital improvements, particularly in older structures, changes in real estate tax rates and other operating expenses, adverse changes in governmental rules and fiscal policies, civil unrest, acts of terrorism, acts of God, including earthquakes, hurricanes and other natural disasters, acts of war, adverse changes in zoning laws, and other factors that are beyond our control. In particular, general and local economic conditions may be adversely affected by terrorist incidents, such as those in New York, Washington, D.C. and Boston; cities where many of our hotels are located. Our management is unable to determine the long-term impact, if any, of these incidents or of any acts of war or terrorism in the United States or worldwide, on the U.S. economy, on us or our hotels or on the market price of our securities.

Our investments are concentrated in a single segment of the hotel industry.

Our primary business strategy is to continue to acquire high quality, upper-upscale, and upscale limited service and extended-stay hotels in metropolitan markets with high barriers to entry including New York, Washington DC, Boston, Philadelphia, South Florida, select markets on the West Coast, and other markets with similar characteristics. We are subject to risks inherent in concentrating investments in a single industry and in a specific market segment within that industry. The adverse effect on amounts available for distribution to shareholders resulting from a downturn in the hotel industry in general or the mid-scale segment in particular could be more pronounced than if we had diversified our investments outside of the hotel industry or in additional hotel market segments.

Operating costs and capital expenditures for hotel renovation may be greater than anticipated and may adversely impact distributions to shareholders.

Hotels generally have an ongoing need for renovations and other capital improvements, particularly in older structures, including periodic replacement of furniture, fixtures and equipment. Under the terms of our management agreements, we generally are obligated to pay the cost of expenditures for items that are classified as capital items under GAAP that are necessary for the continued operation of our hotels.

If these expenses exceed our expectations, the additional cost could have an adverse effect on amounts available for distribution to shareholders. In addition, we may acquire hotels in the future that require significant renovation. Renovation of hotels involves certain risks, including the possibility of environmental problems, construction cost overruns and delays, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from hotels.

The hotel industry is highly competitive.

The hotel industry is highly competitive. Our hotels compete with other existing and new hotels in their geographic markets. In addition to traditional hotels, our properties also compete with non-traditional accommodations for travelers such as online room sharing services. Many of our competitors have substantially greater marketing and financial resources than we do. Effective marketing by our competitors may reduce our hotel revenue and adversely impact our ability to make distributions to our shareholders.

Risks of operating hotels under franchise licenses, which may be terminated or not renewed, may impact our ability to make distributions to shareholders.

The continuation of our franchise licenses is subject to specified operating standards and other terms and conditions. All of the franchisors of our hotels periodically inspect our hotels to confirm adherence to their operating standards. The failure to maintain such standards or to adhere to such other terms and conditions could result in the loss or cancellation of the applicable franchise license. It is possible that a franchisor could condition the continuation of a franchise license on the completion of capital improvements that our trustees determine are too expensive or otherwise not economically feasible in light of general economic conditions, the operating results or prospects of the affected hotel. In that event, our trustees may elect to allow the franchise license to lapse or be terminated.

There can be no assurance that a franchisor will renew a franchise license at each option period. If a franchisor terminates a franchise license, we may be unable to obtain a suitable replacement franchise, or to successfully operate the hotel independent of a franchise license. The loss of a franchise license could have a material adverse effect upon the operations or the underlying value of the related hotel because of the loss of associated name recognition, marketing support and centralized reservation systems provided by the franchisor. Our loss of a franchise license for one or more of the hotels could have a material adverse effect on our partnership's revenues and our amounts available for distribution to shareholders.

The hotel industry is seasonal in nature.

The hotel industry is seasonal in nature. Generally, in certain markets we operate, hotel revenues are greater in the second and third quarters than in the first and fourth quarters. Revenues for hotels and resorts in tourist areas generally are substantially greater during tourist season than other times of the year. Our hotels' operations historically reflect this trend in these markets. As a result, our results of operations may vary on a quarterly basis, impairing comparability of operating data and financial performance on a quarter to quarter basis.

The cyclical nature of the hotel industry may cause fluctuations in our operating performance, which could have a material adverse effect on us.

The hotel industry historically has been highly cyclical in nature. Fluctuations in lodging demand and, therefore, operating performance, are caused largely by general economic and local market conditions, which subsequently affect levels of business and leisure travel. In addition to general economic conditions, new hotel room supply is an important factor that can affect the hotel industry's performance, and overbuilding has the potential to further exacerbate the negative impact of an economic recession. Room rates and occupancy, and thus RevPAR, tend to increase when demand growth exceeds supply growth. We can provide no assurances regarding whether, or the extent to which, lodging demand will rebound or whether any such rebound will be sustained. An adverse change in lodging fundamentals could result in returns that are substantially below our expectations or result in losses, which could have a material adverse effect on us.

The increasing use of Internet travel intermediaries by consumers may materially and adversely affect our profitability.

Although a majority of rooms sold on the Internet are sold through websites maintained by the hotel franchisors and managers, some of our hotel rooms will be booked through Internet travel intermediaries. These Internet travel intermediaries may purchase rooms at a negotiated discount from participating hotels, which could result in lower room rates than the franchisor or manager otherwise could have obtained. As these Internet bookings increase, these intermediaries may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us and any hotel management companies that we engage. Moreover, some of these Internet travel intermediaries are attempting to offer hotel rooms as a commodity, by increasing the importance of price and general indicators of quality, such as "three-star downtown hotel," at the expense of brand identification or quality of product or service. If consumers develop brand loyalties to Internet reservations systems rather than to the brands under which our hotels are franchised, the value of our hotels could deteriorate and our business could be materially and adversely affected. Although most of the business for our hotels is expected to be derived from traditional channels, if the amount of sales made through Internet intermediaries increases significantly, room revenues may flatten or decrease and our profitability may be materially and adversely affected.

The need for business-related travel and, thus, demand for rooms in our hotels may be materially and adversely affected by the increased use of business-related technology.

The increased use of teleconference and video-conference technology by businesses could result in decreased business travel as companies increase the use of technologies that allow multiple parties from different locations to participate at meetings without traveling to a centralized meeting location, such as our hotels. To the extent that such technologies play an increased role in day-to-day business and the necessity for business-related travel decreases, demand for our hotel rooms may decrease and we could be materially and adversely affected.

Future terrorist attacks or changes in terror alert levels could adversely affect travel and hotel demand.

Previous terrorist attacks and subsequent terrorist alerts have adversely affected the U.S. travel and hospitality industries in prior years, often disproportionately to the effect on the overall economy. The impact that terrorist attacks in the U.S. or elsewhere could have on domestic and international travel and our business in particular cannot be determined but any such attacks or the threat of such attacks could have a material adverse effect on our business, our ability to finance our business, our ability to insure our properties and our results of operations and financial condition.

The outbreak of widespread contagious disease could reduce travel and adversely affect hotel demand.

The widespread outbreak of infectious or contagious disease, such as influenza, Coronavirus, measles, mumps and Zika virus, can reduce travel in general, including travel within the U.S. and travel from international origins to the U.S. Further outbreaks, especially in the U.S., could reduce travel and adversely affect the hotel industry generally and our business in particular.

As of the date of this Annual Report on Form 10-K, the recent outbreak of the Coronavirus appears to be principally concentrated in China, although cases have been confirmed in other countries and regions, and flights, trains, cruises, tours and other travel related activities have been cancelled as a result, including cancellations that have affected travel to the U.S. The extent to which our business may be affected by the Coronavirus will largely depend on future developments with respect to the continued spread and treatment of the virus, which we cannot accurately predict. New information and developments may emerge concerning the severity of the Coronavirus and the actions to contain the Coronavirus or treat its impact. To the extent that travel activity in the U.S. is materially and adversely affected by the Coronavirus, our business and financial results could be materially and adversely impacted.

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

We face risks associated with the use of debt, including refinancing risk.

At December 31, 2019, we had outstanding long-term debt of approximately \$1.1 billion. We may borrow additional amounts from the same or other lenders in the future. Any future repurchases of our own shares may require additional borrowings. Some of these additional borrowings may be secured by our hotels. Our declaration of trust (as amended and restated, our "Declaration of Trust") does not limit the amount of indebtedness we may incur. We cannot assure you that we will be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our hotels to foreclosure. Our indebtedness contains various financial and non-financial events of default covenants customarily found in financing arrangements. Our mortgages payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow from the applicable hotels.

We have a substantial amount of debt that will mature within the next two to five years. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of the existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as new equity capital or sales of properties, we may be forced to use operating income to repay such indebtedness, which would have a material adverse effect on our cash available for distribution in years when significant "balloon" payments come due. In some such cases, we may lose the applicable hotels to foreclosure. This risk is particularly significant. See Item 7A of this Annual Report on Form 10-K for a detailed schedule of debt principal repayments.

We face high levels of competition for the acquisition of hotel properties and other assets, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We face competition for investment opportunities in high quality, upper-upscale, and upscale limited service and extended-stay hotels from entities organized for purposes substantially similar to our objectives, as well as other purchasers of hotels. We compete for such investment opportunities with entities that have substantially greater financial resources than we do, including access to capital or better relationships with franchisors, sellers or lenders. Our competitors may generally be able to accept more risk than we can manage prudently and may be able to borrow the funds needed to acquire hotels on more favorable terms. Competition may generally reduce the number of suitable investment opportunities offered to us and increase the bargaining power of property owners seeking to sell.

If we fail to maintain an effective system of internal controls, we may not be able to accurately determine our financial results or prevent fraud. As a result, our shareholders could lose confidence in our financial results, which could harm our business and the value of our common shares.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We may in the future discover areas of our internal controls that need improvement. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and have our independent auditors annually issue their own opinion on our internal controls over financial reporting. We cannot be certain that we will be successful in maintaining adequate internal controls over our financial reporting and financial processes. Furthermore, as we grow our business, our internal controls will become more complex, and we will require significantly more resources to ensure our internal controls remain effective. If we or our independent auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market value of our common shares. Additionally, the existence of any material weakness or significant deficiency would require management to devote significant time and incur significant expense to remediate any such material weaknesses or significant deficiencies and management may not be able to remediate any such material weaknesses or significant deficiencies in a timely manner.

We do not operate our hotels and, as a result, we do not have complete control over implementation of our strategic decisions.

In order for us to satisfy certain REIT qualification rules, we cannot directly or indirectly operate or manage any of our hotels. Instead, we must engage an independent management company to operate our hotels. As of December 31, 2019, our TRSs and our joint venture partnerships have engaged independent management companies as the property managers for all of our wholly owned hotels leased to our TRSs and the respective hotels for the joint ventures, as required by the REIT qualification rules. The management companies operating the hotels make and implement strategic business decisions with respect to these hotels, such as decisions with respect to the repositioning of a franchise or food and beverage operations and other similar decisions. Decisions made by the management companies operating the hotels may not be in the best interests of a particular hotel or of the Company. Accordingly, we cannot assure you that the management companies will operate our hotels in a manner that is in our best interests. In addition, the financial condition of the management companies could impact their future ability to operate our hotels.

Our acquisitions may not achieve expected performance, which may harm our financial condition and operating results.

We anticipate that acquisitions will largely be financed with the net proceeds of securities offerings and through externally generated funds such as borrowings under our revolving credit facility and other secured and unsecured debt financing. Acquisitions entail risks that investments will fail to perform in accordance with expectations and that estimates of the cost of improvements necessary to acquire and market properties will prove inaccurate, as well as general investment risks associated with any new real estate investment. As a result, we may not be able to generate enough cash from these hotels to make debt service payments or pay operating expenses.

Acquisition of hotels with limited operating history may not achieve desired results.

From time to time our acquisitions may consist of newly-developed hotels. Newly-developed or newly-renovated hotels do not have the operating history that would allow our management to make pricing decisions in acquiring these hotels based on historical performance. The purchase prices of these hotels are based upon management's expectations as to the operating results of such hotels, subjecting us to risks that such hotels may not achieve anticipated operating results or may not achieve these results within anticipated time frames. As a result, we may not be able to generate enough cash flow from these hotels to make debt payments or pay operating expenses. In addition, room revenues may be less than that required to provide us with our anticipated return on investment. In either case, the amounts available for distribution to our shareholders could be reduced.

We may be unable to integrate acquired hotels into our operations or otherwise manage our planned growth, which may adversely affect our operating results.

We cannot assure you that we or our management companies will be able to adapt our management, administrative, accounting and operational systems and arrangements, or hire and retain sufficient operational staff to successfully integrate these investments into our portfolio and manage any future acquisitions of additional assets without operational disruptions or unanticipated costs. Acquisition of hotels generates additional operating expenses that we will be required to pay. As we acquire additional hotels, we will be subject to the operational risks associated with owning new lodging properties. Our failure to integrate successfully any future acquisitions into our portfolio could have a material adverse effect on our results of operations and financial condition and our ability to pay dividends to shareholders or make other payments in respect of securities issued by us.

Most of our hotels are located in major gateway urban markets in the United States with many are located in the area from Washington, DC to Boston, MA, which may increase the effect of any regional or local economic conditions.

Most of our hotels are located in major gateway urban markets in the United States, with many located in the area from Washington, DC to Boston, MA. As a result, regional or localized adverse events or conditions, such as an economic recession, in any of these major gateway urban markets could have a significant adverse effect on our operations, and ultimately on the amounts available for distribution to shareholders.

Our ownership of hotels in the New York City market exposes us to concentration risk, which may lead to increased volatility in our results of operations.

For the year ended December 31, 2019, our consolidated portfolio of hotels in New York City accounted for approximately 21% of our hotel operating revenues. The operations of our consolidated portfolio of hotels in New York City will have a material impact on our overall results of operations. Concentration risk with respect to our ownership of hotels in the New York City market may lead to increased volatility in our overall results of operations. Our overall results of operations may be adversely affected and our ability to pay distributions to our shareholders could be negatively impacted in the event:

- downturns in lodging fundamentals are more severe or prolonged in New York City compared to the United States as a whole;
- negative economic conditions are more severe or prolonged in New York City compared to other areas, due to concentration of the financial industry in New York or otherwise;
- as new hotel supply enters the New York City market, this could impact our ability to grow ADR and RevPar as a result of the new supply; or
- New York City is impacted by other unforeseen events beyond our control, including, among others, terrorist attacks and travel related health concerns including pandemics and epidemics.

Acquired properties may be located in new markets where we may face risks associated with investing in an unfamiliar market.

We may acquire properties in markets that are new to us. When we acquire properties located in new markets, we may face risks associated with a lack of market knowledge or understanding of the local economy, forging new business relationships in the area and unfamiliarity with local government and permitting procedures. We work to mitigate such risks through extensive diligence and research and associations with experienced service providers. However, there can be no guarantee that all such risks will be eliminated.

We own a limited number of hotels and significant adverse changes at one hotel may impact our ability to make distributions to shareholders.

As of December 31, 2019, our portfolio consisted of 38 wholly-owned limited and full service properties, 1 property within a consolidated joint venture investment, and joint venture investments in 9 hotels with a combined total of 7,644 rooms. However, certain larger hotels or hotels in certain locations disproportionately impact our performance. Accordingly, significant adverse changes in the operations of any one of these hotels could have a material adverse effect on our financial performance and on our ability to make expected distributions to our shareholders.

We focus on acquiring hotels operating under a limited number of franchise brands, which creates greater risk as the investments are more concentrated.

We place particular emphasis in our acquisition strategy on hotels similar to our current hotels. We invest in hotels operating under a few select franchises and therefore will be subject to risks inherent in concentrating investments in a particular franchise brand, which could have an adverse effect on amounts available for distribution to shareholders. These risks include, among others, the risk of a reduction in hotel revenues following any adverse publicity related to a specific franchise brand or the failure of the franchisor to maintain a certain brand.

We depend on key personnel.

We depend on the services of our existing senior management team, including Jay H. Shah, Neil H. Shah, Ashish R. Parikh and Michael R. Gillespie, to carry out our business and investment strategies. As we expand, we will continue to need to attract and retain qualified additional senior management. We have employment agreements with certain of our senior management; however, the employment agreements may be terminated under certain circumstances. The termination of an employment agreement and the loss of the services of any of our key management personnel, or our inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial conditions and disputes between us and our co-venturers.

As of December 31, 2019, we had several joint ventures in which we shared ownership and decision-making power with one or more parties. Joint venture investments involve risks that may not be present with other methods of ownership, including the possibility: that our partner might become insolvent, refuse to make capital contributions when due or otherwise fail to meet its obligations, which may result in certain liabilities to us for guarantees and other commitments; that our partner might at any time have economic or other business interests or goals that are or become inconsistent with our interests or goals; that we could become engaged in a dispute with our partner, which could require us to expend additional resources to resolve such disputes and could have an adverse impact on the operations and profitability of the joint venture; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. Our joint venture partners must agree in order for the applicable joint venture to take, or in some cases, may have control over whether the applicable joint venture will take, specific major actions, such as budget approvals, acquisitions, sales of assets, debt financing, executing lease agreements, and vendor approvals. Under these joint venture arrangements, any disagreements between us and our partners may result in delayed decisions. Our inability to take unilateral actions that we believe are in our best interests may result in missed opportunities and an ineffective allocation of resources and could have an adverse effect on the financial performance of the joint venture and our operating results.

We engage in hedging transactions to limit our exposure to fluctuations in interest rates, which can result in recognizing interest expense at rates higher than the stated rates within our floating rate debt.

We enter into hedging transactions intended to protect us from the effects of interest rate fluctuations on floating rate debt. Our hedging transactions may include entering into interest rate swaps, caps, and floors, options to purchase such items, and futures and forward contracts. Hedging activities may not have the desired beneficial impact on our results of operations or financial condition, particularly in a declining rate environment. No hedging activity can completely insulate us from the risks associated with changes in interest rates. Moreover, interest rate hedging could fail to protect us or could adversely affect our operating results because, among other things:

- Available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;
- The duration of the hedge may not match the duration of the related liability;
- The party at risk in the hedging transaction may default on its obligation to pay;
- The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- The value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value.

Hedging transactions may reduce our shareholders' equity.

Hedging involves risk and typically involves costs, including transaction costs, which may reduce returns on our investments. These costs increase as the period covered by the hedging increases and during periods of rising and volatile interest rates. These costs will also limit the amount of cash available for distribution to shareholders. The REIT qualification rules may also limit our ability to enter into hedging transactions. We generally intend to hedge as much of our interest rate risk as our management determines is in our best interests given the cost of such hedging transactions and the requirements applicable to REITs. If we are unable to hedge effectively because of the cost of such hedging transactions or the limitations imposed by the REIT rules, we will face greater interest risk exposure than may be commercially prudent.

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

We and our hotel managers rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, reservations, billing and operating data. We and our hotel managers purchase some of our information technology from vendors, on whom our systems depend. We and our hotel managers rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential operator and other customer information, such as individually identifiable information, including information relating to financial accounts. Although we and our hotel managers have taken steps we believe are necessary to protect the security of our information systems and the data maintained in those systems, it is possible that the safety and security measures taken will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. In November 2018, Marriott announced a data security incident involving a guest reservation database. Security breaches such as the one that occurred at Marriott and, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations.

We face possible risks associated with the physical effects of climate change

We recognize there are inherent climate risks that may impact our business. Climate change may increase the frequency and severity of climate phenomenon and weather events, including intensifying storms, hurricanes, sea level rise, floods, extreme temperatures, wildfires, drought, and water stress. Should the impact of climate change be severe or continue for lengthy periods of times, these risks may be exacerbated and may directly damage our hotels, disrupt hotel operations and our supply chain, reduce travel demand to affected areas, increase operating costs, and increase (or make unavailable) property insurance on terms we find acceptable. There can be no assurance that climate change will not have a material adverse effect on our properties, operations, or business.

RISKS RELATED TO REAL ESTATE INVESTMENT GENERALLY

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties and harm our financial condition.

Real estate investments are relatively illiquid. Our ability to vary our portfolio in response to changes in operating, economic and other conditions will be limited. No assurances can be given that the fair market value of any of our hotels will not decrease in the future.

If we suffer losses that are not covered by insurance or that are in excess of our insurance coverage limits, we could lose investment capital and anticipated profits.

We require comprehensive insurance to be maintained on each of the our hotels, including liability and fire and extended coverage in amounts sufficient to permit the replacement of the hotel in the event of a total loss, subject to applicable deductibles. However, there are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes and acts of terrorism that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations and other factors also might make it impracticable to use insurance proceeds to replace the applicable hotel after such applicable hotel has been damaged or destroyed. Under such circumstances, the insurance proceeds received by us might not be adequate to restore our economic position with respect to the applicable hotel. If any of these or similar events occur, it may reduce the return from the attached property and the value of our investment.

Real estate is subject to property taxes.

Each hotel is subject to real and personal property taxes. The real and personal property taxes on hotel properties in which we invest may increase as property tax rates change and as the properties are assessed or reassessed by taxing authorities. Many state and local governments are facing budget deficits that have led many of them, and may in the future lead others to, increase assessments and/or taxes. If property taxes increase, our operating results may be negatively affected.

Environmental matters could adversely affect our results.

Operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of future legislation. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The cost of complying with environmental laws could materially adversely affect amounts available for distribution to shareholders. Phase I environmental assessments have been obtained on all of our hotels. Nevertheless, it is possible that these reports do not reveal all environmental liabilities or that there are material environmental liabilities of which we are unaware.

Our hotel properties may contain or develop harmful mold, which could lead to liability for adverse health effects and costs of remediating the problem.

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

Costs associated with complying with the ADA may adversely affect our financial condition and operating results.

Under the ADA, all public accommodations are required to meet certain federal requirements related to access and use by disabled persons. While we believe that our hotels are substantially in compliance with these requirements, a determination that we are not in compliance with the ADA could result in imposition of fines or an award of damages to private litigants. In addition, changes in governmental rules and regulations or enforcement policies affecting the use and operation of the hotels, including changes to building codes and fire and life-safety codes, may occur. If we were required to make substantial modifications at the hotels to comply with the ADA or other changes in governmental rules and regulations, our ability to make expected distributions to our shareholders could be adversely affected.

RISKS RELATED TO CONFLICTS OF INTEREST

Due to conflicts of interest, many of our existing agreements may not have been negotiated on an arm's-length basis and may not be in our best interest.

Some of our officers and trustees have ownership interests in HHMLP and in entities with which we have entered into transactions, including hotel acquisitions and dispositions and certain financings. Consequently, the terms of our agreements with those entities, including hotel contribution or purchase agreements, the Option Agreement (as defined below) between our operating partnership and some of the trustees and officers and our property management agreements with HHMLP, while intended to be negotiated on an arm's-length basis, may not have been and may not be in the best interest of all our shareholders. We have policies in place to encourage agreements to be negotiated on an arm's-length basis. Transactions with related persons must be approved by a majority of the Company's independent trustees. The Board of Trustees' policy requires any independent trustee with a direct or indirect interest in the transaction to excuse himself or herself from any consideration of the related person transaction in which he or she has an interest.

Conflicts of interest with HHMLP may result in decisions that do not reflect our best interests.

We have entered into an option agreement (as amended, the "Option Agreement") with each of our officers and certain trustees such that we obtain a right of first refusal to purchase any hotel owned or developed in the future by these individuals or entities controlled by them at fair market value. This right of first refusal would apply to each party until one year after such party ceases to be an officer or trustee of the Company. Our Acquisition Committee of the Board of Trustees is comprised solely of independent trustees, and the purchase prices and all material terms of the purchase of hotels from related parties are approved by the Acquisition Committee.

The following officers and trustees own collectively approximately 69% of HHMLP: Hasu P. Shah, Jay H. Shah, Neil H. Shah and Ashish R. Parikh. Conflicts of interest may arise with respect to the ongoing operation of our hotels including, but not limited to, the enforcement of the contribution and purchase agreements, the Option Agreement and our property management agreements with HHMLP. These officers and trustees also make decisions for our company with respect to

property management. Consequently, these officers and trustees may not act solely in the best interests of our shareholders relating to property management by HHMLP.

Conflicts of interest relating to sales or refinancing of hotels acquired from some of our trustees and officers may lead to decisions that are not in our best interest.

Some of our non-independent trustees and officers have unrealized gains associated with their interests in the hotels we have acquired from them and, as a result, any sale of these hotels or refinancing or prepayment of principal on the indebtedness assumed by us in purchasing these hotels may cause adverse tax consequences to such trustees and officers. Therefore, our interests and the interests of these individuals may be different in connection with the disposition or refinancing of these hotels.

Hotels owned or acquired by some of our trustees and officers may hinder these individuals from spending adequate time on our business.

Some of our trustees and officers own hotels and may develop or acquire new hotels, subject to certain limitations. Such ownership, development or acquisition activities may materially affect the amount of time these officers and trustees devote to our affairs. Some of our trustees and officers operate hotels that are not owned by us, which may materially affect the amount of time that they devote to managing our hotels. Pursuant to the Option Agreement we have an option to acquire any hotels developed by our officers and trustees.

RISKS RELATING TO OUR STRUCTURE

There are no assurances of our ability to make distributions in the future.

We intend to pay quarterly dividends and to make distributions to our shareholders in amounts such that all or substantially all of our taxable income in each year, subject to certain adjustments, is distributed. However, our ability to pay dividends may be adversely affected by the risk factors described in this annual report. All distributions will be made at the discretion of our Board of Trustees and will depend upon our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Trustees may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future.

An increase in market interest rates may have an adverse effect on the market price of our securities.

One of the factors that investors may consider in deciding whether to buy or sell our securities is our dividend rate as a percentage of our share or unit price, relative to market interest rates. If market interest rates increase, prospective investors may desire a higher dividend or interest rate on our securities or seek securities paying higher dividends or interest. The market price of our common shares likely will be based primarily on the earnings and return that we derive from our investments and income with respect to our properties and our related distributions to shareholders, and not from the market value or underlying appraised value of the properties or investments themselves. The market price of our preferred shares is based in large part on prevailing interest rates. As a result, interest rate fluctuations and capital market conditions can affect the market price of our common shares and preferred shares. For instance, if interest rates rise without an increase in our dividend rate, the market price of our common shares could decrease because potential investors may require a higher dividend yield on our common shares as market rates on interest-bearing securities, such as bonds, rise. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flow and our ability to service our indebtedness and pay dividends.

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

Our Board of Trustees has the authority to designate and issue preferred shares with liquidation, dividend and other rights that are senior to those of our common shares. As of December 31, 2019, 3,000,000 Series C Preferred Shares, 7,701,700 Series D Preferred Shares and 4,001,514 Series E Preferred Shares were issued and outstanding. Holders of our outstanding preferred shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common shares. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common shares, holders of our preferred shares are entitled to receive a liquidation preference of \$25.00 per share plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common shares. In addition, holders of our preferred shares have the right to elect two additional trustees to our Board of Trustees whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

Future offerings of equity securities, which would dilute our existing shareholders and may be senior to our common shares for the purposes of dividend distributions, may adversely affect the market price of our common shares.

In the future, we may attempt to increase our capital resources by making additional offerings of equity securities, including classes of preferred or common shares. Upon liquidation, holders of our preferred shares and lenders with respect to other borrowings will receive a distribution of our available assets prior to the holders of our common shares. Additional equity offerings may dilute the holdings of our existing shareholders or reduce the market price of our common shares, or both. Our preferred shares could have a preference on liquidating distributions or a preference on dividend payments that could limit our ability to make a dividend distribution to the holders of our common shares. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our shareholders bear the risk of our future offerings reducing the market price of our common shares and diluting their share holdings in us.

We may change our distribution policy in the future.

In the past we have reduced the quarterly distributions paid to our shareholders, and we may reduce or eliminate the quarterly distribution paid to our shareholders in the future. The decision to declare and pay distributions on our common shares in the future, as well as the timing, amount and composition of any such future distributions, will be at the sole discretion of our board of trustees and will depend on our earnings, funds from operations, liquidity, financial condition, capital requirements, contractual prohibitions or other limitations under our indebtedness and preferred shares, the annual distribution requirements under the REIT provisions of the Code, state law and such other factors as our board of trustees deems relevant. Any change in our distribution policy could have a material adverse effect on the market price of our common shares.

The market price of our securities could be volatile and could decline, resulting in a substantial or complete loss of your investment in our securities.

The stock markets have experienced significant price and volume fluctuations in the recent past. As a result, the market price of our securities has been and could be similarly volatile in the future, and investors in our securities may experience a decrease in the value of their investments, including decreases unrelated to our operating performance or prospects. The market price of our securities could be subject to wide fluctuations in response to a number of factors, including:

- our operating performance and the performance of other similar companies;
- actual or anticipated differences in our operating results;
- changes in our revenues or earnings estimates or recommendations by securities analysts; publication of research reports about us or our industry by securities analysts;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as mergers and acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;
- the passage of legislation or other regulatory developments or executive policies that adversely affect us or our industry;
- speculation in the press or investment community; actions by institutional shareholders;
- changes in accounting principles;
- terrorist acts; and
- general market conditions, including factors unrelated to our performance.

In the past, securities class action litigation has often been instituted against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources.

Future sales of our common shares, preferred shares, or securities convertible into or exchangeable or exercisable for our common shares could depress the market price of our common shares.

We cannot predict whether future sales of our common shares, preferred shares, or securities convertible into or exchangeable or exercisable for our common shares or the availability of these securities for resale in the open market will decrease the market price of our common shares. Sales of a substantial number of these securities in the public market, including sales upon the redemption of Common Units held by the limited partners of our operating partnership, (other than us and our subsidiaries) or the perception that these sales might occur, may cause the market price of our common shares to decline and you could lose all or a portion of your investment.

Future issuances of our common shares, preferred shares, or other securities convertible into or exchangeable or exercisable for our common shares, including, without limitation, common units of beneficial interest in our Operating Partnership ("Common Units"), in connection with property, portfolio or business acquisitions and issuances of equity-based

awards to participants in our equity incentive plans, could have an adverse effect on the market price of our common shares. Future issuances of these securities also could adversely affect the terms upon which we obtain additional capital through the sale of equity securities. In addition, future sales or issuances of our common shares may be dilutive to existing shareholders.

Our Board of Trustees may authorize the issuance of additional shares that may cause dilution or prevent a transaction that is in the best interests of our shareholders.

Our Declaration of Trust authorizes the Board of Trustees, without shareholder approval, to:

- amend the Declaration of Trust to increase or decrease the aggregate number of shares of beneficial interest or the number of shares of beneficial interest of any class or series that we have the authority to issue;
- cause us to issue additional authorized but unissued common shares or preferred shares; or
- classify or reclassify any unissued common or preferred shares and to set the preferences, rights and other terms of such classified or reclassified shares, including the issuance of additional common shares or preferred shares that have preference rights over the common shares with respect to dividends, liquidation, voting and other matters.

Any one of these events could cause dilution to our common shareholders, delay, deter or prevent a transaction or a change in control that might involve a premium price for the common shares or otherwise not be viewed in the best interest of holders of common shares.

Our Declaration of Trust contains a provision that creates staggered terms for our Board of Trustees.

Our Board of Trustees is divided into two classes, the terms of which expire every two years. Trustees of each class are elected for two-year terms upon the expiration of their current terms and each year one class of trustees will be elected by the shareholders. The staggered terms of trustees may delay, deter or prevent a tender offer, a change in control of us or other transaction, even though such a transaction might be viewed in the best interest of the shareholders.

Certain provisions of Maryland law may discourage a third party from acquiring us.

Under the Maryland General Corporation Law, as amended (MGCL), as applicable to REITs, certain “business combinations” (including certain issuances of equity securities) between a Maryland REIT and any person who beneficially owns ten percent or more of the voting power of the trust’s shares, or an affiliate thereof, are prohibited for five years after the most recent date on which such shareholder acquired at least ten percent of the voting power of the trust’s shares. Thereafter, any such business combination must be approved by two super-majority shareholder votes unless, among other conditions, the trust’s common shareholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares. These provisions could delay, deter or prevent a change of control or other transaction in which holders of our equity securities might receive a premium for their shares above then-current market prices or which such shareholders otherwise might believe to be in their best interests. Although our bylaws contain a provision exempting acquisitions of our shares from the control share acquisition legislation referenced above, there can be no assurance that this provision will not be amended or eliminated at any time in the future.

Our Board of Trustees may change our investment and operational policies without a vote of the common shareholders.

Our major policies, including our policies with respect to acquisitions, financing, growth, operations, debt limitation and distributions, are determined by our Board of Trustees. The Trustees may amend or revise these and other policies from time to time without a vote of the holders of the common shares.

Our Board of Trustees and management make decisions on our behalf, and shareholders have limited management rights.

Under Maryland law, generally, a trustee’s actions will be upheld if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinary prudent person in a like position would use under similar circumstances. Our shareholders have no right or power to take part in our management except through the exercise of voting rights on certain specified matters. The Board of Trustees is responsible for our management and strategic business direction, and our management is responsible for our day-to-day operations. Certain policies of our Board of Trustees may not be consistent with the short-term best interests of our shareholders.

RISKS RELATED TO OUR TAX STATUS

If we fail to maintain our qualification as a REIT, our dividends will not be deductible to us, and our income will be subject to taxation, which would reduce the cash available for distribution to our shareholders.

We have operated and intend to continue to operate so as to qualify as a REIT for federal income tax purposes. However, the federal income tax laws governing REITs are extremely complex, and interpretations of the federal income tax laws governing REITs are limited. Our continued qualification as a REIT will depend on our continuing ability to meet various requirements concerning, among other things, the ownership of our outstanding shares of beneficial interest, the nature of our assets, the sources of our income, and the amount of our distributions to our shareholders. Moreover, new tax legislation, administrative guidance or court decisions, in each instance potentially with retroactive effect, could make it more difficult or impossible for us to qualify as a REIT. If we were to fail to qualify as a REIT in any taxable year and did not qualify for certain statutory relief provisions, we would not be allowed a deduction for distributions to our shareholders in computing our taxable income and would be subject to federal income tax on our taxable income at regular corporate rates. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our shareholders, which in turn could have an adverse impact on the value of, and trading prices for, our shares. Unless entitled to relief under certain Code provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification was lost. As a result, amounts available for distribution to shareholders would be reduced for each of the years involved. Although we currently intend to continue to operate in a manner so as to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our Board of Trustees, with the consent of holders of two-thirds of the outstanding shares, to revoke our REIT election.

To maintain our qualification as a REIT and avoid corporate income tax and excise tax, we must distribute annually a certain percentage of our REIT taxable income, which could require us to raise capital on terms or sell properties at prices or at times that are unfavorable.

In order to maintain our qualification as a REIT, each year we must distribute to our shareholders at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain. To the extent that we satisfy the 90% distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed income. In addition, we will incur a 4% nondeductible excise tax on the amount, if any, by which our actual distributions in any year are less than the sum of:

- 85% of our REIT ordinary income for that year;
- 95% of our REIT capital gain net income for that year; and
- 100% of our undistributed taxable income required to be distributed from prior years.

We have distributed, and intend to continue to distribute, our taxable income to our shareholders in a manner intended to satisfy the 90% distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax. Differences in timing between the recognition of income and the related cash receipts or the effect of required debt amortization payments could require us to borrow or raise capital on terms we regard as unfavorable, or sell assets at prices or at times we regard as unfavorable to distribute out enough of our taxable income to satisfy the distribution requirement and to avoid corporate income tax and the 4% nondeductible excise tax in a particular year. In the past we have borrowed, and in the future we may borrow, to pay distributions to our shareholders and the limited partners of our operating partnership. Such borrowings subject us to risks from borrowing as described herein. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements.

If the leases of our hotels to our TRSs are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

To maintain our qualification as a REIT, we must satisfy two gross income tests, under which specified percentages of our gross income must be derived from certain sources, such as "rents from real property." Rents paid to our operating partnership by our TRSs pursuant to the lease of our hotels constitute substantially all of our gross income. In order for such rent to qualify as "rents from real property" for purposes of the gross income tests, the leases must be respected as true leases for federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. If our leases are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT.

Our ownership of our TRSs is limited and our transactions with our TRSs will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT, including gross operating income from hotel operations

pursuant to hotel management contracts. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 20% of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation, and in certain circumstances, other limitations on the deductibility of interest may apply. The rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRSs are subject to applicable federal, foreign, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to us but is not required to be distributed to us. We believe that the aggregate value of the stock and securities of our TRSs is and will continue to be less than 20% of the value of our total assets (including our TRS stock and securities). Furthermore, we will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we will scrutinize all of our transactions with our TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the 20% limitation discussed above or to avoid application of the 100% excise tax discussed above.

If our hotel managers do not qualify as "eligible independent contractors," we would fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" of ours will not be qualifying income for purposes of the two gross income tests applicable to REITs. We lease our hotels to our TRSs. A TRS will not be treated as a "related party tenant," and will not be treated as directly operating a lodging facility, which is prohibited, to the extent the TRS leases properties from us that are managed by an "eligible independent contractor."

We believe that the rent paid by our TRSs is qualifying income for purposes of the REIT gross income tests and that our TRSs qualify to be treated as taxable REIT subsidiaries for federal income tax purposes, but there can be no assurance that the Internal Revenue Service, or the IRS, will not challenge this treatment or that a court would not sustain such a challenge. If the IRS successfully challenged this treatment, we would likely fail to satisfy the asset tests applicable to REITs and substantially all of our income would fail to qualify for the gross income tests. If we failed to satisfy either the asset or gross income tests, we would likely lose our REIT qualification for federal income tax purposes, unless certain relief provisions applied.

If our hotel managers do not qualify as "eligible independent contractors," we would fail to qualify as a REIT. Each of the hotel management companies that enters into a management contract with our TRSs must qualify as an "eligible independent contractor" under the REIT rules in order for the rent paid to us by our TRSs to be qualifying income for our REIT income test requirements. Among other requirements, in order to qualify as an eligible independent contractor a manager must not own more than 35% of our outstanding shares (by value) and no person or group of persons can own more than 35% of our outstanding shares and the ownership interests of the manager, taking into account only owners of more than 5% of our shares and, with respect to ownership interests in such managers that are publicly traded, only holders of more than 5% of such ownership interests. Complex ownership attribution rules apply for purposes of these 35% thresholds. Although we intend to continue to monitor ownership of our shares by our hotel managers and their owners, there can be no assurance that these ownership levels will not be exceeded.

The federal income tax laws governing REITs are complex.

We intend to continue to operate in a manner so as to maintain our qualification as a REIT under the federal income tax laws. The REIT qualification requirements are extremely complex, however, and interpretations of the federal income tax laws governing qualification as a REIT are limited. Accordingly, we cannot be certain that we will be successful in operating so we can continue to qualify as a REIT. At any time, new laws, interpretations, or court decisions may change the federal tax laws or the federal income tax consequences of our qualification as a REIT.

Complying with REIT requirements may force us to sell otherwise attractive investments.

To maintain our qualification as a REIT, we must satisfy certain requirements with respect to the character of our assets. If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter (by, possibly, selling assets notwithstanding their prospects as an investment) to avoid losing our REIT status. If we fail to comply with these requirements at the end of any calendar quarter, and the failure exceeds a de minimis threshold, we may be able to preserve our REIT status if (a) the failure was due to reasonable cause and not to willful neglect, (b) we dispose of the assets causing the failure within six months after the last day of the quarter in which we identified the failure, (c) we file a schedule with the IRS, describing each asset that caused the failure, and (d) we pay an additional tax of the greater of \$50,000 or the product of the highest applicable tax rate multiplied by the net income generated on those assets. As a result, we may be required to liquidate otherwise attractive investments.

The prohibited transactions tax may limit our ability to engage in transactions, including dispositions of assets that would be treated as sales for federal income tax purposes.

A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may be subject to the prohibited transaction tax upon a disposition of real property. Although a safe harbor to the characterization of the sale of real property by a REIT as a prohibited transaction is available, we cannot assure you that we can comply with the safe harbor or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business. Consequently, we may choose not to engage in certain sales of real property or may conduct such sales through a TRS.

We may pay taxable dividends partly in shares and partly in cash, in which case shareholders may sell our shares to pay tax on such dividends, placing downward pressure on the market price of our shares.

We may make taxable dividends that are payable partly in cash and partly in shares. Under IRS Revenue Procedure 2017-45, as a publicly offered REIT, as long as at least 20% of the total dividend is available in cash and certain other requirements are satisfied, the IRS will treat the share distribution as a dividend (to the extent applicable rules treat such distribution as being made out of our earnings and profits). If in the future we choose to pay dividends in our own shares, our shareholders may be required to pay tax in excess of the cash that they receive. If a U.S. shareholder sells the shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in shares. If we pay dividends in our own shares and a significant number of our shareholders sell our shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our shares.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

The maximum U.S. federal income tax rate applicable to qualified dividend income payable to certain non-corporate U.S. holders is 20%. Dividends payable by REITs, however, generally are not eligible for the reduced qualified dividend rates. For taxable years beginning before January 1, 2026, non-corporate taxpayers may deduct up to 20% of certain pass-through business income, including "qualified REIT dividends" (generally, dividends received by a REIT shareholder that are not designated as capital gain dividends or qualified dividend income), subject to certain limitations, resulting in an effective maximum U.S. federal income tax rate of 29.6% on such income. Although the reduced U.S. federal income tax rate applicable to qualified dividend income does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends and the reduced corporate tax rate (currently 21%) could cause certain non-corporate investors to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our shares.

Our share ownership limitation may prevent certain transfers of our shares.

In order to maintain our qualification as a REIT, not more than 50% in value of our outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities). Our Declaration of Trust prohibits direct or indirect ownership (taking into account applicable ownership provisions of the Code) of more than (a) 9.9% of the aggregate number of outstanding common shares of any class or series or (b) 9.9% of the aggregate number of outstanding preferred shares of any class or series of outstanding preferred shares by any shareholder or group, or the Ownership Limitation. Generally, the shares of beneficial interest owned by related owners will be aggregated for purposes of the Ownership Limitation. The Board of Trustees, upon receipt of advice of counsel or other evidence satisfactory to the Board of Trustees, in its sole and absolute discretion, may exempt a shareholder from the Ownership Limitation. The Ownership Limitation could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of shares might receive a premium for their shares over the then prevailing market price or which such holders might believe to be otherwise in their best interests. Any transfer of shares of beneficial interest that would violate the Ownership Limitation, cause us to have fewer than 100 shareholders, cause us to be "closely held" within the meaning of Section 856 (h) of the Code or cause us to own, directly or indirectly, 10% or more of the ownership interest in any tenant (other than a TRS) will be void, the intended transferee of such shares will be deemed never to have had an interest in such shares, and such shares will be designated "shares-in-trust." Further, we will be deemed to have been offered shares-in-trust for purchase at the lesser of the market price (as defined in the Declaration of Trust) on the date we accept the offer and the price per share in the transaction that created such shares-in-trust (or, in the case of a gift, devise or non-transfer event (as defined in the Declaration of Trust), the market price on the date of such gift, devise or non-transfer event). Therefore, the holder of shares of beneficial interest in excess of the Ownership Limitation will experience a financial loss when such shares are purchased by us, if the market price falls between the date of purchase and the date of redemption.

We may be subject to adverse legislative or regulatory tax changes that could reduce the market price of our shares.

At any time, the federal income tax laws governing REITs or the administrative interpretations of those laws may be amended. We cannot predict when or if any new federal income tax law, regulation, or administrative interpretation, or any amendment to any existing federal income tax law, regulation or administrative interpretation, will be adopted, promulgated or become effective and any such law, regulation, or interpretation may take effect retroactively. Additional changes to the tax laws are likely to continue to occur. We cannot predict the long-term effect of any recent changes or any future law changes on REITs and their shareholders. We and our shareholders could be adversely affected by any such change in, or any new, federal income tax law, regulation or administrative interpretation.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth certain information with respect to the 38 hotels we wholly owned and 1 hotel owned within our consolidated joint venture as of December 31, 2019, all of which are consolidated on the Company's financial statements.

Market	Name	Location	Year Opened	Number of Rooms
Boston Urban and Metro	The Envoy, Boston Seaport	Boston, MA	2015	136
	The Boxer, Boston	Boston, MA	2004	80
	Courtyard by Marriott Brookline	Brookline/Boston, MA (1)	2003	188
	Holiday Inn Express Cambridge	Cambridge, MA	1997	112
	Mystic Marriott Hotel & Spa	Groton, CT	2001	285
California - Washington	The Ambrose Hotel, Santa Monica	Santa Monica, CA	2015	77
	The Sanctuary Beach Resort	Monterey Bay, CA	2014	60
	The Hotel Milo, Santa Barbara	Santa Barbara, CA (1)	2001	122
	Courtyard by Marriott Los Angeles Westside	Los Angeles, CA	2008	260
	Courtyard by Marriott Downtown San Diego	San Diego, CA	1999	245
	Courtyard by Marriott Sunnyvale	Sunnyvale, CA	2014	145
	TownePlace Suites Sunnyvale	Sunnyvale, CA (1)	2003	94
	The Pan Pacific Hotel Seattle	Seattle, WA	2006	153
NYC Urban	Hyatt Union Square	Union Square, New York, NY	2013	178
	Duane Street Hotel	TriBeCa, New York, NY	2008	43
	Hilton Garden Inn Manhattan Midtown East	Midtown East, New York, NY	2014	206
	Hilton Garden Inn TriBeCa	TriBeCa, New York, NY	2009	151
	Hampton Inn Seaport	Seaport, New York, NY	2006	65
	Holiday Inn Express Chelsea	Madison Square Garden, New York, NY	2006	228
	Hilton Garden Inn JFK	JFK Airport, New York, NY (1)	2005	192
	Gate Hotel JFK Airport	JFK Airport, New York, NY (1)	2008	150
	Nu Hotel, Brooklyn	Brooklyn, New York, NY	2008	93
NY-NJ Metro	Hyatt House White Plains	White Plains, NY	2000	187
Philadelphia	The Rittenhouse Hotel	Philadelphia, PA	2004	118
	Philadelphia Westin	Philadelphia, PA	1990	294
	Hampton Inn Center City/ Convention Center	Philadelphia, PA	2001	250
	Sheraton Wilmington South	New Castle, DE	2011	192

Market	Name	Location	Year Opened	Number of Rooms
South Florida	Cadillac Hotel & Beach Club	Miami, FL	2004	357
	The Ritz-Carlton, Coconut Grove	Coconut Grove, FL	2002	115
	The Blue Moon Hotel, Miami Beach	Miami, FL	2013	75
	The Winter Haven Hotel, Miami Beach	Miami, FL	2013	70
	Residence Inn Miami Coconut Grove	Coconut Grove, FL	2000	140
	Parrot Key Hotel & Villas	Key West, FL	2013	148
Washington D.C.	The Ritz-Carlton, Georgetown	Georgetown, DC	2014	86
	The St. Gregory Hotel, Dupont Circle	Washington, DC	2014	155
	The Capitol Hill Hotel	Washington, DC	2007	153
	Hilton Garden Inn M Street	Washington, DC	2014	238
	Hampton Inn Washington, D.C.	Washington, DC	2005	228
	Annapolis Waterfront Hotel	Annapolis, MD (1)	1968	150
TOTAL ROOMS				6,219

(1) Our interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreement. These ground lease agreements typically have initial terms of 99 years and all have a remaining term of at least 45 years.

The following table sets forth certain information with respect to the 9 hotels we owned through unconsolidated joint ventures with third parties as of December 31, 2019.

Market	Name	Location	Year Opened	Number of Rooms	HHLP Ownership in Asset
Boston	Courtyard	South Boston, MA (1)	2005	164	50.0%
	Holiday Inn Express	South Boston, MA (1)	1998	174	50.0%
NYC Urban	Hampton Inn Manhattan/Times Square South	Times Square, New York, NY	2009	184	31.2%
	Hampton Inn Manhattan-Chelsea	Chelsea/Manhattan, New York, NY	2003	144	31.2%
	Hampton Inn Manhattan-Madison Square Garden	Herald Square, New York, NY	2005	136	31.2%
	Holiday Inn New York City-Wall Street	Wall Street, New York, NY	2010	113	31.2%
	Holiday Inn Express New York City Times Square	Times Square, New York, NY	2009	210	31.2%
	Holiday Inn Express Wall Street	Water Street, New York, NY	2010	112	31.2%
	Candlewood Suites New York City- Times Square	Times Square, New York, NY	2009	188	31.2%
TOTAL ROOMS				1,425	

(1) The joint ventures interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreements. These ground lease agreements typically have terms of 60 years and all have a remaining term of at least 44 years.

Item 3. Legal Proceedings

We are not presently subject to any material litigation nor, to our knowledge, is any other 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 business or financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common shares trade on the New York Stock Exchange under the symbol "HT."

SHAREHOLDER INFORMATION

At December 31, 2019 we had approximately 129 shareholders of record of our common shares. Common Units (which are redeemable by holders for cash or, at our option, for common shares on a one for one basis, subject to certain limitations) were held by approximately 32 entities and persons, including our company.

Our Declaration of Trust, subject to certain exceptions, provides that no person may own, or be deemed to own by virtue of the attribution provisions of the Code, more than 9.9% of the number of outstanding common shares of any class or series of common shares or the number of outstanding preferred shares of any class or series of preferred shares. For this purpose, a person includes a "group" and a "beneficial owner" as those terms are used for purposes of Section 13(d)(3) of the Exchange Act. Any transfer of common or preferred shares that would result in any person owning, directly or indirectly, common or preferred shares in excess of the ownership limitation, result in the common and preferred shares being owned by fewer than 100 persons (determined without reference to any rules of attribution), result in our being "closely held" within the meaning of Section 856(h) of the Code, or cause us to own, actually or constructively, 10% or more of the ownership interests in a tenant (other than a TRS) of our or our operating partnership's real property, within the meaning of Section 856(d)(2)(B) of the Code, will be null and void, and the intended transferee will acquire no rights in such common or preferred shares.

Any person who acquires or attempts to acquire common or preferred shares in violation of the foregoing restrictions, or any person who owned common or preferred shares that were transferred to a trust, will be required to give written notice immediately to us of such event and provide us with such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT.

In addition, our trustees, upon receipt of advice of counsel or other evidence satisfactory to the trustees, in their sole and absolute discretion, may, in their sole and absolute discretion, exempt a person from the ownership limitation under certain circumstances. The foregoing restrictions continue to apply until the trustees determine that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT and there is an affirmative vote of two-thirds of the number of common and preferred shares entitled to vote on such matter at a regular or special meeting of our shareholders.

All certificates representing common or preferred shares bear a legend referring to the restrictions described above.

The restrictions on ownership and transfer described above could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of some, or a majority, of our common shares might receive a premium for their shares over the then-prevailing market price or which such holders might believe to be otherwise in their best interest.

EQUITY COMPENSATION PLAN

See Part III, Item 12, for a description of securities authorized for issuance under our Amended and Restated 2012 Equity Incentive Plan.

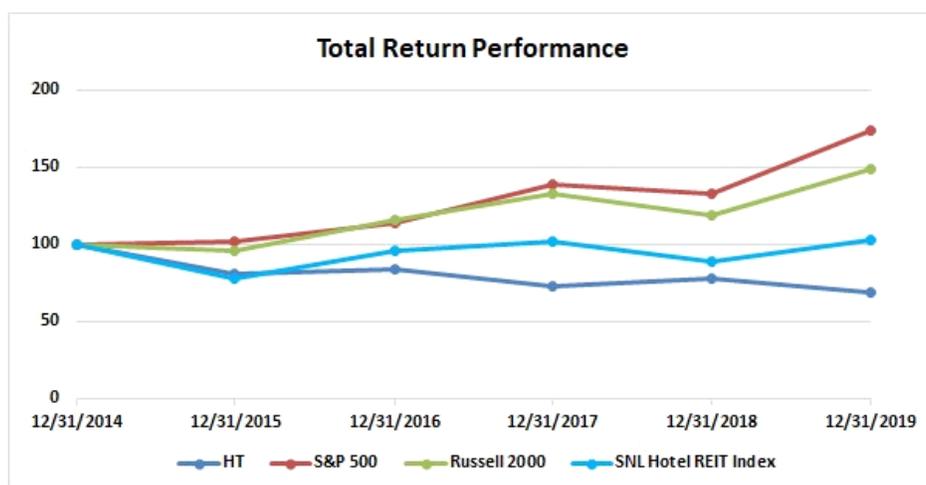
DISTRIBUTION INFORMATION

Future distributions, if any, will be at the discretion of our Board of Trustees and will depend on our actual cash flow, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as we may deem relevant. Our ability to make distributions will depend on our receipt of distributions from our operating partnership and lease payments from our lessees with respect to the hotels. We rely on the profitability and cashflows of our hotels to generate sufficient cash flow for distributions. Additionally, we may, if necessary and allowable, pay taxable dividends of our shares or debt securities to meet the distribution requirements.

SHARE PERFORMANCE GRAPH

The following graph compares the yearly change in our cumulative total shareholder return on our common shares for the period beginning December 31, 2014 and ending December 31, 2019, with the yearly changes in the Standard & Poor's 500 Stock Index (the S&P 500 Index), the Russell 2000 Index, and the SNL Hotel REIT Index for the same period, assuming a base share price of \$100.00 for our common shares, the S&P 500 Index, the Russell 2000 Index and the Hotel REIT Index for comparative purposes. The Hotel REIT Index is comprised of publicly traded REITs which focus on investments in hotel properties. Total shareholder return equals appreciation in stock price plus dividends paid and assumes that all dividends are reinvested. The performance graph is not indicative of future investment performance. We do not make or endorse any predictions as to future share price performance.

	2014	2015	2016	2017	2018	2019
Hersha Hospitality Trust	\$ 100.00	\$ 81.06	\$ 83.84	\$ 72.52	\$ 77.39	\$ 68.74
S&P 500	100.00	101.38	113.51	138.29	132.23	173.86
Russell 2000	100.00	95.59	115.93	132.88	118.23	148.36
MSCI US REIT Index	100.00	102.52	111.36	117.07	111.79	140.73
SNL Hotel REIT Index	100.00	77.36	95.88	101.89	88.46	102.19



Unregistered Sales of Equity Securities and Use of Proceeds

A summary of our common share repurchases during the year ended December 31, 2019 is set forth in the table below. All such common shares were repurchased pursuant to open market transactions.

In December 2018, our Board of Trustees authorized a share repurchase program which allowed us to repurchase from time to time up to an aggregate of \$50 million of our outstanding common shares. The program commenced on January 1, 2019 and expired on December 31, 2019.

Issuer Purchases of Common Shares (1)

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (in thousands)	(2)
January 1 to January 31, 2019	273,538	\$ 16.91	273,538	\$ 45,375	
February 1 to February 28, 2019	—	—	—	45,375	
March 1 to March 31, 2019	—	—	—	45,375	
April 1 to April 30, 2019	—	—	—	45,375	
May 1 to May 31, 2019	—	—	—	45,375	
June 1 to June 30, 2019	—	—	—	45,375	
July 1 to July 31, 2019	—	—	—	45,375	
August 1 to August 31, 2019	641,984	14.52	915,522	36,053	
September 1 to September 30, 2019	17,914	13.83	933,436	35,805	
October 1 to October 31, 2019	—	—	—	35,805	
November 1 to November 30, 2019	—	—	—	35,805	
December 1 to December 31, 2019	—	—	—	—	

(1) The share repurchase program authorized by our Board of Trustees in December 2018 was announced on February 27, 2019 with the filing of our Form 10-K for the year ended December 31, 2018. The program authorized the repurchase of up to an aggregate of \$50 million of our outstanding common shares.

(2) This amount represents the approximate dollar value of shares able to be repurchased under the plan that expired on December 31, 2019.

Item 6. Selected Financial Data

The following sets forth selected financial and operating data on a historical consolidated basis. The following data should be read in conjunction with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. As a result of the early adoption on January 1, 2014 of ASU Update No. 2014-08, we do not expect to classify most of our hotel dispositions as discontinued operations. For purposes of this table below, the operating results of certain real estate assets which have been sold prior to the adoption of ASU Update No. 2014-08 are included in discontinued operations for all periods presented.

HERSHA HOSPITALITY TRUST
SELECTED FINANCIAL DATA
(In thousands, except share and per share data)

	2019	2018	2017	2016	2015
Revenue:					
Hotel Operating Revenues	\$ 529,668	\$ 493,678	\$ 497,140	\$ 466,370	\$ 470,272
Other Revenues	292	1,385	1,097	259	113
Total Revenue	529,960	495,063	498,237	466,629	470,385
Operating Expenses:					
Hotel Operating Expenses	317,436	298,849	295,050	262,956	254,313
Hotel Ground Rent	4,581	4,228	3,460	3,600	3,137
Real Estate and Personal Property Taxes and Property Insurance	38,601	35,194	32,300	32,157	34,518
General and Administrative (including Share Based Payments of \$10,803, \$11,436, \$9,286, \$8,048, \$6,523)	26,431	26,881	23,553	24,444	20,515
Acquisition and Terminated Transaction Costs	—	29	2,203	2,560	1,119
Loss from Impairment of Assets	—	—	4,082	—	—
Depreciation and Amortization	96,529	89,831	83,752	75,390	74,390
(Gain) Loss in Excess of Estimated Insurance Recoveries	12	(12,649)	4,268	—	—
Total Operating Expenses	483,590	442,363	448,668	401,107	387,992
Operating Income	46,370	52,700	49,569	65,522	82,393
Interest Income	253	114	271	362	193
Interest Expense	(52,205)	(48,491)	(42,662)	(44,352)	(43,557)
Other Expense	(584)	(901)	(771)	(961)	(367)
Gain on Disposition of Hotel Properties	—	4,148	90,350	115,839	—
Lease Buyout	—	—	268	(16,831)	—
Loss on Debt Extinguishment	(280)	(22)	(590)	(1,187)	(561)
Income (Loss) before Income (Loss) from Unconsolidated Joint Venture Investments and Discontinued Operations	(6,446)	7,548	96,435	118,392	38,101
Income (Loss) from Unconsolidated Joint Ventures	691	1,084	(2,473)	(1,823)	965
Gain from Remeasurement of Investment in Unconsolidated Joint Ventures	—	—	16,240	—	—

HERSHA HOSPITALITY TRUST
SELECTED FINANCIAL DATA
(In thousands, except share and per share data)

	2019	2018	2017	2016	2015
Income (Loss) from Unconsolidated Joint Venture Investments	691	1,084	13,767	(1,823)	965
Income (Loss) Before Income Taxes	(5,755)	8,632	110,202	116,569	39,066
Income Tax (Expense) Benefit	(92)	(267)	(5,262)	4,888	3,141
Net Income (Loss)	(5,847)	8,365	104,940	121,457	42,207
Loss (Income) Allocated to Noncontrolling Interests- Common Units	2,366	916	(5,072)	(4,477)	(411)
(Income) Loss Allocated to Noncontrolling Interests- Consolidated Joint Ventures	(188)	709	—	—	—
Preferred Distributions	(24,174)	(24,174)	(24,169)	(17,380)	(14,356)
Extinguishment of Issuance Costs Upon Redemption of Preferred Shares	—	—	—	(4,021)	—
Net (Loss) Income applicable to Common Shareholders	(27,843)	(14,184)	75,699	\$ 95,579	\$ 27,440
Basic (Loss) Income from Continuing Operations applicable to Common Shareholders	\$ (0.74)	\$ (0.38)	\$ 1.82	\$ 2.21	\$ 0.56
Diluted (Loss) Income from Continuing Operations applicable to Common Shareholders ⁽¹⁾	(0.74)	(0.38)	1.79	2.18	0.56
Dividends declared per Common Share	1.12	1.12	1.12	1.32	1.12
Balance Sheet Data					
Net investment in hotel properties	\$ 1,975,973	\$ 2,026,659	\$ 2,009,572	\$ 1,767,570	\$ 1,831,119
Assets Held for Sale	—	—	15,987	98,473	—
Noncontrolling Interests Common Units	64,144	62,010	54,286	44,321	31,876
Noncontrolling Interests Consolidated Variable Interest Entity	—	—	—	—	(1,760)
Shareholder's equity	807,657	892,805	833,868	835,418	678,039
Total assets	2,122,428	2,138,630	2,138,336	2,155,536	1,962,649
Total debt	1,128,199	1,093,031	1,093,013	1,051,899	1,169,964
Liabilities related to Assets Held for Sale	—	—	—	51,428	—
Other Data					
Net cash provided by operating activities	\$ 103,112	\$ 114,822	\$ 107,123	\$ 81,567	\$ 121,831
Net cash (used in) provided by investing activities	\$ (53,566)	\$ (17,965)	\$ (99,663)	\$ 144,704	\$ (141,660)
Net cash (used in) provided by financing activities	\$ (53,344)	\$ (81,660)	\$ (176,511)	\$ (78,793)	\$ 28,372
Weighted average shares outstanding					
Basic	38,907,894	39,383,763	41,423,804	42,957,199	47,786,811
Diluted ⁽¹⁾	38,907,894	39,383,763	42,056,431	43,530,731	48,369,658

(1) Income allocated to noncontrolling interest in HHLP has been excluded from the numerator and Common Units have been omitted from the denominator for the purpose of computing diluted earnings per share because the effect of including these amounts in the numerator and denominator would have no impact.

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

The following discussion should be read in conjunction with the Consolidated Financial Statement and Notes thereto. This section includes discussion of financial information as of and for the year ended December 31, 2019 and provides comparisons to the same information as of and for the year ended December 31, 2018. Comparisons of 2018 financial information to the same information for 2017 can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on February 26, 2019.

Certain statements appearing in this Item 7 are forward-looking statements within the meaning of the federal securities laws. Our actual results may differ materially. We caution you not to place undue reliance on any such forward-looking statements. See "Cautionary Factors That May Affect Future Results" for additional information regarding our forward-looking statements.

BACKGROUND

As of December 31, 2019, we owned interests in 48 hotels in major urban gateway markets including New York, Washington DC, Boston, Philadelphia, San Diego, Los Angeles, Miami and select markets on the West Coast including 38 wholly-owned hotels, 1 hotel through our interest in a consolidated joint venture, and interests in 9 hotels owned through unconsolidated joint ventures. We have elected to be taxed as a REIT for federal income tax purposes, beginning with the taxable year ended December 31, 1999. For purposes of the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels to a third party lessee or to a TRS, provided that the TRS engages an eligible independent contractor, as defined under the REIT rules, to manage the hotels. As of December 31, 2019, we have leased all of our hotels to a wholly-owned TRS, a joint venture owned TRS, or an entity owned by our wholly-owned TRS. Each of these TRS entities will pay qualifying rent, and the TRS entities have entered into management contracts with qualified independent managers, including HHMLP, with respect to our hotels. We intend to lease all newly acquired hotels to a TRS. The TRS structure enables us to participate more directly in the operating performance of our hotels. Each TRS directly receives all revenue from, and funds all expenses relating to, hotel operations of the hotels that it leases. Each TRS is also subject to income tax on its earnings.

OVERVIEW

We believe the repositioning of our portfolio better enables us to capitalize on further improvement in lodging fundamentals. During 2019, we experienced a challenging operating environment in the lodging sector, which resulted in slowing comparable RevPAR growth driven by an increase in occupancy that outpaced rate decreases for our total consolidated portfolio on a comparable basis. Our strongest performing properties were located within the Boston, Philadelphia, Washington D.C., and South Florida markets. It should be noted that the performance of our hotels in the South Florida market significantly benefited from the full year of operations of the Cadillac Hotel and Beach Club and the Parrot Key Hotel & Villas in 2019, since both properties were closed for a significant portion of 2018 as a result of damage caused by Hurricane Irma. Excluding these two properties, the South Florida performance metrics were essentially flat for 2019 when compared to 2018. The properties in our New York City market and our West Coast markets saw RevPAR decrease in 2019 when compared to 2018. The decrease in New York City is attributable to rate pressure caused by new supply in the market while our West Coast properties saw a drop in occupancy account for the majority of their RevPAR decreases. Falling in line with our operating revenue metrics, our operating margins remained relatively flat for 2019, when adjusting for the results of the Cadillac Hotel and Beach Club and the Parrot Key Hotel & Villas. The softening in the New York City and select West Coast markets offset some of the gains we realized in our overall performance. While we continue to explore acquisition opportunities in coastal gateway urban centers and select resort destinations, we remain focused on operating efficiencies within our portfolio and asset repositioning opportunities to drive earnings and cash flow growth over the next year to de-lever our balance sheet. In addition, we will continue to look for attractive opportunities to divest certain properties at favorable prices, potentially redeploying capital in markets that offer higher growth, reducing our leverage, or opportunistically repurchasing our common shares.

For 2020, we expect a challenging operating environment for the lodging industry with consensus estimates of U.S. RevPAR growth under 1% with growth in expenses likely to outpace revenue growth for the lodging industry. These industry expectations can be attributed to an uncertain macroeconomic environment in 2020. Leading to this uncertainty is a mix of both positive and negative economic factors. The first phase of the U.S.-China trade deal has been signed, unemployment remains low, interest rates have been dropping, and there is an expected smooth transition for BREXIT by the end of 2020. However, business confidence has waned resulting in lower business investment during 2019, and consensus expectations show that U.S. GDP growth will continue to slow. However, the manner in which the economy will continue to grow, if at all, is not predictable and we have no way of predicting how any new government policies will affect the markets in which we

operate or the tourism industry in general. In addition, the availability of hotel-level financing for the acquisition of new hotels is not within our control. As a result, there can be no assurances that we will be able to grow hotel revenues, occupancy, ADR or RevPAR at our properties as we hope. Factors that might contribute to less than anticipated performance include those described under the heading "Item 1A. Risk Factors" and other documents that we may file with the SEC in the future.

SUMMARY OF OPERATING RESULTS

The following tables outline operating results for the Company's portfolio of wholly owned hotels and those owned through joint venture interests that are consolidated in our financial statements for the years ended December 31, 2019, and 2018. Common key performance metrics utilized by the lodging industry are occupancy, average daily rate ("ADR"), and revenue per available room ("RevPAR"). Occupancy is calculated as the percentage total rooms sold compared to rooms available to be sold, while ADR measures the average rate earned per occupied room, calculated as total room revenue divided by total rooms sold. RevPAR is a derivative of these two metrics which shows the total room revenue earned per room available to be sold. Management uses these metrics in comparison to other hotels in our self-defined competitive peer set within proximity to each of our hotel properties.

We define a comparable consolidated hotel as one that is currently consolidated, that we have owned in whole or in part for the entirety of the periods being presented, and is deemed fully operational. Based on this definition, for the year ended December 31, 2019, there are 36 comparable consolidated hotels. The comparable key hotel operating statistics presented in the table below have been computed using pro forma methodology to compute the operating results for the portion of time prior to our ownership of hotels purchased during the comparable period for the year ended December 31, 2019 compared to the year ended December 31, 2018 for our comparable hotels.

For the comparison of December 31, 2019 to December 31, 2018, comparable hotel operating results contain results from our consolidated hotels owned as of December 31, 2019, excluding: (1) The Courtyard Cadillac Hotel and the The Parrot Key Hotel & Villas because both hotels were not been operating for a significant portion of 2018 while the damage from Hurricane Irma was repaired; (2) The Boxer as this hotel was closed for a portion of December 2019 to perform remediation from water damage; and (3) the results of all hotels sold during the years ended December 31, 2019 and 2018. The comparison of December 31, 2019 to December 31, 2018 includes results as reported by the prior owners for the following hotels acquired during 2019 and 2018:

- The Annapolis Waterfront Hotel – Annapolis, MD (acquired 3/28/18)

COMPARABLE CONSOLIDATED HOTELS:

	<i>(Includes 36 hotels in both years)</i>		
	Year Ended 2019	Year Ended 2018	2019 vs. 2018 % Variance
	(dollars in thousands except ADR and RevPAR)		
Occupancy	83.1%	82.0%	116 bps
Average Daily Rate (ADR)	\$ 226.12	\$ 227.31	(0.5)%
Revenue Per Available Room (RevPAR)	\$ 187.94	\$ 186.31	0.9%
Room Revenues	\$ 386,435	\$ 383,055	0.9%
Hotel Operating Revenues	\$ 480,796	\$ 475,999	1.0%

RevPAR for the year ended December 31, 2019 increased 0.9% for our comparable consolidated hotels when compared to 2018. The Company experienced stronger RevPAR growth from comparable consolidated hotels located in Philadelphia, Washington D.C., and Boston, which experienced RevPAR growth of 5.0%, 3.4%, and 3.1%, respectively, for 2019 when compared to 2018. This growth in RevPAR was partially offset by comparable declines in RevPAR for our hotels located in New York City and the West Coast, which decreased 3.9% and 1.9%, respectively.

COMPARABLE UNCONSOLIDATED JOINT VENTURES:

	<i>(Includes 9 hotels in both years)</i>		
	Year Ended 2019	Year Ended 2018	2019 vs. 2018 % Variance
	(dollars in thousands except ADR and RevPAR)		
Occupancy	91.9%	92.8%	-89 bps
Average Daily Rate (ADR)	\$ 197.48	\$ 207.68	(4.9)%
Revenue Per Available Room (RevPAR)	\$ 181.46	\$ 192.69	(5.8)%
Room Revenues	\$ 94,384	\$ 98,123	(3.8)%
Total Revenues	\$ 96,784	\$ 100,438	(3.6)%

While the hotels within our Cindat joint venture generated 106 basis points in occupancy growth, it was not able to offset the decreased occupancy from our South Boston joint venture which decreased over 600 basis points. The decrease in occupancy is the result of rooms added to the Holiday Inn Express South Boston which went into service during the third quarter of 2018. While the number of rooms sold during 2019 increased in comparison to 2018, it was not at a pace large enough to match 2018 occupancy levels. Both joint ventures were unable to maintain rate, with our Cindat properties facing a challenging New York City market, which resulted in a 5.4% decrease in the Cindat joint venture ADR for the year ended December 31, 2019. As a result, for the year ended December 31, 2019 compared to 2018, RevPAR for the Cindat joint venture decreased 4.4% and RevPAR for the South Boston joint ventures decreased 9.8%.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2019 TO DECEMBER 31, 2018
(dollars in thousands)

Revenue

Our total revenues for the years ended December 31, 2019 and 2018 consisted of hotel operating revenues and other revenue. Hotel operating revenues were approximately 99% of total revenues for the years ended December 31, 2019 and 2018. Hotel operating revenues are recorded for wholly-owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture or other interests that are consolidated in our financial statements. Hotel operating revenues increased \$35,990 or 7.29%, to \$529,668 for the year ended December 31, 2019 compared to \$493,678 for the same period in 2018. This increase in hotel operating revenues can be explained by the following table:

Hotel Operating Revenue for the year ended December 31, 2018	\$	493,678
Incremental Revenue Additions from Acquisitions (1/1/2018 - 12/31/2019):		
The Annapolis Waterfront Hotel- Annapolis, MD	\$	3,044
Total Incremental Revenue from Acquisitions		3,044
Revenue Reductions from Dispositions (1/1/2018 - 12/31/2019):		
Hampton Inn Pearl Street - New York, NY	\$	(530)
Residence Inn, Tysons Corner, VA	\$	(3,674)
Total Revenue Reductions from Dispositions		(4,204)
Revenue Additions due to Hurricane Impacted Hotel Re-Openings		33,107
Change in Hotel Operating Revenue for Remaining Hotels		4,043
Hotel Operating Revenue for the year ended December 31, 2019	\$	529,668

As noted in the table above, our properties, exclusive of recently acquired and disposed hotels, experienced a \$37,150 increase in hotel operating revenue. This increase is mostly attributable to the Cadillac Hotel and Beach Club and the Parrot Key Hotel & Villas, both of which were closed for a significant portion of 2018. The Cadillac Hotel and Beach Club was damaged during Hurricane Irma in 2017 while it was branded as a Courtyard by Marriott. As a result of the hurricane damage, we accelerated our plan to convert this hotel to an Autograph Collection hotel causing it to be closed until the end of the third quarter of 2018. The Parrot Key Hotel & Villas incurred significant damage during Hurricane Irma in 2017, remaining closed for repairs until it re-opened during the fourth quarter of 2018. Collectively, these two hotels accounted for an increase in hotel operating revenue for the year ended December 31, 2019 of \$33,107. The remaining hotels in our portfolio contributed a net increase in revenue of \$4,043 for the year ended December 31, 2019 when compared to 2018.

Expenses

Total hotel operating expenses increased 6.22% to approximately \$317,436 for the year ended December 31, 2019 from \$298,849 for the year ended December 31, 2018. This increase in hotel operating expenses can be explained by the following table:

Hotel Operating Expenses for the year ended December 31, 2018	\$	298,849
Incremental Expense Additions from Acquisitions (1/1/2018 - 12/31/2019):		
The Annapolis Waterfront Hotel- Annapolis, MD	\$	1,531
Total Incremental Expenses from Acquisitions		1,531
Expense Reductions from Dispositions (1/1/2018 - 12/31/2019):		
Hampton Inn Pearl Street - New York, NY	\$	(602)
Residence Inn, Tysons Corner, VA		(2,067)
Total Expense Reductions from Dispositions		(2,669)
Expense Additions due to Hurricane Impacted Hotel Re-Openings		14,216
Change in Hotel Operating Expenses for Remaining Hotels		5,509
Hotel Operating Expenses for the year ended December 31, 2019	\$	317,436

As noted in the table above, our properties, exclusive of recently acquired and disposed hotels, experienced a \$19,725 increase in hotel operating expenses. This increase is mostly attributable to the Cadillac Hotel and Beach Club and the Parrot Key Hotel & Villas, which collectively accounted for an increase in hotel operating expenses for the year ended December 31, 2019 of \$14,216, as a result of being fully operational for the year ended December 31, 2019 as opposed to 2018 when they were closed for a majority of the year as described in the section above. The remaining hotels in our portfolio contributed a net increase in expenses of \$5,509 for the year ended December 31, 2019 when compared to 2018.

Depreciation and amortization increased by 7.5%, or \$6,698, to \$96,529 for the year ended December 31, 2019 from \$89,831 for the year ended December 31, 2018. The increase was a result of depreciation and amortization recorded on the hotels recently acquired or newly renovated.

Real estate and personal property tax and property insurance increased \$3,407, or 9.7%, for the year ended December 31, 2019 when compared to the same period in 2018. Approximately \$1,442 of the increase relates to higher property insurance costs for 2019 compared to 2018. The majority of this increase in insurance expense is attributable to increased insurance costs at our Florida hotel properties with the largest increases affecting The Cadillac Hotel and Beach Club and the Parrot Key Hotel & Villas. The remaining \$1,967 increase relates to increased real estate tax costs. The majority of this increase is related to real estate taxes on six properties that had either been re-assessed by the applicable taxing authority or experienced tax rebate phase outs, resulting in higher 2019 expense of \$2,005. The remaining unexplained difference is the result of normal real estate jurisdictional increases less net property tax refunds during the year ended December 31, 2019. We typically experience annual increases in either tax assessments and tax rates, or both, which are offset by reductions of expense resulting from successful real estate tax appeals.

General and administrative expense decreased by approximately \$450 to \$26,431 for the year ended December 31, 2019 from \$26,881 for the year ended December 31, 2018. General and administrative expense includes expense related to non-cash share based payments issued as incentive compensation to the Company's trustees, executives, and employees. Expense related to share based compensation decreased \$633 when comparing the year ended December 31, 2019 to the same period in 2018. Please refer to "Note 9 – Share Based Payments" of the notes to the consolidated financial statements for more information about our stock based compensation.

Gains / Losses on Insurance Recoveries

During the year ended December 31, 2019, the Company recorded property losses in excess of insurance recoveries in the amount of \$12 compared to insurance recoveries in excess of property losses of \$12,649 during the comparable period in 2018. During the year ended December 31, 2018, the Company received a total of \$25,295 in insurance proceeds, which was offset by a total of \$12,646 in funds applied to previously recorded insurance receivables, additional remediation expenses, and expenses due to franchisors based on business interruption settlements. We received no insurance proceeds during the year ended December 31, 2019. We anticipate a final settlement payment from our insurer related to the Hurricane Irma

damages incurred at the Parrot Key Hotel & Villas during the first half of 2020, however, we have no reasonable estimate of such proceeds at this time.

Operating Income

Operating income for the year ended December 31, 2019 was \$46,370 compared to operating income of \$52,700 during the same period in 2018. Operating income was negatively impacted by increases in real estate taxes and property insurance, and depreciation and amortization. Adding to the decrease in operating income was the fact that 2018 included a \$12,649 gain from insurance proceeds while 2019 had no such gain. These items negatively affecting operating income were partially offset by increases in hotel margins for the year ended December 31, 2019 compared to 2018.

Interest Expense

Interest expense increased \$3,714 from \$48,491 for the year ended December 31, 2018 to \$52,205 for year ended December 31, 2019. The balance of our borrowings, excluding discounts and deferred costs, have increased by \$37,052 in total between December 31, 2018 and December 31, 2019, as we completed net draws on our line of credit of \$38,000, which was partially offset by net mortgage debt paydowns of \$948. The increase in interest expense when comparing the year ended December 31, 2019 to the corresponding period in 2018 can be explained by: (1) an increase in interest expense from the credit facility which contributed \$2,582 incrementally; (2) an increase in interest expense from our notes payable and variable mortgage debt due to variable rates increasing, resulting in an increase in expense of \$507; and (3) the cessation of interest capitalization related to development projects resulting in an additional \$588 in expense during 2019.

Gain on Disposition of Hotel Properties

During the year ended December 31, 2019, the Company sold no hotel properties and, therefore, recorded no gain or loss. For the year ended December 31, 2018 we recorded a gain of \$4,148 related to the sales of the Hyatt House, Gaithersburg, MD, the Hampton Inn Seaport, New York, NY, and the Residence Inn, Tysons Corner, VA.

Unconsolidated Joint Venture Investments

The income (loss) from unconsolidated joint ventures consists of our interest in the operating results of the properties we own in joint ventures. Income from our unconsolidated joint ventures decreased by \$393 to income of \$691 for the year ended December 31, 2019 compared to income of \$1,084 during the same period in 2018. This reduction in income relates to the net operating results of our South Boston joint ventures for the year ended December 31, 2019 compared to 2018.

Income Tax Expense

During the year ended December 31, 2019, the Company recorded an income tax expense of \$92 compared to \$267 for the year ended December 31, 2018. The amount of income tax expense or benefit that the Company records depends mostly on the amount of taxable income or loss that is generated by our consolidated taxable REIT subsidiaries ("TRS").

Net (Loss) Income Applicable to Common Shareholders

Net loss applicable to common shareholders for the year ended December 31, 2019 was \$27,843 compared to a net loss of \$14,184 during the same period in 2018. This increase in net loss was primarily caused by: (1) a lower net gain on hotel dispositions of \$4,148; (2) decreased income from unconsolidated joint ventures of \$393; (3) increased interest expense of \$3,714; and (4) lower operating income of \$6,330. Partially offsetting these items was \$553 in additional loss allocated to minority interest holders.

Comprehensive (Loss) Income Applicable to Common Shareholders

Comprehensive loss applicable to common shareholders for the year ended December 31, 2019 was \$31,060 compared to comprehensive loss of \$13,706 for the same period in 2018. This change can be attributed to the items affecting Net Loss Applicable to Common Shareholders as more fully described above. For the year ended December 31, 2019, we recorded comprehensive loss of \$9,342 compared to \$8,881 of comprehensive income for the year ended December 31, 2018.

LIQUIDITY, CAPITAL RESOURCES, AND EQUITY OFFERINGS
(dollars in thousands, except share data)

Potential Sources of Capital

Our organizational documents do not limit the amount of indebtedness that we may incur. Our ability to incur additional debt is dependent upon a number of factors, including the current state of the overall credit markets, our degree of leverage and borrowing restrictions imposed by debt covenants and existing lenders. Our ability to raise funds through the issuance of debt and equity securities is dependent upon, among other things, capital market volatility, risk tolerance of investors, general market conditions for REITs and market perceptions related to the Company's ability to generate cash flow and positive returns on its investments.

In addition, our mortgage indebtedness contains various financial and non-financial covenants customarily found in secured, nonrecourse financing arrangements. If the specified criteria are not satisfied, the lender may be able to escrow cash flow generated by the property securing the applicable mortgage loan. We have determined that all covenants contained in the loan agreements securing hotel properties were met as of December 31, 2019. Future deterioration in market conditions could cause restrictions in our access to the cash flow of additional properties.

We have unsecured debt facilities in the aggregate of \$950,900 which is comprised of a \$457,000 senior unsecured credit facility and two unsecured term loans totaling \$493,900. The unsecured credit facility ("Credit Facility") contains a \$207,000 unsecured term loan ("First Term Loan") and a \$250,000 unsecured revolving line of credit ("Line of Credit"). This Credit Facility expires on August 10, 2022 and, provided no event of default has occurred, we may request that the lenders renew the credit facility for an additional one-year period. The Credit Facility is also expandable by \$400,000 at our request, subject to the satisfaction of certain conditions. Our two additional unsecured term loans are \$300,000 ("Second Term Loan") and \$193,900 ("Third Term Loan"), which mature on September 10, 2024 and August 2, 2021, respectively.

As of December 31, 2019, the outstanding balance under the First Term Loan was \$207,000, under the Second Term Loan was \$300,000, under the Third Term Loan was \$193,900 and we had \$48,000 outstanding under the Line of Credit. As of December 31, 2019, our remaining borrowing capacity under the Credit Facility, Second Term Loan and Third Term Loan was \$72,882 which is based on certain operating metrics of unencumbered hotel properties designated as borrowing base assets. We intend to repay indebtedness incurred under the Credit Facility, Second Term Loan and Third Term Loan out of cash flow and from the proceeds of issuances of additional common and preferred shares and potentially other securities and from proceeds from dispositions.

We will continue to monitor our debt maturities to manage our liquidity needs. However, no assurances can be given that we will be successful in refinancing all or a portion of our future debt obligations due to factors beyond our control or that, if refinanced, the terms of such debt will not vary from the existing terms. As of December 31, 2019, we have \$1,699 of indebtedness due on or before December 31, 2020. We currently expect that cash requirements for all debt that is not refinanced by our existing lenders for which the maturity date is not extended will be met through a combination of cash on hand, refinancing the existing debt with new lenders, draws on the Line of Credit and the issuance of our securities.

In addition to the incurrence of debt and the offering of equity securities, dispositions of property or investment from a joint venture partner may serve as additional capital resources and sources of liquidity. We may recycle capital from stabilized assets or from sales of non-core hotels in secondary and tertiary markets. Capital from these types of transactions is intended to be redeployed into high growth acquisitions, share buybacks, or to pay down existing debt.

Common Share Repurchase Plan

In October 2016, our Board of Trustees authorized our 2017 share repurchase program for up to \$100,000 of common shares which commenced upon the completion of the prior repurchase program. For the twelve months ended December 31, 2017, the Company repurchased 1,991,573 common shares for an aggregate purchase price of \$35,138. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

In December 2017, our Board of Trustees authorized a new share repurchase program for up to \$100,000 of common shares which commenced on January 1, 2018. The new program expired on December 31, 2018. For the twelve months ended December 31, 2018, the Company repurchased 635,590 common shares for an aggregate purchase price of \$10,833. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

In December 2018, our Board of Trustees authorized a new share repurchase program for up to \$50,000 of common shares which commenced on January 1, 2019. The new program expired on December 31, 2019. For the twelve months

ended December 31, 2019, the Company repurchased 933,436 common shares for an aggregate purchase price of \$14,195. Upon repurchase by the Company, these common shares ceased to be outstanding and become authorized but unissued common shares.

Acquisitions

During the year ended December 31, 2019, we acquired no hotel properties. We intend to invest in additional hotels only as suitable opportunities arise and adequate sources of financing are available. We expect that future investments in hotels will depend upon and will be financed by, in whole or in part, our existing cash, the proceeds from additional issuances of common or preferred shares, proceeds from the sale of assets, issuances of Common Units, issuances of preferred units or other securities or borrowings secured by hotel assets and under our Line of Credit.

Dispositions

During the year ended December 31, 2019, we disposed of no hotel properties. On January 3, 2020, we entered into an agreement for our joint venture partner to purchase our membership interests in Hiren Boston, LLC and SB Partners, LLC. Net proceeds from the sale of our interests are anticipated to be approximately \$26,000 and this transaction is expected to close during the second quarter of 2020. Additionally on January 20, 2020, we entered into a purchase and sale agreement to sell the Duane Street Hotel to an unrelated third party for a sales price of \$20,000. This transaction is anticipated to close in the second quarter of 2020. On February 21, 2020, we entered into a purchase and sale agreement to sell the Blue Moon Hotel to an unrelated third party for a sales price of \$30,000. This transaction is anticipated to close in the second quarter of 2020. We anticipate that the net proceeds from the aforementioned sales will be used to repay existing debt.

Operating Liquidity and Capital Expenditures

We expect to meet our short-term liquidity requirements generally through net cash provided by operations, existing cash balances and, if necessary, short-term borrowings under the Line of Credit. We believe that the net cash provided by operations in the coming year and borrowings drawn on the Line of Credit will be adequate to fund the Company's operating requirements, monthly recurring debt service and the payment of dividends in accordance with REIT requirements of the Code.

To qualify as a REIT, we must distribute annually at least 90% of our taxable income. This distribution requirement limits our ability to retain earnings and requires us to raise additional capital in order to grow our business and acquire additional hotel properties. However, there is no assurance that we will be able to borrow funds or raise additional equity capital on terms acceptable to us, if at all. In addition, we cannot guarantee that we will continue to make distributions to our shareholders at the current rate or at all. Due to the seasonality of our business, cash provided by operating activities fluctuates significantly from quarter to quarter. We believe that, based on our current estimates, which include the addition of cash from operations provided by hotels acquired during 2018, our cash provided by operating activities will be sufficient over the next 12 months to fund the payment of our dividend at its current level. However, our Board of Trustees continues to evaluate the dividend policy in the context of our overall liquidity and market conditions and may elect to reduce or suspend these distributions. Net cash provided by operating activities for the year ended December 31, 2019 was \$103,112 and cash used for the payment of distributions and dividends for the year ended December 31, 2019 was \$72,701.

We also project that our operating cash flow and available borrowings under the Line of Credit will be sufficient to satisfy our liquidity and other capital needs over the next twelve to eighteen months.

Our long-term liquidity requirements consist primarily of the costs of acquiring additional hotel properties, renovation and other non-recurring capital expenditures that need to be made periodically with respect to hotel properties and scheduled debt repayments. We will seek to satisfy these long-term liquidity requirements through various sources of capital, including borrowings under the Line of Credit and through secured, non-recourse mortgage financings with respect to our unencumbered hotel properties. In addition, we may seek to raise capital through public or private offerings of our securities. Certain factors may have a material adverse effect on our ability to access these capital sources, including our degree of leverage, the value of our unencumbered hotel properties and borrowing restrictions imposed by lenders or franchisors. We will continue to analyze which source of capital is most advantageous to us at any particular point in time, but financing may not be consistently available to us on terms that are attractive, or at all.

Spending on capital improvements during the year ended December 31, 2019 decreased when compared to spending on capital improvements during the year ended December 31, 2018. During the year ended December 31, 2019, we spent \$48,936 on capital expenditures to renovate, improve or replace assets at our hotels. This compares to \$65,629 during the

same period in 2018. These capital expenditures were undertaken to comply with brand mandated improvements and to initiate projects that we believe will generate a return on investment.

We may spend additional amounts, if necessary, to comply with the requirements of any franchise license under which any of our hotels operate and otherwise to the extent we deem such expenditures to be prudent. We are also obligated to fund the cost of certain capital improvements to our hotels. During the year ended December 31, 2019, we spent \$152 on hotel development projects and construction on hurricane impacted hotels compared to \$38,754 during the same period of 2018. In addition, we have invested \$6,100 during 2019 in an unconsolidated joint venture that is constructing a Home2 Suites in South Boston, compared to a \$1,000 investment during 2018.

We expect to use operating cash flow, borrowings under the Line of Credit, and proceeds from issuances of our securities to pay for the cost of capital improvements and any furniture, fixture and equipment requirements in excess of the set aside referenced above. As a result of damage caused by Hurricane Irma, the Company incurred additional capital expenditures in order to return properties to working order. In some instances, but not all, the Company has recovered a portion of the capital expenditure costs through insurance proceeds. Currently negotiations with our insurance providers are continuing while we settle outstanding claims.

CASH FLOW ANALYSIS (dollars in thousands)

Comparison of the Years Ended December 31, 2019 and December 31, 2018

Net cash provided by operating activities decreased \$11,710 from \$114,822 for the year ended December 31, 2018 to \$103,112 for the comparable period in 2019. In addition to the change in net income adjusted for non-cash items, the following items are the major contributing factors for the change in operating cash flow:

- Proceeds from business interruption insurance totaled \$8,440 for the year ended December 31, 2018 with no such proceeds in 2019.
- The remaining decrease in operating cash flows related to net changes in working capital assets and liabilities.

Net cash used in investing activities for the year ended December 31, 2019 was \$53,566 compared to net cash used in investing activities of \$17,965 for the year ended December 31, 2018. The following items are the major contributing factors for the change in investing cash flow.

- A decrease in comparative cash flows of \$64,880 as we sold no hotel properties for the year ended December 31, 2019 compared to the sale of three hotel properties for the year ended December 31, 2018;
- A decrease in comparative cash flows of \$15,806 because we received no insurance proceeds during 2019 compared to \$15,806 in insurance proceeds related to claims for property losses as a result of Hurricane Irma during the year ended December 31, 2018;
- A decrease in comparative cash flows of \$46,340 related to distributions from unconsolidated joint ventures mostly related to \$47,738 in proceeds from the redemption of our preferred equity investment in our Cindat joint venture during 2018;
- An increase in comparative cash flows of \$41,230 as we purchased no hotel properties during the year ended December 31, 2019 compared to the purchase of one hotel property during 2018; and
- An increase in comparative cash flows of \$55,295 related to a decrease in spending on capital expenditures, planned property repositioning, restaurant re-concepting, and construction to repair damage caused by Hurricane Irma for the year ended December 31, 2019 compared to 2018.

Net cash used in financing activities for the year ended December 31, 2019 was \$53,344 compared to net cash used in financing activities for the year ended December 31, 2018 of \$81,660. The following items are the major contributing factors for the change in financing cash flow.

- An increase in comparative cash flows of \$44,100 related to net increased borrowings on our line of credit during the year ended December 31, 2019 compared to 2018.
- An increase in comparative cash flows of \$18,000 as a result of no change in the balance on our Term Loans during the year ended December 31, 2019 compared to net repayments on our Term Loans during 2018.
- A decrease in comparative cash flows of \$27,338 related to net repayments on borrowings under mortgages payable during year ended December 31, 2019 compared to net proceeds from mortgages payable during 2018 due to the origination of the mortgage on the Annapolis Waterfront Hotel.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

FUNDS FROM OPERATIONS

(in thousands, except share data)

The National Association of Real Estate Investment Trusts (“NAREIT”) developed Funds from Operations (“FFO”) as a non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. We calculate FFO applicable to common shares and Common Units in accordance with the December 2018 Financial Standards White Paper of NAREIT, which we refer to as the White Paper. The White Paper defines FFO as net income (loss) (computed in accordance with GAAP) excluding depreciation and amortization related to real estate, gains and losses from the sale of certain real estate assets, gains and losses from change in control, and impairment write-downs of certain real estate assets and investments in entities when the impairment is directly attributable to decreases in the value of depreciable real estate held by an entity. Our interpretation of the NAREIT definition is that noncontrolling interest in net income (loss) should be added back to (deducted from) net income (loss) as part of reconciling net income (loss) to FFO. Our FFO computation may not be comparable to FFO reported by other REITs that do not compute FFO in accordance with the NAREIT definition, or that interpret the NAREIT definition differently than we do.

The GAAP measure that we believe to be most directly comparable to FFO, net income (loss) applicable to common shareholders, includes loss from the impairment of certain depreciable assets, our investment in unconsolidated joint ventures and land, depreciation and amortization expenses, gains or losses on property sales, noncontrolling interest and preferred dividends. In computing FFO, we eliminate these items because, in our view, they are not indicative of the results from our property operations.

FFO does not represent cash flows from operating activities in accordance with GAAP and should not be considered an alternative to net income as an indication of the Company’s performance or to cash flow as a measure of liquidity or ability to make distributions. We consider FFO to be a meaningful, additional measure of operating performance because it excludes the effects of the assumption that the value of real estate assets diminishes predictably over time, and because it is widely used by industry analysts as a performance measure. We show both FFO from consolidated hotel operations and FFO from unconsolidated joint ventures because we believe it is meaningful for the investor to understand the relative contributions from our consolidated and unconsolidated hotels. The display of both FFO from consolidated hotels and FFO from unconsolidated joint ventures allows for a detailed analysis of the operating performance of our hotel portfolio by management and investors. We present FFO applicable to common shares and Common Units because our Common Units are redeemable for common shares. We believe it is meaningful for the investor to understand FFO applicable to all common shares and Common Units.

The following table reconciles FFO for the periods presented to the most directly comparable GAAP measure, net income, for the same periods (*dollars in thousands*):

	Year Ended		
	December 31, 2019	December 31, 2018	December 31, 2017
Net (loss) income applicable to common shareholders	\$ (27,843)	\$ (14,184)	\$ 75,699
(Loss) Income allocated to noncontrolling interests	(2,178)	(1,625)	5,072
Income from unconsolidated joint ventures	(691)	(1,084)	(13,767)
Gain on disposition of hotel properties	—	(4,148)	(90,350)
Loss from impairment of depreciable assets	—	—	5,926
Depreciation and amortization	96,529	89,831	83,752
Funds from consolidated hotel operations applicable to common shareholders and Partnership units	<u>65,817</u>	<u>68,790</u>	<u>66,332</u>
Income from Unconsolidated Joint Ventures	691	1,084	13,767
Gain from remeasurement of investment in unconsolidated joint ventures	—	—	(16,240)
Unrecognized pro rata interest in income (loss) ⁽¹⁾	(4,246)	(4,115)	7,398
Depreciation and amortization of purchase price in excess of historical cost ⁽²⁾	96	94	(1,207)
Interest in depreciation and amortization of unconsolidated joint ventures ⁽³⁾	5,234	4,536	3,967
Funds from unconsolidated joint ventures operations applicable to common shareholders and Partnership units	<u>1,775</u>	<u>1,599</u>	<u>7,685</u>
Funds from Operations applicable to common shareholders and Partnership units	<u>\$ 67,592</u>	<u>\$ 70,389</u>	<u>\$ 74,017</u>
Weighted Average Common Shares and Units Outstanding			
Basic	38,907,894	39,383,763	41,423,804
Diluted	43,390,093	43,411,274	44,834,724

- (1) For U.S. GAAP reporting purposes, our interest in the joint venture's loss is not recognized since our U.S. GAAP basis in the joint venture has been reduced to \$0. Our interest in EBITDA from the joint venture equals our percentage ownership in the venture.
- (2) Adjustment made to add depreciation of purchase price in excess of historical cost of the assets in the unconsolidated joint venture at the time of our investment.
- (3) Adjustment made to add our interest in real estate related depreciation and amortization of our unconsolidated joint ventures. Allocation of depreciation and amortization is consistent with allocation of income and loss.

INFLATION

Operators of hotel properties, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (dollars in thousands)

The estimates and assumptions made by management in applying critical accounting policies have not changed materially during 2019 and 2018 and none of the estimates or assumptions have proven to be materially incorrect or resulted in our recording any significant adjustments relating to prior periods.

Investment in Hotel Properties

Investments in hotel properties are recorded at cost. Improvements and replacements are capitalized when they extend the useful life of the asset. Costs of repairs and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of up to 40 years for buildings and improvements, two to seven years for furniture, fixtures and equipment. We are required to make subjective assessments as to the useful lives of our properties for purposes of determining the amount of depreciation to record on an annual basis with respect to our investments in hotel properties. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in hotel properties we would depreciate these investments over fewer years, resulting in more depreciation expense and lower net income on an annual basis.

Identifiable assets, liabilities, and noncontrolling interests related to hotel properties acquired are recorded at fair value. Estimating techniques and assumptions used in determining fair values involve significant estimates and judgments. These estimates and judgments have a direct impact on the carrying value of our assets and liabilities which can directly impact the amount of depreciation expense recorded on an annual basis and could have an impact on our assessment of potential impairment of our investment in hotel properties.

Properties intended to be sold are designated as "held for sale" on the balance sheet. In accordance with ASU Update No. 2014-08 concerning the classification and reporting of discontinued operations, we evaluate each disposition to determine whether we need to classify the disposition as discontinued operations. This amendment defines discontinued operations as a component of an entity that represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. We anticipate that most of our hotel dispositions will not be classified as discontinued operations as most will not fit this definition.

Based on the occurrence of certain events or changes in circumstances, we review the recoverability of the property's carrying value. Such events or changes in circumstances include the following:

- a significant decrease in the market price of a long-lived asset;
- a significant adverse change in the extent or manner in which a long-lived asset is being used or in its physical condition;
- a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset, including an adverse action or assessment by a regulator;
- an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset;
- a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset; and
- a current expectation that, it is more likely than not that, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

We review our portfolio on an on-going basis to evaluate the existence of any of the aforementioned events or changes in circumstances that would require us to test for recoverability. In general, our review of recoverability is based on an estimate of the future undiscounted cash flows, excluding interest charges, expected to result from the property's use and eventual disposition. These estimates consider factors such as expected future operating income, market and other applicable trends and residual value expected, as well as the effects of hotel demand, competition and other factors. If impairment exists due to the inability to recover the carrying value of a property, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. We are required to make subjective assessments as to whether there are impairments in the values of our investments in hotel properties.

As of December 31, 2019, based on our analysis, we have determined that the estimated future cash flow of each of the properties in our portfolio is sufficient to recover its carrying value.

New Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-07, *Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The update will simplify several aspects of the accounting for nonemployee share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this update affects all entities that

enter into share-based payment transactions for acquiring goods and services from nonemployees. The provisions of the update are effective for the Company starting January 1, 2019. The adoption of this update did not have a material effect on our consolidated financial statements or the disclosures of share-based payments within Note 9 of these consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The update makes more financial and nonfinancial hedging strategies eligible for hedge accounting, changes how companies assess hedge effectiveness, and amends the presentation and disclosure requirements for hedging transactions. The Company adopted the provisions of this update effective January 1, 2019. The adoption of this update did not have a material effect on our consolidated financial statements or the disclosures related to fair value measurements with Note 8 of these consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business as it relates to acquisitions and business combinations. The update adds further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our hotel property acquisitions to qualify as asset acquisitions under the standard which requires the capitalization of acquisition costs to the underlying assets. The Company expects the standard to have an impact on our financial statements in periods during which we complete significant hotel acquisitions. The Company has adopted ASU No. 2017-01 effective, January 1, 2018.

In November 2016 the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents within the statement of cash flows. Accordingly, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this standard effective January 1, 2018. The adoption of ASU No. 2016-18 changed the presentation of the statement of cash flows for the Company and we utilized a retrospective transition method for each period presented within financial statements for periods subsequent to the date of adoption. Additionally, the Company provides a reconciliation within Note 11 of cash, cash equivalents, and restricted cash to their relative balance sheet captions.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which provides the principles for the recognition, measurement, presentation and disclosure of leases. The accounting for lessors will remain largely unchanged from current GAAP; however, the standard requires that certain initial direct costs be expensed rather than capitalized. Under the standard, lessees apply a dual approach, classifying leases as either finance or operating leases. A lessee is 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 lease classification. Based on the review of our leases, we are a lessee on ground leases in certain markets, hotel equipment leases, and office space leases. The Company adopted the provisions of the update effective January 1, 2019. As a result, the Company recorded right of use assets and corresponding lease liabilities of \$55,515 at January 1, 2019 for leases where we are the lessee. The Company also reclassified \$11,050 previously included in intangible assets to the right of use asset, related to purchase accounting adjustments for below market rate leases. Additionally, the Company reclassified \$19,627 previously included in accounts payable and accrued expenses to the right of use assets. This reclassification related to amounts recorded for accrued lease expense, as a result of using the straight-line rent method, and intangible liabilities derived from land leases acquired at above market lease rates. Upon adoption, the right of use assets had a weighted average useful life of 64.2 years. We are also a lessor in certain office space and retail lease agreements related to our hotels and the adoption of this ASU did not have a material impact on our accounting for leases where we are the lessor. The adoption of this ASU did not impact revenue recognition policies for the Company. See Note 6 to these consolidated financial statements for further lease disclosures.

RELATED PARTY TRANSACTIONS

We have entered into a number of transactions and arrangements that involve related parties. For a description of the transactions and arrangements, please see Note 7, "Commitments and Contingencies and Related Party Transactions," to the consolidated financial statements.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our contractual obligations and commitments to make future payments under contracts, such as debt and lease agreements, as of December 31, 2019.

Contractual Obligations	Total	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long Term Debt	\$ 385,496	\$ 1,699	\$ 130,145	\$ 164,273	\$ 89,379
Interest Expense on Long Term Debt	86,477	17,022	27,922	14,840	26,693
Unsecured Term Loans	700,900	—	400,900	300,000	—
Unsecured Line of Credit	48,000	—	48,000	—	—
Interest Expense on Credit Facility	84,299	27,561	39,135	17,603	—
Hotel Ground Rent and Office Rent	312,292	4,930	9,465	8,919	288,978
Total	\$ 1,617,464	\$ 51,212	\$ 655,567	\$ 505,635	\$ 405,050

Item 7A. Quantitative and Qualitative Disclosures About Market Risk (in thousands, except per share data)

Our primary market risk exposure is to changes in interest rates on our variable rate debt which has not been effectively hedged with interest swaps or interest rate caps. As of December 31, 2019, we are exposed to interest rate risk with respect to variable rate borrowings under our Credit Facility, Second Term and Third Term Loans and certain variable rate mortgages and notes payable. As of December 31, 2019, we had total variable rate debt outstanding of \$152,548 with a weighted average interest rate of 4.36%. The effect of a 100 basis point increase or decrease in the interest rate on our variable rate debt outstanding as of December 31, 2019 would be an increase or decrease in our interest expense for the twelve months ended December 31, 2020 of \$1,475.

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates for a portion of our borrowings through the use of fixed rate debt instruments to the extent that reasonably favorable rates are obtainable with such arrangements. We have also entered into derivative financial instruments such as interest rate swaps or caps, and in the future may enter into treasury options or locks, to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt. As of December 31, 2019, we have an interest rate cap related to debt on the Annapolis Waterfront Hotel, Annapolis, MD; and we have ten interest rate swap contracts related to debt on Hilton Garden Inn, 52nd Street, New York, NY; Courtyard, LA Westside, Culver City, CA; Hyatt Union Square, New York, NY; Hilton Garden Inn Tribeca, New York, NY; and our unsecured credit facility. We do not intend to enter into derivative or interest rate transactions for speculative purposes.

As of December 31, 2019 approximately 89% of our outstanding consolidated long-term indebtedness is subject to fixed rates or effectively capped, while 11% of our outstanding long term indebtedness is subject to floating rates, including borrowings under our revolving credit facility.

Changes in market interest rates on our fixed-rate debt impact the fair value of the debt, but such changes have no impact on interest expense incurred. If interest rates rise 100 basis points and our fixed rate debt balance remains constant, we expect the fair value of our debt to decrease. The sensitivity analysis related to our fixed-rate debt assumes an immediate 100 basis point move in interest rates from their December 31, 2019 levels, with all other variables held constant. A 100 basis point increase in market interest rates would cause the fair value of our fixed-rate debt outstanding at December 31, 2019 to be approximately \$1,067,168 and a 100 basis point decrease in market interest rates would cause the fair value of our fixed-rate debt outstanding at December 31, 2019 to be approximately \$1,130,237.

We regularly review interest rate exposure on our outstanding borrowings in an effort to minimize the risk of interest rate fluctuations. For debt obligations outstanding as of December 31, 2019, the following table presents expected principal repayments and related weighted average interest rates by expected maturity dates:

	Less Than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total
Fixed Rate Debt	\$ 1,699	\$ 505,263	\$ 437,054	\$ 37,832	\$ 981,848
Weighted Average Interest Rate	3.87%	3.86%	3.72%	3.69%	3.79%
Floating Rate Debt	\$ —	\$ 25,781	\$ 27,219	\$ 51,548	\$ 104,548
Weighted Average Interest Rate	4.43%	4.63%	4.68%	4.76%	4.62%
	\$ 1,699	\$ 531,044	\$ 464,273	\$ 89,380	\$ 1,086,396
Line of Credit	\$ —	\$ 48,000	\$ —	\$ —	\$ 48,000
Weighted Average Interest Rate	—%	4.01%	—%	—%	4.01%
	\$ 1,699	\$ 579,044	\$ 464,273	\$ 89,380	\$ 1,134,396

The table incorporates only those exposures that existed as of December 31, 2019, and does not consider exposure or positions that could arise after that date. As a result, our ultimate realized gain or loss with respect to interest rate fluctuations will depend on the exposures that arise during the future period, prevailing interest rates, and our hedging strategies at that time.

Item 8. Financial Statements and Supplementary Data

Hersha Hospitality Trust

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees

Hersha Hospitality Trust:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Hersha Hospitality Trust and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedule III (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Changes in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for historical property sales as of January 1, 2018 due to the adoption of FASB ASC Subtopic 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets*.

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of FASB ASC 842, *Leases*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of consolidated hotel properties for potential impairment

As discussed in note 1 to the consolidated financial statements, the Company tests its hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of any of the hotel properties may not be recoverable. For properties that have an indication that its carrying value may not be recoverable, an undiscounted cash flow analysis is prepared using various inputs and assumptions, including the holding period and expected terminal capitalization rate. Investment in hotel properties, net of accumulated depreciation, was \$1.98 billion, or 93% of total assets at December 31, 2019.

We identified the evaluation of consolidated hotel properties for potential impairment as a critical audit matter. Evaluation of the events or changes in circumstances that indicate the carrying value of a hotel property may not be recoverable involved a high degree of auditor judgment. In particular, as part of its evaluation of indicators of potential hotel property impairment, the Company was required to make judgments regarding 1) the likelihood that a property will be sold before the end of its previously estimated useful life, and 2) the impact of changes in market conditions or other factors on the recoverability of the carrying value of each hotel property. In addition, when there was an indication of a potential hotel property impairment, the nature of the evidence required to test the Company's evaluation of hotel properties for potential impairment is subjective. Significant auditor judgment was required to evaluate certain assumptions, specifically, the probability assessment related to the Company's holding period and expected terminal capitalization rate, used in the Company's performance of impairment testing. Both of these assumptions contain a high degree of subjectivity. Changes in these assumptions could have a significant impact on the determination of recoverability of the carrying amount of the Company's investments in hotel properties.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's process to identify and evaluate events or changes in circumstances that indicate the carrying amount of a hotel property may not be recoverable. We also tested internal controls related to the estimated holding period. We inquired of Company officials and inspected documents such as meeting minutes of the board of directors to evaluate the likelihood that it was more-likely-than not that a property will be sold before the end of its previously estimated useful life. We also read publicly available information in order to identify information regarding potential sales of the Company's properties. We assessed financial information for indicators of decreases in current and projected operating performance of the hotel properties and read certain third party information to identify other factors that could result in identification of a potentially impaired hotel property. For hotel properties with an indication of potential impairment, we tested certain internal controls related to the expected terminal capitalization rate. We evaluated the Company's expected terminal capitalization rates by comparing to published third party industry reports as well as certain of the Company's historical property sales. For certain of the hotel properties, we performed sensitivity analysis over the estimated terminal capitalization rate by considering points within the ranges we obtained from published third party industry reports. We also performed sensitivity analysis over the holding period by changing the Company's estimates to assess the impact on the analysis. We inquired and obtained representations from the Company regarding the status and evaluation of any potential disposal of properties and read minutes of the board of directors. We corroborated that information with others in the organization who are responsible for, and have authority over, disposition activities.

/s/ KPMG LLP

We have served as the Company's auditor since 2004.

Philadelphia, Pennsylvania
February 25, 2020

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
[IN THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS]

	December 31, 2019	December 31, 2018
Assets:		
Investment in Hotel Properties, Net of Accumulated Depreciation	\$ 1,975,973	\$ 2,026,659
Investment in Unconsolidated Joint Ventures	8,446	4,004
Cash and Cash Equivalents	27,012	32,598
Escrow Deposits	9,973	8,185
Hotel Accounts Receivable, Net of Allowance for Doubtful Accounts of \$0 and \$188	9,213	10,241
Due from Related Parties	6,113	3,294
Intangible Assets, Net of Accumulated Amortization of \$6,545 and \$7,308	2,137	13,644
Right of Use Assets	45,384	—
Other Assets	38,177	40,005
Total Assets	\$ 2,122,428	\$ 2,138,630
Liabilities and Equity:		
Line of Credit	\$ 48,000	\$ 10,000
Unsecured Term Loans, Net of Unamortized Deferred Financing Costs (Note 5)	697,183	698,202
Unsecured Notes Payable, Net of Unamortized Deferred Financing Costs (Note 5)	50,736	50,684
Mortgages Payable, Net of Unamortized Premium and Unamortized Deferred Financing Costs	332,280	334,145
Lease Liabilities	54,548	—
Accounts Payable, Accrued Expenses and Other Liabilities	47,626	70,947
Dividends and Distributions Payable	17,058	17,129
Total Liabilities	\$ 1,247,431	\$ 1,181,107
Redeemable Noncontrolling Interests - Consolidated Joint Venture (Note 1)	3,196	2,708
Equity:		
Shareholders' Equity:		
Preferred Shares: \$.01 Par Value, 29,000,000 Shares Authorized, 3,000,000 Series C, 7,701,700 Series D and 4,001,514 Series E Shares Issued and Outstanding at December 31, 2019 and December 31, 2018, with Liquidation Preferences of \$25 Per Share (Note 1)	\$ 147	\$ 147
Common Shares: Class A, \$.01 Par Value, 104,000,000 Shares Authorized at December 31, 2019 and December 31, 2018; 38,652,650, and 39,458,626 Shares Issued and Outstanding at December 31, 2019 and December 31, 2018, respectively	387	395
Common Shares: Class B, \$.01 Par Value, 1,000,000 Shares Authorized, None Issued and Outstanding at December 31, 2019 and December 31, 2018	—	—
Accumulated Other Comprehensive Income	1,010	4,227
Additional Paid-in Capital	1,144,808	1,155,776
Distributions in Excess of Net Income	(338,695)	(267,740)
Total Shareholders' Equity	807,657	892,805
Noncontrolling Interests (Note 1):	64,144	62,010
Total Equity	871,801	954,815
Total Liabilities, Redeemable Noncontrolling Interests, and Equity	\$ 2,122,428	\$ 2,138,630

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
[IN THOUSANDS, EXCEPT SHARE /UNIT AND PER SHARE AMOUNTS]

	Year Ended December 31,		
	2019	2018	2017
Revenue:			
Hotel Operating Revenues:			
Room	\$ 424,698	\$ 397,907	\$ 411,149
Food & Beverage	65,379	64,546	58,491
Other Operating Revenues	39,591	31,225	27,500
Other Revenues	292	1,385	1,097
Total Revenues	529,960	495,063	498,237
Operating Expenses:			
Hotel Operating Expenses:			
Room	93,488	88,663	90,716
Food & Beverage	52,820	52,122	47,906
Other Operating Expenses	171,128	158,064	156,428
Hotel Ground Rent	4,581	4,228	3,460
Real Estate and Personal Property Taxes and Property Insurance	38,601	35,194	32,300
General and Administrative (including Share Based Payments of \$10,803, \$11,436, and \$9,286 for the years ended December 31, 2019, 2018, and 2017, respectively)	26,431	26,881	23,553
Acquisition and Terminated Transaction Costs	—	29	2,203
Loss on Impairment of Assets	—	—	4,082
Depreciation and Amortization	96,529	89,831	83,752
(Gains from) Property Losses in Excess of Insurance Recoveries	12	(12,649)	4,268
Total Operating Expenses	483,590	442,363	448,668
Operating Income	46,370	52,700	49,569
Interest Income	253	114	271
Interest Expense	(52,205)	(48,491)	(42,662)
Other Expense	(584)	(901)	(771)
Gain on Disposition of Hotel Properties	—	4,148	90,350
Lease Buyout	—	—	268
Loss on Debt Extinguishment	(280)	(22)	(590)
(Loss) Income Before Results from Unconsolidated Joint Venture Investments and Income Taxes	(6,446)	7,548	96,435
Income (Loss) from Unconsolidated Joint Ventures	691	1,084	(2,473)
Gain from Remeasurement of Investment in Unconsolidated Joint Venture	—	—	16,240
Income from Unconsolidated Joint Venture Investments	691	1,084	13,767
(Loss) Income Before Income Taxes	(5,755)	8,632	110,202
Income Tax Expense	(92)	(267)	(5,262)
Net (Loss) Income	(5,847)	8,365	104,940
Loss (Income) Allocated to Noncontrolling Interests - Common Units	2,366	916	(5,072)
(Income) Loss Allocated to Noncontrolling Interests - Consolidated Joint Venture	(188)	709	—
Preferred Distributions	(24,174)	(24,174)	(24,169)
Net (Loss) Income Applicable to Common Shareholders	\$ (27,843)	\$ (14,184)	\$ 75,699

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
[IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

	Year Ended December 31,		
	2019	2018	2017
<u>Earnings Per Share:</u>			
<i>BASIC</i>			
(Loss) Income from Continuing Operations Applicable to Common Shareholders	\$ (0.74)	\$ (0.38)	\$ 1.82
<i>DILUTED</i>			
(Loss) Income from Continuing Operations Applicable to Common Shareholders	\$ (0.74)	\$ (0.38)	\$ 1.79
<u>Weighted Average Common Shares Outstanding:</u>			
Basic	38,907,894	39,383,763	41,423,804
Diluted*	38,907,894	39,383,763	42,056,431

* Income allocated to noncontrolling interest in Hersha Hospitality Limited Partnership (the "Operating Partnership" or "HHLP") has been excluded from the numerator and the Class A common shares issuable upon any redemption of the Operating Partnership's common units of limited partnership interest ("Common Units") and the Operating Partnership's vested LTIP units ("Vested LTIP Units") have been omitted from the denominator for the purpose of computing diluted earnings per share because the effect of including these shares and units in the numerator and denominator would have no impact. In addition, potentially dilutive common shares, if any, have been excluded from the denominator if they are anti-dilutive to income applicable to common shareholders.

The following table summarizes potentially dilutive securities that have been excluded from the denominator for the purpose of computing diluted earnings per share:

	Year Ended December 31,		
	2019	2018	2017
Common Units and Vested LTIP Units	3,363,169	3,141,981	2,778,293
Unvested Stock Awards and LTIP Units Outstanding	651,093	358,141	—
Contingently Issuable Share Awards	467,937	527,389	—
Total Potentially Dilutive Securities Excluded from the Denominator	4,482,199	4,027,511	2,778,293

The Accompanying Notes Are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
[IN THOUSANDS]

	Year Ended December 31,		
	2019	2018	2017
Net (Loss) Income	\$ (5,847)	\$ 8,365	\$ 104,940
Change in Fair Value of Derivative Instruments	(4,502)	3,343	3,130
Less: Reclassification Adjustment for Change in Fair Value of Derivative Instruments Included in Net Income	1,007	(2,827)	(594)
Total Other Comprehensive (Loss) Income	\$ (3,495)	\$ 516	\$ 2,536
Comprehensive (Loss) Income	(9,342)	8,881	107,476
Less: Comprehensive Loss (Income) Applicable to Noncontrolling Interests - Common Units	2,644	878	(5,232)
Less: Comprehensive (Income) Loss Applicable to Noncontrolling Interests - Consolidated Joint Venture	(188)	709	—
Less: Preferred Distributions	(24,174)	(24,174)	(24,169)
Comprehensive (Loss) Income Applicable to Common Shareholders	\$ (31,060)	\$ (13,706)	\$ 78,075

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
[IN THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS]

	Shareholders' Equity									Noncontrolling Interests		Redemable Noncontrolling Interests	
	Common Shares	Class A Common Shares (\$)	Class B Common Shares (\$)	Preferred Shares	Preferred Shares (\$)	Additional Paid-In Capital (\$)	Accumulated Other Comprehensive Income (\$)	Distributions in Excess of Net Income (\$)	Total Shareholders' Equity (\$)	Common Units and LTIP Units	Common Units and LTIP Units (\$)	Total Equity (\$)	Consolidated Joint Venture (\$)
Balance at December 31, 2018	39,458,626	395	—	14,703,214	147	1,155,776	4,227	(267,740)	892,805	3,749,665	62,010	954,815	2,708
Repurchase of Common Shares	(933,436)	(9)	—	—	—	(14,277)	—	—	(14,286)	—	—	(14,286)	—
Dividends and Distributions declared:													
Common Shares (\$1.12 per share)	—	—	—	—	—	—	—	(43,600)	(43,600)	—	—	(43,600)	—
Preferred Shares	—	—	—	—	—	—	—	(24,174)	(24,174)	—	—	(24,174)	—
Common Units (\$1.12 per share)	—	—	—	—	—	—	—	—	—	—	(2,314)	(2,314)	—
LTIP Units (\$1.12 per share)	—	—	—	—	—	—	—	—	—	—	(2,601)	(2,601)	—
Dividend Reinvestment Plan	3,760	—	—	—	—	60	—	—	60	—	—	60	—
Share Based Compensation:													
Grants	123,700	1	—	—	—	675	—	—	676	530,281	—	676	—
Amortization	—	—	—	—	—	3,062	—	—	3,062	—	9,693	12,755	—
Equity Contribution to Consolidated Joint Venture	—	—	—	—	—	—	—	—	—	—	—	—	300
Change in Fair Value of Derivative Instruments	—	—	—	—	—	—	(3,217)	—	(3,217)	—	(278)	(3,495)	—
Adjustment to Record Noncontrolling Interest at Redemption Value	—	—	—	—	—	(488)	—	—	(488)	—	—	(488)	488
Net Income (Loss)	—	—	—	—	—	—	—	(3,181)	(3,181)	—	(2,366)	(5,547)	(300)
Balance at December 31, 2019	38,652,650	387	—	14,703,214	147	1,144,808	1,010	(338,695)	807,657	4,279,946	64,144	871,801	3,196

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
[IN THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS]

	Shareholders' Equity									Noncontrolling Interests		Reedemable Noncontrolling Interests	
	Common Shares	Class A Common Shares (\$)	Class B Common Shares (\$)	Preferred Shares	Preferred Shares (\$)	Additional Paid-In Capital (\$)	Accumulated Other Comprehensive Income (\$)	Distributions in Excess of Net Income (\$)	Total Shareholders' Equity (\$)	Common Units and LTIP Units	Common Units and LTIP Units (\$)	Total Equity (\$)	Consolidated Joint Venture (\$)
Balance at December 31, 2017	39,916,661	399	—	14,701,700	147	1,164,946	3,749	(335,373)	833,868	3,223,366	54,286	888,154	—
Cumulative Effect of Adoption of ASC 610-20	—	—	—	—	—	—	—	123,228	123,228	—	5,793	129,021	—
Adjusted balance at January 1, 2018	39,916,661	399	—	14,701,700	147	1,164,946	3,749	(212,145)	957,096	3,223,366	60,079	1,017,175	—
Unit Conversion	62,807	1	—	—	—	1,172	—	—	1,173	(62,807)	(1,173)	—	—
Repurchase of Common Shares	(635,590)	(6)	—	—	—	(10,827)	—	—	(10,833)	—	—	(10,833)	—
Preferred Shares ATM Issuance, Net of Costs	—	—	—	1,514	—	(128)	—	—	(128)	—	—	(128)	—
Dividends and Distributions declared:													
Common Shares (\$1.12 per share)	—	—	—	—	—	—	—	(44,119)	(44,119)	—	—	(44,119)	—
Preferred Shares	—	—	—	—	—	—	—	(24,174)	(24,174)	—	—	(24,174)	—
Common Units (\$1.12 per share)	—	—	—	—	—	—	—	—	—	—	(2,331)	(2,331)	—
LTIP Units (\$1.12 per share)	—	—	—	—	—	—	—	—	—	—	(1,980)	(1,980)	—
Dividend Reinvestment Plan	4,132	—	—	—	—	77	—	—	77	—	—	77	—
Share Based Compensation:													
Grants	110,616	1	—	—	—	997	—	—	998	589,106	—	998	—
Amortization	—	—	—	—	—	2,247	—	—	2,247	—	8,293	10,540	—
Equity Contribution to Consolidated Joint Venture	—	—	—	—	—	—	—	—	—	—	—	—	3,417
Change in Fair Value of Derivative Instruments	—	—	—	—	—	—	478	—	478	—	38	516	—
Adjustment to Record Noncontrolling Interest at Redemption Value	—	—	—	—	—	(2,708)	—	—	(2,708)	—	—	(2,708)	2,708
Net Income (Loss)	—	—	—	—	—	—	—	12,698	12,698	—	(916)	11,782	(3,417)
Balance at December 31, 2018	39,458,626	395	—	14,703,214	147	1,155,776	4,227	(267,740)	892,805	3,749,665	62,010	954,815	2,708

The Accompanying Notes are an Integral Part of These Consolidated Financial Statement

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
[IN THOUSANDS, EXCEPT SHARES AND PER SHARE AMOUNTS]

	Shareholders' Equity									Noncontrolling Interests		
	Common Shares	Class A Common Shares (\$)	Class B Common Shares (\$)	Preferred Shares	Preferred Shares (\$)	Additional Paid-In Capital (\$)	Accumulated Other Comprehensive Loss (\$)	Distributions in Excess of Net Income (\$)	Total Shareholders' Equity (\$)	Common Units and LTIP Units	Common Units and LTIP Units (\$)	Total Equity (\$)
Balance at December 31, 2016	41,770,514	418	—	14,700,000	147	1,198,311	1,373	(364,831)	835,418	2,838,546	44,321	879,739
Unit Conversion	23,964	—	—	—	—	392	—	—	392	(23,964)	(392)	—
Repurchase of Common Shares	(1,991,573)	(20)	—	—	—	(35,158)	—	—	(35,178)	—	—	(35,178)
Common Units Issued	—	—	—	—	—	—	—	—	—	225,000	4,133	4,133
Preferred Shares ATM Issuance, Net of Costs	—	—	—	1,700	—	(219)	—	—	(219)	—	—	(219)
Dividends and Distributions declared:												
Common Shares (\$1.12 per share)	—	—	—	—	—	—	—	(46,241)	(46,241)	—	—	(46,241)
Preferred Shares	—	—	—	—	—	—	—	(24,169)	(24,169)	—	—	(24,169)
Common Units (\$1.12 per share)	—	—	—	—	—	—	—	—	—	—	(2,270)	(2,270)
LTIP Units (\$1.12 per share)	—	—	—	—	—	—	—	—	—	—	(1,452)	(1,452)
Dividend Reinvestment Plan	4,425	—	—	—	—	81	—	—	81	—	—	81
Share Based Compensation:												
Grants	109,331	1	—	—	—	28	—	—	29	183,784	779	808
Amortization	—	—	—	—	—	1,511	—	—	1,511	—	3,935	5,446
Change in Fair Value of Derivative Instruments	—	—	—	—	—	—	2,376	—	2,376	—	160	2,536
Net Income	—	—	—	—	—	—	—	99,868	99,868	—	5,072	104,940
Balance at December 31, 2017	39,916,661	399	—	14,701,700	147	1,164,946	3,749	(335,373)	833,868	3,223,366	54,286	888,154

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
[IN THOUSANDS]

	Year Ended December 31,		
	2019	2018	2017
Operating Activities:			
Net (Loss) Income	\$ (5,847)	\$ 8,365	\$ 104,940
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Gain on Disposition of Hotel Properties, Net	—	(4,148)	(90,350)
Gain from Remeasurement of Investment in Unconsolidated Joint Ventures	—	—	(16,240)
Property Impairment	—	—	4,082
(Gains from) Property Losses in Excess of Insurance Recoveries	12	(12,649)	4,268
Lease Buyout	—	—	(294)
Deferred Taxes	(312)	(144)	5,262
Depreciation	95,982	88,897	82,004
Amortization	2,137	2,816	3,550
Loss on Debt Extinguishment	280	22	590
Equity in (Income) Loss of Unconsolidated Joint Ventures	(691)	(1,084)	2,473
Loss Recognized on Change in Fair Value of Derivative Instrument	1,007	215	60
Share Based Compensation Expense	10,803	11,436	9,286
Distributions from Unconsolidated Joint Ventures	728	1,426	700
Proceeds Received for Business Interruption Insurance Claims, net	—	8,440	—
Change in Assets and Liabilities:			
(Increase) Decrease in:			
Hotel Accounts Receivable	1,028	1,760	(135)
Other Assets	(1,476)	(2,556)	1,072
Due from Related Parties	(2,819)	1,307	13,010
(Decrease) Increase in:			
Accounts Payable, Accrued Expenses and Other Liabilities	2,280	10,719	(17,155)
Net Cash Provided by Operating Activities	\$ 103,112	\$ 114,822	\$ 107,123
Investing Activities:			
Purchase of Hotel Property Assets	\$ —	\$ (41,230)	\$ (249,369)
Deposits on Hotel Acquisitions	—	—	(1,000)
Capital Expenditures	(48,936)	(65,629)	(51,916)
Cash Paid for Hotel Development Projects	(152)	(38,754)	(7,637)
Proceeds from Disposition of Hotel Properties	—	64,880	196,635
Contributions to Unconsolidated Joint Ventures	(6,100)	(1,000)	—
Proceeds from Insurance Claims	—	15,806	—
Proceeds from the Sale of Joint Venture Interests	—	—	11,624
Repayment of Notes Receivable	—	—	2,000
Distributions from Unconsolidated Joint Ventures	1,622	47,962	—
Net Cash Used in Investing Activities	\$ (53,566)	\$ (17,965)	\$ (99,663)

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
[IN THOUSANDS]

	Year Ended December 31,		
	2019	2018	2017
Financing Activities:			
(Repayment) Borrowings Under Line of Credit, Net	\$ 38,000	\$ (6,100)	\$ 16,100
Proceeds of Unsecured Term Loan Borrowing	—	—	58,380
Repayment of Borrowings Under Unsecured Term Loan Borrowing	—	(18,000)	(6,100)
Principal Repayment of Mortgages and Notes Payable	(57,418)	(1,611)	(122,782)
Proceeds from Mortgages and Notes Payable	56,469	28,000	—
Cash Paid for Deferred Financing Costs	(3,198)	(409)	(3,352)
Cash Paid for Debt Extinguishment	(210)	—	(374)
Proceeds from Issuance of Preferred Shares, Net	—	—	43
Repurchase of Common Shares	(14,195)	(10,833)	(35,178)
Dividends Paid on Common Shares	(43,760)	(44,176)	(55,034)
Dividends Paid on Preferred Shares	(24,173)	(24,174)	(23,771)
Distributions Paid on Common Units and LTIP Units	(4,768)	(4,164)	(4,181)
Other Financing Activities	(91)	(193)	(262)
Net Cash Used in Financing Activities	\$ (53,344)	\$ (81,660)	\$ (176,511)
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (3,798)	\$ 15,197	\$ (169,051)
Cash, Cash Equivalents, and Restricted Cash - Beginning of Period	40,783	25,586	194,637
Cash, Cash Equivalents, and Restricted Cash - End of Period	\$ 36,985	\$ 40,783	\$ 25,586

The Accompanying Notes are an Integral Part of These Consolidated Financial Statements.

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
 [IN THOUSANDS, EXCEPT SHARE/UNIT AND PER SHARE AMOUNTS]

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hersha Hospitality Trust (“we” or the “Company”) was formed in May 1998 as a self-administered, Maryland real estate investment trust. We have elected to be taxed and expect to continue to elect to be taxed as a real estate investment trust, or REIT, for federal income tax purposes.

The Company owns a controlling general partnership interest in Hersha Hospitality Limited Partnership (“HHLP” or the “Partnership”), which owns a 99% limited partnership interest in various subsidiary partnerships. Hersha Hospitality, LLC (“HHLLC”), a Virginia limited liability company, owns a 1% general partnership interest in the subsidiary partnerships and the Partnership is the sole member of HHLLC.

The Partnership owns a taxable REIT subsidiary (“TRS”), 44 New England Management Company (“44 New England” or “TRS Lessee”), which leases certain of the Company’s hotels.

Hersha’s common shares of beneficial interest trade on the New York Stock Exchange (“the NYSE”) under the ticker symbol “HT”, its 6.875% Series C Cumulative Redeemable Preferred Shares of Beneficial Interest trade on the NYSE under the ticker symbol “HT PRC”, its 6.500% Series D Cumulative Redeemable Preferred Shares of Beneficial Interest trade on the NYSE under the ticker symbol “HT PRD”, and its 6.500% Series E Cumulative Redeemable Preferred Shares of Beneficial Interest trade on the NYSE under the ticker symbol “HT PRE.”

As of December 31, 2019, the Company, through the Partnership and subsidiary partnerships, wholly owned 38 limited and full service hotels. All of the wholly owned hotel facilities are leased to the Company’s TRS, 44 New England.

In addition to the wholly owned hotel properties, as of December 31, 2019, the Company owned an unconsolidated joint venture interest in nine properties and a consolidated joint venture interest in one property. The properties owned by the joint ventures are leased to a TRS owned by the joint venture or to an entity owned by the joint venture partners and 44 New England. The following table lists the properties owned by these joint ventures:

Joint Venture	Ownership Interest	Property	Location	Lessee/Sublessee
<i>Consolidated Joint Ventures</i>				
Hersha Holding RC Owner, LLC	85%	Ritz-Carlton	Coconut Grove, FL	Hersha Holding RC Lessee, LLC
<i>Unconsolidated Joint Ventures</i>				
Cindat Hersha Owner JV, LLC	31.2%	Hampton Inn	Herald Square, New York, NY	Cindat Hersha Lessee JV, LLC
		Hampton Inn	Chelsea, New York, NY	Cindat Hersha Lessee JV, LLC
		Hampton Inn	Times Square, New York, NY	Cindat Hersha Lessee JV, LLC
		Holiday Inn Express	Times Square, New York, NY	Cindat Hersha Lessee JV, LLC
		Candlewood Suites	Times Square, New York, NY	Cindat Hersha Lessee JV, LLC
		Holiday Inn	Wall Street, New York, NY	Cindat Hersha Lessee JV, LLC
		Holiday Inn Express	Water Street, New York, NY	Cindat Hersha Lessee JV, LLC
SB Partners, LLC	50%	Holiday Inn Express	South Boston, MA	South Bay Sandeep, LLC
Hiren Boston, LLC	50%	Courtyard	South Boston, MA	South Bay Boston, LLC
SB Partners Three, LLC (1)	50%	Home2 Suites	South Boston, MA	SB Partners Three Lessee, LLC

(1) This property is currently under development by the venture, with the expected opening of the hotel being mid-year 2020.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The properties are managed by eligible independent management companies, including Hersha Hospitality Management, LP (“HHMLP”). HHMLP is owned in part by certain of our trustees and executive officers and other unaffiliated third party investors as defined by the Internal Revenue Code.

Principles of Consolidation and Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and include all of our accounts as well as accounts of the Partnership, subsidiary partnerships and our wholly owned TRS Lessee. All significant inter-company amounts have been eliminated.

Consolidated properties are either wholly owned or owned less than 100% by the Partnership and are controlled by the Company as general partner of the Partnership. Properties owned in joint ventures are also evaluated for consolidation. Entities are consolidated if the determination is made that we are the primary beneficiary in a variable interest entity (“VIE”) or we maintain control of the asset through our voting interest or other rights in the operation of the entity. To determine if we are the primary beneficiary of a VIE, we evaluate whether we have a controlling financial interest in that VIE. An enterprise is deemed to have a controlling financial interest if it has i) the power to direct the activities of a variable interest entity that most significantly impacts the entity’s economic performance, and ii) the obligation to absorb losses of the VIE that could be significant to the VIE or the rights to receive benefits from the VIE that could be significant to the VIE. Control can also be demonstrated by the ability of a member to manage day-to-day operations, refinance debt and sell the assets of the partnerships without the consent of the other member and the inability of the members to replace the managing member. Based on our examination, the following entities were determined to be VIE’s: HHLP; Cindat Hersha Lessee JV, LLC; South Bay Boston, LLC; SB Partners Three Lessee, LLC; Hersha Holding RC Owner, LLC; Hersha Statutory Trust I; and Hersha Statutory Trust II. As noted, HHLP meets the criteria as a VIE. The Company’s most significant asset is its investment in HHLP, and consequently, substantially all of the Company’s assets and liabilities represent those assets and liabilities of HHLP. Cindat Hersha Lessee JV, LLC is a VIE that leases hotel property. The entity is consolidated by the lessors, the primary beneficiary. Our maximum exposure to losses due to our investment in Cindat Hersha Owner JV, LLC is limited to our investment in the joint venture which is \$0 as of December 31, 2019. Also, South Bay Boston, LLC and SB Partners Three Lessee, LLC, which lease hotel property are VIE’s. The entities are consolidated by the respective lessors, the primary beneficiary. Hersha Holding RC Owner, LLC is the owner entity of the Ritz Carlton Coconut Grove and is a VIE. HHLP is considered the primary beneficiary of the VIE and consolidates the joint venture with the minority owner interest presented as part of noncontrolling interest within the Consolidated Balance Sheets as of December 31, 2019 and December 31, 2018. Hersha Statutory Trust I and Hersha Statutory Trust II are VIEs but HHLP is not the primary beneficiary in these entities. Accordingly, the accounts of Hersha Statutory Trust I and Hersha Statutory Trust II are not consolidated.

Segment Reporting

We allocate resources and assess operating performance based on individual hotels and consider each one of our hotels to be an operating segment. No operating segment, individually, meets the threshold for a reportable segment as defined within ASC Topic 280 – Segment Reporting, nor do they fully satisfy the requisite aggregation criteria therein. As a result, the Company does not present separate operating segment information within the Notes to the Consolidated Financial Statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Although we believe the assumptions and estimates we made are reasonable and appropriate, as discussed in the applicable sections throughout these Consolidated Financial Statements, different assumptions and estimates could materially impact our reported results.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Hotel Properties

The Company records the value of hotel properties acquired based on the fair value of the acquired real estate, furniture, fixtures and equipment, and intangible assets and the fair value of liabilities assumed, including debt. The fair value allocations were determined using Level 3 inputs, which are typically unobservable and are based on our own assumptions, as there is little, if any, related market activity. The Company's investments in hotel properties are carried at cost and are depreciated using the straight-line method over the following estimated useful lives:

Building and Improvements	7 to 40 years
Furniture, Fixtures and Equipment	2 to 7 years

The Company periodically reviews the carrying value of each hotel to determine if circumstances indicate impairment to the carrying value of the investment in the hotel or that depreciation periods should be modified. If facts or circumstances indicate the possibility of impairment, the Company will prepare an estimate of the undiscounted future cash flows, without interest charges, of the specific hotel. Based on the property's undiscounted future cash flows, the Company will determine if the investment in such hotel is recoverable. If impairment is indicated, an adjustment will be made to reduce the carrying value of the hotel to reflect its fair value.

We consider a hotel to be held for sale when management and our independent trustees commit to a plan to sell the property, the property is available for sale, management engages in an active program to locate a buyer for the property and it is probable the sale will be completed within a year of the initiation of the plan to sell.

ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* offers guidance when evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our hotel property acquisitions to qualify as asset acquisitions under the standard which requires capitalization of acquisition costs to the underlying assets. Acquisition-related cost, such as due diligence, legal and accounting fees, are not capitalized or applied in determining the fair value of the above acquired assets in the acquisition of a business.

Investment in Unconsolidated Joint Ventures

If it is determined that we do not have a controlling interest in a joint venture, either through our financial interest in a VIE or our voting interest in a voting interest entity, the equity method of accounting is used. Under this method, the investment, originally recorded at cost, is adjusted to recognize our share of net earnings or losses of the affiliates as they occur rather than as dividends or other distributions are received, limited to the extent of our investment in, advances to and commitments for the investee. Pursuant to our joint venture agreements, allocations of profits and losses of some of our investments in unconsolidated joint ventures may be allocated disproportionately as compared to nominal ownership percentages due to specified preferred return rate thresholds. See Note 3 – Investment in Unconsolidated Joint Ventures for a more detailed explanation of the methodology used in determining the allocation of profits and losses within our joint ventures.

The Company periodically reviews the carrying value of its investment in unconsolidated joint ventures to determine if circumstances indicate impairment to the carrying value of the investment that is other than temporary. When an impairment indicator is present, we will estimate the fair value of the investment. Our estimate of fair value takes into consideration factors such as expected future operating income, trends and prospects, as well as the effects of demand, competition and other factors. This determination requires significant estimates by management, including the expected cash flows to be generated by the assets owned and operated by the joint venture. To the extent impairment has occurred and the impairment is considered other than temporary, the loss will be measured as the excess of the carrying amount over the fair value of our investment in the unconsolidated joint venture.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand and in banks plus short-term investments with an initial maturity of three months or less when purchased.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Escrow Deposits

Escrow deposits include reserves for debt service, real estate taxes, and insurance and reserves for furniture, fixtures, and equipment replacements, as required by certain mortgage debt agreement restrictions and provisions.

Hotel Accounts Receivable

Hotel accounts receivable consists primarily of meeting and banquet room rental and hotel guest receivables. The Company generally does not require collateral. Ongoing credit evaluations are performed and potential losses from uncollectible accounts are written off against revenue when they are estimated to be uncollectible.

Deferred Financing Costs

Deferred financing costs are recorded at cost and amortized over the terms of the related indebtedness using the effective interest method. Deferred financing costs associated with our line of credit are recorded within the Other Assets line item in our Consolidated Balance Sheets. Deferred financing costs associated with our term loans, mortgage debt, or subordinated notes are recorded as contra-liabilities within each respective line item on our Consolidated Balance Sheets. All amortization of deferred financing costs is presented with in the Interest Expense line on our Consolidated Statements of Operations.

Due from/to Related Parties

Due from/to Related Parties represents current receivables and payables resulting from transactions related to hotel management and project management with affiliated entities. Due from related parties results primarily from advances of shared costs incurred. Due to affiliates results primarily from hotel management and project management fees incurred. Both due to and due from related parties are generally settled within a period not to exceed one year.

Intangible Assets and Liabilities

Intangible assets consist of leasehold intangibles for in-place leases at the time of hotel acquisition and deferred franchise fees. The leasehold intangibles are amortized over the remaining lease term. Deferred franchise fees are amortized using the straight-line method over the life of the franchise agreement.

Intangible liabilities consist of leasehold intangibles for in-place leases at the time of hotel acquisition. The leasehold intangibles are amortized over the remaining lease term. Intangible liabilities are included in the accounts payable, accrued expenses and other liabilities on the Company's consolidated balance sheets.

Development Project Capitalization

We have opportunistically engaged in the development and re-development of hotel assets. We capitalize expenditures related to hotel development projects and renovations, including indirect costs such as interest expense, real estate taxes and utilities related to hotel development projects and renovations.

Noncontrolling Interest

Noncontrolling interest in the Partnership represents the limited partner's proportionate share of the equity of the Partnership. Income (loss) is allocated to noncontrolling interest in accordance with the weighted average percentage ownership of the Partnership during the period. At the end of each reporting period the appropriate adjustments to the income (loss) are made based upon the weighted average percentage ownership of the Partnership during the period. Our ownership interest in the Partnership as of December 31, 2019, 2018 and 2017 was 90.0%, 91.3%, and 92.5%, respectively.

We define a noncontrolling interest as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent.

Such noncontrolling interests are reported on the consolidated balance sheets within equity, but separately from the shareholders' equity. Revenues, expenses and net income or loss attributable to both the Company and noncontrolling interests are reported on the consolidated statements of operations.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with US GAAP, we classify securities that are redeemable for cash or other assets at the option of the holder, or not solely within the control of the issuer, outside of permanent equity in the consolidated balance sheet. The Company makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions. Additionally, with respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company considers the guidance in US GAAP to evaluate whether the Company controls the actions or events necessary to issue the maximum number of common shares that could be required to be delivered at the time of settlement of the contract.

We classify the noncontrolling interests of our common units of limited partnership interest in HHL ("Common Units"), and Long Term Incentive Plan Units ("LTIP Units") as equity. LTIP Units are a separate class of limited partnership interest in the Operating Partnership that are convertible into Common Units under certain circumstances. The noncontrolling interest of Common Units and LTIP Units totaled \$64,144 as of December 31, 2019 and \$62,010 as of December 31, 2018. As of December 31, 2019, there were 4,279,946 Common Units and LTIP Units collectively outstanding with a fair market value of \$62,273, based on the price per share of our common shares on the NYSE on such date.

In accordance with the partnership agreement of the Partnership, holders of these units may redeem them for cash unless we, in our sole and absolute discretion, elect to issue common shares on a one-for-one basis in lieu of paying cash.

On April 2, 2018, we entered into a joint venture with the party from which we acquired the Ritz-Carlton Coconut Grove, FL. By exercising an option provided to the seller in connection with our purchase of the property in 2017, our joint venture partner will have a noncontrolling equity interest of 15% in the property. Hersha Holding RC Owner, LLC, the owner entity of the Ritz-Carlton Coconut Grove joint venture ("Ritz Coconut Grove"), will distribute income based on cash available for distribution which will be distributed as follows: (1) to us until we receive a cumulative return on our contributed senior common equity interest, currently at 8%, and (2) then to the owner of the noncontrolling interest until they receive a cumulative return on their contributed junior common equity interest, currently at 8%, and (3) then 75% to us and 25% to the owner of the noncontrolling interest until we both receive a cumulative return on our contributed senior common equity interest, currently at 12%, and (4) finally, any remaining operating profit shall be distributed 70% to us and 30% to the owner of the noncontrolling interest. Additionally, the noncontrolling interest in the Ritz Coconut Grove has the right to put their ownership interest to us for cash consideration at any time during the life of the venture. The balance sheet and financial results of the Ritz Coconut Grove are included in our consolidated financial statements and book value of the noncontrolling interest in the Ritz Coconut Grove is classified as temporary equity within our Consolidated Balance Sheet. The noncontrolling interest in the Ritz Coconut Grove was initially measured at fair value upon formation of the joint venture and will be subsequently measured at the greater of historical cost or the put option redemption value. For the years ended December 31, 2019, 2018 and 2017, based on the income allocation methodology described above, the noncontrolling interest in this joint venture was allocated losses of \$300, \$3,417 and \$0, respectively, and is recorded as part of the (Income) Loss Allocated to Noncontrolling Interests line item within the Consolidated Statements of Operations. We reclassified \$488 and \$2,708 from Additional Paid in Capital to Noncontrolling Joint Venture Interest to recognize interest at the put option redemption value of \$3,196 and \$2,708, at December 31, 2019 and December 31, 2018, respectively.

Net income or loss attributed to Common Units and LTIP Units, as well as the net income or loss related to the noncontrolling interests of our consolidated variable interest entity, is included in net income or loss in the consolidated statements of operations. Net income or loss attributed to the Common Units, LTIP Units, and the noncontrolling interests of our consolidated joint ventures is excluded from net income or loss applicable to common shareholders in the consolidated statements of operations.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Shareholders' Equity

As of December 31, 2019, we have 14,703,214 Cumulative Redeemable Preferred Shares outstanding consisting of three separate Series issuances. Terms of the Series C, Series D and Series E Preferred Shares outstanding at December 31, 2019 and 2018 are summarized as follows:

Series	Shares Outstanding		Aggregate Liquidation Preference	Distribution Rate	Dividend Per Share Year Ended December 31,	
	December 31, 2019	December 31, 2018			2019	2018
Series C	3,000,000	3,000,000	\$ 75,000	6.875%	\$ 1.7188	\$ 1.7188
Series D	7,701,700	7,701,700	\$ 192,543	6.500%	\$ 1.6250	\$ 1.6250
Series E	4,001,514	4,001,514	\$ 100,038	6.500%	\$ 1.6250	\$ 1.6250
Total	14,703,214	14,703,214				

In April 2017, we entered into Equity Distribution Agreements with four investment banks whereby we agreed to sell up to 8,000,000 Class A common shares, up to 1,000,000 Series D Cumulative Redeemable Preferred Shares, and up to 1,000,000 Series E Cumulative Redeemable Preferred Shares from time to time in an "at the market" offering. In conjunction with this transaction, the Company increased the number of authorized Class A common shares from 90,000,000 to 104,000,000. For the year ended December 31, 2019, we issued no shares through this program. For the year ended December 31, 2018, we issued 1,514 Series E Preferred Shares through this program.

In December 2017, our Board of Trustees authorized a new share repurchase program for up to \$100,000 of common shares which commenced on January 1, 2018 and expired on December 31, 2018. For the year ended December 31, 2018, we repurchased 635,590 common shares for an aggregate purchase price of \$10,834. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

In December 2018, our Board of Trustees authorized a new share repurchase program for up to \$50,000 of common shares which commenced on January 1, 2019 and expired on December 31, 2019. For the year ended December 31, 2019, we repurchased 933,436 common shares for an aggregate purchase price of \$14,194. Upon repurchase by the Company, these common shares ceased to be outstanding and became authorized but unissued common shares.

Stock Based Compensation

We measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award. The compensation cost is amortized on a straight line basis over the period during which an employee is required to provide service in exchange for the award. The compensation cost related to performance awards that are contingent upon market-based criteria being met is recorded at the fair value of the award on the date of the grant and amortized over the performance period.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives and Hedging

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and interest rate caps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges limit the Company's exposure to increased cash payments due to increases in variable interest rates.

Revenue Recognition

We recognize revenue for all consolidated hotels as hotel operating revenue when earned. Revenues are recorded net of any sales or occupancy tax collected from our guests. We participate in frequent guest programs sponsored by the brand owners of our hotels and we expense the charges associated with those programs, as incurred. Hotel operating revenues are disaggregated on the face of the consolidated statement of operations into the categories of rooms revenue, food and beverage revenue, and other to demonstrate how economic factors affect the nature, amount, timing, and uncertainty of revenue and cash flows.

Room revenue is generated through contracts with customers whereby the customers agree to pay a daily rate for right to use a hotel room. The customer is provided the room and revenue is recognized daily at the contract rate. Payment from the customer is generally secured at the end of the contract upon check-out by the customer from our hotel. The Company records advanced deposits when a customer or group of customers provides a deposit for a future stay at our hotels. Advanced deposits for room revenue are included in the balance of Accounts Payable, Accrued Expenses and Other Liabilities on the consolidated balance sheet. Advanced deposits are recognized as revenue at the time of the guest's stay. The Company notes no significant judgements regarding the recognition of room revenue.

Food and beverage revenue is generated through contracts with customers whereby the customer agrees to pay a contract rate for restaurant dining services or banquet services. The Company's contract performance obligations are fulfilled at the time that the meal is provided to the customer or when the banquet facilities and related dining amenities are provided to the customer. The Company recognizes food and beverage revenue upon the fulfillment of the contract with the customer. The Company records contract liabilities in the form of advanced deposits when a customer or group of customers provides a deposit for a future banquet event at our hotels. Advanced deposits for food and beverage revenue are included in the balance of Accounts Payable, Accrued Expenses and Other Liabilities on the consolidated balance sheet. Advanced deposits for banquet services are recognized as revenue following the completion of the banquet services. The Company notes no significant judgements regarding the recognition of food and beverage revenue.

Other revenues consist primarily of fees earned for asset management services provided to hotels we own through unconsolidated joint ventures. Fees are earned as a percentage of hotel revenue and are recorded in the period earned to the extent of the noncontrolling interest ownership.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Gains from the sales of ownership interests in real estate are accounted for in accordance with the provisions of Subtopic 610-20, *Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets*, which the Company adopted effective January 1, 2018. Our evaluation over sales of real estate is impacted by the FASB definition of a business and in substance nonfinancial assets, which have been addressed through the issuance of ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, and ASU No. 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*, respectively. Based on the provisions of ASU No. 2017-01 and ASU No. 2017-05, the Company expects any future sales of interests in hotel properties to likely meet the criteria for full gain recognition on sale. This treatment is not different from our historical position when selling our entire interest in hotel properties, however, this is different than the historical treatment in certain instances where the Company sold partial interests in hotel properties.

In particular, during 2016 the Company sold partial interests in seven hotel properties to a third party (“Cindat Sale”) resulting in an approximate \$81 million deferred gain based on prevailing GAAP at the time of the transaction. The Company chose to adopt the provisions of ASC 610-20 for contracts with noncustomers for all contracts and chose not to utilize any available practical expedients as it pertains to contracts with noncustomers. Accordingly, the Company's analysis included all contracts with noncustomers related to the sales, either full or partial, of our interest in hotel properties. The Company noted no changes to the recognition of gains on sales in instances whereby the Company sold 100% of our interest. The Company noted, however, that the Cindat Sale, under the provisions of ASC 610-20, would have resulted in full gain recognition at the time of the partial sale of our interest in the seven hotel properties. The impact of our adoption of the new standard resulted in a cumulative adjustment to decrease the opening balance to distributions in excess of net income, thereby increasing total shareholders' equity by \$123,228 and increase the opening balance of noncontrolling interests of \$5,793.

The table below shows the cumulative effect our adoption of ASC 610-20 had on the opening balances of on our balance sheet on January 1, 2018.

	Balance as Reported at December 31, 2017	Cumulative Effect of the Adoption of ASC 610-20	Balance at January 1, 2018, as Adjusted
Investment in Unconsolidated Joint Ventures	\$ 3,569	\$ 47,738	\$ 51,307
Deferred Gain on Disposition of Hotel Assets	\$ 81,284	\$ (81,284)	\$ —
Distributions in Excess of Net Income	\$ (335,373)	\$ 123,228	\$ (212,145)
Noncontrolling Interests	\$ 54,286	\$ 5,793	\$ 60,079

The quantitative impact of applying the prior accounting policies would have resulted in an increase of \$129,021 in the deferred gain on disposition of hotel assets, an increase of \$123,228 in distributions in excess of net income thereby decreasing shareholders' equity, and a decrease of \$5,793 in noncontrolling interests at December 31, 2017. The adoption of ASC 610-20 did not materially impact the balances in the Company's consolidated statement of operations or its consolidated statement of cash flows.

Income Taxes

The Company has elected to be taxed as a REIT under applicable provisions of the Internal Revenue Code of 1986, as amended, or the Code, and intends to continue to qualify as a REIT. In general, under such provisions, a trust which has made the required election and, in the taxable year, meets certain requirements and distributes to its shareholders at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains, will not be subject to federal income tax to the extent of the income which it distributes. Earnings and profits, which determine the taxability of dividends to shareholders, differ from net income reported for financial reporting purposes due primarily to differences in depreciation of hotel properties for federal income tax purposes.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred income taxes relate primarily to the TRS Lessee and are accounted for using the asset and liability method. Under this method, deferred income taxes are recognized for temporary differences between the financial reporting bases of assets and liabilities of the TRS Lessee and their respective tax bases and for their operating loss and tax credit carry forwards based on enacted tax rates expected to be in effect when such amounts are realized or settled. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of available evidence, including tax planning strategies and other factors.

The Company may recognize a tax benefit from an uncertain tax position when it is more-likely-than-not (defined as a likelihood of more than 50%) that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. If a tax position does not meet the more-likely-than-not recognition threshold, despite the Company's belief that its filing position is supportable, the benefit of that tax position is not recognized in the statements of operations. The Company recognizes interest and penalties, as applicable, related to unrecognized tax benefits as a component of income tax expense. The Company recognizes unrecognized tax benefits in the period that the uncertainty is eliminated by either affirmative agreement of the uncertain tax position by the applicable taxing authority, or by expiration of the applicable statute of limitation. For the years ended December 31, 2019, 2018 and 2017, the Company did not record any uncertain tax positions. As of December 31, 2019, with few exceptions, the Company is subject to tax examinations by federal, state, and local income tax authorities for years 2003 through 2019.

Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

New Accounting Pronouncements

In June 2018, the FASB issued ASU No. 2018-07, *Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The update will simplify several aspects of the accounting for nonemployee share-based payment transactions for acquiring goods and services from nonemployees. The amendments in this update affects all entities that enter into share-based payment transactions for acquiring goods and services from nonemployees. The provisions of the update are effective for the Company starting January 1, 2019. The adoption of this update did not have a material effect on our consolidated financial statements or the disclosures of share-based payments within Note 9 of these consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The update makes more financial and nonfinancial hedging strategies eligible for hedge accounting, changes how companies assess hedge effectiveness, and amends the presentation and disclosure requirements for hedging transactions. The Company adopted the provisions of this update effective January 1, 2019. The adoption of this update did not have a material effect on our consolidated financial statements or the disclosures related to fair value measurements with Note 8 of these consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business as it relates to acquisitions and business combinations. The update adds further guidance that assists preparers in evaluating whether a transaction will be accounted for as an acquisition of an asset or a business. We expect most of our hotel property acquisitions to qualify as asset acquisitions under the standard which requires the capitalization of acquisition costs to the underlying assets. The Company expects the standard to have an impact on our financial statements in periods during which we complete significant hotel acquisitions. The Company has adopted ASU No. 2017-01 effective, January 1, 2018.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In November 2016 the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents within the statement of cash flows. Accordingly, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this standard effective January 1, 2018. The adoption of ASU No. 2016-18 changed the presentation of the statement of cash flows for the Company and we utilized a retrospective transition method for each period presented within financial statements for periods subsequent to the date of adoption. Additionally, the Company provides a reconciliation within Note 11 of cash, cash equivalents, and restricted cash to their relative balance sheet captions.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which provides the principles for the recognition, measurement, presentation and disclosure of leases. The accounting for lessors will remain largely unchanged from current GAAP; however, the standard requires that certain initial direct costs be expensed rather than capitalized. Under the standard, lessees apply a dual approach, classifying leases as either finance or operating leases. A lessee is 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 lease classification. Based on the review of our leases, we are a lessee on ground leases in certain markets, hotel equipment leases, and office space leases. The Company adopted the provisions of the update effective January 1, 2019. As a result, the Company recorded right of use assets and corresponding lease liabilities of \$55,515 at January 1, 2019 for leases where we are the lessee. The Company also reclassified \$11,050 previously included in intangible assets to the right of use asset, related to purchase accounting adjustments for below market rate leases. Additionally, the Company reclassified \$19,627 previously included in accounts payable and accrued expenses to the right of use assets. This reclassification related to amounts recorded for accrued lease expense, as a result of using the straight-line rent method, and intangible liabilities derived from land leases acquired at above market lease rates. Upon adoption, the right of use assets had a weighted average useful life of 64.2 years. We are also a lessor in certain office space and retail lease agreements related to our hotels and the adoption of this ASU did not have a material impact on our accounting for leases where we are the lessor. The adoption of this ASU did not impact revenue recognition policies for the Company. See Note 6 to these consolidated financial statements for further lease disclosures.

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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES

Investment in hotel properties consists of the following at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Land	\$ 518,243	\$ 518,243
Buildings and Improvements	1,710,621	1,688,459
Furniture, Fixtures and Equipment	294,527	278,098
Construction in Progress	10,202	3,804
	<u>2,533,593</u>	<u>2,488,604</u>
Less Accumulated Depreciation	<u>(557,620)</u>	<u>(461,945)</u>
Total Investment in Hotel Properties	<u>\$ 1,975,973</u>	<u>\$ 2,026,659</u>

Depreciation expense on hotel properties was \$95,673, \$88,598 and \$81,632 for the years ended December 31, 2019, 2018 and 2017, respectively.

During the year ended December 31, 2019, we acquired no hotel properties. During the year ended December 31, 2018 we acquired the following wholly-owned hotel property:

Hotel	Acquisition Date	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Other Intangibles	Total Purchase Price	Assumption of Debt
Annapolis Waterfront Hotel, MD	3/28/2018	\$ —	\$ 43,251	\$ 1,802	\$ (3,199) *	\$ 41,854	\$ —

* Consists entirely of \$3,199 of above market ground lease liability, which is recorded in the Right of Use Assets on the consolidated balance sheet as of December 31, 2019.

The above acquisition for the year ended December 31, 2018 is considered an asset acquisition under US GAAP. As such acquisition-related costs, such as due diligence, legal fees and other costs, have been capitalized and allocated to the assets acquired based on their relative fair values as of December 31, 2018. Prior to January 1, 2018, acquisition-related costs, such as due diligence, legal and accounting fees, were considered part of a business acquisition under US GAAP. As such, they are not capitalized or applied in determining the fair value of the above acquired assets as of December 31, 2017. During the years ended December 31, 2019, 2018, and 2017, we incurred \$0, \$29, and \$2,203 in acquisition costs related to acquired assets and costs related to terminated transactions, respectively.

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NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

Prior to January 1, 2018, all hotel acquisitions were considered a business acquisition under U.S. GAAP. Included in the consolidated statement of operations for the year ended December 31, 2017 are total revenues of \$62,147 and a total net income of \$3,042 for hotels we have acquired and consolidated since the date of acquisition. These amounts represent the results of operations for these hotels since the date of acquisition as presented in the table below:

Hotel	Year Ended December 31, 2017	
	Revenue	Net Income (Loss)
Mystic Marriott Hotel & Spa, Groton, CT	\$ 21,247	\$ 1,700
The Ritz-Carlton, Coconut Grove, FL	13,390	(693)
The Pan Pacific Hotel, Seattle, WA	13,128	493
Philadelphia Westin, Philadelphia, PA	14,382	1,542
Total	\$ 62,147	\$ 3,042

Property Damage from Natural Disaster

During September 2017, all six of our hotels located in South Florida incurred property damage and an interruption of business operations as a result of Hurricane Irma. Two of our hotels, the Courtyard Cadillac Miami and the Parrot Key Hotel & Resort, incurred significant physical damage and were closed due to the disaster. The Courtyard Cadillac Miami opened for business in the third quarter of 2018, and the Parrot Key Hotel & Resort opened for business in the fourth quarter of 2018, respectively. The remaining four properties had resumed normal business activities as of December 31, 2017. During the year ended December 31, 2018, we recorded a net gain in excess of estimated insurance recoveries of \$12,649.

Hotel Dispositions

During the year ended December 31, 2019, we had no hotel dispositions. During the years ended December 31, 2018, and 2017, we had the following hotel dispositions:

Hotel	Acquisition Date	Disposition Date	Consideration	Gain (Loss) on Disposition
Hyatt House Gaithersburg, MD	December 2006	February 2018	\$ 19,000	\$ 2,441
Hampton Inn Pearl Street, NY	June 2014	March 2018	32,400	926
Residence Inn Tysons Corner, VA	February 2006	October 2018	15,700	781
2018 Total				\$ 4,148
Residence Inn, Greenbelt, MD	July 2004	January 2017	\$ 35,000	\$ 19,541
Courtyard Alexandria, VA	September 2006	January 2017	27,000	(1,123)
Hyatt House Scottsdale, AZ	December 2006	June 2017	36,000	15,015
Hyatt House Pleasant Hill, CA	December 2006	June 2017	45,000	22,406
Hyatt House Pleasanton, CA	December 2006	June 2017	49,500	33,507
Holiday Inn Express, Chester, NY	January 2007	December 2017	8,400	1,004
2017 Total				\$ 90,350

NOTE 2 – INVESTMENT IN HOTEL PROPERTIES (CONTINUED)

Subsequent Events

On January 20, 2020, we entered into a purchase and sale agreement to sell the Duane Street Hotel to an unrelated third party for a sales price of \$20,000. This transaction is anticipated to close in the second quarter of 2020.

On February 21, 2020, we entered into a purchase and sale agreement to sell the Blue Moon Hotel to an unrelated third party for a sales price of \$30,000. This transaction is anticipated to close in the second quarter of 2020.

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES

As of December 31, 2019 and December 31, 2018 our investment in unconsolidated joint ventures consisted of the following:

Joint Venture	Hotel Properties	Percent Owned	December 31, 2019	December 31, 2018
Cindat Hersha Owner JV, LLC	Hilton and IHG branded hotels in NYC	31.2%	\$ —	\$ —
Hiren Boston, LLC	Courtyard by Marriott, South Boston, MA	50.0%	1,434	1,879
SB Partners, LLC	Holiday Inn Express, South Boston, MA	50.0%	—	1,125
SB Partners Three, LLC	Home2 Suites, South Boston, MA	50.0%	7,012	1,000
			\$ 8,446	\$ 4,004

On September 27, 2018, we entered into a joint venture agreement with JHM SB Three Member, LLC which will own a Home2 Suites located in South Boston, MA. Each partner will have a 50.0% interest of this asset, which is currently under development and is expected to open in 2020. At the onset of the agreement, each partner contributed \$1,000 and any additional contributions will be made equally by each party.

On February 6, 2018, Cindat Hersha Owner JV, LLC repaid in full outstanding mortgage debt from an existing senior loan and mezzanine loan, and simultaneously entered into a new senior loan agreement with new lenders. A portion of the net cash proceeds from the refinance was used to distribute \$47,738 to the Company to fully redeem our recorded preferred equity interest in the venture. While this transaction fully redeemed our preferred equity interest in the venture, the Company continues to hold a common equity investment in this joint venture which has a balance of \$0 at December 31, 2019.

Effective January 1, 2018, the member allocations for distributions of net cash flow from operations, distributions from capital transactions and allocation of income and loss are based on these new common contributions and percentage interests. See the Income/Loss Allocation section below for a full explanation of how income and loss are allocated for Cindat Hersha Owner JV, LLC.

On January 3, 2017, we redeemed our joint venture interest in Mystic Partners, LLC by acquiring a 100% ownership interest in the Mystic Marriott Hotel & Spa and transferring our minority ownership interests in the Hartford Marriott and Hartford Hilton to our joint venture partner. We received \$11,623 in cash and assumed a mortgage on the Mystic Marriott Hotel & Spa of \$41,333 as consideration for this redemption and transfer of our minority interest. Subsequent to the assumption of the mortgage, the Company fully paid off the outstanding balance of the debt and added the property to the borrowing base of our Credit Facility. As a result of the remeasurement of the consideration received to fair value, the Company recognized a gain of \$16,240 in conjunction with this transaction.

Income/Loss Allocation

The Cindat Hersha Owner JV, LLC cash available for distribution will be distributed to (1) Cindat until they receive a return on their contributed \$142,000 senior common equity interest, currently at 9.0%, and (2) then to us until we receive an 8% return on our contributed \$64,357 junior common equity interest. Any cash available for distribution remaining will be split 31.2% to us and 68.8% to Cindat. Cindat's senior common equity return is reduced by 0.5% annually for 4 years following the closing until it is set at a rate of 8% for the remainder of the life of the joint venture. As of December 31, 2019 and 2018, based on the income allocation methodology described above, the Company has absorbed cumulative losses equal to our accounting basis in the joint venture resulting in a \$0 investment balance in the table above, however, we currently maintain a positive equity balance within the venture. This difference is due to difference in our basis inside the venture versus our basis outside of the venture.

For SB Partners, LLC, Hiren Boston, LLC, and SB Partners Three, LLC, income or loss is allocated to us and our joint venture partners consistent with the allocation of cash distributions in accordance with the joint venture agreements. This results in an income allocation consistent with our percentage of ownership interests.

Any difference between the carrying amount of any of our investments noted above and the underlying equity in net assets is amortized over the expected useful lives of the properties and other intangible assets.

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NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

Income (loss) recognized during the years ended December 31, 2019, 2018 and 2017, for our investments in unconsolidated joint ventures is as follows:

	Year Ended December 31,		
	2019	2018	2017
Cindat Hersha Owner JV, LLC	\$ —	\$ —	\$ (3,717)
Hiren Boston, LLC	155	866	750
SB Partners, LLC	626	218	494
SB Partners Three, LLC	(90)	—	—
Income (Loss) from Unconsolidated Joint Venture Investments	\$ 691	\$ 1,084	\$ (2,473)

The following tables set forth the total assets, liabilities, equity and components of net income or loss, including the Company's share, related to the unconsolidated joint ventures discussed above as of December 31, 2019 and December 31, 2018 and for the years ended December 31, 2019, 2018 and 2017.

Balance Sheets

	December 31, 2019	December 31, 2018
Assets		
Investment in Hotel Properties, Net	\$ 579,287	\$ 569,609
Other Assets	33,891	30,088
Total Assets	\$ 613,178	\$ 599,697
Liabilities and Equity		
Mortgages and Notes Payable	\$ 430,282	\$ 422,205
Other Liabilities	19,185	7,478
Equity:		
Hersha Hospitality Trust	9,588	15,554
Joint Venture Partners	154,998	155,053
Accumulated Other Comprehensive Loss	(875)	(593)
Total Equity	163,711	170,014
Total Liabilities and Equity	\$ 613,178	\$ 599,697

Statements of Operations

	Year Ended December 31,		
	2019	2018	2017
Room Revenue	\$ 94,384	\$ 98,123	\$ 93,254
Other Revenue	2,408	2,350	1,965
Operating Expenses	(46,175)	(46,319)	(43,245)
Lease Expense	(693)	(658)	(691)
Property Taxes and Insurance	(12,477)	(11,882)	(11,274)
General and Administrative	(5,783)	(5,489)	(5,179)
Depreciation and Amortization	(14,947)	(13,403)	(12,331)
Interest Expense	(28,072)	(26,289)	(20,965)
Loss on Debt Extinguishment	—	(7,270)	—
Net (Loss) Income	\$ (11,355)	\$ (10,837)	\$ 1,534

NOTE 3 – INVESTMENT IN UNCONSOLIDATED JOINT VENTURES (CONTINUED)

The following table is a reconciliation of our share in the unconsolidated joint ventures' equity to our investment in the unconsolidated joint ventures as presented on our balance sheets as of December 31, 2019 and December 31, 2018.

	December 31, 2019	December 31, 2018
Our share of equity recorded on the joint ventures' financial statements	\$ 9,588	\$ 15,554
Adjustment to reconcile our share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures ⁽¹⁾	(1,142)	(11,550)
Investment in Unconsolidated Joint Ventures	<u>\$ 8,446</u>	<u>\$ 4,004</u>

(1) Adjustment to reconcile our share of equity recorded on the joint ventures' financial statements to our investment in unconsolidated joint ventures consists of the following:

- the difference between our basis in the investment in joint ventures and the equity recorded on the joint ventures' financial statements;
- accumulated amortization of our equity in joint ventures that reflects the difference in our portion of the fair value of joint ventures' assets on the date of our investment when compared to the carrying value of the assets recorded on the joint ventures' financial statements (this excess or deficit investment is amortized over the life of the properties, and the amortization is included in Income (Loss) from Unconsolidated Joint Venture Investments on our consolidated statement of operations); and
- cumulative impairment of our investment in joint ventures not reflected on the joint ventures' financial statements, if any.

Subsequent Event

On January 3, 2020, we entered into an agreement for our joint venture partner to purchase our membership interests in Hiren Boston, LLC and SB Partners, LLC. Net proceeds from the sale of our interests are anticipated to be approximately \$26,000 and this transaction is expected to close during the second quarter of 2020.

NOTE 4 – OTHER ASSETS AND DEPOSITS ON HOTEL ACQUISITIONS

Other Assets

Other Assets consisted of the following at December 31, 2019 and December 31, 2018:

	December 31, 2019	December 31, 2018
Derivative Asset	\$ 2,514	\$ 5,307
Deferred Financing Costs	1,330	1,845
Prepaid Expenses	11,279	10,695
Investment in Statutory Trusts	1,548	1,548
Investment in Non-Hotel Property and Inventories	2,987	3,349
Deposits with Unaffiliated Third Parties	2,577	2,866
Deferred Tax Asset, Net of Valuation Allowance of \$497	11,390	11,078
Property Insurance Receivable	1,788	—
Other	2,764	3,317
	<u>\$ 38,177</u>	<u>\$ 40,005</u>

Derivative Asset - This category represents the Company's gross asset fair value of interest rate swaps and interest rate caps. Any swaps and caps resulting in a liability to the Company are accounted for separately within Other Liabilities on the Balance Sheet.

Deferred Financing Costs - This category represents financing costs paid by the Company to establish our Line of Credit. These costs have been capitalized and will amortize to interest expense over the life of the Line of Credit.

Prepaid Expenses - Prepaid expenses include amounts paid for property tax, insurance and other expenditures that will be expensed in the next twelve months.

Investment in Statutory Trusts - We have an investment in the common stock of Hersha Statutory Trust I and Hersha Statutory Trust II. Our investment is accounted for under the equity method.

Investment in Non-Hotel Property and Inventories - This category represents the costs paid and capitalized by the Company for items such as office leasehold improvements, furniture and equipment, and property inventories.

Deposits with Unaffiliated Third Parties - These deposits represent deposits made by the Company with unaffiliated third parties for items such as lease security deposits, utility deposits, and deposits with unaffiliated third party management companies.

Deferred Tax Asset - We have approximately \$11,390 of net deferred tax assets as of December 31, 2019. We have considered various factors, including future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies in determining a valuation allowance for our deferred tax assets, and we believe that it is more likely than not that we will be able to realize the \$11,390 of net deferred tax assets in the future.

Property Insurance Receivable - This category represents the amount that we expect to receive from our insurance companies for reimbursement of costs incurred as a result of water damage at The Boxer.

NOTE 5 – DEBT

Mortgages

Mortgages payable at December 31, 2019 and December 31, 2018 consisted of the following:

	December 31, 2019	December 31, 2018
Mortgage Indebtedness	\$ 333,948	\$ 334,897
Net Unamortized Premium	821	1,304
Net Unamortized Deferred Financing Costs	(2,489)	(2,056)
Mortgages Payable	\$ 332,280	\$ 334,145

Net Unamortized Deferred Financing Costs associated with entering into mortgage indebtedness are deferred and amortized over the life of the mortgages. Net Unamortized Premiums are also amortized over the remaining life of the loans.

Mortgage indebtedness balances are subject to fixed and variable interest rates, which ranged from 3.84% to 6.30% as of December 31, 2019. Aggregate interest expense incurred under the mortgage loans payable totaled \$15,804, and \$15,050 and \$12,405 during the years ended December 31, 2019, 2018, and 2017 respectively.

Our mortgage indebtedness contains various financial and non-financial covenants customarily found in secured, non-recourse financing arrangements. Our mortgage loans payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow generated by the property securing the applicable mortgage loan. We have determined that all debt covenants contained in the loan agreements securing our hotel properties were met as of December 31, 2019.

As of December 31, 2019, the maturity dates for the outstanding mortgage loans ranged from August 2021 to September 2025.

Subordinated Notes Payable

We have two junior subordinated notes payable in the aggregate amount of \$51,548 to the Hersha Statutory Trusts pursuant to indenture agreements which will mature on July 30, 2035, but may be redeemed at our option, in whole or in part, prior to maturity in accordance with the provisions of the indenture agreements. The \$25,774 notes issued to Hersha Statutory Trust I and Hersha Statutory Trust II, bear interest at a variable rate of LIBOR plus 3% per annum. This rate resets two business days prior to each quarterly payment. The face value of the notes payable is offset by \$812 and \$864 as of December 31, 2019 and 2018, respectively, in net deferred financing costs incurred as a result of entering into these indentures. The deferred financing costs are amortized over the life of the notes payable. The weighted average interest rate on our two junior subordinated notes payable during the years ended December 31, 2019, 2018 and 2017 was 5.50%, 5.23% and 4.24%, respectively. Interest expense incurred on notes payable totaled \$2,837, \$2,695 and \$2,358 for the years ended December 31, 2019, 2018 and 2017, respectively.

NOTE 5 – DEBT (CONTINUED)

Credit Facilities

We maintain three unsecured credit agreements which aggregate to \$950,900 with Citigroup Global Markets Inc., Wells Fargo Bank, Inc. and various other lenders. Our credit facility provides for a \$457,000 senior unsecured credit facility (“Credit Facility”). The Credit Facility consists of a \$250,000 senior unsecured revolving line of credit (“Line of Credit”), and a \$207,000 senior unsecured term loan (“First Term Loan”). The Credit Facility expires on August 10, 2022, and, provided no event of default has occurred, we may request that the lenders renew the credit facility for an additional one- year period. The Credit Facility is also expandable to \$857,000 at our request, subject to the satisfaction of certain conditions.

Our second credit agreement provides for a \$300,000 senior unsecured term loan agreement (“Second Term Loan”) and expires on September 10, 2024.

Our third credit agreement provides for a \$193,900 senior unsecured term loan agreement (“Third Term Loan”) and expires on August 2, 2021.

As of both December 31, 2019 and 2018, the Company had an outstanding balance on the term loans of \$700,900 and \$700,900, respectively. As of December 31, 2019 and 2018, the Company had an outstanding balance on the line of credit of \$48,000 and \$10,000.

The amount that we can borrow at any given time under our Line of Credit, and the First, Second and Third Term Loan (each a “Term Loan” and together the “Term Loans”) is governed by certain operating metrics of designated unencumbered hotel properties known as borrowing base assets. As of December 31, 2019, the following hotel properties were borrowing base assets:

- Courtyard by Marriott Brookline, Brookline, MA	- Hampton Inn, Washington, DC
- Holiday Inn Express Cambridge, Cambridge, MA	- Ritz-Carlton Georgetown, Washington, DC
- The Envoy Boston Seaport, Boston, MA	- Hilton Garden Inn, M Street, Washington, DC
- The Boxer, Boston, MA	- Residence Inn Miami Coconut Grove, Coconut Grove, FL
- Hampton Inn Seaport, Seaport, New York, NY	- The Winter Haven Hotel Miami Beach, Miami, FL
- The Duane Street Hotel, New York, NY	- The Blue Moon Hotel Miami Beach, Miami, FL
- Holiday Inn Express Chelsea, 29th Street, New York, NY	- Cadillac Hotel & Beach Club, Miami, FL
- Gate Hotel JFK Airport, New York, NY	- The Parrot Key Hotel & Villas, Key West, FL
- Hilton Garden Inn JFK Airport, New York, NY	- TownePlace Suites, Sunnyvale, CA
- NU Hotel, Brooklyn, New York, NY	- The Ambrose Hotel, Santa Monica, CA
- Hyatt House White Plains, White Plains, NY	- Courtyard by Marriott Downtown San Diego, San Diego, CA
- Hampton Inn Center City/ Convention Center, Philadelphia, PA	- The Pan Pacific Hotel Seattle, Seattle, WA
- The Rittenhouse, Philadelphia, PA	- Mystic Marriott Hotel & Spa, Groton, CT
- Philadelphia Westin, Philadelphia, PA	- Sheraton Wilmington South, New Castle, DE

NOTE 5 – DEBT (CONTINUED)

The interest rate for borrowings under the Line of Credit and Term Loans are based on a pricing grid with a range of one month U.S. LIBOR plus a spread. The following table summarizes the balances outstanding and interest rate spread for each borrowing:

Borrowing	Spread	Outstanding Balance	
		December 31, 2019	December 31, 2018
Line of Credit	1.50% to 2.25%	\$ 48,000	\$ 10,000
Unsecured Term Loan:			
First Term Loan	1.45% to 2.20%	207,000	207,000
Second Term Loan	1.35% to 2.00%	300,000	300,000
Third Term Loan	1.45% to 2.20%	193,900	193,900
Deferred Loan Costs		\$ (3,717)	(2,698)
Total Unsecured Term Loan		\$ 697,183	\$ 698,202

The Credit Facility and the Term Loans include certain financial covenants and require that we maintain: (1) a minimum tangible net worth (calculated as total assets, plus accumulated depreciation, less total liabilities, intangibles and other defined adjustments) of \$1,119,500, plus an amount equal to 75% of the net cash proceeds of all issuances and primary sales of equity interests of the parent guarantor or any of its subsidiaries consummated following the closing date; (2) annual distributions not to exceed 95% of adjusted funds from operations; and (3) certain financial ratios, including the following:

- a fixed charge coverage ratio of not less than 1.50 to 1.00,
- a maximum leverage ratio of not more than 60%; and
- a maximum secured debt leverage ratio of 45%

The Company is in compliance with each of the covenants listed above as of December 31, 2019.

The Company recorded interest expense of \$33,563, \$31,189 and \$24,066 related to borrowings drawn on each of the aforementioned credit facilities, for the years ended December 31, 2019, 2018 and 2017, respectively. The weighted average interest rate on our credit facilities was 4.11%, 3.83% and 3.36% for the years ended December 31, 2019, 2018 and 2017, respectively.

Aggregate annual principal payments for the Company's credit facility, unsecured term loan and mortgages and subordinated notes payable for the five years following December 31, 2019 and thereafter are as follows:

Year Ending December 31,	Amount
2020	\$ 1,699
2021	325,756
2022	253,289
2023	77,990
2024	386,283
Thereafter	89,379
Net Unamortized Premium	821
	\$ 1,135,217

Capitalized Interest

We utilize cash, mortgage debt and our unsecured credit facility to finance on-going capital improvement projects at our hotels. Interest incurred on mortgages and the revolving credit facility that relates to our capital improvement projects is capitalized through the date when the assets are placed in service. For the years ended December 31, 2019, 2018 and 2017, we capitalized \$74, \$661 and \$76 respectively, of interest expense related to these projects.

NOTE 5 – DEBT (CONTINUED)

Deferred Financing Costs

As noted above, costs associated with entering into mortgages, notes payable, unsecured term loan and our credit facilities are deferred and amortized over the life of the debt instruments. The deferred costs related to mortgages, term loans and unsecured notes payable are presented as reduction in the respective debt balances. Amortization of deferred costs for the years ended December 31, 2019, 2018 and 2017 was \$2,241, \$2,278 and \$2,264 respectively.

New Debt/Refinance

On December 4, 2019, we refinanced the outstanding mortgage debt with an original principal balance of \$44,325 secured by the Hilton Garden Inn, 52nd Street, NY. The loan was due to mature on February 24, 2020, but will now mature on December 4, 2022. Contemporaneous with the mortgage refinance, we entered into an interest rate swap that matures December 4, 2022 that fixes the interest rate at 3.84% until maturity.

On September 10, 2019, we refinanced our Second Term Loan. We maintained the \$300,000 principal balance. The Second Term Loan was due to expire on August 10, 2020 but will now expire on September 10, 2024. The financial covenants on the new loan are substantially the same as the previous loan. Also during September 2019 we entered into new interest rate swap contracts for \$700,900 of our Credit Facility and Term Loans. See "Note 8 - Fair Value Measurements and Derivative Instruments" for more information on the interest rate swaps.

On July 25, 2019, we refinanced the outstanding mortgage debt with an original principal balance of \$45,000 secured by the Hilton Garden Inn Tribeca, New York, NY. The loan was due to mature on November 13, 2019, but will now mature on July 25, 2024. Contemporaneous with the mortgage refinance, we entered into an interest rate swap that matures July 25, 2024 that fixes the interest rate at 4.02% until maturity.

On June 7, 2019, we refinanced the outstanding mortgage debt with an original principal balance of \$56,000 secured by the Hyatt Union Square, New York, NY. The loan was due to mature on June 9, 2019, but will now mature on June 7, 2023. Also on June 7, 2019, we entered into an interest rate swap that matures June 7, 2023. See "Note 8 - Fair Value Measurements and Derivative Instruments" for more information on the interest rate swap.

On April 13, 2018, we entered into a mortgage debt with a principal balance of \$28,000 secured by the Annapolis Waterfront Hotel, MD. The loan bears interest at a variable rate of one month U.S. dollar LIBOR plus 2.65% and matures in April 2024. Concurrently, we entered into an interest rate cap which effectively caps LIBOR at 3.35%, limiting the interest rate to not exceed 6.00% per annum until May 2021.

On January 31, 2018, we refinanced the outstanding debt with an original principal balance of \$25,000 secured by the Capitol Hill Hotel, Washington, D.C. The loan was due to mature on January 31, 2018, but will now mature on January 31, 2021.

On August 10, 2017, we amended and restated our existing credit facility, which now consists of a \$250,000 senior unsecured revolving line of credit and a \$225,000 senior unsecured term loan referred to above as the First Term Loan. The Credit Facility was due to expire on February 28, 2018, but will now expire on August 10, 2021. In conjunction with this transaction we recognized \$280 in debt extinguishment costs.

On August 1, 2017, we refinanced the outstanding mortgage debt with an original principal balance of \$35,000 secured by the Courtyard Culver City, Los Angeles, CA. The loan was due to mature on September 29, 2017, but will now mature on August 1, 2021. We incurred approximately \$32 in expense in third party fees.

On February 24, 2017, we refinanced the outstanding mortgage debt with an original principal balance of \$45,000 secured by the Hilton Garden Inn, 52nd Street, NY. The loan was due to mature in May 2017, but will now mature on February 24, 2020. We incurred approximately \$94 in expense in third party fees.

On February 1, 2017, we issued a note payable in the amount of \$3,150 with the acquisition of the Ritz Carlton Coconut Grove.

On January 31, 2017, we repaid in full outstanding mortgage debt with an original principal balance of \$9,500 secured by the Duane Street Hotel, NY, which was schedule to mature on February 1, 2017 and we incurred approximately \$12 in expense related to unamortized deferred financing costs and fees.

NOTE 5 – DEBT (CONTINUED)

On January 6, 2017, we repaid in full outstanding mortgage debt secured by the Hyatt House Scottsdale, AZ, the Hyatt House Pleasant Hill, CA, and the Hyatt House Pleasanton, which all matured on that date. These properties had a combined original principal balance of \$51,428 and we incurred approximately \$47 in expense related to unamortized deferred financing costs and fees.

On January 3, 2017, we repaid in full outstanding mortgage debt with an original principal balance of \$21,000 secured by the Hilton Garden Inn, JFK Airport, New York, NY. The loan was due to mature on March 7, 2017, and we incurred approximately \$37 in expense related to unamortized deferred financing costs and fees.

On January 3, 2017, we repaid in full outstanding mortgage debt with an original principal balance of \$43,000 secured by the Mystic Marriott Hotel & Spa, Groton, CT. The loan was due to mature in August of 2018, and we incurred approximately \$84 in expense related to unamortized deferred financing costs and fees.

NOTE 6 – LEASES

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which provides the principles for the recognition, measurement, presentation and disclosure of leases. The Company adopted the provisions of the update effective January 1, 2019. We elected the modified retrospective transition method upon adoption, which resulted in no cumulative-effect adjustment to the balance of opening retained earnings. As part of our adoption, we elected to utilize the package of practical expedients which allowed us to not reassess existing contracts for embedded leases and not reassess the classification of existing leases. As a result of our adoption, the Company recorded a lease liability and corresponding right of use asset of \$55,515 at January 1, 2019 for leases where we are the lessee. Our most significant leases are land leases. We own five hotels within our consolidated portfolio of hotels where we do not own the land on which the hotels reside, rather we lease the land from an unrelated third-party lessor. All of our land leases are classified as operating leases and have initial terms, with extension options that range from May 2062 to October 2103. Based on the nature of these leases, the Company assumed that all extension options would be fully executed. For land leases that include variable payments, those include payments that are tied to an index such as the consumer price index or include rental payments based partially on the hotel revenues. Two additional office space leases are also factored into the lease liability and are classified as operating leases with terms ranging from January 2022 to December 2027. For office space leases that include variable payments, those include payments for the Company's proportionate share of the building's property taxes, insurance, and common area maintenance.

The Company applied judgments related to the determination of the discount rates used to calculate the lease liability upon adoption at January 1, 2019. Since the discount rate implicit in the leases could not be readily determinable, we had to calculate our incremental borrowing rate as defined by ASC Topic 842. In order to calculate our incremental borrowing rate, the Company utilized judgments and estimates regarding the Company's market credit rating, comparable market bond yield curve, and adjustments to market yield curves to determine a securitized rate.

We are also a lessor in certain office space and retail lease agreements related to our hotels and the adoption of this ASU did not have a material impact on our accounting for leases where we are the lessor. The adoption of this ASU did not impact revenue recognition policies for the Company.

We record lease costs incurred from ground leases as expenses as presented within Hotel Ground Rent in the Consolidated Statements of Operations. Lease costs incurred from office leases are recorded to expense and presented within General and Administrative Expense in the Consolidated Statements of Operations. The components of lease costs for the year ended December 31, 2019 were as follows:

	Year Ended December 31, 2019		
	Ground Lease	Office Lease	Total
Operating lease costs	\$ 4,195	\$ 483	\$ 4,678
Variable lease costs	386	308	694
Total lease costs	\$ 4,581	\$ 791	\$ 5,372

For the years ended December 31, 2018 and 2017 we incurred \$4,228 and \$3,460, respectively, of rent expense payable pursuant to ground leases related to certain hotel properties. For the years ended December 31, 2018 and 2017, we incurred \$785 and \$735, respectively, of rent expense pursuant to office leases.

Other information related to leases as of and for the year ended December 31, 2019 is as follows:

	December 31, 2019
Cash paid from operating cash flows for operating leases	\$ 4,851
Weighted average remaining lease term in years	64.2
Weighted average discount rate	7.86%

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NOTE 6 – LEASES (CONTINUED)

Minimum lease payments against lease liabilities are as follows:

	Amount
2020	\$ 4,933
2021	5,001
2022	4,463
2023	4,445
2024	4,473
Thereafter	288,978
Total undiscounted lease payments	312,293
Less imputed interest	(257,745)
Total lease liability	\$ 54,548

Future minimum lease payments as of December 31, 2018 (without reflecting future applicable Consumer Price Index increases) under lease agreements are as follows:

Year Ending December 31,	Amount
2019	\$ 4,585
2020	4,638
2021	4,705
2022	4,167
2023	4,149
Thereafter	270,978
	\$ 293,222

NOTE 7 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS

Management Agreements

Our wholly-owned TRS, 44 New England Management Company, and certain of our joint venture entities engage eligible independent contractors in accordance with the requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended, including Hersha Hospitality Management Limited Partnership (“HHMLP”), as the property managers for hotels it leases from us pursuant to management agreements. HHMLP is owned, in part, by certain executives and trustees of the Company. Our management agreements with HHMLP provide for five-year terms and are subject to early termination upon the occurrence of defaults and certain other events described therein. As required under the REIT qualification rules, HHMLP must qualify as an “eligible independent contractor” during the term of the management agreements. Under the management agreements, HHMLP generally pays the operating expenses of our hotels. All operating expenses or other expenses incurred by HHMLP in performing its authorized duties are reimbursed or borne by our TRS to the extent the operating expenses or other expenses are incurred within the limits of the applicable approved hotel operating budget. HHMLP is not obligated to advance any of its own funds for operating expenses of a hotel or to incur any liability in connection with operating a hotel. Management agreements with other unaffiliated hotel management companies have similar terms.

For its services, HHMLP receives a base management fee and, if a hotel exceeds certain thresholds, an incentive management fee. The base management fee for a hotel is due monthly and is equal to 3% of gross revenues associated with each hotel managed for the related month. The incentive management fee, if any, for a hotel is due annually in arrears on the ninetieth day following the end of each fiscal year and is based upon the financial performance of the hotels. For the years ended December 31, 2019, 2018 and 2017, base management fees incurred totaled \$14,123, \$13,309 and \$13,447 respectively, and are recorded as Other Hotel Operating Expenses. For the year ended December 31, 2019, 2018 and 2017, incentive management fees incurred totaled \$161, \$98 and \$0 respectively.

Franchise Agreements

Our branded hotel properties are operated under franchise agreements assumed by the hotel property lessee. The franchise agreements have 10 to 20 year terms, but may be terminated by either the franchisee or franchisor on certain anniversary dates specified in the agreements. The franchise agreements require annual payments for franchise royalties, reservation, and advertising services, and such payments are based upon percentages of gross room revenue. These payments are paid by the hotels and charged to expense as incurred. Franchise fee expenses for the years ended December 31, 2019, 2018 and 2017 were \$23,389, \$22,802 and \$23,645 respectively, and are recorded in Other Hotel Operating Expenses. The initial fees incurred to enter into the franchise agreements are amortized over the life of the franchise agreements.

Accounting and Information Technology Fees

Each of the wholly-owned hotels and consolidated joint venture hotel properties managed by HHMLP incurs a monthly accounting and information technology fee. Monthly fees for accounting services are between \$2 and \$3 per property and monthly information technology fees range from \$1 to \$2 per property. For the years ended December 31, 2019, 2018 and 2017, the Company incurred accounting fees of \$1,261, \$1,235 and \$1,318 respectively. For the years ended December 31, 2019, 2018 and 2017, the Company incurred information technology fees of \$402, \$402 and \$434 respectively. Accounting fees and information technology fees are included in Other Hotel Operating Expenses.

Capital Expenditure Fees

HHMLP charges a 5% fee on certain capital expenditures and pending renovation projects at the properties as compensation for procurement services related to capital expenditures and for project management of renovation projects. For the years ended December 31, 2019, 2018 and 2017, we incurred fees of \$2,525, \$2,511 and \$1,125 respectively, which were capitalized with the cost of the related capital expenditures.

NOTE 7 – COMMITMENTS AND CONTINGENCIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

Acquisitions from Affiliates

We have entered into an option agreement with certain of our officers and trustees such that we obtain a right of first refusal to purchase any hotel owned or developed in the future by these individuals or entities controlled by them at fair market value. This right of first refusal would apply to each party until one year after such party ceases to be an officer or trustee of the Company. Our Acquisition Committee of the Board of Trustees is comprised solely of independent trustees, and the purchase prices and all material terms of the purchase of hotels from related parties are approved by the Acquisition Committee.

Hotel Supplies

For the years ended December 31, 2019, 2018 and 2017, we incurred charges for hotel supplies of \$307, \$470 and \$215 respectively. For the years ended December 31, 2019, 2018 and 2017, we incurred charges for capital expenditure purchases of \$12,721, \$2,258 and \$2,099 respectively. These purchases were made from Hersha Purchasing and Design, a hotel supply company owned, in part, by certain executives and trustees of the Company. Hotel supplies are expensed and included in Hotel Operating Expenses on our consolidated statements of operations, and capital expenditure purchases are included in investment in hotel properties on our consolidated balance sheets. We incurred charges of \$9 and approximately \$0 in accounts payable at December 31, 2019 and December 31, 2018, respectively.

Insurance Services

The Company utilizes the services of the Hersha Group, a risk management business owned, in part, by certain executives and trustees of the Company. The Hersha Group provides brokerage services to the Company related to the placement of property and casualty insurance, and general liability insurance for our hotel properties. The total costs of property insurance that we paid through the Hersha Group were \$5,934, \$4,799, and \$3,884 for the years ended December 31, 2019, 2018 and 2017. These amounts paid to the Hersha Group include insurance premiums and brokerage fees as compensation for brokerage services.

Restaurant Lease Agreements with Independent Restaurant Group

The Company enters into lease agreements with a number of restaurant management companies for the lease of restaurants located within our hotels. During the year ended December 31, 2019, the Company entered into lease agreements with Independent Restaurant Group (“IRG”) for restaurants at three of its hotel properties. Certain executive officers and/or trustees of the Company, collectively own a 70.0% interest in IRG. The Company’s restaurant lease agreements with IRG generally provide for a term of five years and the payment of base rents and percentage rents, which are based on IRG’s revenue in excess of defined thresholds. The base rents are due monthly and percentages rents owed, if any, are due quarterly. The restaurant leases are subject to early termination upon the occurrence of defaults and certain other events described therein. The total amount of revenue recognized from IRG was \$323, \$0, and \$0 for the years ended December 31, 2019, 2018 and 2017.

Due From Related Parties

The due from related parties balance as of December 31, 2019 and December 31, 2018 was approximately \$6,113 and \$3,294, respectively. The balances primarily consisted of working capital deposits made to HHMLP and other entities owned, in part, by certain executives and trustees of the Company.

Due to Related Parties

The balance due to related parties as of December 31, 2019 and December 31, 2018 was \$0.

Litigation

We are not presently subject to any material litigation nor, to our knowledge, is any other 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 business or financial condition.

NOTE 8 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS

Fair Value Measurements

Our determination of fair value measurements are based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, we utilize a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liabilities, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

As of December 31, 2019, the Company's derivative instruments represented the only financial instruments measured at fair value. Currently, the Company uses derivative instruments, such as interest rate swaps and caps, to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs.

We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although we have determined that the majority of the inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by us and the counterparties. However, as of December 31, 2019 we have assessed the significance of the effect of the credit valuation adjustments on the overall valuation of our derivative positions and have determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

Derivative Instruments

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps and interest rate caps as part of its cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. Interest rate caps designated as cash flow hedges limit the Company's exposure to increased cash payments due to increases in variable interest rates. The table on the following page presents our derivative instruments as of December 31, 2019 and 2018.

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NOTE 8 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS (CONTINUED)

Hedged Debt	Type	Strike Rate	Index	Effective Date	Derivative Contract Maturity Date	Notional Amount	Estimated Fair Value	
							December 31, 2019	December 31, 2018
Term Loan Instruments:								
Unsecured Credit Facility	Swap	1.011%	1-Month LIBOR + 2.20%	November 3, 2016	October 3, 2019	\$ 150,000	\$ —	\$ 1,741
Unsecured Credit Facility (1)	Swap	1.694%	1-Month LIBOR + 2.20%	April 3, 2017	September 3, 2019	50,000	—	320
Unsecured Credit Facility (2)	Swap	2.654%	1-Month LIBOR + 2.20%	January 10, 2019	September 3, 2019	103,500	—	(314)
Unsecured Credit Facility (3)	Swap	2.654%	1-Month LIBOR + 2.20%	January 10, 2019	September 3, 2019	103,500	—	(315)
Unsecured Credit Facility (4)	Swap	1.866%	1-Month LIBOR + 2.25%	August 10, 2017	September 10, 2019	300,000	—	2,287
Unsecured Credit Facility	Swap	1.341%	1-Month LIBOR + 2.20%	October 3, 2019	August 2, 2021	150,000	539	—
Unsecured Credit Facility (1)	Swap	1.316%	1-Month LIBOR + 2.20%	September 3, 2019	August 2, 2021	43,900	175	—
Unsecured Credit Facility (2)	Swap	1.824%	1-Month LIBOR + 2.20%	September 3, 2019	August 10, 2022	103,500	(718)	—
Unsecured Credit Facility (3)	Swap	1.824%	1-Month LIBOR + 2.20%	September 3, 2019	August 10, 2022	103,500	(718)	—
Unsecured Credit Facility (4)	Swap	1.460%	1-Month LIBOR + 2.00%	September 10, 2019	September 10, 2024	300,000	1,776	—
Mortgages:								
Hilton Garden Inn 52nd Street, New York, NY	Swap	1.600%	1-Month LIBOR + 2.90%	February 24, 2017	February 24, 2020	44,325	—	479
Courtyard, LA Westside, Culver City, CA	Swap	1.683%	1-Month LIBOR + 2.75%	August 1, 2017	August 1, 2020	35,000	(8)	458
Annapolis Waterfront Hotel, MD	Cap	3.350%	1-Month LIBOR + 2.65%	May 1, 2018	May 1, 2021	28,000	—	22
Hyatt, Union Square, New York, NY	Swap	1.870%	1-Month LIBOR + 2.30%	June 7, 2019	June 7, 2023	56,000	(556)	—
Hilton Garden Inn Tribeca, New York, NY	Swap	1.768%	1-Month LIBOR + 2.25%	July 25, 2019	July 25, 2024	22,725	(169)	—
Hilton Garden Inn Tribeca, New York, NY	Swap	1.768%	1-Month LIBOR + 2.25%	July 25, 2019	July 25, 2024	22,725	(169)	—
Hilton Garden Inn 52nd Street, New York, NY	Swap	1.540%	1-Month LIBOR + 2.30%	December 4, 2019	December 4, 2022	44,325	23	—
							\$ 175	\$ 4,678

- (1) On September 3, 2019, we entered into an accelerated termination agreement on the interest rate swap associated with \$50,000 of our unsecured credit facility, which had an initial maturity of October 3, 2019. Also on September 3, 2019, we entered into a new interest rate swap associated with \$43,900 of our unsecured credit facility, which will mature on August 2, 2021. As the initial swap was only one month from maturity, the balance in other comprehensive income was reclassified to interest expense.
- (2) On September 3, 2019, we entered into an accelerated termination agreement on the interest rate swap associated with \$103,500 of our unsecured credit facility, which had an initial maturity of January 10, 2021. Also on September 3, 2019, we entered into a new interest rate swap associated with \$103,500 of our unsecured credit facility, which will mature on August 10, 2022. The fair value of the old swap at the time of termination was a liability in the amount of \$1,783. Instead of settling this amount with cash consideration at termination, the rate and terms of the new swap were such that, the fair value at termination of the old swap would carry over as the fair value of the new swap at inception. The other

NOTE 8 – FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS (CONTINUED)

- comprehensive income related to the old swap will be reclassified to interest expense until the original maturity date of January 10, 2021.
- (3) On September 3, 2019, we entered into an accelerated termination agreement on the interest rate swap associated with \$103,500 of our unsecured credit facility, which had an initial maturity of January 10, 2021. Also on September 3, 2019, we entered into a new interest rate swap associated with \$103,500 of our unsecured credit facility, which will mature on August 10, 2022. The fair value of the old swap at the time of termination was a liability in the amount of \$1,783. Instead of settling this amount with cash consideration at termination, the rate and terms of the new swap were such that, the fair value at termination of the old swap would carry over as the fair value of the new swap at inception. The other comprehensive income related to the old swap will be reclassified to interest expense until the original maturity date of January 10, 2021.
- (4) On September 10, 2019, we entered into an accelerated termination agreement on the interest rate swap associated with \$300,000 of our unsecured credit facility, which had an initial maturity of August 10, 2020. Also on September 10, 2019, we entered into a new interest rate swap associated with \$300,000 of our unsecured credit facility, which will mature on September 10, 2024. The fair value of the old swap at the time of termination was a liability in the amount of \$1,379. Instead of settling this amount with cash consideration at termination, the rate and terms of the new swap were such that, the fair value at termination of the old swap would carry over as the fair value of the new swap at inception. The other comprehensive income related to the old swap will be reclassified to interest expense until the original maturity date of August 10, 2020.

The fair value of certain swaps and our interest rate caps is included in other assets at December 31, 2019 and December 31, 2018 and the fair value of certain of our interest rate swaps is included in accounts payable, accrued expenses and other liabilities at December 31, 2019 and December 31, 2018.

The net change related to derivative instruments designated as cash flow hedges recognized as unrealized gains and losses reflected on our consolidated balance sheet in accumulated other comprehensive income was a loss of \$3,495, a gain of \$516, and a gain of \$2,536 for the years ended December 31, 2019, 2018 and 2017, respectively.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate derivative. The change in net unrealized gains/losses on cash flow hedges reflects a reclassification of \$3,105 of net unrealized gains/losses from accumulated other comprehensive income as a decrease to interest expense during 2019. During 2020, the Company estimates that an additional \$3,918 will be reclassified as an increase to interest expense.

Fair Value of Debt

The Company estimates the fair value of its fixed rate debt and the credit spreads over variable market rates on its variable rate debt by discounting the future cash flows of each instrument at estimated market rates or credit spreads consistent with the maturity of the debt obligation with similar credit policies. Credit spreads take into consideration general market conditions and maturity. The inputs utilized in estimating the fair value of debt are classified in Level 2 of the fair value hierarchy. As of December 31, 2019, the carrying value and estimated fair value of the Company's debt were \$1,128,199 and \$1,098,082, respectively. As of December 31, 2018, the carrying value and estimated fair value of the Company's debt were \$1,093,031 and \$1,082,485, respectively.

NOTE 9 – SHARE BASED PAYMENTS

We measure the cost of employee service received in exchange for an award of equity instruments based on the grant-date fair value of the award. The compensation cost is amortized on a straight-line basis over the period during which an employee is required to provide service in exchange for the award. The compensation cost related to performance awards that are contingent upon market-based criteria being met is recorded at the fair value of the award on the date of the grant and amortized over the performance period. As discussed in Note 1 forfeitures of share-based awards are expensed as they occur.

Our shareholders approved the Hersha Hospitality Trust 2012 Equity Incentive Plan, as amended, (the "2012 Plan") for the purpose of attracting and retaining executive officers, employees, trustees and other persons and entities that provide services to the Company.

Summary of Share Based Compensation Programs

Executives

The Compensation Committee of our Board of Trustees implements executive compensation strategies that align the interests of the Company's executives with those of shareholders. It does so through a mix of base salary, the Short Term Incentive Program ("STIP"), and the Long-Term Incentive Program ("LTIP"). The STIP and LTIP are incentive compensation programs that align executive compensation with the performance of the Company. Prior to 2019, executives participated in our legacy incentive compensation programs, the Annual Cash Incentive Program ("ACIP"), the Annual Long Term Equity Incentive Program ("Annual EIP"), and the Multi-Year Long Term Equity Incentive Program ("Multi-Year EIP"). Equity may be awarded under any of these programs in the form of stock awards, LTIP Units, or performance share awards issuable pursuant to the 2012 Plan.

- Short Term Incentive Program - On March 6, 2019, the Compensation Committee approved the 2019 STIP, pursuant to which the executive officers are eligible to earn cash and equity awards based on achieving a threshold, target or maximum level of defined performance objectives at the end of the performance period, December 31, 2019. Any amounts earned are satisfied 50% in cash and 50% in equity awards. The Compensation Committee provided the option to the executive officers to elect equity awards in lieu of cash payment for amounts earned under the 2019 STIP. For the 2019 STIP and the 2018 and 2017 ACIP, each executive elected to receive 100% of amounts earned under each program in equity. Equity issued under the 2019 STIP and the 2018 and 2017 ACIP vest on the two year anniversary following the end of the performance period.

The Company accounts for grants earned under the STIP as performance awards for which the Company assesses the probability of achievement of the performance conditions at the end of each period. Estimates of amounts earned under the STIP are recorded in general and administrative expense on the consolidated statement of operations and a liability is recorded in accounts payable, accrued expenses and other liabilities on the consolidated balance sheet. As of December 31, 2019, no shares or LTIP Units have been issued to the executive officers in settlement of 2019 STIP.

- Long Term Incentive Program - On March 6, 2019, the Compensation Committee approved the 2019 LTIP pursuant to which the executive officers are eligible to earn equity awards based on achieving a threshold, target or maximum level of defined market and performance objectives at the end of the performance period, December 31, 2019. This program has a three-year performance period which commenced on January 1, 2019 and ends December 31, 2021. The shares or LTIP Units issuable under the LTIP or legacy long term incentive programs are based on the Company's achievement of a certain level of (1) absolute total shareholder return (37.5% of the award), (2) relative total shareholder return as compared to the Company's peer group (37.5% of the award), and (3) relative growth in revenue per available room (RevPar) compared to the Company's peer group (25.0% of the award).

The Company accounts for the total shareholder return components of these grants as market based awards where the Company estimates unearned compensation at the grant date fair value which is then amortized into compensation cost over the vesting period of each individual plan. The Company accounts for the RevPAR component of the grants as performance-based awards for which the Company assesses the probable achievement of the performance conditions at the end of the reporting period. As of December 31, 2019, no shares or LTIP Units have been issued to the executive officers in settlement of 2019 LTIP awards.

NOTE 9 – SHARE BASED PAYMENTS (CONTINUED)

Remaining unearned compensation for LTIP Units issued to executives in settlement of awards under the STIP, LTIP or the Company's legacy incentive compensation programs is recorded in noncontrolling interests on the Company's consolidated balance sheets and is amortized in general and administrative expense on the consolidated statement of operations over the remaining vesting period.

Trustees

To align the interests of the Company's trustees with those of shareholders, our trustees receive equity as a component of the compensation for their service on our board of trustees.

- Share Awards - Our trustees receive biennial share awards that vest immediately upon issuance.
- Trustee Long Term Incentive Program - Trustees receive grants of restricted shares which vest over a three-year period subject to continued service to the Company's board of trustees.
- Board Fee Compensation Elected in Equity - Trustees may make a voluntary election to receive any portion of their board fee compensation in the form of common equity valued at a 25% premium to the cash that would have been received. Shares issued for board retainer elected in equity vest over the year of service covered by the retainer and shares issued for service as lead director, committee chair and committee membership vest immediately upon issuance.

For shares issued that are subject to vesting, unearned compensation is recorded in additional paid in capital on the consolidated balance sheet and is amortized in general and administrative expense on the consolidated statement of operations over the vesting period. Share based compensation for shares issued that immediately vest is recorded in general and administrative expense on the consolidated statement of operations.

Employees and Non-Employees

Grants of restricted shares are issued to attract, retain and reward employees and non-employees that are critical to the Company's success. These restricted shares typically vest over a period of between one and four years subject to continued service to the Company.

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NOTE 9 – SHARE BASED PAYMENTS (CONTINUED)

Share Based Compensation Activity

A summary of our share based compensation activity from January 1, 2017 to December 31, 2019 is as follows:

	LTIP Unit Awards		Restricted Share Awards		Share Awards	
	Number of Units	Weighted Average Grant Date Fair Value	Number of Restricted Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Unvested Balance as of January 1, 2017	210,209	\$ 22.21	54,761	\$ 21.10	—	
Granted	183,784	18.53	79,712	18.21	32,674	\$ 18.16
Vested	(286,776)	20.82	(44,585)	21.01	(32,674)	18.16
Forfeited	—	N/A	(3,055)	18.49	—	
Unvested Balance as of December 31, 2017	107,217	19.63	86,833	18.58	—	
Granted	589,106	17.91	76,314	19.56	34,752	19.64
Vested	(245,420)	18.59	(70,713)	18.38	(34,752)	19.64
Forfeited	—	N/A	(575)	18.04	—	
Unvested Balance as of December 31, 2018	450,903	17.95	91,859	19.56	—	
Granted	530,281	18.00	83,805	16.40	42,533	16.01
Vested	(539,983)	17.97	(80,924)	19.11	(42,533)	16.01
Forfeited	—	N/A	(2,638)	19.78	—	
Unvested Balance as of December 31, 2019	<u>441,201</u>	17.99	<u>92,102</u>	17.07	<u>—</u>	

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NOTE 9 – SHARE BASED PAYMENTS (CONTINUED)

The following table summarizes share based compensation expense and unearned compensation for the years ended December 31, 2019, 2018, and 2017 and as of December 31, 2019 and 2018:

	Share Based Compensation Expense			Unearned Compensation	
	For the Year Ended			As of	
	12/31/2019	12/31/2018	12/31/2017	12/31/2019	12/31/2018
<i>Issued Awards</i>					
LTIP Unit Awards	5,646	4,120	2,486	2,878	3,027
Restricted Share Awards	1,495	1,443	1,033	1,051	1,318
Share Awards	680	680	593	—	—
<i>Unissued Awards</i>					
Market Based	1,467	1,120	1,002	2,739	2,200
Performance Based	1,515	4,073	4,172	—	—
Total	\$ 10,803	\$ 11,436	\$ 9,286	\$ 6,668	\$ 6,545

The weighted-average period of which the unrecognized compensation expense will be recorded is approximately 21.9 months for LTIP Unit Awards and 17.6 months for Restricted Share Awards.

The remaining unvested target units are expected to vest as follows:

	2020	2021	2022	2023
LTIP Unit Awards	376,614	64,587	—	—
Restricted Share Awards	68,486	19,431	3,654	531
	<u>445,100</u>	<u>84,018</u>	<u>3,654</u>	<u>531</u>

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NOTE 10 – EARNINGS PER SHARE

The following table is a reconciliation of the income or loss (numerator) and the weighted average shares (denominator) used in the calculation of basic and diluted earnings per common share. The computation of basic and diluted earnings per share is presented below.

	Twelve Months Ended December 31,		
	2019	2018	2017
NUMERATOR:			
<i>Basic and Diluted*</i>			
Net (Loss) Income	\$ (5,847)	\$ 8,365	\$ 104,940
Loss (Income) allocated to Noncontrolling Interests	2,178	1,625	(5,072)
Distributions to Preferred Shareholders	(24,174)	(24,174)	(24,169)
Dividends Paid on Unvested Restricted Shares and LTIP Units	(981)	(740)	(341)
Extinguishment of Issuance Costs Upon Redemption of Series B Preferred Shares	—	—	—
Net (Loss) Income from Continuing Operations attributable to Common Shareholders	<u>\$ (28,824)</u>	<u>\$ (14,924)</u>	<u>\$ 75,358</u>
DENOMINATOR:			
Weighted average number of common shares - basic	38,907,894	39,383,763	41,423,804
Effect of dilutive securities:			
Restricted Stock Awards and LTIP Units (unvested)	—	—	216,225
Contingently Issued Shares and Units	—	—	416,402
Weighted average number of common shares - diluted	<u>38,907,894</u>	<u>39,383,763</u>	<u>42,056,431</u>

* Income (loss) allocated to noncontrolling interest in HHLP has been excluded from the numerator and Common Units and Vested LTIP Units have been omitted from the denominator for the purpose of computing diluted earnings per share since including these amounts in the numerator and denominator would have no impact. In addition, potentially dilutive common shares, if any, have been excluded from the denominator if they are anti-dilutive to income (loss) applicable to common shareholders.

NOTE 11 – CASH FLOW DISCLOSURES AND NON CASH INVESTING AND FINANCING ACTIVITIES

Interest paid during 2019, 2018 and 2017 totaled \$54,158, \$49,148 and \$40,102 respectively. Cash paid for income taxes during 2019, 2018 and 2017 were \$53, \$1,140 and \$747, respectively. The following non-cash investing and financing activities occurred during 2019, 2018 and 2017:

	2019	2018	2017
Common Shares issued as part of the Dividend Reinvestment Plan	\$ 60	\$ 77	\$ 81
Acquisition of hotel properties:			
Assets acquired through joint venture assignment and assumption	—	—	49,999
Debt assumed, including premium	—	—	44,483
Deposit paid in prior period towards acquisition which closed in current period	—	1,000	—
Conversion of note payable and accrued interest to Non-Controlling Interest	—	3,387	—
Conversion of Common Units to Common Shares	—	1,173	392
Issuance of share based payments	12,924	13,661	9,572
Accrued payables for fixed assets placed into service	2,506	2,912	3,403
Cumulative Effect on Equity from the Adoption of ASC Subtopic 610-20	—	129,021	—
Adjustment to Record Non-Controlling Interest at Redemption Value	488	2,708	—
Adjustment to Record Right of Use Asset & Lease Liability	55,515	—	—
Amortization related to Right of Use Asset & Lease Liability	967	—	—

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows for the year ended December 31, 2019, 2018 and 2017:

	2019	2018	2017
Cash and cash equivalents	\$ 27,012	\$ 32,598	\$ 17,945
Escrowed cash	9,973	8,185	7,641
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	\$ 36,985	\$ 40,783	\$ 25,586

Amounts included in restricted cash represent those required to be set aside in escrow by contractual agreement with various lenders for the payment of specific items such as property insurance, property tax, and capital expenditures.

NOTE 12 – SHAREHOLDERS' EQUITY AND NONCONTROLLING INTERESTS IN PARTNERSHIP

Common Shares

The Company's outstanding common shares have been duly authorized, and are fully paid and non-assessable. Common shareholders are entitled to receive dividends if and when authorized and declared by the Board of Trustees of the Company out of assets legally available and to share ratably in the assets of the Company legally available for distribution to its shareholders in the event of its liquidation, dissolution or winding up after payment of, or adequate provision for, all known debts and liabilities of the Company.

Preferred Shares

The Declaration of Trust authorizes our Board of Trustees to classify any unissued preferred shares and to reclassify any previously classified but unissued preferred shares of any series from time to time in one or more series, as authorized by the Board of Trustees. Prior to issuance of shares of each series, the Board of Trustees is required by Maryland REIT Law and our Declaration of Trust to set for each such series, subject to the provisions of our Declaration of Trust regarding the restriction on transfer of shares of beneficial interest, the terms, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such series. Thus, our Board of Trustees could authorize the issuance of additional preferred shares with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control in us that might involve a premium price for holders of common shares or otherwise be in their best interest.

Common Units

Common Units are issued in connection with the acquisition of wholly owned hotels and joint venture interests in hotel properties. The total number of Common Units outstanding as of December 31, 2019, 2018 and 2017 was 2,066,615, 2,066,615 and 2,129,422, respectively. These units can be redeemed for cash or converted to common shares, at the Company's option, on a one-for-one basis. The number of common shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidation or similar pro rata share transactions, that otherwise would have the effect of diluting the ownership interest of the limited partners or our shareholders. During 2019, 2018 and 2017, 0, 62,807 and 23,964 Common Units were converted to common shares, respectively. In addition, as noted in "Note 9 – Share Based Payments," during 2019, the Company issued 530,281 LTIP Units.

NOTE 13 – INCOME TAXES

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Code commencing with its taxable year ended December 31, 1999. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gain, to its shareholders. It is the Company's current intention to adhere to these requirements and maintain the Company's qualification for taxation as a REIT. As a REIT, the Company generally will not be subject to federal corporate income tax on that portion of its net income that is currently distributed to shareholders. If the Company fails to qualify for taxation as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax for taxable years prior to 2018) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income.

Taxable income from non-REIT activities managed through TRSs is subject to federal, state and local income taxes. As a TRS, 44 New England is subject to income taxes at the applicable federal, state and local tax rates.

The provision for income taxes differs from the amount of income tax determined by applying the applicable statutory federal income tax rate (21% for 2019 and 2018 and 34% for 2017) to pretax income from continuing operations as a result of the following differences:

	For the year ended December 31,		
	2019	2018	2017
Statutory federal income tax provision	\$ (1,208)	\$ 1,813	\$ 37,469
Adjustment for nontaxable income for Hersha Hospitality Trust	1,419	(1,269)	(37,670)
Remeasurement of net deferred tax asset - Tax Cuts & Jobs Act	—	—	4,601
State income taxes, net of federal income tax effect	456	32	338
Non-deductible expenses, tax credits, and other, net	(575)	(309)	524
Total income tax expense (benefit)	\$ 92	\$ 267	\$ 5,262

The Tax Cuts and Jobs Act was enacted on December 22, 2017 and instituted significant changes to the federal income tax law. Effective January 1, 2018, the U.S. statutory rate applicable to the Company decreased from 34% to 21%. As a result of the decrease in statutory rate, our deferred tax assets and liabilities that will apply to future periods were remeasured as of December 31, 2018. We recognized a deferred tax expense of \$4,601 during the year ended December 31, 2017 to reflect this change in the tax rate.

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NOTE 13 – INCOME TAXES (CONTINUED)

The components of the Company's income tax expense (benefit) from continuing operations for the years ended December 31, 2019, 2018 and 2017 were as follows:

	For the year ended December 31,		
	2019	2018	2017
Income tax expense (benefit):			
Current:			
Federal	\$ (60)	\$ (119)	\$ —
State	464	530	—
Deferred:			
Federal	(302)	467	4,750
State	(10)	(611)	512
Total	\$ 92	\$ 267	\$ 5,262

The components of consolidated TRS's net deferred tax asset as of December 31, 2019 and 2018 were as follows:

	As of December 31,	
	2019	2018
Deferred tax assets:		
Net operating loss carryforwards	\$ 9,871	\$ 9,700
Accrued expenses and other	1,641	1,644
Tax credit carryforwards	415	475
Total gross deferred tax assets	11,927	11,819
Valuation allowance	(497)	(497)
Total net deferred tax assets	\$ 11,430	\$ 11,322
Deferred tax liabilities:		
Depreciation and amortization	40	244
Total Net deferred tax assets	\$ 11,390	\$ 11,078

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on limitations related to the utilization of certain tax attribute carryforwards, the Company recorded a valuation allowance of approximately \$497 as these attributes are not more likely than not to be realized prior to their expiration. Based on the level of historical taxable income, tax planning strategies and projections for future taxable income over the periods in which the remaining deferred tax assets are deductible, Management believes it is more likely than not that the remaining deferred tax assets will be realized.

As of December 31, 2019, we have gross federal net operating loss carryforwards of \$35,287 which expire over various periods from 2023 through 2039. As of December 31, 2019, we have gross state net operating loss carryforwards of \$39,723 which expire over various periods from 2020 to 2039. The Company has tax credits of \$415 available which begin to expire in 2032.

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NOTE 13 – INCOME TAXES (CONTINUED)

Earnings and profits, which will determine the taxability of distributions to shareholders, will differ from net income reported for financial reporting purposes due to the differences for federal tax purposes in the estimated useful lives and methods used to compute depreciation. The following table sets forth certain per share information regarding the Company's common and preferred share distributions for the years ended December 31, 2019, 2018 and 2017.

	2019	2018	2017
Preferred Shares - 6.875% Series C			
Ordinary income	100.00%	100.00%	100.00%
Return of Capital	0.00%	0.00%	0.00%
Capital Gain Distribution	0.00%	0.00%	0.00%
Preferred Shares - 6.5% Series D			
Ordinary income	100.00%	100.00%	100.00%
Return of Capital	0.00%	0.00%	0.00%
Capital Gain Distribution	0.00%	0.00%	0.00%
Preferred Shares - 6.5% Series E			
Ordinary income	100.00%	100.00%	100.00%
Return of Capital	0.00%	0.00%	0.00%
Capital Gain Distribution	0.00%	0.00%	0.00%
Common Shares - Class A			
Ordinary income	33.03%	37.91%	70.95%
Return of Capital	66.97%	62.09%	29.05%
Capital Gain Distribution	0.00%	0.00%	0.00%

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NOTE 14 – SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Year Ended December 31, 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Hotel Operating Revenues:				
Room	\$ 91,485	\$ 118,980	\$ 108,909	\$ 105,324
Food & Beverage	14,228	18,253	15,870	17,028
Other	8,930	10,280	10,140	10,241
Other Revenues	274	46	142	124
Hotel Operating Expenses:				
Room	22,090	24,013	24,000	23,385
Food & Beverage	12,832	13,990	12,605	13,393
Other	40,189	44,607	43,476	42,856
Other Expenses	53,133	55,658	55,062	55,411
(Loss) Income from Unconsolidated Joint Ventures	181	299	38	173
Income (Loss) Before Income Taxes	(13,146)	9,590	(44)	(2,155)
Income Tax (Expense) Benefit	5,264	(4,031)	551	(1,876)
Net Income	(7,882)	5,559	507	(4,031)
Income (loss) Allocated to Noncontrolling Interests	(1,063)	(49)	(442)	(812)
Income (loss) Allocated to Noncontrolling Interests - Consolidated Joint Venture	140	(292)	340	—
Preferred Distributions	6,044	6,043	6,044	6,043
Net Income (Loss) applicable to Common Shareholders	\$ (13,003)	\$ (143)	\$ (5,435)	\$ (9,262)
Earnings per share:				
Basic Net Income (Loss) applicable to Common Shareholders	\$ (0.34)	\$ (0.01)	\$ (0.15)	\$ (0.24)
Diluted Net Income (Loss) applicable to Common Shareholders	\$ (0.34)	\$ (0.01)	\$ (0.15)	\$ (0.24)
Weighted Average Common Shares Outstanding - Basic	39,115,390	39,127,385	38,878,818	38,516,879
Weighted Average Common Shares Outstanding - Diluted	39,115,390	39,127,385	38,878,818	38,516,879

	Year Ended December 31, 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Hotel Operating Revenues:				
Room	\$ 79,048	\$ 109,492	\$ 103,958	\$ 105,409
Food & Beverage	13,538	17,001	15,628	18,379
Other	6,929	7,269	8,143	8,884
Other Revenues	3,544	84	170	1,870
Hotel Operating Expenses:				
Room	19,356	22,945	23,615	22,747
Food & Beverage	11,851	13,331	12,475	14,465
Other	35,575	40,383	40,205	41,901
Other Expenses	47,879	44,717	46,514	53,839
(Loss) Income from Unconsolidated Joint Ventures	(201)	537	582	166
(Loss) Income Before Income Taxes	(11,803)	13,007	5,672	1,756
Income Tax Benefit	2,655	(1,170)	(2,685)	933
Net (Loss) Income	(9,148)	11,837	2,987	2,689
(Loss) Income Allocated to Noncontrolling Interests	(1,104)	500	(72)	(240)
(Loss) Income Allocated to Noncontrolling Interests - Consolidated Joint Ventures	—	(1,200)	250	241
Preferred Distributions	6,044	6,043	6,044	6,043
Net (Loss) Income applicable to Common Shareholders	\$ (14,088)	\$ 6,494	\$ (3,235)	\$ (3,355)
Earnings per share:				
Basic Net (Loss) Income applicable to Common Shareholders	\$ (0.36)	\$ 0.16	\$ (0.09)	\$ (0.09)
Diluted Net (Loss) Income applicable to Common Shareholders	\$ (0.36)	\$ 0.16	\$ (0.09)	\$ (0.09)
Weighted Average Common Shares Outstanding - Basic	39,636,166	39,246,946	39,321,062	39,334,877

Weighted Average Common Shares Outstanding - Diluted

39,636,166

39,926,099

39,321,062

39,334,877

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2019
[IN THOUSANDS]

Description	Encumbrances	Initial Costs		Costs Capitalized Subsequent to Acquisition (1)		Gross Amounts at which Carried at Close of Period		Total	Accumulated Depreciation	Net Book Value	Date of Acquisition
		Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements		Buildings & Improvements*	Land, Buildings & Improvements	
Courtyard by Marriott Brookline, Brookline, MA		—	47,414	—	4,916	—	52,330	52,330	(20,632)	31,698	06/16/05
Annapolis Waterfront Hotel, Annapolis, MD	(28,000)	—	43,251	—	650	—	43,901	43,901	(1,932)	41,969	03/28/18
Hilton Garden Inn JFK, JFK Airport, NY		—	25,018	—	3,639	—	28,657	28,657	(11,459)	17,198	02/16/06
Holiday Inn Express Cambridge, Cambridge, MA		1,956	9,793	—	3,870	1,956	13,663	15,619	(5,835)	9,784	05/03/06
Hyatt House White Plains, White Plains, NY		8,823	30,273	—	11,306	8,823	41,579	50,402	(14,530)	35,872	12/28/06
Hampton Inn Seaport, Seaport, NY		7,816	19,040	—	1,544	7,816	20,584	28,400	(7,216)	21,184	02/01/07
Gate Hotel JFK Airport, JFK Airport, NY		—	27,315	—	2,460	—	29,775	29,775	(9,756)	20,019	06/13/08
Hampton Inn Center City/ Convention Center, Philadelphia, PA		3,490	24,382	—	11,699	3,490	36,081	39,571	(16,850)	22,721	02/15/06
Duane Street Hotel, Tribeca, NY		8,213	12,869	—	2,305	8,213	15,174	23,387	(5,496)	17,891	01/04/08
NU Hotel Brooklyn, Brooklyn, NY		—	22,042	—	1,876	—	23,918	23,918	(7,781)	16,137	01/14/08
Hilton Garden Inn Tribeca, Tribeca, NY	(45,450)	21,077	42,955	—	1,211	21,077	44,166	65,243	(12,238)	53,005	05/01/09

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2019 (CONTINUED)
[IN THOUSANDS]

Description	Encumbrances	Initial Costs		Costs Capitalized Subsequent to Acquisition (1)		Gross Amounts at which Carried at Close of Period			Accumulated Depreciation	Net Book Value	Date of Acquisition
		Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Total			
Hampton Inn Washington, D.C., Washington, DC		9,335	58,048	—	2,994	9,335	61,042	70,377	(14,930)	55,447	09/01/10
Sheraton Wilmington South, Wilmington South, DE		1,765	16,929	—	5,068	1,765	21,997	23,762	(7,528)	16,234	12/21/10
The Capitol Hill Hotel Washington, DC	(25,000)	8,095	35,141	—	4,924	8,095	40,065	48,160	(11,508)	36,652	04/15/11
Courtyard by Marriott Los Angeles Westside, LA Westside, CA	(35,000)	13,489	27,025	—	4,952	13,489	31,977	45,466	(9,912)	35,554	05/19/11
Cadillac Hotel & Beach Club, Miami, FL		35,700	55,805	—	44,315	35,700	100,120	135,820	(21,328)	114,492	11/16/11
The Rittenhouse Hotel, Philadelphia, PA		7,108	29,556	—	27,868	7,108	57,424	64,532	(22,271)	42,261	03/01/12
The Boxer Boston, Boston, MA		1,456	14,954	—	1,112	1,456	16,066	17,522	(4,314)	13,208	05/07/12
Holiday Inn Express Chelsea, Manhattan, NY		30,329	57,016	—	2,049	30,329	59,065	89,394	(11,860)	77,534	06/18/12
Hyatt Union Square, Union Square, NY	(56,000)	32,940	79,300	—	4,028	32,940	83,328	116,268	(15,169)	101,099	04/09/13
Courtyard by Marriott Downtown San Diego, San Diego, CA		15,656	51,674	—	2,138	15,656	53,812	69,468	(9,797)	59,671	05/30/13
Residence Inn Miami Coconut Grove, Coconut Grove, FL		4,146	17,456	—	7,487	4,146	24,943	29,089	(8,161)	20,928	06/12/13
The Hotel Milo, Santa Barbara, CA	(22,227)	—	55,080	—	4,900	—	59,980	59,980	(10,318)	49,662	02/28/14

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2019 (CONTINUED)
[IN THOUSANDS]

Description	Encumbrances	Initial Costs		Costs Capitalized Subsequent to Acquisition (1)		Gross Amounts at which Carried at Close of Period			Accumulated Depreciation	Net Book Value	Date of Acquisition
		Land	Buildings & Improvements	Land	Buildings & Improvements	Land	Buildings & Improvements	Total	Buildings & Improvements*	Land, Buildings & Improvements	
Hilton Garden Inn Manhattan Midtown East, Midtown East, NY	(44,325)	45,480	60,762	—	409	45,480	61,171	106,651	(8,676)	97,975	05/27/14
Parrot Key Hotel & Villas, Key West, FL		57,889	33,959	—	14,161	57,889	48,120	106,009	(7,641)	98,368	05/07/14
The Winter Haven Hotel Miami Beach, Miami Beach, FL		5,400	18,147	—	694	5,400	18,841	24,241	(3,139)	21,102	12/20/13
The Blue Moon Hotel Miami Beach, Miami Beach, FL		4,874	20,354	—	981	4,874	21,335	26,209	(3,579)	22,630	12/20/13
The St. Gregory Hotel, Dupont Circle, Washington D.C.	(22,857)	23,764	33,005	—	7,470	23,764	40,475	64,239	(6,339)	57,900	06/16/15
TownePlace Suites Sunnyvale, Sunnyvale, CA		—	18,999	—	666	—	19,665	19,665	(2,348)	17,317	08/25/15
The Ritz-Carlton Georgetown, Washington D.C.		17,825	29,584	—	3,963	17,825	33,547	51,372	(3,933)	47,439	12/29/15
The Sanctuary Beach Resort, Marina, CA	(14,489)	20,278	17,319	—	6,725	20,278	24,044	44,322	(3,763)	40,559	01/28/16
Hilton Garden Inn M Street, Washington D.C.		30,793	67,420	—	179	30,793	67,599	98,392	(6,475)	91,917	03/09/16
The Envoy Boston Seaport, Boston, MA		25,264	75,979	—	3,725	25,264	79,704	104,968	(7,299)	97,669	07/21/16
Courtyard by Marriott Sunnyvale, Sunnyvale, CA	(40,600)	17,694	53,272	—	59	17,694	53,331	71,025	(4,269)	66,756	10/20/16
Mystic Marriott Hotel & Spa, Groton, CT		1,420	40,440	—	9,646	1,420	50,086	51,506	(4,932)	46,574	01/03/17
The Ritz-Carlton Coconut Grove, Coconut Grove, FL		5,185	30,825	—	9,391	5,185	40,216	45,401	(3,983)	41,418	02/01/17
The Pan Pacific Hotel Seattle, Seattle, WA		13,079	59,255	—	308	13,079	59,563	72,642	(4,228)	68,414	02/21/17
Philadelphia Westin, Philadelphia, PA		19,154	103,406	—	1,467	19,154	104,873	124,027	(6,660)	117,367	06/29/17
The Ambrose Hotel, Santa Monica, CA		18,750	26,839	—	1,565	18,750	28,404	47,154	(2,414)	44,740	12/01/16
Total Investment in Real Estate	\$ (333,948)	\$518,243	\$ 1,491,901	\$ —	\$ 218,720	\$518,243	\$ 1,710,621	\$2,228,864	\$ (340,499)	\$ 1,888,365	

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2019 (CONTINUED)
[IN THOUSANDS]

(1) Costs capitalized subsequent to acquisition include reductions of asset value due to impairment.

* Assets are depreciated over a 7 to 40 year life, upon which the latest income statement is computed.

The aggregate cost of land, buildings and improvements for Federal income tax purposes for the years ended December 31, 2019, 2018 and 2017 is approximately \$1,675,650, \$1,745,577 and \$1,741,293, respectively.

Depreciation is computed for buildings and improvements using a useful life for these assets of 7 to 40 years.

See Accompanying Report of Independent Registered Public Accounting Firm

HERSHA HOSPITALITY TRUST AND SUBSIDIARIES
SCHEDULE III – REAL ESTATE AND ACCUMULATED DEPRECIATION AS OF DECEMBER 31, 2019 (CONTINUED)
[IN THOUSANDS]

	2019	2018	2017
Reconciliation of Real Estate			
Balance at beginning of year	\$ 2,206,701	\$ 2,159,282	\$ 2,010,621
Additions during the year	22,163	122,708	285,141
Dispositions/Deconsolidation of consolidated joint venture during the year	—	(75,289)	(136,480)
Total Real Estate	\$ 2,228,864	\$ 2,206,701	\$ 2,159,282
Reconciliation of Accumulated Depreciation			
Balance at beginning of year	\$ 277,580	\$ 238,213	\$ 222,512
Depreciation for year	62,919	55,496	50,111
Accumulated depreciation on assets sold	—	(16,129)	(34,410)
Balance at the end of year	\$ 340,499	\$ 277,580	\$ 238,213

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

None.

Item 9A. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A control system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined within Exchange Act Rules 13a-15(f) and 15d-15(f). Internal control over financial reporting refers to the processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

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

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the criteria contained in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on that evaluation, management has concluded that, as of December 31, 2019, the Company's internal control over financial reporting was effective based on those criteria. The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their attestation report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees

Hersha Hospitality Trust:

Opinion on Internal Control Over Financial Reporting

We have audited Hersha Hospitality Trust and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedule III (collectively, the consolidated financial statements), and our report dated February 25, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 25, 2020

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Trustees, Executive Officers and Corporate Governance

The required information is incorporated herein by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Annual Report on Form 10-K with respect to our 2020 Annual Meeting of Shareholders.

Item 11. Executive Compensation

The required information is incorporated herein by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Annual Report on Form 10-K with respect to our 2020 Annual Meeting of Shareholders.

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

Certain of the required information is incorporated herein by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Annual Report on Form 10-K with respect to our 2020 Annual Meeting of Shareholders.

SECURITIES ISSUABLE PURSUANT TO EQUITY COMPENSATION PLANS

As of December 31, 2019, no options or warrants to acquire our securities pursuant to equity compensation plans were outstanding. The following table sets forth the number of securities to be issued upon exercise of outstanding options, warrants and rights; weighted average exercise price of outstanding options, warrants and rights; and the number of securities remaining available for future issuance under our equity compensation plans as of December 31, 2019:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans ⁽¹⁾
Equity compensation plans approved by security holders	-	-	2,500,624
Equity compensation plans not approved by security holders	-	-	-
Total	-	-	2,500,624

(1) Represents shares issuable under the Company's 2012 Amended and Restated Equity Incentive Plan. On January 1, 2012, the Company's 2008 Equity Incentive Plan ("2008 EIP") was terminated. Termination of the 2008 EIP does not impact awards issued under the 2008 EIP prior its termination.

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

The required information is incorporated herein by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Annual Report on Form 10-K with respect to our 2020 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services

The required information is incorporated herein by reference from our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Annual Report on Form 10-K with respect to our 2020 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report.

1. Financial Statements:

The following financial statements are included in this report on pages 60 to 106:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2019 and 2018

Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Equity and Comprehensive Income for the years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

The following financial statement schedule is included in this report on pages 107 to 111: Schedule III - Real Estate and Accumulated Depreciation for the year ended December 31, 2019.

3. Exhibits

The following exhibits listed are filed as a part of this report:

Exhibit No.

3.1	<u>Articles of Amendment and Restatement of the Declaration of Trust of Hersha Hospitality Trust, as amended and supplemented (filed as Exhibit 3.1 to the Annual Report on Form 10-K filed by Hersha Hospitality Trust on February 23, 2018 and incorporated by reference herein).</u>
3.2	<u>Amended and Restated Bylaws of Hersha Hospitality Trust (filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q, filed by Hersha Hospitality Trust on April 27, 2017 and incorporated by reference herein).</u>
4.1	<u>Form of Common Shares Certificate (filed as Exhibit 4.1 to the Annual Report on Form 10-K, filed by Hersha Hospitality Trust on February 23, 2018 and incorporated by reference herein).</u>
4.2	<u>Junior Subordinated Indenture, dated as of May 13, 2005, between Hersha Hospitality Limited Partnership and JPMorgan Chase Bank, National Association, as trustee (filed as Exhibit 4.1 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on May 17, 2005 and incorporated by reference herein).</u>
4.3	<u>Form of Junior Subordinated Note (included in Exhibit 4.2).</u>
4.4	<u>Amended and Restated Trust Agreement of Hersha Statutory Trust I, dated as of May 13, 2005, among Hersha Hospitality Limited Partnership, as depositor, JPMorgan Chase Bank, National Association, as property trustee, Chase Bank USA, National Association, as Delaware trustee, the Administrative Trustees named therein and the holders of undivided beneficial interests in the assets of Hersha Statutory Trust I (filed as Exhibit 4.2 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on May 17, 2005 and incorporated by reference herein).</u>
4.5	<u>Form of Trust Preferred Security Certificate (included in Exhibit 4.4).</u>
4.6	<u>Junior Subordinated Indenture, dated as of May 31, 2005, between Hersha Hospitality Limited Partnership and Wilmington Trust Company, as trustee (filed as Exhibit 4.1 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on June 6, 2005 and incorporated by reference herein).</u>
4.7	<u>Form of Junior Subordinated Note (included in Exhibit 4.6).</u>
4.8	<u>Amended and Restated Trust Agreement of Hersha Statutory Trust II, dated as of May 31, 2005, among Hersha Hospitality Limited Partnership, as depositor, Wilmington Trust Company, as property trustee and as Delaware trustee, the Administrative Trustees named therein and the holders of undivided beneficial interests in the assets of Hersha Statutory Trust II (filed as Exhibit 4.2 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on June 6, 2005 and incorporated by reference herein).</u>
4.9	<u>Form of Trust Preferred Security Certificate (included in Exhibit 4.8).</u>
4.10	<u>Form of specimen certificate representing the 6.875% Series C Cumulative Redeemable Preferred Shares, \$0.01 par value per share (incorporated by reference to Exhibit 4.1 to Hersha Hospitality Trust's Registration Statement on Form 8-A filed on March 1, 2013).</u>
4.11	<u>Form of specimen certificate representing the 6.50% Series D Cumulative Redeemable Preferred Shares, \$0.01 par value per share (incorporated by reference to Exhibit 4.1 to Hersha Hospitality Trust's Registration Statement on Form 8-A filed on May 27, 2016).</u>
4.12	<u>Form of specimen certificate representing the 6.50% Series E Cumulative Redeemable Preferred Shares, \$0.01 par value per share (incorporated by reference to Exhibit 4.1 to Hersha Hospitality Trust's Registration Statement on Form 8-A filed on November 4, 2016).</u>
4.13	<u>Description of Securities*</u>
10.1	<u>Amended and Restated Agreement of Limited Partnership of Hersha Hospitality Limited Partnership (filed as Exhibit 10.1 to the Registration Statement on Form S-11 filed by Hersha Hospitality Trust on June 5, 1998 and incorporated by reference herein).</u>

Exhibit No.

10.2	<u>Option Agreement, dated as of June 3, 1998, among Hasu P. Shah, Jay H. Shah, Neil H. Shah, Bharat C. Mehta, K.D. Patel, Rajendra O. Gandhi, Kiran P. Patel, David L. Desfor, Madhusudan I. Patni, Manhar Gandhi and Hersha Hospitality Limited Partnership (filed as Exhibit 10.20 to the Registration Statement on Form S-11 filed by Hersha Hospitality Trust on June 5, 1998 and incorporated by reference herein).</u>
10.3	<u>Amendment to Option Agreement, dated December 4, 1998 (filed as Exhibit 10.19(a) to the Registration Statement on Form S-11/A filed by Hersha Hospitality Trust on December 7, 1998 and incorporated by reference herein).</u>
10.4	<u>Administrative Services Agreement, dated January 26, 1999, between Hersha Hospitality Trust and Hersha Hospitality Management, L.P. (filed as Exhibit 10.21 to the Registration Statement on Form S-11 filed by Hersha Hospitality Trust on June 5, 1998 and incorporated by reference herein).</u>
10.5	<u>Second Amendment to the Amended and Restated Agreement of Limited Partnership of Hersha Hospitality Limited Partnership, dated as of April 21, 2003 (filed as Exhibit 10.2 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on April 23, 2003 and incorporated by reference herein).</u>
10.6	<u>Second Amendment to Option Agreement (filed as Exhibit 10.15 to the Registration Statement on Form S-3 filed by Hersha Hospitality Trust on February 24, 2004 and incorporated by reference herein).</u>
10.7	<u>Third Amendment to Agreement of Limited Partnership of Hersha Hospitality Limited Partnership, dated August 5, 2005 (filed as Exhibit 10.1 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on August 8, 2005 and incorporated by reference herein).</u>
10.8	<u>Fourth Amendment to Agreement of Limited Partnership of Hersha Hospitality Trust, dated May 18, 2011 (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed by Hersha Hospitality Trust on August 8, 2011 and incorporated by reference herein).</u>
10.9	<u>Second Amended and Restated Employment Agreement, dated April 18, 2012, by and between Hersha Hospitality Trust and Hasu P. Shah (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated by reference herein).</u>
10.10	<u>Second Amended and Restated Employment Agreement, dated April 18, 2012, by and between Hersha Hospitality Trust and Jay H. Shah (filed as Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated by reference herein).</u>
10.11	<u>Second Amended and Restated Employment Agreement, dated April 18, 2012, by and between Hersha Hospitality Trust and Neil H. Shah (filed as Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated by reference herein).</u>
10.12	<u>Second Amended and Restated Employment Agreement, dated April 18, 2012, by and between Hersha Hospitality Trust and Ashish R. Parikh (filed as Exhibit 10.4 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated by reference herein).</u>
10.13	<u>Second Amended and Restated Employment Agreement, dated April 18, 2012, by and between Hersha Hospitality Trust and Michael R. Gillespie (filed as Exhibit 10.5 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated by reference herein).</u>

Exhibit No.

10.14	<u>Form of Share Award Agreement for April 2012 restricted common share award (filed as Exhibit 10.6 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated by reference herein).</u>
10.15	<u>Form of Fifth Amendment to Agreement of Limited Partnership of Hersha Hospitality Trust Limited Partnership (incorporated by reference to Exhibit 10.1 to Hersha Hospitality Trust's Current Report on Form 8-K filed on March 1, 2013).</u>
10.16	<u>Sixth Amendment to Agreement of Limited Partnership of Hersha Hospitality Limited Partnership, dated as of December 23, 2014 (incorporated by reference to Exhibit 10.1 to Hersha Hospitality Trust's Current Report on 8-K filed on December 23, 2014).</u>
10.17	<u>Amended and Restated Hersha Hospitality Trust 2012 Equity Incentive Plan, amended as of April 16, 2019 (incorporated by reference to Appendix A to Hersha Hospitality Trust's Definitive Proxy Statement filed on April 18, 2019).</u>
10.18	<u>Form of LTIP Unit Vesting Agreement (incorporated by reference to Exhibit 10.3 to Hersha Hospitality Trust's Current Report on 8-K filed on December 23, 2014).</u>
10.19	<u>Seventh Amendment to Agreement of Limited Partnership of Hersha Hospitality Limited Partnership, dated as of June 22, 2015 (incorporated by reference to Exhibit 10.1 to Hersha Hospitality Trust's Quarterly Report on 10-Q for the quarter ended June 30, 2015).</u>
10.20	<u>Amended and Restated Operating Agreement of Cindat Hersha Owner JV LLC, dated as of April 29, 2016, by and between Cindat Manhattan Hotel Portfolio (US) LLC and HCIN NYC Owner, LLC (incorporated by reference to Exhibit 10.1 to Hersha Hospitality Trust's Current Report on 8-K filed on May 5, 2016).</u>
10.21	<u>Amended and Restated Operating Agreement of Cindat Hersha Lessee JV LLC, dated as of April 29, 2016, by and between Cindat Manhattan Hotel Portfolio (US) LLC and HCIN NYC Lessee, LLC (incorporated by reference to Exhibit 10.2 to Hersha Hospitality Trust's Current Report on 8-K filed on May 5, 2016).</u>
10.22	<u>Eighth Amendment to Agreement of Limited Partnership of Hersha Hospitality Limited Partnership, dated as of May 27, 2016 (incorporated by reference to Exhibit 10.1 to Hersha Hospitality Trust's Current Report on 8-K filed on May 24, 2016).</u>
10.23	<u>Term Loan Agreement, dated as of August 2, 2016 (Third Term Loan), among Hersha Hospitality Limited Partnership, as borrower, Hersha Hospitality Trust, as parent guarantor, the subsidiary guarantors named therein, as guarantors, the initial lenders named therein, as initial lenders, Citibank, N.A., as administrative agent, Wells Fargo Bank, N.A., as syndication agent, and Citigroup Global Markets Inc. and Wells Fargo Securities, LLC, as joint lead arrangers and joint book running managers (incorporated by reference to Exhibit 10.1 to Hersha Hospitality Trust's Current Report on 8-K filed on August 5, 2016).</u>

<u>Exhibit No.</u>	
10.24	<u>Ninth Amendment to Agreement of Limited Partnership of Hersha Hospitality Limited Partnership, dated as of November 4, 2016 (incorporated by reference to Exhibit 10.1 to Hersha Hospitality Trust's Current Report on 8-K filed on November 4, 2016).</u>
10.25	<u>Equity Distribution Agreement, dated April 26, 2017, by and among Hersha Hospitality Trust, Hersha Hospitality Limited Partnership and Citigroup Global Markets Inc. (filed as Exhibit 1.1 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on May 2, 2017).</u>
10.26	<u>Equity Distribution Agreement, dated April 26, 2017, by and among Hersha Hospitality Trust, Hersha Hospitality Limited Partnership and Robert W. Baird & Co. Incorporated (filed as Exhibit 1.2 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on May 2, 2017).</u>
10.27	<u>Equity Distribution Agreement, dated April 26, 2017, by and among Hersha Hospitality Trust, Hersha Hospitality Limited Partnership and JonesTrading Institutional Services LLC (filed as Exhibit 1.3 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on May 2, 2017).</u>
10.28	<u>Equity Distribution Agreement, dated April 26, 2017, by and among Hersha Hospitality Trust, Hersha Hospitality Limited Partnership and Raymond James & Associates, Inc. (filed as Exhibit 1.4 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on May 2, 2017).</u>
10.29	<u>Tenth Amendment to the Agreement of Limited Partnership of Hersha Hospitality Limited Partnership (filed as Exhibit 10.1 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on May 2, 2017).</u>
10.30	<u>Second Amended and Restated Credit Agreement, dated as of August 10, 2017, among Hersha Hospitality Limited Partnership, as borrower, Hersha Hospitality Trust, as the parent REIT and a guarantor, certain direct or indirect subsidiaries of the borrower, as guarantors, Citibank, N.A., as administrative agent, and the other lenders party thereto (filed as Exhibit 10.1 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on August 14, 2017).</u>
10.31	<u>Loan Agreement, dated as of February 6, 2018, between HCIN Maiden Hotel Associates, LLC, HCIN Water Street Associates, LLC, HCIN Chelsea Grand East Associates, LLC, HCIN Herald Square Associates, LLC, HCIN Duo Three Associates, LLC, HCIN Duo Two Associates, LLC and HCIN Duo One Associates, LLC, as borrower, HCIN Maiden Hotel Lessee, LLC, HCIN Water Street Lessee, LLC, HCIN Chelsea Grand East Lessee, LLC, HCIN Herald Square Lessee, LLC, HCIN Duo Three Lessee, LLC, HCIN Duo Two Lessee, LLC and HCIN Duo One Lessee, LLC, as operating lessee, UBS AG, by and through its branch office at 1285 Avenue of the Americas, New York, New York, 10019, as lender, and China Merchants Bank Co., Ltd. New York Branch, a bank organized under the laws of the People's Republic of China, as co-lender (filed as Exhibit 10.1 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on February 12, 2018).</u>
10.32	<u>Mezzanine Loan Agreement, dated as of February 6, 2018, between Cindat Hersha Owner JV Associates, LLC, as borrower, Cindat Hersha Lessee JV Associates, LLC, as operating lessee, and CMTG Lender 12 LLC, as lender (filed as Exhibit 10.2 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on February 12, 2018).</u>
10.33	<u>Eleventh Amendment to Agreement of Limited Partnership, Dated July 31, 2019 (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 and incorporated by reference herein).</u>
10.34	<u>Amended and Restated Term Loan Agreement, dated as of September 10, 2019, among Hersha Hospitality Limited Partnership, as borrower, Hersha Hospitality Trust, as parent guarantor, the guarantors named therein, as guarantors, the initial lenders named therein, as initial lenders, Citibank, N.A., as administrative agent, Wells Fargo Bank, N.A., as syndication agent, and Citibank, N.A. and Wells Fargo Securities, LLC, as joint lead arrangers and joint book running managers (filed as Exhibit 10.1 to the Current Report on Form 8-K filed by Hersha Hospitality Trust on September 12, 2019).</u>
21.1	<u>List of Subsidiaries of the Registrant.*</u>
23.1	<u>Consent of KPMG LLP.*</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</u>

Exhibit No.

101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*
*	Filed herewith.

SIGNATURES

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

February 25, 2020	HERSHA HOSPITALITY TRUST <u>/s/ Jay H. Shah</u> Jay H. Shah Chief Executive Officer (Principal Executive Officer)
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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Hasu P. Shah Hasu P. Shah	Chairman and Trustee	February 25, 2020
/s/ Jay H. Shah Jay H. Shah	Chief Executive Officer and Trustee <i>(Principal Executive Officer)</i>	February 25, 2020
/s/ Neil H. Shah Neil H. Shah	President and Chief Operating Officer <i>(Chief Operating Officer)</i>	February 25, 2020
/s/ Ashish R. Parikh Ashish R. Parikh	Chief Financial Officer <i>(Principal Financial Officer)</i>	February 25, 2020
/s/ Michael R. Gillespie Michael R. Gillespie	Chief Accounting Officer <i>(Principal Accounting Officer)</i>	February 25, 2020
/s/ Donald J. Landry Donald J. Landry	Trustee	February 25, 2020
/s/ Jackson Hsieh Jackson Hsieh	Trustee	February 25, 2020
/s/ Thomas J. Hutchison III Thomas J. Hutchison III	Trustee	February 25, 2020
/s/ Michael A. Leven Michael A. Leven	Trustee	February 25, 2020
/s/ Dianna F. Morgan Dianna F. Morgan	Trustee	February 25, 2020
/s/ John M. Sabin John M. Sabin	Trustee	February 25, 2020

DESCRIPTION OF THE COMPANY'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934

The following descriptions of the material terms of the securities of Hersha Hospitality Trust ("we," "our," "our company" and "us") registered under Section 12 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are only a summary and are subject to, and qualified in their entirety by reference to, Maryland law and our declaration of trust, including the applicable articles supplementary, and our amended and restated bylaws, or our bylaws. We have incorporated by reference our declaration of trust and bylaws as exhibits to the Annual Report on Form 10-K of which this Exhibit 4.13 is a part.

Overview

Our declaration of trust provides that we may issue up to 104,000,000 Priority Class A common shares of beneficial interest, \$0.01 par value per share, or our common shares, 1,000,000 Class B common shares of beneficial interest, \$0.01 par value per share, and 29,000,000 preferred shares of beneficial interest, \$0.01 par value per share, of which (i) 3,000,000 shares have been designated as 6.875% Series C cumulative redeemable preferred shares of beneficial interest, \$0.01 par value per share, (ii) 9,050,000 shares are classified as 6.50% Series D cumulative redeemable preferred shares of beneficial interest, \$0.01 par value per share, and (iii) 5,600,000 shares are classified as 6.50% Series E cumulative redeemable preferred shares of beneficial interest, \$0.01 par value per share.

Our common shares currently trade on the NYSE under the symbol "HT", our Series C preferred shares currently trade on the NYSE under symbol "HTPRC", our Series D preferred shares currently trade on the NYSE under symbol "HTPRD" and our Series E preferred shares currently trade on the NYSE under symbol "HTPRE". The transfer agent for these shares is American Stock Transfer & Trust Company. Our common shares, our Series C preferred shares, our Series D preferred shares and our Series E preferred shares are subject to certain restrictions on ownership and transfer which were adopted for the purpose of enabling us to preserve our status as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Code, among other purposes.

As permitted by the Maryland statute governing real estate investment trusts formed under the laws of that state, which is referred to as the Maryland REIT Law, our declaration of trust authorizes our board of trustees, without any action by our shareholders, to amend our declaration of trust to increase or decrease the aggregate number of shares of beneficial interest or the number of shares of any class of shares of beneficial interest that we have authority to issue. Maryland law and our declaration of trust provide that our shareholders are not personally liable for any of our debts, claims, demands, judgments or obligations solely by reason of their status as a shareholder.

Common Shares

The common shares we may offer from time to time, upon issuance against full payment of the applicable purchase price, will be duly authorized, validly issued, fully paid and nonassessable.

Voting Rights of Common Shares

Subject to the provisions of our declaration of trust regarding the restrictions on the transfer and ownership of shares of beneficial interest, each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders, including the election of trustees. Except as may be provided with respect to any class or series of our preferred shares, including our Series C preferred shares, our Series D preferred shares and our Series E preferred shares, only holders of our common shares possess voting rights. Our bylaws provide for the election of trustees in uncontested elections by a majority of the votes cast at a meeting of shareholders at which a quorum is present. Under this standard, a majority of the votes cast means the number of votes cast for a trustee's election exceeds the number of votes cast against that trustee's election. Our bylaws provide for the election of trustees by a plurality of the votes cast at a meeting of shareholders at which a quorum is present if the number of nominees exceeds the number of trustees to be elected (a contested election).

Dividends, Liquidation and Other Rights

Holders of our common shares are entitled to receive dividends when authorized by our board of trustees and declared by us out of assets legally available for the payment of dividends, and the holders of common shares are entitled to

share ratably in our assets legally available for distribution to our shareholders in the event of our liquidation, dissolution or winding up, after payment of or adequate provision for all of our known debts and liabilities. These rights are subject to the preferential rights of the holders of our outstanding Series C preferred shares, our outstanding Series D preferred shares and our outstanding Series E preferred shares, as well as the rights of the holders of any other series of our preferred shares that may be created in the future, and to the provisions of our declaration of trust regarding restrictions on transfer of our shares.

The holders of our common shares have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any additional common shares. Subject to the restrictions on transfer of shares contained in our declaration of trust and to the ability of the board of trustees to create common shares with differing voting rights, all common shares will have equal dividend, liquidation and other rights.

Preferred Shares

We may offer and sell preferred shares from time to time, in one or more classes or series (including additional Series C preferred shares, additional Series D preferred shares and additional Series E preferred shares), as authorized by our board of trustees. The preferred shares we may offer from time to time, upon issuance against payment of the full purchase price, will be duly authorized, validly issued, fully paid and nonassessable. Our declaration of trust authorizes our board of trustees to classify any unissued preferred shares and to reclassify any previously classified but unissued preferred shares of any class or series from time to time in one or more class or series, as authorized by our board of trustees. Prior to issuance of shares of each class or series, our board of trustees is required by the Maryland REIT Law and our declaration of trust to set for each such class or series, subject to the provisions of our declaration of trust regarding the restrictions on ownership and transfer of shares of beneficial interest, the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such class or series. Our board of trustees could authorize the issuance of preferred shares with terms and conditions that could have the effect of delaying, deterring or preventing a transaction or a change in control that might involve a premium price for holders of common shares or otherwise be in their best interest.

The prospectus supplement governing the offering of any preferred shares will describe the specific terms of such securities, including:

- the title and stated value of the preferred shares;
- the number of preferred shares offered and the offering price of the preferred shares;
- the dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation of any of those terms that apply to the preferred shares;
- the date from which dividends on the preferred shares will accumulate, if applicable;
- any limitations on the payment of dividends or other distributions;
- the terms and amount of a sinking fund, if any, for the purchase or redemption of the preferred shares;
- the redemption rights, including conditions and the redemption price(s), if applicable, of the preferred shares;
- any listing of the preferred shares on any securities exchange;
- the terms and conditions, if applicable, upon which the preferred shares will be convertible into common shares or any of our other securities, including the conversion price or rate (or manner of calculation thereof);
- the relative ranking and preference of the preferred shares as to dividend rights and rights upon liquidation, dissolution or the winding up of our affairs;
- any limitations on issuance of any class or series of preferred shares ranking senior to or on a parity with that series of preferred shares as to dividend rights and rights upon liquidation, dissolution or the winding up of our affairs;
- the procedures for any auction and remarketing, if any, for the preferred shares;
- any other specific terms, preferences, rights, limitations or restrictions of the preferred shares;
- a discussion of any additional federal income tax consequences applicable to the preferred shares; and
- any limitations on direct or beneficial ownership and restrictions on transfer in addition to those described in "Restrictions on Ownership and Transfer," in each case as may be appropriate to preserve our status as a real estate investment trust.

The terms of any preferred shares we issue will be set forth in articles supplementary or an amendment to our declaration of trust. We will file the articles supplementary or amendment as an exhibit to the registration statement, or as an exhibit to a filing with the SEC that is incorporated by reference into the prospectus. The description of preferred shares in any prospectus supplement will not describe all of the terms of the preferred shares in detail. You should read the applicable articles supplementary or amendment to our declaration of trust for a complete description of all of the terms.

Rank

Unless otherwise indicated in the accompanying prospectus supplement, the preferred shares offered through that supplement will, with respect to dividend rights and rights upon our liquidation, dissolution or winding up, rank:

- senior to all classes or series of our common shares, and to all other equity securities ranking junior to those preferred shares;
- on a parity with all of our equity securities ranking on a parity with the preferred shares; and
- junior to all of our equity securities ranking senior to the preferred shares.

The term "equity securities" does not include convertible debt securities.

Dividends

Subject to any preferential rights of any outstanding shares or series of shares, and to the provisions of our declaration of trust regarding ownership of shares in excess of the ownership limitation described in "Restrictions on Ownership and Transfer," holders of our preferred shares are entitled to receive dividends, when authorized by our board of trustees and declared by us out of assets legally available for payment of dividends.

Redemption

If we provide for a redemption right in a prospectus supplement relating to an offering of preferred shares, the preferred shares offered through that supplement will be subject to mandatory redemption or redemption at our or the holder's option, in whole or in part, in each case upon the terms, at the times and at the redemption prices set forth in that supplement.

Liquidation Preference

As to any preferred shares we may offer from time to time, the applicable prospectus supplement will provide that, upon the voluntary or involuntary liquidation, dissolution or winding up of our affairs, the holders of those preferred shares will receive, before any distribution or payment is made to the holders of any other class or series of shares ranking junior to those preferred shares with respect to rights upon any liquidation, dissolution or winding up, and after payment or provision for payment of our debts and other liabilities, out of our assets legally available for distribution to shareholders, liquidating distributions in the amount of any liquidation preference per share (set forth in the applicable prospectus supplement), plus an amount, if applicable, equal to all distributions accrued and unpaid thereon (not including any accumulation in respect of unpaid distributions for prior distribution periods if those preferred shares do not have a cumulative distribution). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of those preferred shares will have no right or claim to any of our remaining assets. In the event that, upon our voluntary or involuntary liquidation, dissolution or winding up, the legally available assets are insufficient to pay the amount of the liquidating distributions on all of those outstanding preferred shares and the corresponding amounts payable on all other preferred shares ranking on a parity with those preferred shares with respect to rights upon liquidation, dissolution or winding up, then the holders of those preferred shares and all other preferred shares will share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If the liquidating distributions are made in full to all holders of preferred shares entitled to receive those distributions prior to any other classes or series of equity security ranking junior to the preferred shares upon our liquidation, dissolution or winding up, then our remaining assets will be distributed among the holders of those junior classes or series of equity shares, in each case according to their respective rights and preferences and their respective number of shares.

The liquidation preference is not indicative of the price at which the preferred shares will actually trade on or after the date of issuance.

Voting Rights

Unless otherwise indicated in the applicable supplement, holders of our preferred shares will not have any voting rights, except as may be required by the applicable rules and regulations of the NYSE or any other securities exchange on which the preferred shares are listed.

Conversion Rights

The terms and conditions, if any, upon which any class or series of preferred shares is convertible into common shares will be set forth in the prospectus supplement relating to the offering of those preferred shares. These terms typically will include:

- the number of common shares into which the preferred shares are convertible;
- the conversion price (or manner of calculation thereof);
- the conversion period;
- provisions as to whether conversion will be at the option of the holders of the preferred shares or at our option;
- the events requiring an adjustment of the conversion price; and
- provisions affecting conversion in the event of the redemption of that class or series of preferred shares.

Series C Preferred Shares

The Series C preferred shares generally provide for the following rights, preferences and obligations:

- *Dividend Rights.* The Series C preferred shares accrue a cumulative cash dividend at an annual rate of 6.875% on the \$25.00 per share liquidation preference, equivalent to a fixed annual amount of \$1.71875 per share per year.
- *Liquidation Rights.* Upon any voluntary or involuntary liquidation, dissolution or winding up of our company, the holders of Series C preferred shares will be entitled to receive a liquidation preference of \$25.00 per share, plus an amount equal to all accrued and unpaid dividends to the date of payment, before any payment or distribution will be made or set aside for holders of any junior shares, including our common shares.
- *Redemption Provisions.* The Series C preferred shares are not redeemable prior to March 6, 2018, except in certain limited circumstances. On and after March 6, 2018, the Series C preferred shares may be redeemed for cash at our option, in whole or in part, at any time and from time to time upon not less than 30 days' nor more than 60 days' written notice, at a redemption price equal to \$25.00 per share plus an amount equal to all accrued and unpaid dividends to and including the date fixed for redemption, except in certain limited circumstances. The Series C preferred shares have no stated maturity and are not subject to any sinking fund or mandatory redemption provisions.
- *Voting Rights.* Holders of Series C preferred shares generally have no voting rights. Whenever dividends on any Series C preferred shares shall be in arrears for six or more quarterly periods, whether or not consecutive, the number of trustees then constituting the board of trustees shall be increased by two, if not already increased by reason of similar types of provisions with respect to another series of Series C Parity Preferred (as defined below), and the holders of Series C preferred shares (voting together as a single class with the holders of all other series of preferred shares ranking on a parity with the Series C preferred shares as to dividends or upon liquidation, including the Series D preferred shares and the Series E preferred shares ("Series C Parity Preferred"), upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two trustees, if not already elected by the holders of Series C Parity Preferred by reason of similar types of provisions with respect to preferred share trustees, at a special meeting of the shareholders called by the holders of record of at least 20% of the Series C preferred shares or the holders of 20% of any other series of Series C Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of shareholders), and at each subsequent annual meeting until all dividends accrued on such Series C preferred shares for the past dividend periods shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, the issuance of senior shares or certain changes to the terms of the Series C preferred shares that would be materially adverse to the rights of holders of Series C preferred shares cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding Series C preferred shares voting separately as a single class.
- *Conversion and Preemptive Rights.* Except in connection with certain changes in control of our company and in accordance with certain provisions in our declaration of trust related to restrictions on ownership and transfer of our shares, the Series C preferred shares are not convertible or exchangeable for any of our other

securities or property, and holders of our Series C preferred shares have no preemptive rights to subscribe for any securities of our company.

2013. For additional information regarding our Series C preferred shares, see our Registration Statement on Form 8-A filed with the SEC on March 1,

Series D Preferred Shares

The Series D preferred shares generally provide for the following rights, preferences and obligations:

- *Dividend Rights.* The Series D preferred shares accrue a cumulative cash dividend at an annual rate of 6.50% on the \$25.00 per share liquidation preference, equivalent to a fixed annual amount of \$1.625 per share per year.
- *Liquidation Rights.* Upon any voluntary or involuntary liquidation, dissolution or winding up of our company, the holders of Series D preferred shares will be entitled to receive a liquidation preference of \$25.00 per share, plus an amount equal to all accrued and unpaid dividends to the date of payment, before any payment or distribution will be made or set aside for holders of any junior shares, including our common shares.
- *Redemption Provisions.* The Series D preferred shares are not redeemable prior to May 31, 2021, except in certain limited circumstances. On and after May 31, 2021, the Series D preferred shares may be redeemed for cash at our option, in whole or in part, at any time and from time to time upon not less than 30 days' nor more than 60 days' written notice, at a redemption price equal to \$25.00 per share plus an amount equal to all accrued and unpaid dividends to and including the date fixed for redemption, except in certain limited circumstances. The Series D preferred shares have no stated maturity and are not subject to any sinking fund or mandatory redemption provisions.
- *Voting Rights.* Holders of Series D preferred shares generally have no voting rights. Whenever dividends on any Series D preferred shares shall be in arrears for six or more quarterly periods, whether or not consecutive, the number of trustees then constituting the board of trustees shall be increased by two, if not already increased by reason of similar types of provisions with respect to another series of Series D Parity Preferred (as defined below), and the holders of Series D preferred shares (voting together as a single class with the holders of all other series of preferred shares ranking on a parity with the Series D preferred shares as to dividends or upon liquidation, including the Series C preferred shares and the Series E preferred shares ("Series D Parity Preferred"), upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two trustees, if not already elected by the holders of Series D Parity Preferred by reason of similar types of provisions with respect to preferred share trustees, at a special meeting of the shareholders called by the holders of record of at least 20% of the Series D preferred shares or the holders of 20% of any other series of Series D Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of shareholders), and at each subsequent annual meeting until all dividends accrued on such Series D preferred shares for the past dividend periods shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, the issuance of senior shares or certain changes to the terms of the Series D preferred shares that would be materially adverse to the rights of holders of Series D preferred shares cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding Series D preferred shares voting separately as a single class.
- *Conversion and Preemptive Rights.* Except in connection with certain changes in control of our company and in accordance with certain provisions in our declaration of trust related to restrictions on ownership and transfer of our shares, the Series D preferred shares are not convertible or exchangeable for any of our other securities or property, and holders of our Series D preferred shares have no preemptive rights to subscribe for any securities of our company.

2016. For additional information regarding our Series D preferred shares, see our Registration Statement on Form 8-A filed with the SEC on May 27,

Series E Preferred Shares

The Series E preferred shares generally provide for the following rights, preferences and obligations:

- *Dividend Rights.* The Series E preferred shares accrue a cumulative cash dividend at an annual rate of 6.50% on the \$25.00 per share liquidation preference, equivalent to a fixed annual amount of \$1.625 per share per year.
- *Liquidation Rights.* Upon any voluntary or involuntary liquidation, dissolution or winding up of our company, the holders of Series E preferred shares will be entitled to receive a liquidation preference of \$25.00 per share, plus an amount equal to all accrued and unpaid dividends to the date of payment, before any payment or distribution will be made or set aside for holders of any junior shares, including our common shares.
- *Redemption Provisions.* The Series E preferred shares are not redeemable prior to November 7, 2021, except in certain limited circumstances. On and after November 7, 2021, the Series E preferred shares may be redeemed for cash at our option, in whole or in part, at any time and from time to time upon not less than 30 days' nor more than 60 days' written notice, at a redemption price equal to \$25.00 per share plus an amount equal to all accrued and unpaid dividends to and including the date fixed for redemption, except in certain limited circumstances. The Series E preferred shares have no stated maturity and are not subject to any sinking fund or mandatory redemption provisions.
- *Voting Rights.* Holders of Series E preferred shares generally have no voting rights. Whenever dividends on any Series E preferred shares shall be in arrears for six or more quarterly periods, whether or not consecutive, the number of trustees then constituting the board of trustees shall be increased by two, if not already increased by reason of similar types of provisions with respect to another series of Series E Parity Preferred (as defined below), and the holders of Series E preferred shares (voting together as a single class with the holders of all other series of preferred shares ranking on a parity with the Series E preferred shares as to dividends or upon liquidation, including the Series C preferred shares and the Series D preferred shares ("Series E Parity Preferred"), upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two trustees, if not already elected by the holders of Series E Parity Preferred by reason of similar types of provisions with respect to preferred share trustees, at a special meeting of the shareholders called by the holders of record of at least 20% of the Series E preferred shares or the holders of 20% of any other series of Series E Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of shareholders), and at each subsequent annual meeting until all dividends accrued on such Series E preferred shares for the past dividend periods shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In addition, the issuance of senior shares or certain changes to the terms of the Series E preferred shares that would be materially adverse to the rights of holders of Series E preferred shares cannot be made without the affirmative vote of holders of at least two-thirds of the outstanding Series E preferred shares voting separately as a single class.
- *Conversion and Preemptive Rights.* Except in connection with certain changes in control of our company and in accordance with certain provisions in our declaration of trust related to restrictions on ownership and transfer of our shares, the Series E preferred shares are not convertible or exchangeable for any of our other securities or property, and holders of our Series E preferred shares have no preemptive rights to subscribe for any securities of our company.

For additional information regarding our Series E preferred shares, see our Registration Statement on Form 8-A filed with the SEC on November 4, 2016.

Classification or Reclassification of Common Shares or Preferred Shares

Our declaration of trust authorizes our board of trustees to classify or reclassify any unissued common shares or preferred shares into one or more classes or series of shares of beneficial interest by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or distributions, qualifications or terms or conditions of redemption of such new class or series of shares of beneficial interest.

Classification of Our Board of Trustees

In accordance with our declaration of trust, our bylaws provide that the number of our trustees may be established by our board of trustees but may not be fewer than three nor more than nine. The trustees may increase or decrease the number of trustees by a vote of at least 80% of the members of our board of trustees, provided that the number of trustees shall never be less than the number required by Maryland law and that the tenure of office of a trustee shall not be affected by any decrease in the number of trustees. Except as may be provided by our board of trustees in setting the terms of any class or series of preferred shares, any vacancy, including a vacancy created by an increase in the number of trustees, will be filled at a regular or special meeting of our board of trustees called for that purpose, by a majority of the remaining trustees or, if no trustees remain, by a plurality of the votes cast by our shareholders at an annual or special meeting of our shareholders at which a quorum is present. Any individual appointed or elected to fill such vacancy will serve for the remainder of the full term of the class in which the vacancy occurred.

Pursuant to our declaration of trust, our board of trustees is divided into two classes of trustees. Trustees of each class are chosen for two-year terms and each year one class of trustees will be elected by the shareholders. We believe that classification of our board of trustees helps to assure the continuity and stability of our business strategies and policies as determined by the trustees. Holders of common shares have no right to cumulative voting in the election of trustees.

The classification of our board of trustees could have the effect of making the replacement of incumbent trustees more time consuming and difficult. The staggered terms of trustees may delay, defer or prevent a tender offer or an attempt to change control in us or other transaction that might involve a premium price for holders of common shares that might be in the best interests of the shareholders.

Removal of Trustees

Our declaration of trust provides that, subject to the rights of holders of one or more class or series of preferred shares, a trustee may be removed, with or without cause, upon the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of trustees. This provision, when coupled with the provision in our bylaws authorizing our board of trustees to fill vacant trusteeships, may preclude shareholders from removing incumbent trustees, except upon a substantial affirmative vote, and filling the vacancies created by such removal with their own nominees.

Business Combinations

Maryland law prohibits "business combinations" between us and an interested shareholder or an affiliate of an interested shareholder for five years after the most recent date on which the interested shareholder becomes an interested shareholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. Maryland law defines an interested shareholder as:

- any person who beneficially owns, directly or indirectly, 10% or more of the voting power of our shares; or
- an affiliate or associate of ours who, at any time within the two-year period prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of our then outstanding voting shares.

A person is not an interested shareholder if our board of trustees approved in advance the transaction by which the person otherwise would have become an interested shareholder.

After the five-year prohibition, any business combination between us and an interested shareholder generally must be recommended by our board of trustees and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of our then outstanding shares of beneficial interest; and
- two-thirds of the votes entitled to be cast by holders of our voting shares other than shares held by the interested shareholder with whom or with whose affiliate the business combination is to be effected or shares held by an affiliate or associate of the interested shareholder.

These super-majority vote requirements do not apply if our common shareholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested shareholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are approved or exempted by our board of trustees before the time that the interested shareholder becomes an interested shareholder. Pursuant to the statute, our board of trustees has adopted a resolution exempting any business combination to which we are a party. As a result, any person may be able to enter into a business combination with us that may not be in the best interest of our shareholders, without compliance by us with the supermajority vote requirements and other provisions of the statute. There is no assurance that our board of trustees will not amend, alter or repeal this resolution in the future.

The provisions of the business combination statute could delay, deter or prevent a change of control or other transaction in which holders of our equity securities might receive a premium for their shares above then-current market prices or which such shareholders otherwise might believe to be in their best interests.

Control Share Acquisitions

Maryland law provides that a holder of "control shares" of a Maryland real estate investment trust acquired in a "control share acquisition" has no voting rights with respect to those shares unless approved by a vote of at least two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, or by officers or by trustees who are employees of the Maryland real estate investment trust are excluded from the shares entitled to vote on the matter. "Control shares" are voting shares which, if aggregated with all other shares previously acquired by the acquiring person, or in respect of which the acquiring person is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiring person to exercise voting power in electing trustees within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained shareholder approval. A "control share acquisition" means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of trustees of a Maryland real estate investment trust to call a special meeting of shareholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the Maryland real estate investment trust may present the question at any shareholders meeting.

If voting rights are not approved at the shareholders meeting or if the acquiring person does not deliver the statement required by Maryland law, then, subject to certain conditions and limitations, the Maryland real estate investment trust may redeem any or all of the control shares, except those for which voting rights have previously been approved, for fair value. Fair value is determined without regard to the absence of voting rights for the control shares and as of the date of the last control share acquisition or of any meeting of shareholders at which the voting rights of the shares were considered and not approved. If voting rights for control shares are approved at a shareholders meeting and the acquiror may then vote a majority of the shares entitled to vote, then all other shareholders may exercise appraisal rights. The fair value of the shares for purposes of these appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if we are a party to the transaction, nor does it apply to acquisitions approved or exempted by our declaration of trust or bylaws.

Our bylaws contain a provision exempting from the control share acquisition act any and all acquisitions by any person of our shares. There can be no assurance that this provision will not be amended or eliminated at any time in the future.

Extraordinary Actions, Amendment of Declaration of Trust

Under the Maryland REIT Law, a Maryland real estate investment trust generally cannot amend its declaration of trust or merge, convert, or consolidate unless advised by its board of trustees and approved by the affirmative vote of shareholders holding at least two-thirds of the shares entitled to vote on the matter unless a different percentage (but not less than a majority of all the votes entitled to be cast on the matter) is set forth in its declaration of trust. In accordance with Maryland REIT Law, except as noted below, our declaration of trust allows the amendment of our declaration of trust, our merger or consolidation, our conversion or sale or disposition of all or substantially all of our assets if our board of trustees

declares such action advisable and if such action is approved by the affirmative vote of a majority of all the votes entitled to be cast on the matter. Our declaration of trust provides for approval of the following actions by two-thirds of the votes entitled to be cast on the matter:

- our intentional disqualification as a REIT or revocation of our election to be taxed as a REIT;
- the removal of trustees;
- the amendment or repeal of certain designated sections of our declaration of trust; and
- our termination.

Under the Maryland REIT Law, a declaration of trust may permit the trustees by a two-thirds vote to amend the declaration of trust from time to time to qualify as a REIT or the Maryland REIT Law without the affirmative vote or written consent of the shareholders. Our declaration of trust permits such action by a majority vote of the trustees. As permitted by the Maryland REIT Law, our declaration of trust contains a provision permitting our trustees, without any action by our shareholders, to amend our declaration of trust to increase or decrease the aggregate number of shares of beneficial interest or the number of shares of any class of shares of beneficial interest that we have authority to issue.

Amendment to Our Bylaws

Our board of trustees has the power to adopt, alter or repeal any provision of our bylaws and to make new bylaws, provided that certain amendments to our bylaws require the affirmative vote of at least 80% of the members of our board of trustees, including a majority of the independent trustees. Additionally, our bylaws may be amended by the affirmative vote of the holders of a majority of all votes entitled to be cast on the matter pursuant to a binding proposal submitted for approval at any annual or special meeting of shareholders by a shareholder that satisfies the ownership and other eligibility requirements of our bylaws and Rule 14a-8 under the Exchange Act.

Limitation of Liability and Indemnification

Our declaration of trust limits the liability of our trustees and officers for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the trustees or officers that was material to the cause of action adjudicated.

Our declaration of trust authorizes us, and our bylaws obligate us, to the maximum extent permitted by Maryland law, to indemnify, and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, any of our present or former trustees or officers who is made a party to, or witness in, a proceeding by reason of his or her service in that capacity or any individual who, while a trustee or officer and at our request, serves or has served another entity, employee benefit plan or any other enterprise as a trustee, director, officer, partner or otherwise and who is made a party to, or witness in, a proceeding by reason of his or her service in that capacity. Our bylaws and Maryland law require us to indemnify each trustee or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service to us. Our declaration of trust permits us to indemnify and advance expenses to any person who served any predecessor of ours in any of the capacities described above and to any employee or agent of ours or a predecessor of ours, and our bylaws permit us to indemnify and advance expenses to any employee or agent of ours.

Maryland law permits a Maryland real estate investment trust to indemnify its present and former trustees and officers against liabilities and reasonable expenses actually incurred by them in any proceeding unless:

- the act or omission of the trustee or officer was material to the matter giving rise to the proceeding and
 - was committed in bad faith or
 - was the result of active and deliberate dishonesty;
- the trustee or officer actually received an improper personal benefit in money, property or services; or
- in a criminal proceeding, the trustee or officer had reasonable cause to believe that the act or omission was unlawful.

Maryland law prohibits us from indemnifying our present and former trustees and officers for an adverse judgment in a derivative action or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. Our bylaws require us to advance expenses to the maximum extent permitted by Maryland law. Our bylaws and Maryland law require us, as a condition to advancing expenses, to obtain:

- a written affirmation by the trustee or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification; and
- a written undertaking to repay the amount reimbursed if the standard of conduct is not met.

Term and Termination

Our declaration of trust provides that we have perpetual existence, unless terminated. See “-Extraordinary Actions, Amendment of Declaration of Trust” for more information.

Meetings of Shareholders

Under our bylaws, annual meetings of shareholders are to be held in May of each year or at a date and time as determined by our board of trustees in accordance with our bylaws. Special meetings of shareholders may be called only by the chairman of our board of trustees, our chief executive officer or one-third of the trustees then in office. Subject to the provisions of our bylaws, a special meeting of our shareholders to act on any matter that may properly be considered by our shareholders will also be called by our secretary upon the written request of the shareholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting. Only matters set forth in the notice of the special meeting may be considered and acted upon at such a meeting.

Advance Notice of Trustee Nominations and New Business

Our bylaws provide that, with respect to an annual meeting of shareholders, nominations of persons for election to our board of trustees and the proposal of business to be considered by shareholders at the annual meeting may be made only:

- pursuant to our notice of the meeting;
- by or at the direction of our board of trustees; or
- by a shareholder who was a shareholder of record at the time of the provision of notice and at the time of the meeting, who is entitled to vote at the meeting and has complied with the advance notice procedures set forth in our bylaws.

With respect to special meetings of shareholders, only the business specified in our notice of meeting may be brought before the meeting of shareholders and nominations of persons for election to our board of trustees may be made pursuant to our notice of meeting only:

- by or at the direction of our board of trustees;
- by shareholders at a special meeting requested by shareholders in accordance with our bylaws; or
- provided that our board of trustees has determined that trustees shall be elected at such meeting, by a shareholder who was a shareholder of record at the time of the provision of notice and at the time of the meeting, who is entitled to vote at the meeting and has complied with the advance notice provisions set forth in our bylaws.

The purpose of requiring shareholders to give advance notice of nominations and other proposals is to afford our board of trustees the opportunity to consider the qualifications of the proposed nominees or the advisability of the other proposals and, to the extent considered necessary by our board of trustees, to inform shareholders and make recommendations regarding the nominations or other proposals. The advance notice procedures also permit a more orderly procedure for conducting our shareholder meetings. Although the bylaws do not give our board of trustees the power to disapprove timely shareholder nominations and proposals, they may have the effect of precluding a contest for the election of trustees or proposals for other action if the proper procedures are not followed, and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of trustees to our board of trustees or to approve its own proposal.

Subtitle 8

Maryland law permits a Maryland real estate investment trust with a class of equity securities registered under the Exchange Act, and at least three independent trustees to elect to be subject, by provision in its declaration of trust or bylaws or a resolution of its board of trustees and notwithstanding any contrary provision in the declaration of trust or bylaws, to any or all of five provisions:

- a classified board;
- a two-thirds vote requirement for removing a trustee;
- a requirement that the number of trustees be fixed only by vote of the trustees;
- a requirement that a vacancy on the board be filled only by the remaining trustees and for the remainder of the full term of the class of trustees in which the vacancy occurred; and
- a majority requirement for the calling of a special meeting of shareholders.

Through provisions in our declaration of trust and bylaws unrelated to Subtitle 8, we already (1) have a classified board of two classes, (2) require the affirmative vote of the shareholders entitled to cast at least two-thirds of all of the votes entitled to be cast generally in the election of trustees to remove any trustee from the board, (3) vest in the board the exclusive power to fix the number of trusteeships, (4) require that a vacancy on the board be filled only by any remaining trustees and for the remainder of the full term of the class of trustees in which the vacancy occurred (unless no trustees remain) and (5) require, unless called by the chairman of our board of trustees, our chief executive officer or one-third of the board of trustees then in office, the request of shareholders entitled to cast not less than a majority of the votes entitled to be cast at such meeting on such matter to call a special meeting of shareholders to consider and vote on any matter that may properly be considered by our shareholders.

Possible Anti-Takeover Effect of Certain Provisions of Maryland Law and of Our Declaration of Trust and Bylaws

If the board resolution opting out of the business combination act is amended, the business combination provisions and, if the applicable exemption in our bylaws is rescinded, the control share acquisition provisions applicable under Maryland law, the provisions of our declaration of trust on classification of our board of trustees, removal of trustees, restrictions on the ownership and transfer of shares of beneficial interest and the advance notice provisions of our bylaws could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of the common shares or otherwise be in their best interest.

Restrictions on Ownership and Transfer

Our declaration of trust, subject to certain exceptions described below, provides that no person may (i) beneficially or constructively own common shares in excess of 9.9% of the number of outstanding common shares of any class or series of common shares, (ii) beneficially or constructively own preferred shares in excess of 9.9% of the number of outstanding preferred shares of any class or series of preferred shares, (iii) beneficially own equity shares that would result in the equity shares being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution), (iv) beneficially own equity shares that would result in our company being "closely held" under Section 856(h) of the Code, or (v) constructively own equity shares that would cause our company to constructively own 10% or more of the ownership interests in a tenant (other than a taxable REIT subsidiary) of our company's or our operating partnership's real property, within the meaning of Section 856(d)(2)(B) of the Code. If any restrictions above are violated, such person's equity shares will be transferred automatically to a share trust and shall be designated shares-in-trust for the benefit of one or more charitable beneficiaries. In addition, upon the occurrence of certain events, attempted transfers in violation of the restrictions described above may be void ab initio.

The record holder of the common or preferred shares that are designated as shares-in-trust will be required to submit such number of common shares or preferred shares to us for registration in the name of the trust. The trustee will be designated by us, but will not be affiliated with us. The beneficiary of a trust will be one or more charitable organizations that are named by us.

Shares-in-trust will remain issued and outstanding common shares or preferred shares and will be entitled to the same rights and privileges as all other shares of the same class or series. The trust, as record holder of shares-in-trust, will receive all dividends and distributions on the shares-in-trust and will hold such dividends or distributions in trust for the benefit of the beneficiary. The trust will vote all shares-in-trust. The trust will designate a permitted transferee of the shares-in-trust, provided that the permitted transferee purchases such shares-in-trust for valuable consideration and acquires such shares-in-trust without such acquisition resulting in a transfer to another trust.

The prohibited owner with respect to shares-in-trust will be required to repay to the record holder the amount of any dividends or distributions received by the prohibited owner that (i) are attributable to any shares-in-trust and (ii) the record date of which was on or after the date that such shares became shares-in-trust. The prohibited owner generally will receive from the record holder following the sale or other disposition of such shares-in-trust the lesser of (i) the price per share such prohibited owner paid for the common shares or preferred shares that were designated as shares-in-trust (or, in the case of a gift or devise, the market price (as defined in our declaration of trust) per share on the date of such transfer), and (ii) the price

per share received by the record holder from the sale of such shares-in-trust. Any amounts received by the record holder in excess of the amounts to be paid to the prohibited owner will be distributed to the beneficiary.

The shares-in-trust will be deemed to have been offered for sale to us, or its designee, at a price per share equal to the lesser of the price per share in the transaction that created such shares-in-trust (or, in the case of a gift or devise, the market price per share on the date of such transfer), or the market price per share on the date that we, or our designee, accepts such offer. We will have the right to accept such offer for a period of 90 days after the later of the date of the purported transfer which resulted in such shares-in-trust, or the date we determine in good faith that a transfer resulting in such shares-in-trust occurred.

Any person who acquires or attempts to acquire common or preferred shares in violation of the foregoing restrictions, or any person who owned common or preferred shares that were transferred to a trust, will be required to give written notice immediately to us of such event and provide us with such other information as we may request in order to determine the effect, if any, of such transfer on our status as a REIT.

All persons who own, directly or indirectly, more than 5% (or such lower percentages as required pursuant to regulations under the Code) of the outstanding common and preferred shares must, within 30 days after December 31 of each year, provide to us a written statement or affidavit stating the name and address of such direct or indirect owner, the number of common and preferred shares owned directly or indirectly, and a description of how such shares are held. In addition, each direct or indirect shareholder shall provide to us such additional information as we may request in order to determine the effect, if any, of such ownership on our status as a REIT and to ensure compliance with the ownership limitation.

The ownership limitation generally does not apply to the acquisition of common or preferred shares by an underwriter that participates in a public offering of such shares.

In addition, the board of trustees, upon receipt of advice of counsel or other evidence satisfactory to the board of trustees, in its sole and absolute discretion, may exempt a person from the ownership limitation under certain circumstances.

The foregoing restrictions continue to apply until the board of trustees determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT and such action is approved by the affirmative vote of two-thirds of the shares entitled to vote on such matter.

All certificates evidencing common or preferred shares bear a legend referring to the restrictions described above.

The restrictions on ownership and transfer described above could have the effect of delaying, deterring or preventing a change in control or other transaction in which holders of some, or a majority, of our common shares might receive a premium for their shares over the then-prevailing market price or which such holders might believe to be otherwise in their best interest.

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Section 3: EX-21.1 (EXHIBIT 21.1)

Name of Entity	Ownership	Jurisdiction of Incorporation or Organization
2144 Associates - Hershey (LP)	1% by Hersha Hospitality Limited Liability Company - Hershey 99% by HHLP	PA
2144 Associates - New Columbia	1% by Hersha Hospitality Limited Liability Company - New Columbia 99% by HHLP	PA
2144 Associates - Selinsgrove (LP)	1% by Hersha Hospitality Limited Liability Company - Selinsgrove 99% by HHLP	PA
2444 Associates (LP)	1% by Hersha Hospitality Limited Liability Company - West Hanover 99% by HHLP	PA
2801 Roosevelt Development Master Property Owners' Association, Inc.	100% by HHLP Key West One Associates, LLC	FL
2844 Associates, LP	1% by HH LLC 99% by HHLP	PA
3044 Associates, LP	1% by HH LLC 99% by HHLP	PA
3144 Associates, LP	1% by HH LLC 99% by HHLP	PA
320 Pearl Street, Inc.	100% by HHLP	NY
44 Aarti Associates, LP	1% by HH LLC 99% by HHLP	PA
44 Brookline Hotel, LLC	1% by 44 Brookline Manager, LLC 99% by HHLP	DE
44 Brookline Management, LLC	100% by 44 New England Management Company	DE

44 Brookline Manager, LLC	100% by HHLP	DE
44 Cambridge Associates, LLC	100% by HHLP	MA
44 Carlisle Associates (LP)	1% by Hersha Hospitality, LLC 99% by HHLP	PA
44 Delaware One, LLC	100% by 44 New England Management Company	DE
44 Delaware Three, LLC	100% by 44 New England Management Company	DE
44 Duane Street Lessee, LLC	100% by 44 New England Management Company	NY
44 Duane Street, LLC	100% by HHLP	DE
44 Frederick Associates, LP	1% by HH LLC 99% by 3044 Associates, LP	PA
44 LA Westside Lessee, LLC	100% by 44 New England Management Company	DE
44 Metro, LLC	100% by 44 New England Management Company	DE
44 New England Management Company	100% by HHLP	VA
44 Smith Street Lessee, LLC	100% by 44 New England Management Company	NY
44 White Plains, LLC	100% by 44 New England Management Company	DE
5444 Associates (LP)	99% by HHLP 1% by 44 Duane Street, LLC	PA
63 RB Holding Company LLC	100% by Hiren Boston, LLC	MA
Affordable Hospitality Associates, LP	99% by HHLP 1% by Race Street, LLC	PA
Brisam Management (DE) LLC	99% by HHLP 1% by HHLP Brisam 29 Manager, LLC	DE
Chimes of Freedom, LLC	89% by HHLP Liberty Associates, LLC 11% by Of Freedom I, LLC	DE
Cindat Hersha Lessee JV Associates, LLC	100% by Cindat Hersha Lessee JV, LLC	DE
Cindat Hersha Lessee JV, LLC	70% by Cindat Manhattan Hotel Portfolio (US) LLC 30% by HCIN NYC Lessee, LLC	DE
Cindat Hersha Owner JV Associates, LLC	100% by Cindat Hersha Owner JV, LLC	DE

Name of Entity	Ownership	Jurisdiction of Incorporation or Organization
Cindat Hersha Owner JV, LLC	70% by Cindat Manhattan Hotel Portfolio (US) LLC 30% by HCIN NYC Owner, LLC	DE
Exit 88 Hotel Manager, LLC	100% by HHLP	DE
Exit 88 Hotel, LLC	99% by HHLP 1% by Exit 88 Hotel Manager, LLC	CT
HCIN Chelsea Grand East Associates, LLC	100% by Cindat Hersha Owner JV Associates, LLC	DE
HCIN Chelsea Grand East Lessee, LLC	100% by Cindat Hersha Lessee JV Associates, LLC	DE
HCIN Duo One Associates, LLC	100% by Cindat Hersha Owner JV Associates, LLC	DE
HCIN Duo One Lessee, LLC	100% by Cindat Hersha Lessee JV Associates, LLC	DE
HCIN Duo Three Associates, LLC	100% by Cindat Hersha Owner JV Associates, LLC	DE
HCIN Duo Three Lessee, LLC	100% by Cindat Hersha Lessee JV Associates, LLC	DE
HCIN Duo Two Associates, LLC	100% by Cindat Hersha Owner JV Associates, LLC	DE
HCIN Duo Two Lessee, LLC	100% by Cindat Hersha Lessee JV Associates, LLC	DE
HCIN Herald Square Associates, LLC	100% by Cindat Hersha Owner JV Associates, LLC	DE
HCIN Herald Square Lessee, LLC	100% by Cindat Hersha Lessee JV Associates, LLC	DE
HCIN Maiden Hotel Associates, LLC	100% by Cindat Hersha Owner JV Associates, LLC	DE
HCIN Maiden Hotel Lessee, LLC	100% by Cindat Hersha Lessee JV Associates, LLC	DE
HCIN NYC Lessee, LLC	100% by 44 New England Management Company	DE
HCIN NYC Owner, LLC	100% by Hersha Hospitality Limited Partnership	DE
HCIN Water Street Associates, LLC	100% by Cindat Hersha Owner JV Associates, LLC	DE
HCIN Water Street Lessee, LLC	100% by Cindat Hersha Lessee JV Associates, LLC	DE
Hersha Conduit Associates, LLC	100% by HHLP	NY
Hersha Holding RC Lessee, LLC	100% by 44 New England Management Company	DE
Hersha Holding RC Owner, LLC	100% by HHLP	DE
Hersha Hospitality Limited Partnership ("HHLP") (the "Operating Partnership")	93.3% by Hersha Hospitality Trust (General Partnership Interest) 6.7% by Hersha Affiliates (Limited Partnership Interest)	VA
Hersha Hospitality Trust	N/A	MD
Hersha Hospitality, LLC ("HH LLC")	100% by HHLP	VA
HHLP 52nd Associates, LLC	99% by HHLP 1% by HHLP 52nd Manager, LLC	DE
HHLP 52nd Lessee, LLC	100% by 44 New England Management Company	DE
HHLP 52nd Manager, LLC	100% by HHLP	DE
HHLP Ambrose Associates, LLC	99% by HHLP 1% by HHLP Ambrose Manager, LLC	DE
HHLP Ambrose Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Ambrose Manager, LLC	100% by HHLP	DE
HHLP Annapolis Associates, LLC	99% by HHLP 1% by HHLP Annapolis Manager, LLC	DE
HHLP Annapolis Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Annapolis Liquor Holder, LLC	98% by 44 New England Management Company 1% by Elizabeth Werner, 1% by Ashish Parikh	DE
HHLP Annapolis Manager, LLC	100% by HHLP	DE
HHLP Blue Moon Associates, LLC	99% by HHLP, 1% by HHLP Blue Moon Manager, LLC	DE
HHLP Blue Moon Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Blue Moon Manager, LLC	100% by HHLP	DE
HHLP Boston One, LLC	100% by HHLP	MA
HHLP Boston Seaport Associates, LLC	99% by HHLP 1% by HHLP Boston Seaport Manager, LLC	DE

Name of Entity	Ownership	Jurisdiction of Incorporation or Organization
HHLP Boston Seaport Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Boston Seaport Manager, LLC	100% by HHLP	DE
HHLP Boston Two, LLC	100% by HHLP	MA
HHLP Brisam 29 Manager, LLC	100% by HHLP	DE
HHLP Bulfinch Associates, LLC	99% by HHLP 1% by HHLP Bulfinch Manager, LLC	DE
HHLP Bulfinch Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Bulfinch Manager, LLC	100% by HHLP	DE
HHLP Cambridge Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Capitol Hill Associates, LLC	100% by HHLP Capitol Hill Holding, LLC	DE
HHLP Capitol Hill Holding, LLC	1% by HHLP Capitol Hill Manager LLC 99% by HHLP	DE
HHLP Capitol Hill Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Capitol Hill Manager, LLC	100% by HHLP	DE
HHLP Coconut Grove Associates, LLC	99% by HHLP, 1% by HHLP Coconut Grove Manager, LLC	DE
HHLP Coconut Grove Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Coconut Grove Manager, LLC	100% by HHLP	DE
HHLP Coconut Grove RC Associates, LLC	99% by Hersha Holding RC Owner, LLC 1% by HHLP Coconut Grove RC Manager, LLC	DE
HHLP Coconut Grove RC Lessee, LLC	100% by Hersha Holding RC Lessee, LLC	DE
HHLP Coconut Grove RC Manager, LLC	100% by Hersha Holding RC Owner, LLC	DE
HHLP Conduit Lessee, LLC	100% by 44 New England Management Company	NY
HHLP Coral Gables Associates, LLC	99% by HHLP 1% by HHLP Coral Gables Manager, LLC	DE
HHLP Coral Gables Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Coral Gables Manager, LLC	100% by HHLP	DE
HHLP DC Convention Center Associates, LLC	1% by HHLP DC Convention Center Manager, LLC 99% by HHLP	DE
HHLP DC Convention Center Lessee, LLC	100% by 44 New England Management Company	DE
HHLP DC Convention Center Manager, LLC	100% by HHLP	DE
HHLP Georgetown Associates, LLC	99% by HHLP 1% by HHLP Georgetown Manager, LLC	DE
HHLP Georgetown II Associates, LLC	99% by HHLP 1% by HHLP Georgetown II Manager, LLC	DE
HHLP Georgetown II Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Georgetown II Manager, LLC	100% HHLP	DE
HHLP Georgetown Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Georgetown Manager, LLC	100% HHLP	DE
HHLP Harrisburg Friendship GP, LLC	100% by HHLP	PA
HHLP Harrisburg Friendship, LP	99% by HHLP 1% by HHLP Harrisburg Friendship GP, LLC	PA
HHLP Holdings, LLC	99.5% by HHLP .5% by Hersha Hospitality Trust	DE
HHLP Key West One Associates, LLC	99% by HHLP 1% by HHLP Key West One Manager, LLC	DE
HHLP Key West One Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Key West One Manager, LLC	100% by HHLP	DE
HHLP King of Prussia Associates, LP	1% by HHLP King of Prussia, Inc. 99% by HHLP	PA
HHLP LA Westside Associates, LLC	1% by HHLP LA Westside Manager LLC 99% by HHLP	DE

Name of Entity	Ownership	Jurisdiction of Incorporation or Organization
HHLP LA Westside Manager, LLC	100% by HHLP	DE
HHLP Langhorne One Associates, LP	1% by HHLP Langhorne One, LLC 99% by HHLP	PA
HHLP Langhorne Two Associates, LP	1% by HHLP Langhorne Two, LLC 99% by HHLP	PA
HHLP Liberty Associates, LLC	100% by HHLP	DE
HHLP Liberty Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Malvern Associates 2, LP	99% by HHLP 1% by HHLP Malvern 2, LLC	PA
HHLP Miami Beach Associates, LLC	1% by HHLP Miami Beach Manager, LLC 99% by HHLP	DE
HHLP Miami Beach Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Miami Beach Manager, LLC	100% by HHLP	DE
HHLP Oxford Valley Associates, LP	1% by HHLP Oxford Valley, Inc. 99% by HHLP	PA
HHLP Parkside Associates LLC	1% by HHLP Parkside Manager LLC 99% by HHLP	DE
HHLP Parkside Lessee LLC	100% by 44 New England Management Company	DE
HHLP Parkside Manager LLC	100% by HHLP	DE
HHLP Rittenhouse Associates, LLC	99% by HHLP 1% by HHLP Rittenhouse Manager, LLC	DE
HHLP Rittenhouse Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Rittenhouse Manager, LLC	100% by HHLP	DE
HHLP Saint Gregory Associates, LLC	99% by HHLP 1% by HHLP Saint Gregory Manager, LLC	DE
HHLP Saint Gregory Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Saint Gregory Manager, LLC	100% by HHLP	DE
HHLP San Diego Associates, LLC	99% by HHLP 1% by HHLPSan Diego Manager, LLC	DE
HHLP San Diego Lessee, LLC	100% by 44 New England Management Company	DE
HHLP San Diego Manager, LLC	100% by HHLP	DE
HHLP Sanctuary Associates, LLC	99% by HHLP 1% by HHLP Sanctuary Manager, LLC	DE
HHLP Sanctuary Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Sanctuary Manager, LLC	100% HHLP	DE
HHLP Santa Barbara I Associates, LLC	99% by HHLP, 1% by HHLP Santa Barbara I Manager, LLC	DE
HHLP Santa Barbara I Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Santa Barbara I Manager, LLC	100% by HHLP	DE
HHLP SB Three Associates LLC	100% by HHLP	DE
HHLP Seattle Associates, LLC	99% by HHLP 1% by HHLP Seattle Manager, LLC	DE
HHLP Seattle Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Seattle Manager, LLC	100% by HHLP	DE
HHLP Smith Street Associates, LLC	100% by HHLP Smith Street Holding, LLC	NY
HHLP Smith Street Holding, LLC	99% by HHLP 1% by HHLP Smith Street Managing Member, LLC	NY
HHLP Smith Street Managing Member, LLC	100% by HHLP	NY
HHLP Sunny Associates, LLC	99% by HHLP 1% by HHLP Sunny Manager, LLC	DE
HHLP Sunny Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Sunny Manager, LLC	100% by HHLP	DE
HHLP Sunnyvale TPS Associates, LLC	99% by HHLP 1% by HHLP Sunnyvale TPS Manager, LLC	DE
HHLP Sunnyvale TPS Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Sunnyvale TPS Manager, LLC	100% by HHLP	DE

Name of Entity	Ownership	Jurisdiction of Incorporation or Organization
HHLP Union Square Associates, LLC	100% by HHLP	DE
HHLP Union Square Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Union Square Manager, LLC	100% by HHLP	DE
HHLP Valley Forge Associates (LP)	1% by HH LLC 99% by HHLP	PA
HHLP White Plains Associates, LLC	100% by HHLP	DE
HHLP Winter Haven Associates, LLC	99% by HHLP, 1% by HHLP Winterhaven Manager, LLC	DE
HHLP Winter Haven Lessee, LLC	100% by 44 New England Management Company	DE
HHLP Winter Haven Manager, LLC	100% by HHLP	DE
HHLP York Street, LLC	100% by HHLP	DE
Hiren Boston, LLC	49.9% by HHLP Boston One, LLC 50.1% by third parties	MA
HT-Exit 88 Hotel TRS, LLC	100% by 44 New England Management Company	DE
Market 8 Hotel Associates GP, LLC	100% by 44 New England Management Company	DE
Metro 29th Sublessee, LLC	100% by 44 New England Management Company	NY
Metro JFK Associates, LLC	1% by Metro JFK Managing Member, LLC 99% by HHLP	NY
Metro JFK Managing Member, LLC	100% by HHLP	NY
Of Freedom I, LLC	100% by HHLP Liberty Associates, LLC	DE
Philly One TRS, LLC	100% by 44 New England Management Company	PA
Race Street, LLC	100% by HHLP	PA
Risingsam Hospitality, LLC	99% by HHLP 1% by Hersha Conduit Associates, LLC	NY
SB Partners Three Lessee, LLC	50% by 44 New England Management Company 50% by JHM SB Three Member LLC	DE
SB Partners Three, LLC	50% by HHLP SB Three Associates, LLC 50% by JHM SB Three Member LLC	DE
SB Partners, LLC	49.9% by HHLP Boston Two, LLC 50.1% by third parties	MA
Seaport Hospitality, LLC	99% by HHLP 1% 320 Pearl Street, Inc.	NY
Seaport TRS, LLC	100% by 44 New England Management Company	DE
South Bay Boston, LLC	49.9% by 44 New England Management Company 50.1% by third parties	MA
South Bay Sandeep, LLC	100% by SB Partners, LLC	MA
The Village on Roosevelt Property Owners' Association, Inc.	100% by HHLP Key West One Associates, LLC	FL
York Street Lessee DE, LLC	100% by 44 New England Management Company	DE
York Street LLC	100% by HHLP York Street, LLC	DE

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Section 4: EX-23.1 (EXHIBIT 23.1)

The Board of Trustees of
Hersha Hospitality Trust:

We consent to the incorporation by reference in the registration statements (No. 333-82666, No. 333-113058, No. 333-142073, No. 333-142075, No. 333-147113, No. 333-156661, No. 333-163123, No. 333-167891, No. 333-169658, No. 333-187239, No. 333-216317) on Form S-3 and (No. 333-122657, No. 333-151314, No. 333-179847, No. 333-196181) on Form S-8 of Hersha Hospitality Trust of our reports dated February 25, 2020, with respect to the consolidated balance sheets of Hersha Hospitality Trust and subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedule III (collectively, the Consolidated Financial Statements), and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of Hersha Hospitality Trust.

Our report on the Consolidated Financial Statements refers to changes in the method of accounting for historical property sales as well as leases.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 25, 2020

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Section 5: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION

I, Jay H. Shah, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended December 31, 2019 of Hersha Hospitality Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2020

/s/ Jay H. Shah

Jay H. Shah

Chief Executive Officer

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Section 6: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION

I, Ashish R. Parikh, certify that:

1. I have reviewed this Annual Report on Form 10-K for the period ended December 31, 2019 of Hersha Hospitality Trust;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2020

/s/ Ashish R. Parikh

Ashish R. Parikh

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Section 7: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of Hersha Hospitality Trust (the "Company") for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jay H. Shah, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2020

/s/ Jay H. Shah

Jay H. Shah

Chief Executive Officer

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Section 8: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K of Hersha Hospitality Trust (the "Company") for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ashish R. Parikh, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February 25, 2020

/s/ Ashish R. Parikh

Ashish R. Parikh

Chief Financial Officer

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