

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q



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

For the quarterly period ended September 30, 2022

OR



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

For the transition period from _____ to _____.

Commission File Number 001-34571

PEBBLEBROOK HOTEL TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland

(State of Incorporation or Organization)

27-1055421

(I.R.S. Employer Identification No.)

4747 Bethesda Avenue, Suite 1100, Bethesda, Maryland

(Address of Principal Executive Offices)

20814

(Zip Code)

(240) 507-1300

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, \$0.01 par value per share	PEB	New York Stock Exchange
Series E Cumulative Redeemable Preferred Shares, \$0.01 par value	PEB-PE	New York Stock Exchange
Series F Cumulative Redeemable Preferred Shares, \$0.01 par value	PEB-PF	New York Stock Exchange
Series G Cumulative Redeemable Preferred Shares, \$0.01 par value	PEB-PG	New York Stock Exchange
Series H Cumulative Redeemable Preferred Shares, \$0.01 par value	PEB-PH	New York Stock Exchange

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

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

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

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

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

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

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

Class	Outstanding at October 25, 2022
Common shares of beneficial interest (\$0.01 par value per share)	131,472,449

Pebblebrook Hotel Trust

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Pebblebrook Hotel Trust Consolidated Balance Sheets *(in thousands, except share and per-share data)*

	September 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
Investment in hotel properties, net	\$ 5,964,823	\$ 6,079,333
Cash and cash equivalents	190,750	58,518
Restricted cash	19,371	33,729
Hotel receivables (net of allowance for doubtful accounts of \$391 and \$1,142, respectively)	66,759	37,045
Prepaid expenses and other assets	94,683	52,565
Total assets	<u>\$ 6,336,386</u>	<u>\$ 6,261,190</u>
LIABILITIES AND EQUITY		
Debt	\$ 2,418,770	\$ 2,441,888
Accounts payable, accrued expenses and other liabilities	278,093	250,584
Lease liabilities - operating leases	320,323	319,426
Deferred revenues	72,808	69,064
Accrued interest	10,408	4,567
Distribution payable	12,559	11,756
Total liabilities	<u>3,112,961</u>	<u>3,097,285</u>
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred shares of beneficial interest, \$.01 par value (liquidation preference \$740,000 at September 30, 2022 and December 31, 2021), 100,000,000 shares authorized; 29,600,000 shares issued and outstanding at September 30, 2022 and December 31, 2021	296	296
Common shares of beneficial interest, \$.01 par value, 500,000,000 shares authorized; 130,905,132 shares issued and outstanding at September 30, 2022 and 130,813,750 shares issued and outstanding at December 31, 2021	1,309	1,308
Additional paid-in capital	4,273,603	4,268,042
Accumulated other comprehensive income (loss)	38,796	(19,442)
Distributions in excess of retained earnings	(1,178,289)	(1,094,023)
Total shareholders' equity	<u>3,135,715</u>	<u>3,156,181</u>
Non-controlling interests	87,710	7,724
Total equity	<u>3,223,425</u>	<u>3,163,905</u>
Total liabilities and equity	<u>\$ 6,336,386</u>	<u>\$ 6,261,190</u>

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Revenues:				
Room	\$ 277,971	\$ 162,548	\$ 707,997	\$ 324,614
Food and beverage	98,080	48,900	261,228	95,223
Other operating	40,642	27,362	103,060	65,930
Total revenues	416,693	238,810	1,072,285	485,767
Expenses:				
Hotel operating expenses:				
Room	66,637	40,504	167,102	85,777
Food and beverage	69,296	34,925	179,859	68,121
Other direct and indirect	115,589	72,622	307,317	174,069
Total hotel operating expenses	251,522	148,051	654,278	327,967
Depreciation and amortization	60,372	55,492	179,746	165,636
Real estate taxes, personal property taxes, property insurance, and ground rent	34,641	26,204	98,118	84,230
General and administrative	10,281	9,433	29,675	26,803
Impairment loss	12,865	—	86,119	14,856
Gain on sale of hotel properties	(6,194)	(171)	(6,194)	(64,729)
Other operating expenses	989	431	4,045	1,514
Total operating expenses	364,476	239,440	1,045,787	556,277
Operating income (loss)	52,217	(630)	26,498	(70,510)
Interest expense	(25,020)	(22,930)	(70,753)	(73,065)
Other	123	27	156	85
Income (loss) before income taxes	27,320	(23,533)	(44,099)	(143,490)
Income tax (expense) benefit	(1,015)	(5)	(1,015)	(60)
Net income (loss)	26,305	(23,538)	(45,114)	(143,550)
Net income (loss) attributable to non-controlling interests	1,237	(125)	1,359	(1,085)
Net income (loss) attributable to the Company	25,068	(23,413)	(46,473)	(142,465)
Distributions to preferred shareholders	(11,344)	(12,528)	(34,031)	(30,761)
Issuance costs of redeemed preferred shares	—	(8,043)	—	(8,043)
Net income (loss) attributable to common shareholders	\$ 13,724	\$ (43,984)	\$ (80,504)	\$ (181,269)
Net income (loss) per share available to common shareholders, basic	\$ 0.10	\$ (0.34)	\$ (0.62)	\$ (1.39)
Net income (loss) per share available to common shareholders, diluted	\$ 0.10	\$ (0.34)	\$ (0.62)	\$ (1.39)
Weighted-average number of common shares, basic	130,905,132	130,813,750	130,904,772	130,801,187
Weighted-average number of common shares, diluted	131,149,783	130,813,750	130,904,772	130,801,187

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

	(Unaudited)			
	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Comprehensive Income:				
Net income (loss)	\$ 26,305	\$ (23,538)	\$ (45,114)	\$ (143,550)
Other comprehensive income (loss):				
Change in fair value of derivative instruments	16,487	(323)	53,184	7,103
Amounts reclassified from other comprehensive income	(1,337)	6,494	5,441	19,319
Comprehensive income (loss)	41,455	(17,367)	13,511	(117,128)
Comprehensive income (loss) attributable to non-controlling interests	1,339	(84)	1,746	(912)
Comprehensive income (loss) attributable to the Company	\$ 40,116	\$ (17,283)	\$ 11,765	\$ (116,216)

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

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

For the three months ended September 30, 2022										
	Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non- Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount						
Balance at June 30, 2022	29,600,000	\$ 296	130,905,132	\$ 1,309	\$ 4,271,169	\$ 23,748	\$ (1,190,693)	\$ 3,105,829	\$ 86,847	\$ 3,192,676
Issuance of shares, net of offering costs	—	—	—	—	(48)	—	—	(48)	—	(48)
Issuance of operating partnership units	—	—	—	—	—	—	—	—	—	—
Share-based compensation	—	—	—	—	2,482	—	—	2,482	699	3,181
Distributions on common shares/units	—	—	—	—	—	—	(1,320)	(1,320)	(11)	(1,331)
Distributions on preferred shares/units	—	—	—	—	—	—	(11,344)	(11,344)	(1,164)	(12,508)
Other comprehensive income (loss):										
Change in fair value of derivative instruments	—	—	—	—	—	16,385	—	16,385	102	16,487
Amounts reclassified from other comprehensive income	—	—	—	—	—	(1,337)	—	(1,337)	—	(1,337)
Net income (loss)	—	—	—	—	—	—	25,068	25,068	1,237	26,305
Balance at September 30, 2022	29,600,000	\$ 296	130,905,132	\$ 1,309	\$ 4,273,603	\$ 38,796	\$ (1,178,289)	\$ 3,135,715	\$ 87,710	\$ 3,223,425

Pebblebrook Hotel Trust
Consolidated Statements of Equity - Continued
(in thousands, except share data)
(Unaudited)

For the three months ended September 30, 2021										
	Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non- Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount						
Balance at June 30, 2021	29,600,000	\$ 296	130,813,750	\$ 1,308	\$ 4,263,473	\$ (39,820)	\$ (993,654)	\$ 3,231,603	\$ 7,043	\$ 3,238,646
Redemption of preferred shares	(10,000,000)	(100)	—	—	(241,857)	—	(8,043)	(250,000)	—	(250,000)
Issuance of shares, net of offering costs	10,000,000	100	—	—	241,676	—	—	241,776	—	241,776
Share-based compensation	—	—	—	—	2,403	—	—	2,403	697	3,100
Distributions on common shares/units	—	—	—	—	—	—	(1,317)	(1,317)	(8)	(1,325)
Distributions on preferred shares	—	—	—	—	—	—	(12,528)	(12,528)	—	(12,528)
Other adjustment	—	—	—	—	—	393	—	393	(393)	—
Other comprehensive income (loss):										
Change in fair value of derivative instruments	—	—	—	—	—	(496)	—	(496)	173	(323)
Amounts reclassified from other comprehensive income	—	—	—	—	—	6,494	—	6,494	—	6,494
Net income (loss)	—	—	—	—	—	—	(23,413)	(23,413)	(125)	(23,538)
Balance at September 30, 2021	29,600,000	\$ 296	130,813,750	\$ 1,308	\$ 4,265,695	\$ (33,429)	\$ (1,038,955)	\$ 3,194,915	\$ 7,387	\$ 3,202,302

Pebblebrook Hotel Trust
Consolidated Statements of Equity - Continued
(in thousands, except share data)
(Unaudited)

For the nine months ended September 30, 2022										
	Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non- Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount						
Balance at December 31, 2021	29,600,000	\$ 296	130,813,750	\$ 1,308	\$ 4,268,042	\$ (19,442)	\$ (1,094,023)	\$ 3,156,181	\$ 7,724	\$ 3,163,905
Issuance of shares, net of offering costs	—	—	—	—	(123)	—	—	(123)	—	(123)
Issuance of operating partnership units	—	—	—	—	—	—	—	—	78,000	78,000
Issuance of common shares for Board of Trustees compensation	—	—	33,866	1	737	—	—	738	—	738
Repurchase of common shares	—	—	(49,787)	(1)	(1,112)	—	—	(1,113)	—	(1,113)
Share-based compensation	—	—	107,303	1	6,059	—	—	6,060	2,095	8,155
Distributions on common shares/units	—	—	—	—	—	—	(3,762)	(3,762)	(44)	(3,806)
Distributions on preferred shares/units	—	—	—	—	—	—	(34,031)	(34,031)	(1,811)	(35,842)
Other comprehensive income (loss):										
Change in fair value of derivative instruments	—	—	—	—	—	52,797	—	52,797	387	53,184
Amounts reclassified from other comprehensive income	—	—	—	—	—	5,441	—	5,441	—	5,441
Net income (loss)	—	—	—	—	—	—	(46,473)	(46,473)	1,359	(45,114)
Balance at September 30, 2022	29,600,000	\$ 296	130,905,132	\$ 1,309	\$ 4,273,603	\$ 38,796	\$ (1,178,289)	\$ 3,135,715	\$ 87,710	\$ 3,223,425

Pebblebrook Hotel Trust
Consolidated Statements of Equity - Continued
(in thousands, except share data)
(Unaudited)

For the nine months ended September 30, 2021										
	Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Retained Earnings	Total Shareholders' Equity	Non- Controlling Interests	Total Equity
	Shares	Amount	Shares	Amount						
Balance at December 31, 2020	20,400,000	\$ 204	130,673,300	\$ 1,307	\$ 4,169,870	\$ (60,071)	\$ (853,973)	\$ 3,257,337	\$ 6,989	\$ 3,264,326
Redemption of preferred shares	(10,000,000)	(100)	—	—	(241,857)	—	(8,043)	(250,000)	—	(250,000)
Issuance of shares, net of offering costs	19,200,000	192	—	—	463,914	—	—	464,106	—	464,106
Issuance of common shares for Board of Trustees compensation	—	—	27,711	1	515	—	—	516	—	516
Repurchase of common shares	—	—	(38,310)	(1)	(719)	—	—	(720)	—	(720)
Share-based compensation	—	—	151,049	1	8,046	—	—	8,047	1,744	9,791
Distributions on common shares/units	—	—	—	—	—	—	(3,713)	(3,713)	(41)	(3,754)
Distributions on preferred shares	—	—	—	—	—	—	(30,761)	(30,761)	—	(30,761)
Cumulative effect adjustment from adoption of new accounting standard	—	—	—	—	(113,099)	—	—	(113,099)	—	(113,099)
Purchases of capped calls in connection with convertible senior notes	—	—	—	—	(20,975)	—	—	(20,975)	—	(20,975)
Other adjustment	—	—	—	—	—	393	—	393	(393)	—
Other comprehensive income (loss):										
Change in fair value of derivative instruments	—	—	—	—	—	6,930	—	6,930	173	7,103
Amounts reclassified from other comprehensive income	—	—	—	—	—	19,319	—	19,319	—	19,319
Net income (loss)	—	—	—	—	—	—	(142,465)	(142,465)	(1,085)	(143,550)
Balance at September 30, 2021	29,600,000	\$ 296	130,813,750	\$ 1,308	\$ 4,265,695	\$ (33,429)	\$ (1,038,955)	\$ 3,194,915	\$ 7,387	\$ 3,202,302

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

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

	For the nine months ended September 30,	
	2022	2021
Operating activities:		
Net income (loss)	\$ (45,114)	\$ (143,550)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	179,746	165,636
Share-based compensation	8,155	8,345
Amortization of deferred financing costs, non-cash interest and other amortization	9,961	12,668
Gain on sale of hotel properties	(6,194)	(64,729)
Impairment loss	86,119	14,856
Non-cash ground rent	7,467	4,563
Other adjustments	(3,914)	(214)
Changes in assets and liabilities:		
Hotel receivables	(29,243)	(21,657)
Prepaid expenses and other assets	(5,297)	(540)
Accounts payable and accrued expenses	50,280	57,685
Deferred revenues	2,447	11,190
Net cash provided by (used in) operating activities	254,413	44,253
Investing activities:		
Improvements and additions to hotel properties	(68,266)	(52,778)
Proceeds from sales of hotel properties	248,908	255,927
Acquisition of hotel properties	(247,163)	(190,968)
Deposits on hotel properties	—	(1,020)
Other investing activities	(111)	(96)
Net cash provided by (used in) investing activities	(66,632)	11,065
Financing activities:		
Gross proceeds from issuance of preferred shares	—	480,000
Payment of offering costs — common and preferred shares	(123)	(15,894)
Payment of deferred financing costs	(96)	(10,082)
Borrowings under revolving credit facilities	180,000	—
Repayments under revolving credit facilities	(180,000)	(40,000)
Proceeds from debt	—	268,599
Repayments of debt	(27,740)	(388,000)
Purchases of capped calls for convertible senior notes	—	(20,975)
Repurchases of common shares	(1,113)	(720)
Redemption of preferred shares	—	(250,000)
Distributions — common shares/units	(3,968)	(3,957)
Distributions — preferred shares/units	(34,859)	(26,049)
Repayments of refundable membership deposits	(2,008)	(1,872)
Net cash provided by (used in) financing activities	(69,907)	(8,950)
Net change in cash and cash equivalents and restricted cash	117,874	46,368
Cash and cash equivalents and restricted cash, beginning of year	92,247	136,300
Cash and cash equivalents and restricted cash, end of period	\$ 210,121	\$ 182,668

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

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

Note 1. Organization

Pebblebrook Hotel Trust (the "Company") is an internally managed hotel investment company, formed as a Maryland real estate investment trust in October 2009 to opportunistically acquire and invest in hotel properties located primarily in major United States cities and resort properties located near our primary target urban markets and select destination resort markets, with an emphasis on major gateway coastal markets.

As of September 30, 2022, the Company owned 51 hotels with a total of 12,756 guest rooms. The hotel properties are located in: Boston, Massachusetts; Chicago, Illinois; Hollywood, Florida; Jekyll Island, Georgia; Key West, Florida; Miami (Coral Gables), Florida; Los Angeles, California (Beverly Hills, Santa Monica, and West Hollywood); Naples, Florida; Newport, Rhode Island; Portland, Oregon; San Diego, California; San Francisco, California; Santa Cruz, California; Seattle, Washington; Stevenson, Washington; and Washington, D.C.

Substantially all of the Company's assets are held by, and all of the Company's operations are conducted through, Pebblebrook Hotel, L.P. (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. As of September 30, 2022, the Company owned 99.3% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 0.7% of the common units are owned by the other limited partners of the Operating Partnership. For the Company to maintain its qualification as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"), it cannot operate the hotels it owns. Therefore, the Operating Partnership and its subsidiaries lease the hotel properties to subsidiaries of Pebblebrook Hotel Lessee, Inc. (collectively with its subsidiaries, "PHL"), a taxable REIT subsidiary ("TRS"), which in turn engage third-party eligible independent contractors to manage the hotels. PHL is consolidated into the Company's financial statements.

COVID-19 Update

The COVID-19 pandemic, which began in early 2020, has had a significant negative impact on the Company's operations and financial results and is expected to continue to have a negative impact on the hotel industry and the Company's results of operations, financial position and cash flows for the remainder of 2022. Results improved in 2021 and have continued to improve through the first nine months of 2022. The Company exited its debt covenant waiver period under its credit facilities as of the end of the second quarter of 2022, and is in compliance with the covenants in the credit facility agreements. There remains significant uncertainty regarding the trends and outlook as a result of new variants and individual and government responses.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and in conformity with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") applicable to interim financial information. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted in accordance with the rules and regulations of the SEC. These unaudited consolidated financial statements include all adjustments considered necessary for a fair presentation of the consolidated balance sheets, consolidated statements of operations and comprehensive income, consolidated statements of equity and consolidated statements of cash flows for the periods presented. Interim results are not necessarily indicative of full-year performance, as a result of the impact of seasonal and other short-term variations and the acquisitions and or dispositions of hotel properties. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

The Company and its subsidiaries are separate legal entities and maintain records and books of accounts separate and apart from each other. The consolidated financial statements include all of the accounts of the Company and its subsidiaries and are presented in accordance with U.S. GAAP. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain reclassifications have been made to the prior period's financial statements to conform to the current year presentation.

Use of Estimates

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

Risks and Uncertainties

The state of the overall economy can significantly impact the hotels' operational performance and thus the Company's financial position. As discussed in *Note 1. Organization*, the COVID-19 pandemic has significantly impacted the hotels' operational performance. There has been a significant recovery in travel, however, the emergence of new variant strains or other factors that may impact travel demand may impact the Company's cash flow and ability to service debt or meet other financial obligations.

New Accounting Pronouncements

Reference Rate Reform

In March 2020 and January 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, and ASU 2021-01, *Reference Rate Reform (Topic 848)*, respectively. ASU 2020-04 and ASU 2021-01 provide optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate ("LIBOR") or another reference rate expected to be discontinued because of reference rate reform, if certain criteria are met. The guidance in ASU 2020-04 and ASU 2021-01 was effective upon issuance and, once adopted, may be applied prospectively to contract modifications and hedging relationships through December 31, 2022.

In 2020, the Company elected to apply the hedge accounting expedients related to probability and the assessments of effectiveness for future LIBOR-indexed cash flows to assume that the index upon which future hedged transactions will be based matches the index on the corresponding derivatives. Application of these expedients preserves the presentation of derivatives consistent with past presentation. The Company will continue to evaluate the impact of the adoption of ASU 2020-04 and ASU 2021-01 on its consolidated financial statements and disclosures.

Business Combinations

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805) Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, to improve the accounting for acquired revenue contracts with customers in a business combination by addressing diversity in practice and inconsistency related to the recognition of an acquired contract liability and to payment terms and their effect on subsequent revenue recognized by the acquirer. The amendments in ASU 2021-08 require that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts.

ASU 2021-08 is effective for fiscal years beginning after December 15, 2022 and early adoption is permitted. While the Company is continuing to assess the timing of adoption and the potential impacts of ASU 2021-08, it does not expect ASU 2021-08 to have a material effect on its consolidated financial statements and disclosures.

Note 3. Acquisition and Disposition of Hotel Properties

Acquisitions

On May 11, 2022, the Company acquired the 119-room Inn on Fifth in Naples, Florida for \$156.0 million, excluding prorations and transactions costs. This transaction was funded with cash on hand, the issuance of 16,291 common units of limited partnership interest in the Operating Partnership and 3,104,400 preferred units of the Operating Partnership designated as 6.0% Series Z Preferred Units.

On June 23, 2022, the Company acquired the 257-room Newport Harbor Island Resort (formerly Gurney's Newport Resort & Marina) in Newport, Rhode Island for \$174.0 million, using cash on hand and proceeds from its senior unsecured revolving credit facility. The property was acquired as part of a reverse 1031 Exchange in which the Company engaged a qualified intermediary to establish a trust to hold the property pending completion of the sale of the subject property or properties related to the reverse 1031 Exchange. The trust was deemed to be a variable interest entity (VIE) for which the Company is the primary beneficiary, and therefore, the Company has consolidated the trust and property.

Dispositions

The following table summarizes disposition transactions during 2022 and 2021 (in thousands):

Hotel Property Name	Location	Sale Date	Sale Price
The Marker San Francisco	San Francisco, CA	June 28, 2022	\$ 77,000
Sofitel Philadelphia at Rittenhouse Square	Philadelphia, PA	August 2, 2022	80,000
Hotel Spero	San Francisco, CA	August 25, 2022	71,000
Hotel Vintage Portland	Portland, OR	September 14, 2022	32,900
2022 Total			<u>\$ 260,900</u>
Sir Francis Drake	San Francisco, CA	April 1, 2021	\$ 157,625
The Roger New York	New York, NY	June 10, 2021	19,000
Villa Florence San Francisco on Union Square	San Francisco, CA	September 9, 2021	87,500
2021 Total			<u>\$ 264,125</u>

For the three and nine months ended September 30, 2022, the accompanying consolidated statements of operations and comprehensive income included operating income (loss) of \$0.6 million and \$(3.4) million, respectively, excluding impairment loss and gain on sale of hotel properties related to the hotel properties sold.

For the three and nine months ended September 30, 2021, the accompanying consolidated statements of operations and comprehensive income included operating (loss) of \$(3.6) million and \$(19.0) million, respectively, excluding impairment loss and gain on sale of hotel properties related to the hotel properties sold.

The sales of the hotel properties described above did not represent a strategic shift that had a major effect on the Company's operations and financial results and, therefore, did not qualify as discontinued operations.

Note 4. Investment in Hotel Properties

Investment in hotel properties as of September 30, 2022 and December 31, 2021 consisted of the following (in thousands):

	September 30, 2022	December 31, 2021
Land	\$ 911,898	\$ 926,330
Buildings and improvements	5,197,437	5,197,816
Furniture, fixtures and equipment	535,997	535,607
Finance lease asset	91,181	91,181
Construction in progress	21,369	15,869
	<u>\$ 6,757,882</u>	<u>\$ 6,766,803</u>
Right-of-use asset, operating leases	372,791	378,939
Investment in hotel properties	\$ 7,130,673	\$ 7,145,742
Less: Accumulated depreciation	(1,165,850)	(1,066,409)
Investment in hotel properties, net	<u>\$ 5,964,823</u>	<u>\$ 6,079,333</u>

On September 27, 2022, LaPlaya Beach Resort and LaPlaya Beach Club ("LaPlaya") and Inn on Fifth, both located in Naples, Florida, and Southernmost Beach Resort located in Key West, Florida were impacted by the effects of Hurricane Ian. Inn on Fifth and Southernmost Beach Resort did not suffer significant damage and have been reopened. LaPlaya was closed in anticipation of the storm and remains closed as a result of the damage sustained from Hurricane Ian. The Company expects LaPlaya to re-open in stages beginning in the fourth quarter of 2022.

The Company's insurance policies provide coverage for property damage, business interruption and reimbursement for other costs that were incurred relating to damages sustained during Hurricane Ian. Insurance proceeds are subject to deductibles. As of September 30, 2022, the Company recognized an impairment for the damage to LaPlaya and Southernmost Beach Resort, which resulted in an aggregate impairment loss of \$12.9 million, which is included in impairment loss in the Company's consolidated statement of operations and comprehensive income. The Company expects to incur additional costs related to the cleanup of the property and preparation of the property for reopening which are expected to be recovered through insurance proceeds. The Company is continuing to evaluate the financial impact of Hurricane Ian and its ability to recover, through insurance policies, any loss due to business interruption or damage to the hotel properties.

Impairment

The Company reviews its investment in hotel properties for impairment whenever events or circumstances indicate potential impairment. As a result of the ongoing effects of the COVID-19 pandemic on its expected future operating cash flows and estimated hold periods for certain properties, the Company determined certain impairment triggers had occurred and therefore, the Company assessed its investment in hotel properties for recoverability. Based on the analyses performed, for the nine months ended September 30, 2022, the Company recognized an impairment loss of \$73.3 million related to two hotels as a result of their fair values being lower than their carrying values. The impairment loss was determined using Level 2 inputs under authoritative guidance for fair value measurements using information from marketing efforts for these properties. For the nine months ended September 30, 2021, the Company recognized an impairment loss of \$14.9 million related to one hotel as a result of its fair value being lower than its carrying value. The impairment loss was determined using Level 2 inputs under authoritative guidance for fair value measurements using information from marketing efforts for this property.

Right-of-use Assets and Lease Liabilities

The Company recognized right-of-use assets and related liabilities related to its ground leases, all of which are operating leases. When the rate implicit in the lease could not be determined, the Company used incremental borrowing rates, which ranged from 4.7% to 7.6%. In addition, the term used includes any options to exercise extensions when it is reasonably certain the Company will exercise such options. See *Note 11. Commitments and Contingencies* for additional information about the ground leases.

The right-of-use assets and liabilities are amortized to ground rent expense over the term of the underlying lease agreements. As of September 30, 2022, the Company's lease liabilities consisted of operating lease liabilities of \$320.3 million and financing lease liabilities of \$42.5 million. As of December 31, 2021, the Company's lease liabilities consisted of operating lease liabilities of \$319.4 million and financing lease liabilities of \$42.0 million. The financing lease liabilities are included in accounts payable, accrued expenses and other liabilities on the Company's accompanying consolidated balance sheets.

Note 5. Debt

In 2021, the Company amended the agreements governing its existing credit facilities, term loan facilities and senior notes to, among other things, waive financial covenants until the second quarter of 2022 (with substantially less-restrictive covenants through the end of the first quarter of 2023), extend certain debt maturity dates and increase the interest rate spread.

The Company's debt consisted of the following as of September 30, 2022 and December 31, 2021 (dollars in thousands):

	Interest Rate		Maturity Date	Balance Outstanding as of	
				September 30, 2022	December 31, 2021
Revolving credit facilities					
Senior unsecured credit facility	Floating	(1)(2)	March 2023	\$ —	\$ —
PHL unsecured credit facility	Floating	(3)	March 2023	—	—
Total revolving credit facilities				<u>\$ —</u>	<u>\$ —</u>
Unsecured term loans					
First Term Loan	Floating	(4)	January 2023	26,000	26,000
First Term Loan Extended	Floating	(4)	March 2024	274,000	274,000
Second Term Loan	Floating	(4)	April 2022	—	26,327
Fourth Term Loan	Floating	(4)	October 2024	110,000	110,000
Sixth Term Loan					
Tranche 2021 Extended	Floating	(4)(6)	November 2022	82,071	82,071
Tranche 2022	Floating	(4)(7)	November 2022	114,670	114,670
Tranche 2023	Floating	(4)	November 2023	400,000	400,000
Tranche 2024	Floating	(4)	January 2024	400,000	400,000
Total Sixth Term Loan				<u>996,741</u>	<u>996,741</u>
Total term loans at stated value				1,406,741	1,433,068
Deferred financing costs, net				(3,083)	(5,812)
Total term loans				<u>\$ 1,403,658</u>	<u>\$ 1,427,256</u>
Convertible senior notes					
Convertible senior notes	1.75%		December 2026	750,000	750,000
Debt premium (discount), net				9,849	11,605
Deferred financing costs, net				(13,746)	(16,204)
Total convertible senior notes				<u>\$ 746,103</u>	<u>\$ 745,401</u>
Senior unsecured notes					
Series A Notes	5.15%		December 2023	47,600	47,600
Series B Notes	5.38%		December 2025	2,400	2,400
Total senior unsecured notes at stated value				<u>50,000</u>	<u>50,000</u>
Deferred financing costs, net				(101)	(162)
Total senior unsecured notes				<u>\$ 49,899</u>	<u>\$ 49,838</u>
Mortgage loans					
Margaritaville Hollywood Beach Resort	Floating	(5)	May 2023	161,500	161,500
Estancia La Jolla Hotel & Spa	5.07%		September 2028	59,960	61,373
Total mortgage loans at stated value				<u>221,460</u>	<u>222,873</u>
Debt premium (discount), net				(1,872)	(2,735)
Deferred financing costs, net				(478)	(745)
Total mortgage loans				<u>\$ 219,110</u>	<u>\$ 219,393</u>
Total debt				<u>\$ 2,418,770</u>	<u>\$ 2,441,888</u>

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

(2) \$39.0 million of the total borrowing capacity matured in January 2022. The Company has the option to extend the maturity date of March 2023 for the remaining \$611.0 million for up to two six-month periods, pursuant to certain terms and conditions and payment of an extension fee.

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

(4) Borrowings under the term loan facilities bear interest at floating rates equal to, at the Company's option, either (i) LIBOR plus an applicable margin or (ii) a Base Rate plus an applicable margin. As of September 30, 2022, approximately \$1.0 billion of the borrowings under the term loan facilities bore an effective weighted-average fixed interest rate of 3.86%, after taking into account interest rate swap agreements, and approximately \$366.7 million bore an effective weighted-average floating interest rate of 5.46%. As of December 31, 2021, approximately \$1.3 billion of the borrowings under the term loan facilities bore an effective weighted-average fixed interest rate of 4.06%, after taking into account interest rate swap agreements, and approximately \$113.1 million bore a weighted-average floating interest rate of 2.64%.

(5) In April 2022, the Company exercised the option to extend the maturity date to May 2023. The loan bears interest at a floating rate equal to one-month LIBOR plus a weighted-average spread of 2.37%. The Company has the option to extend the maturity date to May 2024.

(6) The Company has the option to extend the maturity date for \$69.8 million of the principal balance by up to one year, subject to certain terms and conditions and payment of an extension fee.

⁽⁷⁾ The Company has the option to extend the maturity date for \$93.0 million of the principal balance by up to one year, subject to certain terms and conditions and payment of an extension fee.

As discussed in *Note 13. Subsequent Events*, on October 13, 2022, the Company refinanced its senior unsecured revolving credit facility and all of its term loans. As a result, the Company has no significant debt maturities due within one year.

Unsecured Revolving Credit Facilities

As of September 30, 2022, the Company had a \$611.0 million senior unsecured revolving credit facility with a maturity of March 2023, with options to extend the maturity date for up to two six-month periods, subject to certain terms and conditions and payment of an extension fee. As of September 30, 2022, the Company had no outstanding borrowings, \$12.6 million of outstanding letters of credit and a borrowing capacity of \$598.4 million remaining on its senior unsecured credit facility. Interest is paid on the periodic advances under the senior unsecured revolving credit facility at varying rates, based upon either LIBOR or the alternate base rate, plus an additional margin amount, or spread. The Company had the ability to further increase the aggregate borrowing capacity under the credit agreement up to \$1.3 billion, subject to lender approval. Borrowings on the revolving credit facility bore interest at LIBOR plus 1.45% to 2.25%, depending on the Company's leverage ratio. As a result of the amendments to the credit agreements, the spread on the borrowings was fixed at 2.40% during the waiver period. Additionally, the Company was required to pay an unused commitment fee at an annual rate of 0.20% or 0.30% of the unused portion of the revolving credit facility, depending on the amount of borrowings outstanding. The credit agreement contains certain financial covenants, including a maximum leverage ratio, a minimum fixed charge coverage ratio, and a maximum percentage of secured debt to total asset value.

As of September 30, 2022, the Company also had a \$20.0 million unsecured revolving credit facility (the "PHL Credit Facility") to be used for PHL's working capital and general corporate purposes. This credit facility had substantially similar terms as the Company's senior unsecured revolving credit facility with a maturity of March 2023. Borrowings on the PHL Credit Facility bore interest at LIBOR plus 1.45% to 2.25%, depending on the Company's leverage ratio. As a result of the amendments described above, the spread of the borrowings was fixed at 2.40% during the waiver period. The PHL Credit Facility was subject to debt covenants substantially similar to the covenants under the Company's credit agreement that governs the Company's senior unsecured revolving credit facility. As of September 30, 2022, the Company had no borrowings under the PHL Credit Facility and had a \$20.0 million borrowing capacity remaining available under the PHL Credit Facility.

Under the terms of the credit agreement for the unsecured revolving credit facility, one or more standby letters of credit, up to a maximum aggregate outstanding balance of \$30.0 million, may be issued on behalf of the Company by the lenders under the unsecured revolving credit facility. The Company will incur a fee that shall be agreed upon with the issuing bank. Any outstanding standby letters of credit reduce the available borrowings on the senior unsecured revolving credit facility by a corresponding amount. Standby letters of credit of \$12.6 million and \$12.1 million were outstanding as of September 30, 2022 and December 31, 2021, respectively.

As of September 30, 2022, the Company was in compliance with all debt covenants of the credit agreements that govern the unsecured revolving credit facilities.

Unsecured Term Loan Facilities

As of September 30, 2022, the Company had senior unsecured term loans with different maturities. Each unsecured term loan bore interest at a variable rate of a benchmark interest rate plus an applicable margin, depending on the Company's leverage ratio. Each of the term loan facilities was subject to debt covenants substantially similar to the covenants under the credit agreement that governs the revolving credit facility. As of September 30, 2022, the Company was in compliance with all debt covenants of its term loan facilities.

The Company entered into interest rate swap agreements to fix the LIBOR rate on a portion of these unsecured term loan facilities. See *Derivative and Hedging Activities* for further discussion on the interest rate swaps.

Convertible Senior Notes

In December 2020, the Company issued \$500.0 million aggregate principal amount of 1.75% Convertible Senior Notes due December 2026 (the "Convertible Notes"). The net proceeds from this offering of the Convertible Notes were approximately \$487.3 million after deducting the underwriting fees and other expenses paid by the Company.

In February 2021, the Company issued an additional \$250.0 million aggregate principal amount of Convertible Notes. These additional Convertible Notes were sold at a 5.5% premium to par and generated net proceeds of approximately \$257.2 million after deducting the underwriting fees and other expenses paid by the Company of \$6.5 million, which was offset by a premium received in the amount of \$13.8 million.

The Convertible Notes are governed by an indenture (the "Base Indenture") between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee. The Convertible Notes bear interest at a rate of 1.75% per annum, payable semi-annually in arrears on June 15th and December 15th of each year, beginning on June 15, 2021. The Convertible Notes will mature on December 15, 2026.

The Company separated the Convertible Notes issued in December 2020 into liability and equity components. The initial carrying amount of the liability component was \$386.1 million and was calculated using a discount rate of 6.25%. The discount rate was based on the terms of debt instruments that were similar to the Convertible Notes. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the principal amount of such Convertible Notes, or \$113.9 million. The amount recorded in equity was not subject to remeasurement or amortization. The \$113.9 million also represented the initial discount recorded on the Convertible Notes. As a result of the Company's early adoption of ASU 2020-06 on January 1, 2021, the Convertible Notes are now recorded as a single liability with no portion recorded in equity. The Company also ceased recording non-cash interest expense associated with the amortization of the debt discount.

Prior to June 15, 2026, the Convertible Notes will be convertible upon certain circumstances. On and after June 15, 2026, holders may convert any of their Convertible Notes into the Company's common shares of beneficial interest ("common shares") at the applicable conversion rate at any time at their election two days prior to the maturity date. The initial conversion rate is 39.2549 common shares per \$1,000 principal amount of Convertible Notes, which represents an initial conversion price of approximately \$25.47 per share. The conversion rate is subject to adjustment in certain circumstances. As of September 30, 2022 and December 31, 2021, the if-converted value of the Convertible Notes did not exceed the principal amount.

The Company may redeem for cash all or a portion of the Convertible Notes, at its option, on or after December 20, 2023 upon certain circumstances. The redemption price will be equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If certain make-whole fundamental changes occur, the conversion rate for the Convertible Notes may be increased.

In connection with the Convertible Notes issuances, the Company entered into privately negotiated capped call transactions (the "Capped Call Transactions") with certain of the underwriters of the offerings of the Convertible Notes or their respective affiliates and other financial institutions. The Capped Call Transactions initially cover, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes, the number of common shares underlying the Convertible Notes. The Capped Call Transactions are expected generally to reduce the potential dilution to holders of common shares upon conversion of the Convertible Notes and/or offset the potential cash payments that the Company could be required to make in excess of the principal amount of any converted Convertible Notes upon conversion thereof, with such reduction and/or offset subject to a cap. The upper strike price of the Capped Call Transactions is \$33.0225 per share. The cost of the Capped Call Transactions entered into in December 2020 and February 2021 was \$38.3 million and \$21.0 million, respectively, and was recorded within additional paid-in capital.

Senior Unsecured Notes

The Company has \$47.6 million of senior unsecured notes outstanding bearing a fixed interest rate of 4.70% per annum and maturing in December 2023 (the "Series A Notes") and \$2.4 million of senior unsecured notes outstanding bearing a fixed interest rate of 4.93% per annum and maturing in December 2025 (the "Series B Notes"). In February 2021, as a result of the amendments described above, the interest rates of the Series A Notes and the Series B Notes increased to 5.15% and 5.38%, respectively. The debt covenants of the Series A Notes and the Series B Notes are substantially similar to those of the Company's senior unsecured revolving credit facility. As of September 30, 2022, the Company was in compliance with all such debt covenants.

Mortgage Loans

On September 23, 2021, the Company assumed a \$161.5 million loan secured by a first-lien mortgage on the leasehold interest of Margaritaville Hollywood Beach Resort ("Margaritaville"). The loan requires interest-only payments based on a floating interest rate of one-month LIBOR plus a weighted-average spread of 2.37%. The loan matures on May 9, 2023 and may be extended by one-year. If the loan is extended, the interest rate spread will increase by 20 basis points for the extension period only. The Company expects to exercise this extension. The loan is also subject to an interest rate cap agreement.

On December 1, 2021, the Company assumed a \$61.7 million loan secured by a first-lien mortgage on the leasehold interest of Estancia La Jolla Hotel & Spa ("Estancia"). The loan requires both principal and interest monthly payments based on a fixed interest rate of 5.07%. The loan matures on September 1, 2028.

The Company's mortgage loans associated with Margaritaville and Estancia are non-recourse to the Company except for customary carve-outs to the general non-recourse liability. The loans contain customary provisions regarding events of default, as well as customary cash management, cash trap and lockbox provisions. Cash trap provisions are triggered if the hotel's performance is below a certain threshold. Once triggered, all of the cash flow generated by the hotel is deposited directly into lockbox accounts and then swept into cash management accounts for the benefit of our lender. No event of default has occurred under the loan documents. Both mortgage loans triggered the cash trap provisions prior to their acquisition, but both properties reached profitability levels in 2022 that permitted the termination of the cash traps and all cash in the lockboxes has been released.

Interest Expense

The components of the Company's interest expense consisted of the following for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Unsecured revolving credit facilities	\$ 788	\$ 513	\$ 2,067	\$ 1,581
Unsecured term loan facilities	14,465	15,442	41,608	46,983
Convertible senior notes	3,282	3,282	9,844	9,381
Senior unsecured notes	645	645	1,935	2,917
Mortgage debt	2,657	88	6,531	88
Amortization of deferred financing fees, (premiums) and discounts	2,145	2,046	6,594	7,414
Other	1,038	914	2,174	4,701
Total interest expense	\$ 25,020	\$ 22,930	\$ 70,753	\$ 73,065

Fair Value

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates, taking into consideration general market conditions and maturity of the debt with similar credit terms and is classified within Level 2 of the fair value hierarchy. The estimated fair value of the Company's fixed rate debt (unsecured senior notes, convertible senior notes and the Estancia mortgage loan) as of September 30, 2022 and December 31, 2021 was \$676.5 million and \$747.8 million, respectively. The estimated fair value of the Company's variable rate debt approximates its book value.

Derivative and Hedging Activities

The Company enters into interest rate swap agreements to hedge against interest rate fluctuations. All of the Company's interest rate swaps are cash flow hedges. All unrealized gains and losses on these hedging instruments are reported in accumulated other comprehensive income (loss) and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings.

The Company's interest rate swaps at September 30, 2022 and December 31, 2021 consisted of the following, by maturity date (dollars in thousands):

Hedge Type	Interest Rate Range	Maturity	Aggregate Notional Value as of	
			September 30, 2022	December 31, 2021
Swap-cash flow	1.78% - 1.79%	January 2022	\$ —	\$ 180,000
Swap-cash flow	1.64% - 1.68%	April 2022	—	100,000
Swap-cash flow	0.17%	January 2023	200,000	200,000
Swap-cash flow	1.99%	November 2023	250,000	250,000
Swap-cash flow	2.60%	January 2024	300,000	300,000
Swap-cash flow	1.43% - 1.44%	February 2026	290,000	290,000
Total			\$ 1,040,000	\$ 1,320,000

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

As of September 30, 2022, the Company's derivative instruments were in an asset position with an aggregate fair value of \$39.1 million. None of the Company's derivative instruments were in a liability position as of September 30, 2022. Derivative assets are included in prepaid expenses and other assets and derivative liabilities are included in accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets. The Company expects approximately \$21.2 million will be reclassified from accumulated other comprehensive income (loss) to interest expense within the next 12 months.

Note 6. Revenue

The Company presents revenue on a disaggregated basis in the accompanying consolidated statements of operations and comprehensive income. The following table presents revenues by geographic location for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
San Diego, CA	\$ 99,552	\$ 63,524	\$ 237,011	\$ 119,668
Southern Florida/Georgia	53,543	30,928	219,068	104,901
Boston, MA	73,229	45,213	180,882	78,425
Los Angeles, CA	47,251	32,502	128,364	62,283
San Francisco, CA	40,753	16,524	87,070	28,653
Portland, OR	29,635	20,078	67,571	38,002
Other ⁽¹⁾	28,727	9,731	51,168	19,335
Chicago, IL	22,954	10,598	49,966	16,696
Washington, D.C.	13,901	6,275	37,148	12,441
Seattle, WA	7,148	3,437	14,037	5,363
	<u>\$ 416,693</u>	<u>\$ 238,810</u>	<u>\$ 1,072,285</u>	<u>\$ 485,767</u>

⁽¹⁾ Other includes: New York, NY, Philadelphia, PA, Newport, RI, and Santa Cruz, CA.

Payments from customers are primarily made when services are provided. Due to the short-term nature of the Company's contracts and the almost simultaneous receipt of payment, almost all of the contract liability balance at the beginning of the period is expected to be recognized as revenue over the following 12 months.

Note 7. Equity

Common Shares

The Company is authorized to issue up to 500,000,000 common shares. Each outstanding common share entitles the holder to one vote on each matter submitted to a vote of shareholders. Holders of common shares are entitled to receive dividends when authorized by the Board of Trustees.

Share Repurchase Program

On February 22, 2016, the Company announced that the Board of Trustees authorized a share repurchase program of up to \$150.0 million of common shares. Under this program, the Company may repurchase common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. Upon repurchase by the Company, common shares cease to be outstanding and become authorized but unissued common shares. For the nine months ended September 30, 2022, the Company had no repurchases under this program, and as of September 30, 2022, \$56.6 million of common shares remained available for repurchase under this program.

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

ATM Program

On April 29, 2021, the Company filed a prospectus supplement with the SEC to sell up to \$200.0 million of common shares under an "at the market" offering program (the "ATM program"). No common shares were issued or sold under the ATM program during the nine months ended September 30, 2022. As of September 30, 2022, \$200.0 million of common shares remained available for issuance under the ATM program.

Common Dividends

The Company declared the following dividends on common shares/units for the nine months ended September 30, 2022:

Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
\$ 0.01	March 31, 2022	March 31, 2022	April 15, 2022
\$ 0.01	June 30, 2022	June 30, 2022	July 15, 2022
\$ 0.01	September 30, 2022	September 30, 2022	October 17, 2022

Preferred Shares

The Company is authorized to issue up to 100,000,000 preferred shares of beneficial interest, \$0.01 par value per share (“preferred shares”).

In May 2021, the Company issued 9,200,000 6.375% Series G Cumulative Redeemable Preferred Shares at a public offering price of \$25.00 per share for net proceeds of \$222.6 million. In July 2021, the Company issued 10,000,000 5.70% Series H Cumulative Redeemable Preferred Shares at a public offering price of \$25.00 per share for net proceeds of \$242.1 million.

In August 2021, the Company redeemed all outstanding 6.50% Series C Cumulative Redeemable Preferred Shares and 6.375% Series D Cumulative Redeemable Preferred Shares at the redemption amount of \$25.00 per share plus accrued and unpaid dividends of \$0.17 and \$0.16 per share, respectively.

The following Preferred Shares were outstanding as of September 30, 2022 and December 31, 2021:

Security Type	September 30, 2022	December 31, 2021
6.375% Series E	4,400,000	4,400,000
6.30% Series F	6,000,000	6,000,000
6.375% Series G	9,200,000	9,200,000
5.70% Series H	10,000,000	10,000,000
	<u>29,600,000</u>	<u>29,600,000</u>

The Series E, Series F, Series G and Series H Cumulative Redeemable Preferred Shares (collectively, the “Preferred Shares”) rank senior to the common shares and on parity with each other with respect to payment of distributions. The Preferred Shares do not have any maturity date and are not subject to mandatory redemption. The Company may redeem the Series E and Series F Preferred Shares at any time. The Series G and Series H Preferred Shares may not be redeemed prior to May 13, 2026 and July 27, 2026, respectively, except in limited circumstances relating to the Company’s continuing qualification as a REIT or as discussed below. On or after such dates, the Company may, at its option, redeem the Preferred Shares, in each case in whole or from time to time in part, by payment of \$25.00 per share, plus any accumulated, accrued and unpaid distributions through the date of redemption. Upon the occurrence of a change of control, as defined in the Company’s declaration of trust, the result of which the common shares and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE MKT or Nasdaq, or any successor exchanges, the Company may, at its option, redeem the Preferred Shares in whole or in part within 120 days following the change of control by paying \$25.00 per share, plus any accrued and unpaid distributions through the date of redemption. If the Company does not exercise its right to redeem the Preferred Shares upon a change of control, the holders of the Preferred Shares have the right to convert some or all of their shares into a number of common shares based on defined formulas subject to share caps. The share cap on each Series E Preferred Share is 1.9372 common shares, on each Series F Preferred Share is 2.0649 common shares, on each Series G Preferred Share is 2.1231 common shares, and on each Series H Preferred Share is 2.2311 common shares.

Preferred Dividends

The Company declared the following dividends on preferred shares for the nine months ended September 30, 2022:

Security Type	Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
6.375% Series E	\$ 0.40	March 31, 2022	March 31, 2022	April 15, 2022
6.375% Series E	\$ 0.40	June 30, 2022	June 30, 2022	July 15, 2022
6.375% Series E	\$ 0.40	September 30, 2022	September 30, 2022	October 17, 2022
6.30% Series F	\$ 0.39	March 31, 2022	March 31, 2022	April 15, 2022
6.30% Series F	\$ 0.39	June 30, 2022	June 30, 2022	July 15, 2022
6.30% Series F	\$ 0.39	September 30, 2022	September 30, 2022	October 17, 2022
6.375% Series G	\$ 0.40	March 31, 2022	March 31, 2022	April 15, 2022
6.375% Series G	\$ 0.40	June 30, 2022	June 30, 2022	July 15, 2022
6.375% Series G	\$ 0.40	September 30, 2022	September 30, 2022	October 17, 2022
5.70% Series H	\$ 0.36	March 31, 2022	March 31, 2022	April 15, 2022
5.70% Series H	\$ 0.36	June 30, 2022	June 30, 2022	July 15, 2022
5.70% Series H	\$ 0.36	September 30, 2022	September 30, 2022	October 17, 2022

Non-controlling Interest of Common Units in Operating Partnership

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

On November 30, 2018, in connection with the merger with LaSalle Hotel Properties ("LaSalle"), the Company issued 133,605 OP units in the Operating Partnership to third-party limited partners of LaSalle's operating partnership.

On May 11, 2022, in connection with the acquisition of the Inn on Fifth in Naples, Florida, the Company issued 16,291 OP units in the Operating Partnership.

As of September 30, 2022 and December 31, 2021, the Operating Partnership had 149,896 and 133,605 OP units, respectively, held by third parties, excluding LTIP units.

As of September 30, 2022, the Operating Partnership had two classes of long-term incentive partnership ("LTIP") units, LTIP Class A units and LTIP Class B units. All of the outstanding LTIP units are held by officers of the Company.

As of September 30, 2022 and December 31, 2021, the Operating Partnership had 727,208 LTIP units outstanding. Of the 727,208 LTIP units outstanding at September 30, 2022, 127,111 LTIP units have vested. Only vested LTIP units may be converted to common OP units, which in turn can be tendered for redemption as described above.

Non-controlling Interest of Preferred Units in Operating Partnership

On May 11, 2022, in connection with the acquisition of the Inn on Fifth in Naples, Florida, the Company issued 3,104,400 preferred units in the Operating Partnership, designated as 6.0% Series Z Cumulative Perpetual Preferred Units ("Series Z Preferred Units"). The Series Z Preferred Units rank senior to the common OP units and on parity with the Operating Partnership's Series E, Series F, Series G and Series H Preferred Units. Holders of Series Z Preferred Units are entitled to receive quarterly distributions at an annual rate of 6.0% of the liquidation preference value of \$25.00 per share.

At any time, holders of Series Z Preferred Units may elect to convert some or all of their units into any other series of the Operating Partnership's preferred units outstanding at that time. After the second anniversary of the issuance of the Series Z Preferred Units, holders may elect to redeem some or all of their units for, at the Company's election, cash, common shares having an equivalent value or preferred shares on a one-for-one basis. After the fifth anniversary of their issuance, the Company may redeem the Series Z Preferred Units for cash, common shares having an equivalent value or preferred shares on a one-for-one basis. At any time following a change of control of the Company, holders of Series Z Preferred Units may elect to redeem some or all of their units for, at the Company's election, cash or common shares having an equivalent value.

As of September 30, 2022, the Operating Partnership had 3,104,400 Series Z Preferred Units outstanding.

Note 8. Share-Based Compensation Plan

Available Shares

The Company maintains the 2009 Equity Incentive Plan, as amended and restated (as amended, the "Plan"), to attract and retain independent trustees, executive officers and other key employees and service providers. On May 19, 2021, the Company's shareholders approved an amendment to the Plan which increased the aggregate number of common shares that may be issued under the Plan as share awards, performance units, options, share appreciation rights and other equity-based awards by 1,675,000. As of September 30, 2022, there were 1,725,000 common shares available for issuance under the Plan.

Service Condition Share Awards

The following table provides a summary of service condition restricted share activity as of September 30, 2022:

	Shares	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2021	567,431	\$ 22.53
Granted	136,940	\$ 22.06
Vested	(107,303)	\$ 26.23
Forfeited	(36,503)	\$ 22.80
Unvested at September 30, 2022	560,565	\$ 21.69

For the three and nine months ended September 30, 2022 the Company recognized approximately \$1.1 million and \$2.7 million, respectively, of share-based compensation expense related to these awards in the accompanying consolidated statements of operations and comprehensive income. For the three and nine months ended September 30, 2021 the Company recognized approximately \$1.1 million and \$3.0 million, respectively, of share-based compensation expense related to these awards in the accompanying consolidated statements of operations and comprehensive income.

Performance-Based Equity Awards

On May 16, 2022, the Board of Trustees approved a target award of 175,898 performance-based equity awards to officers and employees of the Company. These awards will vest, if at all, in 2025. The actual number of common shares that ultimately vest will be from 0% to 200% of the target award and will be determined in 2025 based on the performance criteria defined in the award agreements for the period of performance from January 1, 2022 through December 31, 2024.

For the three and nine months ended September 30, 2022, the Company recognized approximately \$1.4 million and \$3.4 million, respectively, of share-based compensation expense related to performance-based equity awards in the accompanying consolidated statements of operations and comprehensive income. For the three and nine months ended September 30, 2021, the Company recognized approximately \$1.3 million and \$3.6 million, respectively, of share-based compensation expense related to performance-based equity awards in the accompanying consolidated statements of operations and comprehensive income.

Long-Term Incentive Partnership ("LTIP") Units

As of September 30, 2022, the Operating Partnership had two classes of LTIP units, LTIP Class A units and LTIP Class B units. All of the outstanding LTIP units are held by officers of the Company.

As of September 30, 2022 and December 31, 2021, the Operating Partnership had 727,208 LTIP units outstanding. Of the 727,208 LTIP units outstanding at September 30, 2022, 127,111 LTIP units have vested. Only vested LTIP units may be converted to common OP units, which in turn can be tendered for redemption as described in *Note 7, Equity*.

For the three and nine months ended September 30, 2022, the Company recognized approximately \$0.7 million and \$2.1 million, respectively, in expense related to these LTIP units. For the three and nine months ended September 30, 2021, the Company recognized approximately \$0.7 million and \$1.7 million, respectively, in expense related to these LTIP units. The aggregate expense related to the LTIP unit grants is presented as non-controlling interest in the Company's accompanying consolidated balance sheets.

Note 9. Income Taxes

PHL is subject to federal and state corporate income taxes at statutory tax rates. Given the continued negative impact of the COVID-19 pandemic on the Company's financial results and uncertainties about the Company's ability to utilize its net operating loss in future years, the Company has recorded a valuation allowance on its income tax benefit for the three and nine months ended September 30, 2022, and has recorded a valuation allowance on all deferred tax assets.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal, state and local jurisdictions, where applicable. As of September 30, 2022 and December 31, 2021, the statute of limitations remains open for all major jurisdictions for tax years dating back to 2018 and 2017, respectively.

Note 10. Earnings (Loss) Per Share

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net income (loss) attributable to common shareholders	\$ 13,724	\$ (43,984)	\$ (80,504)	\$ (181,269)
Less: Dividends paid on unvested share-based compensation	(12)	(12)	(34)	(35)
Less: Undistributed earnings attributable to share-based compensation	(109)	—	—	—
Net income (loss) available to common shareholders — basic	\$ 13,603	\$ (43,996)	\$ (80,538)	\$ (181,304)
Plus: Interest expense on convertible notes	—	—	—	—
Net income (loss) available to common shareholders — diluted	\$ 13,603	\$ (43,996)	\$ (80,538)	\$ (181,304)
Denominator:				
Weighted-average number of common shares — basic	130,905,132	130,813,750	130,904,772	130,801,187
Effect of dilutive share-based compensation	244,651	—	—	—
Effect of dilutive convertible notes	—	—	—	—
Weighted-average number of common shares — diluted	131,149,783	130,813,750	130,904,772	130,801,187
Net income (loss) per share available to common shareholders — basic	\$ 0.10	\$ (0.34)	\$ (0.62)	\$ (1.39)
Net income (loss) per share available to common shareholders — diluted	\$ 0.10	\$ (0.34)	\$ (0.62)	\$ (1.39)

For the three and nine months ended September 30, 2022, 300,261 and 1,072,803, respectively, shares of unvested service condition restricted shares and performance-based equity awards were excluded from diluted weighted-average common shares, as their effect would have been anti-dilutive. For the three and nine months ended September 30, 2021, 1,035,369 shares of unvested service condition restricted shares and performance-based equity awards were excluded from diluted weighted-average common shares, as their effect would have been anti-dilutive. For the three and nine months ended September 30, 2022, 29,441,175 common shares underlying the convertible notes have been excluded from diluted shares as their effect would have been anti-dilutive. For the three and nine months ended September 30, 2021, 29,441,175 common shares underlying the convertible notes have been excluded from diluted shares as their effect would have been anti-dilutive.

The LTIP and OP units held by the non-controlling interest holders have been excluded from the denominator of the diluted earnings per share as there would be no effect on the amounts since the limited partners' share of income (loss) would also be added or subtracted to derive net income (loss) available to common shareholders.

Note 11. Commitments and Contingencies

Hotel Management Agreements

The Company's hotel properties are operated pursuant to management agreements with various management companies. The remaining terms of these management agreements are up to 12 years, not including renewals, and up to 30 years, including renewals. The majority of the Company's management agreements are terminable at will by the Company upon paying a termination fee and some are terminable by the Company upon sale of the property, with, in some cases, the payment of termination fees. Most of the agreements also provide the Company the ability to terminate based on failure to achieve defined operating performance thresholds. Termination fees range from zero to up to six times the annual base management and incentive management fees, depending on the agreement and the reason for termination. Certain of the Company's management agreements are non-terminable except upon the manager's breach of a material representation or the manager's failure to meet performance thresholds as defined in the management agreement.

The management agreements require the payment of a base management fee generally between 1% and 4% of hotel revenues. Under certain management agreements, the management companies are also eligible to receive an incentive management fee if hotel operating income, cash flows or other performance measures, as defined in the agreements, exceed certain performance thresholds. The incentive management fee is generally calculated as a percentage of hotel operating income after the Company has received a priority return on its investment in the hotel.

For the three and nine months ended September 30, 2022, combined base and incentive management fees were \$11.8 million and \$31.6 million, respectively. For the three and nine months ended September 30, 2021, combined base and incentive management fees were \$5.1 million and \$11.8 million, respectively. Base and incentive management fees are included in other direct and indirect expenses in the Company's accompanying consolidated statements of operations and comprehensive income.

Reserve Funds

Certain of the Company's agreements with its hotel managers, franchisors, ground lessors and lenders have provisions for the Company to provide funds, typically 4.0% of hotel revenues, sufficient to cover the cost of (a) certain non-routine repairs and maintenance to the hotels and (b) replacements and renewals to the hotels' furniture, fixtures and equipment.

Restricted Cash

At September 30, 2022 and December 31, 2021, the Company had \$19.4 million and \$33.7 million, respectively, in restricted cash, which consisted of funds held in cash management and lockbox accounts held by a lender, reserves for replacement of furniture and fixtures, and reserves to pay for real estate taxes, ground rent or property insurance under certain hotel management agreements or loan agreements.

Hotel, Ground and Finance Leases

As of September 30, 2022, the following hotels were subject to leases as follows:

Lease Properties	Lease Type	Lease Expiration Date
Restaurant at Southernmost Beach Resort	Operating lease	April 2029
Paradise Point Resort & Spa	Operating lease	May 2050
Hotel Monaco Washington DC	Operating lease	November 2059
Argonaut Hotel	Operating lease	December 2059
Hotel Zephyr Fisherman's Wharf	Operating lease	February 2062
Viceroy Santa Monica Hotel	Operating lease	September 2065
Estancia La Jolla Hotel & Spa	Operating lease	January 2066
San Diego Mission Bay Resort	Operating lease	July 2068
1 Hotel San Francisco (formerly Hotel Vitale)	Operating lease	March 2070 ⁽¹⁾
Hyatt Regency Boston Harbor	Operating lease	April 2077
The Westin Copley Place, Boston	Operating lease	December 2077 ⁽²⁾
The Liberty, a Luxury Collection Hotel, Boston	Operating lease	May 2080
Jekyll Island Club Resort and Restaurant	Operating lease	January 2089
Hotel Zelos San Francisco	Operating lease	June 2097
Hotel Palomar Los Angeles Beverly Hills	Operating lease	January 2107 ⁽³⁾
Margaritaville Hollywood Beach Resort	Operating lease	July 2112
Hotel Zeppelin San Francisco	Operating and finance lease	June 2089 ⁽⁴⁾
Harbor Court Hotel San Francisco	Finance lease	August 2052

⁽¹⁾ The expiration date assumes the exercise of a 14-year extension option.

⁽²⁾ No payments are required through maturity.

⁽³⁾ The expiration date assumes the exercise of all 19 five-year extension options.

⁽⁴⁾ The expiration date assumes the exercise of a 30-year extension option.

The Company's leases may require minimum fixed rent payments, percentage rent payments based on a percentage of revenues in excess of certain thresholds or rent payments equal to the greater of a minimum fixed rent or percentage rent. Minimum fixed rent may be adjusted annually by increases in the consumer price index and may be subject to minimum and maximum increases. Some leases also contain certain restrictions on modifications that can be made to the hotel structures due to their status as national historic landmarks.

The Company records expense on a straight-line basis for leases that provide for minimum rental payments that increase in pre-established amounts over the remaining terms of the leases. Ground rent expense is included in real estate taxes, personal property taxes, property insurance and ground rent in the Company's accompanying consolidated statements of operations and comprehensive income.

The components of ground rent expense for the three and nine months ended September 30, 2022 and 2021 are as follows (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Fixed ground rent	\$ 4,769	\$ 3,929	\$ 13,786	\$ 12,532
Variable ground rent	6,049	2,917	14,517	6,275
Total ground rent	<u>\$ 10,818</u>	<u>\$ 6,846</u>	<u>\$ 28,303</u>	<u>\$ 18,807</u>

Litigation

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

Note 12. Supplemental Information to Statements of Cash Flows (in thousands)

	For the nine months ended September 30,	
	2022	2021
Interest paid, net of capitalized interest	\$ 58,043	\$ 59,803
Interest capitalized	\$ 1,434	\$ 675
Income taxes paid (refunded)	\$ (2,303)	\$ 75
Non-Cash Investing and Financing Activities:		
Convertible debt discount adjustment	\$ —	\$ 113,099
Distributions payable on common shares/units	\$ 1,357	\$ 1,532
Distributions payable on preferred shares/units	\$ 11,202	\$ 12,270
Issuance of common shares for Board of Trustees compensation	\$ 738	\$ 516
Issuance of common shares for executive and employee bonuses	\$ —	\$ 1,446
Issuance of common units in connection with hotel acquisition	\$ 390	\$ —
Issuance of preferred units in connection with hotel acquisition	\$ 77,610	\$ —
Accrued additions and improvements to hotel properties	\$ 9,303	\$ 3,205
Right of use assets obtained in exchange for lease liabilities	\$ 1,005	\$ 48,302
Write-off of fully amortized deferred financing costs	\$ 5,878	\$ 5,043
Mortgage loans assumed in connection with acquisition of hotel properties	\$ —	\$ 161,500
Below (above) market contracts assumed in connection with acquisition of hotel properties	\$ —	\$ 3,071

Note 13. Subsequent Events

On October 13, 2022, the Company refinanced its senior unsecured revolving credit facility and all of its term loans. The \$2.0 billion amended and restated senior unsecured credit agreement includes a \$650.0 million senior unsecured revolving credit facility and three term loan facilities totaling \$1.38 billion. The \$650.0 million revolving credit facility matures in October 2026 and provides for two, six-month extension options. The three \$460.0 million term loans mature in October 2024, October 2025 and October 2027, respectively. The Company used the proceeds of the new term loans and \$26.7 million of cash on hand to repay the outstanding balances on the prior term loans.

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

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

FORWARD-LOOKING STATEMENTS

This report, together with other statements and information publicly disseminated by us, contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may", "will", "should", "potential", "could", "seek", "assume", "forecast", "believe", "expect", "intend", "anticipate", "estimate", "project" or similar expressions. Forward-looking statements in this report include, among others, statements about our business strategy, including acquisition and development strategies, industry trends, estimated revenues and expenses, estimated costs and durations of renovation or restoration projects, estimated insurance recoveries, our ability to realize deferred tax assets and expected liquidity needs and sources (including capital expenditures and our ability to obtain financing or raise capital). You should not rely on forward-looking statements since they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. These factors include, but are not limited to, the following:

- the COVID-19 pandemic has had, and may continue to have, a significant negative impact on our financial condition and operations, which impacts our ability to obtain acceptable financing to fund resulting reductions in cash from operations. The current and uncertain future impact of the COVID-19 pandemic, including its effect on the ability or desire of people to travel, is expected to continue to negatively affect our results, operations, outlooks, plans, goals, growth, reputation, cash flows, liquidity and share price;
- as a result of the COVID-19 pandemic, we suspended operations at most of our hotels and resorts. Operations have recommenced and are improving. However, if continued improvement is interrupted, we may become out of compliance with maintenance covenants in certain of our debt facilities;
- world events impacting the ability or desire of people to travel may lead to a decline in demand for hotels;
- risks associated with the hotel industry, including competition, changes in visa and other travel policies by the U.S. government making it less convenient, more difficult or less desirable for international travelers to enter the U.S., increases in employment costs, energy costs and other operating costs, or decreases in demand caused by events beyond our control, including, without limitation, actual or threatened terrorist attacks, natural disasters, cyber attacks, any type of flu or disease-related pandemic, or downturns in general and local economic conditions;
- the availability and terms of financing and capital and the general volatility of securities markets;
- our dependence on third-party managers of our hotels, including our inability to implement strategic business decisions directly;
- risks associated with the U.S. and global economies, the cyclical nature of hotel properties and the real estate industry, including environmental contamination and costs of complying with new or existing laws, including the Americans with Disabilities Act and similar laws;
- interest rate increases;
- our possible failure to qualify as a REIT under the Code and the risk of changes in laws affecting REITs;
- the timing and availability of potential hotel acquisitions, our ability to identify and complete hotel acquisitions and our ability to complete hotel dispositions in accordance with our business strategy;
- the possibility of uninsured losses;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns; and
- the other factors discussed under *Risk Factors* in Part II, Item 1A of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2021.

Accordingly, there is no assurance that our expectations will be realized. Except as otherwise required by the federal securities laws, we disclaim any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Overview

The COVID-19 pandemic, which began in early 2020, has had a significant negative impact on our operations and financial results and may continue to have a negative impact on the hotel industry and our results of operations, financial position and cash flows for the remainder of 2022. Results improved in 2021 and have continued to improve through the first nine months of 2022. We exited the debt covenant waiver period under our credit facilities as of the end of the second quarter of 2022, and we are in compliance with the covenants in the credit facility agreements. There remains significant uncertainty regarding the trends and outlook as a result of new variants and individual and government responses.

Overall performance has been led by the recovery of leisure travel which has driven revenue at our resorts to pre-pandemic levels. Corporate and group business has been slower to recover, but has substantially increased compared to 2021. We expect these trends to continue if the overall economic recovery continues. Recent inflation and the expectation of future inflation have caused labor and other costs to increase and have added additional uncertainty in consumer confidence and the continued growth in the economy.

During the nine months ended September 30, 2022, we had the following transactions:

- On May 11, 2022, we acquired Inn on Fifth in Naples, Florida for \$156.0 million.
- On June 23, 2022, we acquired Newport Harbor Island Resort (formerly Gurney's Newport Resort & Marina) in Newport, Rhode Island for \$174.0 million.
- On June 28, 2022, we sold The Marker San Francisco in San Francisco, California for \$77.0 million.
- On August 2, 2022, we sold Sofitel Philadelphia at Rittenhouse Square in Philadelphia, Pennsylvania for \$80.0 million.
- On August 25, 2022, we sold Hotel Spero in San Francisco, California for \$71.0 million.
- On September 14, 2022, we sold Hotel Vintage Portland in Portland, Oregon for \$32.9 million.

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

Key Indicators of Financial Condition and Operating Performance

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

Hotel Operating Statistics

The following table represents the key same-property hotel operating statistics for our hotels for the three and nine months ended September 30, 2022 and 2021:

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Same-Property Occupancy	72.7 %	54.9 %	63.4 %	39.8 %
Same-Property ADR	\$ 320.53	\$ 290.71	\$ 313.89	\$ 271.54
Same-Property RevPAR	\$ 232.99	\$ 159.70	\$ 199.06	\$ 108.05
Same-Property Total RevPAR	\$ 349.67	\$ 242.48	\$ 301.47	\$ 167.04

The above table of hotel operating statistics includes information from all hotels owned as of September 30, 2022 for the three months ended September 30, 2022 and 2021, except for 1 Hotel San Francisco which was closed for renovations. Additionally, the table excludes Sofitel Philadelphia at Rittenhouse Square due to its sale on August 2, 2022, Hotel Spero due to its sale on August 25, 2022 and Hotel Vintage Portland due to its sale on September 14, 2022.

The above table of hotel operating statistics includes information from all hotels owned as of September 30, 2022 for the nine months ended September 30, 2022 and 2021, except for 1 Hotel San Francisco which was closed for renovations, Inn on Fifth for the first quarter due to its acquisition on May 11, 2022 and Newport Island Harbor Resort (formerly Gurney's Newport Resort & Marina) for the first and second quarters due to its acquisition on June 23, 2022. Additionally, The Marker San Francisco was excluded in the second and third quarters due to its sale on June 28, 2022. Sofitel Philadelphia at Rittenhouse Square was excluded in the third quarter due to its sale on August 2, 2022. Hotel Spero was excluded in the third quarter due to its sale on August 25, 2022, and Hotel Vintage Portland was excluded in the third quarter due to its sale on September 14, 2022.

Non-GAAP Financial Measures

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

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

The following table reconciles net income (loss) to FFO and FFO available to common share and unit holders for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 26,305	\$ (23,538)	\$ (45,114)	\$ (143,550)
Adjustments:				
Real estate depreciation and amortization	60,285	55,379	179,480	165,301
(Gain) loss on sale of hotel properties	(6,194)	(171)	(6,194)	(64,729)
Impairment loss	12,865	—	86,119	14,856
FFO	\$ 93,261	\$ 31,670	\$ 214,291	\$ (28,122)
Distribution to preferred shareholders and unit holders	(12,507)	(12,528)	(35,842)	(30,761)
Issuance costs of redeemed preferred shares	—	(8,043)	—	(8,043)
FFO available to common share and unit holders	\$ 80,754	\$ 11,099	\$ 178,449	\$ (66,926)

EBITDA is defined as earnings before interest, income taxes, depreciation and amortization. The white paper issued by Nareit entitled “Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate” defines EBITDAre as net income or loss (computed in accordance with U.S. GAAP), excluding interest expense, income tax, depreciation and amortization, gains or losses on the disposition of depreciated property (including gains or losses on change of control), impairment write-downs of depreciated property and of investments in unconsolidated affiliates caused by a decrease in value of depreciated property in the affiliate, and after comparable adjustments for our portion of these items related to unconsolidated affiliates. We believe that EBITDA and EBITDAre provide investors useful financial measures to evaluate our operating performance, excluding the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization).

The following table reconciles net income (loss) to EBITDA and EBITDAre for the three and nine months ended September 30, 2022 and 2021 (in thousands):

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Net income (loss)	\$ 26,305	\$ (23,538)	\$ (45,114)	\$ (143,550)
Adjustments:				
Interest expense	25,020	22,930	70,753	73,065
Income tax expense (benefit)	1,015	5	1,015	60
Depreciation and amortization	60,372	55,492	179,746	165,636
EBITDA	\$ 112,712	\$ 54,889	\$ 206,400	\$ 95,211
(Gain) loss on sale of hotel properties	(6,194)	(171)	(6,194)	(64,729)
Impairment loss	12,865	—	86,119	14,856
EBITDAre	\$ 119,383	\$ 54,718	\$ 286,325	\$ 45,338

FFO, EBITDA and EBITDAre do not represent cash generated from operating activities as determined by U.S. GAAP and should not be considered as alternatives to U.S. GAAP net income (loss), as indications of our financial performance, or to U.S. GAAP cash flow from operating activities, as measures of liquidity. In addition, FFO, EBITDA and EBITDAre are not indicative of funds available to fund cash needs, including the ability to make cash distributions.

Results of Operations

At September 30, 2022 and 2021, we had 51 and 52, respectively, properties and leasehold interests. All properties owned during these periods have been included in our results of operations during the respective periods since their dates of acquisition and through the dates of disposition, as applicable. Based on when a property was acquired or disposed, operating results for certain properties are not comparable for the three and nine months ended September 30, 2022 and 2021. The properties listed in the table below are hereinafter referred to as "non-comparable properties" for the periods indicated and all other properties are referred to as "comparable properties":

Property	Location	Disposition Date
Sir Francis Drake	San Francisco, CA	April 1, 2021
The Roger New York	New York, NY	June 10, 2021
Villa Florence San Francisco on Union Square	San Francisco, CA	September 9, 2021
The Marker San Francisco	San Francisco, CA	June 28, 2022
Sofitel Philadelphia at Rittenhouse Square	Philadelphia, PA	August 2, 2022
Hotel Spero	San Francisco, CA	August 25, 2022
Hotel Vintage Portland	Portland, OR	September 14, 2022
Property	Location	Acquisition Date
Jekyll Island Club Resort	Jekyll Island, GA	July 22, 2021
Margaritaville Hollywood Beach Resort	Hollywood, FL	September 23, 2021
Estancia La Jolla Hotel & Spa	La Jolla, CA	December 1, 2021
Inn on Fifth	Naples, FL	May 11, 2022
Newport Harbor Island Resort (formerly Gurney's Newport Resort & Marina)	Newport, RI	June 23, 2022

Comparison of the three months ended September 30, 2022 to the three months ended September 30, 2021

Revenues — Total hotel revenues increased by \$177.9 million, of which \$48.3 million was due to non-comparable properties, and the balance was primarily due to an increase in leisure travel demand, as well as some recoveries in business and group bookings.

Hotel operating expenses — Total hotel operating expenses increased by \$103.5 million, of which \$28.8 million was due to non-comparable properties, and the balance was primarily due to resuming operations at our comparable properties and returning demand in 2022.

Depreciation and amortization — Depreciation and amortization expense increased by \$4.9 million primarily due to our acquisitions of three properties in 2021 and two properties in 2022. An increase in depreciation from these five properties was offset by a decrease in depreciation from the properties sold.

Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent increased by \$8.4 million primarily due to an increase in ground rent at our three non-comparable properties acquired in 2021.

Impairment loss — We recognized an impairment loss of \$12.9 million in 2022 related to damage caused by Hurricane Ian at LaPlaya Beach Resort and Club in Naples, Florida and Southernmost Beach Resort in Key West, Florida. No impairment loss was incurred during in 2021.

Gain on sale of hotel properties — We recognized a gain on sale of \$6.2 million related to the sales of Sofitel Philadelphia Rittenhouse Square and Hotel Vintage Portland in 2022. We recognized a gain on sale of \$0.2 million in 2021 primarily due to the sale of Sir Francis Drake.

Other operating expenses — Other operating expenses increased by \$0.6 million primarily due to an increase in pre-opening expenses.

Interest expense — Interest expense increased by \$2.1 million as a result of higher interest rates on floating rate debt.

Non-controlling interests — Non-controlling interests represents the allocation of income or loss of the Operating Partnership to third-party common OP unit holders and to the preferred OP unit holders. In 2022, this amount includes \$1.2 million in preferred distributions to the holders of Series Z Preferred Units which were issued in May 2022.

Distributions to preferred shareholders — Distributions to preferred shareholders decreased as a result of the redemption of the Series C and Series D Cumulative Redeemable Preferred Shares in August 2021.

Issuance costs of redeemed preferred shares — Issuance costs of redeemed preferred shares decreased due to the redemption of the Series C and Series D Cumulative Redeemable Preferred Shares in August 2021, and no preferred shares were redeemed in 2022. These costs are included in the determination of net income (loss) attributable to common shareholders.

Comparison of the nine months ended September 30, 2022 to the nine months ended September 30, 2021

Revenues — Total hotel revenues increased by \$586.5 million, of which \$147.0 million was due to non-comparable properties, and the balance was primarily due to an increase in leisure travel, as well as some recoveries in business and group bookings. In addition, several of our hotels remained temporarily suspended throughout the first quarter of 2021.

Hotel operating expenses — Total hotel operating expenses increased by \$326.3 million, of which \$85.4 million was due to non-comparable properties, and the balance was primarily due to resuming operations at our comparable properties and returning demand in 2022.

Depreciation and amortization — Depreciation and amortization expense increased by \$14.1 million primarily due to our acquisitions of three properties in 2021 and two properties in 2022. An increase in depreciation from these five properties was offset by a decrease in depreciation from the properties sold.

Real estate taxes, personal property taxes, property insurance and ground rent — Real estate taxes, personal property taxes, property insurance and ground rent increased by \$13.9 million primarily due to an increase in ground rent and property insurance at our three non-comparable properties acquired in 2021.

General and administrative — General and administrative expenses increased by \$2.9 million primarily due to compensation expense. General and administrative expenses consist of employee compensation costs, legal and professional fees, insurance and other expenses.

Impairment loss — We recognized an impairment loss of \$86.1 million in 2022 related to two hotels sold and related to damage caused by Hurricane Ian at the LaPlaya Beach Resort and Club in Naples, Florida and Southernmost Beach Resort in Key West, Florida. We recognized an impairment loss of \$14.9 million in 2021 related to one hotel.

Gain on sale of hotel properties — We recognized a gain on sale of \$6.2 million related to the sales of Sofitel Philadelphia at Rittenhouse Square and Hotel Vintage Portland in 2022. We recognized a gain on sale of \$64.7 million in 2021 primarily due to the sale of Sir Francis Drake.

Other operating expenses — Other operating expenses increased by \$2.5 million primarily due to an increase in pre-opening expenses and hotel management transition costs.

Interest expense — Interest expense decreased by \$2.3 million primarily due to lower borrowings, interest capitalized on renovation projects in 2022 and the maturity of certain higher fixed interest rate swap agreements, offset by an increase in interest expense in the third quarter as a result of higher interest rates on floating rate debt.

Non-controlling interests — Non-controlling interests represent the allocation of income or loss of the Operating Partnership to third-party common OP unit holders and to the preferred OP unit holders. In 2022, this amount includes \$1.8 million in preferred distributions to the holders of Series Z Preferred Units which were issued in May 2022.

Distributions to preferred shareholders — Distributions to preferred shareholders increased as a result of the Series G and Series H Cumulative Redeemable Preferred Shares, which were issued in May 2021 and July 2021, respectively, being outstanding for all of 2022.

Issuance costs of redeemed preferred shares — Issuance costs of redeemed preferred shares decreased due to the redemption of the Series C and Series D Cumulative Redeemable Preferred Shares in August 2021 and no preferred shares were redeemed in 2022. These costs are included in the determination of net income (loss) attributable to common shareholders.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

New Accounting Pronouncements

See *Note 2. Summary of Significant Accounting Policies* to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for recently issued accounting pronouncements that may affect us.

Liquidity and Capital Resources

Our primary sources of liquidity are cash provided by our operations, borrowings under our credit facilities, net proceeds from equity and debt offerings, and net proceeds from hotel property sales. Our primary cash requirements in the short term (i.e., those requiring cash on or before September 30, 2023) will be to fund property lease obligations, interest and current principal on debt, capital improvements, dividends on common and preferred shares, and working capital of our hotel property operations. We believe our cash and cash equivalents, restricted cash and the amount available on our senior unsecured revolving credit facility, which totaled \$808.5 million as of September 30, 2022, along with cash generated from ongoing operations will be sufficient to satisfy our short-term cash requirements. As of September 30, 2022, we had no off-balance sheet arrangements.

In order to maintain our qualification as a REIT, we must pay dividends to our shareholders of at least 90% of our taxable income. As a result of this requirement, we cannot rely on retained earnings to fund long-term liquidity requirements such as hotel property acquisitions, redevelopments and repayments of long-term debt. As such, we expect to continue to raise capital through equity and debt offerings to fund our growth.

For a discussion on the impact of the COVID-19 pandemic on our liquidity, see *Overview*.

Our material cash requirements include the following contractual and other obligations.

Debt

Our outstanding debt consisted of floating- and fixed-rate unsecured term loans, convertible senior notes, senior unsecured notes and mortgage loans with varying maturities. Our total debt had an aggregate face value of \$2.4 billion as of September 30, 2022, as summarized in the following table:

	September 30, 2022
	(in thousands)
Revolving credit facilities	\$ —
Term loans	1,406,741
Convertible senior notes	750,000
Senior unsecured notes	50,000
Mortgage loans	221,460
Total debt at face value	\$ 2,428,201

For further discussion on the components of our debt as of September 30, 2022, see *Note 5. Debt* to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

As of September 30, 2022 we had the option to extend certain of our current debt maturities with the payment of extension fees. If we had exercised all extension options available in our debt agreements, future principal and interest payments associated with our debt obligations outstanding as of September 30, 2022 would have been \$2.6 billion through their maturity, with \$61.7 million of principal and \$87.9 million of interest payable on or before September 30, 2023.

As previously disclosed and as discussed in *Note 13. Subsequent Events* to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, on October 13, 2022, the Company refinanced its senior unsecured revolving credit facility and term loans. The interest rates on the new senior unsecured revolving credit facility and term loans are based on pricing grids similar to those of the prior facility and term loans and the financial covenants are substantially the same as those of the credit agreements that governed the prior facility and term loans.

We are in compliance with all covenants governed by the unsecured credit facilities as of September 30, 2022, as well as our amended and restated senior credit facilities. We are also in compliance with all covenants governed by our senior note facilities.

Our mortgage loans contain customary provisions regarding events of default, as well as customary cash management, cash trap and lockbox provisions. Cash trap provisions are triggered if the hotel's performance is below a certain threshold. Once triggered, all of the cash flow generated by the hotel is deposited directly into lockbox accounts and then swept into cash management accounts for the benefit of our lender.

The mortgage loans associated with Margaritaville Hollywood Beach Resort and Estancia La Jolla Hotel & Spa triggered the cash trap provisions prior to their acquisition, but both properties reached profitability levels in 2022 that permitted the termination of the cash traps and all cash in the lockboxes has been released.

Hotel, ground and finance lease obligations

Our properties that are subject to hotel, ground or finance leases, as noted in *Note 11. Commitment and Contingencies* to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, may require minimum fixed rent payments, percentage rent payments based on a percentage of revenues in excess of certain thresholds or rent payments equal to the greater of a minimum fixed rent or percentage rent. Minimum fixed rent may be adjusted annually by increases in consumer price index ("CPI") and may be subject to minimum and maximum increases.

Future fixed minimum payments associated with our hotel, ground and finance leases total \$1.8 billion as of September 30, 2022, with \$20.7 million payable on or before September 30, 2023.

Purchase commitments

As of September 30, 2022, we had \$7.0 million of outstanding purchase commitments, all of which will be paid on or before September 30, 2023. These purchase commitments represent outstanding purchase orders and contracts that have been executed for capital and renovation projects at our properties. See *Capital Investments* for discussion on planned capital investments.

Preferred dividends

We expect to pay aggregate annual dividends of approximately \$50.0 million on our outstanding Series E, Series F, Series G and Series H Cumulative Redeemable Preferred Shares and our Series Z Cumulative Perpetual Preferred Units within the next 12 months and in each future year until the shares are redeemed. For further discussion on our preferred shares and units, see *Note 7. Equity* to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Sources and Uses of Cash

Our principal sources of cash are cash from operations, draws on our credit facilities, net proceeds from equity and debt offerings, and net proceeds from property sales. Our principal uses of cash are asset acquisitions, debt service payments, the redemption of equity securities, capital investments, operating costs, corporate expenses and dividends.

Operating Activities. Our net cash provided by (used in) operating activities was \$254.4 million for the nine months ended September 30, 2022, and \$44.3 million for the nine months ended September 30, 2021. Fluctuations in our net cash provided by (used in) operating activities are primarily the result of changes in hotel revenues, operating cash requirements and corporate expenses. The increase in cash provided by (used in) operations in 2022 as compared to 2021 is due to the resumption of operations at our hotels, an increase in leisure travel demand during the spring and summer travel seasons, as well as continued recovery in business and group bookings. In addition, the operations at several of our hotels were temporarily suspended throughout the first quarter of 2021 and all hotels are operating in 2022.

Investing Activities. Our net cash provided by (used in) investing activities was \$(66.6) million for the nine months ended September 30, 2022, and \$11.1 million for the nine months ended September 30, 2021. Fluctuations in our net cash provided by (used in) investing activities are primarily the result of acquisition and disposition activities, as well as capital improvements and additions to our properties.

- During the nine months ended September 30, 2022, we invested \$68.3 million in improvements to our hotel properties; received \$248.9 million from the sale of four hotel properties; and purchased two hotel properties using cash of \$247.2 million.

- During the nine months ended September 30, 2021, we invested \$52.8 million in improvements to our hotel properties; received \$255.9 million from the sale of three hotel properties, purchased two hotel properties using cash of \$191.0 million and paid a deposit for the acquisition of one hotel property using cash of \$1.0 million.

Financing Activities. Our net cash provided by (used in) financing activities was \$(69.9) million for the nine months ended September 30, 2022, and \$(9.0) million for the nine months ended September 30, 2021. Fluctuations in our net cash provided by (used in) financing activities are primarily the result of our issuance and repurchase of debt and equity securities and distributions paid on our preferred and common shares.

- During the nine months ended September 30, 2022, we borrowed and repaid \$180.0 million of revolving credit facility borrowings; repaid \$27.7 million in other debt; and paid \$38.8 million in preferred and common distributions.
- During the nine months ended September 30, 2021, we borrowed and repaid \$268.6 million and \$388.0 million, respectively, in other debt; received \$480.0 million in gross proceeds from the issuances of preferred shares; repaid \$40.0 million of revolving credit facilities borrowings; paid \$30.0 million in preferred and common distributions; purchased \$21.0 million in capped call transactions; paid \$15.9 million in offering costs; and paid \$10.1 million in financing fees.

Capital Investments

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

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

For the nine months ended September 30, 2022, we invested \$68.3 million in capital investments to reposition and improve our properties, including the renovations of 1 Hotel San Francisco (formerly Hotel Vitale), Hotel Ziggy (formerly Grafton on Sunset) and Skamania Lodge.

Depending on market conditions, we expect to invest a total of \$100.0 million to \$110.0 million in capital investments in 2022, which includes approximately \$50.0 million in redevelopment and repositioning projects at 1 Hotel San Francisco (formerly Hotel Vitale), Skamania Lodge, Solamar Hotel, Hilton San Diego Gaslamp Quarter, Viceroy Santa Monica Hotel and Jekyll Island Club Resort and excludes capital expenditures related to the repair and remediation of LaPlaya Beach Resort and Southernmost Beach Resort damaged in Hurricane Ian.

Common Share Repurchase Program and ATM Program

On February 22, 2016, we announced that our Board of Trustees authorized a share repurchase program of up to \$150.0 million of common shares. Under this program, we may repurchase common shares from time to time in transactions on the open market or by private agreement. We may suspend or discontinue this program at any time. No common shares were repurchased by the Company under the share repurchase program during the nine months ended September 30, 2022. As of September 30, 2022, \$56.6 million of common shares remained available for repurchase under this program.

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

On April 29, 2021, we filed a prospectus supplement with the SEC to sell up to \$200.0 million of common shares under an "at the market" offering program (the "ATM program"). No common shares were issued or sold under the ATM program during the nine months ended September 30, 2022. As of September 30, 2022, \$200.0 million of common shares remained available for issuance under the ATM program.

Inflation

We rely on the performance of the hotels to increase revenues to keep pace with inflation. Generally, our hotel operators possess the ability to adjust room rates daily, except for group or corporate rates contractually committed to in advance, although competitive pressures may limit the ability of our operators to raise rates faster than inflation or even at the same rate. Inflation may also affect our expenses and costs of capital investments by increasing, among other things, the costs of labor, employee related benefits, food, commodities, and other materials, taxes, insurance and utilities.

Seasonality

Demand in the lodging industry is affected by recurring seasonal patterns which are greatly influenced by overall economic cycles, geographic locations, weather and customer mix at the hotels. Generally, our hotels have lower revenue, operating income and cash flow in the first quarter of each year and higher revenue, operating income and cash flow in the third quarter of each year. The historical trend was disrupted in 2020 and 2021 as a result of COVID-19 and, as a result, demand, revenue, and operating income was directly affected by the number of COVID-19 cases and government and individual responses to the pandemic. Many of the properties in our portfolio have returned to normal historical seasonality trends in 2022.

Derivative Instruments

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

As of September 30, 2022, we have interest rate swap agreements with an aggregate notional amount of \$1.0 billion to hedge variable interest rates on our unsecured term loans. We have designated these pay-fixed, receive-floating interest rate swap derivatives as cash flow hedges. For a further discussion of our derivative instruments, see *Note 5. Debt* to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Sensitivity

We are exposed to market risk from changes in interest rates. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous. From time to time, we may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements are intended to lessen the impact of rising interest rates, they also expose us to the risks that the other parties to the agreements will not perform, that we could incur significant costs associated with the settlement of the agreements, and that the agreements will be unenforceable and the underlying transactions will fail to qualify as highly effective cash flow hedges under guidance included in ASC 815 "Derivatives and Hedging."

As of September 30, 2022, \$528.2 million of our aggregate indebtedness (21.8% of total indebtedness) was subject to variable interest rates, excluding amounts outstanding under the term loan facilities that have been effectively swapped into fixed rates. If interest rates on our variable rate debt increase or decrease by 0.1 percent, our annual interest expense will increase or decrease by approximately \$0.5 million, respectively.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have been no material changes from the risk factors disclosed in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2021.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
July 1, 2022 - July 31, 2022	—	\$ —	—	—
August 1, 2022 - August 31, 2022	—	\$ —	—	—
September 1, 2022 - September 30, 2022	—	\$ —	—	—
Total	—	\$ —	—	\$ 56,600,000

⁽¹⁾ On February 22, 2016, the Company announced its Board of Trustees authorized a share repurchase program of up to \$150.0 million of the Company's common shares. Under this program, the Company may repurchase its common shares from time to time in transactions on the open market or by private agreement. The Company may suspend or discontinue this program at any time. The amount in this column does not include the approximate dollar value of shares that may yet be purchased under the \$100.0 million share repurchase program that was announced on July 27, 2017, which will commence upon the completion of the Company's \$150.0 million share repurchase program. See *Note 7. Equity* to our consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information about the \$100.0 million share repurchase program.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
<u>10.1</u>	Fifth Amended and Restated Credit Agreement, dated as of October 13, 2022, among the Operating Partnership, as the borrower, the Registrant, as the parent REIT and a guarantor, certain subsidiaries of the borrower, as guarantors, Bank of America, N.A., as administrative agent and L/C issuer, and the other lenders party thereto (incorporated by reference to Exhibit 10.1 to Pebblebrook Hotel Trust's Current Report on Form 8-K filed on October 14, 2022 (File No. 001-34571)).
<u>31.1†</u>	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2†</u>	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1††</u>	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2††</u>	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. ⁽¹⁾
101.SCH	Inline XBRL Taxonomy Extension Schema Document ⁽¹⁾
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document ⁽¹⁾
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document ⁽¹⁾
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document ⁽¹⁾
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document ⁽¹⁾
104	Cover Page Interactive Data File (embedded within the Inline XBRL document) ⁽¹⁾

† Filed herewith.

†† Furnished herewith.

⁽¹⁾ Submitted electronically herewith. Attached as Exhibit 101 to this report are the following documents formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations and Comprehensive Income; (iii) Consolidated Statements of Equity; (iv) Consolidated Statements of Cash Flows; (v) Notes to Consolidated Financial Statements; and (vi) Cover Page (in connection with Exhibit 104).

SIGNATURES

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

Date: October 27, 2022

PEBBLEBROOK HOTEL TRUST

/s/ JON E. BORTZ

Jon E. Bortz

Chairman, President and Chief Executive Officer

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jon E. Bortz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pebblebrook Hotel 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 trustees (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: October 27, 2022

/s/ JON E. BORTZ

Jon E. Bortz

Chairman, President and Chief Executive Officer
(principal executive officer)

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Raymond D. Martz, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pebblebrook Hotel 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 trustees (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: October 27, 2022

/s/ RAYMOND D. MARTZ

Raymond D. Martz

Executive Vice President, Chief Financial Officer, Treasurer and
Secretary (principal financial officer and principal accounting officer)

**Certification Pursuant To
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Pebblebrook Hotel Trust (the “Company”) on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jon E. Bortz, Chairman, President and Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, 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.

Date: October 27, 2022

/s/ JON E. BORTZ

Jon E. Bortz

Chairman, President and Chief Executive Officer
(principal executive officer)

**Certification Pursuant To
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Pebblebrook Hotel Trust (the “Company”) on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Raymond D. Martz, Executive Vice President, Chief Financial Officer, Treasurer and Secretary, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, 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.

Date: October 27, 2022

/s/ RAYMOND D. MARTZ

Raymond D. Martz

Executive Vice President, Chief Financial
Officer, Treasurer and Secretary (principal
financial officer and principal accounting officer)