Section 1: 10-Q (10-Q)

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 March 31, 2018

SOTHERLY HOTELS INC.
(Exact name of registrant as specified in its charter)

MARYLAND	**001-32379**	**20-1531029**
(State or Other Jurisdiction of Incorporation or Organization)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

SOTHERLY HOTELS LP
(Exact name of registrant as specified in its charter)

DELAWARE	**001-36091**	**20-1965427**
(State or Other Jurisdiction of Incorporation or Organization)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

410 West Francis Street
Williamsburg, Virginia 23185
(757) 229-5648
(Address and Telephone Number of Principal Executive Offices)

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.

Sotherly Hotels Inc. Yes ☒ No ☐ **Sotherly Hotels LP** Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Sotherly Hotels Inc. Yes ☒ No ☐ **Sotherly Hotels LP** 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 Securities Exchange Act. (Check one):

Sotherly Hotels Inc.

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-accelerated Filer	☐	Smaller Reporting Company	☐
Emerging Growth Company	☐		

Sotherly Hotels LP

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).

Sotherly Hotels Inc. Yes ☐ No ☒ **Sotherly Hotels LP** Yes ☐ No ☒

As of May 4, 2018, there were 14,121,081 shares of Sotherly Hotels Inc.’s common stock issued and outstanding.

EXPLANATORY NOTE

We refer to Sotherly Hotels Inc. as the “Company,” Sotherly Hotels LP as the “Operating Partnership,” the Company’s common stock as “Common Stock,” the Company’s preferred stock as “Preferred Stock,” and the Operating Partnership’s preferred interest as the “Preferred Interest.” References to “we” and “our” mean the Company, its Operating Partnership and its subsidiaries and predecessors, collectively, unless the context otherwise requires or where otherwise indicated.

The Company conducts virtually all of its activities through the Operating Partnership and is its sole general partner. The partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership.

This report combines the Quarterly Reports on Form 10-Q for the period ended March 31, 2018 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

- combined reports better reflect how management and investors view the business as a single operating unit;
- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- Consolidated Financial Statements;
- the following Notes to Consolidated Financial Statements:
    - Note 7 – Preferred Stock and Units;
    - Note 8 – Common Stock and Units;
    - Note 9 – Related Party Transactions; and
    - Note 13 – Income Per Share and Per Unit;
- Item 4 - Controls and Procedures; and
- Item 6 - Certifications of CEO and CFO Pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act.

SOTHERLY HOTELS INC.
SOTHERLY HOTELS LP

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PART I

Item 1. ***Consolidated Financial Statements***

SOTHERLY HOTELS INC.
CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Investment in hotel properties, net	$ 438,649,721	$ 357,799,512
Cash and cash equivalents	30,673,556	29,777,845
Restricted cash	4,901,392	3,651,197
Accounts receivable, net	9,424,697	5,587,077
Accounts receivable - affiliate	307,351	394,026
Prepaid expenses, inventory and other assets	6,207,626	7,292,565
Deferred income taxes	5,190,855	5,451,118
TOTAL ASSETS	**$ 495,355,198**	**$ 409,953,340**
LIABILITIES		
Mortgage loans, net	$ 357,170,859	$ 297,318,816
Unsecured notes, net	23,530,323	—
Accounts payable and accrued liabilities	16,534,533	13,813,623
Advance deposits	2,570,635	1,572,388
Dividends and distributions payable	3,229,002	3,073,483
TOTAL LIABILITIES	**$ 403,035,352**	**$ 315,778,310**
Commitments and contingencies (See Note 6)	—	—
EQUITY		
Sotherly Hotels Inc. stockholders' equity		
Preferred stock, $0.01 par value, 11,000,000 shares authorized;		
8.0% Series B cumulative redeemable perpetual preferred stock, liquidation preference $25 per share, 1,610,000 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	16,100	16,100
7.875% Series C cumulative redeemable perpetual preferred stock, liquidation preference $25 per share, 1,300,000 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	13,000	13,000
Common stock, par value $0.01, 49,000,000 shares authorized, 14,121,081 shares and 14,078,831 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	141,211	140,788
Additional paid-in capital	146,360,268	146,249,339
Unearned ESOP shares	(4,572,942)	(4,633,112)
Distributions in excess of retained earnings	(50,558,067)	(48,765,860)
Total Sotherly Hotels Inc. stockholders' equity	91,399,570	93,020,255
Noncontrolling interest	920,276	1,154,775
TOTAL EQUITY	**92,319,846**	**94,175,030**
TOTAL LIABILITIES AND EQUITY	**$ 495,355,198**	**$ 409,953,340**

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

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
REVENUE		
Rooms department	$ 28,285,445	$ 27,366,634
Food and beverage department	8,351,983	8,323,759
Other operating departments	5,098,128	3,004,493
Total revenue	**41,735,556**	**38,694,886**
EXPENSES		
Hotel operating expenses		
Rooms department	6,700,381	6,682,279
Food and beverage department	6,395,076	5,728,473
Other operating departments	1,528,327	600,020
Indirect	15,233,256	14,205,231
Total hotel operating expenses	**29,857,040**	**27,216,003**
Depreciation and amortization	5,634,190	4,061,097
Loss on disposal of assets	3,739	—
Corporate general and administrative	1,546,300	1,712,082
Total operating expenses	**37,041,269**	**32,989,182**
NET OPERATING INCOME	**4,694,287**	**5,705,704**
Other income (expense)		
Interest expense	(4,177,019)	(3,813,717)
Interest income	81,704	39,705
Unrealized gain (loss) on hedging activities	12,730	(15,945)
Gain on sale of assets	—	100,407
Gain on involuntary conversion of assets	870,741	1,041,815
Net income before income taxes	**1,482,443**	**3,057,969**
Income tax provision	(305,955)	(171,937)
Net income	**1,176,488**	**2,886,032**
Less: Net loss (income) attributable to noncontrolling interest	30,013	(229,942)
Net income attributable to the Company	**1,206,501**	**2,656,090**
Distributions to preferred stockholders	(1,444,844)	(805,000)
Net income (loss) available to common stockholders	**$ (238,343)**	**$ 1,851,090**
Net income (loss) per share available to common stockholders		
Basic and Diluted	$ (0.02)	$ 0.13
Weighted average number of common shares outstanding		
Basic and Diluted	13,472,444	14,025,489

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

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Preferred Stock		Common Stock		Additional Paid-In Capital	Unearned ESOP Shares	Distributions in Excess of Retained Earnings	Noncontrolling Interest	Total
	Shares	Par Value	Shares	Par Value					
Balances at December 31, 2017	**2,910,000**	**$ 29,100**	**14,078,831**	**$140,788**	**$146,249,339**	**$(4,633,112)**	**$ (48,765,860)**	**$ 1,154,775**	**$94,175,030**
Net income	—	—	—	—	—	—	1,206,501	(30,013)	1,176,488
Issuance of unrestricted common stock awards	—	—	2,250	23	13,454	—	—	—	13,477
Issuance of restricted common stock awards	—	—	40,000	400	89,450	—	—	—	89,850
Amortization of ESOP shares	—	—	—	—	—	60,170		—	60,170
Amortization of restricted stock award	—	—	—	—	8,025	—	—	—	8,025
Preferred stock dividends declared	—	—	—	—	—	—	(1,444,844)	—	(1,444,844)
Common stockholders' dividends and distributions declared	—	—	—	—	—	—	(1,553,864)	(204,486)	(1,758,350)
Balances at March 31, 2018 (unaudited)	**2,910,000**	**$ 29,100**	**14,121,081**	**$141,211**	**$146,360,268**	**$(4,572,942)**	**$ (50,558,067)**	**$ 920,276**	**$92,319,846**

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

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash flows from operating activities:		
Net income	$ 1,176,488	$ 2,886,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,634,190	4,061,097
Amortization of deferred financing costs	186,694	214,357
Amortization of mortgage premium	(6,170)	(6,170)
Gain on involuntary conversion of assets	(870,741)	(1,041,815)
Unrealized (gain) loss on derivative instrument	(12,730)	15,945
Loss on disposal of assets	3,739	—
Gain on sale of assets	—	(100,407)
Share - based compensation	171,523	94,140
Changes in assets and liabilities:		
Accounts receivable	(3,837,620)	(1,209,174)
Prepaid expenses, inventory and other assets	1,075,655	(1,066,260)
Deferred income taxes	260,262	118,050
Accounts payable and other accrued liabilities	2,441,901	1,435,722
Advance deposits	998,247	1,089,819
Accounts receivable - affiliate	86,675	(471,361)
Net cash provided by operating activities	**7,308,113**	**6,019,975**
Cash flows from investing activities:		
Acquisitions of hotel properties	(80,479,137)	(3,986,849)
Improvements and additions to hotel properties	(5,851,104)	(6,304,669)
Proceeds from the sale of hotel property	—	5,434,856
Proceeds from insurance conversion	870,741	776,815
Proceeds from the sale or disposal of assets	—	2,955
Net cash used in investing activities	**(85,459,500)**	**(4,076,892)**
Cash flows from financing activities:		
Proceeds of mortgage debt	62,000,000	—
Proceeds of unsecured debt	25,000,000	—
Repurchase of common stock	—	(1,103,130)
Payments on mortgage loans	(1,649,012)	(3,566,914)
(Payments) refund of deferred financing costs	(2,006,021)	3,600
Funding of ESOP stock purchase	—	(4,874,758)
Dividends and distributions paid	(1,602,830)	(1,571,526)
Preferred dividends paid	(1,444,844)	(805,000)
Net cash provided by (used in) financing activities	**80,297,293**	**(11,917,728)**
Net (decrease) increase in cash, cash equivalents and restricted cash	2,145,906	(9,974,645)
Cash, cash equivalents and restricted cash at the beginning of the period	33,429,042	36,362,921
Cash, cash equivalents and restricted cash at the end of the period	**$ 35,574,948**	**$ 26,388,276**
Supplemental disclosures:		
Cash paid during the period for interest	**$ 3,831,409**	**$ 3,513,312**
Cash paid during the period for income taxes	**$ 13,437**	**$ 81,361**
Non-cash investing and financing activities:		
Change in amount of improvements to hotel property in accounts payable and accrued liabilities	**$ 94,122**	**$ 1,141,553**

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

SOTHERLY HOTELS LP
CONSOLIDATED BALANCE SHEETS

	March 31, 2018	December 31, 2017
ASSETS		
Investment in hotel properties, net	$ 438,649,721	$ 357,799,512
Cash and cash equivalents	30,673,556	29,777,845
Restricted cash	4,901,392	3,651,197
Accounts receivable, net	9,424,697	5,587,077
Accounts receivable - affiliate	307,351	394,026
Loan receivable - affiliate	4,606,717	4,650,969
Prepaid expenses, inventory and other assets	6,207,626	7,292,565
Deferred income taxes	5,190,855	5,451,118
TOTAL ASSETS	**$ 499,961,915**	**$ 414,604,309**
LIABILITIES		
Mortgage loans, net	$ 357,170,859	$ 297,318,816
Unsecured notes, net	23,530,323	-
Accounts payable and other accrued liabilities	16,534,535	13,813,623
Advance deposits	2,570,635	1,572,388
Dividends and distributions payable	3,273,254	3,119,027
TOTAL LIABILITIES	**$ 403,079,606**	**$ 315,823,854**
Commitments and contingencies (see Note 6)	—	—
PARTNERS' CAPITAL		
Preferred units, $0.01 par value, 11,000,000 units authorized;		
8% Series B cumulative redeemable perpetual preferred units, liquidation preference $25 per unit, 1,610,000 units issued and outstanding at March 31, 2018 and December 31, 2017, respectively	37,766,531	37,766,531
7.875% Series C cumulative redeemable perpetual preferred units, liquidation preference $25 per unit, 1,300,000 units issued and outstanding at March 31, 2018 and December 31, 2017, respectively	30,488,660	30,488,660
General Partner: 158,993 units and 158,570 units issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	581,239	586,725
Limited Partners: 15,740,228 units and 15,698,401 units issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	28,045,879	29,938,539
TOTAL PARTNERS' CAPITAL	**96,882,309**	**98,780,455**
TOTAL LIABILITIES AND PARTNERS' CAPITAL	**$ 499,961,915**	**$ 414,604,309**

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

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
REVENUE		
Rooms department	$ 28,285,445	$ 27,366,634
Food and beverage department	8,351,983	8,323,759
Other operating departments	5,098,128	3,004,493
Total revenue	**41,735,556**	**38,694,886**
EXPENSES		
Hotel operating expenses		
Rooms department	6,700,381	6,682,279
Food and beverage department	6,395,076	5,728,473
Other operating departments	1,528,327	600,020
Indirect	15,233,256	14,205,231
Total hotel operating expenses	**29,857,040**	**27,216,003**
Depreciation and amortization	5,634,190	4,061,097
Loss on disposal of assets	3,739	—
Corporate general and administrative	1,546,300	1,712,082
Total operating expenses	**37,041,269**	**32,989,182**
NET OPERATING INCOME	**4,694,287**	**5,705,704**
Other income (expense)		
Interest expense	(4,177,019)	(3,813,717)
Interest income	81,704	59,631
Unrealized gain (loss) on hedging activities	12,730	(15,945)
Gain on sale of assets	—	100,407
Gain on involuntary conversion of assets	870,741	1,041,815
Net income before income taxes	**1,482,443**	**3,077,895**
Income tax provision	(305,955)	(171,937)
Net income	**1,176,488**	**2,905,958**
Distributions to preferred unit holder	(1,444,844)	(805,000)
Net income (loss) available to operating partnership unit holders	**$ (268,356)**	**$ 2,100,958**
Net income (loss) attributable per operating partner unit		
Basic and diluted	$ (0.02)	$ 0.13
Weighted average number of operating partner units outstanding		
Basic and diluted	15,892,513	16,252,691

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

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL

	Preferred Units			General Partner		Limited Partner		
	Units	Series B Amounts	Series C Amounts	Units	Amounts	Units	Amounts	Total
Balances at December 31, 2017	**2,910,000**	**$37,766,531**	**$30,488,660**	**158,570**	**$ 586,725**	**15,698,401**	**$29,938,539**	**$98,780,455**
Issuance of common partnership units	—	—	—	423	1,034	41,827	102,294	103,328
Amortization of restricted units award	—	—	—	—	—	—	8,025	8,025
Unit based compensation	—	—	—	—	—	—	87,267	87,267
Preferred units distributions declared	—	(1,444,844)	—	—	—	—	—	(1,444,844)
Partnership units distributions declared	—	—	—	—	(18,285)	—	(1,810,125)	(1,828,410)
Net income	—	1,444,844	—	—	11,765	—	(280,121)	1,176,488
Balances at March 31, 2018 (unaudited)	**2,910,000**	**$37,766,531**	**$30,488,660**	**158,993**	**$ 581,239**	**15,740,228**	**$28,045,879**	**$96,882,309**

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

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash flows from operating activities:		
Net income	$ 1,176,488	$ 2,905,958
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,634,190	4,061,097
Amortization of deferred financing costs	186,694	214,357
Amortization of mortgage premium	(6,170)	(6,170)
Gain on involuntary conversion of assets	(870,741)	(1,041,815)
Unrealized loss on derivative instrument	(12,730)	15,945
Loss (gain) on disposal of assets	3,739	—
Gain on sale of assets	—	(100,407)
Unit - based compensation	198,619	94,140
Changes in assets and liabilities:		
Accounts receivable	(3,837,620)	(1,209,174)
Prepaid expenses, inventory and other assets	1,075,655	(1,066,260)
Deferred income taxes	260,262	118,050
Accounts payable and other accrued liabilities	2,441,901	1,435,722
Advance deposits	998,247	1,089,819
Accounts receivable - affiliate	86,675	(491,287)
Net cash provided by operating activities	**7,335,209**	**6,019,975**
Cash flows from investing activities:		
Acquisitions of hotel properties	(80,479,137)	(3,986,849)
Improvements and additions to hotel properties	(5,851,104)	(6,304,669)
Proceeds from the sale of hotel property	—	5,434,856
ESOP loan advances	—	(4,874,758)
ESOP loan payments	44,256	—
Proceeds from insurance conversion	870,741	776,815
Proceeds from the sale or disposal of assets	—	2,955
Net cash used in investing activities	**(85,415,244)**	**(8,951,650)**
Cash flows from financing activities:		
Proceeds of mortgage debt	62,000,000	—
Proceeds of unsecured debt	25,000,000	—
Settlement or repurchase of common units	—	(1,103,130)
Payments on mortgage loans	(1,649,012)	(3,566,914)
(Payments) refund of deferred financing costs	(2,006,021)	3,600
Distributions and dividends paid	(1,674,182)	(1,571,526)
Preferred dividends paid	(1,444,844)	(805,000)
Net cash provided by (used in) financing activities	**80,225,941**	**(7,042,970)**
Net (decrease) increase in cash, cash equivalents and restricted cash	2,145,906	(9,974,645)
Cash, cash equivalents and restricted cash at the beginning of the period	33,429,042	36,362,921
Cash, cash equivalents and restricted cash at the end of the period	**$ 35,574,948**	**$ 26,388,276**
Supplemental disclosures:		
Cash paid during the period for interest	**$ 3,831,409**	**$ 3,513,312**
Cash paid during the period for income taxes	**$ 13,437**	**$ 81,361**
Non-cash investing and financing activities:		
Change in amount of improvements to hotel property in accounts payable and accrued liabilities	**$ 94,122**	**$ 1,141,553**

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

1. Organization and Description of Business

Sotherly Hotels Inc. (the “Company”) is a self-managed and self-administered lodging real estate investment trust (“REIT”) that was incorporated in Maryland on August 20, 2004 to own full-service, primarily upscale and upper-upscale hotels located in primary and secondary markets in the mid-Atlantic and southern United States. Currently, the Company is focused on the acquisition, renovation, upbranding and repositioning of upscale to upper-upscale full-service hotels in the southern United States. The Company’s portfolio consists of investments in twelve hotel properties comprising 3,156 rooms, and the hotel commercial condominium unit of the Hyde Resort & Residences condominium hotel. The Company owns hotels that operate under well-known brands such as DoubleTree by Hilton, Crowne Plaza, Sheraton and Hyatt, as well as independent hotels.

The Company commenced operations on December 21, 2004 when it completed its initial public offering and thereafter consummated the acquisition of six hotel properties (the “Initial Properties”). Substantially all of the Company’s assets are held by, and all of its operations are conducted through, Sotherly Hotels LP (the “Operating Partnership”), which at March 31, 2018, was approximately 88.8% owned by the Company. Pursuant to the terms of the Amended and Restated Agreement of Limited Partnership (the “Partnership Agreement”) of the Operating Partnership, the Company, as general partner, is not entitled to compensation for its services to the Operating Partnership. The Company, as general partner, conducts substantially all of its operations through the Operating Partnership and the Company’s administrative expenses are the obligations of the Operating Partnership. Additionally, the Company is entitled to reimbursement for any expenditure incurred by it on the Operating Partnership’s behalf.

For the Company to qualify as a REIT, it cannot operate hotels. Therefore, the Operating Partnership, through its subsidiaries, leases the hotels to direct and indirect subsidiaries of MHI Hospitality TRS Holding, Inc. (collectively, “MHI TRS”), which is a wholly-owned subsidiary of the Operating Partnership. MHI TRS then engages eligible independent hotel management companies, including MHI Hotels Services, LLC, which does business as Chesapeake Hospitality (“Chesapeake Hospitality”) and Highgate Hotels, L.P. (“Highgate Hotels”), to operate the hotels under management contracts. MHI TRS is treated as a taxable REIT subsidiary for federal income tax purposes.

All references in this report to “we”, “us” and “our” refer to the Company, its Operating Partnership and its subsidiaries and predecessors, collectively, unless the context otherwise requires or where otherwise indicated.

Significant transactions occurring during the current and prior fiscal year include the following:

On January 30, 2017, we closed on the purchase of the commercial condominium unit of the Hyde Resort & Residences, a 400-unit condominium hotel located in the Hollywood, Florida market, for an aggregated price of approximately $4.8 million from 4111 South Ocean Drive, LLC. In connection with the closing of the transaction, the Company entered into a lease agreement for the 400-space parking garage and meeting rooms associated with the condominium hotel, agreements relating to the operation and management of the hotel condominium association and a condominium unit rental program, and a pre-opening services agreement whereby the seller paid the Company a fee of approximately $0.8 million for certain pre-opening related preparations.

On February 7, 2017, we closed on the sale of the Crowne Plaza Hampton Marina to Marina Hotels, LLC for a price of $5.6 million.

On June 1, 2017, we entered into an agreement to purchase the commercial unit of the planned Hyde Beach House Resort & Residences, a condominium hotel under development in Hollywood, Florida, for a price of $5.1 million from 4000 South Ocean Property Owner, LLLP. In connection with the agreement, we also entered into a pre-opening services agreement whereby the seller has agreed to pay the Company approximately $0.8 million in connection with certain pre-opening activities to be undertaken prior to the closing. The Company has agreed to purchase inventories at closing consistent with the management and operation of the hotel and the related condominium association for an additional amount and has further agreed to enter into a lease agreement for the parking garage and poolside cabanas associated with the hotel; and to enter into a management agreement relating to the operation and management of the hotel’s condominium association. The Company anticipates that the closing of the transaction and the execution of related agreements will take place in the second quarter of 2019, once construction of the hotel has been substantially completed. The closing of the transaction is subject to various closing conditions as described in the purchase agreement.

On June 29, 2017, we entered into a promissory note and other loan documents to secure a $35.5 million mortgage on the DoubleTree by Hilton Jacksonville Riverfront with Wells Fargo Bank, N.A. Pursuant to the loan documents, the loan has a maturity date of July 11, 2024, bears a fixed interest rate of 4.88%, amortizes on a 30-year schedule, and is subject to a prepayment premium following a prepayment lockout period. The Company used a portion of the proceeds to repay the existing first mortgage on the DoubleTree by Hilton Jacksonville Riverfront, to pay closing costs and for general corporate purposes.

On October 11, 2017, the Company closed a sale and issuance of 1,200,000 shares of its newly authorized 7.875% Series C Cumulative Redeemable Perpetual Preferred Stock (the “Series C Preferred Stock”), for net proceeds after all estimated expenses of approximately $28.0 million. On October 17, 2017, the Company closed a sale and issuance of an additional 100,000 shares of its Series C Preferred Stock, for net proceeds of approximately $2.5 million, pursuant to the underwriters’ partial exercise of an option granted by the Company to purchase additional shares. The Company contributed the net proceeds from the offering to its Operating Partnership for an equivalent number of Series C Cumulative Redeemable Perpetual Preferred Units (the “Series C Preferred Units”). We used the net proceeds to redeem in full the Operating Partnership’s 7.0% senior unsecured notes (the “7% Notes”) and for working capital.

On November 15, 2017, the Operating Partnership redeemed the entire $25.3 million principal amount of the 7% Notes, at a redemption price equal to 101% of the principal amount of the 7% Notes, plus any accrued and unpaid interest to, but not including, the redemption date.

On February 1, 2018, we received proceeds of $5.0 million on the Hilton Wilmington Riverside mortgage loan after meeting certain requirements, per the mortgage documents.

On February 12, 2018, the Company and the Operating Partnership closed on a sale and issuance by the Operating Partnership of an aggregate $25.0 million of the 7.25% senior unsecured notes due 2021 (the “7.25% Notes”), unconditionally guaranteed by the Company, for net proceeds after all estimated expenses of approximately $23.3 million. The Operating Partnership used the net proceeds from this offering, together with existing cash on hand and $57.0 million of asset-level mortgage indebtedness, to finance the acquisition of the Hyatt Centric Arlington hotel and for working capital.

On February 26, 2018, we entered into a First Amendment to Loan Agreement, Amended and Restated Promissory Note, and other related documents with International Bank of Commerce to amend the terms of the mortgage loan on The Whitehall hotel located in Houston, TX. Pursuant to the amended loan documents, payments of principal and interest on a 25-year amortization schedule will begin immediately and the maturity date is extended until February 26, 2023.

On March 1, 2018, we acquired the 318-room Hyatt Centric Arlington hotel located in Arlington, Virginia for an aggregate purchase price of $79.7 million, including seller credits (the “Arlington Acquisition”). Concurrently with the closing, we entered into a franchise agreement with an affiliate of Hyatt Hotels Corporation for the hotel to continue operating as the Hyatt Centric Arlington, and a management agreement with Highgate Hotels for the management of the hotel. The management agreement: (i) has an initial term of three years commencing March 1, 2018; (ii) provides for a base management fee equal to 2.50% of gross revenues; and (iii) provides for an incentive management fee equal to 10% of the amount by which gross operating profit, as defined in the management agreement, for a given year exceeds the budgeted gross operating profit for such year; provided, however, that the incentive management fee payable in respect of any year shall not exceed 0.5% of the gross revenues of the hotel. The Hyatt Centric Arlington is subject to a long-term ground lease agreement that covers all of the land underlying the hotel. The ground lease requires us to make rental payments of $50,000 per year in base rent and percentage rent equal to 3.5% of gross rooms revenues in excess of certain thresholds, as defined in the agreements. The initial term of the ground lease expires in 2025 and may be extended by us for five additional renewal periods of 10 years each.

On March 1, 2018, we entered into a loan agreement, a first and second promissory note (“Note A” and “Note B”, respectively), and other loan documents, including a guarantee by the Operating Partnership, to secure an aggregate $57.0 million mortgage (the “Mortgage Loan”) on the Hyatt Centric Arlington hotel with Fifth Third Bank. Pursuant to the Mortgage Loan documents, Note A is in the amount of $50.0 million; has a term of 3 years, with two 1-year extension options, each of which is subject to certain criteria; bears a floating interest rate of one-month LIBOR plus 3.00%, payable monthly; and requires monthly principal payments of $78,650. Pursuant to the Mortgage Loan documents, Note B is in the amount of $7.0 million; has a term of 1-year, with two 1-year extension options, each of which is subject to certain criteria; bears a floating interest rate of three-month LIBOR plus 5.00%, payable monthly; and requires monthly principal payments of $100,000 during the initial 1-year term, $150,000 during the first 1-year extended term, and $250,000 during the second 1-year extended term, with interest payments due monthly on the outstanding principal amount during all three terms. The full amount of the loan proceeds, together with proceeds of the 7.25% Notes offering and cash on hand, were used to finance the Arlington Acquisition.

2. Summary of Significant Accounting Policies

Basis of Presentation – The consolidated financial statements of the Company presented herein include all of the accounts of Sotherly Hotels Inc., the Operating Partnership, MHI TRS and subsidiaries. All significant inter-company balances and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The consolidated financial statements of the Operating Partnership presented herein include all of the accounts of Sotherly Hotels LP, MHI TRS and subsidiaries. All significant inter-company balances and transactions have been eliminated. Additionally, all administrative expenses of the Company and those expenditures made by the Company on behalf of the Operating Partnership are reflected as the administrative expenses, expenditures and obligations thereto of the Operating Partnership, pursuant to the terms of the Partnership Agreement.

Investment in Hotel Properties – Investments in hotel properties include investments in operating properties which are recorded at acquisition cost and allocated to land, property and equipment and identifiable intangible assets. Replacements and improvements are capitalized, while repairs and maintenance are expensed as incurred. Upon the sale or retirement of a fixed asset, the cost and related accumulated depreciation are removed from our accounts and any resulting gain or loss is included in the statements of operations. Expenditures under a renovation project, which constitute additions or improvements that extend the life of the property, are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 7 to 39 years for buildings and building improvements and 3 to 10 years for furniture, fixtures and equipment. Leasehold improvements are amortized over the shorter of the lease term or the useful lives of the related assets.

We review our investments in hotel properties for impairment whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse permanent changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are found to be less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value would be recorded and an impairment loss recognized.

Assets Held For Sale – We record assets as held for sale when management has committed to a plan to sell the assets, actively seeks a buyer for the assets, and the consummation of the sale is considered probable and is expected within one year.

Cash and Cash Equivalents – We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk – We hold cash accounts at several institutions in excess of the Federal Deposit Insurance Corporation (the "FDIC") protection limits of $250,000. Our exposure to credit loss in the event of the failure of these institutions is represented by the difference between the FDIC protection limit and the total amounts on deposit. Management monitors, on a regular basis, the financial condition of the financial institutions along with the balances there on deposit to minimize our potential risk.

Restricted Cash – Restricted cash includes real estate tax escrows, insurance escrows and reserves for replacements of furniture, fixtures and equipment pursuant to certain requirements in our various mortgage agreements.

Accounts Receivable – Accounts receivable consists primarily of hotel guest and banqueting receivables. Ongoing evaluations of collectability are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Inventories – Inventories, consisting primarily of food and beverages, are stated at the lower of cost or net realizable value, with cost determined on a method that approximates first-in, first-out basis.

Franchise License Fees – Fees expended to obtain or renew a franchise license are amortized over the life of the license or renewal. The unamortized franchise fees as of March 31, 2018 and December 31, 2017 were $516,601 and $532,070, respectively. Amortization expense for the three-month periods ended March 31, 2018 and 2017 totaled $17,032 and $31,452, respectively.

Deferred Financing and Offering Costs – Deferred financing costs are recorded at cost and consist of loan fees and other costs incurred in issuing debt and are reflected in mortgage loans, net on the consolidated balance sheets. Deferred offering costs are recorded at cost and consist of offering fees and other costs incurred in issuing equity and are reflected in prepaid expenses, inventory and other assets on the consolidated balance sheets. Amortization of deferred financing costs is computed using a method that approximates the effective interest method over the term of the related debt and is included in interest expense in the consolidated statements of operations.

Deferred offering costs are netted against our equity offerings when the offering is complete, whereby the costs are offset against the equity funds raised in the future and included in additional paid-in capital on the consolidated balance sheets, or if the offering expires and the offering costs exceed the funds raised in the offering then the excess will be included in corporate general and administrative expenses in the consolidated statements of operations.

Derivative Instruments – Our derivative instruments are reflected as assets or liabilities on the balance sheet and measured at fair value. Derivative instruments used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as an interest rate risk, are considered fair value hedges. Derivative instruments used to hedge exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. For a derivative instrument designated as a cash flow hedge, the change in fair value each period is reported in accumulated other comprehensive income in stockholders' equity and partners' capital to the extent the hedge is effective. For a derivative instrument designated as a fair value hedge, the change in fair value each period is reported in earnings along with the change in fair value of the hedged item attributable to the risk being hedged. For a derivative instrument that does not qualify for hedge accounting or is not designated as a hedge, the change in fair value each period is reported in earnings.

We use derivative instruments to add stability to interest expense and to manage our exposure to interest-rate movements. To accomplish this objective, we currently use an interest rate cap which acts as a cash flow hedge and is not designated as a hedge. We value our interest-rate cap at fair value, which we define as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We also have used derivative instruments in the Company's stock to obtain more favorable terms on our financing. We do not enter into contracts to purchase or sell derivative instruments for speculative trading purposes.

Fair Value Measurements –

We classify the inputs used to measure fair value into the following hierarchy:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3 Unobservable inputs for the asset or liability.

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table represents our assets and liabilities measured at fair value and the basis for that measurement (our interest rate cap is the only asset or liability measured at fair value on a recurring basis and there were no non-recurring asset and liability fair value measurements as of March 31, 2018 and December 31, 2017, respectively):

	Level 1	Level 2	Level 3
December 31, 2017			
Interest Rate Cap (1)	$ —	$ 5,213	$ —
Mortgage loans (2)	$ —	$(292,368,370)	$ —
March 31, 2018			
Interest Rate Cap (1)	$ —	$ 17,942	$ —
Mortgage loans (2)	$ —	$(352,396,367)	$ —
Unsecured notes (3)	$ (26,000,000)	$ —	$ —

(1) Interest rate cap, which caps a 1-month LIBOR rate at 2.5%.

(2) Mortgage loans are reflected at outstanding principal balance, net of deferred financing costs on our Consolidated Balance Sheets as of March 31, 2018 and December 31, 2017.

(3) Unsecured notes are recorded at outstanding principal balance, net of deferred financing costs on our Consolidated Balance Sheets as of March 31, 2018.

Noncontrolling Interest in Operating Partnership – Certain hotel properties were acquired, in part, by the Operating Partnership through the issuance of limited partnership units of the Operating Partnership. The noncontrolling interest in the Operating Partnership is: (i) increased or decreased by the limited partners' pro-rata share of the Operating Partnership's net income or net loss, respectively; (ii) decreased by distributions; (iii) decreased by redemption of partnership units for the Company's common stock; and (iv) adjusted to equal the net equity of the Operating Partnership multiplied by the limited partners' ownership percentage immediately after each issuance of units of the Operating Partnership and/or the Company's common stock through an adjustment to additional paid-in capital. Net income or net loss is allocated to the noncontrolling interest in the Operating Partnership based on the weighted average percentage ownership throughout the period.

Revenue Recognition – Revenues from operations of the hotels and condominium hotel are recognized when the services are provided. Revenues consist of room sales, food and beverage sales, and other hotel department revenues, such as; telephone, parking, gift shop sales, rentals from restaurant tenants, rooftop leases, fees earned on the management of the condominium rental program at the Hyde Resort & Residences and insurance proceeds of business interruption coverage. Revenues are reported net of occupancy and other taxes collected from customers and remitted to governmental authorities. Refer to "New Accounting Pronouncements - ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*," below for further discussion of revenue recognition.

Lease Revenue – Several of our properties generate revenue from leasing commercial space adjacent to the hotel, the restaurant space within the hotel, apartment units and space on the roofs of our hotels for antennas and satellite dishes. We account for the lease income as revenue from other operating departments within the statement of operations pursuant to the terms of each lease. Lease revenue was approximately $0.5 million, for each of the three months ended March 31, 2018 and 2017.

A schedule of minimum future lease payments receivable for the remaining nine and twelve-month lease periods is as follows:

For the remaining nine months ending: December 31, 2018	$ 1,040,432
December 31, 2019	997,511
December 31, 2020	991,550
December 31, 2021	928,223
December 31, 2022	810,364
December 31, 2023 and thereafter	4,266,894
Total	**$ 9,034,974**

Variable Interest Entities – The Operating Partnership is a variable interest entity. The Company's only significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership and its subsidiaries. All of the Company's debt is an obligation of the Operating Partnership and its subsidiaries.

Income Taxes – The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. As a REIT, the Company generally will not be subject to federal income tax. MHI TRS, our wholly owned taxable REIT subsidiary which leases our hotels from subsidiaries of the Operating Partnership, is subject to federal and state income taxes.

We account for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. As of March 31, 2018 and December 31, 2017, deferred tax assets totaled approximately $5.2 million and $5.5 million, respectively, of which approximately $4.6 million and $4.9 million relate to net operating losses of our TRS Lessee. A valuation allowance is required for deferred tax assets if, based on all available evidence, it is "more-likely-than-not" that all or a portion of the deferred tax asset will or will not be realized due to the inability to generate sufficient taxable income in certain financial statement periods. The "more-likely-than-not" analysis means the likelihood of realization is greater than 50%, that we will or will not be able to fully utilize the deferred tax assets against future taxable income. The net amount of deferred tax assets that are recorded on the financial statements must reflect the tax benefits that are expected to be realized using these criteria. We perform this analysis by evaluating future hotel revenues and expenses accounting for certain non-recurring costs and expenses during the current and prior two fiscal years as well as anticipated changes in the lease rental payments from the TRS Lessee to subsidiaries of the Operating Partnership. We have determined that it is more-likely-than-not that we will be able to fully utilize our deferred tax assets for future tax consequences, therefore no valuation allowance is required. As of March 31, 2018 and December 31, 2017, we had no uncertain tax positions. Our policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. As of March 31, 2018, the tax years that remain subject to examination by the major tax jurisdictions to which the Company is subject generally include 2010 through 2017. In addition, as of March 31, 2018, the tax years that remain subject to examination by the major tax jurisdictions to which MHI TRS is subject include the years 2009 and 2014 through 2016.

The Operating Partnership is generally not subject to federal and state income taxes as the unit holders of the Partnership are subject to tax on their respective shares of the Partnership's taxable income.

Stock-based Compensation – The Company's 2004 Long Term Incentive Plan (the "2004 Plan") and its 2013 Long-Term Incentive Plan (the "2013 Plan"), which the Company's stockholders approved in April 2013, permit the grant of stock options, restricted stock, unrestricted stock and performance share compensation awards to its employees for up to 350,000 and 750,000 shares of common stock, respectively. The Company believes that such awards better align the interests of its employees with those of its stockholders.

Under the 2004 Plan, the Company made stock awards totaling 337,438 shares, including 255,938 shares issued to certain executives and employees and 81,500 restricted shares issued to its independent directors. All of the 255,938 shares issued to certain of our executives and employees have vested. All of the 81,500 restricted shares issued to the Company's independent directors have vested. The 2004 Plan was terminated in 2013.

Under the 2013 Plan, the Company has made stock awards totaling 163,350 shares, including 77,600 non-restricted shares to certain executives and employees and 85,750 restricted shares issued to its independent directors. All awards have vested except for 25,000 shares issued to one employee, which will vest over 5 years and 15,000 shares issued to the Company's independent directors in February 2018, which will vest by December 31, 2018.

Previously, under the 2004 Plan, and currently, under the 2013 Plan, the Company may issue a variety of performance-based stock awards, including nonqualified stock options. The value of the awards is charged to compensation expense on a straight-line basis over the vesting or service period based on the value of the award as determined by the Company's stock price on the date of grant or issuance. As of March 31, 2018, no performance-based stock awards have been granted. Total compensation cost recognized under the 2004 Plan and the 2013 Plan for each of the three months ended March 31, 2018 and 2017 was $8,025 and $4,980, respectively.

Additionally, the Company sponsors and maintains an Employee Stock Ownership Plan ("ESOP") and related trust for the benefit of its eligible employees. We reflect unearned ESOP shares as a reduction of stockholders' equity. Dividends on unearned ESOP shares, when paid, are considered compensation expense. The Company recognizes compensation expense equal to the fair value of the Company's ESOP shares during the periods in which they are committed to be released. To the extent that the fair value of the Company's ESOP shares differs from the cost of such shares, the differential is recognized as additional paid in capital. Because the ESOP is internally leveraged through a loan from the Company to the ESOP, the loan receivable by the Company from the ESOP is not reported as an asset nor is the debt of the ESOP shown as a liability in the consolidated financial statements.

On February 15, 2017, the NCGC Committee approved the suspension of the Company's Long Term Stock Bonus Program (the "LTSBP"), a stock-based compensation program approved by the board on April 16, 2013 and implemented in conjunction with and aligned with the duration of the Company's 2013 Plan.

Advertising – Advertising costs were $98,313 and $65,010 for the three months ended March 31, 2018 and 2017, respectively. Advertising costs are expensed as incurred.

Involuntary Conversion of Assets – We record gains or losses on involuntary conversions of assets due to recovered insurance proceeds to the extent the undepreciated cost of a nonmonetary asset differs from the amount of monetary proceeds received. During the three-month periods ending March 31, 2018 and 2017, we recognized approximately $0.9 and $1.0 million gain on involuntary conversion of assets, respectively, which is reflected in the consolidated statements of operations.

Comprehensive Income – Comprehensive income as defined, includes all changes in equity during a period from non-owner sources. We do not have any items of comprehensive income other than net income.

Segment Information – We have determined that our business is conducted in one reportable segment: hotel ownership.

Reclassifications - Certain reclassifications have been made to the prior period's financial statements to conform to the current year presentation. We have adopted ASU 2016-18 *Statement of Cash Flows (Topic 230): Restricted Cash,* whereby the restricted cash balances are reflected in the total Cash, Cash Equivalents and Restricted Cash for both current and prior year presentation.

Use of Estimates – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements – In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. We adopted this standard on January 1, 2018 and aside from minor presentation changes in our disclosure on derivative and hedging activities it did not have a material effect on our consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, *Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20).* The FASB issued this update to clarify the scope of Subtopic 610-20, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets, and to add guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as a part of Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. The amendments in this update also simplify GAAP by eliminating several accounting differences between transactions involving assets and transactions involving businesses in many transactions related to: a partial sale of real estate; a transfer of a nonfinancial asset within the scope of FASB ASC Topic 845, *Nonmonetary Transactions*; a contribution of a nonfinancial asset to form a joint venture; and a transfer of a nonfinancial asset to an equity method investee. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We adopted this ASU as of January 1, 2018. This ASU did not have a material impact on our current consolidated balance sheets, statements of operations or cash flows, however this ASU may have a significant impact on future transactions.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations – Clarifying the Definition of a Business (Topic 805).* This ASU clarifies the definition of a business and adds further guidance in evaluating whether a transaction should be accounted for as an acquisition of an asset or a business. This standard will be effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. We adopted this standard on January 1, 2018 and the majority of future hotel acquisitions are considered asset purchases instead of business combinations. The effects are primarily related to the treatment of acquisition costs, which in the case of asset purchases, are capitalized on the consolidated balance sheets, and in the case of business combinations are typically expensed into the consolidated statements of operations.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU addresses the diversity within entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on restricted cash, it did not have a material effect on our consolidated balance sheets, statements of operations or cash flows.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. Current GAAP either is unclear or does not include specific guidance on the eight cash flow classification issues included in the amendments in this update. The amendments are an improvement to GAAP because they provide guidance for each of the eight issues, thereby reducing the current and potential future diversity in practice. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. We adopted this ASU as of January 1, 2018. The adoption of this ASU did not have a material impact on our current consolidated balance sheets, statements of operations or cash flows.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers – Narrow-Scope Improvements and Practical Expedients (Topic 606)*. The amendments in this ASU provide clarification to certain core recognition principles related to ASU No. 2014-09 including collectability, sales tax presentation, noncash consideration, contract modifications and completed contracts at transition and disclosures no longer required if the full retrospective transition method is adopted. The amendments do not change the core principle of the guidance. We adopted this ASU as of January 1, 2018. We evaluated all of our revenue related to contracts with customers and determined how to transition these requirements into our consolidated financial statements. Refer to "New Accounting Pronouncements - ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*," below for further discussion of revenue recognition.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers – Identifying Performance Obligations and Licensing (Topic 606)*. This update clarifies guidance related to identifying performance obligations and licensing implementation contained in ASU No. 2014-09. The amendments do not change the core principle of the guidance. We have analyzed all of our revenue related to contracts with customers and have determined how to transition these requirements into our consolidated financial statements. We adopted this ASU as of January 1, 2018. The adoption of this ASU did not have a material impact on our consolidated balance sheets, statements of operations or cash flows. Refer to "New Accounting Pronouncements - ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*," below for further discussion of revenue recognition.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. We are creating an inventory of our leases and are analyzing our current ground lease, office lease, other right-of-use assets and lease liabilities. The standard requires a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We will adopt this ASU as of January 1, 2019.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for us on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. By working in conjunction with our hotel operators, we completed our evaluation of the effect that ASU No. 2014-09 will have on our consolidated financial statements and our evaluation of each of our revenue streams under the new standard. Because of the short-term, day-to-day nature of our hotel revenues, we determined that the pattern of revenue recognition will not change significantly. Under ASU No. 2014-09, there will be a recharacterization of certain revenue streams affecting both gross and net revenue reporting due to changes in principal versus agent guidance, which presentation is deemed immaterial for us and will not affect net income. Additionally, we do not sell hotel properties to customers as defined by FASB, but have historically disposed of hotel properties for cash sales with no contingencies and no future involvement in the hotel operations, and therefore, ASU No. 2014-09 will not impact the recognition of hotel sales. We finalized our expanded disclosure for the notes to the consolidated financial statements pursuant to the new requirements. We adopted this standard on our effective date of January 1, 2018 under the cumulative effect transition method. No adjustment was recorded to our opening balance of retained earnings on January 1, 2018 as there was no impact to net income for us. Additionally, comparative information beginning in 2018 will not be restated and will continue to be reported under Revenue Recognition (Topic 605). We also expect that the effect of ASU No. 2014-09 will be immaterial on an on-going basis.

3. Acquisition of Hotel Properties

Hyatt Centric Arlington. On March 1, 2018, we acquired the Hyatt Centric Arlington hotel, for a total fair value of consideration transferred including inventory and other assets of approximately $80.5 million (after amendment of the initial purchase price of $81.0 million).

Hyde Resort & Residences. On January 30, 2017, we acquired the hotel commercial condominium unit of the Hyde Resort & Residences condominium hotel, for a total fair value of consideration transferred including inventory and other assets of approximately $4.8 million.

The allocations of the respective purchase prices are based on fair values are as follows:

	Hyatt Centric Arlington (1)	**Hyde Resort & Residences**
Land and land improvements	$ 190,237	$ 500
Buildings and improvements	68,600,051	4,309,500
Furniture, fixtures and equipment	7,759,666	72,616
Intangible assets	3,043,947	—
Investment in hotel properties	79,593,901	4,382,616
Accrued liabilities and other costs	—	(866,142)
Prepaid expenses, inventory and other assets	885,236	470,375
Net cash	**$ 80,479,137**	**$ 3,986,849**

(1) The purchase price allocation for the Hyatt Centric Arlington is estimated.

The results of operations of the hotels are included in our consolidated financial statements from the date of acquisition. The total revenue and net income related to the Hyatt Centric Arlington acquisition for the period March 1, 2018 to March 31, 2018 are approximately $2.1 million and $0.5 million, respectively.

The total revenue and net loss related to the Hyde Resort & Residences acquisition for the period January 1, 2018 to March 31, 2018 are approximately $2.1 million and $0.4 million, respectively.

4. Investment in Hotel Properties, Net

Investment in hotel properties, net as of March 31, 2018 and December 31, 2017 consisted of the following:

	March 31, 2018	December 31, 2017
Land and land improvements	$ 60,117,980	$ 59,504,625
Buildings and improvements	430,011,879	348,532,577
Furniture, fixtures and equipment	50,010,187	48,467,956
	540,140,046	456,505,158
Less: accumulated depreciation and impairment	(101,490,325)	(98,705,646)
Investment in Hotel Properties, Net	**$438,649,721**	**$357,799,512**

The Crowne Plaza Hampton Marina property, was sold on February 7, 2017 for approximately $5.6 million. After selling costs, mortgage loan payoff and associated fees we realized an approximate gain on the sale of assets of $0.1 million, as reflected in the consolidated statements of operations for the period ending March 31, 2017.

5. Debt

Mortgage Loans, Net. As of March 31, 2018 and December 31, 2017, we had approximately $357.2 million and approximately $297.3 million of outstanding mortgage debt, respectively. The following table sets forth our mortgage debt obligations on our hotels.

	Balance Outstanding as of					
Property	March 31, 2018	December 31, 2017	Prepayment Penalties	Maturity Date	Amortization Provisions	Interest Rate
Crowne Plaza Tampa Westshore (1)	$ 15,214,900	$ 15,284,200	None	6/30/2019	n/a	LIBOR plus 3.75 %
The DeSoto (2)	34,443,790	34,645,929	Yes	7/1/2026	25 years	4.25%
DoubleTree by Hilton Jacksonville Riverfront (3)	35,160,939	35,294,741	Yes	7/11/2024	30 years	4.88%
DoubleTree by Hilton Laurel (4)	9,065,885	9,132,558	Yes	8/5/2021	25 years	5.25%
DoubleTree by Hilton Philadelphia Airport (5)	30,231,427	30,432,260	None	4/1/2019	25 years	LIBOR plus 3.00 %
DoubleTree by Hilton Raleigh Brownstone University (6)	14,431,982	14,503,925	n/a	8/1/2018	30 years	4.78%
DoubleTree Resort by Hilton Hollywood Beach (7)	57,778,507	58,023,567	n/a	10/1/2025	30 years	4.913%
Georgian Terrace (8)	44,821,844	45,032,662	n/a	6/1/2025	30 years	4.42%
Hotel Ballast (9)	34,839,139	30,000,000	Yes	1/1/2027	25 years	4.25%
Hyatt Centric Arlington - Note A (10)	49,921,350	—	None	3/1/2021	n/a	LIBOR plus 3.00 %
Hyatt Centric Arlington - Note B (11)	6,900,000	—	None	3/1/2019	n/a	LIBOR plus 5.00 %
Sheraton Louisville Riverside (12)	11,631,167	11,701,930	Yes	12/1/2026	25 years	4.27%
The Whitehall (13)	14,961,530	15,000,000	Yes	2/26/2023	25 years	LIBOR plus 3.50 %
Total Mortgage Principal Balance	**$359,402,460**	**$299,051,772**				
Deferred financing costs, net	(2,416,404)	(1,923,928)				
Unamortized premium on loan	184,803	190,972				
Total Mortgage Loans, Net	**$357,170,859**	**$297,318,816**				

(1) The note provides initial proceeds of $15.7 million, with an additional $3.3 million available upon the satisfaction of certain conditions; bears a floating interest rate of 1-month LIBOR plus 3.75% subject to a floor rate of 3.75%; with monthly principal payments of $23,100; the note provides that the mortgage can be extended for two additional periods of one year each, subject to certain conditions. On April 5, 2018, we drew down an additional $3.3 million of loan proceeds in accordance with the terms of the note.

(2) The note provides initial proceeds of $30.0 million, with an additional $5.0 million available upon the satisfaction of certain conditions, namely, the completion of a renovation project; amortizes on a 25-year schedule after a 1-year interest-only period; and is subject to a pre-payment penalty except for any pre-payments made within 120 days of the maturity date.

(3) The note may not be prepaid until August 2019, after which it is subject to a pre-payment penalty until March 2024. Prepayment can be made without penalty thereafter.

(4) The note is subject to a pre-payment penalty except for any pre-payments made either between April 2017 and August 2017, or from April 2021 through maturity of the note.

(5) The note bears a minimum interest rate of 3.50%.

(6) With limited exception, the note may not be prepaid until two months before maturity.
(7) With limited exception, the note may not be prepaid until June 2025.
(8) With limited exception, the note may not be prepaid until February 2025.
(9) The note provided initial proceeds of $30.0 million and additional proceeds of $5.0 million which were received following the substantial completion of the renovation project in February 2018; amortizes on a 25-year schedule after a 1-year interest-only period; and is subject to a pre-payment penalty except for any pre-payments made within 120 days of the maturity date.
(10) The note has a term of 3 years, with two 1-year extension options, each of which are subject to certain criteria. The note requires monthly principal payments of $78,650.
(11) The note has a term of 1 year, with two 1-year extension options, each of which are subject to certain criteria. The note requires monthly principal payments of $100,000 during the initial 1-year term, $150,000 during the first 1- year extended term, and $250,000 during the second 1-year extended term, with interest payments due monthly on the outstanding principal amount during all three terms.
(12) The note bears a fixed interest rate of 4.27% for the first 5 years of the loan, with an option for the lender to reset the interest rate after 5 years.
(13) The note was amended in February 2018 to extend the maturity date until February 26, 2023. The amended note has an initial principal balance of $15.0 million, with no additional proceeds available; bears a floating interest rate of the 1-month LIBOR plus 3.5%, subject to a floor rate of 4.0% and is subject to prepayment penalties subject to a declining scale from 3.0% penalty on or before the first anniversary date, a 2.0% penalty during the second anniversary year and a 1.0% penalty after the third anniversary date.

As of March 31, 2018, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans, with the exception of Note B to the Hyatt Centric Arlington mortgage. At March 31, 2018, we failed to meet the Debt Service Coverage Ratio ("DSCR") covenant for the Hyatt Centric Arlington mortgage. The loan agreement contains a balancing provision that allows us to pay down the principal balance of the loan to meet the DSCR covenant, and we are currently in compliance with the DSCR covenant after making an additional principal payment of approximately $4.0 million on May 10, 2018.

Total future mortgage debt maturities, without respect to any extension of loan maturity, as of March 31, 2018 were as follows:

For the remaining nine months ending: December 31, 2018	$	23,130,768
December 31, 2019		57,267,675
December 31, 2020		7,255,127
December 31, 2021		71,686,191
December 31, 2022		5,047,909
December 31, 2023 and thereafter		195,014,790
Total future maturities	$	359,402,460

7.25% Unsecured Notes. On February 12. 2018, the Operating Partnership issued its 7.25% Notes in the aggregate amount of $25.0 million, unconditionally guaranteed by the Company. The indenture requires quarterly payments of interest and matures on February 15, 2021. The 7.25% Notes are callable after February 15, 2019 at 101% of face value.

6. Commitments and Contingencies

Ground, Building and Submerged Land Leases – We lease 2,086 square feet of commercial space next to The DeSoto for use as an office, retail or conference space, or for any related or ancillary purposes for the hotel and/or atrium space. In December 2007, we signed an amendment to the lease to include rights to the outdoor esplanade adjacent to the leased commercial space. The areas are leased under a six-year operating lease, which expired October 31, 2006 and has been renewed for the third of three optional five-year renewal periods expiring October 31, 2011, October 31, 2016 and October 31, 2021, respectively. Rent expense for this operating lease for each of the three months ended March 31, 2018 and 2017 totaled $18,245, respectively.

We lease, as landlord, the entire fourteenth floor of The DeSoto hotel property to The Chatham Club, Inc. under a ninety-nine year lease expiring July 31, 2086. This lease was assumed upon the purchase of the building under the terms and conditions agreed to by the previous owner of the property. No rental income is recognized under the terms of this lease as the original lump sum rent payment of $990 was received by the previous owner and not prorated over the life of the lease.

We lease a parking lot adjacent to the DoubleTree by Hilton Raleigh Brownstone-University in Raleigh, North Carolina. The land is leased under a second amendment, dated April 28, 1998, to a ground lease originally dated May 25, 1966. The original lease is a 50-year operating lease, which expired August 31, 2016. We exercised a renewal option for the first of three additional ten-year periods expiring August 31, 2026, August 31, 2036, and August 31, 2046, respectively. We hold an exclusive and irrevocable option to purchase the leased land at fair market value at August 1, 2018, or at the end of any 10-year renewal period, subject to the payment of an annual fee of $9,000, and other conditions. Rent expense for the three months ended March 31, 2018 and 2017, totaled $27,866 and $23,871, respectively.

We lease land adjacent to the Crowne Plaza Tampa Westshore for use as parking under a five-year renewable agreement with the Florida Department of Transportation that commenced in July 2009. In May 2014, we extended the agreement for an additional five years. The agreement expires in July 2019. The agreement requires annual payments of $2,432, plus tax, and may be renewed for an additional five years. Rent expense for each of the three months ended March 31, 2018 and 2017, totaled $651, respectively.

We lease 5,216 square feet of commercial office space in Williamsburg, Virginia under an agreement, as amended, that commenced September 1, 2009 and expires August 31, 2018. Rent expense for each of the three months ended March 31, 2018 and 2017 totaled $22,552.

We lease the parking garage adjacent to the Hyde Resort & Residences along with meeting and office spaces in Hollywood Beach, Florida. The parking garage and meeting space is leased under a 20-year operating lease requiring monthly payments of $20,000, which expires in February 2037. Rent expense for the three months ended March 31, 2018 and 2017, totaled $60,000 and $40,000, respectively.

We lease land that covers all of the land underlying the Hyatt Centric Arlington pursuant to a ground lease. The ground lease requires us to make rental payments of $50,000 per year in base rent and percentage rent equal to 3.5% of gross room revenue in excess of certain thresholds, as defined in the ground lease agreement. The initial term of the ground lease expires in 2025 and may be extended by us for five additional renewal periods of 10 years each. Rent expense for the three months ended March 31, 2018 was $64,595.

We also lease certain furniture and equipment under financing arrangements expiring between August 2018 and August 2026.

A schedule of minimum future lease payments for the following nine and twelve-month periods is as follows:

For the remaining nine months ending: December 31, 2018	$	440,122
December 31, 2019		452,023
December 31, 2020		364,163
December 31, 2021		354,639
December 31, 2022		351,464
December 31, 2023 and thereafter		3,920,165
Total	**$**	**5,882,576**

Employment Agreements - The Company has entered into various employment contracts with employees that could result in obligations to the Company in the event of a change in control or termination without cause.

Management Agreements – As of March 31, 2018, the Hyatt Centric Arlington hotel operated under a management agreement with Highgate Hotels L.P. The management agreement has an initial term of three years expiring March 1, 2021.

As of March 31, 2018, the eleven remaining wholly-owned hotels and the rental program and condominium association of the Hyde Resort & Residences operated under a management agreement with Chesapeake Hospitality (see Note 9). The management agreements expire between January 1, 2020 and January 30, 2022, and may be extended for up to two additional periods of five years each subject to the approval of both parties. Each of the individual hotel management agreements may be terminated earlier than the stated term upon the sale of the hotel covered by the respective management agreement, in which case we may incur early termination fees.

Franchise Agreements – As of March 31, 2018, nine of our hotels operated under franchise licenses from national hotel companies. Under the franchise agreements, we are required to pay a franchise fee generally between 3.0% and 5.0% of room revenues, plus additional fees for marketing, central reservation systems, and other franchisor programs and services that amount to between 2.5% and 6.0% of room revenues from the hotels. The franchise agreements expire between March 2019 and March 2038. Each of our franchise agreements provides for early termination fees in the event the agreement is terminated before the stated term.

Restricted Cash Reserves – Each month, we are required to escrow with the lenders on the Hotel Ballast, The DeSoto, the DoubleTree by Hilton Raleigh Brownstone-University, the DoubleTree by Hilton Jacksonville Riverside, the DoubleTree Resort by Hilton Hollywood Beach, and the Georgian Terrace an amount equal to one-twelfth (1/12) of the annual real estate taxes due for the properties. We are also required by several of our lenders to establish individual property improvement funds to cover the cost of replacing capital assets at our properties. Each month, those contributions equal 4.0% of gross revenues for the Hotel Ballast, The

DeSoto, the DoubleTree by Hilton Raleigh Brownstone–University, the DoubleTree by Hilton Jacksonville Riverside, the DoubleTree Resort by Hilton Hollywood Beach, The Whitehall, and the Georgian Terrace and equal 4.0% of room revenues for the DoubleTree by Hilton Philadelphia Airport.

ESOP Loan Commitment – The Company's board of directors approved the ESOP on November 29, 2016, which was adopted by the Company in December 2016 and effective January 1, 2016. The ESOP is a non-contributory defined contribution plan covering all employees of the Company. The ESOP is a leveraged ESOP, meaning the contributed funds are loaned to the ESOP from the Company. The Company entered into a loan agreement with the ESOP on December 29, 2016, pursuant to which the ESOP may borrow up to $5.0 million to purchase shares of the Company's common stock on the open market. Under the loan agreement, the aggregate principal amount outstanding at any time may not exceed $5.0 million and the ESOP may borrow additional funds up to that limit in the future, until December 29, 2036.

Shares purchased by the ESOP are held in a suspense account for allocation among participants as contributions are made to the ESOP by the Company. The share allocations will be accounted for at fair value at the date of allocation. As of March 31, 2018, the ESOP had purchased 682,500 shares of the Company's common stock in the open market for approximately $4.9 million, which the ESOP borrowed from the Company pursuant to the loan agreement. A total of 42,256 and 0 shares with a fair value of $283,786 and $0 were allocated or committed to be released from the suspense account and recognized as compensation cost during the three months ended March 31, 2018 and 2017, respectively. The remaining 640,244 unallocated shares have an approximate fair value of $4.0 million, as of March 31, 2018. At March 31, 2018, the ESOP held a total of 35,725 allocated shares, 6,531 committed-to-be-released shares and 640,244 suspense shares. Dividends on allocated and unallocated shares are used to pay down the ESOP loan from the Operating Partnership.

Litigation –To our knowledge, no material litigation has been threatened against us. We are involved in routine litigation arising out of the ordinary course of business, all of which we expect to be covered by insurance and we believe it is not reasonably possible such matters will have a material adverse impact on our financial condition or results of operations or cash flows.

7. Preferred Stock and Units

Preferred Stock - The Company is authorized to issue up to 11,000,000 shares of preferred stock. As of March 31, 2018 and December 31, 2017, there were 1,610,000 shares, respectively, of the Series B Cumulative Redeemable Perpetual Preferred Stock (the "Series B Preferred Stock") issued and outstanding. As of March 31, 2018 and December 31, 2017, there were 1,300,000 shares, respectively, of the Series C Preferred Stock issued and outstanding.

In October 2017, the Company issued 1,300,000 shares of Series C Preferred Stock, for net proceeds after all estimated expenses of approximately $30.5 million. The Company contributed the net proceeds from the offering to its Operating Partnership for an equivalent number of Series C Preferred Units. Holders of the Company's Series C Preferred Stock are entitled to receive distributions when authorized by the Company's board of directors out of assets legally available for the payment of distributions. The Company pays cumulative cash distributions on the Series C Preferred Stock at a rate of 7.875% per annum of the $25.00 liquidation preference per share. The Series C Preferred Stock is not redeemable by the holders, has no maturity date and is not convertible into any other security of the Company or its affiliates.

On August 23, 2016, the Company issued 1,610,000 shares of its Series B Preferred Stock for net proceeds after all expenses of approximately $37.8 million, which it contributed to the Operating Partnership for an equivalent number of preferred partnership units. Holders of the Company's Series B Preferred Stock are entitled to receive distributions when authorized by the Company's board of directors out of assets legally available for the payment of distributions. The Company pays cumulative cash distributions on the Series B Preferred Stock at a rate of 8.00% per annum of the $25.00 liquidation preference per share. The Series B Preferred Stock is not redeemable by the holders, has no maturity date and is not convertible into any other security of the Company or its affiliates.

Preferred Units - The Company is the holder of the Operating Partnership's preferred partnership units, and is entitled to receive distributions when authorized by the general partner of the Operating Partnership out of assets legally available for the payment of distributions.

In October 2017, the Operating Partnership issued 1,300,000 units of 7.875% Series C Preferred Units, for net proceeds after all estimated expenses of approximately $30.5 million. The Operating Partnership used the net proceeds to redeem in full the Operating Partnership's 7% Notes and for working capital.

On August 23, 2016, the Operating Partnership issued 1,610,000 units, $0.01 par value per unit, of its 8% Series B Cumulative Redeemable Perpetual Preferred Units (the "Series B Preferred Units") for net proceeds after all expenses of approximately $37.8 million. The Operating Partnership used the net proceeds to redeem in full the Operating Partnership's 8.0% senior unsecured notes and for working capital.

The Operating Partnership pays cumulative cash dividends on the preferred partnership units at a rate of 8.00% per annum of the $25.00 liquidation preference per unit for the Series B Preferred Units and pays cumulative cash dividends on the preferred partnership units at a rate of 7.825% per annum of the $25.00 liquidation preference per unit for the Series C Preferred Units.

For each of the quarters ended March 31, 2018 and 2017, the Operating Partnership has declared and has paid $0.50 per preferred unit for the Series B Preferred Units, respectively, and for the quarters ended March 31, 2018 and 2017, the Operating Partnership has declared and has paid $0.4922 and $0, respectively, per preferred unit for the Series C Preferred Units.

8. Common Stock and Units

Common Stock – The Company is authorized to issue up to 49,000,000 shares of common stock, $0.01 par value per share. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Holders of the Company's common stock are entitled to receive distributions when authorized by the Company's board of directors out of assets legally available for the payment of distributions. On December 2, 2016, the Company's board of directors authorized a stock repurchase program under which the Company may purchase up to $10.0 million of its outstanding common stock, par value $0.01 per share, at prevailing prices on the open market or in privately negotiated transactions, at the discretion of management. The Company has and expects to continue to use available working capital to fund purchases under the stock repurchase program and intends to complete the repurchase program prior to December 31, 2018, unless extended by the board of directors. Through December 31, 2017 the Company repurchased 882,820 shares of common stock for approximately $5.9 million and the repurchased shares have been returned to the status of authorized but unissued shares of common stock. The Company did not repurchase any shares under the stock repurchase program during the three months ended March 31, 2018. Between January 3, 2017 and February 28, 2017, the ESOP purchased 682,500 shares of the Company's common stock for approximately $4.9 million.

The following is a schedule of issuances, since January 1, 2017, of the Company's common stock and related units of the Operating Partnership:

On February 5, 2018, the Company was issued 17,250 units in the Operating Partnership and awarded 15,000 shares of restricted stock and 2,250 of unrestricted stock to its independent directors.

On January 1, 2018, the Company was issued 25,000 units in the Operating Partnership and awarded 25,000 shares of restricted stock to one of its employees.

On February 15, 2017, the Company was issued 12,000 units in the Operating Partnership and awarded 12,000 shares of restricted stock to its independent directors.

As of March 31, 2018 and December 31, 2017, the Company had 14,121,081 and 14,078,831 shares of common stock outstanding, respectively.

Operating Partnership Units – Holders of Operating Partnership units, other than the Company as general partner, have certain redemption rights, which enable them to cause the Operating Partnership to redeem their units in exchange for shares of the Company's common stock on a one-for-one basis or, at the option of the Company, cash per unit equal to the average of the market price of the Company's common stock for the 10 trading days immediately preceding the notice date of such redemption. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or the stockholders of the Company.

There have been no issuances or redemptions, since January 1, 2017, of units in the Operating Partnership other than the issuances of units in the Operating Partnership to the Company described above.

As of March 31, 2018 and December 31, 2017, the total number of Operating Partnership units outstanding was 15,899,221 and 15,856,971, respectively.

As of March 31, 2018 and December 31, 2017, the total number of outstanding Operating Partnership units not owned by the Company was 1,778,140 and 1,778,140, respectively, with a fair market value of approximately $11.2 million and $11.5 million, respectively, based on the price per share of the common stock on such respective dates.

9. Related Party Transactions

Chesapeake Hospitality. As of March 31, 2018, the members of Chesapeake Hospitality (a company that is majority-owned and controlled by the Company's chairman and chief executive officer, and two former members of the Company's board of directors) owned 1,481,833 shares, approximately 10.5%, of the Company's outstanding common stock as well as 652,326 Operating Partnership units. The following is a summary of the transactions between Chesapeake Hospitality and us:

Accounts Receivable – At March 31, 2018 and December 31, 2017, we were due $101,405 and $113,669, respectively, from Chesapeake Hospitality.

Management Agreements – As of March 31, 2018, all of our wholly-owned hotels (with the exception of the Hyatt Centric Arlington hotel) and the Hyde Resort & Residences operated under various management agreements with Chesapeake Hospitality. On December 15, 2014, we entered into a master agreement and a series of individual hotel management agreements that became effective on January 1, 2015. The master agreement has a five-year term, but may be extended for such additional periods as long as an individual management agreement remains in effect. The base management fee for the Whitehall and the Georgian Terrace remained at 2.00% through 2015, increased to 2.25% in 2016 and increased to 2.50% thereafter. The base management fees for the remaining properties in the current portfolio was 2.65% through 2017 and decreased to 2.50% thereafter. For new individual hotel management agreements, Chesapeake Hospitality will receive a base management fee of 2.00% of gross revenues for the first full year from the commencement date through the anniversary date, 2.25% of gross revenues the second full year, and 2.50% of gross revenues for every year thereafter.

The Company and Chesapeake Hospitality agreed to substitute the Hyde Resort & Residences for the Crowne Plaza Hampton Marina and there was no termination fee associated with the termination of the Crowne Plaza Hampton Marina management agreement. Each management agreement sets an incentive management fee equal to 10.0% of the amount by which gross operating profit, as defined in the management agreement, for a given year exceeds the budgeted gross operating profit for such year; provided, however, that the incentive management fee payable in respect of any such year shall not exceed 0.25% of the gross revenues of the hotel included in such calculation.

Base management and administrative fees earned by Chesapeake Hospitality for our properties totaled $1,097,722 and $973,068 for the three months ended March 31, 2018 and 2017, respectively. In addition, estimated incentive management fees of $22,397 and $26,293 were accrued for the three months ended March 31, 2018 and 2017, respectively.

Employee Medical Benefits – We purchase employee medical benefits through Maryland Hospitality, Inc. (d/b/a MHI Health), an affiliate of Chesapeake Hospitality for our employees as well as those employees that are employed by Chesapeake Hospitality that work exclusively for our hotel properties. Gross premiums for employee medical benefits paid by the Company (before offset of employee co-payments) were $1,503,825 and $1,267,936 for the three months ended and March 31, 2018 and 2017, respectively.

Workers' Compensation Insurance – Pursuant to our management agreements with Chesapeake Hospitality, we pay the premiums for workers' compensation insurance under a self-insured policy owned by Chesapeake Hospitality or its affiliates, and which covers those employees of Chesapeake Hospitality that work exclusively for our properties that are managed by Chesapeake Hospitality. For the three months ended March 31, 2018 and 2017, we paid approximately $0.1 million and $0, respectively, in premiums for the portion of the plan covering those employees that work exclusively for our properties under our management agreements with Chesapeake Hospitality.

Sotherly Foundation – During 2015, the Company loaned $180,000 to the Sotherly Foundation, a non-profit organization to benefit wounded American veterans living in communities near our hotels. As of March 31, 2018, and December 31, 2017, the balance of the loan was each $40,000, respectively.

Loan Receivable - Affiliate – As of March 31, 2018 and December 31, 2017, approximately $4.7 million and $4.7 million, respectively, was due to the Operating Partnership for advances to the Company under a loan agreement dated December 29, 2016. The Company used the proceeds to make advances to the ESOP to purchase shares of the Company's common stock.

Others. We employ Ashley S. Kirkland, the daughter of our Chief Executive Officer as a legal analyst and Robert E. Kirkland IV, her husband, as our compliance officer. We also employ Andrew M. Sims Jr., the son of our Chief Executive Officer, as a manager. Compensation for the three months ended March 31, 2018 and 2017 totaled $97,260 and $91,277, respectively, for all three individuals.

During the three-month period ending March 31, 2018 and 2017, the Company reimbursed $24,052 and $48,859, respectively to a partnership controlled by the Chief Executive Officer for business-related air travel pursuant to the Company's travel reimbursement policy.

10. Retirement Plans

401(k) Plan - We maintain a 401(k) plan for qualified employees which is subject to “safe harbor” provisions and which requires that we match 100.0% of the first 3.0% of employee contributions and 50.0% of the next 2.0% of employee contributions. All employer matching funds vest immediately in accordance with the “safe harbor” provision. Contributions to the plan totaled $26,898 and $24,238 for the three months ended March 31, 2018 and 2017, respectively.

Employee Stock Ownership Plan - The Company adopted an Employee Stock Ownership Plan in December 2016, effective January 1, 2016. The ESOP is a non-contributory defined contribution plan covering all employees of the Company. The Company sponsors and maintains the ESOP and related trust for the benefit of its eligible employees. The ESOP is a leveraged ESOP, meaning funds are loaned to the ESOP from the Company. The Company entered into a loan agreement with the ESOP on December 29, 2016, pursuant to which the ESOP may borrow up to $5.0 million to purchase shares of the Company’s common stock on the open market, which serve as collateral for the loan. Between January 3, 2017 and February 28, 2017, the Company’s ESOP purchased 682,500 shares of the Company’s common stock of an aggregate cost of $4.9 million. Shares purchased by the ESOP are held in a suspense account for allocation among participants. The share allocations are accounted for at fair value on the date of allocation as follows:

	March 31, 2018		December 31, 2017	
	Number of Shares	**Fair Value**	**Number of Shares**	**Fair Value**
Allocated shares	35,725	$ 242,576	9,473	$ 64,320
Committed to be released shares	6,531	41,208	24,359	157,118
Total Allocated and Committed-to-be-Released	42,256	$ 283,784	33,832	$ 221,438
Unallocated shares	640,244	4,039,939	648,668	4,183,908
Total ESOP Shares	682,500	$ 4,323,723	682,500	$ 4,405,346

11. Indirect Hotel Operating Expenses

Indirect hotel operating expenses consists of the following expenses incurred by the hotels:

	March 31, 2018	March 31, 2017
	(unaudited)	(unaudited)
Sales and marketing	$ 3,727,422	$ 2,926,133
General and administrative	3,442,458	3,686,055
Repairs and maintenance	1,801,142	1,711,035
Utilities	1,401,978	1,374,897
Property taxes	1,537,374	1,038,189
Management fees, including incentive	1,115,859	999,362
Franchise fees	923,524	1,413,395
Insurance	634,669	606,435
Information and telecommunications	381,604	433,564
Other	267,226	16,166
Total indirect hotel operating expenses	**$ 15,233,256**	**$ 14,205,231**

12. Income Taxes

The components of the income tax provision for the three months ended March 31, 2018 and 2017 are as follows:

	Three Months Ended March 31, 2018 (unaudited)	Three Months Ended March 31, 2017 (unaudited)
Current:		
Federal	$ —	$ 5,485
State	45,693	48,402
	45,693	53,887
Deferred:		
Federal	207,019	99,358
State	53,243	18,692
	260,262	118,050
	$ 305,955	**$ 171,937**

A reconciliation of the statutory federal income tax provision (benefit) to the Company's income tax provision is as follows:

	Three Months Ended March 31, 2018 (unaudited)	Three Months Ended March 31, 2017 (unaudited)
Statutory federal income tax provision (benefit)	$ 311,313	$ 1,046,484
Effect of non-taxable REIT income (loss)	(104,294)	(941,641)
State income tax provision (benefit)	98,936	67,094
	$ 305,955	**$ 171,937**

As of March 31, 2018 and December 31, 2017, we had a net deferred tax asset of approximately $5.2 million and $5.5 million, respectively, of which, approximately $4.6 million and $4.9 million, respectively, are due to accumulated net operating losses of our TRS Lessee. These loss carryforwards will begin to expire in 2028 if not utilized by such time. As of March 31, 2018 and December 31, 2017, the remainder of the deferred tax asset is attributable to year-to-year timing differences of approximately $0.6 million and $0.5 million, respectively, for accrued, but not deductible, employee performance awards, vacation and sick pay, bad debt allowance and depreciation. At the end of the 2017 fiscal year, there was a one-time loss effect resulting from a change in the federal income tax rate, due to the recently enacted tax reform legislation, informally referred to as the Tax Cuts and Jobs Act, on the net deferred tax assets which resulted in lowering deferred tax assets in the amount of approximately $2.7 million.

We record a valuation allowance to reduce deferred tax assets to an amount that we believe is more likely than not to be realized. Because of expected future taxable income of our TRS Lessee, we have not recorded a valuation allowance to reduce our net deferred tax asset as of March 31, 2018 and December 31, 2017, respectively. We regularly evaluate the likelihood that our TRS Lessee will be able to realize its deferred tax assets and the continuing need for a valuation allowance. At March 31, 2018 and December 31, 2017, we determined, based on all available positive and negative evidence, that it is more-likely-than-not that future taxable income will be available during the carryforward periods to absorb all of the consolidated federal and state net operating loss carryforward of our TRS Lessee. A number of factors played a critical role in this determination, including:

- a demonstrated track record of past profitability and utilization of past NOL carryforwards,
- reasonable forecasts of future taxable income, and
- anticipated changes in the lease rental payments from the TRS Lessee to subsidiaries of the Operating Partnership.

13. Income (Loss) Per Share and Per Unit

Income (Loss) per Share. The limited partners' outstanding limited partnership units in the Operating Partnership (which may be redeemed for common stock upon notice from the limited partner and following our election to redeem the units for stock rather than cash) have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts since the limited partners' share of income would also be added back to net income (loss). The shares of the Series B Preferred Stock and Series C Preferred Stock are not convertible into or exchangeable for any other property or securities of the Company, except upon the occurrence of a change of control and have been excluded from the diluted earnings per share calculation as there would be no impact on the current controlling stockholders. The 640,244 non-committed, unearned ESOP shares are treated as reducing the number of issued and outstanding common shares and similarly reducing the weighted average number of common shares outstanding. The effect of allocated and committed to be released shares during the three months ended March 31, 2018, have not been included in the weighted average diluted earnings per share calculation, since there would be an anti-dilutive effect from the dilution by these shares, although the amount of compensation for allocated shares is reflected in net income (loss) available to common stockholders for basic computation. There are no ESOP units, therefore there is no dilution on the calculation of earnings per unit. The computation of basic and diluted net income per share is presented below.

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	(unaudited)	(unaudited)
Numerator		
Net income (loss) available to common stockholders for basic and diluted computation	$ (238,343)	$ 1,851,090
Denominator		
Weighted average number of common shares outstanding	14,114,373	14,474,551
Weighted average number of Unearned ESOP Shares	(641,929)	(449,062)
Total weighted average number of common shares outstanding for basic and diluted computation	13,472,444	14,025,489
Basic and diluted net income (loss) per share	**$ (0.02)**	**$ 0.13**

Income Per Unit – The computation of basic and diluted net income per unit is presented below.

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
	(unaudited)	(unaudited)
Numerator		
Net income (loss) available to common unitholders for basic computation	$ (268,356)	$ 2,100,958
Denominator		
Weighted average number of units outstanding	15,892,513	16,252,691
Basic and diluted net income (loss) per unit	**$ (0.02)**	**$ 0.13**

14. Subsequent Events

On April 5, 2018, the Company drew down an additional $3.3 million of loan proceeds available on the Crowne Plaza Tampa Westshore mortgage loan.

On April 11, 2018, we paid a quarterly dividend (distribution) of $0.115 per common share (and unit) to those stockholders (and unitholders of the Operating Partnership) of record on March 15, 2018.

On April 16, 2018, we paid a quarterly distribution of $0.50 per share (and unit) of Series B Preferred Stock (and Series B Preferred Units) to holders of the Series B Preferred Stock (and Series B Preferred Units) of record as of March 29, 2018.

On April 16, 2018, we paid a quarterly distribution of $0.4921875 per share (and unit) of Series C Preferred Stock (and Series C Preferred Units) to holders of the Series C Preferred Stock (and Series C Preferred Units) of record as of March 29, 2018.

On April 30, 2018, we authorized payment of a quarterly dividend (distribution) of $0.12 per common share (and unit) to the stockholders (and unitholders of the Operating Partnership) of record as of June 15, 2018. The dividend (distribution) is to be paid on July 11, 2018.

On April 30, 2018, we authorized payment of a quarterly distribution of $0.50 per share (and unit) of Series B Preferred Stock (and Series B Preferred Units) to holders of the Series B Preferred Stock (and Series B Preferred Units) of record as of June 29, 2018. The dividend is to be paid on July 16, 2018.

On April 30, 2018, we authorized payment of a quarterly distribution of $0.4921875 per share (and unit) of Series C Preferred Stock (and Series C Preferred Units) to holders of the Series C Preferred Stock (and Series C Preferred Units) of record as of June 29, 2018. The dividend is to be paid on July 16, 2018.

On May 10, 2018, we entered into a purchase and sale agreement for the purchase of the parking lot adjacent to the DoubleTree by Hilton Raleigh Brownstone University for an aggregate purchase price of $3.5 million. The closing of the transaction is subject to various customary closing conditions, including the accuracy of representations and warranties through closing.

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

Overview

Sotherly Hotels Inc. is a self-managed and self-administered lodging REIT incorporated in Maryland in August 2004 to pursue opportunities in the full-service, primarily upscale and upper-upscale segments of the hotel industry located in primary and secondary markets in the mid-Atlantic and southern United States. Substantially all of the assets of Sotherly Hotels Inc. are held by, and all of its operations are conducted through, Sotherly Hotels LP. We commenced operations in December 2004 when we completed our initial public offering and thereafter consummated the acquisition of the Initial Properties.

Our hotel portfolio currently consists of twelve full-service, primarily upscale and upper-upscale hotels, comprising 3,156 rooms and the hotel commercial condominium unit of the Hyde Resort & Residences. The Company owns hotels that operate under well-known brands such as DoubleTree by Hilton, Crowne Plaza, Sheraton and Hyatt, as well as independent hotels. As of March 31, 2018, we owned the following hotel properties:

Property	Number of Rooms	Location	Date of Acquisition	Chain/Class Designation
Wholly-owned Hotels				
Crowne Plaza Tampa Westshore	222	Tampa, FL	October 29, 2007	Upscale
The DeSoto	246	Savannah, GA	December 21, 2004	Upper Upscale(1)
DoubleTree by Hilton Jacksonville Riverfront	293	Jacksonville, FL	July 22, 2005	Upscale
DoubleTree by Hilton Laurel	208	Laurel, MD	December 21, 2004	Upscale
DoubleTree by Hilton Philadelphia Airport	331	Philadelphia, PA	December 21, 2004	Upscale
DoubleTree by Hilton Raleigh Brownstone-University	190	Raleigh, NC	December 21, 2004	Upscale
DoubleTree Resort by Hilton Hollywood Beach	311	Hollywood, FL	August 9, 2007	Upscale
Georgian Terrace	326	Atlanta, GA	March 27, 2014	Upper Upscale(1)
Hotel Ballast(2)	272	Wilmington, NC	December 21, 2004	Upscale
Hyatt Centric Arlington	318	Arlington, VA	March 1, 2018	Upper Upscale
Sheraton Louisville Riverside	180	Jeffersonville, IN	September 20, 2006	Upper Upscale
The Whitehall	259	Houston, TX	November 13, 2013	Upper Upscale(1)
Hotel Rooms Subtotal	3,156			
Condominium Hotel				
Hyde Resort & Residences	215 (3)	Hollywood, FL	January 30, 2017	Luxury(1)
Total Hotel & Participating Condominium Hotel Rooms	3,371			

(1) Operated as an independent hotel.

(2) On April 2, 2018, the Company rebranded the Hilton Wilmington Riverside to the Hotel Ballast, part of the Tapestry Collection by Hilton.

(3) Reflects only those condominium units that were participating in the rental program as of March 31, 2018. At any given time, some portion of the units participating in our rental program may be occupied by the unit owner(s) and unavailable for rental to hotel guests. We sometimes refer to each participating condominium unit as a "room."

We conduct substantially all our business through our Operating Partnership. We are the sole general partner of our Operating Partnership, and we own an approximate 88.8% interest in our Operating Partnership, as of the date of this filing, with the remaining interest being held by limited partners who were the contributors of our Initial Properties and related assets.

To qualify as a REIT, neither the Company nor the Operating Partnership can operate our hotels. Therefore, our wholly-owned hotel properties are leased to our TRS Lessees, which are indirect wholly owned subsidiaries of the Operating Partnership. Our TRS Lessees then engage eligible independent hotel management companies to operate the hotels under a management agreement. Our TRS Lessees have engaged Chesapeake Hospitality and Highgate Hotels to manage our hotels. Our TRS Lessees, and their parent, MHI Hospitality TRS Holding, Inc., are consolidated into our financial statements for accounting purposes. The earnings of MHI Hospitality TRS Holding, Inc. are subject to taxation similar to other C corporations.

Key Operating Metrics

In the hotel industry, room revenue is considered the most important category of revenue and drives other revenue categories such as food, beverage, catering, parking, and telephone. There are three key performance indicators used in the hotel industry to measure room revenues:

- Occupancy, or the number of rooms sold, usually expressed as a percentage of total rooms available;
- Average daily rate, or ADR, which is total room revenue divided by the number of rooms sold; and
- Revenue per available room, or RevPAR, which is total room revenue divided by the total number of available rooms.

RevPAR changes that are primarily driven by changes in occupancy have different implications for overall revenues and profitability than changes that are driven primarily by changes in ADR. For example, an increase in occupancy at a hotel would lead to additional variable operating costs (such as housekeeping services, laundry, utilities, room supplies, franchise fees, management fees, credit card commissions and reservations expense), but could also result in increased non-room revenue from the hotel's restaurant, banquet or parking facilities. Changes in RevPAR that are primarily driven by changes in ADR typically have a greater impact on operating margins and profitability as they do not generate all of the additional variable operating costs associated with higher occupancy.

When calculating composite portfolio metrics, we include available rooms at the Hyde Resort & Residences that participate in our rental program and are not reserved for owner-occupancy.

We also use FFO, Adjusted FFO and Hotel EBITDA as measures of our operating performance. See "Non-GAAP Financial Measures."

Results of Operations

The following tables illustrate the key operating metrics for the three months ended March 31, 2018 and 2017, respectively, for the Company's wholly-owned properties ("actual" portfolio metrics), as well as ten wholly-owned properties in the portfolio that were under the Company's control during the three months ended March 31, 2018 and the corresponding period in 2017 ("same-store" portfolio metrics). Accordingly, the same-store data does not reflect the performance of the Hyatt Centric Arlington which was acquired on March 1, 2018, the Crowne Plaza Hampton Marina which was sold in February 2017, or our interest in the Hyde Resort & Residences which was acquired on January 30, 2017. The composite portfolio metrics represent all of the Company's wholly-owned properties and the participating condominium hotel rooms at the Hyde Resort & Residences during the three months ended March 31, 2018 and the corresponding period in 2017.

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Actual Portfolio Metrics		
Occupancy %	67.6%	70.1%
ADR	$ 157.80	$ 149.08
RevPAR	$ 106.63	$ 104.46
Same-Store Portfolio Metrics		
Occupancy %	66.8%	71.0%
ADR	$ 155.53	$ 149.88
RevPAR	$ 103.84	$ 106.39
Composite Portfolio Metrics		
Occupancy %	66.5%	69.8%
ADR	$ 168.37	$ 150.65
RevPAR	$ 112.03	$ 105.10

Comparison of the Three Months Ended March 31, 2018 to the Three Months Ended March 31, 2017

Revenue. Total revenue for the three months ended March 31, 2018 increased approximately $3.0 million, or 7.9%, to approximately $41.7 million compared to total revenue of approximately $38.7 million for the three months ended March 31, 2017. The increase in revenue for the three months ended March 31, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased revenues by approximately $2.1 million. In addition, our interest in the Hyde Resort & Residences condominium hotel, which started operations on January 30, 2017, has been ramping up and accounted for an increase of approximately $1.3 million for the period. Offsetting these increases was a decrease in revenue resulting from the sale of our property in Hampton, Virginia which reduced revenues by approximately $0.3 million. In addition, there was a net decrease in revenues of approximately $0.1 million for the period from the remaining properties; made up of a decrease for our properties impacted by renovation activities in Wilmington, North Carolina and Houston, Texas, which had reduced revenues of approximately $0.8 million; decreases in revenues of approximately $0.8 million at our properties in Raleigh, North Carolina; Jeffersonville, Indiana and Atlanta, Georgia and with offsetting increases in revenues at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Hollywood Beach, Florida and Tampa, Florida of approximately $1.5 million.

Room revenue increased approximately $0.9 million, or 3.4%, to approximately $28.3 million for the three months ended March 31, 2018 compared to room revenue of approximately $27.4 million for the three months ended March 31, 2017. The increase in room revenue for the three months ended March 31, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased room revenues by approximately $1.8 million. Offsetting this increase was a decrease in room revenue resulting from the sale of our property in Hampton, Virginia which reduced revenues by approximately $0.2 million. In addition, there was a net decrease in room revenues of approximately $0.7 million for the period, from the remaining properties, made up of a decrease at our properties impacted by renovation activities in Wilmington, North Carolina and Houston, Texas, which had reduced room revenues by approximately $0.8 million; decreases in room revenues of approximately $0.7 million at our properties in Savannah, Georgia; Raleigh, North Carolina; Laurel, Maryland; Hollywood Beach, Florida; Jeffersonville, Indiana and Atlanta, Georgia with offsetting increases in room revenues at our properties in Philadelphia, Pennsylvania; Jacksonville, Florida; and Tampa, Florida of approximately $0.8 million.

Food and beverage revenues increased approximately $0.1 million, or 0.3%, to approximately $8.4 million for the three months ended March 31, 2018 compared to food and beverage revenues of approximately $8.3 million for the three months ended March 31, 2017. The increase in food and beverage revenues for the three months ended March 31, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased food and beverage revenues by approximately $0.3 million. Offsetting this increase was a decrease in food and beverage revenue resulting from the sale of our property in Hampton, Virginia which reduced revenues by approximately $0.1 million. In addition, there was a net decrease in food and beverage revenues of approximately $0.1 million for the period from the remaining properties, made up of a decrease at our properties impacted by renovation activities in Wilmington, North Carolina and Houston, Texas, which had reduced food and beverage revenues by approximately $0.1 million; decreases in food and beverage revenues of approximately $0.6 million at our properties in Raleigh, North Carolina; Philadelphia, Pennsylvania; Hollywood Beach, Florida; Jeffersonville, Indiana; Tampa, Florida and Atlanta, Georgia with offsetting increases in food and beverage revenues at our properties in Savannah, Georgia; Laurel, Maryland and Jacksonville, Florida; of approximately $0.6 million.

Revenue from other operating departments increased approximately $2.1 million, or 69.7%, to approximately $5.1 million for the three months ended March 31, 2018 compared to revenue from other operating departments of approximately $3.0 million for the three months ended March 31, 2017. The increase in revenue from other operating departments for the three months ended March 31, 2018 resulted mainly from the ramp up of operations at the Hyde Resort & Residences, accounting for an increase of approximately $2.1 million for the period.

Hotel Operating Expenses. Hotel operating expenses, which consist of room expenses, food and beverage expenses, other direct expenses, indirect expenses and management fees, were approximately $29.9 million for the three months ended March 31, 2018, an increase of approximately $2.6 million, or 9.7%, compared to total hotel operating expenses of approximately $27.2 million for the three months ended March 31, 2017. The increase in hotel operating expenses for the three months ended March 31, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased hotel operating expenses by approximately $1.4 million. In addition, our interest in the Hyde Resort & Residences condominium hotel, which started operations on January 30, 2017, has been ramping up and accounted for an increase of approximately $0.8 million for the period. Offsetting these increases was a decrease in hotel operating expenses resulting from the sale of our property in Hampton, Virginia which reduced hotel operating expenses by approximately $0.4 million. In addition, there was a net increase in hotel operating expenses of approximately $0.8 million for the period from the remaining properties; made up of a decrease for our properties impacted by renovation activities in Wilmington, North Carolina and Houston, Texas, which had reduced hotel operating expenses of approximately $0.2 million; decreases in hotel operating expenses of approximately $0.4 million at our properties in Raleigh, North Carolina; Jeffersonville, Indiana and Atlanta, Georgia and with offsetting increases in hotel operating expenses at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Hollywood Beach, Florida and Tampa, Florida of approximately $1.4 million

Rooms expense for the three months ended March 31, 2018 had a slight increase of 0.3%, to approximately $6.7 million compared to rooms expense for the three months ended March 31, 2017 of approximately $6.7 million. The net increase in rooms expense for the three months ended March 31, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased room expenses by approximately $0.3 million. Offsetting this increase was a decrease in room expenses resulting from the sale of our property in Hampton, Virginia which reduced expenses by approximately $0.1 million. In addition, there was a net decrease in room expenses of approximately $0.1 million for the period, from the remaining properties, made up of a decrease at our properties impacted by renovation activities in Wilmington, North Carolina and Houston, Texas, which had reduced room expenses by approximately $0.2 million; decreases in room expenses of approximately $0.7 million at our properties in Savannah, Georgia; Raleigh, North Carolina; Laurel, Maryland; Hollywood Beach, Florida; Jeffersonville, Indiana and Atlanta, Georgia with offsetting increases in room expenses at our properties in Philadelphia, Pennsylvania; Jacksonville, Florida; and Tampa, Florida of approximately $0.8 million.

Food and beverage expenses for the three months ended March 31, 2018 increased approximately $0.7 million, 11.6%, to approximately $6.4 million compared to food and beverage expenses of approximately $5.7 million for the three months ended March 31, 2017. The increase in food and beverage expenses for the three months ended March 31, 2018 resulted from increases of approximately $1.0 million at our properties in Savannah, Georgia; Philadelphia, Pennsylvania; Laurel, Maryland; Jacksonville, Florida; Tampa, Florida; Houston, Texas and Arlington, Virginia, which were offset by decreases in food and beverage expenses of approximately $0.3 million at our properties in Wilmington, North Carolina; Raleigh, North Carolina; Hollywood Beach, Florida; Jeffersonville, Indiana and Atlanta, Georgia.

Expenses from other operating departments increased approximately $0.9 million, or 154.7%, to approximately $1.5 million for the three months ended March 31, 2018 compared to expenses from other operating departments of approximately $0.6 million for the three months ended March 31, 2017. The increase in expense from other operating departments for the three months ended March 31, 2018 resulted mainly from our interest in the Hyde Resort & Residences condominium hotel, which started operations on January 30, 2017 and has been ramping up and accounted for an increase of approximately $0.9 million for the period.

Indirect expenses at our wholly-owned properties for the three months ended March 31, 2018 increased approximately $1.0 million, or 7.2%, to approximately $15.2 million compared to indirect expenses of approximately $14.2 million for the three months ended March 31, 2017. The increase in indirect expenses for the three months ended March 31, 2018 resulted mainly from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased indirect costs by approximately $1.0 million.

Depreciation and Amortization. Depreciation and amortization expense for the three months ended March 31, 2018 increased approximately $1.6 million, or 38.7%, to $5.6 million compared to depreciation and amortization of approximately $4.0 million for the three months ended March 31, 2017. The increase was mostly attributable to increases in the depreciation related to our properties being renovated in Wilmington, North Carolina; Savannah, Georgia and Hollywood Beach, Florida, that accounted for increases of approximately $1.3 million for the period and from the acquisition of our property in Arlington, Virginia, on March 1, 2018, which increased depreciation by approximately $0.2 million. Our remaining properties accounted for the approximately $0.1 million increase in depreciation and amortization.

Corporate General and Administrative. Corporate general and administrative expenses for the three months ended March 31, 2018 decreased approximately $0.2 million, or 9.7% to approximately $1.5 million compared to corporate general and administrative expenses of approximately $1.7 million for the three months ended March 31, 2017. The decrease in corporate general and administrative expenses was mainly due to reduced professional fees from Sarbanes Oxley testing in the prior period and legal costs associated with Hyde Resort & Residences also in the prior period.

Interest Expense. Interest expense for the three months ended March 31, 2018 increased approximately $0.4 million, or 9.5%, to approximately $4.2 million compared to interest expense of approximately $3.8 million for the three months ended March 31, 2017. The increase in interest expense for the three months ended March 31, 2018, was substantially related to the new mortgage on our property in Arlington, Virginia and deferred financing costs associated with that mortgage, that accounted for an increase of approximately $0.3 million, compared to the three-month period ending March 31, 2017. There was also a net increase of approximately $0.3 million of interest expenses on mortgages for Wilmington, North Carolina; Savannah, Georgia; Jacksonville, Florida; Tampa, Florida and Houston Texas, which was offset by decreases on mortgages for Hollywood, Florida; Jeffersonville, Indiana and Atlanta, Georgia and there was a reduction in unsecured debt interest of approximately $0.2 million.

Interest Income. Interest income for the three months ended March 31, 2018 increased $41,999, or 105.8%, to $81,704 compared to interest income of $39,705 for the three months ended March 31, 2017. The increase is due to higher interest-bearing cash and cash equivalents during the three-month period ending March 31, 2018 compared to the three-month period ending March 31, 2017.

Gain on Involuntary Conversion of Assets. Gain on involuntary conversion of assets for the three months ended March 31, 2018 decreased approximately $0.1 million to approximately $0.9 million compared to gain on involuntary conversion of assets of approximately $1.0 million for the three months ended March 31, 2017. During October 2017, we had electrical damage to The Whitehall property and we had a one-time involuntary conversion in the amount of approximately $0.9 million. During October 2016, Hurricane Matthew damaged real and personal property at our Crowne Plaza Hampton Marina and Hilton Savannah DeSoto properties and resulted in a one-time involuntary conversion in the amount of approximately $1.0 million.

Unrealized Gain (Loss) on Hedging Activities. As of March 31, 2018, the fair market value of the interest rate cap is $17,942. The unrealized gain on hedging activities during the three months ended March 31, 2018, was $12,730 and during the three months ended March 31, 2017, the unrealized loss on hedging activities was $15,945.

Gain on Sale of Assets. Gain on sale of assets for the three months ended March 31, 2018 decreased approximately $0.1 million to $0 compared to a gain on sale of assets of approximately $0.1 million for the three months ended March 31, 2017. During the three-month period ending March 31, 2017, we sold the Hampton, Virginia property realizing a gain on sale of assets of approximately $0.1 million.

Income Taxes. We had an income tax provision of approximately $0.3 million for the three months ended March 31, 2018 compared to an income tax provision of approximately $0.2 million for the three months ended March 31, 2017. The income tax provision is primarily derived from the operations of our TRS Lessees. Our TRS Lessees realized operating income for each of the three months ended March 31, 2018 and 2017.

Net Income. We realized net income for the three months ended March 31, 2018 of approximately $1.2 million compared to net income of approximately $2.9 million for the three months ended March 31, 2017 as a result of the operating results discussed above.

Non-GAAP Financial Measures

We consider FFO, Adjusted FFO and Hotel EBITDA, all of which are non-GAAP financial measures, to be key supplemental measures of our performance and could be considered along with, not alternatives to, net income (loss) as a measure of our performance. These measures do not represent cash generated from operating activities determined by generally accepted accounting principles ("GAAP") or amounts available for our discretionary use and should not be considered alternative measures of net income, cash flows from operations or any other operating performance measure prescribed by GAAP.

FFO and Adjusted FFO. Industry analysts and investors use FFO as a supplemental operating performance measure of an equity REIT. FFO is calculated in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income or loss determined in accordance with GAAP, excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus certain non-cash items such as real estate asset depreciation and amortization, and after adjustment for any noncontrolling interest from unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets in accordance with GAAP 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, many investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by itself.

We consider FFO to be a useful measure of adjusted net income (loss) for reviewing comparative operating and financial performance because we believe FFO is most directly comparable to net income (loss), which remains the primary measure of performance, because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company's real estate between periods or as compared to different companies. Although FFO is intended to be a REIT industry standard, other companies may not calculate FFO in the same manner as we do, and investors should not assume that FFO as reported by us is comparable to FFO as reported by other REITs.

We further adjust FFO for certain additional items that are not in NAREIT's definition of FFO, including changes in deferred income taxes, any unrealized gain (loss) on hedging instruments or warrant derivative, loan impairment losses, losses on early extinguishment of debt, aborted offering costs, loan modification fees, franchise termination costs, costs associated with the departure of executive officers, litigation settlement, over-assessed real estate taxes on appeal, change in control gains or losses and acquisition transaction costs. We exclude these items as we believe it allows for meaningful comparisons between periods and among other REITs and is more indicative than FFO of the on-going performance of our business and assets. Our calculation of Adjusted FFO may be different from similar measures calculated by other REITs.

The following is a reconciliation of net income to FFO and Adjusted FFO for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net (loss) income available to common stockholders	**$ (238,343)**	**$ 1,851,090**
Add: Net (loss) income attributable to noncontrolling interest	(30,013)	229,942
Depreciation and amortization	5,634,190	4,061,097
Gain on involuntary conversion of assets	(870,741)	(1,041,815)
Loss (gain) on disposal and/or sale of assets	3,739	(100,407)
FFO	**$ 4,498,832**	**$ 4,999,907**
Decrease in deferred income taxes	260,262	118,050
Unrealized (gain) loss on hedging activities	(12,730)	15,945
Adjusted FFO available to common stockholders	**$ 4,746,364**	**$ 5,133,902**
Weighted average number of shares outstanding, basic	13,472,444	14,025,489
Weighted average number of non-controlling units	1,778,140	1,778,140
Weighted average number of shares and units outstanding, basic	15,250,584	15,803,629
FFO per share and unit	$ 0.29	$ 0.32
Adjusted FFO per share and unit	$ 0.31	$ 0.32

Hotel EBITDA. We define Hotel EBITDA as net income or loss excluding: (1) interest expense, (2) interest income, (3) income tax provision or benefit, (4) equity in the income or loss of equity investees, (5) unrealized gains and losses on derivative instruments not included in other comprehensive income, (6) gains and losses on disposal of assets, (7) realized gains and losses on investments, (8) impairment of long-lived assets or investments, (9) loss on early debt extinguishment, (10) gains or losses on change in control, (11) corporate general and administrative expense, (12) depreciation and amortization, (13) gains and losses on involuntary conversions of assets, (14) distributions to preferred stockholders and (15) other operating revenue not related to our wholly-owned portfolio. We believe this provides a more complete understanding of the operating results over which our wholly-owned hotels and its operators have direct control. We believe Hotel EBITDA provides investors with supplemental information on the on-going operational performance of our hotels and the effectiveness of third-party management companies operating our business on a property-level basis.

Our calculation of Hotel EBITDA may be different from similar measures calculated by other REITs.

The following is a reconciliation of net income to Hotel EBITDA for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net (loss) income available to common stockholders	**$ (238,343)**	**$ 1,851,090**
Add: Net (loss) income attributable to noncontrolling interest	(30,013)	229,942
Interest expense	4,177,019	3,813,717
Interest income	(81,704)	(39,705)
Income tax provision	305,955	171,937
Depreciation and amortization	5,634,190	4,061,097
Loss (gain) on disposal and/or sale of assets	3,739	(100,407)
Gain on involuntary conversion of assets	(870,741)	(1,041,815)
Distributions to preferred stockholders	1,444,844	805,000
EBITDA	**10,344,946**	**9,750,856**
Corporate general and administrative	1,546,300	1,712,082
Unrealized (gain) loss on hedging activities	(12,730)	15,945
Hotel EBITDA	**$ 11,878,516**	**$ 11,478,883**

Sources and Uses of Cash

Operating Activities. Our principal source of cash to meet our operating requirements, including distributions to unitholders of the Operating Partnership and stockholders as well as debt service (excluding debt maturities), is the operations of our hotels. Cash flow provided by operating activities for the three months ended March 31, 2018 was approximately $7.3 million. We had a net increase in cash provided by operating activities for the three months ended March 31, 2018 of approximately $1.3 million, compared to the three months ended March 31, 2017. The increase is mainly attributable to a net increase of adjustments to reconcile cash and changes in assets and liabilities of approximately $3.0 million offset by a decrease in net income of approximately $1.7 million. We expect that cash on hand and the net cash provided by operations will be adequate to fund our continuing operations, monthly and quarterly scheduled payments of principal and interest (excluding any balloon payments due upon maturity of a debt) and the payment of dividends (distributions) to the Company's stockholders (and unitholders of the Operating Partnership) in accordance with federal income tax laws which require us to make annual distributions, as "qualifying distributions," to the Company's stockholders of at least 90% of its REIT taxable income (determined without regard to the dividends-paid deduction and by excluding its net capital gains, and reduced by certain non-cash items).

Investing Activities. During the three months ended March 31, 2018, we used approximately $80.5 million to acquire our interest in the Hyatt Centric Arlington, $5.9 million on capital expenditures, of which, approximately $1.8 million related to the routine replacement of furniture, fixtures and equipment and $4.1 million related to renovation of our hotels in Wilmington, North Carolina and Tampa, Florida. The Operating Partnership received a payment on its loan to the Company in the amount of $44,256. We also received approximately $0.9 million for proceeds from insurance conversions.

Financing Activities. During the three months ended March 31, 2018, we received approximately $60.4 million for net mortgage proceeds, unsecured debt proceeds of $25.0 million before expenses, paid dividend and distribution payments of approximately $3.0 million for the Company and approximately $3.1 million for the Operating Partnership and made payments for deferred financing costs of approximately $2.0 million.

Capital Expenditures

We anticipate that our need for recurring capital expenditures for the replacement and refurbishment of furniture, fixtures and equipment over the next 12 to 24 months will be at historical norms for our properties and the industry. Historically, we have aimed to maintain overall capital expenditures, except for those required by our franchisors as a condition to a franchise license or license renewal, at 4.0% of gross revenue. In addition, during fiscal years 2018 and 2019 we expect total renovation capital expenditures of approximately $13.4 million related to our properties in Wilmington, North Carolina and Tampa, Florida. Below is a description of capital expenditures by property:

- At the Company's hotel in Wilmington, North Carolina, we completed a $10.0 million renovation of the guestrooms and public space at our hotel in March 2018 and rebranded the hotel from the Hilton Wilmington Riverside to the Hotel Ballast, a member of the Tapestry Collection by Hilton, on April 2, 2018.
- At the Company's hotel in Tampa, Florida, renovations of the guestrooms and public spaces totaling an estimated $11.0 million has begun, in anticipation of a planned March 2019 conversion to Hotel Alba, which we expect to become a member of the Tapestry Collection by Hilton. As of March 31, 2018, the Company had incurred costs totaling approximately $1.3 million toward this renovation.

Given our plan to complete the renovation activities at our property in Tampa, Florida prior to a franchise re-licensing in March 2019, we aim to restrict all other capital expenditures at these hotels during the renovation period to the replacement of broken or damaged furniture and equipment and the acquisition of items mandated by our licensor that are necessary to maintain our brand affiliation. We anticipate that capital expenditures for the replacement and refurbishment of furniture, fixtures and equipment that are not related to these renovation activities to total 3.50% of gross revenues in 2018.

We expect a substantial portion of our capital expenditures for the recurring replacement or refurbishment of furniture, fixtures and equipment at our properties will be funded by our replacement reserve accounts, other than costs that we incur to make capital improvements required by our franchisors. Reserve accounts are escrowed accounts with funds deposited monthly and reserved for capital improvements or expenditures with respect to all of our hotels. We currently deposit an amount equal to 4.0% of gross revenue for The DeSoto, the Hotel Ballast, the DoubleTree by Hilton Raleigh Brownstone-University, The Whitehall, the DoubleTree by Hilton Jacksonville Riverfront, the DoubleTree Resort by Hilton Hollywood Beach and the Georgian Terrace as well as 4.0% of room revenues for the DoubleTree by Hilton Philadelphia Airport on a monthly basis.

Liquidity and Capital Resources

As of March 31, 2018, we had total cash of approximately $35.6 million, of which approximately $30.7 million was in cash and cash equivalents and approximately $4.9 million was restricted for real estate taxes, insurance, capital improvement and certain other expenses, or otherwise restricted. We expect that our cash on hand combined with our cash flow from the operations of our hotels should be adequate to fund continuing operations, recurring capital expenditures for the refurbishment and replacement of furniture, fixtures and equipment, and monthly and quarterly scheduled payments of principal and interest (excluding any balloon payments due upon maturity of the indentures or mortgage debt).

Other than monthly mortgage loan principal payments, we do not have any debt obligations maturing until August 2018. In August 2018, the mortgage on our DoubleTree by Hilton Raleigh Brownstone University matures at the amortized mortgage balance of approximately $14.4 million. We have approximately $50.3 million in mortgage debt obligations maturing in 2019, which includes the mortgages on the DoubleTree by Hilton Philadelphia Airport and the Crowne Plaza Tampa Westshore, and Note B of the mortgage on the Hyatt Centric Arlington.

We intend to continue to invest in hotel properties as suitable opportunities arise. The success of our acquisition strategy depends, in part, on our ability to access additional capital. There can be no assurance that we will continue to make investments in properties that meet our investment criteria. Additionally, we may choose to dispose of certain hotels as a means to provide liquidity.

We expect to meet our liquidity requirements for hotel property acquisitions, property redevelopment, investments in new joint ventures and debt maturities, which includes the repayment of the 7.25% Notes and the retirement of maturing mortgage debt in 2018 and 2019, through net proceeds from additional issuances of common shares, additional issuances of preferred shares, issuances of units of limited partnership interest in our Operating Partnership, secured and unsecured borrowings, the selective disposition of non-core assets, and cash on hand. From time to time and subject to market conditions, we may also seek to refinance mortgage debt prior to maturity where appropriate. We remain committed to a flexible capital structure and strive to maintain prudent debt leverage.

On February 12, 2018, the Company and the Operating Partnership closed on a sale and issuance by the Operating Partnership of an aggregate $25.0 million of the 7.25% Notes, unconditionally guaranteed by the Company, for net proceeds after all estimated expenses of approximately $23.3 million. The Operating Partnership used the net proceeds from this offering, together with existing cash on hand and $57.0 million of asset-level mortgage indebtedness, to finance the Arlington Acquisition and for working capital.

On March 1, 2018, we acquired the 318-room Hyatt Centric Arlington hotel located in Arlington, Virginia for an aggregate purchase price of $79.7 million, including seller credits. On March 1, 2018, we entered into a loan agreement, a first and second promissory note ("Note A" and "Note B", respectively), and other loan documents, including a guarantee by the Operating Partnership, to secure an aggregate $57.0 million mortgage (the "Mortgage Loan") on the Hyatt Centric Arlington hotel with Fifth Third Bank. Pursuant to the Mortgage Loan documents, Note A is in the amount of $50.0 million; has a term of 3 years, with two 1-year extension options, each of which subject to certain criteria; bears a floating interest rate of one-month LIBOR plus 3.00%; and amortizes on a 25-year schedule. Pursuant to the Mortgage Loan documents, Note B is in the amount of $7.0 million; has a term of 1-year, with two 1-year extension options, each of which subject to certain criteria; bears a floating interest rate of three-month LIBOR plus 5.00%; and requires monthly principal payments of $100,000 during the initial 1-year term, $150,000 during the first 1-year extended term, and $250,000 during the second 1-year extended term, with interest payments due monthly on the outstanding principal amount during all three terms. The full amount of the loan proceeds, together with proceeds of the 7.25% Notes offering and cash on hand, were used to finance the Arlington Acquisition.

Financial Covenants

Mortgage Loans

Our mortgage loan agreements contain various financial covenants. Failure to comply with these financial covenants could result from, among other things, changes in the local competitive environment, general economic conditions and disruption caused by renovation activity or major weather disturbances.

If we violate the financial covenants contained in these agreements, we may attempt to negotiate waivers of the violations or amend the terms of the applicable mortgage loan agreement with the lender; however, we can make no assurance that we would be successful in any such negotiation or that, if successful in obtaining waivers or amendments, such waivers or amendments would be on attractive terms. Some mortgage loan agreements provide alternate cure provisions which may allow us to otherwise comply with the financial covenants by obtaining an appraisal of the hotel, prepaying a portion of the outstanding indebtedness or by providing cash collateral until such time as the financial covenants are met by the collateralized property without consideration of the cash collateral. Alternate cure provisions which include prepaying a portion of the outstanding indebtedness or providing cash collateral may have a material impact on our liquidity.

If we are unable to negotiate a waiver or amendment or satisfy alternate cure provisions, if any, or unable to meet any alternate cure requirements and a default were to occur, we would possibly have to refinance the debt through additional debt financing, private or public offerings of debt securities, or additional equity financing.

Under the terms of our non-recourse secured mortgage loan agreements, failure to comply with the financial covenants in the loan agreement triggers cash flows from the property to be directed to the lender, which may limit our overall liquidity as that cash flow would not be available to us.

As of March 31, 2018, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans, with the exception of Note B to the Hyatt Centric Arlington mortgage. At March 31, 2018, we failed to meet the Debt Service Coverage Ratio ("DSCR") covenant for the Hyatt Centric Arlington mortgage. The loan agreement contains a balancing provision that allows us to pay down the principal balance of the loan to meet the DSCR covenant, and are currently in compliance with the DSCR covenant after making an additional principal payment of approximately $4.0 million on May 10, 2018.

Unsecured Notes

The indenture for the 7.25% Notes, issued on February 12, 2018, contains certain covenants and restrictions that require us to meet certain financial ratios. We are not permitted to incur any Debt (other than Intercompany Debt), as defined in the indenture, if, immediately after giving effect to the incurrence of such Debt and to the application of the proceeds thereof, the ratio of the aggregate principal amount of all outstanding Debt to Adjusted Total Asset Value, as defined in the indenture, would be greater than 0.65 to 1.0. In addition, we are not permitted to incur any Debt if the ratio of Stabilized Consolidated Income Available for Debt Service to Stabilized Consolidated Interest Expense, each as defined in the indenture, on the date on which such additional Debt is to be incurred, on a pro-forma basis, after giving effect to the incurrence of such Debt and to the application of the proceeds thereof, would be less than 1.50 to 1.0.

These financial measures are not calculated in accordance with GAAP and are presented below for the sole purpose of evaluating our compliance with the key financial covenants as they were applicable at March 31, 2018.

	March 31, 2018
Ratio of Stabilized Consolidated Income Available for Debt Service to Stabilized Consolidated Interest Expense	
Net loss(1)	**$ (1,680,055)**
Interest expense(1)	16,090,930
Loss on early debt extinguishment	1,178,348
Unrealized loss on hedging activities	(291)
Gain on involuntary conversion	(2,071,802)
Loss (gain) on sale of assets	24,174
Income tax benefit(1)	1,871,822
Loss on disposal of assts	1,493,631
Depreciation and amortization(1)	18,572,712
Corporate general and administrative expenses(1)	6,170,144
Consolidated income available for debt service(1)	41,649,613
Less: income of non-stabilized assets(1)	(10,944,800)
Stabilized Consolidated Income Available for Debt Service(1)	**$ 30,704,813**
Interest expense(1) (2)	$ 17,041,190
Amortization of issuance costs(1)	(903,868)
Consolidated interest expense(1)	16,137,322
Less: interest expense of non-stabilized assets(1)	(5,250,344)
Stabilized Consolidated Interest Expense(1)	**$ 10,886,978**
Ratio of Stabilized Consolidated Income Available for Debt Service to Stabilized Consolidated Interest Expense	**2.82**
Threshold Ratio Minimum	**1.50**
Ratio of Debt to Adjusted Total Asset Value:	
Mortgage loans	$ 359,402,460
Unsecured notes	25,000,000
Total debt	**$ 384,402,460**
Stabilized Consolidated Income Available for Debt Service(1)	$ 30,704,813
Capitalization rate	7.5%
	409,397,500
Non-stabilized assets	250,300,000
Total cash	35,574,949
Adjusted Total Asset Value	**$ 695,272,449**
Ratio of Debt to Adjusted Total Asset Value	**0.55**
Threshold Ratio Maximum	**0.65**

(1) Represents the four preceding calendar quarters.
(2) As permitted by the indenture, The DeSoto, The Whitehall, the DoubleTree Resort Hollywood Beach and the Hyatt Centric Arlington hotels, for the period ended March 31, 2018, are considered non-stabilized assets for purposes of the financial covenants.

Dividend Policy

We intend to continue to declare quarterly distributions to our stockholders. The amount of future common stock (and Operating Partnership unit) distributions will be based upon quarterly operating results, general economic conditions, requirements for capital improvements, the availability of debt and equity capital, the Internal Revenue Code's annual distribution requirements and other factors, which the Company's board of directors deems relevant. The amount, timing and frequency of distributions will be authorized by the Company's board of directors and declared by us based upon a variety of factors deemed relevant by our directors, and no assurance can be given that our distribution policy will not change in the future.

In January 2018, we increased the quarterly dividend (distribution) to $0.115 per common share (and unit).

In April 2018, we increased the quarterly dividend (distribution) to $0.12 per common share (and unit).

Off-Balance Sheet Arrangements

None.

Inflation

We generate revenues primarily from lease payments from our TRS Lessees and net income from the operations of our TRS Lessees. Therefore, we rely primarily on the performance of the individual properties and the ability of the management company to increase revenues and to keep pace with inflation. Operators of hotels, in general, possess the ability to adjust room rates daily to keep pace with inflation. However, competitive pressures at some or all of our hotels may limit the ability of the management company to raise room rates.

Our expenses, including hotel operating expenses, administrative expenses, real estate taxes and property and casualty insurance are subject to inflation. These expenses are expected to grow with the general rate of inflation, except for energy, liability insurance, property and casualty insurance, property tax rates, employee benefits, and some wages, which are expected to increase at rates higher than inflation.

Geographic Concentration and Seasonality

Our hotels are located in Florida, Georgia, Indiana, Maryland, North Carolina, Pennsylvania, Texas and Virginia. As a result, we are particularly susceptible to adverse market conditions in these geographic areas, including industry downturns, relocation of businesses and any oversupply of hotel rooms or a reduction in lodging demand. Adverse economic developments in the markets in which we have a concentration of hotels, or in any of the other markets in which we operate, or any increase in hotel supply or decrease in lodging demand resulting from the local, regional or national business climate, could materially and adversely affect us.

The operations of our hotel properties have historically been seasonal. The months of April and May are traditionally strong, as is October. The periods from mid-November through mid-February are traditionally slow with the exception of hotels located in certain markets, namely Florida and Texas, which typically experience significant room demand during this period.

Critical Accounting Policies

The critical accounting policies are described below. We consider these policies critical because they involve difficult management judgments and assumptions, are subject to material change from external factors or are pervasive, and are significant to fully understand and evaluate our reported financial results.

Investment in Hotel Properties. Hotel properties are stated at cost, net of any impairment charges, and are depreciated using the straight-line method over an estimated useful life of 7-39 years for buildings and improvements and 3-10 years for furniture and equipment. In accordance with generally accepted accounting principles, the controlling interests in hotels comprising our accounting predecessor, MHI Hotels Services Group, and noncontrolling interests held by the controlling holders of our accounting predecessor in hotels, which were acquired from third parties, contributed to us in connection with the Company's initial public offering, are recorded at historical cost basis. Noncontrolling interests in those entities that comprise our accounting predecessor and the interests in hotels, other than those held by the controlling members of our accounting predecessor, acquired from third parties are recorded at fair value at the time of acquisition.

We review our hotel properties for impairment whenever events or changes in circumstances indicate the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause us to perform our review include, but are not limited to, adverse permanent changes in the demand for lodging at our properties due to declining national or local economic conditions and/or new hotel construction in markets where our hotels are located. When such conditions exist, management performs a recoverability analysis to determine if the estimated undiscounted future cash flows from operating activities and the estimated proceeds from the ultimate disposition of a hotel property exceed its carrying value. If the estimated undiscounted future cash flows are found to be less than the carrying amount of the hotel property, an adjustment to reduce the carrying value to the related hotel property's estimated fair market value would be recorded and an impairment loss is recognized.

There were no charges for impairment of hotel properties recorded for the three months ended March 31, 2018.

In performing the recoverability analysis, we project future operating cash flows based upon significant assumptions regarding growth rates, occupancy, room rates, economic trends, property-specific operating costs and future capital expenditures required to maintain the hotel in its current operating condition. We also project cash flows from the eventual disposition of the hotel based upon various factors including property-specific capitalization rates, ratio of selling price to gross hotel revenues and the selling price per room.

Revenue Recognition. Hotel revenues, including room, food, beverage and other hotel revenues, are recognized as the related services are delivered. We generally consider accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If we determine that amounts are uncollectible, which would generally be the result of a customer's bankruptcy or other economic downturn, such amounts will be charged against operations when that determination is made. Revenues are reported net of occupancy and other taxes collected from customers and remitted to governmental authorities. Receivables for amounts earned under various contracts are subject to audit.

Income Taxes. We record a valuation allowance to reduce deferred tax assets to an amount that we believe is more likely than not to be realized. Because of expected future taxable income of our TRS Lessee, we have not recorded a valuation allowance to reduce our net deferred tax asset as of March 31, 2018 and December 31, 2017, respectively. We regularly evaluate the likelihood that our TRS Lessee will be able to realize its deferred tax assets and the continuing need for a valuation allowance. At each of March 31, 2018 and December 31, 2017, we determined, based on all available positive and negative evidence, that it is more-likely-than-not that future taxable income will be available during the carryforward periods to absorb all of the consolidated federal and state net operating loss carryforward. A number of factors played a critical role in this determination, including:

- a demonstrated track record of past profitability and utilization of past NOL carryforwards,
- reasonable forecasts of future taxable income, and
- anticipated changes in the lease rental payments from the TRS Lessee to subsidiaries of the Operating Partnership.

Should unanticipated adverse financial trends occur, or other negative evidence develop, a valuation allowance may be necessary in the future against some or all of our deferred tax assets.

Recent Accounting Pronouncements

For a summary of recently adopted and newly issued accounting pronouncements, please refer to the *New Accounting Pronouncements* section of Note 2, *Summary of Significant Accounting Policies,* in the Notes to Consolidated Financial Statements.

Forward Looking Statements

Information included and incorporated by reference in this Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our current strategies, expectations, and future plans are generally identified by our use of words, such as "intend," "plan," "may," "should," "will," "project," "estimate," "anticipate," "believe," "expect," "continue," "potential," "opportunity," and similar expressions, whether in the negative or affirmative, but the absence of these words does not necessarily mean that a statement is not forward-looking. All statements regarding our expected financial position, business and financing plans are forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- national and local economic and business conditions that affect occupancy rates and revenues at our hotels and the demand for hotel products and services;
- risks associated with the hotel industry, including competition and new supply of hotel rooms, increases in wages, energy costs and other operating costs;
- risks associated with adverse weather conditions, including hurricanes;
- the availability and terms of financing and capital and the general volatility of the securities markets;
- the Company's intent to repurchase shares from time to time;
- risks associated with the level of our indebtedness and our ability to meet covenants in our debt agreements and, if necessary, to refinance or seek an extension of the maturity of such indebtedness or modify such debt agreements;
- management and performance of our hotels;
- risks associated with maintaining our system of internal controls;

- risks associated with the conflicts of interest of the Company's officers and directors;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns;
- supply and demand for hotel rooms in our current and proposed market areas;
- risks associated with our ability to maintain our franchise agreements with our third party franchisors;
- our ability to acquire additional properties and the risk that potential acquisitions may not perform in accordance with expectations;
- our ability to successfully expand into new markets;
- legislative/regulatory changes, including changes to laws governing taxation of REITs;
- the Company's ability to maintain its qualification as a REIT; and
- our ability to maintain adequate insurance coverage.

Additional factors that could cause actual results to vary from our forward-looking statements are set forth under the section titled "Risk Factors" in our Annual Report on Form 10-K and subsequent reports filed with the Securities and Exchange Commission.

These risks and uncertainties should be considered in evaluating any forward-looking statement contained in this report or incorporated by reference herein. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report, except as required by law. In addition, our past results are not necessarily indicative of our future results.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that could occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses. As a result, actual future results may differ materially from those presented. The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates.

To meet in part our long-term liquidity requirements, we will borrow funds at a combination of fixed and variable rates. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. From time to time we may enter into interest rate hedge contracts such as collars and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not intend to hold or issue derivative contracts for trading or speculative purposes.

As of March 31, 2018, we had approximately $267.2 million of fixed-rate debt and approximately $117.2 million of variable-rate debt. The weighted-average interest rate on the fixed-rate debt was 4.85%. A change in market interest rates on the fixed portion of our debt would impact the fair value of the debt, but have no impact on interest incurred or cash flows. Our variable-rate debt is exposed to changes in interest rates, specifically the changes in 1-month LIBOR and 3-month LIBOR. However, to the extent that 1-month LIBOR does not exceed the 1-month LIBOR floor on the mortgage on the DoubleTree by Hilton Philadelphia Airport of 0.50%, a portion of our variable-rate debt would not be exposed to changes in interest rates. Assuming that the aggregate amount outstanding on the mortgages on the Crowne Plaza Tampa Westshore, DoubleTree by Hilton Philadelphia Airport, The Whitehall and the mortgage on Hyatt Centric Arlington remains at approximately $117.2 million, the balance at March 31, 2018, the impact on our annual interest incurred and cash flows of a one percent increase in 1-month LIBOR and 3-month LIBOR would be approximately $1.2 million.

As of December 31, 2017, we had approximately $238.3 million of fixed-rate debt and approximately $60.7 million of variable rate debt. The weighted-average interest rate on the fixed-rate debt was 4.61%. A change in market interest rates on the fixed portion of our debt would impact the fair value of the debt, but have no impact on interest incurred or cash flows. Our variable-rate debt is exposed to changes in interest rates, specifically the changes in 1-month LIBOR. However, to the extent that 1-month LIBOR does not exceed the 1-month LIBOR floor on the mortgage on the DoubleTree by Hilton Philadelphia Airport of 0.50%, a portion of our variable-rate debt would not be exposed to changes in interest rates. Assuming that the aggregate amount outstanding on the mortgages on the Crowne Plaza Tampa Westshore, DoubleTree by Hilton Philadelphia Airport and the mortgage on The Whitehall remains at approximately $60.7 million, the balance at December 31, 2017, the impact on our annual interest incurred and cash flows of a one percent increase in 1-month LIBOR would be approximately $0.6 million.

Item 4. ***Controls and Procedures***

Sotherly Hotels Inc.

Disclosure Controls and Procedures

The Company’s management, under the supervision and participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act), as of March 31, 2018. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2018, its disclosure controls and procedures were effective and designed to ensure that (i) information required to be disclosed in its reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and instructions, and (ii) information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company’s disclosure controls and procedures or its internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of the controls can provide absolute assurance that all control issues and instances of fraud, if any, within Sotherly Hotels Inc. have been detected.

Changes in Internal Control over Financial Reporting

There was no change in Sotherly Hotels Inc.’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during Sotherly Hotels Inc.’s last fiscal quarter that materially affected, or is reasonably likely to materially affect, Sotherly Hotels Inc.’s internal control over financial reporting.

Sotherly Hotels LP

Disclosure Controls and Procedures

The Operating Partnership’s management, under the supervision and participation of the Chief Executive Officer and Chief Financial Officer of Sotherly Hotels Inc., as general partner, has evaluated the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act), as of March 31, 2018. Based on that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2018, the disclosure controls and procedures were effective and designed to ensure that (i) information required to be disclosed in the reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and instructions, and (ii) information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The Operating Partnership’s management, including the Chief Executive Officer and Chief Financial Officer of Sotherly Hotels Inc., as general partner, does not expect that the disclosure controls and procedures or the internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of the controls can provide absolute assurance that all control issues and instances of fraud, if any, within Sotherly Hotels LP have been detected.

Changes in Internal Control over Financial Reporting

There was no change in Sotherly Hotels LP’s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during Sotherly Hotels LP’s last fiscal quarter that materially affected, or is reasonably likely to materially affect, Sotherly Hotels LP’s internal control over financial reporting.

PART II

Item 1. ***Legal Proceedings***

We are not involved in any legal proceedings other than routine legal proceedings occurring in the ordinary course of business. We believe that these routine legal proceedings, in the aggregate, are not material to our financial condition and results of operations.

Item 1A. ***Risk Factors***

Except as set forth below, there have been no material changes in our risk factors from those disclosed in our annual report on Form 10-K for the year ended December 31, 2017.

Our ground lease for the Hyatt Centric Arlington may constrain us from acting in the best interest of shareholders or require us to make certain payments.

The Hyatt Centric Arlington is subject to a ground lease with a third-party lessor which requires us to obtain the consent of the relevant third party lessor in order to sell the Hyatt Centric Arlington hotel or to assign our leasehold interest in the ground lease. Accordingly, we may be prevented from completing such a transaction if we are unable to obtain the required consent from the lessor, even if we determine that the sale of this hotel or the assignment of our leasehold interest in the ground lease is in the best interest of the Company or our shareholders. In addition, at any given time, potential purchasers may be less interested in buying a hotel subject to a ground lease and may demand a lower price for the hotel than for a comparable property without such a restriction, or they may not purchase the hotel at any price. For these reasons, we may have a difficult time selling the hotel or may receive lower proceeds from any such sale. The ground lease is subject to five renewal periods of 10 years each, with the first renewal period beginning in 2025. At the beginning of each renewal period, certain provisions of the lease may be adjusted by the lessor, which could impact payments we are required to make to the lessor. In addition, if we are not able to come to reasonable terms with the lessor at the end of the term or if we are found to have breached certain obligations under the ground lease, we may be required to dispose of the hotel at a substantial loss.

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

From time to time, the Operating Partnership issues limited partnership units to the Company, as required by the Partnership Agreement, to mirror the capital structure of the Company to reflect additional issuances by the Company and to preserve equitable ownership ratios.

Item 3. ***Defaults upon Senior Securities***

Not applicable.

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

Not applicable.

Item 6. ***Exhibits***

The following exhibits are filed as part of this Form 10-Q:

Exhibit Number	Description of Exhibit
4.7	Indenture by and among Sotherly Hotels Inc., Sotherly Hotels LP and Wilmington Trust, National Association, as trustee, dated February 12, 2018 (incorporated by reference to the document previously filed as Exhibit 4.1 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 12, 2018).
4.8	First Supplemental Indenture by and among Sotherly Hotels Inc., Sotherly Hotels LP and Wilmington Trust, National Association, as trustee, dated February 12, 2018 (incorporated by reference to the document previously filed as Exhibit 4.2 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on February 12, 2018).
4.9	7.25% Senior Unsecured Note due 2021 and Notation of Guarantee.
10.3	Executive Employment Agreement between Sotherly Hotels Inc. and Anthony E. Domalski, dated as of January 1, 2018 (incorporated by reference to the document previously filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 5, 2018).*
10.23	First Amendment to Hotel Purchase and Sale Agreement by and between RP/HH Rosslyn Hotel Owner, LP and Sotherly Hotels LP, dated as of January 11, 2018 (incorporated by reference to the document previously filed as Exhibit 10.32 to our Current Report on Form 8-K filed with the Securities and Exchange Commission on March 5, 2018).
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company.
31.3	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Operating Partnership.
31.4	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Operating Partnership.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Company.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Company.
32.3	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 for the Operating Partnership.
32.4	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 for the Operating Partnership.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Denotes management contract and/or compensatory plan/arrangement.

SIGNATURES

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

SOTHERLY HOTELS INC.

Date: May 10, 2018

By: /s/ Andrew M. Sims
Andrew M. Sims
Chief Executive Officer

By: /s/ Anthony E. Domalski
Anthony E. Domalski
Chief Financial Officer

SIGNATURES

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

SOTHERLY HOTELS LP

By: SOTHERLY HOTELS INC.
Its General Partner

Date: May 10, 2018

By: /s/ Andrew M. Sims
Andrew M. Sims
Chief Executive Officer

By: /s/ Anthony E. Domalski
Anthony E. Domalski
Chief Financial Officer

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Section 2: EX-4.9 (EX-4.9)

Exhibit 4.9

THIS GLOBAL NOTE IS HELD BY THE DEPOSITORY (AS DEFINED IN THE INDENTURE GOVERNING THIS NOTE) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE BENEFICIAL OWNERS HEREOF AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (1) THE TRUSTEE MAY MAKE SUCH NOTATIONS HEREON AS MAY BE REQUIRED PURSUANT TO SECTION 3.12 OF THE SUPPLEMENTAL INDENTURE (AS DEFINED BELOW), (2) THIS GLOBAL NOTE MAY BE EXCHANGED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 3.12 OF THE FIRST SUPPLEMENTAL INDENTURE, (3) THIS GLOBAL NOTE MAY BE DELIVERED TO THE TRUSTEE FOR CANCELLATION PURSUANT TO SECTION 2.12 OF THE BASE INDENTURE AND (4) THIS GLOBAL NOTE MAY BE TRANSFERRED TO A SUCCESSOR DEPOSITORY WITH THE PRIOR WRITTEN CONSENT OF THE ISSUER.

UNLESS AND UNTIL IT IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN DEFINITIVE FORM, THIS NOTE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK 10041) (“**DTC**”) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS MAY BE REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

SOTHERLY HOTELS LP 7.25% Senior Unsecured Notes due 2021

CUSIP No. 83600E 307

ISIN US83600E3071

No. 1

$25,000,000
1,000,000 Units

SOTHERLY HOTELS LP, a Delaware limited partnership (the “Issuer”), for value received, promises to pay to Cede & Co., or its registered assigns, the principal sum of TWENTY FIVE MILLION AND 00/100 DOLLARS or such other amount as is provided in a schedule attached hereto on February 15, 2021.

Interest Payment Dates: February 15, May 15, August 15 and November 15, commencing May 15, 2018.

Record Dates: February 1, May 1, August 1 and November 1.

Reference is made to the further provisions of this Note contained herein, which will for all purposes have the same effect as if set forth at this place.

IN WITNESS WHEREOF, the Issuer has caused this Note to be signed manually or by facsimile by its duly authorized officer.

Dated: February 12, 2018

SOTHERLY HOTELS LP, as Issuer,

By: Sotherly Hotels Inc., its general partner

By: /s/ David R. Folsom
Name: David R. Folsom
Title: COO

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the 7.25% Senior Unsecured Notes due 2021 described in the within-mentioned Indenture.

Dated: February 12, 2018

WILMINGTON TRUST, NATIONAL ASSOCIATION, as Trustee,

By: /s/ W. Thomas Morris, II
Authorized Signatory

7.25% Senior Unsecured Notes due 2021

This Note is one of the series designated on the face hereof as 7.25% Senior Unsecured Notes due 2021 (the "Notes"), which was issued under the Supplemental Indenture (as defined below). Capitalized terms used herein shall have the meanings assigned to them in the Indenture referred to below unless otherwise indicated.

SECTION 1. Interest. Sotherly Hotels LP, a Delaware limited partnership (the "**Issuer**"), promises to pay interest on the principal amount of this Note at 7.25% per annum from February 12, 2018, until maturity. The Issuer will pay interest quarterly on each Interest Payment Date, or if any such day is not a Business Day, on the next succeeding Business Day (as if it were made on the date such payment was due, and no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date). Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from February 12, 2018. The Issuer shall pay any Defaulted Interest as provided in Section 3.6 of the Supplemental Indenture (as defined below). Interest will be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 2. Method of Payment. The Issuer will pay interest on the Notes to the persons who are registered Holders at the close of business on the Record Date next preceding the Interest Payment Date, except as provided in Section 3.6 of the Supplemental Indenture (as defined below) with respect to defaulted interest. The Issuer shall pay principal, premium, if any, and interest on the Notes in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts ("**U.S. Legal Tender**"). The Issuer shall pay or cause the Paying Agent to pay interest on this Note by wire transfer of immediately available funds to the account of the Depository or its nominee. Until otherwise designated by the Issuer, the Issuer's office or agency will be the Corporate Trust Office.

SECTION 3. Paying Agent and Registrar. Initially, Wilmington Trust, National Association, the Trustee under the Indenture, will act as Paying Agent and Registrar. The Issuer may change any Paying Agent or Registrar without notice to any Holder. Except as provided in the Indenture, the Issuer or any of its Subsidiaries may act in any such capacity.

SECTION 4. Indenture. The Issuer issued the Notes under (i) that certain First Supplemental Indenture dated as of February 12, 2018 ("**Supplemental Indenture**") by and among the Issuer, the Guarantor and the Trustee and (ii) that certain Indenture dated as of February 12, 2018 (the "**Base Indenture**," and together with the Supplemental Indenture, the "**Indenture**"). Subject to the terms of the Indenture, the Issuer shall be entitled to issue Additional Notes pursuant to Section 3.4 of the Supplemental Indenture. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (15 U.S. Code §§ 77aaa-77bbbb) (the "**Trust Indenture Act**"). The Notes are subject to all such terms, and Holders are referred to the Indenture and the Trust Indenture Act for a statement of such terms. To the extent any provision of this Note conflicts with the express provisions of the Indenture, the provisions of the Indenture shall govern and be controlling.

SECTION 5. Optional Redemption. At any time on or after February 15, 2019, the Issuer will be entitled at its option to redeem all or any portion of the Notes at a Redemption Price equal to 101% of the principal amount of such Notes plus any accrued and unpaid interest to, but not including, the Redemption Date (subject to the right of each Holder on the relevant Record Date to receive interest due on the relevant Interest Payment Date falling prior to or on the redemption date).

SECTION 6. Notice of Redemption. Subject to Section 4.2 of the Supplemental Indenture, notice of any optional redemption of any Notes will be delivered to Holders (with a copy to the Trustee) at their addresses, as shown in the Notes register, not more than 60 nor less than 30 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the redemption price and the principal amount of the Notes held by the holder to be redeemed. No Notes of $25 or less shall be redeemed in part. On and after the Redemption Date interest ceases to accrue on Notes or portions thereof called for redemption subject to Section 4.3 of the Supplemental Indenture.

SECTION 7. Mandatory Redemption or Sinking Fund Payment. The Issuer shall not be required to make mandatory redemption or sinking fund payments with respect to the Notes.

SECTION 8. Repurchase at Option of Holder. Upon the occurrence of a Change of Control Repurchase Event, and subject to certain conditions set forth in the Indenture, the Issuer will be required to offer to purchase all of the outstanding Notes at a purchase price equal to 102% of the principal amount thereof, plus accrued and unpaid interest, if any, thereon to the date of repurchase.

SECTION 9. Denominations, Transfer Exchange. The Notes are issued in registered form without coupons in minimum denominations of $25 and integral multiples of $25 in excess thereof. The principal amount of the Notes will be reflected in units with each unit being worth $25. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents, and the Issuer may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Issuer and the Registrar are not required to transfer or exchange any Note selected for redemption. Also, the Issuer and the Registrar are not required to transfer or exchange any Notes for a period of 15 days before a selection of Notes is to be redeemed.

SECTION 10. Persons Deemed Owners. The registered Holder of a Note may be treated as its owner for all purposes.

SECTION 11. Amendment, Supplement and Waiver. Subject to certain exceptions set forth in the Indenture, the Indenture and the Notes may be amended or supplemented with the written consent of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding, and any existing Default or compliance with any provision may be waived with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding. Without notice to or consent of any Holder, the parties thereto may amend or supplement the Indenture and the Notes as provided in the Indenture.

SECTION 12. Defaults and Remedies. The Trustee and the Holders of the Notes will have the remedies following the occurrence and during the continuance of an Event of Default as set forth in the Indenture.

SECTION 13. Restrictive Covenants. The Indenture contains certain covenants, including as set forth in Article 6 of the Supplemental Indenture.

SECTION 14. No Recourse Against Others. No recourse for the payment of the principal of, premium, if any, or interest on any of the Notes or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Issuer in the Indenture, or in any of the Notes or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, officer, director, employee or controlling person of the Issuer or of any successor person thereof. Each Holder, by accepting the Notes, waives and releases all such liability. Such waiver and release are part of the consideration for issuance of the Notes.

SECTION 15. Authentication. This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

SECTION 16. Abbreviations. Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entirety), JT TEN (= joint tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

SECTION 17. CUSIP and ISIN Numbers. Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Issuer has caused CUSIP and ISIN numbers to be printed on the Notes, and the Trustee may use CUSIP or ISIN numbers in notices of redemption as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption, and reliance may be placed only on the other identification numbers placed thereon.

SECTION 18. Registered Form. The Notes are in registered form within the meaning of Treasury Regulations Section 1.871-14(c)(1)(i) for U.S. federal income and withholding tax purposes.

SECTION 19. Governing Law. This Note shall be governed by, and construed in accordance with, the laws of the State of New York.

The Issuer will furnish to any Holder upon written request and without charge a copy of the Indenture.

ASSIGNMENT FORM

I or we assign and transfer this Note to

(Print or type name, address and zip code of assignee or transferee)

(Insert Social Security or other identifying number of assignee or transferee)

and irrevocably appoint an agent to transfer this Note on the books of the Issuer. The agent may substitute another to act for him.

Dated:

Signed:

(Sign exactly as name appears on the other side of this Note)

Signature Guarantee:

Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor program reasonably acceptable to the Trustee)

OPTION OF HOLDER TO ELECT PURCHASE

This undersigned Holder elects to have this Note purchased by the Issuer pursuant to Section 6.2 of the Supplemental Indenture:

If you want to elect to have only part of this Note purchased by the Issuer pursuant to Section 6.2 of the Supplemental Indenture, state the amount (in minimum denominations of $25 and integral multiples of $25 in excess thereof): $

Dated:	Signed:
	(Sign exactly as name appears on the other side of this Note)
Signature Guarantee:	Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor program reasonably acceptable to the Trustee)

SCHEDULE OF EXCHANGES OF INTERESTS IN THE GLOBAL NOTES

The following exchanges of a part of this Global Note for an interest in another Global Note or for a Physical Note, or exchanges of a part of another Global Note or Physical Note for an interest in this Global Note, have been made:

Date of Exchange	**Amount of decrease in Principal Amount of The Global Note**	**Amount of increase in Principal Amount of this Global Note**	**Principal Amount of this Global Note following such decrease (or increase)**	**Signature of authorized signatory of Trustee of Note custodian**

NOTATION OF GUARANTEE

For value received, the Guarantor (which term includes any successor person under the Indenture (as defined below)), jointly and severally, unconditionally guarantees, to the extent set forth in the Indenture and subject to the provisions in the Indenture, dated as of February 12, 2018 (the "***Base Indenture***") among Sotherly Hotels LP, as issuer (the "***Company***"), Sotherly Hotels Inc., as guarantor (the "***Guarantor***") and Wilmington Trust, National Association, as trustee (the "***Trustee***"), as amended and supplemented by the First Supplemental Indenture, dated as of February 12, 2018, (the "***Supplemental Indenture***" and, together with the Base Indenture, the "***Indenture***") among the Company, the Guarantor and the Trustee (a) the due and punctual payment of the principal of, premium, if any, and interest on the Notes, whether at maturity, by acceleration, redemption or otherwise, the due and punctual payment of interest on overdue principal and premium, if any, and, to the extent permitted by law, interest, and the due and punctual performance of all other obligations of the Company to the Holders or the Trustee all in accordance with the terms of the Indenture and (b) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise. The obligations of the Guarantor to the Holders of the Notes and to the Trustee pursuant to the Guarantee and the Indenture are expressly set forth in Article 5 of the Supplemental Indenture, and reference is hereby made to the Indenture for the precise terms of the Guarantee. This Guarantee is subject to release as and to the extent set forth in Section 5.1 of the Supplemental Indenture and Section 12.4 of the Base Indenture. Each Holder of a Note, by accepting the same, agrees to and shall be bound by such provisions. Capitalized terms used herein and not defined are used herein as so defined in the Indenture.

[*Signature page follows.*]

SOTHERLY HOTELS INC.

By: /s/ David R. Folsom
Name: David R. Folsom
Title: COO

[Signature page to
Notation of Guarantee]

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Section 3: EX-31.1 (EX-31.1)

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

FOR THE CHIEF EXECUTIVE OFFICER

I, Andrew M. Sims, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotherly Hotels Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2018

By:	/s/ Andrew M. Sims
Name:	Andrew M. Sims
Title:	Chief Executive Officer

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Section 4: EX-31.2 (EX-31.2)

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

FOR THE CHIEF FINANCIAL OFFICER

I, Anthony E. Domalski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotherly Hotels Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2018

By:	/s/ Anthony E. Domalski
Name:	Anthony E. Domalski
Title:	Chief Financial Officer

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Section 5: EX-31.3 (EX-31.3)

EXHIBIT 31.3

CERTIFICATION PURSUANT TO SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

FOR THE CHIEF EXECUTIVE OFFICER

I, Andrew M. Sims, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotherly Hotels LP;

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2018

By:	/s/ Andrew M. Sims
Name:	Andrew M. Sims
Title:	Chief Executive Officer Sotherly Hotels, Inc., sole general partner of Sotherly Hotels LP

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Section 6: EX-31.4 (EX-31.4)

EXHIBIT 31.4

CERTIFICATION PURSUANT TO SECTION 302

OF THE SARBANES-OXLEY ACT OF 2002

FOR THE CHIEF FINANCIAL OFFICER

I, Anthony E. Domalski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sotherly Hotels LP;

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

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

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

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

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

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

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

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

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

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

Date: May 10, 2018

By:	/s/ Anthony E. Domalski
Name:	Anthony E. Domalski
Title:	Chief Financial Officer Sotherly Hotels, Inc., sole general partner of Sotherly Hotels LP

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Section 7: EX-32.1 (EX-32.1)

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sotherly Hotels Inc. (the "Corporation") on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrew M. Sims, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Corporation.

Date: May 10, 2018

By:	/s/ Andrew M. Sims
Name:	Andrew M. Sims
Title:	Chief Executive Officer

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Section 8: EX-32.2 (EX-32.2)

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sotherly Hotels Inc. (the “Corporation”) on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Anthony E. Domalski, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 10, 2018

By:	/s/ Anthony E. Domalski
Name:	Anthony E. Domalski
Title:	Chief Financial Officer

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Section 9: EX-32.3 (EX-32.3)

EXHIBIT 32.3

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

In connection with the Quarterly Report of Sotherly Hotels LP (the “Operating Partnership”) on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Andrew M. Sims, Chief Executive Officer of the Sotherly Hotels Inc., sole general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 10, 2018

By:	/s/ Andrew M. Sims
Name:	Andrew M. Sims
Title:	Chief Executive Officer Sotherly Hotels Inc., sole general partner of Sotherly Hotels LP

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Section 10: EX-32.4 (EX-32.4)

EXHIBIT 32.4

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

In connection with the Quarterly Report of Sotherly Hotels LP (the "Operating Partnership") on Form 10-Q for the period ending March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony E. Domalski, Chief Financial Officer of Sotherly Hotels Inc., sole general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: May 10, 2018

By:	/s/ Anthony E. Domalski
Name:	Anthony E. Domalski
Title:	Chief Financial Officer Sotherly Hotels, Inc., sole general partner of Sotherly Hotels LP

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