

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

**FORM 10-Q**

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

For the quarterly period ended **September 30, 2023**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **001-34693**

**CHATHAM LODGING TRUST**

(Exact Name of Registrant as Specified in Its Charter)

**Maryland**

(State or Other Jurisdiction of Incorporation or Organization)

**27-1200777**

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

**222 Lakeview Avenue, Suite 200**

**West Palm Beach**

(Address of Principal Executive Offices)

**Florida**

**33401**

(Zip Code)

**(561) 802-4477**

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Shares of Beneficial Interest, \$0.01 par value	CLDT	New York Stock Exchange
6.625% Series A Cumulative Redeemable Preferred Shares	CLDT-PA	New York Stock Exchange

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	x
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

<u>Class</u>	<u>Outstanding at November 2, 2023</u>
Common Shares of Beneficial Interest (\$0.01 par value per share)	48,858,943

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements.

#### CHATHAM LODGING TRUST Consolidated Balance Sheets

(In thousands, except share and per share data)

	September 30, 2023	December 31, 2022
	(unaudited)	
<b>Assets:</b>		
Investment in hotel properties, net	\$ 1,241,955	\$ 1,264,252
Cash and cash equivalents	71,648	26,274
Restricted cash	18,333	18,879
Right of use asset, net	18,283	19,297
Hotel receivables (net of allowance for doubtful accounts of \$ 413 and \$344, respectively)	5,198	5,178
Deferred costs, net	4,413	6,428
Prepaid expenses and other assets	6,158	3,430
Total assets	<u>\$ 1,365,988</u>	<u>\$ 1,343,738</u>
<b>Liabilities and Equity:</b>		
Mortgage debt, net	\$ 396,602	\$ 430,553
Revolving credit facility	—	—
Construction loan	—	39,331
Unsecured term loan, net	89,469	—
Accounts payable and accrued expenses	35,785	28,528
Lease liability, net	20,916	22,108
Distributions payable	5,370	5,221
Total liabilities	<u>548,142</u>	<u>525,741</u>
Commitments and contingencies (Note 14)		
<b>Equity:</b>		
Shareholders' Equity:		
Preferred shares, \$0.01 par value, 100,000,000 shares authorized; 4,800,000 and 4,800,000 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	48	48
Common shares, \$0.01 par value, 500,000,000 shares authorized; 48,858,127 and 48,808,105 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	488	488
Additional paid-in capital	1,047,148	1,047,023
Accumulated deficit	(257,263)	(252,665)
Total shareholders' equity	<u>790,421</u>	<u>794,894</u>
Noncontrolling Interests:		
Noncontrolling interest in Operating Partnership	27,425	23,103
Total equity	<u>817,846</u>	<u>817,997</u>
Total liabilities and equity	<u>\$ 1,365,988</u>	<u>\$ 1,343,738</u>

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

**CHATHAM LODGING TRUST**  
**Consolidated Statements of Operations**  
(In thousands, except share and per share data)  
(unaudited)

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
<b>Revenue:</b>				
Room	\$ 79,862	\$ 81,970	\$ 219,019	\$ 207,896
Food and beverage	1,975	1,816	6,156	5,199
Other	4,623	3,786	12,646	10,439
Reimbursable costs from related parties	281	313	1,011	997
Total revenue	86,741	87,885	238,832	224,531
<b>Expenses:</b>				
Hotel operating expenses:				
Room	17,223	14,892	45,918	40,966
Food and beverage	1,510	1,435	4,651	3,911
Telephone	385	346	1,106	1,106
Other hotel operating	949	883	2,812	2,494
General and administrative	7,503	6,880	21,616	19,035
Franchise and marketing fees	6,980	7,107	19,121	18,073
Advertising and promotions	1,538	1,499	4,513	3,918
Utilities	3,758	3,419	9,807	9,091
Repairs and maintenance	4,111	3,600	11,735	10,392
Management fees	2,994	2,987	8,073	7,631
Insurance	717	638	2,117	2,095
Total hotel operating expenses	47,668	43,686	131,469	118,712
Depreciation and amortization	14,687	14,658	43,615	44,971
Property taxes, ground rent and insurance	6,008	5,669	18,182	16,559
General and administrative	4,218	4,592	13,172	12,998
Other charges	6	304	44	704
Reimbursable costs from related parties	281	313	1,011	997
Total operating expenses	72,868	69,222	207,493	194,941
Operating income before gain on sale of hotel properties	13,873	18,663	31,339	29,590
Gain on sale of hotel properties	1	109	56	2,129
Operating income	13,874	18,772	31,395	31,719
Interest and other income	479	8	688	10
Interest expense, including amortization of deferred fees	(6,849)	(6,404)	(19,729)	(19,729)
Loss on early extinguishment of debt	(5)	—	(696)	—
Gain from partial lease termination	—	—	164	—
Income before income tax expense	7,499	12,376	11,822	12,000
Income tax expense	—	—	—	—
Net income	7,499	12,376	11,822	12,000
Net income attributable to noncontrolling interests	(170)	(248)	(198)	(166)
Net income attributable to Chatham Lodging Trust	7,329	12,128	11,624	11,834
Preferred dividends	(1,987)	(1,987)	(5,962)	(5,962)
Net income attributable to common shareholders	\$ 5,342	\$ 10,141	\$ 5,662	\$ 5,872
<b>Income per common share - basic:</b>				
Net income attributable to common shareholders (Note 11)	\$ 0.11	\$ 0.21	\$ 0.11	\$ 0.12
<b>Income per common share - diluted:</b>				
Net income attributable to common shareholders (Note 11)	\$ 0.11	\$ 0.21	\$ 0.11	\$ 0.12
<b>Weighted average number of common shares outstanding:</b>				
Basic	48,850,339	48,798,528	48,845,374	48,793,839
Diluted	49,004,084	49,072,895	48,976,085	49,023,835
<b>Distributions declared per common share:</b>	\$ 0.07	\$ —	\$ 0.21	\$ —

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

**CHATHAM LODGING TRUST**  
**Consolidated Statements of Equity**  
(In thousands, except share and per share data)  
(unaudited)

Three months ended September 30, 2022 and 2023

	Preferred Shares		Common Shares		Additional Paid - In Capital	Accumulated Deficit	Total Shareholders' Equity	Noncontrolling Interest in Operating Partnership	Total Equity
	Shares	Amount	Shares	Amount					
Balance, July 1, 2022	4,800,000	\$ 48	48,806,107	\$ 488	\$ 1,046,980	\$ (255,372)	\$ 792,144	\$ 20,554	\$ 812,698
Issuance of common shares, net of offering costs of zero	—	—	1,047	—	12	—	12	—	12
Amortization of share based compensation	—	—	—	—	10	—	10	1,274	1,284
Dividends accrued on preferred shares	—	—	—	—	—	(1,987)	(1,987)	—	(1,987)
Net income	—	—	—	—	—	12,128	12,128	248	12,376
Balance, September 30, 2022	4,800,000	\$ 48	48,807,154	\$ 488	\$ 1,047,002	\$ (245,231)	\$ 802,307	\$ 22,076	\$ 824,383
Balance, July 1, 2023	4,800,000	\$ 48	48,856,806	\$ 488	\$ 1,047,124	\$ (259,184)	\$ 788,476	\$ 26,011	\$ 814,487
Issuance of common shares, net of offering costs of zero	—	—	1,321	—	12	—	12	—	12
Amortization of share based compensation	—	—	—	—	12	—	12	1,425	1,437
Dividends declared on common shares (\$0.07 per share)	—	—	—	—	—	(3,421)	(3,421)	—	(3,421)
Distributions declared on LTIP units (\$0.07 per unit)	—	—	—	—	—	—	—	(181)	(181)
Dividends accrued on preferred shares	—	—	—	—	—	(1,987)	(1,987)	—	(1,987)
Net income	—	—	—	—	—	7,329	7,329	170	7,499
Balance, September 30, 2023	4,800,000	\$ 48	48,858,127	\$ 488	\$ 1,047,148	\$ (257,263)	\$ 790,421	\$ 27,425	\$ 817,846

**Nine months ended September 30, 2022 and 2023**

	Preferred Shares		Common Shares		Additional Paid - In Capital	Accumulated Deficit	Total Shareholders' Equity	Noncontrolling Interest in Operating Partnership	Total Equity
	Shares	Amount	Shares	Amount					
Balance, January 1, 2022	4,800,000	\$ 48	48,768,890	\$ 487	\$ 1,048,070	\$ (251,103)	\$ 797,502	\$ 16,691	\$ 814,193
Issuance of shares pursuant to Equity Incentive Plan	—	—	34,672	1	486	—	487	—	487
Issuance of common shares, net of offering costs of \$107	—	—	3,592	—	(62)	—	(62)	—	(62)
Amortization of share based compensation	—	—	—	—	29	—	29	3,698	3,727
Dividends accrued on preferred shares	—	—	—	—	—	(5,962)	(5,962)	—	(5,962)
Reallocation of noncontrolling interest	—	—	—	—	(1,521)	—	(1,521)	1,521	—
Net loss	—	—	—	—	—	11,834	11,834	166	12,000
Balance, September 30, 2022	4,800,000	\$ 48	48,807,154	\$ 488	\$ 1,047,002	\$ (245,231)	\$ 802,307	\$ 22,076	\$ 824,383
Balance, January 1, 2023	4,800,000	\$ 48	48,808,105	\$ 488	\$ 1,047,023	\$ (252,665)	\$ 794,894	\$ 23,103	\$ 817,997
Issuance of common shares pursuant to Equity Incentive Plan	—	—	45,835	—	540	—	540	—	540
Issuance of common shares, net of offering costs of zero	—	—	4,187	—	44	—	44	—	44
Amortization of share based compensation	—	—	—	—	34	—	34	4,175	4,209
Dividends declared on common shares (\$0.21 per share)	—	—	—	—	—	(10,260)	(10,260)	—	(10,260)
Distributions declared on LTIP units (\$0.21 per unit)	—	—	—	—	—	—	—	(544)	(544)
Dividends accrued on preferred shares	—	—	—	—	—	(5,962)	(5,962)	—	(5,962)
Reallocation of noncontrolling interest	—	—	—	—	(493)	—	(493)	493	—
Net income	—	—	—	—	—	11,624	11,624	198	11,822
Balance, September 30, 2023	4,800,000	\$ 48	48,858,127	\$ 488	\$ 1,047,148	\$ (257,263)	\$ 790,421	\$ 27,425	\$ 817,846

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

**CHATHAM LODGING TRUST**  
**Consolidated Statements of Cash Flows**  
(In thousands)  
(unaudited)

	For the nine months ended	
	September 30,	
	2023	2022
<b>Cash flows from operating activities:</b>		
Net income	\$ 11,822	\$ 12,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	43,454	44,797
Amortization of deferred franchise fees	161	187
Amortization of deferred financing fees included in interest expense	888	1,096
Gain on sale of hotel properties	(56)	(2,129)
Loss on early extinguishment of debt	672	—
Share based compensation	4,562	4,132
Gain from partial lease termination	(164)	—
Changes in assets and liabilities:		
Right of use asset	483	512
Hotel receivables	(21)	(12,240)
Deferred costs	(46)	(175)
Prepaid expenses and other assets	(2,747)	(3,702)
Accounts payable and accrued expenses	7,811	6,482
Lease liability	(497)	(434)
Net cash provided by operating activities	66,322	50,526
<b>Cash flows from investing activities:</b>		
Improvements and additions to hotel properties	(21,433)	(12,385)
Acquisition of hotel properties	—	(31,048)
Investment in hotel properties under development	—	(3,995)
Proceeds from sale of hotel properties, net	—	79,569
Receipt of deferred key money	—	400
Net cash (used in) provided by investing activities	(21,433)	32,541
<b>Cash flows from financing activities:</b>		
Borrowings on revolving credit facility	—	40,000
Repayments on revolving credit facility	—	(110,000)
Borrowings on construction loan	—	4,324
Repayments on construction loan	(39,331)	—
Borrowings on unsecured term loan	90,000	—
Payments on mortgage debt	(116,117)	(6,697)
Proceeds from the issuance of debt	82,925	—
Payment of financing costs	(966)	(194)
Payment of offering costs on common shares	—	(107)
Proceeds from issuance of common shares	44	45
Distributions-common shares/units	(10,654)	(147)
Distributions-preferred shares	(5,962)	(5,962)
Net cash used in financing activities	(61)	(78,738)
Net change in cash, cash equivalents and restricted cash	44,828	4,329
Cash, cash equivalents and restricted cash, beginning of period	45,153	29,869
Cash, cash equivalents and restricted cash, end of period	\$ 89,981	\$ 34,198
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 18,104	\$ 19,169
Capitalized interest	\$ —	\$ 330
Cash paid for taxes	\$ 840	\$ 695
Remeasurement of right of use asset from partial lease termination	\$ 531	\$ —
Remeasurement of lease liability from partial lease termination	\$ 695	\$ —

-continued-



Supplemental disclosure of non-cash investing and financing information (dollars in thousands):

On January 17, 2023, the Company issued 43,378 common shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2022. On January 18, 2022, the Company issued 34,672 common shares to its independent trustees pursuant to the Company's Equity Incentive Plan as compensation for services performed in 2021.

As of September 30, 2023, the Company had accrued distributions payable of \$ 5,370. As of September 30, 2022, the Company had accrued distributions payable of \$1,656.

Accrued share based compensation of \$353 and \$405 is included in accounts payable and accrued expenses as of September 30, 2023 and 2022, respectively.

Accrued capital improvements of \$ 1,190 and \$1,113 are included in accounts payable and accrued expenses as of September 30, 2023 and 2022, respectively.

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

**CHATHAM LODGING TRUST**  
**Notes to the Consolidated Financial Statements**  
(unaudited)

**1. Organization**

Chatham Lodging Trust ("we," "us" or the "Company") was formed as a Maryland real estate investment trust on October 26, 2009. The Company is internally-managed and invests primarily in upscale extended-stay and premium-branded select-service hotels. The Company has elected to be treated as a real estate investment trust for federal income tax purposes ("REIT").

The net proceeds from our share offerings are contributed to Chatham Lodging, L.P., our operating partnership (the "Operating Partnership"), in exchange for partnership interests. Substantially all of the Company's assets are held by, and all operations are conducted through, the Operating Partnership. The Company is the sole general partner of the Operating Partnership and owns 100% of the common units of limited partnership interest in the Operating Partnership ("common units"). Certain of the Company's executive officers hold vested and unvested long-term incentive plan units in the Operating Partnership ("LTIP units"), which are presented as non-controlling interests on our consolidated balance sheets.

As of September 30, 2023, the Company owned 39 hotels with an aggregate of 5,915 rooms located in 16 states and the District of Columbia.

To qualify as a REIT, the Company cannot operate the hotels. Therefore, the Operating Partnership and its subsidiaries lease the Company's hotels to taxable REIT subsidiary lessees ("TRS Lessees"), which are wholly owned by the Company's taxable REIT subsidiary ("TRS") holding company. Each hotel is leased to a TRS Lessee under a percentage lease that provides for rental payments equal to the greater of (i) a fixed base rent amount or (ii) a percentage rent based on hotel revenue. Lease revenue from each TRS Lessee is eliminated in consolidation.

The TRS Lessees have entered into management agreements with a third-party management company that provides day-to-day management for the hotels. As of September 30, 2023, Island Hospitality Management LLC ("IHM"), which is 100% owned by Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, managed all of the Company's hotels.

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to interim financial information. These unaudited consolidated financial statements, in the opinion of management, include all adjustments consisting of normal, recurring adjustments which are considered necessary for a fair statement of the consolidated balance sheets, consolidated statements of operations, consolidated statements of equity, and consolidated statements of cash flows for the periods presented. Interim results are not necessarily indicative of full year performance due to seasonal and other factors, including the timing of the acquisition or sale of hotels.

The consolidated financial statements include all of the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions are eliminated in consolidation. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited financial statements prepared in accordance with GAAP, and the related notes thereto as of December 31, 2022, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

*Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

### *Recently Issued Accounting Standards*

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-04 Reference Rate Reform (Topic 848). ASU 2020-04 contains practical expedients for reference rate reform-related activities that impact debt, leases, derivatives and other contracts. The guidance in ASU 2020-04 is optional and may be elected over time as reference rate reform activities occur. In December 2022, the FASB issued ASU No. 2022-06 Reference Rate Reform (Topic 848). ASU 2022-06 amended and deferred the sunset provision in ASU 2020-04 from December 31, 2022 to December 31, 2024. As of September 30, 2023, the Company does not anticipate that this guidance will have a material impact on its consolidated financial statements; however, the Company will continue to evaluate the impact that ASU 2020-04 may have on its consolidated financial statements and related disclosures.

### **3. Acquisition of Hotel Properties**

On March 8, 2022, the Company acquired the Hilton Garden Inn Destin Miramar Beach ("HGI Destin") hotel property in Miramar Beach, FL for \$ 31.0 million. The Company allocated the purchase price of the hotel based on the estimated fair values of the assets on the date of acquisition. Property acquisition costs of \$48 thousand were capitalized in 2022.

### **4. Disposition of Hotel Properties**

On May 6, 2022, the Company sold the Hilton Garden Inn Boston-Burlington ("HGI Burlington") hotel property in Burlington, MA for \$ 23.2 million and recognized a gain on sale of the hotel property of \$0.5 million. Proceeds from the sale were used to repay amounts outstanding on the Company's revolving credit facility.

On May 13, 2022, the Company sold a portfolio of three hotels, the Homewood Suites Dallas-Market Center ("HWS Dallas") hotel property in Dallas, TX, the Courtyard Houston West University ("CY Houston West U") hotel property in Houston, TX, and the Residence Inn Houston West University ("RI Houston West U") hotel property in Houston, TX, for \$57.0 million, and recognized a gain on sale of the hotel properties of \$ 1.8 million. Proceeds from the sale were used to repay amounts outstanding on the Company's revolving credit facility.

The sales did not represent a strategic shift that had or will have a major effect on the Company's operations and financial results and did not qualify to be reported as discontinued operations.

### **5. Allowance for Doubtful Accounts**

The Company maintains an allowance for doubtful accounts at a level believed to be adequate to absorb estimated probable losses. That estimate is based on past loss experience, current economic and market conditions and other relevant factors. The allowance for doubtful accounts was \$0.4 million and \$0.3 million as of September 30, 2023 and December 31, 2022, respectively.

## 6. Investment in Hotel Properties

### *Investment in hotel properties, net*

Investment in hotel properties, net as of September 30, 2023 and December 31, 2022 consisted of the following (in thousands):

	September 30, 2023	December 31, 2022
Land and improvements	\$ 289,671	\$ 289,589
Building and improvements	1,276,283	1,267,035
Furniture, fixtures and equipment	107,756	98,373
Renovations in progress	14,074	11,710
	1,687,784	1,666,707
Less: accumulated depreciation	(445,829)	(402,455)
<b>Investment in hotel properties, net</b>	<b>\$ 1,241,955</b>	<b>\$ 1,264,252</b>

## 7. Debt

The Company's mortgage loans are collateralized by first-mortgage liens on certain of the Company's properties. The mortgage loans are non-recourse except for instances of fraud or misapplication of funds. Mortgage, revolving credit facility, and unsecured term loan debt consisted of the following (dollars in thousands):

Collateral	Interest Rate	Maturity Date	September 30, 2023	Balance Outstanding on Loan as of	
			Property Carrying Value	September 30, 2023	December 31, 2022
Revolving Credit Facility (1)	— %	October 28, 2026	\$ —	\$ —	\$ —
Unsecured Term Loan (2)	6.56 %	October 28, 2025	—	90,000	—
Construction Loan (3)	11.0 %	August 4, 2024	—	—	39,331
Homewood Suites by Hilton San Antonio, TX	4.59 %	February 6, 2023	—	—	14,402
Residence Inn by Marriott Vienna, VA	4.49 %	February 6, 2023	—	—	19,680
Courtyard by Marriott Houston, TX	4.19 %	May 6, 2023	—	—	16,200
Hyatt Place Pittsburgh, PA	4.65 %	July 6, 2023	—	—	19,975
Residence Inn by Marriott Bellevue, WA	4.97 %	December 6, 2023	—	—	41,133
Residence Inn by Marriott Garden Grove, CA	4.79 %	April 6, 2024	36,561	29,673	30,184
Residence Inn by Marriott Silicon Valley I, CA	4.64 %	July 1, 2024	64,976	60,427	61,280
Residence Inn by Marriott Silicon Valley II, CA	4.64 %	July 1, 2024	72,627	65,929	66,860
Residence Inn by Marriott San Mateo, CA	4.64 %	July 1, 2024	54,890	45,321	45,960
Residence Inn by Marriott Mountain View, CA	4.64 %	July 1, 2024	40,052	35,343	35,842
SpringHill Suites by Marriott Savannah, GA	4.62 %	July 6, 2024	30,699	27,968	28,365
Hilton Garden Inn Marina del Rey, CA	4.68 %	July 6, 2024	37,546	19,154	19,535
Homewood Suites by Hilton Billerica, MA	4.32 %	December 6, 2024	10,961	14,563	14,804
Hampton Inn & Suites Houston Medical Center, TX	4.25 %	January 6, 2025	14,069	16,432	16,706
Courtyard by Marriott Dallas, TX (4)	7.61 %	September 11, 2028	40,820	24,500	—
Residence Inn by Marriott Austin, TX (5)	7.42 %	September 6, 2033	34,932	20,850	—
TownePlace Suites by Marriott Austin, TX (5)	7.42 %	September 6, 2033	31,618	19,075	—
Courtyard by Marriott Summerville, SC (6)	7.33 %	September 11, 2033	18,890	9,000	—
Residence Inn by Marriott Summerville, SC (6)	7.33 %	September 11, 2033	17,399	9,500	—
<b>Total debt before unamortized debt issue costs</b>			<b>\$ 506,040</b>	<b>\$ 487,735</b>	<b>\$ 470,257</b>
Unamortized term loan and mortgage debt issue costs				(1,664)	(373)
<b>Total debt outstanding</b>				<b>\$ 486,071</b>	<b>\$ 469,884</b>

1. The interest rate for the revolving credit facility is variable and based on one-month term secured overnight financing rate ("SOFR") plus a spread of 1.50% to 2.25% based on the Company's leverage and a credit spread adjustment of 0.10%.
2. The interest rate for the unsecured term loan is variable and based on one-month term SOFR plus a spread of 1.45% to 2.20% based on the Company's leverage and a credit spread adjustment of 0.10%.
3. On August 4, 2020, a subsidiary of Chatham entered into an agreement with affiliates of Mack Real Estate Credit Strategies to obtain a \$ 40.0 million loan to fund the remaining construction costs of the Home2 Suites by Hilton Woodland Hills Los Angeles ("Home2 Woodland Hills") hotel development. The loan had an initial term of four years and there were two six-month extension options. The interest rate on the loan was LIBOR, subject to a 0.25% floor, plus a spread of 7.5%. The loan was repaid on February 1, 2023.
4. On August 30, 2023, a subsidiary of Chatham entered into an agreement with Wells Fargo Bank to obtain a \$ 24.5 million loan secured by the Courtyard by Marriott Dallas Downtown. The loan has a term of five years, carries a fixed interest rate of 7.61%, and is interest-only for the duration of the loan.

5. On August 16, 2023, two subsidiaries of Chatham entered into two agreements with Barclays Capital Real Estate to obtain a \$ 20.9 million loan and a \$19.1 million loan secured by the Residence Inn by Marriott Austin and the TownePlace Suites by Marriott Austin, respectively. Each loan has a term of ten years, carries a fixed interest rate of 7.42%, and is interest-only for the first five years before amortizing based upon a 30-year amortization schedule.
6. On August 31, 2023, two subsidiaries of Chatham entered into two agreements with Wells Fargo Bank to obtain a \$ 9.0 million loan and a \$9.5 million loan secured by the Courtyard by Marriott Summerville and the Residence Inn by Marriott Summerville, respectively. Each loan has a term of ten years, carries a fixed interest rate of 7.33%, and is interest-only for the duration of the loan.

On October 28, 2022, the Company entered into a \$215.0 million unsecured revolving credit facility and a \$ 90.0 million unsecured delayed-draw term loan facility that replaced the Company's previous \$250.0 million revolving credit facility that was scheduled to mature on March 8, 2023. The revolving credit facility has an initial maturity of October 28, 2026 and provides two six-month extension options. The unsecured delayed-draw term loan facility has an initial maturity of October 28, 2025 and provides two one-year extension options. On December 19, 2022, the Company executed an amendment to its unsecured revolving credit facility, increasing commitments by \$45.0 million for a total borrowing capacity of \$ 260.0 million.

During the nine months ended September 30, 2023, the Company repaid the \$ 39.3 million construction loan on the Home2 Woodland Hills hotel property, and the maturing mortgage loans of \$14.4 million on the Homewood Suites San Antonio hotel property, \$19.7 million on the Residence Inn Tysons hotel property, \$16.0 million on the Courtyard Houston hotel property, \$19.7 million on the Hyatt Place Pittsburgh hotel property, and \$40.5 million on the Residence Inn Bellevue hotel property. The Company utilized cash, borrowings under its unsecured delayed-draw term loan, and proceeds from its five new mortgage loans to repay these loans.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates. All of the Company's mortgage loans are fixed-rate. Rates take into consideration general market conditions, quality and estimated value of collateral and maturity of debt with similar credit terms and are classified within level 3 of the fair value hierarchy. The estimated fair value of the Company's fixed rate debt as of September 30, 2023 and December 31, 2022 was \$384.8 million and \$412.7 million, respectively.

The Company estimates the fair value of its variable rate debt by taking into account general market conditions and the estimated credit terms it could obtain for debt with similar maturity and is classified within level 3 of the fair value hierarchy. As of September 30, 2023, the Company's variable rate debt consisted of borrowings under its revolving credit facility and its unsecured delayed-draw term loan. The estimated fair value of the Company's variable rate debt as of September 30, 2023 and December 31, 2022 was \$90.0 million and \$39.3 million, respectively.

The Company's mortgage debt agreements contain "cash trap" provisions that are triggered when the hotel's operating results fall below a certain debt service coverage ratio or debt yield. When these provisions are triggered, all of the excess cash flow generated by the hotel is deposited directly into cash management accounts for the benefit of the lenders until a specified debt service coverage ratio or debt yield is reached. Such provisions do not allow the lender the right to accelerate repayment of the underlying debt. As of September 30, 2023, four of our mortgage debt lenders have enforced cash trap provisions resulting in \$6.2 million of restricted cash. The Company does not expect that such cash traps will affect its ability to satisfy its short-term liquidity requirements.

Future scheduled principal payments of debt obligations as of September 30, 2023, for the current year and each of the next five calendar years and thereafter are as follows (in thousands):

	Amount
2023 (remaining three months)	\$ 1,846
2024	297,003
2025	105,961
2026	—
2027	—
Thereafter	82,925
<b>Total debt before unamortized debt issue costs</b>	<b>\$ 487,735</b>
Unamortized term loan and mortgage debt issue costs	(1,664)
<b>Total debt outstanding</b>	<b>\$ 486,071</b>

#### *Accounting for Derivative Instruments*

The Company had interest rate cap agreements to hedge against interest rate fluctuations related to the construction loan for the Home2 Woodland Hills hotel. The Company recorded its derivative instruments on the balance sheet at their estimated fair values. Changes in the fair value of the derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether a derivative is designated as part of a hedging relationship and, if it is, depending on the type of hedging relationship. The Company's interest rate caps were not designated as a hedge but to eliminate the incremental cost to the Company if the one-month LIBOR were to exceed 3.5%. Accordingly, the interest rate caps were recorded on the balance sheet under prepaid expenses and other assets at the estimated fair value and realized and unrealized changes in the fair value are reported in the consolidated statement of operations. During the nine months ended September 30, 2023, the Company terminated its interest rate caps related to the construction loan when the loan was repaid.

## **8. Income Taxes**

The Company's TRS is subject to federal and state income taxes. Income tax expense was zero for the three and nine months ended September 30, 2023 and 2022.

As of each reporting date, the Company's management considers new evidence, both positive and negative, that could impact management's view with regard to future realization of deferred tax assets. The Company's TRS is expecting continued taxable losses in 2023. As of September 30, 2023, the TRS continues to recognize a full valuation allowance equal to 100% of the net deferred tax assets due to the uncertainty of the TRS's ability to utilize these net deferred tax assets. Management will continue to monitor the need for a valuation allowance.

On August 16, 2022, the United States enacted the Inflation Reduction Act of 2022, which contains tax-related provisions, including a 15% book-income alternative minimum tax on large corporations with financial accounting profits over \$1 billion effective for tax years beginning on or after January 1, 2023, a 1% excise tax on stock repurchases, and the extension and expansion of renewable energy incentives and tax credit programs. The Company is monitoring for potential impacts, but this new law is not expected to have a significant impact on Chatham.

## 9. Dividends Declared and Paid

### Common Dividends

The Company declared total common share dividends of \$ 0.07 per share and distributions on LTIP units of \$ 0.07 per unit for the three months ended September 30, 2023, and \$0.21 per share and unit for the nine months ended September 30, 2023.

	Record Date	Payment Date	Common share distribution amount	LTIP unit distribution amount
March	3/31/2023	4/17/2023	\$ 0.07	\$ 0.07
June	6/30/2023	7/17/2023	0.07	0.07
September	9/29/2023	10/16/2023	0.07	0.07
<b>Total 2023</b>			<b>\$ 0.21</b>	<b>\$ 0.21</b>

### Preferred Dividends

During the three and nine months ended September 30, 2023, the Company declared dividends of \$ 0.41406 and \$1.24218, respectively, per share of 6.625% Series A Cumulative Redeemable Preferred Shares. The preferred share dividends paid were as follows:

	Record Date	Payment Date	Dividend per Preferred Share
March	3/31/2023	4/17/2023	\$ 0.41406
June	6/30/2023	7/17/2023	0.41406
September	9/29/2023	10/16/2023	0.41406
<b>Total 2023</b>			<b>\$ 1.24218</b>

## 10. Shareholders' Equity

### Common Shares

The Company is authorized to issue up to 500,000,000 common shares of beneficial interest, \$0.01 par value per share ("common shares"). Each outstanding common share entitles the holder to one vote on all matters submitted to a vote of shareholders. Holders of the Company's common shares are entitled to receive dividends when authorized by the Company's Board of Trustees. As of September 30, 2023, 48,858,127 common shares were outstanding.

In January 2021, we established an "at-the-market" equity offering program (the "ATM Program") whereby, from time to time, we could publicly offer and sell our common shares having an aggregate offering price of up to \$100.0 million by means of ordinary brokers transactions on the New York Stock Exchange (the "NYSE"), in negotiated transactions or in transactions deemed to be "at-the-market" offerings as defined in Rule 415 under the Securities Act of 1933, as amended. Cantor Fitzgerald & Co., Barclays Capital Inc., BMO Capital Markets Corp., BofA Securities, Inc., BTIG, LLC, Citigroup Global Markets Inc., Regions Securities LLC, Stifel, Nicolaus & Company, Incorporated and Wells Fargo Securities act as sales agents under the ATM Program. The Company did not issue any shares under the ATM Program during the three and nine months ended September 30, 2023. As of September 30, 2023, there was approximately \$77.5 million in common shares available for issuance under the ATM Program.

In December 2017, we established a \$50.0 million dividend reinvestment and stock purchase plan. We filed a new \$50.0 million shelf registration statement for the dividend reinvestment and stock purchase plan (the "DRSPP") on December 22, 2020 to replace the prior plan. Under the DRSPP, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on common shares. Shareholders may also make optional cash purchases of the



Company's common shares subject to certain limitations detailed in the prospectuses for the DRSP. During the three months ended September 30, 2023, the Company issued 1,321 common shares under the DRSP at a weighted average price per share of \$ 9.49, which generated \$12 thousand of proceeds. During the nine months ended September 30, 2023, the Company issued 4,187 common shares under the DRSP at a weighted average price per share of \$ 10.42, which generated \$44 thousand of proceeds. As of September 30, 2023, there was approximately \$ 47.8 million in common shares available for issuance under the DRSP.

#### *Preferred Shares*

The Company is authorized to issue up to 100,000,000 preferred shares of beneficial interest, \$ 0.01 par value per share, in one or more series.

On June 30, 2021, the Company issued 4,800,000 6.625% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, \$ 0.01 par value per share (the "Series A Preferred Shares"), and received net proceeds of approximately \$115.9 million. The Series A Preferred Shares rank senior to common shares with respect to the payment of dividends and distributions of assets in the event of a liquidation, dissolution, or winding up. The Series A Preferred Shares do not have any maturity date and are not subject to mandatory redemptions or sinking fund requirements. The distribution rate is 6.625% per annum of the \$25.00 liquidation preference, which is equivalent to \$1.65625 per annum per Series A Preferred Share. Distributions on the Series A Preferred Shares are payable quarterly in arrears with the first distribution on the Series A Preferred Shares paid on October 15, 2021. The Company may not redeem the Series A Preferred Shares before June 30, 2026 except in limited circumstances to preserve the Company's status as a REIT for federal income tax purposes and upon the occurrence of a change of control. On and after June 30, 2026, the Company may, at its option, redeem the Series A Preferred Shares, in whole or from time to time in part, by paying \$25.00 per share, plus any accrued and unpaid distributions to, but not including, the date of redemption. Upon the occurrence of a change of control, as defined in the Company's declaration of trust, the result of which common shares and the common securities of the acquiring or surviving entity are not listed on the New York Stock Exchange, the NYSE American or NASDAQ, or any successor exchanges, the Company may, at its option, redeem the Series A Preferred Shares in whole or in part within 120 days following the change of control by paying \$ 25.00 per share, plus any accrued and unpaid distributions through the date of redemption. If the Company does not exercise its right to redeem the Series A Preferred Shares upon a change of control, the holders of Series A Preferred Shares have the right to convert some or all of their shares into a number of common shares based on defined formulas subject to share caps. The share cap on each Series A Preferred Share is 3.701 common shares. As of September 30, 2023, 4,800,000 Series A Preferred Shares were issued and outstanding. During the three months ended September 30, 2023, the Company accrued preferred share dividends of approximately \$2.0 million.

#### *Operating Partnership Units*

Holders of common units in the Operating Partnership, if and when issued, will have certain redemption rights, which will enable the unit holders to cause the Operating Partnership to redeem their units in exchange for, at the Company's option, cash per unit equal to the market price per common share at the time of redemption or for common shares on a one-for-one basis. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of share splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of limited partners or shareholders. As of September 30, 2023, there were 1,587,317 vested LTIP units held by current and former employees.

## 11. Earnings Per Share

The two-class method is used to determine earnings per share because unvested restricted shares and unvested LTIP units are considered to be participating shares. The LTIP units held by the non-controlling interest holders, which may be converted to common shares, have been excluded from the denominator of the diluted earnings per common share calculation as there would be no effect on the amounts since limited partners' share of income or loss would also be added back to net income or loss. Unvested restricted shares, unvested long-term incentive plan units and unvested Class A Performance LTIP units that could potentially dilute basic earnings per common share in the future would not be included in the computation of diluted loss per common share, for the periods where a loss has been recorded, because they would have been anti-dilutive for the periods presented.

The following is a reconciliation of the amounts used in calculating basic and diluted net income per common share (in thousands, except share and per share data):

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
<b>Numerator:</b>				
Net income attributable to common shareholders	\$ 5,342	\$ 10,141	\$ 5,662	\$ 5,662
Dividends on unvested shares and units	(27)	—	(83)	—
Net income attributable to common shareholders excluding amounts attributable to unvested shares and units	\$ 5,315	\$ 10,141	\$ 5,579	\$ 5,662
<b>Denominator:</b>				
Weighted average number of common shares - basic	48,850,339	48,798,528	48,845,374	48,798,528
Unvested shares and units	153,745	274,367	130,711	229,367
Weighted average number of common shares - diluted	49,004,084	49,072,895	48,976,085	49,027,895
<b>Basic income per common share:</b>				
Net income attributable to common shareholders per weighted average basic common share	\$ 0.11	\$ 0.21	\$ 0.11	\$ 0.12
<b>Diluted income per common share:</b>				
Net income attributable to common shareholders per weighted average diluted common share	\$ 0.11	\$ 0.21	\$ 0.11	\$ 0.12

## 12. Equity Incentive Plan

The Company maintains its Equity Incentive Plan to attract and retain independent trustees, executive officers and other key employees. The plan provides for the grant of options to purchase common shares, share awards, share appreciation rights, performance units and other equity-based awards. The plan was amended on May 24, 2022 to increase the maximum number of shares available under the plan by 1,600,000 shares and extend the term of the plan to March 22, 2032. Share awards under this plan generally vest over three to five years, though compensation for the Company's independent trustees includes share grants that vest immediately. The Company pays dividends on unvested shares and units, except for performance-based shares and outperformance based units, for which dividends on unvested performance-based shares and units are accrued and not paid until those shares or units vest. Certain awards may provide for accelerated vesting if there is a change in control. In January 2023 and 2022, the Company issued 43,378 and 34,672 common shares, respectively, to its independent trustees as compensation for services performed in 2022 and 2021, respectively. As of September 30, 2023, there were 1,252,326 common shares available for issuance under the Equity Incentive Plan.

### *Restricted Share Awards*

From time to time, the Company may award restricted shares under the Equity Incentive Plan as compensation to officers, employees and non-employee trustees. The Company recognizes compensation expense for the restricted shares on a straight-line basis over the vesting period based on the fair market value of the shares on the date of issuance.

A summary of the Company's restricted share awards for the nine months ended September 30, 2023 and the year ended December 31, 2022 is as follows:

	For the nine months ended		For the year ended	
	September 30, 2023		December 31, 2022	
	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Non-vested at beginning of the period	6,666	\$ 11.47	10,000	\$ 11.47
Granted	2,457	12.21	—	—
Vested	(3,334)	11.47	(3,334)	11.47
Non-vested at end of the period	<u>5,789</u>	<u>\$ 11.78</u>	<u>6,666</u>	<u>\$ 11.47</u>

As of September 30, 2023 and December 31, 2022, there were \$ 57 thousand and \$61 thousand, respectively, of unrecognized compensation costs related to restricted share awards. As of September 30, 2023, these costs were expected to be recognized over a weighted-average period of approximately 1.5 years. For the three months ended September 30, 2023 and 2022, the Company recognized approximately \$12 thousand and \$10 thousand, respectively, and for the nine months ended September 30, 2023 and 2022, the Company recognized approximately \$35 thousand and \$29 thousand, respectively, of expense related to the restricted share awards.

### Long-Term Incentive Plan Awards

LTIP units are a special class of partnership interests in the Operating Partnership which may be issued to eligible participants for the performance of services to or for the benefit of the Company. Under the Equity Incentive Plan, each LTIP unit issued is deemed equivalent to an award of one common share thereby reducing the number of shares available for other equity awards on a one-for-one basis.

A summary of the Company's LTIP unit awards for the nine months ended September 30, 2023 and the year ended December 31, 2022 is as follows:

	For the nine months ended		For the year ended	
	September 30, 2023		December 31, 2022	
	Number of Units	Weighted-Average Grant Date Fair Value	Number of Units	Weighted-Average Grant Date Fair Value
Non-vested at beginning of the period	905,525	\$ 15.03	764,178	\$ 15.00
Granted	466,988	14.36	380,004	16.08
Vested	(372,558)	13.27	(238,657)	16.61
Non-vested at end of the period	999,955	\$ 15.37	905,525	\$ 15.03

### Time-Based LTIP Awards

On March 1, 2023, the Company's Operating Partnership, upon the recommendation of the Compensation Committee, granted 171,171 time-based LTIP unit awards (the "2023 Time-Based LTIP Unit Award"). The grants were made pursuant to award agreements that provide for time-based vesting (the "LTIP Unit Time-Based Vesting Agreement").

Time-based LTIP unit awards will vest ratably provided that the recipient remains employed by the Company through the applicable vesting date, subject to acceleration of vesting in the event of the recipient's death, disability, termination without cause or resignation with good reason, or in the event of a change of control of the Company. Prior to vesting, a holder is entitled to receive distributions on the LTIP units that comprise the 2023 Time-Based LTIP Unit Awards and the prior year LTIP unit awards set forth in the table above.

### Performance-Based LTIP Awards

On March 1, 2023, the Company's Operating Partnership, upon the recommendation of the Compensation Committee, also granted 256,757 performance-based LTIP unit awards (the "2023 Performance-Based LTIP Unit Awards"). The grants were made pursuant to award agreements that have market-based vesting conditions. The Performance-Based LTIP Unit Awards are comprised of Class A Performance LTIP Units that will vest only if and to the extent that (i) the Company achieves certain long-term market-based total shareholder return ("TSR") criteria established by the Compensation Committee and (ii) the recipient remains employed by the Company through the applicable vesting date, subject to acceleration of vesting in the event of the recipient's death, disability, termination without cause or resignation with good reason, or in the event of a change of control of the Company. Compensation expense is based on an estimated value of \$16.64 per 2023 Performance-Based LTIP Unit Award, which takes into account that the number of units that ultimately may vest will depend on the achievement of long-term market-based TSR criteria. The 2023 Performance-Based LTIP Unit Awards have an absolute negative TSR modifier which may reduce payout percentages if the absolute TSR over the measurement period is negative.

The 2023 Performance-Based LTIP Unit Awards may be earned based on the Company's relative TSR performance for the three-year period beginning on March 1, 2023 and ending on February 28, 2026. The 2023 Performance-Based LTIP Unit Awards, if earned, will be paid out between 50% and 200% of target value as follows:

	Relative TSR Hurdles (Percentile)	Payout Percentage
Threshold	25th	50%
Target	55th	100%
Maximum	80th	200%

Payouts at performance levels in between the hurdles will be calculated by straight-line interpolation.

The Company estimated the aggregate compensation cost to be recognized over the service period determined as of the grant date under ASC 718, excluding the effect of estimated forfeitures, using a Monte Carlo approach. In determining the discounted value of the LTIP units, the Company considered the inherent uncertainty that the LTIP units would never reach parity with the other common units of the Operating Partnership and thus have an economic value of zero to the grantee. Additional factors considered in estimating the value of LTIP units included discounts for illiquidity, expectations for future dividends, risk free interest rates, stock price volatility, and economic environment and market conditions.

The grant date fair values of the LTIPs and the assumptions used to estimate the values are as follows:

	Grant Date	Number of Units		Estimated Value		Dividend Yield	Risk Free Interest Rate
		Granted		Per Unit	Volatility		
2018 Time-Based LTIP Unit Awards	3/1/2018	97,968		\$16.83	26%	—%	2.07%
2018 Performance-Based LTIP Unit Awards	3/1/2018	146,949		\$17.02	26%	6.2%	2.37%
2019 Time-Based LTIP Unit Awards	3/1/2019	88,746		\$18.45	21%	—%	2.57%
2019 Performance-Based LTIP Unit Awards	3/1/2019	133,107		\$18.91	21%	6.2%	2.55%
2020 Time-Based LTIP Unit Awards	3/1/2020	130,206		\$13.05	20%	—%	1.06%
2020 Performance-Based LTIP Unit Awards (1)	3/1/2020	195,301		\$13.66	20%	8.1%	0.90%
2021 Time-Based LTIP Unit Awards	3/1/2021	132,381		\$12.52	78%	—%	0.08%
2021 Performance-Based LTIP Unit Awards	3/1/2021	198,564		\$15.91	64%	3.4%	0.30%
2022 Time-Based LTIP Unit Awards	3/1/2022	152,004		\$12.33	80%	—%	1.01%
2022 Performance-Based LTIP Unit Awards	3/1/2022	228,000		\$18.58	66%	3.5%	1.44%
2023 Time-Based LTIP Unit Awards	3/1/2023	171,171		\$11.11	37%	—%	5.11%
2023 Performance-Based LTIP Unit Awards	3/1/2023	256,757		\$16.64	69%	3.5%	4.61%

(1) In February 2023, following the end of the measurement period, the Company's TSR met certain criteria and based on the Company's TSR over the measurement period, 234,361 LTIP units vested.

The Company recorded \$1.4 million and \$1.3 million in compensation expense related to the LTIP units for the three months ended September 30, 2023 and 2022, respectively, and \$4.2 million and \$3.7 million in compensation expense related to the LTIP units for the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023 and December 31, 2022, there was \$8.5 million and \$6.5 million, respectively, of total unrecognized compensation cost related to LTIP units. This cost is expected to be recognized over approximately 1.9 years, which represents the weighted average remaining vesting period of the LTIP units.

### 13. Leases

The Residence Inn Gaslamp hotel property is subject to a ground lease with an expiration date of January 31, 2065 with an extension option by the Company of up to three additional terms of ten years each. Monthly payments are currently approximately \$44 thousand per month and increase 10% every five years. The hotel is subject to annual supplemental rent payments calculated as 5% of gross revenues during the applicable lease year, minus 12 times the monthly base rent scheduled for the lease year.

The Residence Inn New Rochelle hotel property is subject to an air rights lease and garage lease that each expire on December 1, 2104. The lease agreements with the City of New Rochelle cover the space above the parking garage that is occupied by the hotel as well as 128 parking spaces in a parking garage that is attached to the hotel. The annual base rent for the garage lease is the hotel's proportionate share of the city's adopted budget for the operations, management and maintenance of the garage and established reserves to fund for the cost of capital repairs. Aggregate rent for 2023 is approximately \$30 thousand per quarter.

The Hilton Garden Inn Marina del Rey hotel property is subject to a ground lease with an expiration date of December 31, 2067. Minimum monthly payments are currently approximately \$47 thousand per month and a percentage rent payment less the minimum rent is due in arrears equal to 5% to 25% of gross income based on the type of income.

The Company entered into a corporate office lease in September 2015. The lease is for a term of 11 years and includes a 12-month rent abatement period and certain tenant improvement allowances. The Company has a renewal option of up to two successive terms of 5 years each. On June 1, 2023, the Company executed an amendment to the corporate office lease to vacate

and surrender possession of 7,374 rentable square feet in exchange for an early termination payment of \$ 0.1 million. The partial termination of this lease required the Company to apply ASC 842 and remeasure the right of use asset and lease liability and recognize those adjustments in the consolidated statement of operations. During the nine months ended September 30, 2023, the Company recognized a gain from partial lease termination of approximately \$0.2 million as a result of this partial termination. The Company shares the space with a related party and is reimbursed for the pro-rata share of rentable space occupied by the related party.

The Company is the lessee under ground, air rights, garage and office lease agreements for certain of its properties, all of which qualify as operating leases as of September 30, 2023. These leases typically provide multi-year renewal options to extend term as lessee at the Company's option. Option periods are included in the calculation of the lease obligation liability only when options are reasonably certain to be exercised.

In calculating the Company's lease obligations under the various leases, the Company uses discount rates estimated to be equal to what the Company would have to pay to borrow on a collateralized basis over a similar term, for an amount equal to the lease payments, in a similar economic environment. Lease obligations are based on contractually required cash payments while lease expense is recognized on a straight-line basis.

The following table includes information regarding the Company's total minimum lease payments for which it is the lessee, as of September 30, 2023, for each of the next five calendar years and thereafter (in thousands):

Total Future Lease Payments	Amount
2023 (remaining three months)	\$ 468
2024	1,875
2025	1,940
2026	1,727
2027	1,272
Thereafter	63,553
Total lease payments	\$ 70,835
Less: Imputed interest	(49,919)
Present value of lease liabilities	\$ 20,916

The Company incurred \$0.9 million of fixed lease payments and \$0.6 million of variable lease payments for the nine months ended September 30, 2023, which are included in property taxes, ground rent and insurance in our consolidated statement of operations.

The following table includes information regarding the right of use assets and lease liabilities of the Company as of September 30, 2023 (in thousands):

	Right of Use Asset	Lease Liability
Balance as of January 1, 2023	\$ 19,297	\$ 22,108
Amortization	(483)	(497)
Partial lease termination	(531)	(695)
Balance as of September 30, 2023	\$ 18,283	\$ 20,916

Lease Term and Discount Rate	September 30, 2023
Weighted-average remaining lease term (years)	42.09
Weighted-average discount rate	6.89%

## 14. Commitments and Contingencies

### *Litigation*

The Company is subject to various claims, lawsuits and legal proceedings, including routine litigation arising in the ordinary course of business, regarding the operation of its hotels, its managers and other Company matters. While it is not possible to ascertain the ultimate outcome of such matters, the Company believes that the aggregate identifiable amount of such liabilities, if any, will not have a material adverse impact on its financial condition or results of operations.

### *Management Agreements*

The management agreements with IHM have an initial term of five years and automatically renew for two five-year periods unless IHM provides written notice to us no later than 90 days prior to the then current term's expiration date of its intent not to renew. The IHM management agreements provide for early termination at the Company's option upon sale of any IHM-managed hotel for no termination fee, with six months advance notice. The IHM management agreements may be terminated for cause, including the failure of the managed hotel to meet specified performance levels. Base management fees are calculated as a percentage of the hotel's gross room revenue. If certain financial thresholds are met or exceeded, an incentive management fee is calculated as 10% of the hotel's net operating income less fixed costs, base management fees and a specified return threshold. The incentive management fee is capped at 1% of gross hotel revenues for the applicable calculation.

Management fees totaled approximately \$3.0 million and \$3.0 million for the three months ended September 30, 2023 and 2022, respectively, and \$8.1 million and \$7.6 million for the nine months ended September 30, 2023 and 2022, respectively.

### *Franchise Agreements*

The fees associated with the franchise agreements are calculated as a specified percentage of the hotel's gross room revenue. Franchise and marketing fees totaled approximately \$7.0 million and \$7.1 million for the three months ended September 30, 2023 and 2022, respectively, and \$19.1 million and \$18.1 million for the nine months ended September 30, 2023 and 2022, respectively. The initial term of the agreements range from 10 to 30 years with the weighted average expiration being March 2035.

## 15. Related Party Transactions

As of September 30, 2023, Jeffrey H. Fisher, the Company's Chairman, President and Chief Executive Officer, owns 100% of IHM. As of September 30, 2023, the Company had hotel management agreements with IHM to manage all 39 of its hotels. Hotel management, revenue management and accounting fees accrued or paid to IHM for the hotels owned by the Company for the three months ended September 30, 2023 and 2022 were \$3.0 million and \$3.0 million, respectively, and for the nine months ended September 30, 2023 and 2022 were \$8.1 million and \$7.6 million, respectively. At September 30, 2023 and December 31, 2022, the amounts due to IHM were \$0.7 million and \$0.4 million, respectively.

Cost reimbursements from related parties revenue represent reimbursements of costs incurred on behalf of IHM. These costs relate primarily to office expenses shared with IHM. Various shared office expenses and rent are paid by the Company and allocated to IHM based on the amount of square footage occupied by each entity. As the Company records cost reimbursements based upon costs incurred with no added markup, the revenue and related expense has no impact on the Company's operating income or net income. Cost reimbursements are recorded based upon the occurrence of a reimbursed activity.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2022. In this report, we use the terms "the Company," "we" or "our" to refer to Chatham Lodging Trust and its consolidated subsidiaries, unless the context indicates otherwise.

### COVID-19 Pandemic

The lodging industry has been significantly impacted by the COVID-19 pandemic, which began in early 2020. The pandemic caused a sharp decline in travel and a significant reduction in hotel demand, which caused us to experience a significant decline in revenues, profitability and cash flows from operations during the years ended December 31, 2020 and December 31, 2021. During the year ended December 31, 2022, we experienced a significant improvement in our business which has continued into 2023, initially driven primarily by leisure travel, and more recently, improvement in other demand segments including corporate and group. There have also been material increases in inflation and interest rates. We anticipate that continued improvement in operating trends will be dependent on continued strength in leisure travel and a recovery of business travel.

### Statement Regarding Forward-Looking Information

The following information contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include information about possible or assumed future results of the lodging industry and our business, financial condition, liquidity, results of operations, cash flow and plans and objectives. These statements generally are characterized by the use of the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, such forward-looking statements relate to future events, our plans, strategies, prospects and future financial performance, and involve known and unknown risks that are difficult to predict, uncertainties and other factors that are, in some cases, beyond our control and which could differ materially from those set forth in the forward-looking statements. Important factors that we think could cause our actual results to differ materially from expected results are summarized below. Some factors that might cause such a difference include the following: the continuing and future impact of the COVID-19 pandemic (including its effect on the ability or desire of people to travel), local, national and global economic conditions, uncertainty surrounding the financial stability of the United States, Europe and China, increased direct competition, changes in government regulations or accounting rules, changes in local, national and global real estate conditions, declines in lodging industry fundamentals, increased operating costs, a potential recessionary environment, seasonality of the lodging industry, our ability to obtain debt and equity financing on satisfactory terms, changes in interest rates, our ability to identify suitable investments, our ability to close on identified investments, inaccuracies of our accounting estimates, the uncertainty and economic impact of pandemics, epidemics or other public health emergencies or fear of such events, the impact of and changes to various government programs, and our ability to dispose of selected hotel properties on the terms and timing we expect, if at all. Given these uncertainties, undue reliance should not be placed on such statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances or to reflect the occurrence of unanticipated events. The forward-looking statements should also be read in light of the risk factors identified in the "Risk Factors" section in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 as updated by the Company's subsequent filings with the SEC under the Exchange Act.

### Overview

We are a self-advised hotel investment company organized in October 2009 that commenced operations in April 2010. Our investment strategy is to invest in upscale extended-stay and premium-branded select-service hotels in geographically diverse markets with high barriers to entry near strong demand generators. We may acquire portfolios of hotels or single hotels. We expect that a significant portion of our portfolio will consist of hotels in the upscale extended-stay or select-service categories, including brands such as Homewood Suites by Hilton®, Residence Inn by Marriott®, Hyatt Place®, Courtyard by Marriott®, SpringHill Suites by Marriott®, Hilton Garden Inn by Hilton®, Embassy Suites®, Hampton Inn®, Hampton Inn and Suites®, Home2 Suites by Hilton® and TownePlace Suites by Marriott®.



The Company's future hotel acquisitions may be funded by issuances of both common and preferred shares or the issuance of partnership interests in our operating partnership, Chatham Lodging, L.P. (the "Operating Partnership"), draw-downs under our revolving credit facility, the incurrence or assumption of debt, available cash, or proceeds from dispositions of assets. We intend to acquire quality assets at attractive prices and improve their returns through knowledgeable asset management and seasoned, proven hotel management while remaining prudently leveraged.

At September 30, 2023, our leverage ratio was 24.7% measured as the ratio of our net debt (total debt outstanding before deferred financing costs less unrestricted cash and cash equivalents) to hotel investments at cost. Over the past several years, we have maintained a leverage ratio between the mid 20s and the low 50s. As of September 30, 2023, we have total debt of \$487.7 million at a weighted average interest rate of approximately 5.5%.

We are a real estate investment trust ("REIT") for federal income tax purposes. In order to qualify as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), we cannot operate our hotels. Therefore, the Operating Partnership and its subsidiaries lease our hotel properties to taxable REIT subsidiary lessees ("TRS Lessees"), who in turn engage eligible independent contractors to manage the hotels. Each of the TRS Lessees is treated as a taxable REIT subsidiary for federal income tax purposes and is consolidated within our financial statements for accounting purposes. However, since we control both the Operating Partnership and the TRS Lessees, our principal source of funds on a consolidated basis is from the operations of our hotels. The earnings of the TRS Lessees are subject to taxation as regular C corporations, as defined in the Code, potentially reducing the TRS Lessees' cash available to pay dividends to us, and therefore our funds from operations and the cash available for distribution to our shareholders.

#### **Key Indicators of Operating Performance and Financial Condition**

We measure financial condition and hotel operating performance by evaluating non-financial and financial metrics and measures such as:

- Average Daily Rate ("ADR"), which is the quotient of room revenue divided by total rooms sold,
- Occupancy, which is the quotient of total rooms sold divided by total rooms available,
- Revenue Per Available Room ("RevPAR"), which is the product of occupancy and ADR, and does not include food and beverage revenue, or other operating revenue,
- Funds From Operations ("FFO"),
- Adjusted FFO,
- Earnings before interest, taxes, depreciation and amortization ("EBITDA"),
- EBITDAre,
- Adjusted EBITDA, and
- Adjusted Hotel EBITDA.

We evaluate the hotels in our portfolio and potential acquisitions using these metrics to determine each hotel's contribution toward providing income to our shareholders through increases in distributable cash flow and increasing long-term total returns through appreciation in the value of our common shares. RevPAR, ADR and Occupancy are hotel industry measures commonly used to evaluate operating performance.

See "Non-GAAP Financial Measures" for further discussion of FFO, Adjusted FFO, EBITDA, EBITDAre, Adjusted EBITDA and Adjusted Hotel EBITDA.

## Results of Operations

### Industry Outlook

Smith Travel Research reported that U.S. lodging industry RevPAR increased 1.7% for the three months ended September 30, 2023, with RevPAR up 0.8% in July 2023, up 1.5% in August 2023 and up 2.9% in September 2023. We expect that over the remainder of 2023, lodging industry RevPAR will continue to increase modestly.

### Comparison of the three months ended September 30, 2023 to the three months ended September 30, 2022

Results of operations for the three months ended September 30, 2023 include the operating activities of the hotels we owned for the entire period. The changes in results described below were driven primarily by the continued recovery of business travel following the COVID-19 pandemic, offset by the loss of a significant amount of summer intern business at our Silicon Valley and Bellevue, WA hotels, and inflationary cost pressures.

### Revenues

Revenue, which consists primarily of room, food and beverage and other operating revenues from our wholly owned hotels, was as follows for the periods indicated (dollars in thousands):

	For the three months ended				
	September 30, 2023	September 30, 2022		% Change	
Room	\$ 79,862	\$ 81,970		(2.6)	%
Food and beverage	1,975	1,816		8.8	%
Other	4,623	3,786		22.1	%
Cost reimbursements from related parties	281	313		(10.2)	%
<b>Total revenue</b>	<b>\$ 86,741</b>	<b>\$ 87,885</b>		<b>(1.3)</b>	<b>%</b>

Total revenue was \$86.7 million for the three months ended September 30, 2023, down \$1.2 million compared to total revenue of \$87.9 million for the corresponding 2022 period. The decrease in total revenue primarily was related to the 2.6% decrease in RevPAR and room revenue driven by the loss of a significant amount of summer intern business at our Silicon Valley and Bellevue hotel properties, partially offset by improving trends elsewhere. The five hotels in the Silicon Valley and Bellevue markets contributed \$13.5 million in room revenue for the three months ended September 30, 2023, down \$3.8 million from the \$17.3 million those hotels contributed for the corresponding 2022 period. The decrease was partially offset by improving room revenue at our other hotel properties and increases in food and beverage and other revenue. Since all of our hotels are select-service or limited-service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue comprised 92.1% and 93.3% of total revenue for the three months ended September 30, 2023 and 2022, respectively.

Food and beverage revenue was \$2.0 million for the three months ended September 30, 2023, up \$0.2 million compared to \$1.8 million for the corresponding 2022 period.

Other operating revenue is comprised of parking, meeting room, gift shop, in-room movie and other ancillary amenities revenue. Other operating revenue was \$4.6 million and \$3.8 million for the three months ended September 30, 2023 and 2022, respectively. The increase in other operating revenue primarily was related to increases in revenue from parking.

Reimbursable costs from related parties were \$0.3 million and \$0.3 million for the three months ended September 30, 2023 and 2022, respectively. The cost reimbursements were offset by the reimbursed costs from related parties included in operating expenses.

In the table below, we present both actual and same property room revenue metrics. Actual Occupancy, ADR and RevPAR metrics reflect the performance of the hotels for the actual days such hotels were owned by the Company during the periods presented. Same property Occupancy, ADR, and RevPAR reflect results for the hotels owned by us as of September 30, 2023 that have been in operation for a full year regardless of our ownership during the period presented, which is a non-GAAP financial measure. Results for the hotels for periods prior to our ownership were provided to us by prior owners and have not been adjusted by us.

For the three months ended September 30,						
	2023		2022		Percentage Change	
	Same Property (39 hotels)	Actual (39 hotels)	Same Property (39 hotels)	Actual (39 hotels)	Same Property (39 hotels)	Actual (39 hotels)
Occupancy	79.6 %	79.6 %	80.6 %	80.6 %	(1.2) %	(1.2)%
ADR	\$ 184.45	\$ 184.45	\$ 186.96	\$ 186.96	(1.3) %	(1.3)%
RevPAR	\$ 146.76	\$ 146.76	\$ 150.66	\$ 150.66	(2.6) %	(2.6)%

For the three months ended September 30, 2023 same property RevPAR decreased 2.6% due to a decrease in ADR of 1.3% and a decrease in occupancy of 1.2% driven by the loss of a significant amount of summer intern business at our Silicon Valley and Bellevue hotel properties, partially offset by improving room revenue at our other hotel properties. Same property RevPAR decreased 2.6% in July 2023, decreased 3.1% in August 2023, and decreased 2.1% in September 2023. Same property RevPAR was \$153.33 in July 2023, \$141.59 in August 2023, and \$145.30 in September 2023.

#### Hotel Operating Expenses

Hotel operating expenses consist of the following for the periods indicated (dollars in thousands):

	For the three months ended		
	September 30, 2023	September 30, 2022	% Change
Hotel operating expenses:			
Room	\$ 17,223	\$ 14,892	15.7 %
Food and beverage	1,510	1,435	5.2 %
Telephone	385	346	11.3 %
Other hotel operating	949	883	7.5 %
General and administrative	7,503	6,880	9.1 %
Franchise and marketing fees	6,980	7,107	(1.8) %
Advertising and promotions	1,538	1,499	2.6 %
Utilities	3,758	3,419	9.9 %
Repairs and maintenance	4,111	3,600	14.2 %
Management fees	2,994	2,987	0.2 %
Insurance	717	638	12.4 %
<b>Total hotel operating expenses</b>	<b>\$ 47,668</b>	<b>\$ 43,686</b>	<b>9.1 %</b>

Hotel operating expenses increased \$4.0 million, or 9.1%, to \$47.7 million for the three months ended September 30, 2023 from \$43.7 million for the three months ended September 30, 2022. The primary causes of the increase in hotel operating expenses were an increase in staffing levels and inflation.

Room expenses, which are the most significant component of hotel operating expenses, increased \$2.3 million from \$14.9 million for the three months ended September 30, 2022 to \$17.2 million for the three months ended September 30, 2023. The increase in room expenses primarily was related to an increase in staffing levels and wage costs.

The remaining hotel operating expenses increased \$1.7 million, from \$28.7 million for the three months ended September 30, 2022 to \$30.4 million for the three months ended September 30, 2023. The increase in other remaining expenses primarily was related to inflation.

#### *Depreciation and Amortization*

Depreciation and amortization expense was \$14.7 million and \$14.7 million for the three months ended September 30, 2023 and 2022, respectively. Depreciation is generally recorded on our assets over 40 years for buildings, 20 years for land improvements, 15 years for building improvements and one to ten years for furniture, fixtures and equipment from the date of acquisition on a straight-line basis. Depreciable lives of hotel furniture, fixtures and equipment are generally assumed to be the difference between the date of acquisition and the date that the furniture, fixtures and equipment will be replaced. Amortization of franchise fees is recorded on a straight-line basis over the term of the respective franchise agreement.

#### *Property Taxes, Ground Rent and Insurance*

Total property taxes, ground rent and insurance expenses increased \$0.3 million from \$5.7 million for the three months ended September 30, 2022 to \$6.0 million for the three months ended September 30, 2023. The increase was primarily related to increases in property tax assessments and an increase in insurance costs.

#### *General and Administrative*

General and administrative expenses principally consist of employee-related costs, including base payroll, bonuses and amortization of restricted stock and awards of long-term incentive plan units. These expenses also include corporate operating costs, professional fees and trustees' fees. Total general and administrative expenses (excluding amortization of stock based compensation of \$1.6 million and \$1.4 million for the three months ended September 30, 2023 and 2022, respectively) was \$2.6 million for the three months ended September 30, 2023 versus \$3.2 million for the three months ended September 30, 2022.

#### *Other Charges*

Other charges decreased from \$0.3 million for the three months ended September 30, 2022 to \$6 thousand for the three months ended September 30, 2023.

#### *Reimbursable Costs from Related Parties*

Reimbursable costs from related parties, comprised of corporate payroll and rent costs were \$0.3 million and \$0.3 million for the three months ended September 30, 2023 and 2022, respectively. The cost reimbursements were offset by the cost reimbursements from related parties included in revenues.

#### *Interest and Other Income*

Interest on cash and cash equivalents and other income increased \$0.5 million from \$8 thousand for the three months ended September 30, 2022 to \$0.5 million for the three months ended September 30, 2023.

#### *Interest Expense, Including Amortization of Deferred Fees*

Interest expense increased \$0.4 million from \$6.4 million for the three months ended September 30, 2022 to \$6.8 million for the three months ended September 30, 2023 and is comprised of the following (dollars in thousands):

	For the three months ended		% Change	
	September 30, 2023	September 30, 2022		
Mortgage debt interest	\$ 4,762	\$ 5,137	(7.3)	%
Credit facility and term loan interest and unused fees	1,783	296	502.4	%
Interest rate cap	—	(399)	(100.0)	%
Construction loan interest	—	983	(100.0)	%
Amortization of deferred financing costs	304	387	(21.4)	%
<b>Total</b>	<b>\$ 6,849</b>	<b>\$ 6,404</b>	<b>6.9</b>	<b>%</b>

#### *Income Tax Expense*

Income tax expense for the three months ended September 30, 2023 and 2022 was \$0 and \$0, respectively. We are subject to income taxes based on the taxable income of our TRS Lessees at a combined federal and state tax rate of approximately 25%. The Company's TRS is expecting taxable losses in 2023 and recognizes a full valuation allowance equal to 100% of the gross deferred tax assets due to the uncertainty of the TRS's ability to utilize these deferred tax assets.

#### *Net Income*

Net income was \$7.5 million for the three months ended September 30, 2023, compared to net income of \$12.4 million for the three months ended September 30, 2022. The change in net income was primarily due to the decrease in RevPAR and increase in operating expenses, combined with the other factors discussed above.

### Comparison of the nine months ended September 30, 2023 to the nine months ended September 30, 2022

Results of operations for the nine months ended September 30, 2023 include the operating activities of the hotels we owned for the entire period. We sold one hotel located in Burlington, MA on May 6, 2022, and three hotels located in Dallas, TX and Houston, TX on May 13, 2022. We acquired one hotel located in Miramar Beach, FL on March 8, 2022. We developed and opened on January 24, 2022 one hotel located in Los Angeles, CA. The changes in results described below were driven primarily by the recovery from the COVID-19 pandemic, the sale of four hotels, the acquisition of one hotel, and the ramp-up from opening of one hotel.

#### Revenues

Revenue, which consists primarily of room, food and beverage and other operating revenues from our hotels, was as follows for the periods indicated (dollars in thousands):

	For the nine months ended		% Change	
	September 30, 2023	September 30, 2022		
Room	\$ 219,019	\$ 207,896	5.4	%
Food and beverage	6,156	5,199	18.4	%
Other	12,646	10,439	21.1	%
Cost reimbursements from related parties	1,011	997	1.4	%
<b>Total revenue</b>	<b>\$ 238,832</b>	<b>\$ 224,531</b>	<b>6.4</b>	<b>%</b>

Total revenue was \$238.8 million for the nine months ended September 30, 2023, up \$14.3 million compared to total revenue of \$224.5 million for the corresponding 2022 period. The increase in total revenue primarily was related to the recovery from the COVID-19 pandemic, the ramp-up of the Home2 Woodland Hills, which opened on January 24, 2022, the acquisition of one hotel on March 8, 2022, partially offset by the decrease in revenue from the sale of four hotels during the nine months ended September 30, 2022. The Home2 Woodland Hills contributed \$9.0 million of revenue during the nine months ended September 30, 2023, up \$2.8 million from the \$6.2 million contributed during the nine months ended September 30, 2022. The one hotel acquired in 2022 contributed \$4.7 million of revenue during the nine months ended September 30, 2023, up \$0.4 million from the \$4.3 million contributed during the nine months ended September 30, 2022. The increase was partially offset by the impact from selling four hotels during the second quarter of 2022 that contributed \$0 of revenue during the nine months ended September 30, 2023, down \$4.9 million from the \$4.9 million these hotels contributed during the nine months ended September 30, 2022. Since all of our hotels are select-service or limited-service hotels, room revenue is the primary revenue source as these hotels do not have significant food and beverage revenue or large group conference facilities. Room revenue comprised 91.7% and 92.6% of total revenue for the nine months ended September 30, 2023 and 2022, respectively. Room revenue was \$219.0 million and \$207.9 million for the nine months ended September 30, 2023 and 2022, respectively, and the increase in room revenue primarily was related to the recovery from the COVID-19 pandemic, the ramp-up of the Home2 Woodland Hills, which opened on January 24, 2022, the acquisition of one hotel on March 8, 2022, partially offset by the decrease in room revenue from the sale of four hotels during the nine months ended September 30, 2022.

Food and beverage revenue was \$6.2 million for the nine months ended September 30, 2023, up \$1.0 million compared to food and beverage revenue of \$5.2 million for the corresponding 2022 period. The increase in food and beverage revenue primarily was related to an increase in occupancies at our hotels due to the recovery from the COVID-19 pandemic.

Other operating revenue, comprised of parking, meeting room, gift shop, in-room movie and other ancillary amenities revenue increased \$2.2 million to \$12.6 million for the nine months ended September 30, 2023 compared to \$10.4 million for the corresponding 2022 period. The increase in other operating revenue primarily was related to an increase in occupancies at our hotels due to the recovery from the COVID-19 pandemic.

Reimbursable costs from related parties were \$1.0 million and \$1.0 million for the nine months ended September 30, 2023 and 2022, respectively. The cost reimbursements were offset by the reimbursed costs from related parties included in operating expenses.

In the table below, we present both actual and same property room revenue metrics. Actual Occupancy, ADR and RevPAR metrics reflect the performance of the hotels for the actual days such hotels were owned by the Company during the periods presented. Same property Occupancy, ADR, and RevPAR reflect results for the hotels we owned as of September 30, 2023 that have been in operation for a full year regardless of our ownership during the period presented, which is a non-GAAP financial measure. Results for the hotels for periods prior to our ownership were provided to us by prior owners and have not been adjusted by us.

For the nine months ended September 30,						
	2023		2022		Percentage Change	
	Same Property (39 hotels)	Actual (39 hotels)	Same Property (39 hotels)	Actual (43 hotels)	Same Property (39 hotels)	Actual (39 / 43 hotels)
Occupancy	75.7 %	75.7 %	72.9 %	72.3 %	3.8 %	4.7 %
ADR	\$ 179.14	\$ 179.15	\$ 173.41	\$ 171.61	3.3 %	4.4 %
RevPAR	\$ 135.66	\$ 135.68	\$ 126.49	\$ 124.01	7.2 %	9.4 %

For the nine months ended September 30, 2023 same property RevPAR increased 7.2% due to an increase in ADR of 3.3% and an increase in occupancy of 3.8% primarily related to the recovery from the COVID-19 pandemic.

#### Hotel Operating Expenses

Hotel operating expenses consist of the following for the periods indicated (dollars in thousands):

	For the nine months ended		
	September 30, 2023	September 30, 2022	% Change
Hotel operating expenses:			
Room	\$ 45,918	\$ 40,966	12.1 %
Food and beverage	4,651	3,911	18.9 %
Telephone	1,106	1,106	— %
Other hotel operating	2,812	2,494	12.8 %
General and administrative	21,616	19,035	13.6 %
Franchise and marketing fees	19,121	18,073	5.8 %
Advertising and promotions	4,513	3,918	15.2 %
Utilities	9,807	9,091	7.9 %
Repairs and maintenance	11,735	10,392	12.9 %
Management fees	8,073	7,631	5.8 %
Insurance	2,117	2,095	1.1 %
<b>Total hotel operating expenses</b>	<b>\$ 131,469</b>	<b>\$ 118,712</b>	<b>10.7 %</b>

Hotel operating expenses increased \$12.8 million to \$131.5 million for the nine months ended September 30, 2023 from \$118.7 million for the nine months ended September 30, 2022. The increase in hotel operating expenses was related to the increase in revenues and occupancy caused by the recovery from the COVID-19 pandemic, increased staffing levels, and inflation. The increase was partially offset by the sale of four hotels during the second quarter of 2022 that contributed \$0 of operating expenses during the nine months ended September 30, 2023, down \$3.5 million from the \$3.5 million these hotels contributed during the nine months ended September 30, 2022.

Room expenses, which are the most significant component of hotel operating expenses, increased \$4.9 million from \$41.0 million for the nine months ended September 30, 2022 to \$45.9 million for the nine months ended September 30, 2023. The increase in room expenses was related to an increase in occupancies and revenues at our hotels due to the recovery from the COVID-19 pandemic, increased staffing levels, and inflation.

The remaining hotel operating expenses increased \$7.9 million, from \$77.7 million for the nine months ended September 30, 2022 to \$85.6 million for the nine months ended September 30, 2023. The increase in other remaining expenses primarily was related to an increase in occupancies and revenues at our hotels due to the recovery from the COVID-19 pandemic and inflation.

#### *Depreciation and Amortization*

Depreciation and amortization expense decreased \$1.4 million from \$45.0 million for the nine months ended September 30, 2022 to \$43.6 million for the nine months ended September 30, 2023. The decrease was primarily due to the depreciation expense from four hotels that were sold during the second quarter of 2022. Depreciation is generally recorded on our assets over 40 years for buildings, 20 years for land improvements, 15 years for building improvements and one to ten years for furniture, fixtures and equipment from the date of acquisition on a straight-line basis. Depreciable lives of hotel furniture, fixtures and equipment are generally assumed to be the difference between the date of acquisition and the date that the furniture, fixtures and equipment will be replaced. Amortization of franchise fees is recorded on a straight-line basis over the term of the respective franchise agreement.

#### *Property Taxes, Ground Rent and Insurance*

Total property taxes, ground rent and insurance expenses increased \$1.6 million from \$16.6 million for the nine months ended September 30, 2022 to \$18.2 million for the nine months ended September 30, 2023. The increase was primarily related to increases in property tax assessments and an increase in insurance costs.

#### *General and Administrative*

General and administrative expenses principally consist of employee-related costs, including base payroll, bonuses and amortization of restricted stock and awards of LTIP units. These expenses also include corporate operating costs, professional fees and trustees' fees. Total general and administrative expenses (excluding amortization of stock based compensation of \$4.6 million and \$4.1 million for the nine months ended September 30, 2023 and 2022, respectively) decreased \$0.3 million to \$8.6 million for the nine months ended September 30, 2023 from \$8.9 million for the nine months ended September 30, 2022.

#### *Other Charges*

Other charges decreased from \$0.7 million for the nine months ended September 30, 2022 to \$44 thousand for the nine months ended September 30, 2023.

#### *Reimbursable Costs from Related Parties*

Reimbursable costs from related parties, comprised of corporate payroll and rent costs were \$1.0 million and \$1.0 million for the nine months ended September 30, 2023 and 2022, respectively. The cost reimbursements were offset by the cost reimbursements from related parties included in revenues.

#### *Gain on Sale of Hotel Properties*

Gain on sale of hotel properties decreased from \$2.1 million for the nine months ended September 30, 2022 due to the sale of the HGI Burlington hotel property on May 6, 2022, and the sale of the HWS Dallas hotel property, CY Houston West U hotel property, and RI Houston West U hotel property on May 13, 2022 to \$56 thousand for the nine months ended September 30, 2023.

#### *Interest and Other Income*

Interest on cash and cash equivalents and other income increased \$0.7 million from \$10 thousand for the nine months ended September 30, 2022 to \$0.7 million for the nine months ended September 30, 2023.



#### *Interest Expense, Including Amortization of Deferred Fees*

Interest expense remained flat at \$19.7 million for the nine months ended September 30, 2022 and for the nine months ended September 30, 2023 and is comprised of the following (dollars in thousands):

	For the nine months ended		% Change	
	September 30, 2023	September 30, 2022		
Mortgage debt interest	\$ 14,020	\$ 15,321	(8.5)	%
Credit facility and term loan interest and unused fees	4,399	1,999	120.1	%
Interest rate cap	(16)	(688)	(97.7)	%
Construction loan interest	415	2,338	(82.2)	%
Capitalized interest	—	(330)	(100.0)	%
Amortization of deferred financing costs	911	1,089	(16.3)	%
<b>Total</b>	<b>\$ 19,729</b>	<b>\$ 19,729</b>	<b>—</b>	<b>%</b>

#### *Loss on Early Extinguishment of Debt*

Loss on early extinguishment of debt increased \$0.7 million from \$0 for the nine months ended September 30, 2022. The loss in 2023 is related to the Company's repayment of the construction loan on the Home2 Woodland Hills hotel property.

#### *Gain from Partial Lease Termination*

Gain from partial lease termination increased \$0.2 million from \$0 for the nine months ended September 30, 2022. The gain in 2023 is related to the Company's termination of a portion of its corporate office lease to vacate and surrender possession of 7,374 rentable square feet in exchange for an early termination payment of \$0.1 million.

#### *Income Tax Expense*

Income tax expense for the nine months ended September 30, 2023 and 2022 was \$0 and \$0, respectively. We are subject to income taxes based on the taxable income of our TRS Lessees at a combined federal and state tax rate of approximately 25%. The Company's TRS is expecting taxable losses in 2023 and recognizes a full valuation allowance equal to 100% of the gross deferred tax assets due to the uncertainty of the TRS's ability to utilize these deferred tax assets.

#### *Net Income*

Net income was \$11.8 million for the nine months ended September 30, 2023, a decrease of \$0.2 million from net income of \$12.0 million for the nine months ended September 30, 2022. The change in net income was primarily due to an improvement in performance at our hotels due to the continued recovery from the COVID-19 pandemic, combined with the other factors discussed above.

## Non-GAAP Financial Measures

We consider the following non-GAAP financial measures useful to investors as key supplemental measures of our operating performance: (1) FFO, (2) Adjusted FFO, (3) EBITDA, (4) EBITDA<sub>re</sub>, (5) Adjusted EBITDA and (6) Adjusted Hotel EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss as prescribed by GAAP as a measure of our operating performance.

FFO, Adjusted FFO, EBITDA, EBITDA<sub>re</sub>, Adjusted EBITDA and Adjusted Hotel EBITDA do not represent cash generated from operating activities under GAAP and should not be considered as alternatives to net income or loss, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO, Adjusted FFO, EBITDA, EBITDA<sub>re</sub>, Adjusted EBITDA and Adjusted Hotel EBITDA are not measures of our liquidity, nor are FFO, Adjusted FFO, EBITDA, EBITDA<sub>re</sub>, Adjusted EBITDA and Adjusted Hotel EBITDA indicative of funds available to fund our cash needs, including our ability to make cash distributions. These measurements do not reflect cash expenditures for long-term assets and other items that have been and will be incurred. FFO, Adjusted FFO, EBITDA, EBITDA<sub>re</sub>, Adjusted EBITDA and Adjusted Hotel EBITDA may include funds that may not be available for management's discretionary use due to functional requirements to conserve funds for capital expenditures, property acquisitions, and other commitments and uncertainties.

We calculate FFO in accordance with standards established by Nareit, which defines FFO as net income or loss (calculated in accordance with GAAP), excluding gains or losses from sales of real estate, impairment write-downs, the cumulative effect of changes in accounting principles, plus depreciation and amortization (excluding amortization of deferred financing costs), and after adjustments for unconsolidated partnerships and joint ventures following the same approach. We believe that the presentation of FFO provides useful information to investors regarding our operating performance because it measures our performance without regard to specified non-cash items such as real estate depreciation and amortization, gain or loss on sale of real estate assets and certain other items that we believe are not indicative of the property level performance of our hotel properties. We believe that these items reflect historical cost of our asset base and our acquisition and disposition activities and are less reflective of our ongoing operations, and that by adjusting to exclude the effects of these items, FFO is useful to investors in comparing our operating performance between periods and between REITs that also report FFO using the Nareit definition.

We calculate Adjusted FFO by further adjusting FFO for certain additional items that are not addressed in Nareit's definition of FFO, including other charges, losses on the early extinguishment of debt and similar items related to unconsolidated real estate entities that we believe do not represent costs related to hotel operations. We believe that Adjusted FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and between REITs that make similar adjustments to FFO.

The following is a reconciliation of net income to FFO and Adjusted FFO for the three and nine months ended September 30, 2023 and 2022 (in thousands, except share data):

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
<b>Funds From Operations ("FFO"):</b>				
Net income	\$ 7,499	\$ 12,376	\$ 11,822	\$ 12,000
Preferred dividends	(1,987)	(1,987)	(5,962)	(5,962)
Net income attributable to common shares and common units	5,512	10,389	5,860	6,038
Gain on sale of hotel properties	(1)	(109)	(56)	(2,129)
Depreciation	14,634	14,604	43,454	44,797
FFO attributable to common share and unit holders	20,145	24,884	49,258	48,706
Other charges	6	304	44	704
Loss on early extinguishment of debt	5	—	696	—
Gain from partial lease termination	—	—	(164)	—
Adjusted FFO attributable to common share and unit holders	\$ 20,156	\$ 25,188	\$ 49,834	\$ 49,410
<b>Weighted average number of common shares and units</b>				
Basic	50,437,656	50,013,287	50,352,175	49,957,020
Diluted	50,591,401	50,287,654	50,482,886	50,187,016

Diluted weighted average common share and unit count used for calculation of adjusted FFO per share may differ from diluted weighted average common share count used for calculation of GAAP Net Income per share due to the inclusion of LTIP units, which may be converted to common shares of beneficial interest if Net Income per share is negative and Adjusted FFO is positive. Unvested restricted shares and unvested LTIP units that could potentially dilute basic earnings per share in the future would not be included in the computation of diluted loss per share for the periods where a loss has been recorded because they would have been anti-dilutive for the periods presented.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") is defined as net income or loss excluding: (1) interest expense; (2) provision for income taxes, including income taxes applicable to sales of assets; (3) depreciation and amortization; and (4) unconsolidated real estate entity items including interest, depreciation and amortization excluding gains and losses from sales of real estate. We consider EBITDA useful to an investor in evaluating and facilitating comparisons of our operating performance between periods and between REITs by removing the impact of our capital structure (primarily interest expense) and asset base (primarily depreciation and amortization) from our operating results. In addition, EBITDA is used as one measure in determining the value of hotel acquisitions and dispositions.

In addition to EBITDA, we present EBITDA *re* in accordance with Nareit guidelines, which defines EBITDA *re* as net income or loss excluding interest expense, income tax expense, depreciation and amortization expense, gains or losses from sales of real estate, impairment, and adjustments for unconsolidated joint ventures. We believe that the presentation of EBITDA *re* provides useful information to investors regarding the Company's operating performance and can facilitate comparisons of operating performance between periods and between REITs.

We also present Adjusted EBITDA, which includes additional adjustments for items such as other charges, gains or losses on extinguishment of indebtedness, the amortization of share-based compensation, and certain other expenses that we consider outside the normal course of operations. We believe that Adjusted EBITDA provides useful supplemental information to investors regarding our ongoing operating performance that, when considered with net income, EBITDA and EBITDA *re*, is beneficial to an investor's understanding of our performance.

The following is a reconciliation of net income to EBITDA, EBITDA *re* and Adjusted EBITDA for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"):				
Net income	\$ 7,499	\$ 12,376	\$ 11,822	\$ 12,000
Interest expense, including amortization of deferred fees	6,849	6,404	19,729	19,729
Depreciation and amortization	14,687	14,658	43,615	44,971
EBITDA	29,035	33,438	75,166	76,700
Gain on sale of hotel properties	(1)	(109)	(56)	(2,129)
EBITDA <i>re</i>	29,034	33,329	75,110	74,571
Other charges	6	304	44	704
Loss on early extinguishment of debt	5	—	696	—
Gain from partial lease termination	—	—	(164)	—
Share based compensation	1,555	1,419	4,562	4,132
Adjusted EBITDA	\$ 30,600	\$ 35,052	\$ 80,248	\$ 79,407

Adjusted Hotel EBITDA is defined as net income before interest, income taxes, depreciation and amortization, corporate general and administrative, impairment loss, loss on early extinguishment of debt, other charges, interest and other income, losses on sales of hotel properties and income or loss from unconsolidated real estate entities. We present Adjusted Hotel EBITDA because we believe it is useful to investors in comparing our hotel operating performance between periods and comparing our Adjusted Hotel EBITDA margins to those of our peer companies.

The following is a presentation of Adjusted Hotel EBITDA for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Net income	\$ 7,499	\$ 12,376	\$ 11,822	\$ 1
Add: Interest expense, including amortization of deferred fees	6,849	6,404	19,729	1
Depreciation and amortization	14,687	14,658	43,615	4
Corporate general and administrative	4,218	4,592	13,172	1
Other charges	6	304	44	
Loss on early extinguishment of debt	5	—	696	
Less: Interest and other income	(479)	(8)	(688)	
Gain on sale of hotel properties	(1)	(109)	(56)	(
Gain from partial lease termination	—	—	(164)	
Adjusted Hotel EBITDA	\$ 32,784	\$ 38,217	\$ 88,170	\$ 8

Although we present FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA because we believe they are useful to investors in comparing our operating performance between periods and between REITs that report similar measures, these measures have limitations as analytical tools. Some of these limitations are:

- FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect funds available to make cash distributions;
- EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debts;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may need to be replaced in the future, and FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect any cash requirements for such replacements;
- Non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating our ongoing operating performance for a particular period using Adjusted EBITDA;
- Adjusted FFO, Adjusted EBITDA and Adjusted Hotel EBITDA do not reflect the impact of certain cash charges (including acquisition transaction costs) that result from matters we consider not to be indicative of the underlying performance of our hotel properties; and
- Other companies in our industry may calculate FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA differently than we do, limiting their usefulness as a comparative measure.

In addition, FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA do not represent cash generated from operating activities as determined by GAAP and should not be considered as alternatives to net income or loss, cash flows from operations or any other operating performance measure prescribed by GAAP. FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA are not measures of our liquidity. Because of these limitations, FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using FFO, Adjusted FFO, EBITDA, EBITDA *re*, Adjusted EBITDA and Adjusted Hotel EBITDA only supplementally. Our consolidated financial statements and the notes to those statements included elsewhere are prepared in accordance with GAAP.

## **Sources and Uses of Cash**

Our principal sources of cash include net cash from operations, availability under our credit facility, proceeds from debt and equity issuances, and proceeds from the sale of hotel properties. Our principal uses of cash include acquisitions, capital expenditures, operating costs, corporate expenditures, interest costs, debt repayments and distributions to equity holders.

Cash, cash equivalents, and restricted cash totaled \$90.0 million as of September 30, 2023, an increase of \$44.8 million from December 31, 2022, primarily due to net cash provided by operating activities of \$66.3 million, net cash used in investing activities of \$21.4 million, and net cash used in financing activities of \$0.1 million.

### *Cash from Operations*

Net cash flows provided by operating activities increased \$15.8 million to \$66.3 million during the nine months ended September 30, 2023 compared to \$50.5 million during the nine months ended September 30, 2022. The increase in cash from operating activities was primarily due to improving operating results from our hotels which generated RevPAR growth of 7.2% during the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

### *Investing Activities Cash Flows*

Net cash flows used in investing activities increased \$53.9 million to \$(21.4) million during the nine months ended September 30, 2023 compared to \$32.5 million during the nine months ended September 30, 2022. For the nine months ended September 30, 2023, net cash flows used in investing activities of \$(21.4) million consisted of \$21.4 million related to capital improvements on our hotels. For the nine months ended September 30, 2022, net cash flows provided by investing activities of \$32.5 million consisted of \$79.6 million in net proceeds related to the sale of four hotel properties, \$0.4 million of deferred key money received for the development of the Home2 Woodland Hills, partially offset by \$31.0 million related to the acquisition of the HGI Destin hotel property, \$12.4 million related to capital improvements on our hotels during the period, and \$4.0 million of capital expenditures related to the development of the Home2 Woodland Hills hotel property.

We expect to invest approximately \$9.2 million on renovations, discretionary and emergency expenditures on our existing hotels during the remainder of 2023, including improvements required under any brand PIP.

### *Financing Activities Cash Flows*

Net cash flows used in financing activities decreased \$78.6 million to \$(0.1) million during the nine months ended September 30, 2023 compared to \$(78.7) million during the nine months ended September 30, 2022. For the nine months ended September 30, 2023, net cash flows used in financing activities of \$(0.1) million were comprised of the repayment of our construction loan of \$39.3 million, principal payments on mortgage debt of \$116.1 million, distributions to common share and unit holders of \$10.7 million, distributions on preferred shares of \$6.0 million, and payments of deferred financing costs of \$1.0 million, partially offset by borrowings on our unsecured term loan of \$90.0 million and proceeds from the issuance of five new mortgage loans of \$82.9 million. For the nine months ended September 30, 2022, net cash flows used in financing activities of \$(78.7) million were comprised of net repayments of our senior unsecured revolving credit facility of \$70.0 million, principal payments on mortgage debt of \$6.7 million, payments of deferred financing and offering costs of \$0.3 million, distributions to unit holders of \$0.1 million, and distributions on preferred shares of \$6.0 million, partially offset by net borrowings on our construction loan of \$4.3 million.

We declared total dividends of \$0.21 per common share and LTIP unit for the nine months ended September 30, 2023, and \$0 per common share and LTIP unit for the nine months ended September 30, 2022. We declared total dividends of \$1.24218 and \$1.24218 per Series A preferred share for the nine months ended September 30, 2023 and 2022, respectively.

#### *Material Cash Requirements*

Our material cash requirements include the following contractual obligations:

- At September 30, 2023, we had total debt principal and interest obligations of \$558.7 million with \$304.2 million of principal and interest payable within the next 12 months from September 30, 2023. \$279.1 million of debt principal obligations payable during the next 12 months relate to maturities of the Company's mortgage loans secured by the Residence Inn Garden Grove, SpringHill Suites Savannah, Residence Inn Silicon Valley I, Residence Inn Silicon Valley II, Residence Inn San Mateo, Residence Inn Mountain View, and Hilton Garden Inn Marina del Rey hotel properties. See Note 7, "Debt" to our consolidated financial statements for additional information relating to our property loans, revolving credit facility, and unsecured term loan.
- Lease payments due within the next 12 months from September 30, 2023 total \$1.9 million. See Note 13, "Leases" to our consolidated financial statements for additional information relating to our corporate office and ground leases.

#### **Liquidity and Capital Resources**

At September 30, 2023, our leverage ratio was approximately 24.7% measured as the ratio of our net debt (total debt outstanding before deferred financing costs less unrestricted cash and cash equivalents) to hotel investments at cost. Over the past several years, we have maintained a leverage ratio between the mid 20s and the low 50s. At September 30, 2023, we had total debt of \$487.7 million at an average interest rate of approximately 5.5%.

At September 30, 2023 and December 31, 2022, we had \$0 and \$0, respectively, in outstanding borrowings under our \$260.0 million revolving credit facility. We had \$90.0 million and \$0, respectively, in outstanding borrowings under our unsecured term loan at September 30, 2023 and December 31, 2022.

Our revolving credit facility and term loan contain representations, warranties, covenants, terms and conditions customary for credit facilities of this type, including a maximum leverage ratio, a minimum fixed charge coverage ratio and minimum net worth financial covenants, limitations on (i) liens, (ii) incurrence of debt, (iii) investments, (iv) distributions, and (v) mergers and asset dispositions, covenants to preserve corporate existence and comply with laws, covenants on the use of proceeds and default provisions, including defaults for non-payment, breach of representations and warranties, insolvency, non-performance of covenants, cross-defaults and guarantor defaults. We were in compliance with all financial covenants at September 30, 2023.

Our mortgage debt agreements contain "cash trap" provisions that are triggered when the hotel's operating results fall below a certain debt service coverage ratio or debt yield. When these provisions are triggered, all of the excess cash flow generated by the hotel is deposited directly into cash management accounts for the benefit of our lenders until a specified debt service coverage ratio or debt yield is reached. Such provisions do not allow the lender the right to accelerate repayment of the underlying debt. As of September 30, 2023, four of our mortgage debt lenders have enforced cash trap provisions resulting in \$6.2 million of restricted cash. We do not expect that such cash traps will affect our ability to satisfy our short-term liquidity requirements.

In December 2017, we established a \$50 million dividend reinvestment and stock purchase plan. We filed a new \$50 million shelf registration statement for the dividend reinvestment and stock purchase plan (the "DRSPP") on December 22, 2020 to replace the prior plan. Under the DRSPP, shareholders may purchase additional common shares by reinvesting some or all of the cash dividends received on common shares. Shareholders may also make optional cash purchases of common shares subject to certain limitations detailed in the prospectuses for the DRSPP. During the three months ended September 30, 2023, the Company issued 1,321 common shares under the DRSPP at a weighted average price per share of \$9.49, which generated \$12 thousand of proceeds. During the nine months ended September 30, 2023, the Company issued 4,187 common shares under the DRSPP at a weighted average price per share of \$10.42, which generated \$44 thousand of proceeds. As of September 30, 2023, there was approximately \$47.8 million in common shares available for issuance under the DRSPP.

In January 2021, we established an "at-the-market" offering program (the "ATM Program") whereby, from time to time, we may publicly offer and sell our common shares having an aggregate maximum offering price up to \$100 million by means of ordinary brokers transactions on the New York Stock Exchange (the "NYSE"), in negotiated transactions or in transactions that are deemed to be "at-the-market" offerings as defined in Rule 415 under the Securities Act of 1933, as

amended. Cantor Fitzgerald & Co., Barclays Capital Inc., BMO Capital Markets Corp., BofA Securities, Inc., BTIG, LLC, Citigroup Global Markets Inc., Regions Securities LLC, Stifel, Nicolaus & Company, Incorporated and Wells Fargo Securities act as sales agents under the ATM Program. The Company did not issue any shares under the ATM Program during the three and nine months ended September 30, 2023. As of September 30, 2023, there was approximately \$77.5 million in common shares available for issuance under the ATM Program.

We expect to meet our short-term liquidity requirements generally through existing cash balances and availability under our credit facility and unsecured term loan. We believe that our existing cash balances and availability under our credit facility and unsecured term loan will be adequate to fund operating obligations, pay interest on any borrowings and fund dividends in accordance with the requirements for qualification as a REIT under the Code. We expect to meet our long-term liquidity requirements, such as hotel property acquisitions and debt maturities or repayments through additional long-term secured and unsecured borrowings, the issuance of additional equity or debt securities or the possible sale of existing assets.

We intend to continue to invest in hotel properties as suitable opportunities arise. We intend to finance our future investments with free cash flow, the net proceeds from additional issuances of common and preferred shares, issuances of common units in our Operating Partnership or other securities, borrowings or asset sales. The success of our acquisition strategy depends, in part, on our ability to access additional capital through other sources. 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 had no material off-balance sheet arrangements at September 30, 2023.

#### **Dividend Policy**

Our common share dividend policy has been to distribute, annually, approximately 100% of our annual taxable income. We suspended common share dividends after the March 2020 payment due to the decline in operating performance caused by the COVID-19 pandemic. The Company reinstated common share dividends during the fourth quarter of 2022. During the nine months ended September 30, 2023, the Company declared total common share dividends of \$0.21 per share and distributions on LTIP units of \$0.21 per unit. There were no common share dividends declared during the nine months ended September 30, 2022. We plan to pay dividends required to maintain REIT status. The amount of any dividend is determined by our Board of Trustees.

Chatham declared dividends of \$1.24218 per share of 6.625% Series A Cumulative Redeemable Preferred Shares during the nine months ended September 30, 2023.

#### **Inflation**

Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. However, competitive pressures may limit the ability of our management companies to raise room rates. Inflation may also affect our expenses and costs of capital investments by increasing, among other things, the costs of construction, labor, employee-related benefits, food, commodities and other materials, taxes, property and casualty insurance and utilities.

#### **Seasonality**

Demand for our hotels is affected by recurring seasonal patterns. Generally, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters and higher revenue, operating income and cash flow in the second and third quarters. These general trends are, however, influenced by overall economic cycles and the geographic locations of our hotels. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenue, we expect to utilize cash on hand or borrowings under our credit facility to pay expenses, debt service or to make distributions to our equity holders.

## **Critical Accounting Estimates**

Our consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. While we do not believe the reported amounts would be materially different, application of these policies involves the exercise of judgment and the use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on experience and on various other assumptions that are believed to be reasonable under the circumstances. All of our significant accounting policies, including certain critical accounting estimates, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.



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

We may be exposed to interest rate changes primarily as a result of our assumption of long-term debt in connection with our acquisitions and upon refinancing of existing debt. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we seek to borrow primarily at fixed rates or variable rates with the lowest margins available and, in some cases, with the ability to convert variable rates to fixed rates. With respect to variable rate financing, we will assess interest rate risk by identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities.

The Company estimates the fair value of its fixed rate debt by discounting the future cash flows of each instrument at estimated market rates. Rates take into consideration general market conditions, maturity and fair value of the underlying collateral. The estimated fair value of the Company's fixed rate debt at September 30, 2023 and December 31, 2022 was \$384.8 million and \$412.7 million, respectively.

At September 30, 2023, our consolidated debt was comprised of floating and fixed interest rate debt. The fair value of our fixed rate debt indicates the estimated principal amount of debt having the same debt service requirements that could have been borrowed at the date presented, at then current market interest rates. The following table provides information about the maturities of our financial instruments as of September 30, 2023 that are sensitive to changes in interest rates (dollars in thousands):

	2023	2024	2025	2026	2027	Thereafter	Total/ Weighted Average	Fair Value
Floating rate:								
Debt	—	—	\$90,000	—	—	—	\$90,000	\$ 90,000
Average interest rate	—	—	6.56%	—	—	—	6.56%	
Fixed rate:								
Debt	\$1,846	\$297,003	\$15,961	—	—	\$82,925	\$397,735	\$384,807
Average interest rate	4.62%	4.64%	4.25%	—	—	7.46 %	5.21%	

As of September 30, 2023, we estimate that a hypothetical 100 basis points increase in SOFR would result in additional interest of approximately \$0.9 million annually. This assumes that the amount of floating rate debt outstanding on our unsecured term loan remains \$90.0 million, the balance as of September 30, 2023.

**Item 4. Controls and Procedures.*****Disclosure Controls and Procedures*****Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

The Company is subject to various claims, lawsuits and legal proceedings, including routine litigation arising in the ordinary course of business, regarding the operation of its hotels, its managers and other Company matters. While it is not possible to ascertain the ultimate outcome of such matters, the Company believes that the aggregate identifiable amount of such liabilities, if any, will not have a material adverse impact on its financial condition or results of operations.

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

There have been no material changes to the Risk Factors previously disclosed under Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2022.

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

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

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

Not applicable.

### **Item 5. Other Information.**

During the three months ended September 30, 2023, none of the Company's trustees or officers adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

## Item 6. Exhibits.

The following exhibits are filed as part of this report:

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
<a href="#">3.1</a>	Articles of Amendment and Restatement of Chatham Lodging Trust <sup>(1)</sup>
<a href="#">3.2</a>	Articles of Amendment of Chatham Lodging Trust <sup>(2)</sup>
<a href="#">3.3</a>	Fourth Amended and Restated Bylaws of Chatham Lodging Trust <sup>(3)</sup>
<a href="#">3.4</a>	Articles Supplementary to the Company's Declaration of Trust designating the 6.625% Series A Cumulative Redeemable Preferred Shares of Beneficial Interest, \$0.01 par value per share <sup>(4)</sup>
<a href="#">31.1</a> †	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31.2</a> †	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">32.1</a> ††	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File - the cover page interactive data file does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.

† Filed herewith.

†† Furnished herewith.

(1) Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K filed with the SEC on February 29, 2016 (File No. 001-34693).

(2) Incorporated by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 4, 2023 (File No. 001-34693).

(3) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 24, 2023 (File No. 001-34693).

(4) Incorporated by reference to Exhibit 3.3 of the Company's Registration Statement on Form 8-A filed with the SEC on June 25, 2021 (File No. 001-34693).

**SIGNATURE**

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

**CHATHAM LODGING TRUST**

Dated: November 2, 2023

By: /s/ JEREMY B. WEGNER

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**Jeremy B. Wegner**

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer and duly authorized officer of the registrant)

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

I, Jeffrey H. Fisher, certify that:

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

**CHATHAM LODGING TRUST**

Dated: November 2, 2023

/s/ JEFFREY H. FISHER

**Jeffrey H. Fisher**

Chairman, President and Chief Executive Officer

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

I, Jeremy B. Wegner, certify that:

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

**CHATHAM LODGING TRUST**

Dated: November 2, 2023

/s/ JEREMY B. WEGNER

**Jeremy B. Wegner**

Senior Vice President and Chief Financial Officer

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

In connection with the Quarterly Report of Chatham Lodging Trust (the "Company") on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey H. Fisher, Chairman, President and Chief Executive Officer of the Company and I, Jeremy B. Wegner, Senior Vice President and Chief Financial Officer of the Company, certify, to our knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**CHATHAM LODGING TRUST**

Dated: November 2, 2023

/s/ JEFFREY H. FISHER

**Jeffrey H. Fisher**

Chairman, President and Chief Executive Officer

/s/ JEREMY B. WEGNER

**Jeremy B. Wegner**

Senior Vice President and Chief Financial Officer