HERSHA HOSPITALITY TRUST
Form 10-K
February 27, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

OR

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

For the transition period from _______________ to _______________

Commission file number: 001-14765

HERSHA HOSPITALITY TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland	251811499
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
44 Hersha Drive, Harrisburg, PA	17102
(Address of Registrant's Principal Executive Offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Class A Common Shares of Beneficial Interest, par value $.01 per share	New York Stock Exchange
Series B Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $.01 per share	New York Stock Exchange
Series C Cumulative Redeemable Preferred Shares of Beneficial Interest, par value $.01 per share	New York Stock Exchange

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

None

(Title of class)

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

x Yes No

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

¨ Yes x No

Indicate by check mark whether the registrant (i) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (ii) has been subject to such filing requirements for the past 90 days.

x Yes No

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

x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨ Yes x No

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

Large accelerated filer xAccelerated filer

Non-accelerated filer Smaller reporting company

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

The aggregate market value of the outstanding Class A common shares held by nonaffiliates of the registrant, computed by reference to the closing sale price at which Class A common shares were last sold on June 30, 2013, was approximately $1.1 billion.

As of February 25, 2014, the number of Class A common shares outstanding was 202,763,419 and there were no Class B common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

HERSHA HOSPITALITY TRUST

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CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

- our business or investment strategy;
- our projected operating results;
- our distribution policy;
- our liquidity;
- completion of any pending transactions;
- our ability to obtain future financing arrangements;
- our understanding of our competition;
- market trends; and
- projected capital expenditures.

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

general volatility of the capital markets and the market price of our common shares;

changes in our business or investment strategy;

availability, terms and deployment of capital;

availability of qualified personnel;

changes in our industry and the market in which we operate, interest rates, or the general economy;

the degree and nature of our competition;

financing risks, including the risk of leverage and the corresponding risk of default on our mortgage loans and other debt and potential inability to refinance or extend the maturity of existing indebtedness;

levels of spending in the business, travel and leisure industries, as well as consumer confidence;

declines in occupancy, average daily rate and RevPAR and other hotel operating metrics;

hostilities, including future terrorist attacks, or fear of hostilities that affect travel;

financial condition of, and our relationships with, our joint venture partners, third-party property managers, franchisors and hospitality joint venture partners;

the degree and nature of our competition;

increased interest rates and operating costs;

ability to complete development and redevelopment projects;

risks associated with potential acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history, and dispositions of hotel properties;

availability of and our ability to retain qualified personnel;

our failure to maintain our qualification as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986 “the Code”, as amended;

environmental uncertainties and risks related to natural disasters;

changes in real estate and zoning laws and increases in real property tax rates; and the factors discussed in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2013 under the heading “Risk Factors” and in other reports we file with the U.S. Securities and Exchange Commission (“SEC”) from time to time.

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

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

PART I

Item 1. Business

OVERVIEW

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

In addition to the direct acquisition of hotels, historically we have made investments in hotels through joint ventures with strategic partners or through equity contributions, secured mezzanine loans and land leases. Although we may invest in hotels through joint ventures, secured development loans and land leases, we are not actively pursuing additional joint venture investments and do not expect to originate any new secured mezzanine loans or enter into any new land leases as part of our hotel investment strategy in the near term.

We seek to identify acquisition candidates located in markets with economic, demographic and supply dynamics favorable to hotel owners and operators. Through our due diligence process, we select those acquisition targets where we believe selective capital improvements and intensive management will increase the hotel's ability to attract key demand segments, enhance hotel operations and increase long-term value.

As of December 31, 2013, our portfolio consisted of 48 wholly owned limited and full service properties with a total of 6,876 rooms and interests in six limited and full service properties owned through joint venture investments with a total of 1,513 rooms. These 54 properties, with a total of 8,389 rooms, are located in Arizona, California, Connecticut, Delaware, District of Columbia, Florida, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, and Virginia and operate under leading brands, owned by Marriott International, Inc. ("Marriott"), Hilton Worldwide, Inc. ("Hilton"), InterContinental Hotels Group ("IHG"), Hyatt Corporation ("Hyatt"), or Starwood Hotels and Resorts

Worldwide, Inc. (“Starwood”). In addition, some of our hotels operate as independent boutique hotels.

We are structured as an umbrella partnership REIT, or UPREIT, and we own our hotels and our investments in joint ventures through our operating partnership, Hersha Hospitality Limited Partnership, for which we serve as general partner. As of December 31, 2013, we owned an approximate 96.7% partnership interest in our operating partnership.

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

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

AVAILABLE INFORMATION

We make available free of charge through our website (www.hersha.com) our code of ethics, corporate governance guidelines and the charters of the committees of our Board of Trustees (Acquisition Committee, Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee and Risk Sub-Committee of the Audit Committee). We also make available through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. The information available on our website is not, and shall not be deemed to be, a part of this report or incorporated into any other filings we make with the SEC.

INVESTMENT IN HOTEL PROPERTIES

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

- working together with our hotel management companies to increase occupancy levels and revenue per available room, or "RevPAR", through active property-level management, including intensive marketing efforts to tour groups, corporate and government extended stay customers and other wholesale customers and expanded yield management programs, which are calculated to better match room rates to room demand; and

- maximizing our earnings by managing costs and positioning our hotels to capitalize on increased demand in the high quality, upper-upscale, upscale, mid-scale and extended-stay lodging segments, which we believe can be expected to follow from improving economic conditions.

ACQUISITIONS

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

- nationally-franchised hotels operating under popular brands, such as Marriott Hotels & Resorts, Hilton Hotels, Courtyard by Marriott, Residence Inn by Marriott, Hilton Garden Inn, Hampton Inn, Sheraton Hotels & Resorts, DoubleTree, Embassy Suites, Hyatt House, Hyatt Place, TownePlace Suites and Holiday Inn Express;

- hotels in locations with significant barriers-to-entry, such as high development costs, limited availability of land and lengthy entitlement processes;

- hotels in our target markets where we can realize operating efficiencies and economies of scale; and

- independent boutique hotels in similar markets

Since our initial public offering in January 1999 and through December 31, 2013, we have acquired, wholly or through joint ventures, a total of 104 hotels, including 28 hotels acquired from entities controlled by certain of our trustees and executive officers. Of the 28 acquisitions from entities controlled by certain of our trustees and executive officers, 25 were newly constructed or substantially renovated by these entities prior to our acquisition. We take advantage of our relationships with entities that are developing or substantially renovating hotels, including entities controlled by certain of our trustees and executive officers, to identify future hotel acquisitions that we believe may be attractive to us. We intend to continue to acquire hotels from entities controlled by certain of our trustees and executive officers if approved by a majority of our independent trustees in accordance with our related party transaction policy.

DISPOSITIONS

We evaluate our hotels on a periodic basis to determine if these hotels continue to satisfy our investment criteria. We may sell hotels opportunistically based upon management's forecast and review of the cash flow potential of each hotel and re-deploy the proceeds into debt reduction or acquisitions of hotels. We utilize several criteria to determine the long-term potential of our hotels. Hotels are identified for sale based upon management's forecast of the strength of each hotel's cash flows and its ability to remain accretive to our portfolio. Our decision to sell a hotel is often predicated upon the size of the hotel, strength of the franchise, property condition and related costs to renovate the property, strength of market demand generators, projected supply of hotel rooms in the market, probability of increased valuation and geographic profile of the hotel. All asset sales are comprehensively reviewed by the Acquisition Committee of our Board of Trustees, which committee consists solely of independent trustees. During the time since our initial public offering in 1999 through December 31, 2013, we have sold a total of 57 hotels.

FINANCING

We intend to finance our long-term growth with common and preferred equity issuances and debt financing having staggered maturities. Our debt includes unsecured debt provided primarily under our $400 million unsecured credit facility which provides for a $150 million unsecured term loan and a $250 million unsecured revolving credit facility and secured mortgage debt in our hotel properties. We anticipate refinancing this facility to expand the unsecured term loan from $150 million to $250 million. We intend to use the expanded term loan capacity and the undrawn portion of our $400 million senior unsecured credit facility to pay down mortgage debt and fund future acquisitions, as well as for capital improvements and working capital requirements. Subject to market conditions, we intend to repay amounts outstanding under the revolving line of credit portion of our credit facility from time to time with proceeds from periodic common and preferred equity issuances, long-term debt financings and cash flows from operations. When purchasing hotel properties, we may issue common and preferred limited partnership interests in our operating partnership as full or partial consideration to sellers.

FRANCHISE AGREEMENTS

We believe that the public's perception of quality associated with a franchisor is an important feature in the operation of a hotel. Franchisors provide a variety of benefits for franchisees, which include national advertising, publicity and other marketing programs designed to increase brand awareness, training of personnel, continuous review of quality standards and centralized reservation systems. Most of our hotels operate under franchise licenses from national hotel franchisors, including:

Franchisor	Franchises
Marriott International	Marriott, Residence Inn, Courtyard by Marriott
Hilton Hotels Corporation	Hilton, Hilton Garden Inn, Hampton Inn
IHG	Holiday Inn, Holiday Inn Express, Holiday Inn Express & Suites, Candlewood Suites
Hyatt Hotels Corporation	Hyatt House, Hyatt Place, Hyatt
Starwood Hotels	Sheraton Hotels

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

The franchise licenses generally specify certain management, operational, record-keeping, accounting, reporting and marketing standards and procedures with which the franchisee must comply. The franchise licenses generally obligate our lessees to comply with the franchisors' standards and requirements with respect to training of operational personnel, safety, maintaining specified insurance, the types of services and products ancillary to guest room services that may be provided by our lessees, display of signage, and the type, quality and age of furniture, fixtures and equipment included in guest rooms, lobbies and other common areas. In general, the franchise licenses require us to pay the franchisor a fee typically ranging between 6.0% and 9.3% of such hotel's revenues.

PROPERTY MANAGEMENT

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

Through our TRS and our investment in joint ventures, we have retained the following management companies to operate our hotels, as of December 31, 2013:

	Wholly Owned		Joint Ventures		Total	
Manager	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
Hersha Hospitality Management, L.P.	48	6,876	-	-	48	6,876
Waterford Hotel Group, Inc.	-	-	4	1,231	4	1,231
South Bay Boston Management, Inc.	-	-	2	282	2	282
Total	48	6,876	6	1,513	54	8,389

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

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

For their services, the managers receive a base management fee, and if a hotel meets and exceeds certain thresholds, an additional incentive management fee. For the year ended December 31, 2013, these thresholds were not met and incentive management fees were not earned. The base management fee for a hotel is due monthly and is generally equal to 3% of the gross revenues associated with that hotel for the related month.

CAPITAL IMPROVEMENTS, RENOVATION AND REFURBISHMENT

Under certain loan agreements, we have established capital reserves for our hotels to maintain the hotels in a condition that complies with their respective requirements. These capital reserves typically range from 3% to 4% of each hotel's gross revenues. In addition, we may upgrade hotels in our portfolio in order to capitalize on opportunities to increase revenue, and, as deemed necessary by our management, to seek to meet competitive conditions and preserve asset quality. We will also renovate hotels when we believe the investment in renovations will provide an attractive return to us through increased revenues and profitability and is in the best interests of our shareholders. We maintain a capital expenditures policy by which replacements and renovations are monitored to determine whether they qualify as capital improvements. All items that are deemed to be repairs and maintenance costs are expensed and recorded in Hotel Operating Expenses in the Consolidated Statements of Operations.

OPERATING PRACTICES

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

DISTRIBUTIONS

We have made 60 consecutive quarterly distributions to the holders of our common shares since our initial public offering in January 1999 and intend to continue to make regular quarterly distributions to our shareholders as approved by our Board of Trustees.

The following table sets forth distribution information for the last two calendar years.

Common Shares

Quarter to which Distribution Relates	Record Date	Payment Date	Class A Common Shares and Common Units Per Share Distribution Amount
2013			
Fourth Quarter	1/2/2014	1/16/2014	$ 0.06
Third Quarter	10/1/2013	10/15/2013	$ 0.06

Second Quarter	7/1/2013	7/15/2013	$ 0.06
First Quarter	4/1/2013	4/15/2013	$ 0.06
2012			
Fourth Quarter	12/31/2012	1/15/2013	$ 0.06
Third Quarter	10/1/2012	10/15/2012	$ 0.06
Second Quarter	6/29/2012	7/16/2012	$ 0.06
First Quarter	3/30/2012	4/16/2012	$ 0.06

Preferred Shares

Quarter to which Distribution Relates	Record Date	Payment Date	Series A Preferred Per Share Distribution Amount		Series B Preferred Per Share Distribution Amount	Series C Preferred Per Share Distribution Amount	
2013							
Fourth Quarter	1/1/2014	1/15/2014	N/A		$ 0.50	$ 0.43	
Third Quarter	10/1/2013	10/15/2013	N/A		$ 0.50	$ 0.43	
Second Quarter	7/1/2013	7/15/2013	N/A		$ 0.50	$ 0.43	
First Quarter	4/1/2013	4/15/2013	N/A		$ 0.50	$ 0.19	(1)
First Quarter	3/28/2013	3/28/2013	$ 0.41	(2)	N/A	N/A	
2012							
Fourth Quarter	1/1/2013	1/15/2013	$ 0.50		$ 0.50	N/A	
Third Quarter	10/1/2012	10/15/2012	$ 0.50		$ 0.50	N/A	
Second Quarter	7/1/2012	7/16/2012	$ 0.50		$ 0.50	N/A	
First Quarter	4/1/2012	4/16/2012	$ 0.50		$ 0.50	N/A	

(1) Partial period distribution

(2) On March 28, 2013, Hersha Hospitality Trust redeemed all of its issued and outstanding shares of 8.00% Series A Cumulative Redeemable Preferred Stock. The Series A Preferred Shares were redeemed at a per share redemption price of $25.00 together with accrued and unpaid dividends to the redemption date for an aggregate per share redemption price of $25.4056.

Our Board of Trustees will determine the amount of our future distributions in its sole discretion and its decision will depend on a number of factors, including the amount of funds from operations, our partnership's financial condition, debt service requirements, capital expenditure requirements for our hotels, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as the trustees deem relevant. Our ability to make distributions will depend on the profitability of and cash flow available from our hotels. There can be no assurance we will continue to pay distributions at the rates above or any other rate. Additionally, we may, if necessary and allowable, pay taxable distributions of our shares or debt securities to meet the distribution requirements. There are no assurances we will be able to continue to make quarterly distributions at the current rate.

SEASONALITY

Our hotels' operations historically have been seasonal in nature, reflecting higher revenues and occupancy rates during the second and third quarters. This seasonality causes fluctuations in our quarterly operating revenues, profitability, and cash flow.

COMPETITION

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

The upper-upscale, upscale and mid-scale, limited service segments of the hotel business are highly competitive. Among many other factors, our hotels compete on the basis of location, room rates, quality, service levels, reputation, and reservation systems. There are many competitors in our market segments and new hotels are routinely being constructed. Additions to supply create new competitors, in some cases without corresponding increases in demand for hotel rooms.

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

EMPLOYEES

As of December 31, 2013, we had 49 employees who were principally engaged in managing the affairs of the Company unrelated to property operations. We believe that our relations with our employees are satisfactory.

TAX STATUS

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

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

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

1.such manager is, or is related to a person who is, actively engaged in the trade or business of operating “qualified lodging facilities” for any person unrelated to us and the TRS;

2.such manager does not own, directly or indirectly, more than 35% of our shares;

3.no more than 35% of such manager is owned, directly or indirectly, by one or more persons owning 35% or more of our shares; and

4.we do not, directly or indirectly, derive any income from such manager.

The deductibility of interest paid or accrued by a TRS to us is limited to assure that the TRS is subject to an appropriate level of corporate taxation. A 100% excise tax is imposed on transactions between a TRS and us that are not on an arm’s-length basis.

REGULATION

General

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

Americans with Disabilities Act

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

Environmental Matters

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

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

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

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

INSURANCE

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

FINANCIAL INFORMATION ABOUT SEGMENTS

We are in the business of acquiring equity interests in hotels, and we manage our hotels as individual operating segments that meet the aggregation criteria and are therefore disclosed as one reportable segment. See “Note 1 - Organization and Summary of Significant Accounting Policies” in Item 8 of this Annual Report on Form 10-K for segment financial information.

Item 1A. Risk Factors

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

Risks Related to the Economy and Credit Markets

Difficult economic conditions may continue to adversely affect the hotel industry.

The performance of the hotel industry has historically been linked to key macroeconomic indicators, such as GDP growth, employment, corporate earnings and investment, and travel demand. As these indicators improve, we anticipate that hotel operating fundamentals will improve as well. However, if the U.S. economy should falter and there is an extended period of economic weakness, a recession or depression, our revenues and profitability could be adversely affected.

The failure of U.S. lawmakers to reach an agreement on the national debt ceiling may materially adversely affect our business, financial condition and results of operations.

In the event U.S. lawmakers fail to reach an agreement on the national debt ceiling, the U.S.could default on its obligations, which could negatively impact the trading market for U.S. government securities. This may, in turn, negatively affect our ability to obtain financing for our investments. As a result, it may materially adversely affect our business, financial condition and results of operations.

On August 5, 2011, Standard & Poor's downgraded the U.S. credit rating to AA+ for the first time due to the U.S. Congress' inability to reach an effective agreement on the national debt ceiling and a budget in a timely manner. Because Fannie Mae and Freddie Mac are in the conservatorship of the U.S. Government, the implicit credit rating of agency MBS guaranteed by Freddie Mac, Fannie Mae or Ginnie Mae were also downgraded to AA+. This downgrade increased the uncertainty regarding t credit risk of agency MBS. The current U.S. debt ceiling and budget deficit concerns have increased the possibility of the credit-rating agencies further downgrading the U.S. credit rating. On October 15, 2013, Fitch Ratings Service placed the U.S. credit rating on negative watch, warning that a failure by the U.S. Government to honor interest or principal payments on U.S.

Treasury Securities would impact its decision whether to downgrade the U.S. credit rating. Fitch also stated that the manner and duration of an agreement to raise the debt ceiling and resolve the budget impasse, as well as the perceived risk of such events occurring in the future, would weigh on its ratings.

A further downgrade of the U.S. Government's credit rating could create broader financial turmoil and uncertainty, which woul weigh heavily on the global banking system. Such circumstances could adversely affect our business in many ways, including, but not limited to, adversely impacting our ability to obtain attractive financing for our investments and increasing t he cost of such financing if it is obtained. As a result, these adverse economic and market conditions may also adversely affect our liquidity position, and could increase our risk of a counterparty defaulting on its obligations. If any of these events were to occur, it could materially adversely affect our business, financial condition and results of operations.

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

The performance of the hotel industry has traditionally been closely linked with the general economy. During the recession of 2008 and 2009, overall travel was reduced, which had a significant effect on our results of operations. While operating results have subsequently improved, uncertainty in the strength and direction of the recovery and continued high unemployment have slowed the pace of the overall economic recovery. Therefore, there can be no assurance that any increases in hotel revenues or earnings at our properties will continue for any number of reasons, including, but not limited to, slower than anticipated growth in the economy and changes in travel patterns. A stall in the economic recovery or a resurgent recession would have a material adverse effect on our results of operations. If a property's occupancy or room rates drop to the point where its revenues are insufficient to cover its operating expenses, then we would be required to spend additional funds for that property's operating expenses.

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

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

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

RISKS RELATED TO THE HOTEL INDUSTRY

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

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

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

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

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

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

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

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

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

The hotel industry is highly competitive.

The hotel industry is highly competitive. Our hotels compete with other existing and new hotels in their geographic markets. Many of our competitors have substantially greater marketing and financial resources than we do. Effective marketing by our competitors may reduce our hotel revenue and adversely impact our ability to make distributions to our shareholders.

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

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

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

The hotel industry is seasonal in nature.

The hotel industry is seasonal in nature. Generally, hotel revenues are greater in the second and third quarters than in the first and fourth quarters. Our hotels' operations historically reflect this trend. As a result, our results of operations may vary on a quarterly basis, impairing comparability of operating data and financial performance on a quarter to quarter basis.

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

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

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

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

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

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

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

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

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

The widespread outbreak of infectious or contagious disease in the U.S. could reduce travel and adversely affect the hotel industry generally and our business in particular.

RISKS RELATED TO OUR BUSINESS AND OPERATIONS

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

At December 31, 2013, we had outstanding long-term debt of $819.3 million. We may borrow additional amounts from the same or other lenders in the future. Some of these additional borrowings may be secured by our hotels. Our declaration of trust (as amended and restated, our "Declaration of Trust") does not limit the amount of indebtedness we may incur. We cannot assure you that we will be able to meet our debt service obligations and, to the extent that we cannot, we risk the loss of some or all of our hotels to foreclosure. Our indebtedness contains various financial and non-financial events of default covenants customarily found in financing arrangements. Our mortgages payable typically require that specified debt service coverage ratios be maintained with respect to the financed properties before we can exercise certain rights under the loan agreements relating to such properties. If the specified criteria are not satisfied, the lender may be able to escrow cash flow from the applicable hotels.

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

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

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

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

In order for us to satisfy certain REIT qualification rules, we cannot directly or indirectly operate or manage any of our hotels. Instead, we must engage an independent management company to operate our hotels. As of December 31, 2013, our TRSs and our joint venture partnerships have engaged independent management companies as the property managers for all of our wholly owned hotels leased to our TRSs and the respective hotels for the joint ventures, as required by the REIT qualification rules. The management companies operating the hotels make and implement strategic business decisions with respect to these hotels, such as decisions with respect to the repositioning of a franchise or food and beverage operations and other similar decisions. Decisions made by the management companies operating the hotels may not be in the best interests of a particular hotel or of the Company. Accordingly, we cannot assure you that the management companies will operate our hotels in a manner that is in our best interests. In addition, the financial condition of the management companies could impact their future ability to operate our hotels.

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

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

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

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

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

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

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

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

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

As of December 31, 2013, our consolidated portfolio of hotels in New York City have accounted for approximately 47% of our hotel operating revenues. The operations of our consolidated portfolio of hotels in New York City will have a material impact on our overall results of operations. Concentration risk with respect to our ownership of hotels in the New York City market may lead to increased volatility in our overall results of operations. Our overall results of operations may be adversely affected and our ability to pay distributions to our shareholders could be negatively impacted in the event:

downturns in lodging fundamentals are more severe or prolonged in New York City compared to the United States as a whole;

negative economic conditions are more severe or prolonged in New York City compared to other areas, due to concentration of the financial industry in New York or otherwise;

we adopt an unsuccessful strategy to ramp up and stabilize operations at our newly acquired New York hotels; or

New York City is impacted by other unforeseen events beyond our control, including, among others, terrorist attacks and travel related health concerns including pandemics and epidemics.

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

As of December 31, 2013, our portfolio consisted of 48 wholly-owned limited and full service properties and joint venture investments in six hotels with a total of 8,389 rooms. However, certain larger hotels or hotels in certain locations disproportionately impact our performance. Accordingly, significant adverse changes in the operations of any one of these hotels could have a material adverse effect on our financial performance and on our ability to make expected distributions to our shareholders.

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

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

We depend on key personnel.

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

We engage in hedging transactions to limit our exposure to fluctuations in interest rates, which can limit our gains and increase exposure to losses.

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

Available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought;

The duration of the hedge may not match the duration of the related liability;

The party at risk in the hedging transaction may default on its obligation to pay;

The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and

The value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value.

Hedging transactions may reduce our shareholders’ equity.

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

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

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

RISKS RELATED TO REAL ESTATE INVESTMENT GENERALLY

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

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

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

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

Real estate is subject to property taxes.

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

Environmental matters could adversely affect our results.

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

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

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

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

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

RISKS RELATED TO CONFLICTS OF INTEREST

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

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

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

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

The following officers and trustees own collectively approximately 37% of HHMLP: Hasu P. Shah, Jay H. Shah, Neil H. Shah, David L. Desfor and Kiran P. Patel. Conflicts of interest may arise with respect to the ongoing operation of our hotels including, but not limited to, the enforcement of the contribution and purchase agreements, the Option Agreement and our property management agreements with HHMLP. These officers and trustees also make decisions for our company with respect to property management. Consequently, these officers and trustees may not act solely in the best interests of our shareholders relating to property management by HHMLP.

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

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

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

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

RISKS RELATING TO OUR STRUCTURE

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

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

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

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

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

Our Board of Trustees has the authority to designate and issue preferred shares with liquidation, dividend and other rights that are senior to those of our common shares. As of December 31, 2013, 4,600,000 Series B Preferred Shares and 3,000,000 Series C Preferred Shares were issued and outstanding. Holders of our outstanding preferred shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common shares. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common shares, holders of our preferred shares are entitled to receive a liquidation preference of $25.00 per share plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common shares. In addition, holders of our preferred shares have the right to elect two additional trustees to our Board of Trustees whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

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

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

We may change our distribution policy in the future.

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

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

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

our operating performance and the performance of other similar companies;

actual or anticipated differences in our operating results;

changes in our revenues or earnings estimates or recommendations by securities analysts; publication of research reports about us or our industry by securities analysts;

additions and departures of key personnel;

strategic decisions by us or our competitors, such as acquisitions, divestments, spin-offs, joint ventures, strategic investments or changes in business strategy;

the passage of legislation or other regulatory developments that adversely affect us or our industry;

speculation in the press or investment community; actions by institutional shareholders;

changes in accounting principles;

terrorist acts; and

general market conditions, including factors unrelated to our performance.

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

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

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

Future issuances of our common shares or other securities convertible into or exchangeable or exercisable for our common shares, including, without limitation, operating Common Units, in connection with property, portfolio or business acquisitions and issuances of equity-based awards to participants in our equity incentive plans, could have an adverse effect on the market price of our common shares. Future issuances of these securities also could adversely affect the terms upon which we obtain additional capital through the sale of equity securities. In addition, future sales or issuances of our common shares may be dilutive to existing shareholders.

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

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

amend the Declaration of Trust to increase or decrease the aggregate number of shares of beneficial interest or the number of shares of beneficial interest of any class or series that we have the authority to issue;

cause us to issue additional authorized but unissued common shares or preferred shares; or

classify or reclassify any unissued common or preferred shares and to set the preferences, rights and other terms of such classified or reclassified shares, including the issuance of additional common shares or preferred shares that have preference rights over the common shares with respect to dividends, liquidation, voting and other matters.

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

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

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

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

Under the Maryland General Corporation Law, as amended (MGCL), as applicable to REITs, certain "business combinations" (including certain issuances of equity securities) between a Maryland REIT and any person who beneficially owns ten percent or more of the voting power of the trust's shares, or an affiliate thereof, are prohibited for five years after the most recent date on which such shareholder acquired at least ten percent of the voting power of the trust's shares. Thereafter, any such business combination must be approved by two super-majority shareholder votes unless, among other conditions, the trust's common shareholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested shareholder for its common shares. These provisions could delay, deter or prevent a change of control or other transaction in which holders of our equity securities might receive a premium for their shares above then-current market prices or which such shareholders otherwise might believe to be in their best interests.

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

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

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

Our shareholders have no right or power to take part in our management except through the exercise of voting rights on certain specified matters. The board of trustees is responsible for our management and strategic business direction, and our management is responsible for our day-to-day operations. Certain policies of our board of trustees may not be consistent with the immediate best interests of our shareholders.

RISKS RELATED TO OUR TAX STATUS

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

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

Failure to make required distributions would subject us to tax, which would reduce the cash available for distribution to our shareholders.

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

85% of our REIT ordinary income for that year;

95% of our REIT capital gain net income for that year; and

100% of our undistributed taxable income required to be distributed from prior years.

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

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

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

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

A REIT may own up to 100 percent of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT, including gross operating income from hotel operations pursuant to hotel management contracts. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35 percent of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25 percent of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100 percent excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis.

Our TRSs are subject to applicable federal, foreign, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to us but is not required to be distributed to us. We believe that the aggregate value of the stock and securities of our TRSs is and will continue to be less than 25 percent of the value of our total assets (including our TRS stock and securities). Furthermore, we will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations. In addition, we will scrutinize all of our transactions with our TRSs to ensure that they are entered into on arm's-length terms to avoid incurring the 100 percent excise tax described above. There can be no assurance, however, that we will be able to comply with the 25 percent limitation discussed above or to avoid application of the 100 percent excise tax discussed above.

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

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

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

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

The federal income tax laws governing REITs are complex.

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

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

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

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

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

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

We may make taxable dividends that are payable partly in cash and partly in shares. The IRS has issued private letter rulings to other REITs treating certain distributions that are paid partly in cash and partly in shares as dividends that would satisfy the REIT annual distribution requirement and qualify for the dividends paid deduction for federal income tax purposes. Those rulings may be relied upon only by the taxpayers to whom they were issued, but we could request a similar ruling from the IRS. In addition, the IRS issued a revenue procedure creating a temporary safe harbor that authorized publicly traded REITs to make elective cash/stock dividends, but that temporary safe harbor has expired. Accordingly, it is unclear whether and to what extent we will be able to make taxable dividends payable in cash and shares. Although we have no current intention of paying dividends in our own shares, if in the future we choose to pay dividends in our own shares, our shareholders may be required to pay tax in excess of the cash that they receive. If a U.S. shareholder sells the shares that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our shares at the time of the sale. Furthermore, with respect to certain non-U.S. shareholders, we may be required to withhold U.S. federal income tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in shares. If we pay dividends in our own shares and a significant number of our shareholders determine to sell our shares in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our shares.

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

The tax rate applicable to “qualified dividend income” payable to domestic stockholders taxed at individual rates may be 20% or lower. Dividends payable by REITs, however, generally are not eligible for the reduced rates or qualified dividend income. Although this legislation does not adversely affect the taxation of REITs or dividends payable by REITs, the more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common shares.

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

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

We have, in limited instances from time to time, permitted certain owners to own shares in excess of the Ownership Limitation. The Board of Trustees has waived the Ownership Limitation for such owners after following procedures set out in our Declaration of Trust, under which the owners requesting the waivers provided certain information and our counsel provided certain legal opinions. These waivers established levels of permissible share ownership for the owners requesting the waivers that are higher than the Ownership Limitation. If the owners acquire shares in excess of the higher limits, those shares are subject to the risks described above in the absence of further waivers. The Board of Trustees is not obligated to grant such waivers and has no current intention to do so with respect to any owners who (individually or aggregated as the Declaration of Trust requires) do not currently own shares in excess of the Ownership Limitation.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table sets forth certain information with respect to the 48 hotels we wholly owned as of December 31, 2013, all of which are consolidated on the Company's financial statements.

Market	Name	Location	Year Opened	Number of Rooms
Boston Urban and Metro	Courtyard	Brookline/Boston, MA*	2003	188
	Hawthorn Suites by Wyndham	Franklin, MA	1999	100
	Holiday Inn Express	Cambridge, MA	1997	112
	Residence Inn	Framingham, MA	2000	125
	Residence Inn	Norwood, MA	2006	96
	The Boxer	Boston, MA	2004	80
California - Arizona	Courtyard	San Diego, CA	1999	245
	Courtyard	Los Angeles, CA	2008	260
	Hyatt House	Pleasant Hill, CA	2003	142
	Hyatt House	Pleasanton, CA	1998	128
	Hyatt House	Scottsdale, AZ	1999	164
Miami	Blue Moon	Miami, FL	2013	75
	Courtyard	Miami, FL	2004	259
	Residence Inn	Coconut Grove, FL	2000	140
	Winter Haven	Miami, FL	2013	70
NYC Urban	Candlewood Suites	Times Square, NY	2009	188
	Duane Street	TriBeCa, NY	2008	43
	Hampton Inn	Chelsea/Manhattan, NY	2003	144
	Hampton Inn	Herald Square, Manhattan, NY	2005	136
	Hampton Inn	Seaport, NY	2006	65
	Hampton Inn	Times Square, NY	2009	184
	Hampton Inn	Pearl Street, Manhattan, NY	2012	81
	Hilton Garden Inn	JFK Airport, NY*	2005	192
	Hilton Garden Inn	TriBeCa, NY	2009	151
	Holiday Inn	Wall Street, NY	2010	113
	Holiday Inn Express	Times Square, NY	2009	210
	Holiday Inn Express	Water Street, Manhattan, NY	2010	112

	Holiday Inn Express	Madison Square Garden, Manhattan, NY	2006	228
	Hotel 373	Fifth Ave, NY	2007	70
	Hyatt	Union Square, NY	2013	178
	Nu Hotel	Brooklyn, NY	2008	93
	Sheraton Hotel	JFK Airport, NY*	2008	150
NY-NJ Metro	Holiday Inn Express	Chester, NY	2006	80
	Hyatt House	White Plains, NY	2000	159
	Hyatt House	Bridgewater, NJ**	1998	128

Market	Name	Property Name	Year Opened	Number of Rooms
Philadelphia	Courtyard	Langhorne, PA**	2002	118
	Hampton Inn	Philadelphia, PA	2001	250
	Holiday Inn Express	Oxford Valley, PA**	2004	88
	Holiday Inn Express & Suites	King of Prussia, PA**	2004	155
	Hyatt Place	King of Prussia, PA	2010	129
	Sheraton Hotel	New Castle, DE	2011	192
	The Rittenhouse Hotel	Philadelphia, PA	2004	116
Washington D.C.	Courtyard	Alexandria, VA	2006	203
	Hampton Inn	Washington, DC	2005	228
	Hyatt House	Gaithersburg, MD	1998	140
	Residence Inn	Tysons Corner, VA	1984	96
	Residence Inn	Greenbelt, MD	2002	120
	The Capitol Hill Hotel	Washington, DC	2007	152
			TOTAL ROOMS	6,876

*Our interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreement. These ground lease agreements typically have terms of between 75 and 99 years.

**These four properties are part of a non-core portfolio for which a purchase and sale agreement was entered into by the Company in September 2013, and closed in the first quarter of 2014. The sale of the other 12 properties subject to this purchase and sale agreement closed in December 2013.

The following table sets forth certain information with respect to the six hotels we owned through unconsolidated joint ventures with third parties as of December 31, 2013.

Market	Name	Location	Year Opened	Number of Rooms	HHLP Ownership	HHLP Preferred Return

					in Asset	
Boston	Courtyard	South Boston, MA***	2005	164	50.0%	N/A
	Holiday Inn Express	South Boston, MA***	1998	118	50.0%	N/A
Connecticut	Courtyard	Norwich, CT	1997	144	66.7%	8.5%
	Hilton	Hartford, CT	2005	393	8.8%	8.5%
	Marriott	Mystic, CT	2001	285	66.7%	8.5%
	Marriott	Hartford, CT	2005	409	15.0%	8.5%
		TOTAL ROOMS		1,513		

***The joint ventures interests in these hotels are subject to ground leases which, in most cases, require monthly rental payment as determined by the applicable ground lease agreements. These ground lease agreements typically have terms of between 75 and 99 years.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

MARKET INFORMATION

Our common shares trade on the New York Stock Exchange under the symbol "HT." As of February 25, 2014, the last reported closing price per common share on the New York Stock Exchange was $5.39. The following table sets forth the high and low sales price per common share reported on the New York Stock Exchange as traded and the dividends paid on the common shares for each of the quarters indicated.

Year Ended December 31, 2013	High	Low	Dividend Per Common Share
Fourth Quarter	$ 5.94	$ 5.33	$ 0.06
Third Quarter	$ 6.21	$ 5.18	$ 0.06
Second Quarter	$ 6.24	$ 5.27	$ 0.06
First Quarter	$ 6.30	$ 5.07	$ 0.06

Year Ended December 31, 2012	High	Low	Dividend Per Common Share
Fourth Quarter	$ 5.11	$ 4.19	$ 0.06
Third Quarter	$ 5.71	$ 4.66	$ 0.06
Second Quarter	$ 5.91	$ 4.74	$ 0.06
First Quarter	$ 5.64	$ 4.76	$ 0.06

SHAREHOLDER INFORMATION

At December 31, 2013 we had approximately 118 shareholders of record of our common shares. Common Units (which are redeemable by holders for cash or, at our option, for common shares on a one for one basis, subject to certain limitations) were held by approximately 38 entities and persons, including our company.

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

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

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

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

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

EQUITY COMPENSATION PLAN

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

DISTRIBUTION INFORMATION

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

SHARE PERFORMANCE GRAPH

The following graph compares the yearly change in our cumulative total shareholder return on our common shares for the period beginning December 31, 2008 and ending December 31, 2013, with the yearly changes in the Standard & Poor’s 500 Stock Index (the S&P 500 Index), the Russell 2000 Index, and the SNL Hotel REIT Index (“Hotel REIT Index”) for the same period, assuming a base share price of $100.00 for our common shares, the S&P 500 Index, the Russell 2000 Index and the Hotel REIT Index for comparative purposes. The Hotel REIT Index is comprised of publicly traded REITs which focus on investments in hotel properties. Total shareholder return equals appreciation in stock price plus dividends paid and assumes that all dividends are reinvested. The performance graph is not indicative of future investment performance. We do not make or endorse any predictions as to future share price performance.

	2008	2009	2010	2011	2012	2013
Hersha Hospitality Trust	$ 100.00	$ 104.67	$ 220.00	$ 162.67	$ 166.67	$ 185.67
Russell 2000	100.00	125.22	156.90	148.35	170.06	232.98
Hotel REIT Index	100.00	163.13	225.86	191.77	210.14	257.04

S&P 500	100.00	123.45	139.23	139.23	157.90	204.63

Item 6. Selected Financial Data

The following sets forth selected financial and operating data on a historical consolidated basis. The following data should be read in conjunction with the financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Form 10-K. Where applicable, the operating results of certain real estate assets which have been sold or otherwise qualify as held for disposition are included in discontinued operations for all periods presented.

HERSHA HOSPITALITY TRUST

SELECTED FINANCIAL DATA

(In thousands, except per share data)

	2013	2012	2011	2010	2009
Revenue:					
Hotel Operating Revenues	$ 338,064	$ 299,005	$ 229,156	$ 184,998	$ 128,461
Interest Income From Development Loans	158	1,998	3,427	4,686	7,411
Other Revenues	191	212	330	324	702
Total Revenue	338,413	301,215	232,913	190,008	136,574
Operating Expenses:					
Hotel Operating Expenses	188,431	161,982	121,402	98,930	71,735
Gain on Insurance Settlements	(403)	-	-	-	-
Hotel Ground Rent	985	835	877	941	733
Real Estate and Personal Property Taxes and Property Insurance	24,083	19,341	15,936	13,738	9,313
General and Administrative (including Share Based Payments of $9,746, $9,678, $7,590, $6,649, $2,143)	24,025	23,455	18,488	16,853	7,485
Acquisition and Terminated Transaction Costs	974	1,179	2,734	4,785	331
Loss from Impairment of Assets	-	-	-	-	21,407
Depreciation and Amortization	55,784	48,243	40,562	34,060	26,284
Gain on Acquistions, Net	(12,096)	-	-	-	-
Total Operating Expenses	281,783	255,035	199,999	169,307	137,288
Operating Income (Loss)	56,630	46,180	32,914	20,701	(714)
Interest Income	1,784	1,311	456	168	207
Interest Expense	39,984	37,295	33,447	32,167	32,403
Other Expense	897	740	1,011	462	164
Loss on Debt Extinguishment	545	3,189	102	852	-
Income (Loss) before (Loss) Income from Unconsolidated Joint Venture Investments and Discontinued Operations	16,988	6,267	(1,190)	(12,612)	(33,074)
(Loss) Income from Unconsolidated Joint Ventures	(22)	(232)	210	(1,751)	(2,649)
	(1,813)	-	(1,677)	-	(4,541)

Impairment of Investment in Unconsolidated Joint Venture					
(Loss) Gain from Remeasurement of Investment in Unconsolidated Joint Ventures	-	(1,892)	2,757	4,008	1,868
(Loss) Income from Unconsolidated Joint Venture Investments	(1,835)	(2,124)	1,290	2,257	(5,322)
Income (Loss) Before Income Taxes	15,153	4,143	100	(10,355)	(38,396)
Income Tax Benefit	5,600	3,355	-	-	-
Income (Loss) from Continuing Operations	20,753	7,498	100	(10,355)	(38,396)
Discontinued Operations:					
Gain on Disposition of Hotel Properties	32,121	11,231	991	347	-
Impairment of Assets Held for Sale	(10,314)	-	(30,248)	(2,433)	(17,703)
Income (Loss) from Discontinued Operations	7,388	3,489	2,189	(4,761)	(2,358)
Income (Loss) from Discontinued Operations	29,195	14,720	(27,068)	(6,847)	(20,061)
Net Income (Loss)	49,948	22,218	(26,968)	(17,202)	(58,457)
(Income) Loss Allocated to Noncontrolling Interests	(335)	158	1,734	845	8,596
Issuance Costs of Redeemed Preferred Stock	(2,250)	-	-	-	-
Preferred Distributions	(14,611)	(14,000)	(10,499)	(4,800)	(4,800)
Net Income (Loss) applicable to Common Shareholders	$ 32,752	$ 8,376	$ (35,733)	$ (21,157)	$ (54,661)

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HERSHA HOSPITALITY TRUST

SELECTED FINANCIAL DATA

(In thousands, except per share data)

	2013	2012	2011	2010	2009
Basic Income (Loss) from Continuing Operations applicable to Common Shareholders	$ 0.02	$ (0.03)	$ (0.06)	$ (0.11)	$ (0.99)
Diluted Income (Loss) from Continuing Operations applicable to Common Shareholders (1)	0.02	(0.03)	(0.06)	(0.11)	(0.99)
Dividends declared per Common Share	0.24	0.24	0.23	0.20	0.33
Balance Sheet Data					
Net investment in hotel properties	$ 1,535,835	$ 1,466,713	$ 1,341,536	$ 1,245,851	$ 938,954
Assets Held for Sale	56,583	-	93,829	-	21,073
Noncontrolling Interests Common Units	29,523	15,484	16,862	19,410	27,126
Redeemable Noncontrolling Interest	-	15,321	14,955	19,894	14,733
Noncontrolling Interests Consolidated Joint Ventures	-	-	307	474	267
Noncontrolling Interests Consolidated Variable Interest Entity	(342)	476	-	-	-
Shareholder's equity	837,958	829,828	730,673	683,434	302,197
Total assets	1,748,097	1,707,679	1,630,909	1,457,277	1,111,044
Total debt	773,501	792,708	758,374	694,720	724,551
Liabilities related to Assets Held for Sale	45,835	-	61,758	-	20,892
Other Data					
Net cash provided by operating activities	$ 90,261	$ 71,756	$ 58,668	$ 42,486	$ 21,532
Net cash used in investing activities	$ (125,474)	$ (55,817)	$ (230,758)	$ (310,567)	$ (8,921)
Net cash provided by (used in) financing activities	$ 2,367	$ 28,552	$ 131,062	$ 322,273	$ (16,904)
Weighted average shares outstanding					
Basic	198,390,450	187,415,270	168,753,382	134,370,172	51,027,742
Diluted (1)	201,918,177	187,415,270	168,753,382	134,370,172	51,027,742

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

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

Certain statements appearing in this Item 7 are forward-looking statements within the meaning of the federal securities laws. Our actual results may differ materially. We caution you not to place undue reliance on any such forward-looking statements. See “CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS” for additional information regarding our forward-looking statements.

BACKGROUND

As of December 31, 2013, we owned interests in 54 hotels in major urban gateway markets including New York, Washington DC, Boston, Philadelphia, San Diego, Los Angeles and Miami, including 48 wholly-owned hotels and interests in six hotels owned through unconsolidated joint ventures. Our "Summary of Operating Results" section below contains operating results for 43 consolidated hotel assets and six hotel assets owned through an unconsolidated joint venture. These results exclude the Hampton Inn Pearl Street, New York, NY, which is currently under redevelopment and is expected to open during the first quarter of 2014. The results below also exclude a portfolio of four non-core hotels, for which a purchase and sale agreement has been entered into and the sale of which is expected to close in the first quarter of 2014. As a result, results for these four non-core hotels are included in discontinued operations. We have elected to be taxed as a REIT for federal income tax purposes, beginning with the taxable year ended December 31, 1999. For purposes of the REIT qualification rules, we cannot directly operate any of our hotels. Instead, we must lease our hotels to a third party lessee or to a TRS, provided that the TRS engages an eligible independent contractor to manage the hotels. As of December 31, 2013, we have leased all of our hotels to a wholly-owned TRS, a joint venture owned TRS, or an entity owned by our wholly-owned TRS. Each of these TRS entities will pay qualifying rent, and the TRS entities have entered into management contracts with qualified independent managers, including HHMLP, with respect to our hotels. We intend to lease all newly acquired hotels to a TRS. The TRS structure enables us to participate more directly in the operating performance of our hotels. The TRS directly receives all revenue from, and funds all expenses relating to, hotel operations. The TRS is also subject to income tax on its earnings.

OVERVIEW

In 2013, lodging fundamentals for those markets in which we focus, and for our Company in particular, continued to stabilize following the economic recession that began in 2008 and 2009. As we conclude 2013, we believe the improvements in our equity and debt capitalization and repositioning of our portfolio enables us to capitalize on further improvements in lodging fundamentals. We continue to expect improvements in ADR, RevPAR and operating margins, led by hotels in our core urban markets of New York, Boston, Philadelphia, Los Angeles, San Diego and Miami. We also continue to seek acquisition opportunities in urban centers and central business districts. In addition, we will continue to look for attractive opportunities to dispose of properties in secondary and tertiary markets at favorable prices, potentially redeploying that capital in our focus markets. We do not expect to actively pursue acquisitions made through joint ventures in the near term; however, we may seek to buy out, or sell our joint venture interests to, select existing joint venture partners. We do not expect to actively pursue development loans or land leases in the near term. While property joint ventures and development loans played an important role in our growth in the past, we do not expect them to play the same role in our near-term future.

The repositioning of our portfolio, to focus more on high barrier to entry and major urban markets, continued in 2012 and 2013. We acquired seven hotels, including three in Miami, one in San Diego, one in Philadelphia, one in Boston, and one in New York City. During 2012 and 2013, we closed on the sale of 33 wholly owned and 5 joint venture hotels in secondary and tertiary markets that we determined to be non-core. We believe these efforts to reposition our portfolio have yielded positive results in both 2013 and 2012. As shown in the tables below under “Summary of Operating Results,” in 2013, we grew occupancy by approximately 110 basis points, ADR by 2.6% and RevPAR by 4.0% across our portfolio of consolidated hotels. Likewise, 2012 resulted in increases in occupancy by 200 basis points, ADR by 5.2% and RevPAR by 7.9% across our portfolio of consolidated hotels.

Although we are planning for continued stabilization and improvement in consumer and commercial spending and lodging demand as we enter 2014, the manner in which the economy will continue to grow, if at all, is not predictable, and certain core economic metrics, including unemployment, are not rebounding as quickly as many had hoped. In addition, the availability for hotel-level financing for the acquisition of new hotels is not recovering as quickly as the economy or broader financial markets. As a result, there can be no assurances that we will be able to grow hotel revenues, occupancy, ADR or RevPAR at our properties as we hope. Factors that might contribute to less than anticipated performance include those described under the heading “Item 1A. Risk Factors” and other documents that we may file with the SEC in the future. We will continue to cautiously monitor recovery in lodging demand and rates, our third party hotel managers and our performance generally.

In October of 2012, our hotels across the eastern seaboard experienced the effects of Hurricane Sandy. Most of our hotels in these markets were able to remain open and continued to serve our guests through the duration of the storm.

However, our Holiday Inn Express on Water Street in lower Manhattan experienced flooding and was forced to close. In April 2013, repairs were completed and this hotel was re-opened. Additionally, our hotel re-development project at 32 Pearl Street in lower Manhattan experienced some flooding at the job site and portions of the project suffered damage. The continued strength in business transient and leisure transient customer demand in Manhattan partially offset the losses from the storm.

SUMMARY OF OPERATING RESULTS

The following table outlines operating results for the Company's portfolio of wholly owned hotels and those owned through joint venture interests (excluding hotel assets classified as discontinued operations and the Hampton Inn Pearl Street, which is a hotel undergoing a re-development project) that are consolidated in our financial statements for the three years ended December 31, 2013, 2012 and 2011.

CONSOLIDATED HOTELS:

	Year Ended 2013	Year Ended 2012	2013 vs. 2012 % Variance	Year Ended 2011	2012 vs. 2011 % Variance
Occupancy	79.7%	78.6%	1.1%	76.6%	2.0%
Average Daily Rate (ADR)	$ 179.70	$ 175.23	2.6%	$ 166.58	5.2%
Revenue Per Available Room (RevPAR)	$ 143.30	$ 137.78	4.0%	$ 127.64	7.9%
Room Revenues	$ 309,452	$ 273,410	13.2%	$ 218,314	25.2%
Hotel Operating Revenues	$ 338,064	$ 299,005	13.1%	$ 229,156	30.5%

RevPAR for the year ended December 31, 2013 increased 4.0% for our consolidated hotels when compared to the same period in 2012. This increase represents a continued growth trend in RevPAR, which is primarily due to the improving economic conditions in 2013 and the acquisition of hotel properties consummated in 2013 that are accretive to RevPAR.

The following table outlines operating results for the three years ended December 31, 2013, 2012 and 2011 for hotels we own through an unconsolidated joint venture interest (excluding those hotel assets have been sold to an independent third party during the period presented). These operating results reflect 100% of the operating results of the property including our interest and the interests of our joint venture partners and other noncontrolling interest holders.

UNCONSOLIDATED JOINT VENTURES:

	Year Ended 2013	Year Ended 2012	2013 vs. 2012 % Variance	Year Ended 2011	2012 vs. 2011 % Variance
Occupancy	68.3%	68.6%	-0.3%	68.3%	0.3%
Average Daily Rate (ADR)	$ 154.57	$ 152.51	1.4%	$ 154.44	-1.2%
Revenue Per Available Room (RevPAR)	$ 105.52	$ 104.66	0.8%	$ 105.48	-0.8%
Room Revenues	$ 58,273	$ 62,058	-6.1%	$ 63,896	-2.9%
Total Revenues	$ 80,879	$ 84,364	-4.1%	$ 85,841	-1.7%

For our unconsolidated hotels, RevPAR for the year ended December 31, 2013 was consistent with RevPAR achieved during the year ended December 31, 2012. The relatively stable results in RevPAR during the year of 2013 when compared to the year of 2012 is primarily the result of joint venture assets that are now consolidated for financial reporting purposes and therefore no longer contribute to the operating results of our portfolio of unconsolidated hotels. Properties such as the Holiday Inn Express 29th Street, New York, NY, which, as of June 18, 2012, is no longer included in our unconsolidated joint ventures, tended to have higher occupancy and ADR than the remaining hotels in our unconsolidated joint venture hotel portfolio, resulting in the lower room revenues and total revenues in the above table. When compared to the same period in 2012, the remaining unconsolidated joint venture hotels follow the same growth trend for RevPAR as experienced in our same store consolidated hotels reported below during the year ended December 31, 2013.

We define a same store consolidated hotel as one that is currently consolidated, that we have owned in whole or in part for the entire period being reported and the comparable period in each of the periods being presented, and is deemed fully operational. Based on this definition, for the years ended December 31, 2013 and 2012, there are 34 same store consolidated hotels and 31 same store consolidated hotels for the years ended December 31, 2012 and 2011. The following table outlines operating results for the years ended December 31, 2012, 2011, and 2010, for our same store consolidated hotels:

SAME STORE CONSOLIDATED HOTELS:	(includes 34 hotels in both years)			(includes 31 hotels in both years)		
	Year Ended 2013	Year Ended 2012	2013 vs. 2012 % Variance	Year Ended 2012	Year Ended 2011	2012 vs. 2011 % Variance
Occupancy	80.5%	78.6%	1.9%	80.0%	77.2%	2.8%
Average Daily Rate (ADR)	$ 174.65	$ 172.67	1.1%	$ 175.61	$ 169.58	3.6%
Revenue Per Available Room (RevPAR)	$ 140.55	$ 135.69	3.6%	$ 140.45	$ 130.99	7.2%
Room Revenues	$ 258,047	$ 249,848	3.3%	$ 227,589	$ 211,776	7.5%
Total Revenues	$ 272,780	$ 263,893	3.4%	$ 237,608	$ 220,670	7.7%

RevPAR for our same store consolidated hotels increased 3.6% for the year ended December 31, 2013 when compared to the same period in 2012. As noted above, this increase represents a continued growth trend in RevPAR, which is primarily due to the improving economic conditions of the markets in which we operated during 2013.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2013 TO DECEMBER 31, 2012

(dollars in thousands, except ADR and per share data)

Revenue

Our total revenues for the years ended December 31, 2013 and 2012 consisted of hotel operating revenues, interest income from our development loan program and other revenue. Hotel operating revenues were approximately 99.9% and 99.3% of total revenues for the years ended December 31, 2013 and 2012, respectively. Hotel operating revenues are recorded for wholly owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture interests that were consolidated in our financial statements during the period. Hotel operating revenues increased $39,059, or 13.1%, from $299,005 for the year ended December 31, 2012 to $338,064 for the same period in 2013.

This increase in hotel operating revenues was primarily attributable to the acquisitions consummated in 2013 and 2012 as well as increases in hotel operating revenues for our same store consolidated hotels.

We acquired interests in the following consolidated hotels that contributed the following operating revenues for the year ended December 31, 2013.

Brand	Location	Acquisition Date	Rooms	2013 Hotel Operating Revenues
Hyatt Union Square	New York, NY	April 9, 2013	178	$ 11,272
Courtyard by Marriott	San Diego, CA	May 30, 2013	245	8,350
Residence Inn	Coconut Grove, FL	June 12, 2013	140	2,889
Winter Haven	Miami, FL	December 20, 2013	70	203
Blue Moon	Miami, FL	December 20, 2013	75	175
			708	$ 22,889

Revenues for all hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the year ended December 31, 2013 included revenues for the following hotels that were purchased during the year ended December 31, 2012. Hotels acquired during the year ended December 31, 2012 would have a full year of results included in the year ended December 31, 2013 but not necessarily a full year of results during the same period in 2012. We acquired interests in the following consolidated hotels during the year ended December 31, 2012:

Brand	Location	Acquisition Date	Rooms	2013 Hotel Operating Revenues	2012 Hotel Operating Revenues
The Rittenhouse Hotel	Philadelphia, PA	March 1, 2012	111	$ 16,969	$ 16,809
The Boxer	Boston, MA	May 7, 2012	80	3,799	2,791
Holiday Inn Express	New York, NY	June 18, 2012	228	16,746	10,170
			419	$ 37,515	$ 29,770

In addition, our same store consolidated portfolio experienced improvements in ADR and occupancy during the year ended December 31, 2013 when compared to the same period in 2012. Occupancy in our same store consolidated hotels increased 190 basis points from 78.6% during the year ended December 31, 2012 to 80.5% for the same period in 2013. ADR improved 1.1%, increasing from $172.67 for the year ended December 31, 2012 to $174.65 during the same period in 2013. These improvements were due to improvements in lodging trends in the markets in which our hotels are located.

We had previously invested in hotel development projects by providing mortgage or mezzanine financing to hotel developers and through the acquisition of land that is then leased to hotel developers. Interest income from development loans receivable was $158 for the year ended December 31, 2013 compared to $1,998 for the same period in 2012.

In April 2013, we acquired the Hyatt Union Square and as part of the consideration we agreed to cancel the $13,303 development loan receivable in its entirety. Furthermore, the only remaining development loan, related to the Hyatt 48Lex, was paid off in full during April 2013. As of December 31, 2013, we had no outstanding development loans receivable.

Other revenue consists primarily of fees earned for asset management services provided to properties owned by certain of our unconsolidated joint ventures. These fees are earned as a percentage of the revenues of the unconsolidated joint ventures' hotels. Other revenues were $191 and $212 for the years ended December 31, 2013 and 2012.

Expenses

Total hotel operating expenses increased 16.3% to approximately $188,431 for the year ended December 31, 2013 from $161,982 for the year ended December 31, 2012. Consistent with the increase in hotel operating revenues, hotel operating expenses increased primarily due to the acquisitions consummated since the comparable period in 2012, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization of 15.6%, or $7,541, to $55,784 for the year ended December 31, 2013 from $48,243 for the year ended December 31, 2012. Real estate and personal property tax and property insurance increased $4,742, or 24.5%, for the year ended December 31, 2013 when compared to the same period in 2012 due to our acquisitions along with a general overall increase in tax assessments and tax rates as the economy improves.

General and administrative expense increased by approximately $570 from $23,455 in 2012 to $24,025 in 2013. Increases in other general and administrative expenses were primarily from increases in employee headcount and resulting base compensation and payroll taxes increases. General and administrative expense includes expense related to non-cash share based payments issued as incentive compensation to the Company’s trustees, executives, and employees. Expense related to share based compensation increased $68 during the year ended December 31, 2013 when compared to the same period of 2012. Please refer to “Note 9 – Share Based Payments” of the notes to the consolidated financial statements for more information about our stock based compensation.

Amounts recorded on our consolidated statement of operations for acquisition and terminated transactions costs will fluctuate from period to period based on our acquisition activities. Acquisition costs typically consist of transfer taxes, legal fees and other costs associated with acquiring a hotel property and transactions that were terminated during the year. Acquisition and terminated transaction costs decreased $205 from $1,179 for the year ended December 31, 2012 to $974 for the year ended December 31, 2013. While we acquired more properties during the year ended December 31, 2013 when compared to the same period in 2012, the manner in which acquisition targets are found can and do dictate the costs necessary to complete the acquisition. The costs incurred in 2013 were related to the following hotels: $500 related to our Hyatt Union Square acquisition; $152 related to our Residence Inn Coconut Grove acquisition; $65 related to our Courtyard San Diego acquisition; and $138 for our Winter Haven and Blue Moon Hotel acquisitions. The costs incurred in 2012 were related to following hotels: $963 related to our acquisition of The Rittenhouse Hotel; $61 related to acquisition of The Boxer; $67 related to our acquisition of Holiday Inn Express Manhattan. The remaining costs were primarily related to transactions that were terminated during the year.

Operating Income

Operating income for the year ended December 31, 2013 was $56,630 compared to operating income of $46,180 during the same period in 2012. As noted above, the increase in operating income resulted partially from improved performance of our portfolio and acquisitions that have occurred since the beginning of 2012, but is offset by increases in real estate taxes. In addition, we recognized a net gain of approximately $12,096 on the purchase of the Hyatt Union Square, New York, NY, as the fair value of the assets acquired less any liabilities assumed exceeded the consideration transferred. Excluding the gain on our purchase of the Hyatt Union Square, operating income would have decreased $1,646.

Interest Expense

Interest expense increased $2,689 from $37,295 for the year ended December 31, 2012 to $39,984 for the year ended December 31, 2013. The increase in interest expense is due primarily to an increase in borrowings drawn on our senior unsecured term loan and our line of credit throughout the year. A portion of these borrowings were used to repay various mortgage loans, which lowered our overall consolidated secured mortgage indebtedness outstanding. Additionally, we used proceeds from the line of credit to fund the purchase of our Residence Inn Coconut Grove and Courtyard San Diego acquisitions. Finally, we financed a portion of our Hyatt Union Square acquisition with variable rate mortgage debt and borrowed an additional $10,000 to fund construction of the tower at our Courtyard Miami Beach hotel.

Unconsolidated Joint Venture Investments

The loss from unconsolidated joint ventures consists of our interest in the operating results of the properties we own in joint ventures. The operating results of the unconsolidated joint ventures improved by $210 for the year ended December 31, 2013.

Since the beginning of 2012, we have made efforts to decrease our investment in unconsolidated joint ventures resulting in the sale of 5 of these assets to third parties and the purchase of the remaining 50% interest in our Holiday Inn Express, New York, NY hotel on June 18, 2012. Accordingly, the results of this hotel are now included in our consolidated results and our interest in Metro 29th was remeasured. As a result, during the year ended December 31, 2012, we recorded a loss from the remeasurement of our investments in the unconsolidated joint venture of approximately $224.

On August 13, 2012, the Company purchased the remaining 50% ownership interest in Inn America Hospitality at Ewing, the lessee of the Courtyard by Marriot, Ewing, NJ. As such, we ceased to account for our investment in Inn America Hospitality at Ewing under the equity method of accounting as of August 10, 2012 because it became a consolidated subsidiary. Our interest in Inn America Hospitality at Ewing, which consisted of our investment in Inn America Hospitality at Ewing and a receivable, was remeasured and as a result based on the appraised value of the hotel, we recorded a loss from the remeasurement of our investments in the unconsolidated joint venture of approximately $1,668 during the twelve months ended December 31, 2012.

We recorded an impairment loss of $1,813 related to the Courtyard, Norwich, CT, one of the properties owned by Mystic Partners, LLC. Mystic Partners, LLC is currently in discussions to transfer title to the property to the lender. As we do not anticipate recovering our investment balance in this asset, we have reduced our investment attributed to this property to $0 as of December 31, 2013.

Income Tax Benefit

During the year ended December 31, 2013, the Company recorded an income tax benefit of $5,600 compared an income tax benefit of $3,355 in 2012. Excluded from the income tax benefit for 2013 is $190 of income tax expense related to discontinued operations. Approximately $2,866 of the income tax benefit relates to deferred tax assets that the Company now believes are realizable and variances between the tax return and year end provision for the year ended December 31, 2012. The remaining income tax benefit is a result of the operations of the Company’s taxable REIT subsidiary, 44 New England.

Discontinued Operations

On September 20, 2013, the Company entered into a purchase and sale agreement to sell a portfolio of 16 non-core hotels for an aggregate purchase price of approximately $217,000. During the third quarter of 2013, the Company had recorded an impairment of $6,591 in connection with the anticipated disposition. As of December 31, 2013, the Company had closed on the sale of 12 of the hotels. Accordingly, a gain of $31,559 was recognized during the fourth quarter of 2013 as the proceeds from the sale exceeded the carrying value. The Company expects to close on the remaining four non-core hotels during the first quarter of 2014.

On June 12, 2013, we closed on the sale of our Comfort Inn, Harrisburg, PA. The Company sold the hotel for $3,700 and recorded a gain on sale of $442. Additionally, on September 17, 2013, we closed on the sale of Holiday Inn Express Camp Springs, MD property. The Company sold the hotel for $8,500 and recorded a gain on the sale of $120 and an impairment charge of $3,723 during the second quarter of 2013 as the anticipated net proceeds did not exceed the carrying value.

During the year ended December 31, 2012, the Company closed on the sale of 18 non-core hotel properties, transferred the title of the Comfort Inn North Dartmouth, MA to the lender and closed on the sale of the land parcel and improvements located at 585 Eighth Avenue, New York, NY. As a result of these transactions, we recognized a gain of approximately $11,231 for the year ended December 31, 2012.

The operating results for all 37 of the above described hotel properties and one land parcel have been reclassified to discontinued operations in the statement of operations for the years end December 31, 2013 and 2012, respectively.

We recorded income from discontinued operations of approximately $7,388 during the twelve months ended December 31, 2013, compared to income of approximately $3,489 during the twelve months ended December 31, 2012. See “Note 12 – Discontinued Operations” for more information.

Net Income/Loss

Net income applicable to common shareholders for the year ended December 31, 2013 was $32,752 compared to net income applicable to common shareholders of $8,376 for the same period in 2012. As previously discussed, net income applicable to common shareholders for the year ended December 31, 2013 was positively impacted by a net gain of approximately $12,096 on the purchase of the Hyatt Union Square, New York, NY, as the fair value of the assets acquired less any liabilities assumed exceeded the consideration transferred. Additionally, the $31,559 gain on the sale of 12 of the 16 non-core hotels that closed during the year ended December 31, 2013 positively impacted net income applicable to common shareholders.

Comprehensive Income

Comprehensive income applicable to common shareholders for the year ended December 31, 2013 was $34,162 compared to $7,741 for the same period in 2012. This amount was primarily attributable to net income/loss as more fully described above. Further change in other comprehensive income was primarily the result of the positive shift in the position of the fair value of our derivative instruments. For the year ended December 31, 2013, we recorded other comprehensive income of $1,410 when compared to $635 of other comprehensive loss for the year ended December 31, 2012. The expected rise in the interest rate yield curve in the next few years has favorably shifted many of our interest rate swaps from a liability to an asset position.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2012 TO DECEMBER 31, 2011

(dollars in thousands, except per share data)

Revenue

Our total revenues for the year ended December 31, 2012 consisted of hotel operating revenues, interest income from our development loan program and other revenue. Hotel operating revenues were approximately 99.3% and 98.4% of total revenues for the years ended December 31, 2012 and 2011, respectively. Hotel operating revenues are recorded for wholly owned hotels that are leased to our wholly owned TRS and hotels owned through joint venture interests that were consolidated in our financial statements during the period. Hotel operating revenues increased $69,849, or 30.5%, from $229,156 for the year ended December 31, 2011 to $299,005 for the same period in 2012. This increase in hotel operating revenues was primarily attributable to the acquisitions consummated in 2012 and 2011 as well as increases in hotel operating revenues for our same store consolidated hotels.

We acquired interests in the following consolidated hotels that contributed the following operating revenues for the year ended December 31, 2012.

Brand	Location	Acquisition Date	Rooms	2012 Hotel Operating Revenues
Rittenhouse Hotel	Philadelphia, PA	March 1, 2012	116	$ 16,809
The Boxer	Boston, MA	May 7, 2012	80	2,791
Holiday Inn Express	New York, NY	June 18, 2012	228	10,170
			424	$ 29,770

Revenues for all hotels were recorded from the date of acquisition as hotel operating revenues. Further, hotel operating revenues for the year ended December 31, 2012 included revenues for the following hotels that were purchased during the year ended December 31, 2011. Hotels acquired during the year ended December 31, 2011 would have a full year of results included in the year ended December 31, 2012 but not necessarily a full year of results during the same period in 2011. We acquired interests in the following consolidated hotels during the year ended December 31, 2011:

Brand	Location	Acquisition Date	Rooms	2012 Hotel Operating Revenues	2011 Hotel Operating Revenues
Holiday Inn Express	Water Street, NY	March 25, 2011	112	$ 5,847	$ 5,580
Capitol Hill Hotel	Washington, DC	April 15, 2011	152	7,570	5,319
Courtyard by Marriott	Westside, Los Angeles, CA	May 19, 2011	260	11,871	6,760
Courtyard by Marriott	Miami, FL	November 16, 2011	263	15,952	1,694
Sheraton	New Castle, DE	December 28, 2010	192	6,844	68
			979	$ 48,084	$ 19,421

In addition, our same store consolidated portfolio experienced improvements in ADR and occupancy during the year ended December 31, 2012 when compared to the same period in 2011. Occupancy in our same store consolidated hotels increased 280 basis points from approximately 77.2% during the year ended December 31, 2011 to approximately 80.0% for the same period in 2012. ADR improved 3.6%, increasing from $169.58 for the year ended December 31, 2011 to $175.61 during the same period in 2012. These improvements were due to improvements in lodging trends in the markets in which our hotels are located.

We had previously invested in hotel development projects by providing mortgage or mezzanine financing to hotel developers and through the acquisition of land that is then leased to hotel developers. Interest income from development loans receivable was $1,998 for the year ended December 31, 2012 compared to $3,427 for the same period in 2011. As of December 31, 2012, the only loans that remained outstanding related to the Hyatt Union Square and Hyatt 48Lex development projects.

Other revenue consists primarily of fees earned for asset management services provided to properties owned by certain of our unconsolidated joint ventures. These fees are earned as a percentage of the revenues of the unconsolidated joint ventures' hotels. Other revenues were $212 and $330 for the years ended December 31, 2012 and 2011.

Expenses

Total hotel operating expenses increased 33.4% to approximately $161,982 for the year ended December 31, 2012 from $121,402 for the year ended December 31, 2011. Consistent with the increase in hotel operating revenues, increases in hotel operating expenses were primarily due to the acquisitions consummated since the comparable period in 2011, as mentioned above. The acquisitions also resulted in an increase in depreciation and amortization of 18.9%, or $7,681, to $48,243 for the year ended December 31, 2012 from $40,562 for the year ended December 31, 2011. Real estate and personal property tax and property insurance increased $3,405, or 21.4%, for the year ended December 31, 2012 when compared to the same period in 2011 due to our acquisitions.

General and administrative expense increased by approximately $4,967 from $18,488 in 2011 to $23,455 in 2012. General and administrative expense includes expense related to non-cash share based payments issued as incentive compensation to the Company's trustees, executives, and employees. Expense related to share based compensation increased $2,088 during the year ended December 31, 2012 when compared to the same period of 2011. This increase in share based compensation expense is due primarily from the vesting of shares and restricted share issuances. The Compensation Committee adopted the 2012 Annual LTIP which included $1,785 of stock based compensation expense for the year ended December 31, 2012. In addition, on April 18, 2012, the Compensation Committee entered into amended and restated employment agreements with the Company's executive officers, adding $822 of stock based compensation for the year ended December 31, 2012. Please refer to "Note 9 – Share Based Payments" of the notes to the consolidated financial statements for more information about our stock based compensation. Increases in other general and administrative expenses resulted primarily from increases in employee headcount and base or incentive compensation.

Amounts recorded on our consolidated statement of operations for acquisition and terminated costs will fluctuate from period to period based on our acquisition activities. Acquisition costs typically consist of transfer taxes, legal fees and other costs associated with acquiring a hotel property and transactions that were terminated during the year. Acquisition and terminated transaction costs decreased $1,555 from $2,734 for the year ended December 31, 2011 to $1,179 for the year ended December 31, 2012 due to fewer acquisitions consummated during the year ended December 31, 2012. The costs incurred in 2012 were related to the following hotels: $963 related to our acquisition of The Rittenhouse Hotel, Philadelphia, PA; $61 related to acquisition of The Boxer, Boston, MA; $67 related to our acquisition of Holiday Inn Express Manhattan, NY. The costs incurred in 2011 were related to following hotels: Holiday Inn Express, Water Street, NY; Capitol Hill Hotel Washington, DC; Courtyard Westside LA, CA; Courtyard Miami, FL. The remaining costs primarily related to transactions that were terminated during the year.