

Summit Hotel OP, LP
Form 10-K
February 28, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

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: 001-35074 (Summit Hotel Properties, Inc.)

Commission File Number: 001-54273 (Summit Hotel OP, LP)

SUMMIT HOTEL PROPERTIES, INC.
SUMMIT HOTEL OP, LP
(Exact name of registrant as specified in its charter)

Maryland (Summit Hotel Properties, Inc.)
Delaware (Summit Hotel OP, LP)
(State or other jurisdiction
of incorporation or organization)

27-2962512 (Summit Hotel Properties, Inc.)
20-0617340 (Summit Hotel OP, LP)
(I.R.S. Employer Identification No.)

2701 South Minnesota Avenue, Suite 6
Sioux Falls, SD 57105
(Address of principal executive offices, including zip code)

(605) 361-9566
(Registrant's telephone number, including area code)

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

Title of each class	Summit Hotel Properties, Inc.	Name of each exchange on which
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Common Stock, \$0.01 par value per share		registered New York Stock Exchange
9.25% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share	Summit Hotel OP, LP	New York Stock Exchange
Title of each class		Name of each exchange on which registered
None		Not applicable

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

Summit Hotel Properties, Inc.: None
Summit Hotel OP, LP: Units of partnership interest designated as "Common Units"

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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.
Summit Hotel Properties, Inc. Yes No Summit Hotel OP, LP 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.
Summit Hotel Properties, Inc. Yes No Summit Hotel OP, LP Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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).
Summit Hotel Properties, Inc. Yes No Summit Hotel OP, LP Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of 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.
Summit Hotel Properties, Inc. Summit Hotel OP, LP

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

Summit Hotel Properties, Inc.	Accelerated filer <input type="checkbox"/>
Large accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/>	

Summit Hotel OP, LP	Accelerated filer <input type="checkbox"/>
Large accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/>	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Summit Hotel Properties, Inc. Yes No Summit Hotel OP, LP Yes No

The aggregate market value of the 15,406,309 common shares of Summit Hotel Properties, Inc. held by non-affiliates was \$170,086,093 based on the closing sale price on the New York Stock Exchange for such common stock as of June 30, 2011.

There is no trading market for the securities of Summit Hotel OP, LP and thus an aggregate market value is not calculable.

As of February 27, 2012, the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was 27,278,000 and the number of outstanding Common Units of Summit Hotel OP, LP was 37,378,000, including 27,278,000 Common Units held by Summit Hotel Properties, Inc. and the general partner of Summit Hotel OP, LP.

DOCUMENTS INCORPORATED BY REFERENCE

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Portions of the registrant's definitive proxy statement for its 2012 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year pursuant to Regulation 14A, are incorporated herein by reference into Part III, Items 10, 11, 12, 13 and 14.

EXPLANATORY NOTE

This report combines the Annual Reports on Form 10-K for the year ended December 31, 2011 of Summit Hotel Properties, Inc., a Maryland corporation, and Summit Hotel OP, LP, a Delaware limited partnership.

Unless stated otherwise or the context otherwise requires, references in this report to:

“Summit REIT” mean Summit Hotel Properties, Inc., a Maryland corporation;

“Summit OP” or “our operating partnership” mean Summit Hotel OP, LP, a Delaware limited partnership, our operating partnership, and its consolidated subsidiaries; and

“we,” “our,” “us,” “our company” or “the company” mean Summit REIT, Summit OP and their consolidated subsidiaries taken together as one company. When this report discusses or refers to activities occurring prior to February 14, 2011, the date on which our operations commenced, these references refer to Summit Hotel Properties, LLC, our predecessor.

Summit REIT is the sole member of Summit Hotel GP, LLC, a Delaware limited liability company, which is the sole general partner (the “General Partner”) of Summit OP. Effective as of February 14, 2011, our predecessor merged with and into Summit OP, with the former members of our predecessor exchanging their membership interests in our predecessor for common units of partnership interest of Summit OP (“Common Units”) and Summit OP succeeding to the business and assets of our predecessor. Also on February 14, 2011, Summit REIT completed its initial public offering (“IPO”) and a concurrent private placement of its common stock and contributed the net proceeds of the IPO and concurrent private placement to Summit OP in exchange for Common Units. On October 28, 2011, Summit REIT completed a follow-on public offering of 2,000,000 shares of its 9.25% Series A cumulative redeemable preferred stock (“Series A Preferred Stock”). As of December 31, 2011, Summit REIT owned approximately 73% of the issued and outstanding Common Units, including the sole general partnership interest held by the General Partner. As of December 31, 2011, Summit REIT owned all of the issued and outstanding 9.25% Series A Cumulative Redeemable Preferred Units of Summit OP (“Series A Preferred Units”). As the sole member of the General Partner, Summit REIT has exclusive control of Summit OP’s day-to-day management. The remaining Common Units in Summit OP are owned by third parties, including the former members of our predecessor.

We believe combining the Annual Reports on Form 10-K of Summit REIT and Summit OP into this single report provides the following benefits:

it enhances investors’ understanding of Summit REIT and Summit OP by enabling investors to view the business as a whole in the same manner as management views and operates the business;

it eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both Summit REIT and Summit OP; and

it creates time and cost efficiencies for both companies through the preparation of one combined report instead of two separate reports.

We believe it is important to understand the few differences between Summit REIT and Summit OP in the context of how Summit REIT and Summit OP operate as a consolidated company. Summit REIT intends to elect to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its short taxable year ended December 31, 2011 upon filing its federal income tax return for that year.

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As of December 31, 2011, Summit REIT's only material assets were its ownership of Common Units and Series A Preferred Units of Summit OP and its ownership of the membership interests in the General Partner. As a result, Summit REIT does not conduct business itself, other than controlling, through the General Partner, Summit OP, raising capital through issuances of equity securities from time to time and guaranteeing certain debt of Summit OP and its subsidiaries. Summit OP and its subsidiaries hold all the operating assets of the consolidated company. Except for net proceeds from securities issuances by Summit REIT, which are contributed to Summit OP in exchange for partnership units of Summit OP, Summit OP and its subsidiaries generate capital from the operation of our business and through borrowings and the issuance of partnership units of Summit OP.

Stockholders' equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of Summit REIT and those of Summit OP. As of December 31, 2011, Summit OP's capital interests include Common Units, representing general and limited partnership interests, and Series A Preferred Units, representing limited partnership interests. The Common Units owned by limited partners other than Summit REIT and its subsidiaries are accounted for in partners' capital in Summit OP's consolidated financial statements and (within stockholders' equity) as noncontrolling interests in Summit REIT's consolidated financial statements.

In order to highlight the differences between Summit REIT and Summit OP, there are sections in this report that separately discuss Summit REIT and Summit OP, including separate financial statements and notes thereto and separate Exhibit 31 and Exhibit 32 certifications. In the sections that combine disclosure for Summit REIT and Summit OP (i.e., where the disclosure refers to the consolidated company), this report refers to actions or holdings as our actions or holdings and, unless otherwise indicated, means the actions or holdings of Summit REIT and Summit OP and their respective subsidiaries, as one consolidated company.

As the sole member of the General Partner, Summit REIT consolidates Summit OP for financial reporting purposes, and Summit REIT does not have assets other than its investment in the General Partner and Summit OP. Therefore, while stockholders' equity and partners' capital differ as discussed above, the assets and liabilities of Summit REIT and Summit OP are the same on their respective financial statements.

Finally, we refer to a number of other entities in this report as follows. Unless the context otherwise requires or indicates, references to

“the LLC” refer to Summit Hotel Properties, LLC and references to “our predecessor” refer to the LLC and its consolidated subsidiaries, including Summit Group of Scottsdale, Arizona, LLC (“Summit of Scottsdale”);

“our TRSs” refer to Summit Hotel TRS, Inc., a Delaware corporation, Summit Hotel TRS II, Inc., a Delaware corporation, and any other taxable REIT subsidiaries (“TRSs”) that we may form in the future;

“our TRS lessees” refer to the wholly owned subsidiaries of our TRSs that lease our hotels from our operating partnership or subsidiaries of our operating partnership.

“The Summit Group” refer to The Summit Group, Inc., our predecessor's hotel management company, Company Manager and Class C Member, which is wholly owned by our Executive Chairman, Kerry W. Boekelheide.

ANNUAL REPORT ON FORM 10-K
FISCAL YEAR ENDED DECEMBER 31, 2011
SUMMIT HOTEL PROPERTIES, INC.
SUMMIT HOTEL OP, LP

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

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

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;

national, regional and local economic conditions;

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

declines in occupancy, average daily rate and revenue per available room and other hotel operating metrics;

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

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

the degree and nature of our competition;

increased interest rates and operating costs;

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 REIT under the Internal Revenue Code of 1986, as amended, or the Code;

changes in our business or investment strategy;

availability, terms and deployment of capital;

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

environmental uncertainties and risks related to natural disasters;
changes in real estate and zoning laws and increases in real property tax rates; and
the other factors discussed under the heading “Risk Factors” in this report.

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

PART I

Item 1. Business.

Overview

We are a self-managed hotel investment company that was organized in June 2010 to continue and expand the existing hotel investment business of our predecessor, Summit Hotel Properties, LLC, a leading U.S. hotel owner. We focus on acquiring and owning premium-branded select-service hotels in the upper midscale and upscale segments of the U.S. lodging industry, as these segments are currently defined by Smith Travel Research (“STR”). We completed our IPO, a concurrent private placement of our common stock and our formation transactions on February 14, 2011, netting approximately \$240.8 million from the IPO and concurrent private placement, after underwriting discounts and the payment by us of offering-related costs.

As of December 31, 2011, our hotel portfolio consisted of 70 hotels with a total of 7,095 guestrooms located in 19 states. Based on the total number of rooms, 49.3% of our portfolio is positioned in the top 50 metropolitan statistical areas (“MSAs”) and 72.2% is located within the top 100 MSAs as of December 31, 2011.

At December 31, 2011, the majority of our hotels operate under premium franchise brands owned by Marriott International, Inc. (“Marriott”) (Courtyard by Marriott®, Residence Inn by Marriott®, SpringHill Suites by Marriott®, Fairfield Inn by Marriott®, Fairfield Inn and Suites by Marriott®, and TownePlace Suites by Marriott®), Hilton Worldwide (“Hilton”) (DoubleTree by Hilton®, Hampton Inn®, Hampton Inn & Suites®, Homewood Suites® and Hilton Garden Inn®), Intercontinental Hotel Group (“IHG”) (Holiday Inn®, Holiday Inn Express®, Holiday Inn Express and Suites® and Staybridge Suites®) and an affiliate of Hyatt Hotels Corporation (“Hyatt”) (Hyatt Place®). Our franchise mix, by total number of rooms, consists of Marriott (2,953 rooms, or 41.6%), Hilton (1,671 rooms, or 23.6%), IHG (1,088 rooms, or 15.3%), Hyatt (556 rooms, or 7.8%) and others (827 rooms, or 11.7%). Smith Travel Research classifies 28 of our hotels within the “upscale” segment, 34 of our hotels within the “upper midscale” segment, and eight of our hotels in the “midscale” segment.

Our corporate offices are located at 2701 South Minnesota Avenue, Suite 6, Sioux Falls, South Dakota 57105. Our telephone number is (605) 361-9566. Our website is www.shpreit.com. The information contained on, or accessible through, our website is not incorporated by reference into this report and should not be considered a part of this report.

Development of Business

Summit REIT was formed June 30, 2010 as a Maryland corporation. On February 14, 2011, we closed our IPO and a concurrent private placement and sold a total of 27,274,000 shares of common stock.

We conduct substantially all of our business through our operating partnership, which was formed on June 30, 2010 as a Delaware limited partnership. Effective February 14, 2011, our predecessor merged with and into our operating partnership (the “Merger”) with our operating partnership as the surviving entity and succeeding to the business and ownership of the 65 hotels owned by our predecessor. At the effective time of the Merger, the outstanding membership interests in our predecessor were converted into, and cancelled in exchange for, Common Units and the members of our predecessor were admitted as limited partners of our operating partnership. Also effective February 14, 2011, The Summit Group contributed its Class B membership interest in Summit of Scottsdale, which owns two hotels in Scottsdale, Arizona, to our operating partnership and an unaffiliated third-party investor contributed its Class C membership interest in Summit of Scottsdale to our operating partnership. We refer to these transactions as the “formation transactions.”

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We intend to elect to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ended December 31, 2011 upon filing our federal income tax return for that year. To qualify as a REIT, we cannot operate or manage our hotels. Accordingly, we lease all but one of our hotels to our TRS lessees. The remaining hotel is owned by a wholly owned subsidiary of one of our TRSs. All of our hotels are operated pursuant to hotel management agreements with third party hotel management companies.

As of December 31, 2011, our TRS lessees have engaged Interstate Management Company (“Interstate”) and its affiliate to operate and manage 69 of our 70 hotels pursuant to a hotel management agreement, and have engaged one other third-party hotel management company to operate and manage one of our hotels. We may engage other third-party hotel management companies to operate and manage other hotels in the future.

Business Strategy

Our strategy focuses on maximizing the cash flow of our portfolio through focused asset management, targeted capital investment and opportunistic acquisitions. Our primary objective is to enhance stockholder value over time by generating strong risk-adjusted returns for our stockholders. The key elements of our strategy that we believe will allow us to create long-term value are as follows:

Focus on Premium-Branded Limited-Service and Select-Service Hotels. We focus on hotels in the upper midscale and upscale segments of the lodging industry. We believe that our focus on these segments provides us the opportunity to achieve strong risk-adjusted returns across multiple lodging cycles for several reasons, including:

RevPAR Growth. We believe our hotels will continue to experience meaningful revenue growth to the extent lodging industry fundamentals recover from the economic recession which caused industry-wide RevPAR to suffer a combined 18.4% decline in 2008 and 2009, according to Smith Travel Research. Industry conditions improved during 2011. PricewaterhouseCoopers, LLP projects RevPAR growth increases in 2012 for upscale hotels, upper midscale hotels and midscale hotels of 7.4%, 5.8% and 4.5%, respectively.

Stable Cash Flow Potential. Our hotels can be operated with fewer employees than full-service hotels that offer more expansive food and beverage options, which we believe enables us to generate consistent cash flows with less volatility resulting from reductions in RevPAR and less dependence on group travel.

Broad Customer Base. Our target brands deliver consistently high-quality hotel accommodations with value-oriented pricing that we believe appeals to a wide range of customers, including both business and leisure travelers. We believe that our hotels are particularly popular with frequent business travelers who seek to stay in hotels operating under Marriott, Hilton, Hyatt or IHG brands, which offer strong loyalty rewards program points that can be redeemed for family travel.

Enhanced Diversification. Premium-branded upscale and upper midscale assets generally cost significantly less, on a per-key basis, than hotels in the upper upscale and luxury segments of the industry. As a result, we can diversify our investment capital into ownership of a larger number of hotels than we could in more expensive segments.

Capitalize on Investments in Our Hotels. We strongly believe in investing in our properties to help them be competitive in their respective markets. Since our IPO, we have invested \$28.9 million in capital improvements to the hotels in our portfolio, including the 65 hotels in our portfolio at the time of our IPO and the five hotels acquired during 2011. We believe these investments produce attractive returns, thus, we will continue to rebrand, upgrade and renovate our hotels.

Acquire Hotels in Attractive Transaction Landscape. We believe that the significant decline in lodging fundamentals from 2008 through early 2010 and the resultant declines in cash flows has created a difficult environment for hotel owners lacking ready access to financing or suffering from reduced cash flows. As a result, we believe that the significant number of hotel properties that experienced substantial declines in operating cash flow, coupled with continued tight credit markets, near-term debt maturities and, in some instances, covenant defaults relating to outstanding indebtedness, will continue to present attractive investment opportunities to acquire hotel properties at

prices below replacement cost and with substantial appreciation potential. We intend to continue to grow through acquisitions of existing hotels using a disciplined approach while maintaining a prudent capital structure. We target upper midscale and upscale hotels that meet one or more of the following acquisition criteria:

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have potential for strong risk-adjusted returns located in the top 50 MSAs, with a secondary focus on the next 100 markets;

operate under leading franchise brands, which may include but are not limited to brands owned by Marriott, Hilton, IHG and Hyatt;

are located in close proximity to multiple demand generators, including businesses and corporate headquarters, retail centers, airports, medical facilities, tourist attractions and convention centers, with a diverse source of potential guests, including corporate, government and leisure travelers;

are located in markets exhibiting barriers to entry due to strong franchise areas of protection or other factors;

can be acquired at a discount to replacement cost; and

provide an opportunity to add value through operating efficiencies, repositioning, renovating or rebranding.

Selectively Develop Hotels. We believe there will be attractive opportunities to partner on a selective basis with experienced hotel developers to acquire upon completion newly constructed hotels that meet our investment criteria.

Strategic Hotel Sales. A primary part of our strategy is to acquire and own hotels. However, consistent with our strategy of maximizing the cash flow of our portfolio and our return on invested capital, we periodically review our hotels to determine if any significant changes to area markets or our hotels have occurred or are anticipated to occur that would warrant the sale of a particular hotel.

Our Financing Strategy

We maintain a prudent capital structure. While the ratio will vary from time to time, we generally intend to limit our ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (“EBITDA”) to no more than six to one. For purposes of calculating this ratio we exclude preferred stock from indebtedness. During 2011 we financed our long-term growth with common and preferred equity issuances and debt financing having staggered maturities, and intend to continue to do so in the future. Our debt includes, and may include in the future, mortgage debt secured by hotels and unsecured debt.

When purchasing hotel properties, we may issue Common Units as full or partial consideration to sellers who may desire to take advantage of tax deferral on the sale of a hotel or participate in the potential appreciation in value of our common stock.

Competition

We face competition for investments in hotel properties from institutional pension funds, private equity investors, REITs, hotel companies and others who are engaged in hotel acquisitions and investments. Some of these entities have substantially greater financial and operational resources than we have. This competition may increase the bargaining power of property owners seeking to sell, reduce the number of suitable investment opportunities available to us and increase the cost of acquiring our targeted hotel properties.

The lodging industry is highly competitive. Our hotels compete with other hotels for guests in their respective markets based on a number of factors, including location, convenience, brand affiliation, room rates, range of services and guest amenities or accommodations offered and quality 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.

Competition could adversely affect our occupancy rates (“occupancy”), our average daily rates (“ADR”) and our revenue per available room (“RevPAR”), and may require us to provide additional amenities or make capital improvements that we otherwise would not have to make, which may reduce our profitability.

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