

Summit Hotel Properties, Inc.  
Form 10-K  
February 21, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2017

OR

o 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.  
(Exact name of registrant as specified in its charter)

Maryland 27-2962512  
(State or other jurisdiction (I.R.S. Employer Identification No.)  
of incorporation or organization)

13215 Bee Cave Parkway, Suite B-300  
Austin, TX 78738  
(Address of principal executive offices, including zip code)

(512) 538-2300  
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange
7.125% Series C Cumulative Redeemable Preferred Stock, par value \$0.01 per share	New York Stock Exchange
6.45% Series D Cumulative Redeemable Preferred Stock, par value \$0.01 per share	New York Stock Exchange
6.25% Series E Cumulative Redeemable Preferred Stock, par value \$0.01 per share	New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act:  
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  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  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.  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).  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.  Yes  No

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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.

Large accelerated filer  Accelerated filer    
Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)  Emerging growth company   
If an emerging growth company, indicate by check mark if the registrant has  
elected not to use the extended transition period for complying with any new   
or revised financial accounting standards provided pursuant to Section 13(a)   
of the Exchange Act.

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

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates of the registrant's as of June 30, 2017 was \$1,913,063,885 based on the closing sale price of the registrant's common stock on the New York Stock Exchange as of June 30, 2017.

As of February 15, 2018 the number of outstanding shares of common stock of Summit Hotel Properties, Inc. was 104,326,620.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement on Schedule 14A for its 2018 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.

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ANNUAL REPORT ON FORM 10-K  
 FISCAL YEAR ENDED DECEMBER 31, 2017  
 SUMMIT HOTEL PROPERTIES, INC.

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## CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words “may,” “could,” “expect,” “intend,” “plan,” “seek,” “anticipate,” “believe,” “estimate,” “predict,” “forecast,” “project,” “continue,” “likely,” “will,” “would” or similar expressions. Forward-looking statements in this report include, among others, statements about our business strategy, including acquisition and development strategies, industry trends, estimated revenues and expenses, 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 existing indebtedness and potential inability to refinance or extend the maturities of our existing indebtedness as well as the risk of default by borrowers to which we lend or provide seller financing;
- global, national, regional and local economic and geopolitical conditions;
- levels of spending for business and leisure travel, as well as consumer confidence;
- supply and demand factors in our markets or sub-markets;
- adverse changes in, or declining rates of growth with respect to, occupancy, average daily rate (“ADR”) and revenue per available room (“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, third-party property managers and franchisors;
- the degree and nature of our competition;
- increased interest rates;
- increased operating costs;
- increased renovation costs, which may cause actual renovation costs to exceed our current estimates;
- changes in zoning laws and increases in real property taxes;
- risks associated with hotel acquisitions, including the ability to ramp up and stabilize newly acquired hotels with limited or no operating history or that require substantial amounts of capital improvements for us to earn stabilized economic returns consistent with our expectations at the time of acquisition, and risks associated with dispositions of hotel properties, including our ability to successfully complete the sale of hotel properties under contract to be sold, including the risk that the purchaser may not have access to the capital needed to complete the purchase;
- the nature of our structure and transactions such that our federal and state taxes are complex and there is risk of successful challenges to our tax positions by the Internal Revenue Service (“IRS”) or other federal and state taxing authorities;
- the recognition of taxable gains from the sale of hotel properties as a result of the inability to complete certain like-kind exchanges in accordance with Section 1031 of the Internal Revenue Code of 1986, as amended (the “IRC”);
- availability of and our ability to retain qualified personnel;
- our failure to maintain our qualification as a real estate investment trust (“REIT”) under the IRC;
- 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 common stock;
- environmental uncertainties and risks related to natural disasters;

our ability to recover fully under our existing insurance policies for insurable losses and our ability to maintain adequate or full replacement cost "all-risk" property insurance policies on our properties on commercially reasonable terms;

the effect of a data breach or significant disruption of hotel operator information technology networks, including as a result of cyber attacks, beyond insurance coverages or indemnities from service providers;

current and future changes to the IRC; 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.

Unless the context otherwise requires, all references to “we”, “us,” “our,” or the “Company” refer to Summit Hotel Properties, Inc. and its consolidated subsidiaries.

#### Overview

Summit Hotel Properties, Inc. is a self-managed hotel investment company that was organized in June 2010 and completed its initial public offering (“IPO”) in February 2011. We focus on owning primarily premium-branded, select-service hotels. At December 31, 2017, our portfolio consisted of 83 hotels with a total of 12,242 guestrooms located in 26 states. Except for seven hotels, six of which are subject to ground leases and one of which is subject to a PILOT (payment in lieu of taxes) lease, we own our hotels in fee simple.

As of December 31, 2017, 89.4% of our guestrooms were located in the top 50 metropolitan statistical areas (“MSAs”), 95.9% were located within the top 100 MSAs and 99.5% of our hotel guestrooms operate under premium franchise brands owned by Marriott® International, Inc. (“Marriott”), Hilton® Worldwide (“Hilton”), Intercontinental® Hotel Group (“IHG”), and Hyatt® Hotels Corporation (“Hyatt”). Our hotels are typically located in markets with multiple demand generators such as corporate offices and headquarters, retail centers, airports, state capitols, convention centers, and leisure attractions.

Substantially all of our assets are held by, and all of our operations are conducted through, our operating partnership, Summit Hotel OP, LP (the “Operating Partnership”). Through a wholly-owned subsidiary, we are the sole general partner of the Operating Partnership. At December 31, 2017, we owned, directly and indirectly, approximately 99.7% of the Operating Partnership’s issued and outstanding common units of limited partnership interest (“Common Units”), and all of the Operating Partnership’s issued and outstanding Series C, Series D, and Series E preferred units of limited partnership interest (“Preferred Units”). Pursuant to the Operating Partnership’s partnership agreement, we have full, exclusive and complete responsibility and discretion in the management and control of the Operating Partnership, including the ability to cause the Operating Partnership to enter into certain major transactions including acquisitions, dispositions and refinancings, to make distributions to partners and to cause changes in the Operating Partnership’s business activities.

We have elected to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ended December 31, 2011. To qualify as a REIT, we cannot operate or manage our hotels. Accordingly, all of our hotels are leased to wholly-owned subsidiaries (our “TRS lessees”) of Summit Hotel TRS, Inc., our taxable REIT subsidiary. All of our hotels are operated pursuant to hotel management agreements between our TRS lessees and professional third-party hotel management companies that are not affiliated with us. We have one reportable segment as defined by generally accepted accounting principles (“GAAP”). See Item 8. – “Financial Statements and Supplementary Data – Note 2 – Basis of Presentation and Significant Accounting Policies.”

Our corporate offices are located at 13215 Bee Cave Parkway, Suite B-300, Austin, TX 78738. Our telephone number is (512) 538-2300. Our website is [www.shpreit.com](http://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.

#### Business Strategy

Our strategy includes focused asset management, targeted capital investment and strategic transactions, including increasing the value of the Company through transformation of our portfolio, or capital recycling, by selling assets with lower operating margins and RevPAR growth opportunities and purchasing assets with higher operating margins



and RevPAR growth opportunities. Our primary objective is to enhance stockholder value over time by generating strong, risk-adjusted returns. The key elements of our strategy that we believe will allow us to create long-term value include the following:

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Focus on Premium-Branded Hotels. We primarily focus on hotels in the Upscale segment of the lodging industry, as defined by Smith Travel Research ("STR"). We believe that our focus on this segment provides us the opportunity to achieve strong, risk-adjusted returns across multiple lodging cycles for several reasons, including:

**RevPAR Growth.** We believe that our hotels will continue to experience long-term demand growth based on the characteristics of our portfolio and current industry fundamentals and trends in the Upscale segment. We expect to achieve RevPAR growth in markets where demand growth exceeds supply growth as anticipated by PricewaterhouseCoopers LLP's forecast for 2018.

**Stable Cash Flow Potential.** Our hotels can generally be operated with fewer employees than full-service hotels that offer more amenities including more expansive food and beverage options, which we believe enables us to generate higher operating margins and consistent cash flows with less volatility.

**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 travel.

**Enhanced Diversification.** Premium-branded Upscale hotels generally cost less to acquire or build, on an absolute and 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 enable them to be performance leaders in their respective markets. Over the past three years, we have invested \$122.8 million in capital improvements to our hotels. We believe these investments produce attractive returns, and we intend to continue to use available capital to upgrade our hotels with strategic renovations and brand-required hotel property improvement plans.

**External Growth Through Acquisitions.** We intend to continue to grow through acquisitions of existing hotels using a disciplined approach, while maintaining a prudent capital structure. We generally target premium-branded hotels that meet one or more of the following acquisition criteria:

- potential for strong risk-adjusted returns and are located in the top 50 MSAs and other select markets;
- can operate under leading franchise brands, which may include but are not limited to brands owned by Marriott, Hilton, Hyatt, and IHG;
- located in close proximity to multiple demand generators, such as corporate offices and headquarters, retail centers, airports, state capitols, convention centers, and leisure attractions, with a diverse source of potential guests, including corporate, government and leisure travelers;
- located in markets with 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.

**Strategic Hotel Sales (Capital Recycling Program).** We seek to maximize our return on invested capital and 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 hotel or hotels. We intend to continue to pursue a disciplined capital allocation strategy designed to maximize the value of our investments by selectively selling hotel properties that we believe are no longer consistent with our investment strategy or whose returns on invested capital appear to have been maximized. To the extent that we sell hotel properties, we intend to redeploy the capital into acquisition and capital investment opportunities that we believe have the potential to generate significant improvements in RevPAR and earnings before interest, taxes, depreciation and amortization ("EBITDA"). We expect to generate these improvements with our proactive asset management approach and by investing in our hotels to enhance their quality

and attractiveness, increase their long-term value and generate more favorable returns on our invested capital. Alternatively, we may redeploy our capital into the purchase of assets with a higher potential long-term return.

**Selectively Develop Hotels.** We seek to identify attractive opportunities to selectively partner with experienced hotel developers to acquire, upon completion, newly constructed hotels that meet our acquisition criteria. We will consider unique opportunities to develop hotels utilizing our own resources if and when circumstances warrant.

**Selective Mezzanine Lending.** We seek to identify select opportunities to provide mezzanine lending to developers, where we also have the opportunity to acquire the hotel at or after the completion of the development project.

## Our Financing Strategy

We rely on cash provided by operations, working capital, borrowings under our \$450 million senior unsecured credit and term loan facility, term debt, repayment of notes receivable, proceeds from the issuance of securities, the strategic sale of hotels and the release of restricted cash upon satisfaction of the usage requirements to finance our business. While the ratio will vary from time to time, we generally intend to limit our ratio of net debt to EBITDA, which amount may be adjusted for non-cash and non-recurring items, to no more than 6.5x. At December 31, 2017, our ratio of net debt to EBITDA was 3.9x. For purposes of calculating this ratio, we exclude preferred stock from indebtedness. During 2017, we financed our long-term growth with borrowings under our \$450 million senior unsecured credit and term loan facility and term loans, issuance of securities, and proceeds from the strategic sale of hotels 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. As of December 31, 2017, we had \$873.1 million in outstanding indebtedness.

When purchasing hotel properties, the Operating Partnership may issue Common Units or Preferred Units as full or partial consideration to sellers who may be interested in taking advantage of the opportunity to defer taxable gains on the sale of a property or participate in the potential appreciation in the 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 targeted hotel properties.

The lodging industry is highly competitive. Our hotels compete with other hotels and alternative accommodations for guests in their respective markets based on a number of factors, including location, convenience, brand affiliation, quality of the physical condition of the hotel, guestroom 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, our ADR and our 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.

## Seasonality

Certain segments of the hotel industry are seasonal in nature. Leisure travelers tend to travel more during the summer. Business travelers occupy hotels relatively consistently throughout the year, but decreases in business travel occur during summer and the winter holidays. The hotel industry is also seasonal based upon geography. Hotels in the southern U.S. tend to have higher occupancy rates during the winter months. Hotels in the northern U.S. tend to have higher occupancy rates during the summer months.

## Regulation

Our properties are subject to various covenants, laws, ordinances and regulations, including regulations relating to accessibility, fire and safety requirements. We believe each of our hotels has the necessary permits and approvals to operate its business.

Americans with Disabilities Act of 1990 (“ADA”)

Our properties must comply with Title III of the ADA to the extent that they are “public accommodations” as defined by the ADA. Under the ADA, all public accommodations must meet federal requirements related to access and use by disabled persons. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where removal is readily achievable. Although we believe the properties in our portfolio substantially comply with present requirements of the ADA, a determination to the contrary could require removal of access barriers and non-compliance could result in litigation costs, costs to remediate deficiencies, U.S. government fines or in damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this respect.

## Environmental, Health and Safety Matters

Our hotels and development land parcels are subject to various federal, state and local environmental laws that impose liability for contamination. Under these laws, governmental entities have the authority to require us, as the current owner of property, to perform or pay for the cleanup of contamination (including hazardous substances, waste, or petroleum products) at, on, under or emanating from the property and to pay for natural resource damages arising from contamination. These laws often impose liability without regard to whether the owner or operator or other responsible party knew of, or caused the contamination, and the liability may be joint and several. Because these laws also impose liability on persons who owned a property at the time it became contaminated, we could incur cleanup costs or other environmental liabilities even after we sell properties. Contamination at, on, under or emanating from our properties also may expose us to liability to private parties for costs of remediation, personal injury and death or property damage. In addition, environmental liens may be created on contaminated sites in favor of the government for damages and costs it incurs to address contamination. If contamination is discovered on our properties, environmental laws also may impose restrictions on the manner in which our property may be used or our businesses may be operated, and these restrictions may require substantial expenditures. Moreover, environmental contamination can affect the value of a property and therefore, an owner's ability to borrow funds using the property as collateral or to sell the property on favorable terms or at all. Furthermore, persons who sent waste to a waste disposal facility, such as a landfill or an incinerator, may be liable for costs associated with cleanup of that facility.

Some of our properties may have contained historical uses which involved the use or storage of hazardous chemicals and petroleum products (for example, storage tanks, gas stations and dry cleaning operations) which if released, could have affected our properties. In addition, some of our properties may be near or adjacent to other properties that have contained or currently contain storage tanks containing petroleum products or conducted or currently conduct operations which use other hazardous or toxic substances. Releases from these adjacent or surrounding properties could affect our properties and we may be liable for any associated cleanup.

Independent environmental consultants conducted Phase I environmental site assessments on all of our properties prior to acquisition and we intend to conduct Phase I environmental site assessments on properties we acquire in the future. Phase I site assessments are intended to discover and evaluate information regarding the environmental condition of the surveyed properties and surrounding properties. These assessments do not generally include soil sampling, subsurface investigations or comprehensive asbestos surveys. In some cases, the Phase I environmental site assessments were conducted by another entity such as a lender, and we may not have the authority to rely on such reports. A few of our properties have experienced environmental contamination prior to our ownership, but all contamination has been remediated to the satisfaction of state regulatory agencies. None of the Phase I environmental site assessments of the hotel properties in our portfolio revealed any past or present environmental condition that we believe could have a material adverse effect on our business, financial position or results of operations. In addition, the Phase I environmental site assessments may also have failed to reveal all environmental conditions, liabilities or compliance concerns. The Phase I environmental site assessments were completed at various times and material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability.

In addition, our hotels (including our real property, operations and equipment) are subject to various federal, state and local environmental, health and safety regulatory requirements that address a wide variety of issues, including, but not limited to the existence of mold and other airborne contaminants above regulatory thresholds, the registration, maintenance and operation of our boilers and storage tanks, the supply of potable water to our guests, air emissions from emergency generators, storm water and wastewater discharges, protection of natural resources, asbestos, lead-based paint, and waste management. Some of our hotels also routinely handle and use hazardous or regulated substances and wastes as part of their operations (for example, swimming pool chemicals or biological waste). Our hotels incur costs to comply with these environmental, health and safety laws and regulations and if these regulatory

requirements are not met or unforeseen events result in the discharge of dangerous or toxic substances at our hotels, we could be subject to fines and penalties for non-compliance with applicable laws and material liability from third parties for harm to the environment, damage to real property or personal injury or death. We are aware of no past or present environmental liability for non-compliance with environmental, health and safety laws and regulations that we believe would have a material adverse effect on our business, financial position or results of operations.

## Tax Status

### REIT Election

We have elected to be taxed as a REIT for federal income tax purposes commencing with our short taxable year ended December 31, 2011. Our qualification as a REIT depends upon our ability to meet, on a continuing basis, through actual investment and operating results, various complex requirements under the IRC relating to, among other things, the sources of our gross income, the composition and values of our assets, the timing and amount of our dividend distributions and the diversity of ownership of our stock. We believe that we have been organized and have operated in conformity with the requirements for qualification as a REIT under the IRC and that our current and intended manner of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT for federal income tax purposes.

In order for the income from our hotel operations to constitute “rents from real property” for purposes of the gross income tests required for REIT qualification, we cannot directly operate any of our hotel properties. Accordingly, all of our hotels are leased to our TRS lessees, which are wholly-owned subsidiaries of Summit Hotel TRS, Inc. (our “TRS”). Our TRS is a “taxable REIT subsidiary,” which is a corporate subsidiary of a REIT that jointly elects with the REIT to be treated as a TRS and pays federal income tax at regular corporate rates on its taxable income. We will lease newly acquired hotels to our existing TRS or additional TRSs in the future. Our TRS lessees pay rent to us that will qualify as “rents from real property,” provided that the TRS lessees engage “eligible independent contractors” to manage our hotels. All of our hotels are operated pursuant to hotel management agreements with professional third-party hotel management companies. We believe each of the third-party managers qualifies as an “eligible independent contractor” under the IRC.

As a REIT, we generally will not be subject to federal income tax on our REIT taxable income that we distribute as dividends to our stockholders. Under the IRC, REITs are subject to numerous organizational and operational requirements, including a requirement that they distribute each year at least 90% of their taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gains, which does not necessarily equal net income as calculated in accordance with GAAP. If we fail to qualify for taxation as a REIT in any taxable year and do not qualify for certain statutory relief provisions, our income for that year will be taxed at regular corporate rates, and we will be unable to re-elect REIT status until the fifth calendar year after the year in which we failed to qualify as a REIT, unless we satisfy certain relief provisions. Even if we qualify as a REIT for federal income tax purposes, we may still be subject to state and local taxes on our income and assets and to federal income and excise taxes on our undistributed income. Additionally, any income earned by our TRS will be fully subject to federal, state and local corporate income tax.

### Recent Tax Legislation

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act (the “TCJA”), was enacted. The TCJA made many significant changes to the U.S. federal income tax laws applicable to businesses and their owners, including REITs and their stockholders. Pursuant to this legislation, as of January 1, 2018, (1) the federal income tax rate applicable to corporations is reduced to 21%, (2) the highest marginal individual income tax rate is reduced to 37% (through taxable years ending in 2025), (3) the corporate alternative minimum tax is repealed, and (4) the backup withholding rate for U.S. stockholders is reduced to 24%. In addition, individuals, estates and trusts may deduct up to 20% of certain pass-through income, including ordinary REIT dividends that are not “capital gain dividends” or “qualified dividend income,” subject to certain limitations. For taxpayers qualifying for the full deduction, the effective maximum tax rate on ordinary REIT dividends would be 29.6% (through taxable years ending in 2025). The maximum rate of withholding with respect to our distributions to non-U.S. stockholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests is also reduced from 35% to 21%. The deduction of



net interest expense is limited for all businesses; provided that certain businesses, including real estate businesses, may elect not to be subject to such limitations and instead to depreciate their real property related assets over longer depreciable lives. The reduced corporate tax rate will apply to our TRS and any other TRS that we form.

The reduced 21% federal income tax rate applicable to corporations will apply to taxable earnings reported for the full 2018 fiscal year. Accordingly, we have remeasured our net deferred tax assets using the lower federal tax rate that will apply when these amounts are expected to reverse.

We recorded a \$0.6 million discrete non-cash tax expense in the fourth quarter of 2017 as a result of the remeasurement of our net deferred tax assets due to the changes from the TCJA. The provisional remeasurement amount is an estimate and may change as data becomes available to make final adjustments to the scheduling of the deferred tax assets and liabilities.

We are still in the process of evaluating the income tax effect of other changes required by the TCJA that will be effective for our fiscal year 2018.

#### Employees

As of February 15, 2018, we employ 49 full-time employees. The staff at our hotels are employed by our professional third-party hotel managers.

#### Available Information

Our Internet website is located at [www.shpreit.com](http://www.shpreit.com). Copies of the charters of the committees of our board of directors, our code of business conduct and ethics and our corporate governance guidelines are available on our website. We will provide timely disclosures of amendments and waivers to the aforementioned documents, if any, via website posting. All reports that we have filed with the Securities and Exchange Commission (“SEC”) including this Annual Report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K, can be obtained free of charge from the SEC’s website at [www.sec.gov](http://www.sec.gov) or through our website. In addition, all reports filed with the SEC may be read and copied at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-1090. Further information regarding the operation of the public reference room may be obtained by calling the SEC at 1-800-SEC-0330. The information contained on, or accessible through the SEC’s website or our website is not incorporated by reference into this report and should not be considered a part of this report.

#### Item 1A. Risk Factors.

The following risk factors address the material risks concerning our business. If any of the risks discussed in this report were to occur, our business, prospects, financial condition, results of operation and our ability to service our debt and make distributions to our stockholders could be materially and adversely affected and the market price per share of our stock could decline significantly. Some statements in this report, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled “Cautionary Statement About Forward-Looking Statements.” The discussion of the potential effect of the following risk factors on our financial results relates to our consolidated financial position, consolidated results of operations and cash flows.

#### Risks Related to Our Business

Our business strategy, future results of operations and growth prospects are dependent on achieving revenue and net income growth from anticipated increases in demand for hotel guestrooms and general economic conditions.

Our business strategy includes achieving continued revenue and cash flow growth from anticipated improvement in demand for hotel guestrooms as the economy continues to grow. We, however, cannot provide any assurances that demand for hotel guestrooms will increase from current levels or continue to exceed the growth of new supply, or the time or extent of any demand growth that we do experience. If demand does not continue to increase as the economy grows, or if there is a setback in the general economy resulting in weakening demand, our operating results and growth prospects could be adversely affected. As a result, any slowdown in economic growth or a new economic downturn could adversely affect our future results of operations and our growth prospects.

Our expenses may not decrease if our revenue decreases.

Many of the expenses associated with owning and operating hotels, such as debt service payments, property taxes, insurance, utilities, and certain components of employee compensation, are relatively fixed. They do not necessarily decrease directly with a reduction in revenue at the hotels and may be subject to increases that are not related to the

performance of our hotels or the increase in the rate of inflation. Also, as of December 31, 2017, six of our hotels are subject to third-party ground leases, and one hotel is subject to a payment-in-lieu-of-taxes lease, which generally require periodic increases in rent payments. Our ability to pay these rents could be adversely affected if our hotel revenues do not increase at the same or a greater rate than the increases in rental payments under the ground leases.

Additionally, certain costs, such as wages, benefits and insurance, may exceed the rate of inflation in any given period. In the event of a significant decrease in demand, our hotel managers may not be able to reduce the size of hotel work forces in order to decrease compensation costs. Our managers also may be unable to offset any fixed or increased expenses with higher room rates. Any of our efforts to reduce operating costs also could adversely affect the future growth of our business and the value of our hotel properties.

We may be unable to complete acquisitions that would grow our business.

Our growth strategy includes the disciplined acquisition of hotels as opportunities arise. Our ability to acquire hotels on satisfactory terms or at all is subject to the following significant risks: