Xenia Hotels & Resorts, Inc.
Form 10-Q
November 07, 2016

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

FORM 10-Q

(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period ended ______ to ______
Commission file number 001-36594

Xenia Hotels & Resorts, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	20-0141677
(State of Incorporation)	(I.R.S. Employer Identification No.)
200 S. Orange Avenue Suite 2700, Orlando, Florida	32801
(Address of Principal Executive Offices)	(Zip Code)

(407) 246-8100
(Registrant's telephone number, including area code)
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. þ Yes o 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). þ Yes o 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.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
o	o	þ (Do not check if a smaller reporting company)	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
As of November 4, 2016, there were 106,892,788 shares of the registrant's common stock outstanding.

XENIA HOTELS & RESORTS, INC.
TABLE OF CONTENTS

Part I - Financial Information		Page
Item 1.	Financial Statements (unaudited)	
	Condensed Consolidated Balance Sheets as of September 30, 2016 and December 31, 2015	1
	Combined Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2016 and 2015	2
	Condensed Consolidated Statements of Changes in Equity for the nine months ended September 30, 2016	4
	Combined Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015	5
	Notes to the Combined Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	42
Item 4.	Controls and Procedures	44
Part II - Other Information		
Item 1.	Legal Proceedings	45
Item 1A.	Risk Factors	45
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	45
Item 3.	Defaults Upon Senior Securities	45
Item 4.	Mine Safety Disclosures	45
Item 5.	Other Information	45
Item 6.	Exhibits	46
Signatures		47

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
XENIA HOTELS & RESORTS, INC.
Condensed Consolidated Balance Sheets
As of September 30, 2016 and December 31, 2015
(Dollar amounts in thousands, except per share data)

	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Investment properties:		
Land	$ 343,000	$ 343,000
Building and other improvements	2,830,089	2,680,591
Construction in progress	—	169
Total	$ 3,173,089	$ 3,023,760
Less: accumulated depreciation	(630,282)	(518,961)
Net investment properties	$ 2,542,807	$ 2,504,799
Cash and cash equivalents	185,311	122,154
Restricted cash and escrows	85,582	73,021
Accounts and rents receivable, net of allowance of $259 and $243, respectively	33,587	23,529
Intangible assets, net of accumulated amortization of $19,259 and $16,660, respectively	77,346	58,059
Deferred tax asset	1,726	2,304
Other assets	20,449	40,683
Assets held for sale	—	181,396
Total assets (including $76,760 and $77,140, respectively, related to consolidated variable interest entities)	$ 2,946,808	$ 3,005,945
Liabilities		
Debt, net of loan discounts, premiums and unamortized deferred financing costs	$ 1,169,128	$ 1,094,536
Accounts payable and accrued expenses	81,696	83,211
Distributions payable	30,121	25,684
Other liabilities	42,986	27,510
Liabilities associated with assets held for sale	—	31,646
Total liabilities (including $48,409 and $48,582, respectively, related to consolidated variable interest entities)	1,323,931	1,262,587
Commitments and contingencies		
Stockholders' equity		
Common stock, $0.01 par value, 500,000,000 shares authorized, 107,295,503 and 111,671,372 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	1,073	1,117
Additional paid in capital	1,932,360	1,993,760
Accumulated other comprehensive (loss) income	(9,721)	1,543
Distributions in excess of retained earnings	(321,292)	(268,991)
Total Company stockholders' equity	$ 1,602,420	$ 1,727,429
Non-controlling interests	20,457	15,929
Total equity	$ 1,622,877	$ 1,743,358
Total liabilities and equity	$ 2,946,808	$ 3,005,945

See accompanying notes to the combined condensed consolidated financial statements.

XENIA HOTELS & RESORTS, INC.
Combined Condensed Consolidated Statements of Operations and Comprehensive Income
For the Three and Nine Months Ended September 30, 2016 and 2015
(unaudited)
(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues:				
Rooms revenues	$167,066	$175,872	$507,361	$501,754
Food and beverage revenues	55,687	58,500	185,484	185,707
Other revenues	11,193	14,081	37,515	40,089
Total revenues	$233,946	$248,453	$730,360	$727,550
Expenses:				
Rooms expenses	36,854	38,841	111,812	111,378
Food and beverage expenses	38,233	41,308	122,475	122,806
Other direct expenses	1,520	4,625	9,571	13,256
Other indirect expenses	55,076	58,311	170,957	167,758
Management and franchise fees	11,459	12,605	37,486	37,674
Total hotel operating expenses	$143,142	$155,690	$452,301	$452,872
Depreciation and amortization	37,796	37,818	115,066	110,094
Real estate taxes, personal property taxes and insurance	12,300	12,985	34,875	36,984
Ground lease expense	1,356	1,272	4,112	3,869
General and administrative expenses	7,211	5,396	25,508	19,443
Acquisition transaction costs	2	4,510	147	5,396
Pre-opening expenses	—	825	—	825
Provision for asset impairment	15	—	10,006	—
Separation and other start-up related expenses	—	426	—	26,887
Total expenses	$201,822	$218,922	$642,015	$656,370
Operating income	$32,124	$29,531	$88,345	$71,180
Gain (loss) on sale of investment properties	(1)	—	792	—
Other income	738	672	916	3,389
Interest expense	(12,373)	(12,496)	(38,014)	(38,726)
Loss on extinguishment of debt	(244)	—	(5,023)	(283)
Net income before income taxes	$20,244	$17,707	$47,016	$35,560
Income tax (expense) benefit	187	140	(9,613)	(8,344)
Net income from continuing operations	$20,431	$17,847	$37,403	$27,216
Net loss from discontinued operations	—	—	—	(489)
Net income	$20,431	$17,847	$37,403	$26,727
Non-controlling interests in consolidated real estate entities (Note 5)	84	255	205	255
Non-controlling interests of common units in Operating Partnership (Note 1)	(273)	(4)	(512)	(7)
Net (income) loss attributable to non-controlling interests	$(189)	$251	$(307)	$248
Net income attributable to the Company	$20,242	$18,098	$37,096	$26,975
Distributions to preferred stockholders	—	(4)	—	(12)
Net income attributable to common stockholders	$20,242	$18,094	$37,096	$26,963

XENIA HOTELS & RESORTS, INC.
Combined Condensed Consolidated Statements of Operations and Comprehensive Income, Continued
For the Three and Nine Months Ended September 30, 2016 and 2015
(unaudited)
(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic and diluted earnings per share				
Income from continuing operations available to common stockholders	$0.19	$ 0.16	$0.34	$ 0.24
Income from discontinued operations available to common stockholders	—	—	—	—
Net income per share available to common stockholders	$0.19	$ 0.16	$0.34	$ 0.24
Weighted average number of common shares (basic)	107,538,601	111,694,773	108,384,241	112,096,957
Weighted average number of common shares (diluted)	107,677,749	111,885,350	108,495,365	112,258,505
Comprehensive Income:				
Net income	$20,431	$ 17,847	$37,403	$ 26,727
Other comprehensive income:				
Unrealized gain (loss) on interest rate derivative instruments	1,362	—	(14,283)	—
Reclassification adjustment for amounts recognized in net income (interest expense)	972	—	2,869	—
	$22,765	$ 17,847	$25,989	$ 26,727
Comprehensive income attributable to non-controlling interests:				
Non-controlling interests in consolidated real estate entities (Note 5)	84	255	205	255
Non-controlling interests of common units in Operating Partnership (Note 1)	(303)	(4)	(362)	(7)
Comprehensive income attributable to non-controlling interests	(219)	251	(157)	248
Comprehensive income attributable to the Company	$22,546	$ 18,098	$25,832	$ 26,975

See accompanying notes to the combined condensed consolidated financial statements.

XENIA HOTELS & RESORTS, INC.
Condensed Consolidated Statements of Changes in Equity
For the Nine Months Ended September 30, 2016
(unaudited)
(Dollar amounts in thousands, except per share data)

	Common Stock					Non-controlling Interests			
	Shares	Amount	Additional paid in capital	Accumulated other comprehensive income (loss)	Distributions in excess of retained earnings	Operating Partnership	Consolidated Real Estate Entities	Total Non-controlling Interests	Total
Balance at January 1, 2016	111,671,372	$1,117	$1,993,760	$1,543	$(268,991)	$2,593	$13,336	$15,929	$1,743,358
Net income (loss)	—	—	—	—	37,096	512	(205)	307	37,403
Repurchase of common shares, net	(4,466,048)	(45)	(66,216)	—	—	—	—	—	(66,261)
Dividends, common shares / units ($0.825)	—	—	—	—	(89,397)	(273)	—	(273)	(89,670)
Share-based compensation	90,179	1	4,816	—	—	4,303	—	4,303	9,120
Other comprehensive income (loss):									
Unrealized loss on interest rate derivative instruments	—	—	—	(14,096)	—	(187)	—	(187)	(14,283)
Reclassification adjustment for amounts recognized in net income	—	—	—	2,832	—	37	—	37	2,869
Contributions from non-controlling interests	—	—	—	—	—	—	341	341	341
Balance at September 30, 2016	107,295,503	$1,073	$1,932,360	$(9,721)	$(321,292)	$6,985	$13,472	$20,457	$1,622,877

See accompanying notes to the combined condensed consolidated financial statements.

XENIA HOTELS & RESORTS, INC.
Combined Condensed Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2016 and 2015
(unaudited)
(Dollar amounts in thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$37,403	$26,727
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	112,897	107,427
Amortization of above and below market leases and other lease intangibles	2,547	2,769
Amortization of debt premiums, discounts, and financing costs	3,009	2,872
Loss on extinguishment of debt	5,023	283
Gain on sale of investment property, net	(792)	—
Provision for asset impairment	10,006	—
Share-based compensation expense	7,049	4,774
Other non-cash adjustments	—	36
Prepayment penalties and defeasance	(4,813)	—
Changes in assets and liabilities:		
Restricted cash	256	—
Accounts and rents receivable	(8,814)	(9,088)
Deferred costs and other assets	4,858	8,208
Accounts payable and accrued expenses	1,236	2,909
Other liabilities	2,708	(5,227)
Net cash flows provided by operating activities	$172,573	$141,690
Cash flows used in investing activities:		
Purchase of investment properties	(116,000)	(245,000)
Capital expenditures and tenant improvements	(38,091)	(40,941)
Investment in development projects	—	(30,842)
Proceeds from sale of investment properties	161,129	—
Restricted cash and escrows	(9,277)	4,155
Deposits for acquisition of hotel properties	—	(20,000)
Other assets	—	1,039
Net cash flows used in investing activities	$(2,239)	$(331,589)
Cash flows used in financing activities:		
Distribution to InvenTrust Properties Corp.	—	(23,505)
Contribution from InvenTrust Properties Corp.	—	176,805
Proceeds from mortgage debt and notes payable	71,258	19,628
Payoffs of mortgage debt	(147,042)	(81,468)
Principal payments of mortgage debt	(4,377)	(6,707)
Proceeds from unsecured term loan	125,000	—
Payment of loan fees and deposits	(646)	(2,926)
Proceeds from revolving line of credit draws	—	127,000
Payments on revolving line of credit	—	(10,000)
Contributions from non-controlling interests	341	6,633
Proceeds from issuance of preferred shares, net of offering costs	—	102
Redemption of preferred shares	—	(137)
Repurchase of common shares	(66,261)	(36,946)

Dividends, common shares/units	(85,271)	(42,191)
Dividends, preferred shares	—	(12)
Distributions paid to non-controlling interests	(179)	—
Net cash flows (used in) provided by financing activities	$(107,177)	$126,276
Net increase (decrease) in cash and cash equivalents	63,157	(63,623)
Cash and cash equivalents, at beginning of year	122,154	163,053
Cash and cash equivalents, at September 30, 2016 and 2015	$185,311	$99,430

See accompanying notes to the combined condensed consolidated financial statements.

5

XENIA HOTELS & RESORTS, INC.
Combined Condensed Consolidated Statements of Cash Flows - Continued
For the Nine Months Ended September 30, 2016 and 2015
(unaudited)
(Dollar amounts in thousands)

	Nine Months Ended September 30,	
	2016	2015
Supplemental disclosure of cash flow information:		
Cash paid for taxes	$6,650	$359
Cash paid for interest	31,027	35,383
Supplemental schedule of non-cash investing and financing activities:		
Accrued capital expenditures	$1,246	$4,005
Assumption of unsecured line of credit facility by InvenTrust Properties Corp.	—	(96,020)
Non-cash net distributions to InvenTrust Properties Corp.	—	282
Deposit applied to purchase price of hotel property upon acquisition	20,000	—

See accompanying notes to the combined condensed consolidated financial statements.

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

1. Organization

Xenia Hotels & Resorts, Inc. (the "Company" or "Xenia") is a Maryland corporation that invests primarily in premium full service, lifestyle and urban upscale hotels. Prior to February 3, 2015, Xenia was a wholly owned subsidiary of InvenTrust Properties Corp. ("InvenTrust" formerly known as Inland American Real Estate Trust, Inc.), its former parent.

On February 3, 2015, Xenia was spun off from InvenTrust through a taxable pro rata distribution by InvenTrust of 95% of the outstanding common stock, $0.01 par value per share (the "Common Stock"), of Xenia to holders of record of InvenTrust's common stock as of the close of business on January 20, 2015 (the "Record Date"). Each holder of record of InvenTrust's common stock received one share of Common Stock for every eight shares of InvenTrust's common stock held at the close of business on the Record Date (the "Distribution"). In lieu of fractional shares, stockholders of InvenTrust received cash. On February 4, 2015, Xenia's Common Stock began trading on the New York Stock Exchange ("NYSE") under the ticker symbol "XHR." As a result of the Distribution, the Company became a stand-alone, publicly-traded company. Xenia operates as a real estate investment trust ("REIT") for federal income tax purposes.

Substantially all of the Company's assets are held by, and all the operations are conducted through XHR LP (the "Operating Partnership"). XHR GP, Inc. is the sole general partner of XHR LP. XHR GP, Inc. is wholly owned by the Company. As of September 30, 2016, the Company owned 98.7% of the common limited partnership units issued by the Operating Partnership ("common units"). The remaining 1.3% of the common units are owned by the other limited partners. To qualify as a REIT, the Company cannot operate or manage its hotels. Therefore, the Operating Partnership and its subsidiaries lease the hotel properties to XHR Holding Inc. (collectively with its subsidiaries, "XHR Holding"), the Company's taxable REIT subsidiary ("TRS"), which engages third-party eligible independent contractors to manage the hotels.

The accompanying combined condensed consolidated financial statements include the accounts of the Company, the Operating Partnership, XHR Holding, as well as all wholly owned subsidiaries and consolidated investments in real estate entities. The Company's subsidiaries and consolidated investments in real estate entities generally consist of limited liability companies ("LLCs"), limited partnerships ("LPs") and the TRS. The effects of all inter-company transactions have been eliminated.

As of September 30, 2016, the Company owned 46 lodging properties, 44 of which were wholly owned, with a total of 11,594 rooms. The remaining two hotels are owned through individual investments in real estate entities, in which the Company has a 75% ownership interest in each investment.

2. Summary of Significant Accounting Policies

The unaudited interim combined condensed consolidated financial statements and related notes have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") applicable to financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with the rules and regulations of the SEC. The unaudited financial statements include normal recurring adjustments, which management considers necessary for the fair presentation of the condensed consolidated balance sheets, combined condensed consolidated statements of operations and comprehensive income, condensed consolidated statements of changes in equity and combined condensed consolidated statements of cash flows for the periods presented. The unaudited combined condensed consolidated financial statements should be read in conjunction with the combined consolidated financial statements and notes thereto as of and for the year ended December 31, 2015, included in the Company's Annual Report on Form 10-K filed with the SEC on March 10, 2016. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of actual operating results for the entire year.

Basis of Presentation

As described above, on February 3, 2015, Xenia was spun off from InvenTrust. Prior to the separation, the Company effectuated certain reorganization transactions which were designed to consolidate the ownership of its hotels into its Operating Partnership, consolidate its TRS lessees in its TRS, facilitate its separation from InvenTrust, and enable the Company to qualify as a REIT for federal income tax purposes. The accompanying combined condensed consolidated financial statements prior to the spin-off have been "carved out" of InvenTrust's consolidated financial statements and reflect significant assumptions and allocations. The combined condensed consolidated financial statements reflect the operations of the Company after giving effect to the reorganization transactions, the disposition of other hotels previously owned by the Company, and the spin-off, and include allocations of costs from certain corporate and shared functions provided to the Company by InvenTrust, as well as

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

costs associated with participation by certain of the Company's executives in InvenTrust's benefit plans. Corporate costs directly associated with the Company's principal executive offices, personnel and other administrative costs are reflected as general and administrative expenses on the combined condensed consolidated statements of operations and comprehensive income. Additionally, prior to the spin-off, InvenTrust allocated to the Company a portion of its corporate overhead costs based upon the Company's percentage share of the average invested assets of InvenTrust, which is reflected in general and administrative expenses. Based on these presentation matters, the financial statements for the three and nine months ended September 30, 2015 may not be comparable.

As InvenTrust was managing various asset portfolios, the extent of services and benefits a portfolio received was based on the size of its assets. Therefore, using average invested assets to allocate costs was a reasonable reflection of the services and other benefits received by the Company and complied with applicable accounting guidance. However, actual costs may have differed from allocated costs if the Company had operated as a stand-alone entity during such period and those differences may have been material.

Each property maintains its own books and financial records and each entity's assets are not available to satisfy the liabilities of other affiliated entities, except as otherwise disclosed in Note 7.

Use of Estimates

The preparation of the combined condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and revenues and expenses. These estimates are prepared using management's best judgment, after considering past, current and expected economic conditions. Actual results could differ from these estimates.

Consolidation

The Company evaluates its investments in partially owned entities to determine whether such entities may be a variable interest entity ("VIE"). If the entity is a VIE, the determination of whether the Company is the primary beneficiary must be made. The primary beneficiary determination is based on a qualitative assessment as to whether the entity has (i) power to direct significant activities of the VIE and (ii) an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Company will consolidate a VIE if it is deemed to be the primary beneficiary, as defined in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 810, Consolidation. The equity method of accounting is applied to entities in which the Company is not the primary beneficiary as defined in FASB ASC 810, or the entity is not a VIE and the Company does not have effective control, but can exercise influence over the entity with respect to its operations and major decisions.

On January 1, 2016, the Company adopted Accounting Standards Update ("ASU") 2015-02, Amendments to the Consolidation Analysis ("ASU 2015-02"), which amended the consolidation guidance for VIE's and general partner's investments in limited partnerships and modifies the evaluation of whether limited partnership and similar legal entities are VIEs or voting interest entities. Upon adoption of ASU 2015-02, the Company concluded there was no change required in the accounting of its two previously identified VIEs in our two investments in real estate entities and therefore will continue to consolidate these VIEs for reporting purposes, as further described in Note 5. However, the Company concluded that the Operating Partnership now meets the criteria as a VIE under ASU 2015-02. The Company's significant asset is its investment in the Operating Partnership, as described in Note 1, and consequently, substantially all of the Company's assets and liabilities represent those assets and liabilities of the Operating Partnership. As such, there is no change in the presentation of the consolidated financial statements of the Company upon adoption of ASU 2015-02.

Impairment

The Company assesses the carrying values of the respective long-lived assets, whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be fully recoverable, such as a reduction in the expected holding period of the asset or a change in demand for lodging at the Company's hotels. If it is determined that the carrying value is not recoverable because the undiscounted cash flows do not exceed carrying value, the Company records an impairment loss to the extent that the carrying value exceeds fair value. The valuation and possible subsequent impairment of investment properties is a significant estimate that can and does change based on the Company's continuous process of analyzing each property and reviewing assumptions about uncertain inherent factors, as well as the economic condition of the property at a particular point in time.

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

The use of projected future cash flows and related holding period is based on assumptions that are consistent with the estimates of future expectations and the strategic plan the Company uses to manage its underlying business. However, assumptions and estimates about future cash flows and capitalization rates are complex and subjective. Changes in economic and operating conditions and the Company's ultimate investment intent that occur subsequent to the impairment analyses could impact these assumptions and result in future impairment charges of the real estate properties.

Investment Properties Held for Sale

In determining whether to classify an investment property as held for sale, the Company considers whether: (i) management has committed to a plan to sell the investment property; (ii) the investment property is available for immediate sale, in its present condition; (iii) the Company is actively marketing the investment property for sale at a price that is reasonable in relation to its fair value; (iv) the Company has initiated a program to locate a buyer; (v) the Company believes that the sale of the investment property is probable; (vi) the Company has received a significant non-refundable deposit for the purchase of the property; (vii) actions required for the Company to complete the plan indicate that it is unlikely that any significant changes will be made to the plan.

If all of the above criteria are met, the Company classifies the investment property as held for sale. On the day that these criteria are met, the Company suspends depreciation and amortization on the investment properties held for sale. The investment properties and liabilities associated with those investment properties that are held for sale are classified separately on the condensed consolidated balance sheets for the most recent reporting period and all comparative periods, and are presented at the lesser of the carrying value or fair value, less costs to sell. Additionally, if the sale constitutes a strategic shift with a major effect on operations, the operations for the investment properties held for sale are classified on the combined condensed consolidated statements of operations and comprehensive income as discontinued operations for all periods presented.

Share-Based Compensation

The Company has adopted a share-based incentive plan that provides for the grant of stock options, stock awards, restricted stock units, Operating Partnership units and other equity-based awards. Share-based compensation is measured at the estimated fair value of the award on the date of grant, adjusted for forfeitures, and recognized as an expense on a straight-line basis over the longest vesting period for each grant for the entire award. The determination of fair value of these awards is subjective and involves significant estimates and assumptions including expected volatility of the Company's shares, expected dividend yield, expected term and assumptions of whether certain of these awards will achieve parity with other Operating Partnership units or achieve performance thresholds.

Share-based compensation is included in general and administrative expenses in the accompanying combined condensed consolidated statements of operations and comprehensive income and capitalized in building and other improvements in the condensed consolidated balance sheets for certain employees that manage property developments, renovations and capital improvements.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective, although it will not affect the accounting for rental related revenues. The new standard is effective for the Company on January 1, 2018, pursuant to ASU No. 2015-09 which deferred the adoption date by one year. Early adoption is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 and related updates will have on its consolidated financial statements and related disclosures. Although the Company is still evaluating the revenue streams and the timing of recognition under the new model, it is not expected to change significantly from current policies. Additionally, the Company has begun evaluating the sale of non-financial assets to entities that are not customers, such as the disposition of real estate assets. Historically, hotel dispositions have been cash sales that required no contingencies for future involvement in the hotel's operations and therefore the Company does not expect ASU No. 2014-09 to have a material impact on its recognition of hotel sales. The Company has not yet selected a transition method.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts that would have been recorded in previous periods if the accounting had been completed at the acquisition date. This update was effective for interim and annual periods beginning after

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

December 15, 2015, with early adoption permitted. The implementation of ASU 2015-16 on January 1, 2016 had no material impact on the Company's combined condensed consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes, which simplifies the presentation of deferred taxes by requiring that deferred tax assets and liabilities be presented as noncurrent on the balance sheet. The new standard is effective for the Company on January 1, 2017. Early adoption is permitted. The Company does not expect ASU No. 2015-17 to have a significant impact on its combined condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases, which replaces ASC Topic 840, Leases, and requires most lessee leases to be recorded on the Company's balance sheet as either operating or financing leases with a right of use asset with a corresponding lease liability measured at present value. Operating leases will be recognized on the income statement on a straight-line basis as lease expense and financing leases will be accounted for similar to the accounting for amortizing debt. Leases with terms of less than 12 months will continue to be accounted for as they are under the current standard. The new standard is effective for the Company on January 1, 2019, with early adoption permitted. The Company is evaluating the effect that ASU 2016-02 will have on its combined condensed consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Award Payment Accounting, which simplifies various aspects of how share-based payments are accounted for and presented in the financial statements. This standard requires companies to record all of the tax effects related to share-based payments through the income statement, allows companies to elect an accounting policy to either estimate the share based award forfeitures (and expense) or account for forfeitures (and expense) as they occur, and allows companies to withhold up to the maximum individual statutory tax rate the shares upon settlement of an award without causing the award to be classified as liability. This guidance is effective for the Company on January 1, 2017, however, early adoption is permitted. The Company does not expect ASU No. 2016-09 to have a significant impact on its combined condensed consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which changes the way certain cash receipts and cash payments are presented and classified on the statement of cash flows in order to reduce diversity in practice across all industries. The standard clarifies classification for debt prepayment or debt extinguishment costs, proceeds from the settlement of insurance claims, and contingent consideration payments made after business combination among other things. The new standard is effective for the Company on January 1, 2018, however, early adoption is permitted. The Company does not expect ASU No. 2016-15 to have a significant impact on its combined condensed consolidated financial statements and related disclosures.

3. Acquired Properties

In June 2015, the Company entered into a purchase agreement to acquire a portfolio of three hotels: the RiverPlace Hotel in Portland, Oregon, the Canary hotel in Santa Barbara, California, and the Hotel Palomar in Philadelphia, Pennsylvania (the "Kimpton Portfolio") for a total purchase price of $245 million, excluding closing costs, which were expensed and included in acquisition costs on the combined condensed consolidated statement of operations for the three and nine months ended September 30, 2015. These acquisitions closed in July 2015, and were funded with cash and borrowings under the Company's unsecured credit facility.

The following is a summary of the hotel acquisitions for the nine months ended September 30, 2015:

Property	Location	Rooms	Management Company
Canary Santa Barbara	Santa Barbara, CA	97	Kimpton Hotel & Restaurant Group, LLC
Hotel Palomar Philadelphia	Philadelphia, PA	230	Kimpton Hotel & Restaurant Group, LLC
RiverPlace Hotel	Portland, OR	84	Kimpton Hotel & Restaurant Group, LLC

10

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

The Company records identifiable assets, liabilities, and goodwill acquired in a business combination at fair value using significant other observable inputs (Level 2) including available market information and appropriate valuation methodologies available. The following reflects the purchase price allocation for the three hotels acquired during the nine months ended September 30, 2015 (in thousands):

Land	$49,743
Building and improvements	172,928
Furniture, fixtures, and equipment	21,907
Intangibles and other assets	422
Total purchase price	$245,000

For the three hotels acquired during the nine months ended September 30, 2015, total revenues and net income from the date of acquisition in July 2015 through September 30, 2015 are included in the accompanying combined condensed consolidated statements of operations for the three and nine months ended (in thousands):

	September 30, 2015
Revenue	$ 11,421
Net income (excluding acquisition costs)	$ 3,146

In January 2016, the Company acquired the Hotel Commonwealth located in Boston, Massachusetts for a purchase price of $136 million, excluding closing costs, which were expensed and included in acquisition costs on the combined condensed consolidated statement of operations for the nine months ended September 30, 2016. The source of funding was proceeds from the $125 million term loan entered into by the Company, as further described in Note 7, and a $20 million escrow deposit applied to the purchase price at closing. The hotel has a total of 245-rooms, which includes a 96-room hotel expansion that was completed in December 2015. The Hotel Commonwealth is subject to a long-term ground lease, which expires in 2087, and was assumed by the Company as part of the hotel's acquisition. The following reflects the purchase price allocation for the hotel acquired during the nine months ended September 30, 2016 (in thousands):

Building and improvements	$103,847
Furniture, fixtures, and equipment	10,238
Intangibles and other assets (1)	21,915
Total purchase price	$136,000

(1) As part of the purchase price allocation, the Company allocated $21.7 million to a below market lease intangible that will be amortized on a straight-line basis over the remaining term of the underlying ground lease, which expires in 2087.

The total revenues and net income for Hotel Commonwealth, from the date of acquisition in January 2016 through September 30, 2016, are included in the accompanying combined condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2016 (in thousands):

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Revenue	$ 8,262	$ 19,857
Net income (excluding acquisition costs)	$ 2,327	$ 3,694

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

The following unaudited condensed pro forma financial information presents the results of operations as if the 2016 and 2015 acquisitions had taken place on January 1, 2015. The unaudited pro forma financial information is not necessarily indicative of what actual results of operations of the Company would have been assuming the 2016 and 2015 acquisitions had taken place on January 1, 2015, nor does it purport to represent the results of operations for future periods. The unaudited condensed proforma financial information is as follows (in thousands, except per share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue	$233,946	$ 267,448	$730,653	$ 777,930
Net income	$20,431	$ 20,314	$37,405	$ 26,257
Net income per share attributable to common stock - basic	$0.19	$ 0.18	$0.35	$ 0.23
Net income per share attributable to common stockholders - diluted	$0.19	$ 0.18	$0.34	$ 0.23
Weighted average number of common shares - basic	107,538,601	111,694,773	108,384,241	112,096,957
Weighted average number of common shares - diluted	107,677,749	111,885,350	108,495,365	112,258,505

(1) The pro forma results above exclude acquisition costs.

4. Disposed Properties

In September 2015, the Company entered into a purchase and sale agreement to sell the Hyatt Regency Orange County, at which time the hotel was determined to have met the held for sale criteria and was presented as assets and liabilities associated with assets held for sale on the Company's combined consolidated balance sheet for all periods presented. In October 2015, the Company sold the Hyatt Regency Orange County hotel for a sale price of $137 million, and recognized a gain of $43.0 million on the combined consolidated statement of operations and comprehensive income for the year ended December 31, 2015. The Company received net proceeds of $70.6 million, after paying off the $61.9 million outstanding property level mortgage at the time of the sale, and retained the $5.9 million balance in the hotel's capital expenditure reserve account. The operating results of the hotel are included in the Company's combined consolidated financial statements as part of continuing operations in accordance with ASU No. 2014-08, as it did not represent a strategic shift or have a major effect on the Company's results of operations. Additionally, during the nine months ended September 30, 2015, one land parcel, valued at $1.2 million, was transferred to InvenTrust on January 15, 2015 and was included in net contributions from InvenTrust in the accompanying combined condensed consolidated statement of changes in equity.

In November 2015, the Company entered into a purchase and sale agreement to sell the Hilton University of Florida Conference Center Gainesville, at which time the hotel was determined to have met the held for sale criteria and was presented as assets and liabilities associated with assets held for sale on the Company's condensed consolidated balance sheet for all periods presented. In February 2016, the Company sold the Hilton University of Florida Conference Center Gainesville for a sale price of $36 million and recognized a gain of $0.6 million which is included in gain (loss) on sale of investment properties on the combined condensed consolidated statement of operations for the nine months ended September 30, 2016. The Company was entitled to net proceeds at closing of $31.1 million, and in conjunction with the sale repaid the $27.8 million outstanding property level mortgage.

In January 2016, the Company entered into a purchase and sale agreement to sell the DoubleTree by Hilton Washington DC for a sale price of $65 million, excluding closing costs. The sale of the hotel closed in April 2016 and resulted in net proceeds of $63.5 million and the recording of a $0.1 million impairment charge, which is included in the provision for asset impairment on the combined condensed consolidated statement of operations for the nine months ended September 30, 2016.

In February 2016, the Company entered into a purchase and sale agreement to sell the Embassy Suites Baltimore North/Hunt Valley for a sale price of $20 million, excluding closing costs. As a result of the negotiated sales price, the Company recorded an impairment charge during the nine months ended September 30, 2016 of $7.6 million. The sale of the hotel closed in May 2016 and resulted in net proceeds of $19.5 million and the recording of an additional impairment charge of $0.4 million, which

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

is included in the provision for asset impairment on the combined condensed consolidated statement of operations for the nine months ended September 30, 2016.

In April 2016, the Company entered into a purchase and sale agreement to sell the Marriott Atlanta Century Center/Emory Area and the Hilton Phoenix Suites for a combined sales price of $50.8 million, excluding closing costs. As a result of the negotiated sales price, the Company recorded an impairment charge of $1.9 million for the nine months ended September 30, 2016, which is included in the provision for asset impairment on the combined condensed consolidated statement of operations. The sale of the two hotels closed in June 2016 and resulted in net proceeds of $50 million.

The major classes of assets and liabilities for the five properties disposed of during the nine months ended September 30, 2016 were as follows at December 31, 2015 (in thousands):

	December 31, 2015
Land [(1)]	$31,698
Building and other improvements	223,392
Total	$255,090
Less accumulated depreciation	(83,677)
Net investment properties	$171,413
Restricted cash and escrows	4,576
Accounts and rents receivable, net	1,175
Intangible assets, net	2,456
Deferred costs and other assets	1,776
Total assets held for sale	$181,396
Debt	$27,775
Accounts payable and accrued expenses	3,440
Other liabilities	431
Total liabilities of assets held for sale	$31,646

(1) The Hilton University of Florida Conference Center Gainesville and the Marriott Atlanta Century Center/Emory Area were subject to ground leases. The Company has no future obligations under the terms of these ground leases as part of the disposition of these hotels.

The operating results of the five hotels sold during nine months ended September 30, 2016, respectively, are included in the Company's combined condensed consolidated financial statements as part of continuing operations in accordance with ASU No. 2014-08 Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08") through the date of their disposition, as they did not represent a strategic shift or have a major effect on the Company's results of operations.

Discontinued Operations

In November 2014, 52 lodging properties were sold by InvenTrust (the "Suburban Select Service Portfolio"), which were properties previously overseen by the Company. This disposition represented a strategic shift and had a major effect on the Company's results of operations. Accordingly, the results of operations of these 52 lodging properties were presented as discontinued operations pursuant to ASU 2014-08. During early 2015, $489 thousand in carryover costs related to the Suburban Select Service Portfolio were incurred and have been presented as discontinued operations for the nine months ended September 30, 2015.

5. Investment in Real Estate Entities

Consolidated Entities

During 2013, the Company entered into two investments in real estate entities in order to develop the Grand Bohemian Hotel Charleston and the Grand Bohemian Hotel Mountain Brook. The Company has ownership interests of 75% in each real estate entity. These entities are considered VIE's as defined in ASU 2015-02 because the entities did not have enough equity to finance their activities without additional subordinated financial support. The Company determined that it has the power to direct the activities of the VIE's that most significantly impact the VIE's economic performance, as well as the obligation to absorb losses of the VIE's that could potentially be significant to the VIE, or the right to receive benefits from the VIE's that

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

could potentially be significant to the VIE. As such, the Company has a controlling financial interest and is considered the primary beneficiary of each of these entities. Therefore, these entities are consolidated by the Company.

The following are the liabilities of the consolidated VIE's, which are non-recourse to the Company, and the assets that can be used to settle those obligations (in thousands):

	September 30, 2016	December 31, 2015
Net investment properties	$71,943	$ 74,592
Other assets	4,817	2,548
Total assets	$76,760	$ 77,140
Mortgages, notes and margins payable	(45,606)	(45,734)
Other liabilities	(2,803)	(2,848)
Total liabilities	$(48,409)	$ (48,582)
Net assets	$28,351	$ 28,558

In August 2015, the Grand Bohemian Hotel Charleston began operations as a 50-room lifestyle hotel. The total development cost of the property was $32 million. In October 2015, the Grand Bohemian Hotel Mountain Brook began operations as a 100-room lifestyle hotel. The total development cost of the property was $45 million.

All operations of the two hotels for the three and nine months ended September 30, 2016 and 2015 were consolidated in the accompanying combined condensed consolidated statements of operations and comprehensive income, with a corresponding allocation for non-controlling interests.

6. Transactions with Related Parties

The following table summarizes the Company’s related party transactions (in thousands):

	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2015
General and administrative allocation (a)	$ —	$ 1,135
Transition services fees (b)	12	514

(a) General and administrative allocations include costs from certain corporate and shared functions provided to the Company by InvenTrust, as well as costs associated with participation by certain of the Company's executives in InvenTrust's benefit plans. InvenTrust allocated to the Company a portion of its corporate overhead costs which was based upon the Company's percentage share of the average invested assets of InvenTrust. As InvenTrust was managing various asset portfolios, the extent of services and benefits a portfolio received was based on the size of its assets. Therefore, using average invested assets to allocate costs was a reasonable reflection of the services and other benefits received by the Company and complied with applicable accounting guidance. However, actual costs may have differed from allocated costs if the Company had operated as a stand-alone entity during such period and those differences may have been material. Following the spin-off, the Company was not allocated any further general and administrative expenses.

(b) In connection with the Company's separation from InvenTrust, the Company entered into a transition services agreement with InvenTrust under which InvenTrust agreed to provide certain transition services to the Company, including services related to information technology systems, financial reporting and accounting and legal services. The expiration date varied by service provided and the agreement terminated on the earlier of March 31, 2016 or the termination of the last service provided under it. In June 2015, the Company terminated all fee-based services provided under the transition services agreement effective July 31, 2015, and thereafter, no additional fees are expected to be incurred for services provided by InvenTrust.

As of September 30, 2016 and December 31, 2015, the Company owed $0 and $2.6 million, respectively, to InvenTrust which is included in other liabilities in the condensed consolidated balance sheets. As of December 31, 2015, the amount due to InvenTrust was related to purchases of furniture, fixtures and equipment funded by InvenTrust and to taxes paid by InvenTrust on behalf of the Company.

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

7. Debt
Mortgages Payable
Debt as of September 30, 2016 and December 31, 2015 consisted of the following (dollar amounts in thousands):

	Rate Type	Rate[1]	Maturity Date	Balance Outstanding as of September 30, 2016	December 31, 2015
Mortgage Loans					
Renaissance Atlanta Waverly Hotel & Convention Center[2]	Fixed	5.50 %	12/6/2016	$—	$ 97,000
Renaissance Austin Hotel[3]	Fixed	5.51 %	12/8/2016	83,000	83,000
Courtyard Pittsburgh Downtown[4]	Fixed	4.00 %	3/1/2017	—	22,607
Marriott Griffin Gate Resort & Spa[5]	Variable	3.02 %	3/23/2017	33,806	34,374
Courtyard Birmingham Downtown at UAB[3]	Fixed	5.25 %	4/1/2017	13,119	13,353
Hilton University of Florida Conference Center Gainesville[6]	Fixed	6.46 %	2/1/2018	—	27,775
Fairmont Dallas	Variable	2.52 %	4/10/2018	55,682	56,217
Residence Inn Denver City Center	Variable	2.78 %	4/17/2018	45,210	45,210
Marriott Dallas City Center[7]	Variable	2.78 %	5/24/2018	40,090	40,090
Bohemian Hotel Savannah Riverfront	Variable	2.88 %	12/17/2018	27,480	27,480
Andaz Savannah	Variable	2.52 %	1/14/2019	21,500	21,500
Hotel Monaco Denver	Fixed[8]	2.98 %	1/17/2019	41,000	41,000
Hotel Monaco Chicago	Variable	2.78 %	1/17/2019	24,144	26,000
Hyatt Regency Santa Clara[7]	Variable	2.53 %	1/20/2019	60,200	60,200
Loews New Orleans Hotel	Variable	2.87 %	2/22/2019	37,500	37,500
Andaz Napa	Fixed[9]	2.99 %	3/21/2019	38,000	38,000
Westin Galleria & Oaks Houston	Variable	3.03 %	5/1/2019	110,000	110,000
Marriott Charleston Town Center	Fixed	3.85 %	7/1/2020	16,524	16,877
Grand Bohemian Hotel Charleston (JV)	Variable	3.02 %	11/10/2020	19,785	19,950
Grand Bohemian Hotel Mountain Brook (JV)	Variable	3.03 %	12/27/2020	26,076	25,784
Hotel Palomar Philadelphia[10]	Fixed[10]	4.14 %	1/13/2023	60,000	—
Residence Inn Boston Cambridge	Fixed	4.48 %	10/28/2025	63,000	63,000
Grand Bohemian Hotel Orlando[11]	Fixed	4.53 %	3/1/2026	60,000	49,360
Total Mortgage Loans		3.47 % [12]		$ 876,116	$ 956,277
Mortgage Loan Premium / Discounts[13]	—	—	—	(73)	(661)
Unamortized Deferred Financing Costs	—	—	—	(6,915)	(8,305)
Senior Unsecured Credit Facility	Variable	2.23 %	2/3/2019	—	—
Unsecured Term Loan $175M	Fixed[14]	2.79 %	2/15/2021	175,000	175,000
Unsecured Term Loan $125M[15]	Fixed[14]	3.63 %	10/22/2022	125,000	—
Total Debt, net[6]		3.39 % [12]		$ 1,169,128	$ 1,122,311

(1) Variable index is one month LIBOR.
(2) In September 2016, the Company elected its prepayment option and repaid the outstanding balance of the mortgage loan of $97 million.
(3) In October 2016, the Company elected its prepayment option and repaid the outstanding balance of the mortgage loan. See additional discussion in Note 15.
(4) In June 2016, the Company elected its prepayment option and repaid the outstanding balance of the mortgage loan of $22.3 million.

(5) In March 2016, the Company elected to exercise its rights under the terms of the mortgage loan to extend the maturity date to March 23, 2017. In October 2016, the Company elected its prepayment option and repaid the outstanding balance of the mortgage loan. See additional discussion in Note 15.

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

(6) The hotel was sold in February 2016, and the related debt was paid off with proceeds from the sale. The $27.8 million balance of the mortgage was included in liabilities associated with assets held for sale as of December 31, 2015.
(7) In October 2016, the Company modified the loans collateralized by the Marriott Dallas City Center and the Hyatt Regency Santa Clara. The amendments resulted in $11 million and $30 million of additional proceeds, respectively, and extended the maturity dates to January 2022. See additional discussion in Note 15.
(8) In August 2016, the Company entered into an interest rate swap agreement for the entire $41.0 million mortgage loan to fix the interest rate at 2.98% for the remaining term of the loan.
(9) In August 2016, the Company entered into an interest rate swap agreement for the entire $38.0 million mortgage loan to fix the interest rate at 2.99% for the remaining term of the loan.
(10) In January 2016, the Company entered into a $60 million mortgage loan with an interest rate of LIBOR plus 260 basis points, maturing in January 2023. Simultaneously with the closing of the mortgage loan, the Company entered into an interest rate swap to fix the interest rate at 4.14% for the remaining term of the loan.
(11) In February 2016, the Company refinanced the mortgage with a new loan bearing a 4.53% fixed interest rate and March 2026 maturity. Additional proceeds of approximately $11 million were received under the refinanced terms of the mortgage, which increased the principal of the loan from approximately $49 million to $60 million.
(12) Represents the weighted average interest rate as of September 30, 2016.
(13) Loan premium/(discounts) on assumed mortgages recorded in purchase accounting.
(14) LIBOR has been fixed for the entire term of the loan. The spread may vary, as it is determined by the Company's leverage ratio.
(15) Funded $125 million in January 2016 in connection with the acquisition of the Hotel Commonwealth.

In connection with repaying and refinancing mortgage loans during the three and nine months ended September 30, 2016, the Company incurred prepayment and extinguishment fees of approximately $0.2 million and $5.0 million which is included in the loss on extinguishment of debt in the accompanying combined condensed consolidated statements of operations and comprehensive income for the period ended September 30, 2016. The loss from extinguishment of debt represents the write off of unamortized deferred financing costs incurred when the original agreements were executed as well as loan premiums or discounts and termination penalty payments.

Debt outstanding as of September 30, 2016 and December 31, 2015 was $1,176 million and $1,131 million and had a weighted average interest rate of 3.39% and 3.51% per annum, respectively. Mortgage premiums and discounts were a net $0.1 million and $0.7 million as of September 30, 2016 and December 31, 2015, respectively. The following table shows scheduled debt maturities for the next five years and thereafter (in thousands):

	As of September 30, 2016	Weighted average interest rate
2016	$ 83,000	5.51%
2017	46,925	3.65%
2018	168,462	2.71%
2019	332,344	2.86%
2020	62,385	3.24%
Thereafter	483,000	3.61%
Total debt	1,176,116	3.39%
Total mortgage discounts, net	(73)	—
Unamortized deferred financing costs, net	(6,915)	—
Total debt, net of mortgage loan discounts and unamortized deferred financing costs	$ 1,169,128	3.39%

Of the total outstanding debt at September 30, 2016, approximately $23.0 million of the mortgage loans were recourse to the Company. Certain loans have options to extend the maturity dates if exercised by the Company, subject to being compliant with certain covenants and the payment of an extension fee. Some of the mortgage loans require compliance with certain covenants, such as debt service coverage ratios, investment restrictions and distribution limitations. As of September 30, 2016, the Company was in compliance with all such covenants.

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

Senior Unsecured Credit Facility

Prior to the consummation of the spin-off transaction, the Company was allocated $96 million of InvenTrust's revolving credit facility. Effective February 3, 2015, this allocation was terminated and the Company entered into a new $400 million senior unsecured credit facility with a syndicate of banks. The new revolving credit facility includes an uncommitted accordion feature which, subject to certain conditions, allows the Company to increase the aggregate availability by up to an additional $350 million. Borrowings under the revolving credit facility bear interest based on LIBOR plus a margin ranging from 1.50% to 2.45% (or, at the Company's election upon achievement of an investment grade rating from Moody’s Investor Services, Inc. or Standard & Poor’s Rating Services, interest based on LIBOR plus a margin ranging from 0.875% to 1.50%). In addition, until such election, the Company expects to pay an unused commitment fee of up to 0.30% of the unused portion of the credit facility based on the average daily unused portion of the credit facility; thereafter, the Company expects to pay a facility fee ranging between 0.125% and 0.35% based on the Company's debt rating.

As of September 30, 2016, there was no outstanding balance on the senior unsecured facility and during the three and nine months ended September 30, 2016, the Company incurred unused commitment fees of approximately $0.3 million and $0.9 million, respectively. For the three and nine months ended September 30, 2015, the Company incurred unused commitment fees of approximately $0.2 million and $0.7 million, respectively.

8. Derivatives

The Company primarily uses interest rate swaps as part of its interest rate risk management strategy. For derivative instruments designated as cash flow hedges, unrealized gains and losses on the effective portion are reported in accumulated other comprehensive income (loss), a component of stockholders’ equity. Unrealized gains and losses on the ineffective portion of all designated hedges are recognized in earnings in the current period. At September 30, 2016, all derivative instruments were designated as cash flow hedges.

At September 30, 2016, the aggregate fair value of interest rate swap liabilities of $9.9 million was included in other liabilities in the accompanying condensed consolidated balance sheet. For the three and nine months ended September 30, 2016, the Company had an unrealized gain of $1.4 million and an unrealized loss of $14.3 million, respectively, that is included in the combined condensed consolidated statements of operations and comprehensive income. For the three and nine months ended September 30, 2015, the Company had no unrealized gain or loss as hedging activities were initiated in the fourth quarter of 2015.

The following table summarizes the terms of the derivative financial instruments held by the Company and the liability and asset that has been recorded as of September 30, 2016 and December 31, 2015, respectively (in thousands)[1]:

							Estimated Fair Value	
Hedged Debt	Type	Fixed Rate	Index	Effective Date	Maturity	Notional Amounts	September 30, 2016	December 31, 2015
$175M Term Loan	Swap	1.30%	1-Month LIBOR + 1.50%	10/22/2015	2/15/2021	$ 50,000	$ (753)	$ 604
$175M Term Loan	Swap	1.29%	1-Month LIBOR + 1.50%	10/22/2015	2/15/2021	65,000	(955)	817
$175M Term Loan	Swap	1.29%	1-Month LIBOR + 1.50%	10/22/2015	2/15/2021	60,000	(882)	754
$125M Term Loan	Swap	1.83%	1-Month LIBOR + 1.80%	1/15/2016	10/22/2022	50,000	(2,198)	(229)
$125M Term Loan	Swap	1.83%	1-Month LIBOR + 1.80%	1/15/2016	10/22/2022	25,000	(1,106)	(145)
	Swap	1.84%		1/15/2016	10/22/2022	25,000	(1,109)	(126)

$125M Term Loan			1-Month LIBOR + 1.80%					
$125M Term Loan	Swap	1.83%	1-Month LIBOR + 1.80%	1/15/2016	10/22/2022	25,000	(1,109)	(132)
Mortgage Debt	Swap	1.54%	1-Month LIBOR + 2.60%	1/13/2016	1/13/2023	60,000	(1,602)	—
Mortgage Debt	Swap	0.88%	1-Month LIBOR + 2.50%	9/1/2016	1/17/2019	41,000	(80)	—
Mortgage Debt	Swap	0.89%	1-Month LIBOR + 2.50%	9/1/2016	3/21/2019	38,000	(77)	—
						$439,000	$(9,871)	$ 1,543

(1) There were no amounts recognized in earnings related to hedge ineffectiveness or amounts excluded from hedge ineffectiveness testing during the three and nine months ended September 30, 2016.

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

For the three and nine months ended September 30, 2016, the Company reclassified $1.0 million and $2.9 million, respectively, from accumulated other comprehensive loss to interest expense. The Company expects approximately $3.1 million will be reclassified from accumulated other comprehensive loss to interest expense in the next 12 months.

9. Fair Value Measurements

In accordance with FASB ASC 820, Fair Value Measurement and Disclosures, the Company defines fair value based on the price that would be received upon sale of an asset or the exit price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy consists of three broad levels, which are described below:

- Level 1 - Quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.
- Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company has estimated the fair value of its financial and non-financial instruments using available market information and valuation methodologies it believes to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, accordingly, they are not necessarily indicative of amounts that would be realized upon disposition.

Recurring Measurements

For assets and liabilities measured at fair value on a recurring basis, quantitative disclosure of their fair value is as follows (in thousands):

	Fair Value Measurement Date	
	September 30, 2016	December 31, 2015
Description	Significant Unobservable Inputs (Level 2)	Significant Unobservable Inputs (Level 2)
Assets		
Interest rate swaps	$—	$ 1,820
Liabilities		
Interest rate swaps	(9,871)	(277)
Total	$(9,871)	$ 1,543

The fair value of each derivative instrument is based on a discounted cash flow analysis of the expected cash flows under each arrangement. This analysis reflects the contractual terms of the derivative instrument, including the period to maturity, and utilizes observable market-based inputs, including interest rate curves and implied volatilities, which are classified within level 2 of the fair value hierarchy. The Company also incorporates credit value adjustments to appropriately reflect each parties' nonperformance risk in the fair value measurement, which utilizes level 3 inputs such as estimates of current credit spreads. However, the Company has assessed that the credit valuation adjustments are not significant to the overall valuation of the derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified within level 2 of the fair value hierarchy.

Non-Recurring Measurements

Investment Properties

During the nine months ended September 30, 2016, the Company identified two hotel properties that had a reduction in their expected holding period and reviewed the probability of the assets' disposition. The Company recorded an impairment charge

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

of $10.0 million for the nine months ended September 30, 2016, based on the estimated fair value using purchase contracts and average selling costs. These properties were subsequently sold in May and June 2016, respectively. No impairments were recorded for the three and nine months ended September 30, 2015.

Financial Instruments Not Measured at Fair Value

The table below represents the fair value of financial instruments presented at carrying values in the combined condensed consolidated financial statements as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016		December 31, 2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Mortgages payable	$1,169,128	$1,172,787	$1,130,616	$1,137,149
Total	$1,169,128	$1,172,787	$1,130,616	$1,137,149

The Company estimates the fair value of its mortgages payable using a weighted average effective interest rate of 3.44% and 3.48% per annum as of September 30, 2016 and December 31, 2015, respectively. The Company has determined that its debt instrument valuations are classified in Level 2 of the fair value hierarchy.

10. Income Taxes

The Company intends to operate in a manner that will allow the Company to qualify as a REIT under the Internal Revenue Code of 1986, as amended. To qualify as a REIT, the Company cannot operate or manage its hotels. So long as the Company qualifies for taxation as a REIT, it generally will not be subject to federal income tax on taxable income that is currently distributed to its stockholders. A REIT is subject to a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its REIT taxable income (subject to certain adjustments) to its stockholders. If the Company fails to qualify as a REIT in any taxable year, without the benefit of certain relief provisions, the Company will be subject to federal, state and local income tax on its taxable income at regular corporate tax rates and will not be eligible to re-elect REIT status during the four years following the failure. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income, property or net worth and federal income and excise taxes on its undistributed income.

Accordingly, the Company, through its Operating Partnership, leases all of its hotels to subsidiaries of its TRS. The TRS is subject to federal, state and local income tax at regular corporate rates. Lease revenue at the REIT landlord subsidiaries and lease expense at the TRS lessees are eliminated in consolidation for financial statement purposes.

The Company estimated the TRS income tax expense for the three and nine months ended September 30, 2016 using an estimated federal and state statutory combined rate of 39.37%. For the three and nine months ended September 30, 2016 the Company recognized income tax benefit of $0.2 million and income tax expense of $9.6 million, respectively.

During the three and nine months ended September 30, 2015, the Company recognized income tax benefit of $0.1 million and expense of $8.3 million, respectively, of which $1.9 million of the expense for the nine months ended September 30, 2015 related to taxes on a one-time gain on the transfer of a hotel resulting in a more optimal structure in connection with the Company's intention to be taxed as a REIT.

For both the three and nine months ended September 30, 2016 and 2015, the Company's effective tax rate differed from the federal statutory rate predominately due to the dividends paid deduction, state income taxes, and changes to valuation allowances.

11. Stockholders' Equity

Common Shares

On February 4, 2015, in conjunction with the listing of the Company's Common Stock on the NYSE, the Company commenced a modified “Dutch Auction” self-tender offer (the “Tender Offer”) to purchase for cash up to $125 million in value of shares of the Company’s Common Stock at a price not greater than $21.00 nor less than $19.00 per share, net to the seller in cash, less any applicable withholding of taxes and without interest. The Tender Offer expired on March

5, 2015. As a result of the Tender Offer, the Company accepted for purchase 1,759,344 shares of its Common Stock at a purchase price of $21.00 per share, for an aggregate purchase price of $36.9 million (excluding fees and expenses relating to the Tender Offer), which was funded from

XENIA HOTELS & RESORTS, INC.
Notes to Combined Condensed Consolidated Financial Statements (unaudited)
September 30, 2016

cash on hand. The 1,759,344 shares of Common Stock accepted for purchase in the Tender Offer represented approximately 1.6% of the Company's Common Stock outstanding as of February 3, 2015, the last day prior to the commencement of the Tender Offer. Stockholders who properly tendered and did not properly withdraw shares of Common Stock in the Tender Offer at or below the final purchase price of $21.00 per share had all of their tendered shares of Common Stock purchased by the Company at $21.00 per share.

Stock Repurchase Program

In December 2015, the Company's Board of Directors authorized a stock repurchase program (the "Repurchase Program") pursuant to which we are authorized to purchase up to $100 million of the Company's outstanding Common Stock, in the open market, in privately negotiated transactions or otherwise, including pursuant to Rule 10b5-1 plans. The Repurchase Program does not have an expiration date. The Company is not obligated to repurchase any dollar amount or any number of shares of common stock, and repurchases may be suspended or discontinued at any time.

For the three and nine months ended September 30, 2016, 337,113 and 4,466,048 shares, respectively, had been repurchased under the Repurchase Program, at a weighted average price of $16.44 and $14.84, respectively, per share for an aggregate purchase price of $5.5 million and $66.3 million, respectively. As of September 30, 2016, the Company had approximately $33.7 million remaining under its share repurchase authorization.

Distributions

Common Stock

The Company paid or declared the following dividends on Common Stock during the three and nine months ended September 30, 2016:

Dividend per Share/Unit	For the Quarter Ended	Record Date	Payable Date
$0.275	March 31, 2016	March 31, 2016	April 15, 2016
$0.275	June 30, 2016	June 30, 2016	July 15, 2016
$0.275	September 30, 2016	September 30, 2016	October 14, 2016

Non-Controlling Interest of Common Units in Operating Partnership

As of September 30, 2016, the Operating Partnership had 1,378,573 long-term incentive partnership units ("LTIP units") outstanding, representing a 1.3% partnership interest held by the limited partners. Of the 1,378,573 LTIP units outstanding at September 30, 2016, 118,960 units had vested. Only vested LTIP units may be converted to common units of the Operating Partnership, which in turn can be tendered for redemption as described in Note 13.

As of September 30, 2016, the Company had accrued $97 thousand in dividends related to the LTIP units, which were paid in October 2016.

12. Earnings Per Share

Basic earnings per common share is calculated by dividing income or loss available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share is calculated by dividing income or loss available to common stockholders by the weighted-average number of common shares outstanding during the period, plus any shares that could potentially be outstanding during the period. Any anti-dilutive shares have been excluded from the diluted earnings per share calculation.