

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2024**

OR

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

For the transition period from _____ to _____.

SOTHERLY HOTELS INC.

(Exact name of registrant as specified in its charter)

MARYLAND
(State or Other Jurisdiction of
Incorporation or Organization)

001-32379
(Commission
File Number)

20-1531029
(I.R.S. Employer
Identification No.)

SOTHERLY HOTELS LP

(Exact name of registrant as specified in its charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

001-36091
(Commission
File Number)

20-1965427
(I.R.S. Employer
Identification No.)

**306 South Henry Street, Suite 100
Williamsburg, Virginia 23185
(757) 229-5648**

(Address and Telephone Number of Principal Executive Offices)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	SOHO	The NASDAQ Stock Market LLC
8.0% Series B Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value	SOHOB	The NASDAQ Stock Market LLC
7.875% Series C Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value	SOHOO	The NASDAQ Stock Market LLC
8.25% Series D Cumulative Redeemable Perpetual Preferred Stock, \$0.01 par value	SOHON	The NASDAQ Stock Market LLC

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.

Sotherly Hotels Inc. Yes No **Sotherly Hotels LP** Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.)

Sotherly Hotels Inc. Yes No **Sotherly Hotels LP** Yes No

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

Sotherly Hotels Inc.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
Emerging Growth Company	<input type="checkbox"/>		

Sotherly Hotels LP

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Sotherly Hotels Inc. Yes No **Sotherly Hotels LP** Yes No

As of November 12, 2024, there were 19,849,165 shares of Sotherly Hotels Inc.’s common stock issued and outstanding.

EXPLANATORY NOTE

We refer to Sotherly Hotels Inc. as the “Company,” Sotherly Hotels LP as the “Operating Partnership,” the Company’s common stock as “common stock,” the Company’s preferred stock as “preferred stock,” the Operating Partnership’s common partnership interests as “partnership units,” and the Operating Partnership’s preferred interests as the “preferred units.” References to “we” and “our” mean the Company, its Operating Partnership and its subsidiaries and predecessors, collectively, unless the context otherwise requires or where otherwise indicated.

The Company conducts virtually all of its activities through the Operating Partnership and is its sole general partner. The Operating Partnership's partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership. The Company does not conduct business itself, other than (a) acting as the sole general partner of the Operating Partnership, (b) issuing public equity from time to time, and (c) guaranteeing certain unsecured debt of the Operating Partnership and certain of its subsidiaries and affiliates. The Operating Partnership holds substantially all of the assets of the business, directly or indirectly. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances made by the Company, which are generally contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the business through the Operating Partnership's operations, incurrence of indebtedness, and issuance of partnership units to third parties.

This report combines the Quarterly Reports on Form 10-Q for the period ended September 30, 2024, of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

- combined reports better reflect how management and investors view the business as a single operating unit;
- combined reports enhance investors’ understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Company and the Operating Partnership and result in savings of time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- Consolidated Financial Statements;
- the following Notes to Consolidated Financial Statements:
 - Note 7 – Preferred Stock and Units;
 - Note 8 – Common Stock and Units;
 - Note 13 – Loss Per Share and Per Unit; and
- Part I, Item 4 - Controls and Procedures; and
- Part II, Item 6 - Certifications of CEO and CFO pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act.

**SOTHERLY HOTELS INC.
SOTHERLY HOTELS LP**

INDEX

	<u>Page</u>
	<u>PART I</u>
Item 1.	<u>Consolidated Financial Statements</u> 5
	<u>Sotherly Hotels Inc.</u>
	<u>Consolidated Balance Sheets as of September 30, 2024 (unaudited) and December 31, 2023</u> 5
	<u>Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended September 30, 2024 and 2023</u> 6
	<u>Consolidated Statements of Changes in Equity (unaudited) for the Three Months Ended March 31, June 30, and September 30, 2024 and 2023</u> 7
	<u>Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2024 and 2023</u> 9
	<u>Sotherly Hotels LP</u>
	<u>Consolidated Balance Sheets as of September 30, 2024 (unaudited) and December 31, 2023</u> 10
	<u>Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended September 30, 2024 and 2023</u> 11
	<u>Consolidated Statements of Changes in Partners' Capital (unaudited) for the Three Months Ended March 31, June 30, and September 30, 2024 and 2023</u> 12
	<u>Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2024 and 2023</u> 14
	<u>Notes to Consolidated Financial Statements</u> 15
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 34
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 45
Item 4	<u>Controls and Procedures</u> 46
	<u>PART II</u>
Item 1.	<u>Legal Proceedings</u> 47
Item 1A.	<u>Risk Factors</u> 47
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 47
Item 3.	<u>Defaults Upon Senior Securities</u> 47
Item 4.	<u>Mine Safety Disclosures</u> 47
Item 5.	<u>Other Information</u> 47
Item 6.	<u>Exhibits</u> 48

PART I

Item 1. Consolidated Financial Statements

SOTHERLY HOTELS INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2024 (unaudited)	December 31, 2023
ASSETS		
Investment in hotel properties, net	\$ 372,952,913	\$ 354,919,106
Cash and cash equivalents	14,017,642	17,101,993
Restricted cash	18,488,112	9,134,347
Accounts receivable, net	3,185,999	5,945,724
Prepaid expenses, inventory and other assets	6,309,930	6,342,310
TOTAL ASSETS	\$ 414,954,596	\$ 393,443,480
LIABILITIES		
Mortgage loans, net	\$ 318,061,006	\$ 315,989,194
Unsecured notes	906,280	1,536,809
Finance lease liabilities	22,742,195	—
Accounts payable and accrued liabilities	23,713,552	23,315,677
Advance deposits	2,879,011	2,614,981
Dividends and distributions payable	2,088,160	2,088,160
TOTAL LIABILITIES	\$ 370,390,204	\$ 345,544,821
Commitments and contingencies (See Note 5)	—	—
EQUITY		
Sotherly Hotels Inc. stockholders' equity		
Preferred stock, \$0.01 par value, 11,000,000 shares authorized:		
8.0% Series B cumulative redeemable perpetual preferred stock, 1,464,100 and 1,464,100 shares issued and outstanding; aggregate liquidation preference each \$44,655,050, at September 30, 2024 and December 31, 2023, respectively.	14,641	14,641
7.875% Series C cumulative redeemable perpetual preferred stock, 1,346,110 and 1,346,110 shares issued and outstanding; aggregate liquidation preference each \$40,940,681, at September 30, 2024 and December 31, 2023, respectively.	13,461	13,461
8.25% Series D cumulative redeemable perpetual preferred stock, 1,163,100 and 1,163,100 shares issued and outstanding; aggregate liquidation preference each \$35,674,458, at September 30, 2024 and December 31, 2023, respectively.	11,631	11,631
Common stock, par value \$0.01, 69,000,000 shares authorized, 19,849,165 shares issued and outstanding at September 30, 2024 and 19,696,805 shares issued and outstanding at December 31, 2023.	198,492	196,968
Additional paid-in capital	176,029,053	175,779,222
Unearned ESOP shares	(1,664,624)	(1,764,507)
Distributions in excess of retained earnings	(128,662,378)	(125,021,013)
Total Sotherly Hotels Inc. stockholders' equity	45,940,276	49,230,403
Noncontrolling interest	(1,375,884)	(1,331,744)
TOTAL EQUITY	44,564,392	47,898,659
TOTAL LIABILITIES AND EQUITY	\$ 414,954,596	\$ 393,443,480

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

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30, 2024 (unaudited)	Three Months Ended September 30, 2023 (unaudited)	Nine Months Ended September 30, 2024 (unaudited)	Nine Months Ended September 30, 2023 (unaudited)
REVENUE				
Rooms department	\$ 27,164,369	\$ 26,260,586	\$ 91,479,915	\$ 87,915,797
Food and beverage department	7,759,489	7,522,753	27,413,491	25,772,453
Other operating departments	5,776,123	5,398,024	19,049,373	18,001,724
Total revenue	40,699,981	39,181,363	137,942,779	131,689,974
EXPENSES				
Hotel operating expenses				
Rooms department	6,597,088	6,437,081	20,601,678	19,866,515
Food and beverage department	5,791,865	5,607,350	18,798,440	17,933,777
Other operating departments	2,318,079	2,198,058	7,509,942	6,819,661
Indirect	17,905,901	17,372,167	54,887,637	52,582,080
Total hotel operating expenses	32,612,933	31,614,656	101,797,697	97,202,033
Depreciation and amortization	4,860,548	4,715,019	14,447,789	14,056,523
Gain on disposal of assets	—	(4,700)	—	(4,700)
Corporate general and administrative	1,471,566	1,688,535	4,968,465	5,458,340
Total operating expenses	38,945,047	38,013,510	121,213,951	116,712,196
NET OPERATING INCOME	1,754,934	1,167,853	16,728,828	14,977,778
Other income (expense)				
Interest expense	(5,341,825)	(4,466,630)	(15,231,626)	(12,868,595)
Interest income	155,309	222,878	578,183	592,315
Other income	103,961	—	371,191	—
Loss on early extinguishment of debt	—	—	(241,878)	—
Realized gain on hedging activities	—	—	1,041,994	—
Unrealized gain (loss) on hedging activities	(327,826)	103,946	(1,119,247)	(51,686)
PPP loan forgiveness	—	—	—	275,494
Gain on sale of assets	—	—	4,400	—
Gain on involuntary conversion of assets	32,537	551,729	267,574	1,331,374
Net (loss) income before income taxes	(3,622,910)	(2,420,224)	2,399,419	4,256,680
Income tax (provision) benefit	(66,711)	354,398	(101,988)	322,679
Net (loss) income	(3,689,621)	(2,065,826)	2,297,431	4,579,359
Add: Net loss attributable to noncontrolling interest	80,173	156,558	44,140	50,720
Net (loss) income attributable to the Company	(3,609,448)	(1,909,268)	2,341,571	4,630,079
Undeclared distributions to preferred stockholders	(1,994,313)	(1,994,313)	(5,982,938)	(5,982,938)
Net loss attributable to common stockholders	\$ (5,603,761)	\$ (3,903,581)	\$ (3,641,367)	\$ (1,352,859)
Net loss per share attributable to common stockholders:				
Basic and diluted	\$ (0.29)	\$ (0.20)	\$ (0.19)	\$ (0.08)
Weighted average number of common shares outstanding				
Basic and diluted	19,434,233	18,906,851	19,408,524	18,742,219

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

**SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Preferred Stock		Common Stock		Additional Paid- In Capital	Unearned ESOP Shares	Distributions in Excess of Retained Earnings	Noncontrolling Interest	Total
	Shares	Par Value	Shares	Par Value					
Balances at December 31, 2023	<u>3,973,310</u>	<u>\$ 39,733</u>	<u>19,696,805</u>	<u>\$ 196,968</u>	<u>\$ 175,779,222</u>	<u>\$ (1,764,507)</u>	<u>\$ (125,021,013)</u>	<u>\$ (1,331,744)</u>	<u>\$ 47,898,659</u>
Net income	—	—	—	—	—	—	1,334,939	(12,118)	1,322,821
Issuance of common stock	—	—	152,360	1,524	203,401	—	—	—	204,925
Preferred stock dividends declared:									
Series B Preferred Stock, \$0.50/share	—	—	—	—	—	—	(732,050)	—	(732,050)
Series C Preferred Stock, \$0.492188/share	—	—	—	—	—	—	(662,539)	—	(662,539)
Series D Preferred Stock, \$0.515625/share	—	—	—	—	—	—	(599,723)	—	(599,723)
Amortization of ESOP shares	—	—	—	—	(26,542)	33,298	—	—	6,756
Amortization of restricted stock awards	—	—	—	—	44,270	—	—	—	44,270
Balances at March 31, 2024 (unaudited)	<u>3,973,310</u>	<u>\$ 39,733</u>	<u>19,849,165</u>	<u>\$ 198,492</u>	<u>\$ 176,000,351</u>	<u>\$ (1,731,209)</u>	<u>\$ (125,680,386)</u>	<u>\$ (1,343,862)</u>	<u>\$ 47,483,119</u>
Net income	—	—	—	—	—	—	4,616,081	48,151	4,664,232
Preferred stock dividends declared:									
Series B Preferred Stock, \$0.50/share	—	—	—	—	—	—	(732,050)	—	(732,050)
Series C Preferred Stock, \$0.492188/share	—	—	—	—	—	—	(662,539)	—	(662,539)
Series D Preferred Stock, \$0.515625/share	—	—	—	—	—	—	(599,722)	—	(599,722)
Amortization of ESOP shares	—	—	—	—	(27,233)	33,293	—	—	6,060
Amortization of restricted stock awards	—	—	—	—	41,770	—	—	—	41,770
Balances at June 30, 2024 (unaudited)	<u>3,973,310</u>	<u>\$ 39,733</u>	<u>19,849,165</u>	<u>\$ 198,492</u>	<u>\$ 176,014,888</u>	<u>\$ (1,697,916)</u>	<u>\$ (123,058,616)</u>	<u>\$ (1,295,711)</u>	<u>\$ 50,200,870</u>
Net income	—	—	—	—	—	—	(3,609,448)	(80,173)	(3,689,621)
Preferred stock dividends declared:									
Series B Preferred Stock, \$0.50/share	—	—	—	—	—	—	(732,051)	—	(732,051)
Series C Preferred Stock, \$0.492188/share	—	—	—	—	—	—	(662,540)	—	(662,540)
Series D Preferred Stock, \$0.515625/share	—	—	—	—	—	—	(599,723)	—	(599,723)
Amortization of ESOP shares	—	—	—	—	(27,605)	33,292	—	—	5,687
Amortization of restricted stock awards	—	—	—	—	41,770	—	—	—	41,770
Balances at September 30, 2024 (unaudited)	<u>3,973,310</u>	<u>\$ 39,733</u>	<u>19,849,165</u>	<u>\$ 198,492</u>	<u>\$ 176,029,053</u>	<u>\$ (1,664,624)</u>	<u>\$ (128,662,378)</u>	<u>\$ (1,375,884)</u>	<u>\$ 44,564,392</u>

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

**SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Preferred Stock		Common Stock		Additional Paid- In Capital	Unearned ESOP Shares	Distributions in Excess of Retained Earnings	Noncontrolling Interest	Total
	Shares	Par Value	Shares	Par Value					
Balances at December 31, 2022	<u>3,973,310</u>	<u>\$ 39,733</u>	<u>18,951,525</u>	<u>\$ 189,515</u>	<u>\$ 175,611,370</u>	<u>\$ (2,601,134)</u>	<u>\$ (120,985,183)</u>	<u>\$ (733,578)</u>	<u>\$ 51,520,723</u>
Net income	—	—	—	—	—	—	1,412,474	(24,960)	1,387,514
Issuance of common stock	—	—	64,278	643	120,842	—	—	—	121,485
Issuance of restricted common stock awards	—	—	220,000	2,200	101,701	—	—	—	103,901
Amortization of ESOP shares	—	—	—	—	(33,439)	45,634	—	—	12,195
Amortization of restricted stock awards	—	—	—	—	22,883	—	—	—	22,883
Balances at March 31, 2023 (unaudited)	<u>3,973,310</u>	<u>\$ 39,733</u>	<u>19,235,803</u>	<u>\$ 192,358</u>	<u>\$ 175,823,357</u>	<u>\$ (2,555,500)</u>	<u>\$ (119,572,709)</u>	<u>\$ (758,538)</u>	<u>\$ 53,168,701</u>
Net income	—	—	—	—	—	—	5,126,872	130,798	5,257,670
Conversion of units in Operating Partnership to shares of common stock	—	—	75,000	750	426,049	—	—	(426,799)	—
Preferred stock dividends declared:									
Series B Preferred Stock, \$0.50/share	—	—	—	—	—	—	(1,464,100)	—	(1,464,100)
Series C Preferred Stock, \$0.492188/share	—	—	—	—	—	—	(1,325,078)	—	(1,325,078)
Series D Preferred Stock, \$0.515625/share	—	—	—	—	—	—	(1,199,447)	—	(1,199,447)
Amortization of ESOP shares	—	—	—	—	(32,916)	45,633	—	—	12,717
Amortization of restricted stock awards	—	—	—	—	41,771	—	—	—	41,771
Balances at June 30, 2023 (unaudited)	<u>3,973,310</u>	<u>\$ 39,733</u>	<u>19,310,803</u>	<u>\$ 193,108</u>	<u>\$ 176,258,261</u>	<u>\$ (2,509,867)</u>	<u>\$ (118,434,462)</u>	<u>\$ (1,054,539)</u>	<u>\$ 54,492,234</u>
Net loss	—	—	—	—	—	—	(1,909,268)	(156,558)	(2,065,826)
Conversion of units in Operating Partnership to shares of common stock	—	—	386,002	3,860	35,797	—	—	(39,657)	—
Preferred stock dividends declared:									
Series B Preferred Stock, \$0.50/share	—	—	—	—	—	—	(732,050)	—	(732,050)
Series C Preferred Stock, \$0.492188/share	—	—	—	—	—	—	(662,539)	—	(662,539)
Series D Preferred Stock, \$0.515625/share	—	—	—	—	—	—	(599,723)	—	(599,723)
Amortization of ESOP shares	—	—	—	—	(31,644)	45,636	—	—	13,992
Amortization of restricted stock awards	—	—	—	—	41,770	—	—	—	41,770
Balances at September 30, 2023 (unaudited)	<u>3,973,310</u>	<u>\$ 39,733</u>	<u>19,696,805</u>	<u>\$ 196,968</u>	<u>\$ 176,304,184</u>	<u>\$ (2,464,231)</u>	<u>\$ (122,338,042)</u>	<u>\$ (1,250,754)</u>	<u>\$ 50,487,858</u>

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

SOTHERLY HOTELS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Nine Months Ended September 30, 2024 (unaudited)	Nine Months Ended September 30, 2023 (unaudited)
Cash flows from operating activities:		
Net income	\$ 2,297,431	\$ 4,579,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,447,789	14,056,523
Amortization of deferred financing costs	528,485	448,467
Amortization of mortgage premium	(18,511)	(18,511)
Negative lease amortization	137,130	—
Gain on involuntary conversion of assets	(267,574)	(1,331,374)
Unrealized loss on hedging activities	1,119,247	51,686
Loss on early extinguishment of debt	241,878	—
PPP loan forgiveness	—	(275,494)
Gain on disposal of assets	(4,400)	(4,700)
ESOP and stock - based compensation	351,193	370,714
Changes in assets and liabilities:		
Accounts receivable	2,759,725	1,086,903
Prepaid expenses, inventory and other assets	(80,121)	(1,350,705)
Accounts payable and other accrued liabilities	(358,974)	236,206
Advance deposits	264,030	639,444
Net cash provided by operating activities	21,417,328	18,488,518
Cash flows from investing activities:		
Improvements and additions to hotel properties	(10,106,127)	(6,069,672)
Proceeds from involuntary conversion	267,574	1,312,675
Proceeds from sale of assets	4,400	141,952
Net cash used in investing activities	(9,834,153)	(4,615,045)
Cash flows from financing activities:		
Proceeds from mortgage loans	66,250,000	2,715,833
Redemption of interest rate swap	965,000	—
Payments on mortgage loans	(63,203,234)	(5,580,239)
Payments on unsecured notes	(630,529)	(554,965)
Purchase of interest rate cap	(916,000)	—
Payments on finance lease liabilities	(28,654)	—
Payments of deferred financing costs	(1,767,406)	(413,909)
Preferred dividends paid	(5,982,938)	(7,977,251)
Net cash used in financing activities	(5,313,761)	(11,810,531)
Net increase in cash, cash equivalents and restricted cash	6,269,414	2,062,942
Cash, cash equivalents and restricted cash at the beginning of the period	26,236,340	27,341,630
Cash, cash equivalents and restricted cash at the end of the period	\$ 32,505,754	\$ 29,404,572
Supplemental disclosures:		
Cash paid during the period for interest	\$ 15,272,598	\$ 12,619,680
Cash paid during the period for income taxes	\$ 140,536	\$ 614,231
Non-cash investing and financing activities:		
Accrued capital expenditures	\$ 206,105	\$ 8,684
Remeasurement of finance lease asset and liability	\$ 22,352,075	\$ -
Acquisition of finance lease assets and liabilities	\$ 179,364	\$ -

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

SOTHERLY HOTELS LP
CONSOLIDATED BALANCE SHEETS

	<u>September 30, 2024</u> (unaudited)	<u>December 31, 2023</u>
ASSETS		
Investment in hotel properties, net	\$ 372,952,913	\$ 354,919,106
Cash and cash equivalents	14,017,642	17,101,993
Restricted cash	18,488,112	9,134,347
Accounts receivable, net	3,185,999	5,945,724
Loan receivable - affiliate	1,656,005	1,744,532
Prepaid expenses, inventory and other assets	6,309,930	6,342,310
TOTAL ASSETS	<u>\$ 416,610,601</u>	<u>\$ 395,188,012</u>
LIABILITIES		
Mortgage loans, net	\$ 318,061,006	\$ 315,989,194
Unsecured notes, net	906,280	1,536,809
Finance lease liabilities	22,742,195	—
Accounts payable and other accrued liabilities	23,713,552	23,315,677
Advance deposits	2,879,011	2,614,981
Dividends and distributions payable	2,088,160	2,088,160
TOTAL LIABILITIES	<u>\$ 370,390,204</u>	<u>\$ 345,544,821</u>
Commitments and contingencies (see Note 5)	—	—
PARTNERS' CAPITAL		
Preferred units, 11,000,000 units authorized;		
8.0% Series B cumulative redeemable perpetual preferred unit; 1,464,100 and 1,464,100 units issued and outstanding; aggregate liquidation preference each \$44,655,050, at September 30, 2024 and December 31, 2023, respectively.	\$ 34,344,086	\$ 34,344,086
7.875% Series C cumulative redeemable perpetual preferred units, 1,346,110 and 1,346,110 units issued and outstanding; aggregate liquidation preference each \$40,940,681, at September 30, 2024 and December 31, 2023, respectively.	31,571,778	31,571,778
8.25% Series D cumulative redeemable perpetual preferred units, 1,163,100 and 1,163,100 units issued and outstanding; aggregate liquidation preference each \$35,674,458, at September 30, 2024 and December 31, 2023, respectively.	27,504,901	27,504,901
General Partner: 206,744 units and 205,220 units issued and outstanding as of September 30, 2024 and December 31, 2023, respectively.	(215,260)	(171,830)
Limited Partners: 20,006,607 units and 19,855,771 units issued and outstanding as of September 30, 2024 and December 31, 2023, respectively.	(46,985,108)	(43,605,744)
TOTAL PARTNERS' CAPITAL	<u>46,220,397</u>	<u>49,643,191</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 416,610,601</u>	<u>\$ 395,188,012</u>

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

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended September 30, 2024 <small>(unaudited)</small>	Three Months Ended September 30, 2023 <small>(unaudited)</small>	Nine Months Ended September 30, 2024 <small>(unaudited)</small>	Nine Months Ended September 30, 2023 <small>(unaudited)</small>
REVENUE				
Rooms department	\$ 27,164,369	\$ 26,260,586	\$ 91,479,915	\$ 87,915,797
Food and beverage department	7,759,489	7,522,753	27,413,491	25,772,453
Other operating departments	5,776,123	5,398,024	19,049,373	18,001,724
Total revenue	40,699,981	39,181,363	137,942,779	131,689,974
EXPENSES				
Hotel operating expenses				
Rooms department	6,597,088	6,437,081	20,601,678	19,866,515
Food and beverage department	5,791,865	5,607,350	18,798,440	17,933,777
Other operating departments	2,318,079	2,198,058	7,509,942	6,819,661
Indirect	17,905,901	17,372,167	54,887,637	52,582,080
Total hotel operating expenses	32,612,933	31,614,656	101,797,697	97,202,033
Depreciation and amortization	4,860,548	4,715,019	14,447,789	14,056,523
Gain on disposal of assets	—	(4,700)	—	(4,700)
Corporate general and administrative	1,471,566	1,688,535	4,968,465	5,458,340
Total operating expenses	38,945,047	38,013,510	121,213,951	116,712,196
NET OPERATING INCOME	1,754,934	1,167,853	16,728,828	14,977,778
Other income (expense)				
Interest expense	(5,341,825)	(4,466,630)	(15,231,626)	(12,868,595)
Interest income	155,309	222,878	578,183	592,315
Other income	103,961	—	371,191	—
Loss on early extinguishment of debt	—	—	(241,878)	—
Realized gain on hedging activities	—	—	1,041,994	—
Unrealized gain (loss) on hedging activities	(327,826)	103,946	(1,119,247)	(51,686)
PPP loan forgiveness	—	—	—	275,494
Gain on sale of assets	—	—	4,400	—
Gain on involuntary conversion of assets	32,537	551,729	267,574	1,331,374
Net (loss) income before income taxes	(3,622,910)	(2,420,224)	2,399,419	4,256,680
Income tax (provision) benefit	(66,711)	354,398	(101,988)	322,679
Net (loss) income	(3,689,621)	(2,065,826)	2,297,431	4,579,359
Undeclared distributions to preferred unit holders	(1,994,313)	(1,994,313)	(5,982,938)	(5,982,938)
Net loss attributable to general and limited partnership unit holders	\$ (5,683,934)	\$ (4,060,139)	\$ (3,685,507)	\$ (1,403,579)
Net loss attributable per general and limited partner unit:				
Basic and diluted	\$ (0.28)	\$ (0.20)	\$ (0.19)	\$ (0.07)
Weighted average number of general and limited partner units outstanding				
Basic and diluted	20,004,351	19,810,991	19,994,898	19,807,797

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

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

	Preferred Units				General Partner		Limited Partner		Total
	Units	Series B Amounts	Series C Amounts	Series D Amounts	Units	Amounts	Units	Amounts	
Balances at December 31, 2023	3,973,310	\$ 34,344,086	\$ 31,571,778	\$ 27,504,901	205,220	\$ (171,830)	19,855,771	\$ (43,605,744)	\$ 49,643,191
Amortization of restricted unit awards	—	—	—	—	—	443	—	43,827	44,270
Preferred distributions paid	—	—	—	—	—	(19,943)	—	(1,974,370)	(1,994,313)
Unit based compensation	—	—	—	—	1,524	1,742	150,836	172,510	174,252
Net income	—	—	—	—	—	23,869	—	1,298,952	1,322,821
Balances at March 31, 2024 (unaudited)	3,973,310	\$ 34,344,086	\$ 31,571,778	\$ 27,504,901	206,744	\$ (165,719)	20,006,607	\$ (44,064,825)	\$ 49,190,221
Amortization of restricted unit awards	—	—	—	—	—	418	—	41,352	41,770
Preferred distributions paid	—	—	—	—	—	(19,943)	—	(1,974,367)	(1,994,310)
Unit based compensation	—	—	—	—	—	(219)	—	(21,689)	(21,908)
Net income	—	—	—	—	—	30,146	—	4,634,086	4,664,232
Balances at June 30, 2024 (unaudited)	3,973,310	\$ 34,344,086	\$ 31,571,778	\$ 27,504,901	206,744	\$ (155,317)	20,006,607	\$ (41,385,443)	\$ 51,880,005
Amortization of restricted unit awards	—	—	—	—	—	418	—	41,352	41,770
Preferred distributions paid	—	—	—	—	—	(19,943)	—	(1,974,370)	(1,994,313)
Unit based compensation	—	—	—	—	—	(170)	—	(17,274)	(17,444)
Net income	—	—	—	—	—	(40,248)	—	(3,649,373)	(3,689,621)
Balances at September 30, 2024 (unaudited)	3,973,310	\$ 34,344,086	\$ 31,571,778	\$ 27,504,901	206,744	\$ (215,260)	20,006,607	\$ (46,985,108)	\$ 46,220,397

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

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENTS OF CHANGES IN PARTNERS' CAPITAL

	Preferred Units				General Partner		Limited Partner		Total
	Units	Series B Amounts	Series C Amounts	Series D Amounts	Units	Amounts	Units	Amounts	
Balances at December 31, 2022	3,973,310	\$ 34,344,086	\$ 31,571,778	\$ 27,504,901	197,767	\$ (106,022)	19,578,946	\$ (39,143,494)	\$ 54,171,249
Amortization of restricted unit awards	—	—	—	—	—	229	—	22,654	22,883
Unit based compensation	—	—	—	—	2,843	1,857	281,435	183,780	185,637
Net income	—	—	—	—	—	13,875	—	1,373,639	1,387,514
Balances at March 31, 2023 (unaudited)	3,973,310	\$ 34,344,086	\$ 31,571,778	\$ 27,504,901	200,610	\$ (90,061)	19,860,381	\$ (37,563,421)	\$ 55,767,283
Amortization of restricted unit awards	—	—	—	—	—	417	—	41,353	41,770
Preferred distributions paid	—	—	—	—	—	(39,886)	—	(3,948,739)	(3,988,625)
Unit based compensation	—	—	—	—	—	(270)	—	(26,752)	(27,022)
Net income	—	—	—	—	—	52,577	—	5,205,093	5,257,670
Balances at June 30, 2023 (unaudited)	3,973,310	\$ 34,344,086	\$ 31,571,778	\$ 27,504,901	200,610	\$ (77,223)	19,860,381	\$ (36,292,466)	\$ 57,051,076
Amortization of restricted unit awards	—	—	—	—	—	418	—	41,352	41,770
Preferred distributions paid	—	—	—	—	—	(19,943)	—	(1,974,369)	(1,994,312)
Unit based compensation	—	—	—	—	—	(253)	—	(25,031)	(25,284)
Conversion of units in Operating Partnership to shares of Common Stock	—	—	—	—	4,610	—	(4,610)	—	—
Net loss	—	—	—	—	—	(20,658)	—	(2,045,168)	(2,065,826)
Balances at September 30, 2023 (unaudited)	3,973,310	\$ 34,344,086	\$ 31,571,778	\$ 27,504,901	205,220	\$ (117,659)	19,855,771	\$ (40,295,682)	\$ 53,007,424

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

SOTHERLY HOTELS LP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	<u>Nine Months Ended</u> <u>September 30, 2024</u> (unaudited)	<u>Nine Months Ended</u> <u>September 30, 2023</u> (unaudited)
Cash flows from operating activities:		
Net income	\$ 2,297,431	\$ 4,579,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,447,789	14,056,523
Amortization of deferred financing costs	528,485	448,467
Amortization of mortgage premium	(18,511)	(18,511)
Negative lease amortization	137,130	—
Gain on involuntary conversion of assets	(267,574)	(1,331,374)
Unrealized loss on hedging activities	1,119,247	51,686
Loss on early extinguishment of debt	241,878	—
PPP loan forgiveness	—	(275,494)
Gain on disposal of assets	(4,400)	(4,700)
ESOP and unit - based compensation	262,666	239,754
Changes in assets and liabilities:		
Accounts receivable	2,759,725	1,086,903
Prepaid expenses, inventory and other assets	(80,121)	(1,350,705)
Accounts payable and other accrued liabilities	(358,974)	236,206
Advance deposits	264,030	639,444
Net cash provided by operating activities	<u>21,328,801</u>	<u>18,357,558</u>
Cash flows from investing activities:		
Improvements and additions to hotel properties	(10,106,127)	(6,069,672)
ESOP loan payments received	88,527	130,960
Proceeds from involuntary conversion	267,574	1,312,675
Proceeds from sale of assets	4,400	141,952
Net cash used in investing activities	<u>(9,745,626)</u>	<u>(4,484,085)</u>
Cash flows from financing activities:		
Proceeds from mortgage loans	66,250,000	2,715,833
Redemption of interest rate swap	965,000	—
Payments on mortgage loans	(63,203,234)	(5,580,239)
Payments on unsecured notes	(630,529)	(554,965)
Purchase of interest rate cap	(916,000)	—
Payments on finance lease liabilities	(28,654)	—
Payments of deferred financing costs	(1,767,406)	(413,909)
Preferred dividends paid	(5,982,938)	(7,977,251)
Net cash used in financing activities	<u>(5,313,761)</u>	<u>(11,810,531)</u>
Net increase in cash, cash equivalents and restricted cash	6,269,414	2,062,942
Cash, cash equivalents and restricted cash at the beginning of the period	26,236,340	27,341,630
Cash, cash equivalents and restricted cash at the end of the period	<u>\$ 32,505,754</u>	<u>\$ 29,404,572</u>
Supplemental disclosures:		
Cash paid during the period for interest	<u>\$ 15,272,598</u>	<u>\$ 12,678,642</u>
Cash paid during the period for income taxes	<u>\$ 140,536</u>	<u>\$ 614,231</u>
Non-cash investing and financing activities:		
Accrued capital expenditures	<u>\$ 206,105</u>	<u>\$ 8,684</u>
Remeasurement of finance lease asset and liability	<u>\$ 22,352,075</u>	<u>\$ -</u>
Acquisition of finance lease assets and liabilities	<u>\$ 179,364</u>	<u>\$ -</u>

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

SOTHERLY HOTELS INC.
SOTHERLY HOTELS LP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization and Description of Business

Sotherly Hotels Inc. (the “Company”) is a self-managed and self-administered lodging real estate investment trust (“REIT”) that was incorporated in Maryland on August 20, 2004. The Company historically has focused on the acquisition, renovation, upbranding and repositioning of upscale to upper-upscale full-service hotels in the southern United States. The Company’s portfolio, as of September 30, 2024, consisted of investments in ten hotel properties, comprising 2,786 rooms and two hotel commercial condominium units and their associated rental programs. Seven of our hotels operated under the Hilton, DoubleTree, and Hyatt brands, and three are independent hotels.

The Company commenced operations on December 21, 2004, when it completed its initial public offering and thereafter consummated the acquisition of six hotel properties (the “Initial Properties”). Substantially all of the Company’s assets are held by, and all of its operations are conducted through, Sotherly Hotels LP (the “Operating Partnership”).

Pursuant to the terms of the Amended and Restated Agreement of Limited Partnership (the “Partnership Agreement”) of the Operating Partnership, the Company, as general partner, is not entitled to compensation for its services to the Operating Partnership. The Company, as general partner, conducts substantially all of its operations through the Operating Partnership and the Company’s administrative expenses are the obligations of the Operating Partnership. Additionally, the Company is entitled to reimbursement for any expenditure incurred by it on the Operating Partnership’s behalf.

For the Company to qualify as a REIT, it cannot operate hotels. Therefore, the Operating Partnership, which at September 30, 2024 was approximately 98.2% owned by the Company, and its subsidiaries, lease its hotels to direct and indirect subsidiaries of MHI Hospitality TRS Holding, Inc., MHI Hospitality TRS, LLC and certain of its subsidiaries (collectively, “MHI TRS Entities”), each of which is a wholly-owned subsidiary of the Operating Partnership. The MHI TRS Entities have engaged Our Town Hospitality, LLC (“Our Town”), an eligible independent management company, to operate the hotels under management contracts. MHI Hospitality TRS Holding, Inc. (“MHI TRS”) is treated as a taxable REIT subsidiary for federal income tax purposes.

All references in these “Notes to Consolidated Financial Statements” to “we”, “us”, “our” and “Sotherly” refer to the Company, its Operating Partnership and its subsidiaries and predecessors, collectively, unless the context otherwise requires or where otherwise indicated.

Overview of Significant Transactions

Significant transactions occurring during the current nine-month period and prior fiscal year include the following:

On February 26, 2023, the Company entered into amended loan documents to modify the mortgage loan on The Whitehall hotel located in Houston, TX with the lender, International Bank of Commerce. The amendment (i) extends the maturity date to February 26, 2028; (ii) maintains a floating interest rate of New York Prime Rate plus 1.25%; and (iii) subjects the interest rate to a floor rate of 7.50%. The mortgage loan continues to be guaranteed by the Operating Partnership. The amendment also required us to establish a real estate tax reserve as well as a debt service reserve that approximates the aggregate amount of one year’s debt service, which was initially established at approximately \$1.5 million.

On March 14, 2023, the Company entered into amended loan documents to modify the mortgage loan on the DoubleTree by Hilton Philadelphia Airport with the lender, TD Bank, N.A. The amendment provided a waiver for non-compliance with financial covenants for the periods ended September 30 and December 31, 2022, modified the reference rate replacing 1-month LIBOR with SOFR and required us to establish a debt service coverage reserve of \$0.3 million.

On May 4, 2023, affiliates of the Company entered into loan documents to secure a \$10.0 million mortgage loan on the DoubleTree by Hilton Laurel hotel located in Laurel, MD with Citi Real Estate Funding Inc. Pursuant to the loan documents, the mortgage loan: (i) has a principal balance of \$10.0 million; (ii) has a maturity date of May 6, 2028; (iii) carries a fixed interest rate of 7.35%; (iv) requires payments of interest only; (v) cannot be prepaid until the last 4 months of the loan term; and (vi) contains customary representations, warranties, covenants and events of default for a mortgage loan.

On February 7, 2024, affiliates of the Company entered into loan documents to secure a \$35.0 million mortgage loan on the Hotel Alba Tampa located in Tampa, Florida with Citi Real Estate Funding Inc. The Company received approximately \$10.2 million in net proceeds. Pursuant to the loan documents, the mortgage loan: (i) has a principal balance of \$35.0 million; (ii) has a 5 year term maturing on March 6, 2029; (iii) carries a fixed interest rate of 8.49%; (iv) requires payments of interest only; (v) is guaranteed by the Operating Partnership only for traditional “bad boy” acts; (vi) cannot be prepaid until the last four months of the term; and (vii) contains customary representations, warranties, covenants and events of default for a mortgage loan.

On April 29, 2024, the Company entered into a loan amendment to amend the existing mortgage on the DoubleTree by Hilton Philadelphia Airport hotel with the existing lender, TD Bank, N.A. Pursuant to the amended loan documents, the mortgage loan: (i) has a principal balance of approximately \$35.9 million; (ii) extends the maturity by two years to April 29, 2026; (iii) continues to carry a floating interest rate of SOFR plus 3.50%; (iv) requires payments of interest only; (v) continues to be guaranteed by the Operating Partnership; and (vi) contains customary representations, warranties, covenants and events of default for a mortgage loan. Concurrent with the execution of the loan amendment, the Company (i) made a principal payment of \$3.0 million; (ii) funded \$0.3 million to the interest reserve escrow, bringing the balance in the interest reserve escrow account to \$1.3 million; (iii) funded \$5.0 million into a product improvement plan (“PIP”) reserve account; and (iv) provided \$1.7 million in additional cash collateral, of which \$1.2 million can be released into the PIP reserve account as early as June 30, 2025 assuming compliance with the financial covenants. On May 3, 2024, an affiliate of the Company entered into an interest rate cap with a notional amount of \$26.0 million with Webster Bank, N.A. The cap has a strike rate of 3.0%, is indexed to SOFR, and expires on May 1, 2026.

On July 8, 2024, we secured a \$26.25 million mortgage loan on the DoubleTree by Hilton Jacksonville Riverfront hotel located in Jacksonville, Florida with Fifth Third Bank, N.A. The loan provides for an additional \$9.49 million available to fund a product improvement plan at the hotel; matures on July 8, 2029; and requires monthly payments of interest at a floating interest rate of SOFR plus 3.00% plus principal of \$38,700.

On August 14, 2024, we secured a \$5.0 million second mortgage loan on The DeSoto hotel located in Savannah, Georgia with MONY Life Insurance Company. The loan has a maturity date of July 1, 2026 and requires level payments of principal and interest at a fixed interest rate of 7.50% and amortizing on a 25-year schedule. Proceeds of the loan were used for working capital.

2. Summary of Significant Accounting Policies

Basis of Presentation – The consolidated financial statements of the Company presented herein include all of the accounts of Sotherly Hotels Inc., the Operating Partnership, MHI TRS and subsidiaries. All significant inter-company balances and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The consolidated financial statements of the Operating Partnership presented herein include all of the accounts of Sotherly Hotels LP, MHI TRS and subsidiaries. All significant inter-company balances and transactions have been eliminated. Additionally, all administrative expenses of the Company and those expenditures made by the Company on behalf of the Operating Partnership are reflected as the administrative expenses, expenditures and obligations thereto of the Operating Partnership, pursuant to the terms of the Partnership Agreement.

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) assuming the Company will continue as a going concern. The Company has mortgages maturing during 2025 with balances at maturity totaling approximately \$87.5 million which it will be unable to repay out of working capital. As discussed in Note 4, Debt, the Company intends to repay the mortgage obligations when they become due through a combination of proceeds from a refinance of the properties and working capital. Further, as of September 30, 2024, we failed to maintain compliance with the financial covenants under the mortgage on the DoubleTree by Hilton Jacksonville Riverfront. Per the terms of the mortgage loan agreement, we are permitted either to reduce the outstanding balance with a prepayment estimated at no more than \$1.2 million or provide an equivalent amount of cash collateral until we return to compliance. We anticipate the placement of cash collateral with the lender before the end of December 2024. We believe these plans will be effectively implemented.

Variable Interest Entities – The Operating Partnership is a variable interest entity. The Company’s only significant asset is its investment in the Operating Partnership, and consequently, substantially all of the Company’s assets and liabilities represent those assets and liabilities of the Operating Partnership and its subsidiaries. All of the Company’s debt is an obligation of the Operating Partnership and its subsidiaries.

Investment in Hotel Properties – Investments in hotel properties include investments in operating properties which are recorded at fair value on the acquisition date and allocated to land, property and equipment and identifiable intangible assets. If substantially all the fair value of the gross assets acquired are concentrated in a single identifiable asset, the asset is not considered a business. When we

conclude that an acquisition meets this threshold, acquisition costs will be capitalized as part of our allocation of the purchase price of the acquired asset. We capitalize the costs of significant additions and improvements that materially upgrade, increase the value of or extend the useful life of the property. These costs may include refurbishment, renovation, and remodeling expenditures, as well as certain direct internal costs related to construction projects. Upon the sale or retirement of a fixed asset, the cost and related accumulated depreciation are removed from our accounts and any resulting gain or loss is included in the statements of operations.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 7 to 39 years for buildings and building improvements and 3 to 10 years for furniture, fixtures and equipment.

The Company assesses the carrying value of its investments in hotel properties whenever events or changes in circumstances indicate that the carrying value of the hotel properties may not be recoverable. Events or circumstances that may cause a review include, but are not limited to, adverse permanent changes in the demand for lodging at the properties due to declining national or local economic conditions and/or new hotel construction in markets where the hotels are located. When such conditions exist, management performs an analysis to determine if the estimated undiscounted future cash flows from operations and the proceeds from the ultimate disposition of a hotel property exceeds its carrying value. If the estimated undiscounted future cash flows are found to be less than the carrying amount of the asset, an adjustment to reduce the carrying amount to the related hotel property's estimated fair market value would be recorded and an impairment loss recognized.

The Company recognized no impairment losses for the nine months ended September 30, 2024 and 2023.

Cash and Cash Equivalents – We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash – Restricted cash includes real estate tax escrows, insurance escrows, mortgage servicing and reserves for replacements of furniture, fixtures and equipment pursuant to certain requirements in our various mortgage agreements.

	<u>As of</u> <u>September 30, 2024</u>	<u>As of</u> <u>September 30, 2023</u>
Cash and cash equivalents	\$ 14,017,642	\$ 19,198,625
Restricted cash	18,488,112	10,205,947
Cash, cash equivalents and restricted cash at the end of the period	\$ 32,505,754	\$ 29,404,572

Concentration of Credit Risk – We hold cash accounts at several institutions in excess of the Federal Deposit Insurance Corporation (the “FDIC”) protection limits of \$250,000. Our exposure to credit loss in the event of the failure of these institutions is represented by the FDIC protection limit and the total amounts on deposit. Management monitors, on a regular basis, the financial condition of the financial institutions along with the balances there on deposit to minimize our potential risk.

Accounts Receivable – Accounts receivable consists primarily of amounts due from hotel guests including payments rendered by credit card for which we are awaiting payment from the merchant processor. Most of our revenue is collected through payment by cash or credit card on or in advance of the date of service, with limited extension of credit to a small number of customers. An allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Inventories – Inventories, consisting primarily of food and beverages, are stated at the lower of cost or net realizable value, with cost determined on a method that approximates first-in, first-out basis.

Franchise License Fees – Fees expended to obtain or renew a franchise license are amortized over the life of the license or renewal. The unamortized franchise fees as of September 30, 2024 and December 31, 2023 were \$322,812 and \$195,988, respectively. Amortization expense for the three months ended September 30, 2024 and 2023, each totaled \$11,059, and for the nine months ended September 30, 2024 and 2023, totaled \$33,176 and \$33,991, respectively.

Deferred Financing Costs – Deferred financing costs are recorded at cost and consist of loan fees and other costs incurred in issuing debt and are reflected in mortgage loans, net and unsecured notes, net on the consolidated balance sheets. Deferred offering costs are recorded at cost and consist of offering fees and other costs incurred in advance of issuing equity and are reflected in prepaid expenses, inventory and other assets on the consolidated balance sheets. Amortization of deferred financing costs is computed using a method that approximates the effective interest method over the term of the related debt and is included in interest expense in the consolidated statements of operations.

Derivative Instruments – Our derivative instruments are reflected as assets or liabilities on the consolidated balance sheets and measured at fair value. Derivative instruments used to hedge the exposure to changes in the fair value of an asset, liability, or firm

commitment attributable to a particular risk, such as an interest rate risk, are considered fair value hedges. Derivative instruments used to hedge exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. For a derivative instrument designated as a cash flow hedge, the change in fair value each period is reported in accumulated other comprehensive income in stockholders' equity and partners' capital to the extent the hedge is effective. For a derivative instrument designated as a fair value hedge, the change in fair value each period is reported in earnings along with the change in fair value of the hedged item attributable to the risk being hedged. For a derivative instrument that does not qualify for hedge accounting or is not designated as a hedge, the change in fair value each period is reported in earnings.

We use derivative instruments to add stability to interest expense and to manage our exposure to interest-rate movements. To accomplish this objective, we currently use interest rate swaps which act as cash flow hedges and are not designated as hedges. We value our interest rate swaps at fair value, which we define as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We do not enter into contracts to purchase or sell derivative instruments for speculative trading purposes.

Fair Value Measurements –

We classify the inputs used to measure fair value into the following hierarchy:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3 Unobservable inputs for the asset or liability.

We endeavor to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table represents our assets and liabilities measured at fair value and the basis for that measurement (our interest rate swaps are the only assets or liabilities measured at fair value on a recurring basis; there were no non-recurring assets or liabilities for fair value measurements as of September 30, 2024 and December 31, 2023, respectively):

	September 30, 2024		December 31, 2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Interest-rate swap ⁽¹⁾	\$ —	\$ —	\$ 627,676	\$ 627,676
Interest-rate cap ⁽²⁾	\$ 312,468	\$ 312,468	\$ —	\$ —
Financial Liabilities				
Mortgage loans	\$ (318,061,006)	\$ (310,847,559)	\$ (315,989,194)	\$ (303,949,790)

- (1) The interest-rate swap agreement allowed the Company to receive a variable rate of interest based upon 1-month SOFR in exchange for a fixed rate of 2.826% on a notional amount which approximated the declining balance of the mortgage loan on the Hotel Alba. The interest-rate swap was terminated on February 14, 2024.
- (2) The interest-rate cap agreement allows the Company to receive a variable rate of interest based upon the amount in which 1-month SOFR exceeds 3.0% on a notional amount of \$26.0 million on the DoubleTree by Hilton Philadelphia Airport. The interest rate cap terminates on May 1, 2026.

The fair value of the Company's interest rate swap and cap agreements were determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts, which is considered a Level 2 measurement under the fair value hierarchy. The variable cash receipts are based on an expectation of future interest rates (forward yield curves) derived from observable market interest rates.

The Company estimates the fair value of its mortgage loans by discounting the future cash flows of each loan at estimated market rates consistent with the maturity of a mortgage loan with similar credit terms and credit characteristics, which are Level 2 inputs under the fair value hierarchy. Market rates take into consideration general market conditions and maturity.

Noncontrolling Interest in Operating Partnership – Certain hotel properties were acquired, in part, by the Operating Partnership through the issuance of limited partnership units of the Operating Partnership. The noncontrolling interest in the Operating Partnership is: (i) increased or decreased by the limited partners' pro-rata share of the Operating Partnership's net income or net loss, respectively; (ii) decreased by distributions; (iii) decreased by redemption of partnership units for the Company's common stock; and (iv) adjusted to equal the net equity of the Operating Partnership multiplied by the limited partners' ownership percentage immediately after each issuance of units of the Operating Partnership and/or the Company's common stock through an adjustment to additional paid-in capital. Net income or net loss is allocated to the noncontrolling interest in the Operating Partnership based on the weighted average percentage ownership throughout the period.

Revenue Recognition – Revenue consists of amounts derived from hotel operations, including the rental of rooms, sales of food and beverage, and other ancillary services. Room revenue is recognized over a customer's hotel stay. Revenue from food and beverage and other ancillary services is generated when a customer chooses to purchase goods or services separately from a hotel room and revenue is recognized on these distinct goods and services at the point in time or over the time period that goods or services are provided to the customer. Some contracts for rooms or food and beverage services require an upfront deposit which is recorded as advanced deposits (or contract liabilities) shown on our consolidated balance sheets and recognized once the performance obligations are satisfied.

Certain ancillary services are provided by third parties and the Company assesses whether it is the principal or agent in these arrangements. If the Company is the agent, revenue is recognized based upon the gross commission earned from the third party. If the Company is the principal, the Company recognizes revenue based upon the gross sales price. With respect to the hotel condominium rental programs that the Company operates at the Lyfe Resort & Residences (f/k/a Hyde Resort & Residences) and Hyde Beach House Resort & Residences, the Company has determined that it is an agent and recognizes revenue based on its share of revenue earned under the rental agency agreement.

The Company collects sales, use, occupancy and similar taxes at its hotels which are presented on a net basis on the consolidated statements of operations.

Leases – We determine whether an arrangement is a lease at its inception and determine their classification as operating or finance leases. These leases are classified on the consolidated balance sheets as "right of use assets", which represent our right to use the underlying asset. The corresponding operating lease liability, which represent our obligation to make lease payments under the lease agreement, is classified as finance lease liabilities or within accounts payable and other accrued liabilities for operating leases on the consolidated balance sheets. Right of use assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Variable lease payments are excluded from the right of use assets and lease liabilities are recognized in the period in which the obligation for those payments is incurred. As many of our leases do not provide an implicit financing rate, we use our incremental borrowing cost based on information available at the commencement date using our actual borrowing rates commensurate with the lease terms and fully levered borrowing to determine present value, when the implicit rate is not determinable. Extension options on our leases are included in our minimum lease terms when they are reasonably certain to be exercised. Subsequent to the initial recognition, lease liabilities are measured using the effective interest method. The right-of-use ("ROU") asset is generally amortized utilizing a straight-line method adjusted for the lease liability accretion during the period.

Income Taxes – The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. As a REIT, the Company generally will not be subject to federal income tax. MHI TRS, our wholly owned taxable REIT subsidiary which leases our hotels from subsidiaries of the Operating Partnership, is subject to federal and state income taxes.

We account for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is required for deferred tax assets if, based on all available evidence, it is "more-likely-than-not" that all or a portion of the deferred tax asset will or will not be realized due to the inability to generate sufficient taxable income in certain financial statement periods. The "more-likely-than-not" analysis means the likelihood of realization is greater than 50%, that we either will or will not be able to fully utilize the deferred tax assets against future taxable income. The net amount of deferred tax assets that are recorded on the financial statements must reflect the tax benefits that are expected to be realized using these criteria. As of September 30, 2024, we have determined that it is more-likely-than-not that we will not be able to fully utilize our deferred tax assets for future tax consequences, therefore a 100% valuation allowance is required. As of September 30, 2024 and December 31, 2023, deferred tax assets each totaled \$0.

As of September 30, 2024 and December 31, 2023, we had no uncertain tax positions. Our policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2024, the tax years that remain subject to examination by the major tax jurisdictions to which the Company is subject generally include 2011 through 2023. In addition, as of September 30, 2024, the tax years that remain subject to examination by the major tax jurisdictions to which MHI TRS is subject, because of open NOL carryforwards, generally include 2009 through 2023.

The Operating Partnership is generally not subject to federal and state income taxes as the unit holders of the Partnership are subject to tax on their respective shares of the Partnership's taxable income.

Stock-based Compensation – The Company's 2022 Long-Term Incentive Plan (the "2022 Plan"), which the Company's stockholders approved in April 2022, permits the grant of stock options, restricted stock, unrestricted stock and service/performance share compensation awards to its employees and directors for up to 2,000,000 shares of common stock. The Company believes that such awards better align the interests of its employees with those of its stockholders.

Under the 2022 Plan, the Company may issue a variety of service or performance-based stock awards, including nonqualified stock options. The value of the awards is charged to compensation expense on a straight-line basis over the vesting or service period based on the value of the award as determined by the Company's stock price on the date of grant or issuance. As of September 30, 2024, the Company has made cumulative awards totaling 604,028 shares to certain executives and its independent directors, of which 232,750 were originally restricted. As of September 30, 2024, 135,000 shares remain restricted and will fully vest in March 2027. Total compensation cost recognized under the 2022 Plan for each of the three months ended September 30, 2024 and 2023 was each \$18,888, and for the nine months ended September 30, 2024 and 2023 was \$264,087 and \$263,161, respectively.

The Company's 2013 Long-Term Incentive Plan (the "2013 Plan"), which the Company's stockholders approved in April 2013, permits the grant of stock options, restricted stock, unrestricted stock and service or performance share compensation awards to its employees and directors for up to 750,000 shares of common stock. All future awards will be made under the 2022 Plan.

As of September 30, 2024, under the 2013 Plan, the Company has made cumulative service-based stock awards totaling 745,160 shares, of which 316,333 were originally restricted. All awards have vested except for 45,000 shares issued to certain employees, which will vest on December 31, 2024. The remaining 4,840 shares have been deregistered.

Under the 2013 Plan, the Company was able to issue a variety of performance-based stock awards, including nonqualified stock options. The value of the awards is charged to compensation expense on a straight-line basis over the vesting or service period based on the value of the award as determined by the Company's stock price on the date of grant or issuance. As of September 30, 2024, no performance-based stock awards have been granted. Total compensation cost recognized under the 2013 Plan for each of the three months ended September 30, 2024 and 2023 was \$22,883, and for each of the nine months ended September 30, 2024 and 2023, was \$68,648.

Additionally, the Company sponsors and maintains an Employee Stock Ownership Plan ("ESOP") and related trust for the benefit of its eligible employees. We reflect unearned ESOP shares as a reduction of stockholders' equity. Dividends on unearned ESOP shares, when paid, are considered a compensation expense. The Company recognizes compensation expense equal to the fair value of the Company's ESOP shares during the periods in which they are committed to be released. For the three months ended September 30, 2024 and 2023, the ESOP compensation cost was \$5,687 and \$13,992, respectively, and for the nine months ended September 30, 2024 and 2023, the ESOP compensation cost was \$18,505 and \$38,905, respectively. To the extent that the fair value of the Company's ESOP shares differs from the cost of such shares, the differential is recognized as additional paid in capital. Because the ESOP is internally leveraged through a loan from the Company to the ESOP, the loan receivable by the Company from the ESOP is not reported as an asset nor is the debt of the ESOP shown as a liability in the consolidated financial statements.

Advertising – Advertising costs, including internet advertising, were \$701,142 and \$644,111 for the three months ended September 30, 2024 and 2023, respectively, and were \$2,116,737 and \$2,039,089 for the nine months ended September 30, 2024 and 2023, respectively. Advertising costs are expensed as incurred.

Involuntary Conversion of Assets – We record gains or losses on involuntary conversions of assets due to recovered insurance proceeds to the extent the undepreciated cost of a nonmonetary asset differs from the amount of monetary proceeds received. The gain on involuntary conversion of assets is reflected in the consolidated statements of operations.

Comprehensive Income – Comprehensive income as defined, includes all changes in equity during a period from non-owner sources. We do not have any items of comprehensive income other than net income.

Segment Information – We have determined that our business is conducted in one reportable segment: hotel ownership.

Use of Estimates – The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements –

In October 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-06, Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative ("ASU 2023-06"). ASU 2023-06 incorporates 14 of the 27 disclosure requirements published in SEC Release No. 33-10532 - Disclosure Update and Simplification into various topics within the Accounting Standards Codification ("ASC"). ASU 2023-06's amendments represent clarifications to, or technical corrections of, current requirements. For SEC registrants, the effective date for each amendment will vary based on the date on which the SEC removes that related disclosure from its rules. If the SEC does not act to remove its related requirement by June 30, 2027, any related FASB amendments will be removed from the ASC and will not be effective. Early adoption is prohibited. The Company is currently assessing the potential impacts of ASU 2023-06 and does not expect it to have a material effect on its consolidated financial statements and disclosures.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"). ASU 2023-07 expands public entities' segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items, and interim disclosures of a reportable segment's profit or loss and assets. All disclosure requirements under ASU 2023-07 are also required for public entities with a single reportable segment. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The amendments should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently assessing the impacts of adopting ASU 2023-07 on its consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 requires entities to disclose disaggregated information about their effective tax rate reconciliation as well as information on income taxes paid. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The amendments should be applied on a prospective basis, with the option to apply retrospectively. The Company is currently assessing the impacts of adopting ASU 2023-09 on its consolidated financial statements and disclosures.

In March 2024, the FASB issued ASU 2024-01, Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards ("ASU 2024-01"), to clarify the scope application of profits interest and similar awards by adding illustrative guidance in ASC 718, Compensation—Stock Compensation ("ASC 718"). ASU 2024-01 clarifies how to determine whether profits interest and similar awards should be accounted for as a share-based payment arrangement (ASC 718) or as a cash bonus or profit-sharing arrangement (ASC 710, Compensation—General, or other guidance) and applies to all reporting entities that account for profits interest awards as compensation to employees or non-employees. In addition to adding the illustrative guidance, ASU 2024-01 modified the language in paragraph 718-10-15-3 to improve its clarity and operability without changing the guidance. ASU 2024-01 is effective for fiscal years beginning after December 15, 2024, including interim periods within those annual periods. Early adoption is permitted. The amendments should be applied either retrospectively to all prior periods presented in the financial statements, or prospectively to profits interests and similar awards granted or modified on or after the adoption date. The Company is currently assessing the impacts of adopting ASU 2024-01 on its consolidated financial statements and disclosures.

In November 2024, the FASB issued 2024-03, Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40). The amendments improve the disclosures about a public business entity's expenses and address requests from investors for more detailed information about the types of expenses (including purchases of inventory, employee compensation, depreciation, amortization, and depletion) in commonly presented expense captions (such as cost of sales and research and development). The amendments are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. The Company is currently evaluating the impact that adopting ASU 2024-03 will have on its consolidated financial statements and disclosures.

3. Investment in Hotel Properties, Net

Investment in hotel properties, net as of September 30, 2024 and December 31, 2023 consisted of the following:

	September 30, 2024	December 31, 2023
Land and land improvements	\$ 61,349,993	\$ 61,114,486
Buildings and improvements	429,293,211	418,833,706
Right of use assets	4,054,169	4,733,406
Finance lease right of use assets	22,921,630	—
Furniture, fixtures and equipment	50,034,059	51,501,629
	567,653,062	536,183,227
Less: accumulated depreciation	(194,700,149)	(181,264,121)
Investment in Hotel Properties, Net	\$ 372,952,913	\$ 354,919,106

4. Debt

Mortgage Loans, Net. As of September 30, 2024 and December 31, 2023, we had approximately \$318.1 million and approximately \$316.0 million of outstanding mortgage debt, respectively. The following table sets forth our mortgage debt obligations on our hotels.

Property	Balance Outstanding as of		Prepayment Penalties	Maturity Date	Amortization Provisions	Interest Rate
	September 30, 2024	December 31, 2023				
The DeSoto ⁽¹⁾	\$ 29,493,868	\$ 30,248,929	Yes	7/1/2026	25 years	4.25%
The DeSoto ⁽²⁾	5,000,000	-	Yes	7/1/2026	25 years	7.50%
DoubleTree by Hilton Jacksonville Riverfront ⁽³⁾	26,172,600	31,749,695	None	7/8/2029	25 years	SOFR plus 3.00%
DoubleTree by Hilton Laurel ⁽⁴⁾	10,000,000	10,000,000	(4)	5/6/2028	(4)	7.35%
DoubleTree by Hilton Philadelphia Airport ⁽⁵⁾	35,915,488	38,915,488	None	4/29/2026	(5)	SOFR plus 3.50%
DoubleTree Resort by Hilton Hollywood Beach ⁽⁶⁾	50,646,678	51,495,662	(6)	10/1/2025	30 years	4.913%
Georgian Terrace ⁽⁷⁾	38,740,475	39,455,095	(7)	6/1/2025	30 years	4.42%
Hotel Alba Tampa, Tapestry Collection by Hilton ⁽⁸⁾	35,000,000	24,269,200	(8)	3/6/2029	(8)	8.49%
Hotel Ballast Wilmington, Tapestry Collection by Hilton ⁽⁹⁾	30,020,310	30,755,374	Yes	1/1/2027	25 years	4.25%
Hyatt Centric Arlington ⁽¹⁰⁾	45,607,309	46,454,972	Yes	10/1/2028	30 years	5.25%
The Whitehall ⁽¹¹⁾	\$ 13,844,927	14,009,874	None	2/26/2028	25 years	PRIME plus 1.25%
Total Mortgage Principal Balance	\$ 320,441,655	\$ 317,354,289				
Deferred financing costs, net	\$ (2,405,023)	(1,407,979)				
Unamortized premium on loan	\$ 24,374	42,884				
Total Mortgage Loans, Net	\$ 318,061,006	\$ 315,989,194				

- (1) The note amortizes on a 25-year schedule after an initial interest-only period of one year and is subject to a pre-payment penalty except for any pre-payments made within 120 days of the maturity date.
- (2) The note is a second mortgage that amortizes on a 25-year schedule. The note can be prepaid with penalty.
- (3) The note provides for an initial tranche in the amount of \$26.25 million and a renovation tranche in the amount of \$9.49 million.
- (4) The note requires payments of interest only and cannot be prepaid until the last 4 months of the loan term.
- (5) The note requires payments of interest only. On May 3, 2024, we entered into an interest rate cap with a notional amount of \$26.0 million with Webster Bank, N.A. The cap has a strike rate of 3.0%, is indexed to SOFR, and expires on May 1, 2026.
- (6) With limited exception, the note may not be prepaid prior to June 2025.
- (7) With limited exception, the note may not be prepaid prior to February 2025.
- (8) The note requires payments of interest only and cannot be prepaid until the last four months of the term.
- (9) The note amortizes on a 25-year schedule after an initial interest-only period of one year and is subject to a pre-payment penalty except for any pre-payments made within 120 days of the maturity date.
- (10) Following a 5-year lockout, the note can be prepaid with penalty in years 6-10 and without penalty during the final 4 months of the term.
- (11) The note bears a floating interest rate of New York Prime Rate plus 1.25%, with a floor of 7.50%.

As of September 30, 2024, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans with the exception of a covenant default under the mortgage on the DoubleTree by Hilton Jacksonville Riverfront. Per the terms of the mortgage loan agreement, we are permitted either to reduce the outstanding balance with a prepayment estimated at no more than \$1.2 million or provide an equivalent amount of cash collateral until we return to compliance. Additionally, the mortgage on the Georgian Terrace and the DoubleTree Resort by Hilton Hollywood Beach mature in June 2025 and October 2025, respectively. We intend to refinance these mortgages, but may be required to reduce the level of indebtedness by an amount of up to \$5.25 million on the refinance of the mortgage on the Georgian Terrace and up to \$12.5 million for the mortgage on the

DoubleTree Resort by Hilton Hollywood Beach based on current and anticipated financial performance of the properties and anticipated market conditions.

Total future mortgage debt maturities for the remaining three and twelve-month periods, without respect to any extension of loan maturity or loan modification after September 30, 2024, were as follows:

For the remaining three months ended December 31, 2024	\$	1,610,426
December 31, 2025		92,910,409
December 31, 2026		99,968,858
December 31, 2027		2,221,620
December 31, 2028		64,531,442
December 31, 2029		59,198,900
Total future maturities	\$	<u>320,441,655</u>

PPP Loans. The Operating Partnership and certain of its subsidiaries have received PPP Loans administered by the U.S. Small Business Administration pursuant to the CARES Act. Each PPP Loan had an initial term of two years, with the ability extend the loan to five years, if not forgiven, and carries an interest rate of 1.00%. Equal payments of principal and interest begin no later than 10 months following origination of the loan and are amortized over the remaining term of the loan. Pursuant to the terms of the CARES Act, the proceeds of each PPP Loan may be used for payroll costs, mortgage interest, rent or utility costs. The promissory note for each PPP Loan contains customary events of default relating to, among other things, payment defaults and breach of representations and warranties or of provisions of the relevant promissory note. Under the terms of the CARES Act, each borrower can apply for and be granted forgiveness for all or a portion of the PPP Loan. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds in accordance with the terms of the CARES Act. No assurance is provided that any borrower will obtain forgiveness under any relevant PPP Loan in whole or in part.

On April 16, 2020, our Operating Partnership entered into a promissory note with Village Bank in connection with a PPP Loan and received proceeds of \$333,500. The Company is required to make monthly payments of \$18,000 through December 25, 2025.

On April 28, 2020, we entered into a promissory note and received proceeds of approximately \$9.4 million under a PPP Loan from Fifth Third Bank, National Association. On December 9, 2022, the Company was notified it had received principal forgiveness in the amount of approximately \$4.6 million and is required to make monthly payments of \$56,809 through July 1, 2025 to extinguish the loan.

On May 6, 2020, we entered into a second promissory note with Fifth Third Bank, National Association and received proceeds of \$952,700 under a PPP Loan. On February 3, 2023, the Company was notified it had received principal forgiveness in the amount of approximately \$268,309 and is required to make monthly payments of \$13,402 through May 6, 2025 to extinguish the loan.

At September 30, 2024 and December 31, 2023, the PPP loans had a cumulative balance of approximately \$0.9 million and approximately \$1.5 million, respectively.

5. Commitments and Contingencies

Employment Agreements - The Company has entered into various employment contracts with employees that could result in obligations to the Company in the event of a change in control or termination without cause.

Management Agreements - As of September 30, 2024, our ten wholly-owned hotels, and our two condo-hotel rental programs, operated under management agreements with Our Town (see Note 8). The management agreements expire on March 31, 2035 and may be extended for up to two additional periods of five years each, subject to the approval of both parties. Each of the individual hotel management agreements may be terminated earlier than the stated term upon the sale of the hotel covered by the respective management agreement, in which case we may incur early termination fees.

Franchise Agreements - As of September 30, 2024, seven of our hotels operate under franchise licenses from national hotel companies. Under the franchise agreements, we are required to pay a franchise fee generally between 3.0% and 5.0% of room revenues, plus additional fees for marketing, central reservation systems, and other franchisor programs and services that amount to between 3.0% and 4.0% of gross revenues from the hotels. The franchise agreements currently in force expire between October 2024 and March 2038. Each of our franchise agreements provides for early termination fees in the event the agreement is terminated before the stated term.

Restricted Cash Reserves – Each month, we are required to escrow with the lenders on the Hotel Ballast, The DeSoto, the DoubleTree by Hilton Laurel, the DoubleTree by Hilton Jacksonville Riverside, the DoubleTree Resort by Hilton Hollywood Beach, the Hotel Alba, the Whitehall, the Hyatt Centric Arlington and the Georgian Terrace an amount equal to one-twelfth (1/12) of the annual real estate taxes due for the properties. The lenders on the DoubleTree Resort by Hilton Hollywood Beach as well as the Hotel Alba also require us to escrow an amount each month equal to one-twelfth (1/12) of the annual insurance premiums. Several of our lenders also required us to establish individual property improvement funds to cover the cost of replacing capital assets at our properties. Each month, those contributions equal 4.0% of gross revenues for the Hotel Ballast, The DeSoto, the DoubleTree by Hilton Laurel, the DoubleTree by Hilton Jacksonville Riverside, the DoubleTree Resort by Hilton Hollywood Beach, the Hotel Alba, The Whitehall and the Georgian Terrace and equal 4.0% of room revenues for the DoubleTree by Hilton Philadelphia Airport and the Hyatt Centric Arlington.

ESOP Loan Commitment – The Company’s board of directors approved the ESOP on November 29, 2016, which was adopted by the Company in December 2016 and effective January 1, 2016. The ESOP is a non-contributory defined contribution plan covering all employees of the Company. The ESOP is a leveraged ESOP, meaning funds are loaned to the ESOP from the Company. The Company entered into a loan agreement with the ESOP on December 29, 2016, pursuant to which the ESOP may borrow up to \$5.0 million to purchase shares of the Company’s common stock on the open market. Under the loan agreement, the aggregate principal amount outstanding at any time may not exceed \$5.0 million and the ESOP may borrow additional funds up to that limit in the future, until December 29, 2036. At September 30, 2024, the balance on the loan was approximately \$1.7 million, leaving capacity for additional borrowing of approximately \$3.3 million under the commitment.

Litigation – We are involved in routine litigation arising out of the ordinary course of business, all of which we expect to be covered by insurance and we believe it is not reasonably possible such matters will have a material adverse impact on our financial condition or results of operations or cash flows.

6. Leases

Lease Commitments – We are the lessee on certain ground leases, hotel equipment leases and office space leases. Leases with durations greater than 12 months are recognized on the balance sheet as ROU assets and lease liabilities. Our leases are classified as operating or finance leases. For leases with terms greater than 12 months, at inception of the lease, we recognize a ROU asset and lease liability at the estimated present value of the minimum lease payments over the lease term. ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Many of our leases include rental escalation clauses (including fixed scheduled rent increases) and renewal options that are factored into the determination of lease payments, when appropriate, which adjusts the present value of the remaining lease payments. We determine the present value of the lease payments utilizing interest rates implicit in the lease, if determinable, or, if not, we estimate the incremental borrowing rate from information available at lease commencement, such as estimates of rates we would pay for senior collateralized loans with terms similar to each lease.

Operating Leases – The ROU asset operating leases that are connected to the hotel properties are primarily included in investment in hotel properties, net, with the related lease obligations included in accounts payable and accrued liabilities on the consolidated Balance Sheets. Other operating leases that are not connected to the hotel properties are reflected in prepaid expenses, inventory, and other assets with the related lease obligations included in accounts payable and accrued liabilities on the consolidated Balance Sheets. Lease expense is recognized on a straight-line basis over the term of the respective lease, and the value of each lease intangible is amortized over the term of the respective lease. Costs related to operating ground leases and hotel equipment leases are included in hotel operating expense and property taxes, insurance and other expense, and costs related to office space leases are included in general and administrative expense in our consolidated statements of operations.

As of September 30, 2024, the Company had the following significant operating leases:

We lease 2,086 square feet of commercial space next to The DeSoto for use as an office, retail or conference space, or for any related or ancillary purposes for the hotel and/or atrium space. In December 2007, we signed an amendment to the lease to include rights to the outdoor esplanade adjacent to the leased commercial space. The areas are leased under a six-year operating lease, which expired October 31, 2006 and has been renewed for the fourth of five optional five-year renewal periods expiring October 31, 2026. Rent expense for this operating lease for the three months ended September 30, 2024 and 2023, each totaled \$20,983, and for the nine months ended September 30, 2024 and 2023, each totaled \$62,949, and is included in indirect expenses.

We lease, as landlord, the entire fourteenth floor of The DeSoto hotel property to The Chatham Club, Inc. under a 99 year lease expiring July 31, 2086. This lease was assumed upon the purchase of the building under the terms and conditions agreed to by the previous owner of the property. No rental income is recognized under the terms of this lease as the original lump sum rent payment of \$990 was received by the previous owner and not prorated over the life of the lease.

We lease land adjacent to the Hotel Alba Tampa for use as parking under a five-year renewable agreement with the Florida Department of Transportation that commenced in July 2009. In May 2014, we extended the agreement for an additional five years. We signed a new agreement in April 2019, which commenced in July 2019, goes for five years, and can be renewed for an additional five years. The new agreement expires in July 2024, requires annual payments of \$2,432, plus tax, and may be renewed for an additional five years. Rent expense for the three months ended September 30, 2024 and 2023, totaled \$636 and \$651, respectively, and for the nine months ended September 30, 2024 and 2023 totaled \$1,937 and \$1,952, respectively, and is included in indirect expenses.

We lease approximately 8,500 square feet of commercial office space in Williamsburg, Virginia under an agreement with a ten-year term beginning January 1, 2020. The initial annual rent under the agreement was \$218,875, with the rent for each successive annual period increasing by 3.0% over the prior annual period's rent. The annual rent will be offset by a tenant improvement allowance of \$200,000, to be applied against one-half of each monthly rent payment until such time as the tenant improvement allowance is exhausted. In December 2023, we received a rent concession of \$257,731 against accrued and unpaid rents as well as a reduction of future lease payments by one-third. Rent expense for the three months ended September 30, 2024 and 2023 totaled \$36,566 and \$55,902, respectively, and for the nine months ended September 30, 2024 and 2023 totaled \$109,699 and \$167,706, respectively, and is included in general and administrative expenses.

We lease the parking garage and poolside cabanas associated with the Hyde Beach House. The parking and cabana lease requires us to make rental payments of \$270,100 per year with increases of 5% every five years and has an initial term that expires in 2034 and which may be extended for four additional renewal periods of 5 years each. Rent expense for the three months ended September 30, 2024 and 2023, totaled \$68,879 and \$67,750, respectively, and for the nine months ended September 30, 2024 and 2023, totaled \$204,379 and \$203,250, respectively, and is included in indirect expenses.

Finance Leases – We lease the land underlying all of the Hyatt Centric Arlington hotel pursuant to a ground lease. The ground lease requires us to make rental payments of \$50,000 per year in base rent and percentage rent equal to 3.5% of gross room revenue in excess of certain thresholds, as defined in the ground lease agreement. The initial term of the ground lease expires in July 2025 and may be extended for five additional rental periods of 10 years each. We have elected to exercise the renewal options for the first renewal period. Upon commencement of each renewal period, we will be required to make lease payments each year equal to 8.0% of the appraised value of the land. For the renewal period commencing July 2025, total annual lease payments will be \$1,792,000.

Upon the determination of the lease payments commencing during the first renewal period, the lease was reassessed and remeasured as a finance lease, which we record as a finance lease asset within investment in hotel properties, net and finance lease liability on our consolidated balance sheets. As a result of the reassessment and remeasurement, we recognized a finance lease asset of \$22,716,081 and a finance lease liability of \$22,400,000. In addition, our finance lease asset balance includes unamortized intangible asset for the below market ground lease assumed in 2018 with the purchase of the hotel. The finance lease asset is amortized over the term of the lease including renewal periods. Costs related to the finance lease asset are included in depreciation and amortization expense and interest expense in the Company's consolidated statements of operations.

As of September 30, 2024, the operating and finance lease term years, weighted-average discount rates, right of use assets and lease liabilities, are as follows:

	September 30, 2024	
	<u>Operating</u>	<u>Finance</u>
Weighted-average remaining lease term, including reasonably certain extension options (years)	27.78	50.32
Weighted-average discount rate	8.02%	7.37%
Right of use assets	\$ 4,803,689	\$ 22,958,869
Lease liabilities	\$ (4,803,689)	\$ (22,742,195)

Lease Position as of September 30, 2024 and December 31, 2023 – The following tables set forth the lease-related assets and liabilities included in the Company's consolidated balance sheets as of September 30, 2024 and December 31, 2023; as well as :

<u>Assets</u>	<u>Balance Sheet Classification</u>	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Right of use assets	Prepaid expenses, inventory and other assets	\$ 749,520	\$ 822,203
Right of use assets	Investment in hotel properties, net	4,054,169	4,796,830
Finance lease right of use assets	Investment in hotel properties, net	22,958,869	-
Total lease assets		\$ 27,762,558	\$ 5,619,033
<u>Liabilities</u>			
Lease obligations under ROU assets	Accounts payable and accrued liabilities	4,803,689	5,041,019
Finance lease liabilities	Finance lease liabilities	22,742,195	-
Total lease liabilities		\$ 27,545,884	\$ 5,041,019

Lease Costs for the Three and Nine Months ended September 30, 2024 and 2023 – The following table sets forth the lease costs related to the Company’s operating and finance ground leases included in the Company’s consolidated statement of operations for the nine months ended September 30, 2024:

	<u>Consolidated Statement of Operations Classification</u>	<u>Three Months Ended September 30, 2024</u>	<u>Three Months Ended September 30, 2023</u>	<u>Nine Months Ended September 30, 2024</u>	<u>Nine Months Ended September 30, 2023</u>
Operating lease costs					
Fixed	Corporate general and administrative	\$ 39,706	\$ 59,045	\$ 119,119	\$ 177,134
	Hotel operating expenses - Other operating	68,126	67,750	204,379	203,250
	Hotel operating expenses - Indirect	37,803	69,943	126,467	134,829
Variable	Hotel operating expenses - Indirect	158,301	152,074	416,849	456,224
Finance lease costs:					
Amortization of lease assets	Depreciation and amortization	49,750	-	67,696	-
Variable	Hotel operating expenses - Indirect	58,054	-	58,054	-
Interest on lease liabilities	Interest expense	143,269	-	151,512	-
Total lease costs		\$ 555,009	\$ 348,812	\$ 1,144,076	\$ 971,437

Undiscounted Cash Flows –The following table reconciles the undiscounted cash flows for each of the next five years and total of the remaining years to the operating lease liabilities and finance lease liabilities included in the Company’s consolidated balance sheet as of September 30, 2024:

	<u>September 30, 2024</u>	
	<u>Operating</u>	<u>Financing</u>
For the three months ending December 31, 2024	\$ 137,961	\$ 27,555
December 31, 2025	553,775	981,219
December 31, 2026	552,233	1,845,156
December 31, 2027	551,196	1,842,802
December 31, 2028	524,984	1,827,859
December 31, 2029	528,701	1,812,544
December 31, 2030 and thereafter	10,240,006	81,535,998
Total undiscounted lease payments	13,088,856	89,873,133
Less imputed interest	(8,285,167)	(67,130,938)
Total lease liability	\$ 4,803,689	\$ 22,742,195

Lease Revenue – Several of our properties generate revenue from leasing the restaurant space within the hotel and space on the roofs of our hotels for antennas and satellite dishes. Leases for the restaurant space within the hotel are leased under 10-year leases which expire between September 2027 and May 2034 and include two additional 5-year renewal options. The leases require periodic increases in base rent and may require payments of percentage rent as well. Leases for the space on the roofs of our hotels for antennas and satellite dishes are leased under various periods ranging from 1 year to 10 years with renewal options for as many as five additional 5-year periods, with some exceptions. As of September 30, 2024, the leases for space on the roofs of our hotels expire between December 2024 and May 2028. Several leases require periodic increases in base rent. We account for the lease income as revenue from other operating departments within the consolidated statements of operations pursuant to the terms of each lease. Lease revenue was approximately \$0.3 million and \$0.2 million for the three months ended September 30, 2024 and 2023, respectively, and for the nine months ended September 30, 2024 and 2023, totaled approximately \$0.9 million and \$0.8 million, respectively.

A schedule of minimum future lease payments receivable for the remaining three and twelve-month periods is as follows:

For the three months ending December 31, 2024	\$ 252,543
December 31, 2025	997,194
December 31, 2026	936,515
December 31, 2027	931,178
December 31, 2028	947,413
December 31, 2029	996,352
December 31, 2030 and thereafter	9,424,176
Total	\$ 14,485,371

7. Preferred Stock and Units

Preferred Stock - The Company is authorized to issue up to 11,000,000 shares of preferred stock. The following table sets forth our Cumulative Redeemable Perpetual Preferred Stock by series:

Preferred Stock - Series	Per Annum Rate	Liquidation Preference	Number of Shares Issued and Outstanding as of		Quarterly Distributions Per Share
			September 30, 2024	December 31, 2023	
Series B Preferred Stock	8.000%	\$ 25.00	1,464,100	1,464,100	\$ 0.500000
Series C Preferred Stock	7.875%	\$ 25.00	1,346,110	1,346,110	\$ 0.492188
Series D Preferred Stock	8.250%	\$ 25.00	1,163,100	1,163,100	\$ 0.515625

The Company is obligated to pay cumulative cash distributions on the preferred stock at rates in the above table per annum of the \$25.00 liquidation preference per share. Holders of the Company's preferred stock are entitled to receive distributions when authorized by the Company's board of directors out of assets legally available for the payment of distributions. The preferred stock is not redeemable by the holders, has no maturity date and is not convertible into any other security of the Company or its affiliates. However, the Company, at its option, may redeem the preferred stock in part or in full for the amount of the liquidation preference plus any dividends in arrears as well as a pro-rata distribution for the portion of the quarterly period ending on the date of redemption.

On January 24, 2023, the Company announced its intention to resume quarterly payments of dividends on its preferred stock, following the suspension of the preferred dividends during the pandemic.

The total undeclared and unpaid cash dividends due on the Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock as of September 30, 2024, are \$8,052,550, \$7,287,931 and \$6,596,958, respectively. Undeclared preferred cumulative dividends are reported on the statements of operations but are not considered payable until declared. The preferred stock is considered permanent equity and distributions accrete as distributions are declared. As of September 30, 2024, the undeclared cumulative preferred dividends were approximately \$21.9 million.

Preferred Units - The Company is the holder of the Operating Partnership's preferred partnership units and is entitled to receive distributions when authorized by the general partner of the Operating Partnership out of assets legally available for the payment of distributions. The following table sets forth our Cumulative Redeemable Perpetual Preferred Units by series:

Preferred Units - Series	Per Annum Rate	Liquidation Preference	Number of Units Issued and Outstanding as of		Quarterly Distributions Per Unit
			September 30, 2024	December 31, 2023	
Series B Preferred Units	8.000 %	\$ 25.00	1,464,100	1,464,100	\$ 0.500000
Series C Preferred Units	7.875 %	\$ 25.00	1,346,110	1,346,110	\$ 0.492188
Series D Preferred Units	8.250 %	\$ 25.00	1,163,100	1,163,100	\$ 0.515625

The Operating Partnership pays cumulative cash distributions on the preferred units at rates in the above table per annum of the \$25.00 liquidation preference per unit. The Company, which is the holder of the Operating Partnership's preferred units, is entitled to receive distributions when authorized by the Operating Partnership's general partner out of assets legally available for the payment of distributions. The preferred units are not redeemable by the holder, have no maturity date and are not convertible into any other security of the Operating Partnership or its affiliates. The Company, as general partner, may cause the Operating Partnership to redeem preferred units in the Operating Partnership in conjunction with a redemption by the Company of its preferred stock.

The total undeclared and unpaid cash dividends due on the Series B Preferred Units, Series C Preferred Units and Series D Preferred Units as of September 30, 2024, are \$8,052,550, \$7,287,931 and \$6,596,958, respectively. Undeclared preferred cumulative dividends are reported on the statements of operations but are not considered payable until declared. The preferred partnership units are considered permanent equity and distributions accrete as distributions are declared. The preferred partnership units are considered permanent equity and distributions accrete as distributions are declared. As of September 30, 2024, the undeclared cumulative preferred dividends were approximately \$21.9 million.

8. Common Stock and Units

Common Stock – As of September 30, 2024, the Company was authorized to issue up to 69,000,000 shares of common stock, \$0.01 par value per share. Each outstanding share of common stock entitles the holder to one vote on all matters submitted to a vote of stockholders. Holders of the Company's common stock are entitled to receive distributions when authorized by the Company's board of directors out of assets legally available for the payment of distributions.

The following is a schedule of issuances, since January 1, 2023, of the Company's common stock and related partnership units of the Operating Partnership:

On January 12, 2023, the Company was issued 15,000 units in the Operating Partnership and the Company issued 15,000 restricted shares of common stock to its independent directors and 64,278 vested shares of common stock to its independent directors and one officer.

On January 23, 2023, the Company was issued 205,000 units in the Operating Partnership and the Company issued 205,000 restricted shares of common stock to certain its officers and employees pursuant to their employment agreements.

On April 28, 2023, one holder of partnership units in the Operating Partnership converted 75,000 units for an equivalent number of shares in the Company's stock.

On August 18, 2023, one holder of partnership units in the Operating Partnership converted 252,903 units for an equivalent number of shares in the Company's stock.

On August 30, 2023, one holder of partnership units in the Operating Partnership converted 133,099 units for an equivalent number of shares in the Company's stock.

On January 18, 2024, the Company was issued 152,360 units in the Operating Partnership and the Company issued 12,750 restricted shares of common stock to its independent directors and 139,610 vested shares of common stock to its officers and employees.

As of September 30, 2024 and December 31, 2023, the Company had 19,849,165 and 19,696,805 shares of common stock outstanding, respectively.

Operating Partnership Units – Holders of Operating Partnership units, other than the Company as general partner, have certain redemption rights, which enable them to cause the Operating Partnership to redeem their units in exchange for shares of the Company’s common stock on a one-for-one basis or, at the option of the Company, cash per unit equal to the average of the market price of the Company’s common stock for the 10 trading days immediately preceding the notice date of such redemption. The number of shares issuable upon exercise of the redemption rights will be adjusted upon the occurrence of stock splits, mergers, consolidations or similar pro-rata share transactions, which otherwise would have the effect of diluting the ownership interests of the limited partners or the stockholders of the Company.

Since January 1, 2022, there have been no issuances or redemptions of partnership units in the Operating Partnership other than the issuances of partnership units in the Operating Partnership to the Company described above. In connection with the exchange agreements described in this section, an equivalent number of preferred units held by the Company were exchanged for partnership units in the Operating Partnership.

As of September 30, 2024 and December 31, 2023, the total number of Operating Partnership units outstanding was 20,213,351 and 20,060,991, respectively.

As of September 30, 2024 and December 31, 2023, the total number of outstanding Operating Partnership units not owned by the Company was 364,186 and 364,186, respectively, with a fair market value of approximately \$0.4 million and \$0.5 million, respectively, based on the price per share of the common stock on such respective dates.

As of September 30, 2024, there are unpaid common dividends and distributions to holders of record as of March 13, 2020, in the amount of \$2,088,160.

9. Related Party Transactions

Our Town Hospitality. Our Town is currently the management company for each of our ten wholly-owned hotels, as well as the manager of our rental programs at the Lyfe Resort & Residences and the Hyde Beach House Resort & Residences. As of September 30, 2024, an affiliate of Andrew M. Sims, our Chairman, an affiliate of David R. Folsom, our President and Chief Executive Officer, and Andrew M. Sims Jr., our Vice President - Operations & Investor Relations, beneficially owned approximately 66.4%, 6.6%, and 15.0%, respectively, of the total outstanding ownership interests of Our Town. Mr. Sims, Mr. Folsom, and Mr. Sims Jr. serve as directors of Our Town. The following is a summary of the transactions between Our Town and us:

Accounts Receivable – At September 30, 2024 and December 31, 2023, we were due approximately \$0.0 million and \$0.01 million, respectively, from Our Town.

Accounts Payable – At September 30, 2024 and December 31, 2023, we owed Our Town approximately \$0.8 million and \$0.3 million, respectively.

Management Agreements – On September 6, 2019, the Company entered into a master agreement with Our Town related to the management of certain of our hotels, as amended on December 13, 2019 (as amended, the “OTH Master Agreement”). On December 13, 2019, and subsequent dates we entered into a series of individual hotel management agreements for the management of our hotels. The hotel management agreements for each of our ten wholly-owned hotels and the two rental programs are referred to as, individually an “OTH Hotel Management Agreement” and, together, the “OTH Hotel Management Agreements”. The term of the OTH Hotel Management Agreements extends through March 31, 2035, and may be extended for two periods of five years each.

As of September 30, 2024, the OTH Master Agreement provided for an adjustment to the fees payable by us under the OTH Hotel Management Agreements in the event the net operating income of Our Town falls below \$250,000 for any calendar year beginning on or after January 1, 2021. The OTH Master Agreement expires on March 31, 2035 but shall be extended beyond 2035 for such additional periods as an OTH Hotel Management Agreement remains in effect. The base management fees for each hotel under management with Our Town is 2.50%. For any new individual hotel management agreements, Our Town will receive a base management fee of 2.00% of gross revenues for the first full year from the commencement date through the anniversary date, 2.25% of gross revenues the second full year, and 2.50% of gross revenues for every year thereafter.

Base management fees earned by Our Town for our properties each totaled approximately \$1.0 million, for the three months ended September 30, 2024 and 2023, respectively, and were approximately \$3.5 million and \$3.4 million for the nine months ended September 30, 2024 and 2023, respectively.

Each OTH Hotel Management Agreement sets an incentive management fee equal to 10.0% of the amount by which gross operating profit, as defined in the relevant management agreement, for a given year exceeds the budgeted gross operating profit for such year; provided, however, that the incentive management fee payable in respect of any such year shall not exceed 0.25% of the gross revenues of the hotel included in such calculation. Incentive management fees earned for the three months ended September 30, 2024 and 2023, were \$(36,520) and \$(31,088), respectively, and for the nine months ended September 30, 2024 and 2023, were approximately \$75,145 and \$186,855, respectively.

Each OTH Hotel Management Agreement provides for the payment of a termination fee upon the sale of the hotel equal to the lesser of the management fee paid with respect to the prior twelve months or the management fees paid for the number of months prior to the closing date of the hotel sale equal to the number of months remaining on the current term of the management agreement.

Sublease – On December 13, 2019, we entered into a sublease agreement with Our Town pursuant to which Our Town subleases 2,245 square feet of office space from Sotherly for a period of 5 years, with a 5-year renewal subject to approval by Sotherly, on terms and conditions similar to the terms of the prime lease entered into by Sotherly and the third-party owner of the property. In December 2023, the Company granted Our Town a lease concession in the amount of \$143,774 in proportion to the rent concession the Company received under the primary lease. Sublease income from Our Town was \$97,766 and \$120,105 for the nine months ended September 30, 2024 and 2023, respectively.

Employee Medical Benefits – We purchase employee medical coverage for eligible employees that are employed by Our Town and who work exclusively for our properties and elect to participate in Our Town’s self-insured plan. Gross premiums for employee medical benefits paid by the Company (before offset of employee co-payments) were approximately \$1.0 million and \$0.9 million for the three months ended September 30, 2024 and 2023, respectively, and for the nine months ended September 30, 2024 and 2023, were approximately \$2.9 million and \$2.3 million, respectively.

Others. We employ Robert E. Kirkland IV, the son-in-law of our Chairman, as our General Counsel. We also employ Andrew M. Sims Jr., the son of our Chairman, as Vice President – Operations & Investor Relations. Total compensation for these two individuals, including salary and benefits, for the three months ended September 30, 2024 and 2023, were \$145,744 and \$134,289, respectively and for the nine months ended September 30, 2024 and 2023, were \$493,374 and \$470,494, respectively.

10. Retirement Plans

401(k) Plan - We maintain a 401(k) plan for qualified employees which is subject to “safe harbor” provisions. Those provisions include a matching employer contribution consisting of 100.0% of the first 3.0% of employee contributions and 50.0% of the next 2.0% of employee contributions. In addition, all employer matching funds vest immediately. Contributions to the plan totaled \$17,040 and \$16,048, for the three months ended September 30, 2024 and 2023, respectively and for the nine months ended September 30, 2024 and 2023, totaled \$77,089 and \$73,596, respectively.

Employee Stock Ownership Plan - The Company adopted an Employee Stock Ownership Plan in December 2016, effective January 1, 2016, which is a non-contributory defined contribution plan covering all employees of the Company. The Company sponsors and maintains the ESOP and related trust for the benefit of its eligible employees. The ESOP is a leveraged ESOP, meaning funds are loaned to the ESOP from the Company. The Company entered into a loan agreement with the ESOP on December 29, 2016, pursuant to which the ESOP may borrow up to \$5.0 million to purchase shares of the Company’s common stock on the open market, which serve as collateral for the loan.

Between January 3, and February 28, 2017, the Company’s ESOP had purchased 682,500 shares of the Company’s common stock in the open market at a cost of approximately \$4.9 million. Shares purchased by the ESOP are held in a suspense account for allocation among participants as contributions are made to the ESOP by the Company. The share allocations are accounted for at fair value at the date of allocation.

A total of 426,153 shares with a fair value of \$515,644 remained allocated or committed to be released from the suspense account, as of September 30, 2024. We recognized as compensation cost \$18,505 and \$38,905 during the nine months ended September 30, 2024 and 2023, respectively. The remaining 233,059 unallocated shares have an approximate fair value of \$282,001, as of September 30, 2024. As of September 30, 2024, the ESOP held a total of 412,169 allocated shares, 13,984 committed-to-be-released shares and 233,059 suspense shares. Dividends on allocated and unallocated shares are used to pay down the ESOP loan from the Operating Partnership.

The share allocations are accounted for at fair value on the date of allocation as follows:

	September 30, 2024		December 31, 2023	
	Number of Shares	Fair Value	Number of Shares	Fair Value
Allocated shares	412,169	\$ 498,724	412,169	\$ 614,131
Committed to be released shares	13,984	16,920	—	—
Total Allocated and Committed-to-be-Released	426,153	\$ 515,644	412,169	\$ 614,131
Unallocated shares	233,059	282,001	247,043	368,094
Total ESOP Shares	659,212	\$ 797,645	659,212	\$ 982,225

11. Indirect Hotel Operating Expenses

Indirect hotel operating expenses consists of the following expenses incurred by the hotels:

	Three Months Ended September 30, 2024 (unaudited)	Three Months Ended September 30, 2023 (unaudited)	Nine Months Ended September 30, 2024 (unaudited)	Nine Months Ended September 30, 2023 (unaudited)
Sales and marketing	\$ 3,790,404	\$ 3,815,349	\$ 12,167,336	\$ 12,323,121
General and administrative	3,829,348	3,638,354	11,388,967	11,010,177
Repairs and maintenance	2,241,323	2,164,003	6,760,153	6,486,094
Utilities	1,720,058	1,691,931	4,718,606	4,425,479
Property taxes	1,451,381	1,436,742	4,412,149	3,739,381
Management fees, including incentive	1,003,280	973,848	3,612,691	3,584,723
Franchise fees	989,802	972,610	3,301,739	3,290,490
Insurance	1,616,367	1,511,222	4,813,752	4,174,603
Information and telecommunications	1,016,135	931,573	2,969,245	2,799,923
Other	247,803	236,535	742,999	748,089
Total indirect hotel operating expenses	\$ 17,905,901	\$ 17,372,167	\$ 54,887,637	\$ 52,582,080

12. Income Taxes

The components of the income tax provision for the three and nine months ended September 30, 2024 and 2023 are as follows:

	Three Months Ended September 30, 2024 (unaudited)	Three Months Ended September 30, 2023 (unaudited)	Nine Months Ended September 30, 2024 (unaudited)	Nine Months Ended September 30, 2023 (unaudited)
Current:				
Federal	\$ —	\$ —	\$ —	\$ —
State	66,711	(354,398)	101,988	(322,679)
	66,711	(354,398)	101,988	(322,679)
Deferred:				
Federal	(973,120)	(1,153,452)	(604,942)	(1,055,628)
State	(231,764)	(261,180)	(81,857)	(115,711)
Subtotals	(1,204,884)	(1,414,632)	(686,799)	(1,171,339)
Change in deferred tax valuation allowance	1,204,884	1,414,632	686,799	1,171,339
	—	—	—	—
Income tax provision (benefit)	\$ 66,711	\$ (354,398)	\$ 101,988	\$ (322,679)

	Three Months Ended September 30, 2024 (unaudited)	Three Months Ended September 30, 2023 (unaudited)	Nine Months Ended September 30, 2024 (unaudited)	Nine Months Ended September 30, 2023 (unaudited)
Statutory federal income tax provision	\$ (820,945)	\$ (508,247)	\$ 503,878	\$ 893,903
Federal tax impact of REIT election	(103,084)	(421,693)	(633,377)	(1,264,579)
Federal impact of PPP loan forgiveness	—	—	—	(56,470)
State income tax benefit, net of federal provision (benefit)	(214,144)	(839,090)	(455,312)	(1,066,872)
Change in valuation allowance	1,204,884	1,414,632	686,799	1,171,339
Income tax provision (benefit)	\$ 66,711	\$ (354,398)	\$ 101,988	\$ (322,679)

13. Loss Per Share and Per Unit

Loss Per Share. The limited partners' outstanding limited partnership units in the Operating Partnership (which may be redeemed for common stock upon notice from the limited partner and following our election to redeem the units for stock rather than cash) have been excluded from the diluted earnings per share calculation as there would be no effect on the amounts since the limited partners' share of income or loss would also be added back to net income or loss. The shares of the Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock are not convertible into or exchangeable for any other property or securities of the Company, except upon the occurrence of a change of control, and have been excluded from the diluted earnings per share calculation as there would be no impact on the current controlling stockholders. The non-committed, unearned ESOP shares are treated as reducing the number of issued and outstanding common shares and similarly reducing the weighted average number of common shares outstanding. The unallocated ESOP shares have been excluded in the weighted average for the basic and diluted earnings per share computation. The computation of basic and diluted net loss per share is presented below:

	Three Months Ended September 30, 2024 (unaudited)	Three Months Ended September 30, 2023 (unaudited)	Nine Months Ended September 30, 2024 (unaudited)	Nine Months Ended September 30, 2023 (unaudited)
Numerator				
Net (loss) income	\$ (3,689,621)	\$ (2,065,826)	\$ 2,297,431	\$ 4,579,359
Less: Net loss (income) allocated to participating share awards	41,358	28,008	(25,672)	(58,032)
Net income attributable to non-controlling interest	80,173	156,558	44,140	50,720
Undeclared distributions to preferred stockholders	(1,994,313)	(1,994,313)	(5,982,938)	(5,982,938)
Net loss attributable to common stockholders for EPS computation	\$ (5,562,403)	\$ (3,875,573)	\$ (3,667,039)	\$ (1,410,891)
Denominator				
Weighted average number common shares outstanding for basic EPS computation	19,434,233	18,906,851	19,408,524	18,742,219
Basic and diluted net loss per common share:				
Undistributed loss	\$ (0.29)	\$ (0.20)	\$ (0.19)	\$ (0.08)
Total basic and diluted	\$ (0.29)	\$ (0.20)	\$ (0.19)	\$ (0.08)

The accounting for unvested share-based payment awards (share-based awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid), are participating securities and included in the computation of basic earnings per share. Our grants of restricted stock awards to our employees and directors are considered participating securities, and we have prepared our earnings per share calculations to include outstanding unvested restricted stock awards in the numerator for basic weighted average shares outstanding calculation. However, since the participating outstanding unvested restricted stock awards of 240,037 in the denominator are

anti-dilutive as of the three and nine months ended September 30, 2024 and 2023, due to net losses, they are not included in a dilutive calculation.

Loss Per Unit – The computation of basic and diluted net loss per unit is presented below:

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Numerator				
Net (loss) income	\$ (3,689,621)	\$ (2,065,826)	\$ 2,297,431	\$ 4,579,359
Less: Net loss (income) allocated to participating unit awards	41,358	28,008	(25,672)	(58,032)
Undeclared distributions to preferred unitholders	(1,994,313)	(1,994,313)	(5,982,938)	(5,982,938)
Net loss attributable to unitholders for EPU computation	\$ (5,642,576)	\$ (4,032,131)	\$ (3,711,179)	\$ (1,461,611)
Denominator				
Weighted average number of units outstanding for basic EPU computation	20,004,351	19,810,991	19,994,898	19,807,797
Basic and diluted net loss per unit:				
Undistributed loss	\$ (0.28)	\$ (0.20)	\$ (0.19)	\$ (0.07)
Total basic and diluted	\$ (0.28)	\$ (0.20)	\$ (0.19)	\$ (0.07)

The accounting for unvested unit-based payment awards (unit-based awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid), are participating securities and included in the computation of basic earnings per unit. Our grants of restricted unit awards to our employees and directors are considered participating securities, and we have prepared our earnings per unit calculations to include outstanding unvested restricted unit awards in the numerator for basic weighted average shares outstanding calculation. However, since the participating outstanding unvested restricted unit awards of 240,037 in the denominator are anti-dilutive as of the three and nine months ended September 30, 2024 and 2023, due to net losses, they are not included in a dilutive calculation.

14. Subsequent Events

On October 28, 2024, we authorized payment of a quarterly distribution of \$0.50 per share (and unit) of Series B Preferred Stock (and Series B Preferred Units) to holders of the Series B Preferred Stock (and Series B Preferred Units) of record as of November 29, 2024, to be paid on December 16, 2024.

On October 28, 2024, we authorized payment of a quarterly distribution of \$0.4921875 per share (and unit) of Series C Preferred Stock (and Series C Preferred Units) to holders of the Series C Preferred Stock (and Series C Preferred Units) of record as of November 29, 2024, to be paid on December 16, 2024.

On October 28, 2024, we authorized payment of a quarterly distribution of \$0.515625 per share (and unit) of Series D Preferred Stock (and Series D Preferred Units) to holders of the Series D Preferred Stock (and Series D Preferred Units) of record as of November 29, 2024, to be paid on December 16, 2024.

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

Cautionary Statement Regarding Forward Looking Statements

Information included and incorporated by reference in this Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such may involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements, which are based on certain assumptions and describe our current strategies, expectations, and future plans, are generally identified by our use of words, such as “intend,” “plan,” “may,” “should,” “will,” “project,” “estimate,” “anticipate,” “believe,” “expect,” “continue,” “potential,” “opportunity,” and similar expressions, whether in the negative or affirmative, but the absence of these words does not necessarily mean that a statement is not forward-looking. All statements regarding our expected financial position, business and financing plans are forward-looking statements.

Factors which could have a material adverse effect on the Company's future operations, results, performance and prospects include, but are not limited to:

- national and local economic and business conditions that affect occupancy rates and revenues at our hotels and the demand for hotel products and services;
- risks associated with the hotel industry, including competition and new supply of hotel rooms, increases in wages, energy costs and other operating costs;
- risks associated with the level of our indebtedness and our ability to meet covenants in our debt agreements, and, as necessary, to refinance or seek an extension of the maturity of such indebtedness or further modification of such debt agreements on similar or more favorable terms;
- risks associated with adverse weather conditions, including hurricanes;
- impacts on the travel industry from pandemic diseases, including COVID-19;
- the availability and terms of financing and capital and the general volatility of the securities markets;
- management and performance of our hotels;
- risks associated with maintaining our system of internal controls;
- risks associated with the conflicts of interest of the Company's officers and directors;
- risks associated with redevelopment and repositioning projects, including delays and cost overruns;
- supply and demand for hotel rooms in our current and proposed market areas;
- risks associated with our ability to maintain our franchise agreements with our third party franchisors;
- our ability to acquire additional properties and the risk that potential acquisitions may not perform in accordance with expectations;
- our ability to successfully expand into new markets;
- legislative/regulatory changes, including changes to laws governing taxation of real estate investment trusts (“REITs”);
- the Company's ability to maintain its qualification as a REIT and the limitations imposed on the Company's business due to such maintenance; and
- our ability to maintain adequate insurance coverage.

Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements included in this report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the results or conditions described in such statements or the objectives and plans of the Company will be achieved.

Additional factors that could cause actual results to vary from our forward-looking statements are set forth under the section titled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2023.

These risks and uncertainties should be considered in evaluating any forward-looking statement contained in this report or incorporated by reference herein. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section. We undertake no obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report, except as required by law. In addition, our past results are not necessarily indicative of our future results.

Overview

Sotherly Hotels Inc. is a self-managed and self-administered lodging REIT incorporated in Maryland in August 2004 and focused on the acquisition, renovation, up-branding and repositioning of upscale to upper-upscale full-service hotels in the southern United States. Sotherly may also opportunistically acquire hotels throughout the United States. Substantially all of the assets of Sotherly Hotels Inc. are held by, and all of its operations are conducted through, Sotherly Hotels LP. We commenced operations in December 2004 when we completed our initial public offering and thereafter consummated the acquisition of the Initial Properties.

Our hotel portfolio currently consists of ten full-service, primarily upscale and upper-upscale hotels, comprising 2,786 rooms, as well as interests in two condominium hotels and their associated rental programs. The Company owns hotels that operate under well-known brands such as DoubleTree by Hilton, Tapestry Collection by Hilton, and Hyatt Centric, as well as independent hotels. We sometimes refer to our independent and soft-branded properties as our collection of boutique hotels. As of September 30, 2024, our portfolio consisted of the following hotel properties:

<u>Property</u>	<u>Number of Rooms</u>	<u>Location</u>	<u>Date of Acquisition</u>	<u>Chain/Class Designation</u>
Wholly-owned Hotels				
The DeSoto	246	Savannah, GA	December 21, 2004	Upper Upscale ⁽¹⁾
DoubleTree by Hilton Jacksonville Riverfront	293	Jacksonville, FL	July 22, 2005	Upscale
DoubleTree by Hilton Laurel	208	Laurel, MD	December 21, 2004	Upscale
DoubleTree by Hilton Philadelphia Airport	331	Philadelphia, PA	December 21, 2004	Upscale
DoubleTree Resort by Hilton Hollywood Beach	311	Hollywood, FL	August 9, 2007	Upscale
Georgian Terrace	326	Atlanta, GA	March 27, 2014	Upper Upscale ⁽¹⁾
Hotel Alba Tampa, Tapestry Collection by Hilton	222	Tampa, FL	October 29, 2007	Upscale
Hotel Ballast Wilmington, Tapestry Collection by Hilton	272	Wilmington, NC	December 21, 2004	Upscale
Hyatt Centric Arlington	318	Arlington, VA	March 1, 2018	Upper Upscale
The Whitehall	259	Houston, TX	November 13, 2013	Upper Upscale ⁽¹⁾
Hotel Rooms Subtotal	<u>2,786</u>			
Condominium Hotels				
Lyfe Resort & Residences	66	⁽²⁾ Hollywood, FL	January 30, 2017	Luxury ⁽¹⁾
Hyde Beach House Resort & Residences	74	⁽²⁾ Hollywood, FL	September 27, 2019	Luxury ⁽¹⁾
Total Hotel & Participating Condominium Hotel Rooms	<u>2,926</u>			

(1) Operated as an independent hotel.

(2) Reflects only those condominium units that were participating in the rental program, as of September 30, 2024. At any given time, some portion of the units participating in our rental program may be occupied by the unit owner(s) and unavailable for rental to hotel guests. We sometimes refer to each participating condominium unit as a “room.”

We conduct substantially all our business through our Operating Partnership. We are the sole general partner of our Operating Partnership, and we own an approximate 98.2% interest in our Operating Partnership, as of the date of this report, with the remaining interest being held by limited partners who were the contributors of our Initial Properties and related assets.

To qualify as a REIT, neither the Company nor the Operating Partnership can operate our hotels. Therefore, our wholly-owned hotel properties are leased to our MHI TRS Entities, which are indirect wholly-owned subsidiaries of the Operating Partnership. Our MHI TRS Entities then engage an eligible independent hotel management company to operate the hotels under a management agreement. Our MHI TRS Entities have engaged Our Town to manage our hotels. Our MHI TRS Entities, and their parent, MHI Hospitality TRS

Holding, Inc., are consolidated into each of our financial statements for accounting purposes. The earnings of MHI Hospitality TRS Holding, Inc. are subject to taxation similar to other C corporations.

Key Operating Metrics

In the hotel industry, room revenue is considered the most important category of revenue and drives other revenue categories such as food, beverage, catering, parking, and telephone. There are three key performance indicators used in the hotel industry to measure room revenues:

- Occupancy, or the number of rooms sold, usually expressed as a percentage of total rooms available;
- Average daily rate, or ADR, which is total room revenue divided by the number of rooms sold; and
- Revenue per available room, or RevPAR, which is total room revenue divided by the total number of available rooms.

RevPAR changes that are primarily driven by changes in occupancy have different implications for overall revenues and profitability than changes that are driven primarily by changes in ADR. For example, an increase in occupancy at a hotel would lead to additional variable operating costs (such as housekeeping services, laundry, utilities, room supplies, franchise fees, management fees, credit card commissions and reservations expense), but could also result in increased non-room revenue from the hotel's restaurant, banquet or parking facilities. Changes in RevPAR that are primarily driven by changes in ADR typically have a greater impact on operating margins and profitability as they do not generate all of the additional variable operating costs associated with higher occupancy.

When calculating composite portfolio metrics, we include available rooms at the Lyfe Resort & Residences and the Hyde Beach House Resort & Residences that participate in our rental programs and are not reserved for owner-occupancy.

We also use FFO, Adjusted FFO and Hotel EBITDA as measures of our operating performance. See "Non-GAAP Financial Measures."

Results of Operations

The following tables illustrate the key operating metrics for the three and nine months ended September 30, 2024 and 2023, respectively, for the Company's wholly-owned properties ("actual" portfolio metrics). Accordingly, the actual data does not include the participating condominium hotel rooms of the Lyfe Resort & Residences and the Hyde Beach House Resort & Residences. The composite portfolio metrics represent the Company's wholly-owned properties and the participating condominium hotel rooms at the Lyfe Resort & Residences and the Hyde Beach House Resort & Residences, during the three and nine months ended September 30, 2024 and the corresponding period in 2023.

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Actual Portfolio Metrics				
Occupancy %	66.9 %	62.4 %	68.4 %	64.5 %
ADR	\$ 158.46	\$ 164.14	\$ 175.30	\$ 179.18
RevPAR	\$ 105.98	\$ 102.46	\$ 119.84	\$ 115.59
Composite Portfolio Metrics				
Occupancy %	66.3 %	61.5 %	68.2 %	63.8 %
ADR	\$ 161.37	\$ 167.10	\$ 179.92	\$ 184.83
RevPAR	\$ 107.02	\$ 102.82	\$ 122.71	\$ 117.89

Comparison of the Three Months Ended September 30, 2024, to the Three Months Ended September 30, 2023

Revenue. Total revenue for the three months ended September 30, 2024, increased by approximately \$1.5 million, or 3.9%, to approximately \$40.7 million compared to total revenue of approximately \$39.2 million for the three months ended September 30, 2023. Increases of approximately \$2.5 million in total revenue at eight of our properties accounted for the change. The aggregate increase in total revenue reflects an overall increase in room occupancy by 4.8%. We also received higher food and beverage revenues and comparable other operating revenues, coming from better group business for the quarter ended September 30, 2024, versus the comparable period in 2023.

Room revenue increased approximately \$0.9 million, or 3.4%, to approximately \$27.2 million for the three months ended September 30, 2024, compared to room revenue of approximately \$26.3 million for the three months ended September 30, 2023. RevPAR for the three-month period increased 4.1% from \$102.82 in 2023, to \$107.02 in 2024, driven by a 4.8% increase in occupancy. Increases in room revenue at six of our wholly-owned properties were driven by increases in small group and corporate business travel demand and offset room revenue decreases at the remaining four wholly-owned properties.

Food and beverage revenues increased approximately \$0.2 million, or 3.1%, to approximately \$7.7 million for the three months ended September 30, 2024 compared to food and beverage revenues of approximately \$7.5 million for the three months ended September 30, 2023. Increases in banqueting and catering for small groups and meetings as well as increases in demand at our restaurant outlets at six of our wholly-owned properties offset decreases at the remaining four wholly-owned properties.

Revenue from other operating departments increased by approximately \$0.4 million, or 7.0%, to approximately \$5.8 million for the three months ended September 30, 2024 compared to revenue from other operating departments of approximately \$5.4 million for the three months ended September 30, 2023.

Hotel Operating Expenses. Hotel operating expenses, which consist of room expenses, food and beverage expenses, other direct expenses, indirect expenses and management fees, increased approximately \$1.0 million, or 3.2%, to approximately \$32.6 million for the three months ended September 30, 2024, compared to total hotel operating expenses of approximately \$31.6 million for the three months ended September 30, 2023. The increase in hotel operating expenses for the three months ended September 30, 2024, resulted from an aggregate increase at eight of our hotel properties of approximately \$1.7 million, offset by decreases totaling approximately \$0.7 million from four of our properties. This increase in hotel operating expenses was directly related to the increases in room revenues and food and beverage revenues and other operating expenses at a number of our hotels and higher indirect expenses as described below.

Room expense for the three months ended September 30, 2024 increased by approximately \$0.2 million, or 2.5%, to approximately \$6.6 million, compared to rooms expense for the three months ended September 30, 2023 of approximately \$6.4 million. The increase was directly related to the increase in room revenue.

Food and beverage expenses for the three months ended September 30, 2024 increased approximately \$0.2 million, or 3.3%, to approximately \$5.8 million, compared to food and beverage expenses of approximately \$5.6 million, for the three months ended September 30, 2023. The net increase in food and beverage expenses for the three months ended September 30, 2024, resulted from an aggregate increase of approximately \$0.3 million from six of our properties, with offsetting decreases at our remaining properties. The increase was directly related to the increase in food and beverage revenue.

Expenses from other operating departments for the three months ended September 30, 2024, increased approximately \$0.1 million or 5.5%, to approximately \$2.3 million, compared to other operating departments expense for the three months ended September 30, 2023 of approximately \$2.2 million. The increase was directly related to the increase in other departments revenue.

Indirect expenses at our wholly-owned properties for the three months ended September 30, 2024 increased by 3.1%, to approximately \$17.9 million, compared to indirect expenses of approximately \$17.4 million for the three months ended September 30, 2023.

Corporate General and Administrative. Corporate general and administrative expenses for the three months ended September 30, 2024, decreased approximately \$0.2 million, or 12.8%, to approximately \$1.5 million compared to corporate general and administrative expenses of approximately \$1.7 million, for the three months ended September 30, 2023. A decrease in legal and professional fees for the current quarter accounted for the majority of this decrease.

Interest Expense. Interest expense for the three months ended September 30, 2024, increased approximately \$0.9 million, or 19.6%, to approximately \$5.3 million, as compared to interest expense of approximately \$4.4 million, for the three months ended September 30, 2023. The increase in interest expense for the three months ended September 30, 2024, was substantially related to increases from interest rate swaps ending for both our mortgage loans on our properties DoubleTree by Hilton Philadelphia Airport and Hotel Alba Tampa, Tapestry Collection by Hilton. This affected the interest expense by increasing interest rates on these variable rate mortgages. We also refinanced the Hotel Alba Tampa, Tapestry Collection by Hilton in March 2024 and the DoubleTree by Hilton Jacksonville Riverfront in July 2024, which increased the weighted average interest rate from 5.41% to 5.93% interest rate.

Unrealized Loss on Hedging Activities. As of September 30, 2024, there was an interest rate cap related to the mortgage loan on the DoubleTree by Hilton Philadelphia Airport with a fair value of approximately \$0.4 million, which capped the interest rate down by 3.0%. There was an unrealized loss on the fair value of this cap of approximately \$0.3 million, compared to an unrealized gain of approximately \$0.1 million during the three months ended September 30, 2023.

Gain on Involuntary Conversion of Assets. Gain on involuntary conversion of assets decreased approximately \$0.5 million, from approximately \$0.5 million for the three months ended September 30, 2023 to approximately \$0 million, for the three months ending September 30, 2024. The gain was related to casualties at The DeSoto.

Income Taxes. We had an income tax provision of \$66,711 for the three months ended September 30, 2024, compared to an income tax benefit of \$354,398, for the three months ended September 30, 2023.

Net Loss. We realized a net loss for the three months ended September 30, 2024, of approximately \$3.7 million, compared to a net loss of approximately \$2.1 million, for the three months ended September 30, 2023, because of the operating results discussed above.

Comparison of the Nine Months Ended September 30, 2024, to the Nine Months Ended September 30, 2023

Revenue. Total revenue for the nine months ended September 30, 2024, increased by approximately \$6.2 million, or 4.7%, to approximately \$137.9 million compared to total revenue of approximately \$131.7 million for the nine months ended September 30, 2023. Increases of approximately \$6.8 million in total revenue at 10 of our properties accounted for the change. The aggregate increase in total revenue reflects an overall increase in room occupancy by 4.4%. We also received higher food and beverage revenues and comparable other operating revenues, coming from better group business for the nine months ended September 30, 2024, versus the comparable period in 2023.

Room revenue increased approximately \$3.6 million, or 4.1%, to approximately \$91.5 million for the nine months ended September 30, 2024, compared to room revenue of approximately \$87.9 million for the nine months ended September 30, 2023. RevPAR for the nine-month period increased 4.1% from \$117.89 in 2023, to \$122.71 in 2024, driven by a 4.4% increase in occupancy. Increases in room revenue at eight of our wholly-owned properties were driven by increases in small group and corporate business travel demand and offset room revenue decreases at the remaining two wholly-owned properties.

Food and beverage revenues increased approximately \$1.6 million, or 6.4%, to approximately \$27.4 million for the nine months ended September 30, 2024 compared to food and beverage revenues of approximately \$25.8 million for the nine months ended September 30, 2023. Increases in banqueting and catering for small groups and meetings as well as increases in demand at our restaurant outlets at seven of our wholly-owned properties offset decreases at the remaining three wholly-owned properties.

Revenue from other operating departments increased by approximately \$1.0 million, or 5.8%, to approximately \$19.0 million for the nine months ended September 30, 2024 compared to revenue from other operating departments of approximately \$18.0 million for the nine months ended September 30, 2023.

Hotel Operating Expenses. Hotel operating expenses, which consist of room expenses, food and beverage expenses, other direct expenses, indirect expenses and management fees, increased approximately \$4.6 million, or 4.7%, to approximately \$101.8 million for the nine months ended September 30, 2024, compared to total hotel operating expenses of approximately \$97.2 million for the nine months ended September 30, 2023. The increase in hotel operating expenses for the nine months ended September 30, 2024, resulted from an aggregate increase at ten of our hotel properties of approximately \$5.0 million, offset by decreases totaling approximately \$0.4 million from two of our properties. This increase in hotel operating expenses was directly related to the increases in room revenues and food and beverage revenues and other operating expenses at a number of our hotels and higher indirect expenses as described below.

Room expense for the nine months ended September 30, 2024 increased by approximately \$0.7 million, or 3.7%, to approximately \$20.6 million, compared to rooms expense for the nine months ended September 30, 2023 of approximately \$19.9 million. The increase was directly related to the increase in room revenue.

Food and beverage expenses for the nine months ended September 30, 2024 increased approximately \$0.9 million, or 4.8%, to approximately \$18.8 million, compared to food and beverage expenses of approximately \$17.9 million, for the nine months ended September 30, 2023. The net increase in food and beverage expenses for the nine months ended September 30, 2024, resulted from an aggregate increase of approximately \$0.9 million from eight of our properties, with offsetting decreases at our remaining properties. The increase was directly related to the increase in food and beverage revenue.

Expenses from other operating departments for the nine months ended September 30, 2024, increased approximately \$0.7 million or 10.1%, to approximately \$7.5 million, compared to other operating departments expense for the nine months ended September 30, 2023 of approximately \$6.8 million. The increase was directly related to the increase in other departments revenue.

Indirect expenses at our wholly-owned properties for the nine months ended September 30, 2024 increased approximately \$2.3 million, or 4.4%, to approximately \$54.9 million, compared to indirect expenses of approximately \$52.6 million for the nine months

ended September 30, 2023. The increase was related to increases in administration and general, repairs and maintenance, energy and utilities, insurance, information and communication, and real estate and personal property taxes.

Corporate General and Administrative. Corporate general and administrative expenses for the nine months ended September 30, 2024, decreased approximately \$0.5 million, or 9.0%, to approximately \$5.0 million compared to corporate general and administrative expenses of approximately \$5.5 million, for the nine months ended September 30, 2023. A decrease in legal and professional fees for the current period accounted for the majority of this decrease.

Interest Expense. Interest expense for the nine months ended September 30, 2024, increased approximately \$2.4 million, or 18.4%, to approximately \$15.2 million, as compared to interest expense of approximately \$12.8 million, for the nine months ended September 30, 2023. The increase in interest expense for the nine months ended September 30, 2024, was substantially related to increases from interest rate swaps ending for both our mortgage loans on our properties DoubleTree by Hilton Philadelphia Airport and Hotel Alba Tampa, Tapestry Collection by Hilton. This affected the interest expense by increasing interest rates on these variable rate mortgages. We also refinanced the Hotel Alba Tampa, Tapestry Collection by Hilton in March 2024 and the DoubleTree by Hilton Jacksonville Riverfront in July 2024, which increased the weighted average interest rate from 5.41% to 5.93% interest rate.

Realized Gain on Hedging Activities. The realized gain on hedging activities during the nine months ended September 30, 2024, was approximately \$1.0 million, due to termination of the Hotel Alba Tampa, Tapestry Collection by Hilton interest rate swap.

Unrealized Loss on Hedging Activities. As of September 30, 2024, there was a new interest rate cap related to the mortgage loan on the DoubleTree by Hilton Philadelphia Airport with a fair value of approximately \$0.4 million, which capped the interest rate down by 3.0%, with an unrealized loss on hedging activities of approximately \$0.4 million. There was also an unrealized loss on the fair value of the Hotel Alba Tampa, Tapestry Collection by Hilton interest rate swap of approximately \$0.7 million. These two aggregated losses of approximately \$1.1 million for the nine months ended September 30, 2024, compared to a loss of approximately \$0.1 million during the nine months ended September 30, 2023.

Income Taxes. We had an income tax provision of \$101,988 for the nine months ended September 30, 2024, compared to an income tax benefit of \$322,679, for the nine months ended September 30, 2023.

Net Income. We realized a net income for the nine months ended September 30, 2024, of approximately \$2.3 million, compared to a net income of approximately \$4.6 million, for the nine months ended September 30, 2023, because of the operating results discussed above.

Non-GAAP Financial Measures

We consider the non-GAAP financial measures of FFO attributable to common stockholders and unitholders (including FFO per common share and unit), Adjusted FFO attributable to common stockholders and unitholders, EBITDA and Hotel EBITDA to be key supplemental measures of the Company's performance and could be considered along with, not alternatives to, net income (loss) as a measure of the Company's performance. These measures do not represent cash generated from operating activities determined by generally accepted accounting principles ("GAAP") or amounts available for the Company's discretionary use and should not be considered alternative measures of net income, cash flows from operations or any other operating performance measure prescribed by GAAP.

FFO and Adjusted FFO. Industry analysts and investors use Funds from Operations ("FFO"), as a supplemental operating performance measure of an equity REIT. FFO is calculated in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). FFO, as defined by NAREIT, represents net income or loss determined in accordance with GAAP, excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, gains or losses from involuntary conversions of assets, plus certain non-cash items such as real estate asset depreciation and amortization or impairment, stock compensation costs and after adjustment for any noncontrolling interest from unconsolidated partnerships and joint ventures. Historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, many investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by itself.

We consider FFO to be a useful measure of adjusted net income (loss) for reviewing comparative operating and financial performance because we believe FFO is most directly comparable to net income (loss), which remains the primary measure of performance, because by excluding gains or losses related to sales of previously depreciated operating real estate assets and excluding real estate asset depreciation and amortization, FFO assists in comparing the operating performance of a company's real estate between

periods or as compared to different companies. Although FFO is intended to be a REIT industry standard, other companies may not calculate FFO in the same manner as we do, and investors should not assume that FFO as reported by us is comparable to FFO as reported by other REITs.

We further adjust FFO Attributable to Common Stockholders and Unitholders for certain additional items that are not in NAREIT's definition of FFO, including changes in deferred income taxes, any unrealized gain (loss) on hedging instruments, losses on early extinguishment of debt, gains on extinguishment of preferred stock, aborted offering costs, loan modification fees, franchise termination costs, costs associated with the departure of executive officers, litigation settlement, management contract termination costs, operating asset depreciation and amortization, gain or loss on a change in control, ESOP and stock compensation expenses and negative lease amortization on our finance ground lease obligation. We exclude these items as we believe it allows for meaningful comparisons between periods and among other REITs and is more indicative than FFO of the on-going performance of our business and assets. Our calculation of Adjusted FFO may be different from similar measures calculated by other REITs.

The following is a reconciliation of net (loss) income to FFO and Adjusted FFO, for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Net (loss) income	\$ (3,689,621)	\$ (2,065,826)	\$ 2,297,431	\$ 4,579,359
Depreciation and amortization - real estate	4,845,743	4,702,148	14,403,372	14,017,095
Gain on sale of assets	—	(4,700)	(4,400)	(4,700)
Gain on involuntary conversion of assets	(32,537)	(551,729)	(267,574)	(1,331,374)
FFO	1,123,585	2,079,893	16,428,829	17,260,380
Distributions to preferred stockholders	(1,994,313)	(1,994,313)	(5,982,938)	(5,982,938)
FFO attributable to common stockholders and unitholders	(870,728)	85,580	10,445,891	11,277,442
Amortization	14,806	12,871	44,417	39,428
ESOP and stock - based compensation	47,410	55,763	351,193	370,714
Loss on early debt extinguishment	—	—	241,878	—
Negative lease amortization	132,964	—	132,964	—
Unrealized loss (gain) on hedging activities	327,826	(103,946)	1,119,247	51,686
Adjusted FFO attributable to common stockholders and unitholders	(347,722)	\$ 50,268	\$ 12,335,590	\$ 11,739,270
Weighted average number of shares outstanding, basic	19,434,233	18,906,851	19,408,524	18,742,219
Weighted average number of non-controlling units	364,186	578,744	364,186	724,555
Weighted average number of shares and units outstanding, basic	19,798,419	19,485,595	19,772,710	19,466,774
FFO per common share and unit	\$ (0.04)	\$ 0.00	\$ 0.53	\$ 0.58
Adjusted FFO per common share and unit	\$ (0.02)	\$ 0.00	\$ 0.62	\$ 0.60

EBITDA. We believe that excluding the effect of non-operating expenses and non-cash charges, and the portion of those items related to unconsolidated entities, all of which are also based on historical cost accounting and may be of limited significance in evaluating current performance, can help eliminate the accounting effects of depreciation and financing decisions and facilitate comparisons of core operating profitability between periods and between REITs, even though EBITDA also does not represent an amount that accrued directly to shareholders.

Hotel EBITDA. We define Hotel EBITDA as net income or loss excluding: (1) interest expense, (2) interest income, (3) income tax provision or benefit, (4) depreciation and amortization, (5) impairment of long-lived assets or investments, (6) gains and losses on disposal and/or sale of assets, (7) gains and losses on involuntary conversions of assets, (8) realized and unrealized gains and losses on derivative instruments not included in other comprehensive income, (9) loss on early debt extinguishment, (10) Paycheck Protection Program (PPP) debt forgiveness, (11) gain on exercise of development right, (12) corporate general and administrative expense, and (13) other operating revenue not related to our wholly-owned portfolio. We believe this provides a more complete understanding of the operating results over which our wholly-owned hotels and its operators have direct control. We believe Hotel EBITDA provides investors with supplemental information on the on-going operational performance of our hotels and the effectiveness of third-party management companies operating our business on a property-level basis.

The following is a reconciliation of net (loss) income to EBITDA and Hotel EBITDA for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended	Three Months Ended	Nine Months Ended	Nine Months Ended
	September 30, 2024	September 30, 2023	September 30, 2024	September 30, 2023
Net (loss) income	\$ (3,689,621)	\$ (2,065,826)	\$ 2,297,431	\$ 4,579,359
Interest expense	5,341,825	4,466,630	15,231,626	12,868,595
Interest income	(155,309)	(222,878)	(578,183)	(592,315)
Income tax provision	66,711	(354,398)	101,988	(322,679)
Depreciation and amortization	4,860,548	4,715,019	14,447,789	14,056,523
EBITDA	6,424,154	6,538,547	31,500,651	30,589,483
PPP loan forgiveness	—	—	—	(275,494)
Other income	(103,961)	—	(371,191)	—
Loss on early debt extinguishment	—	—	241,878	—
Gain on sale of assets	—	(4,700)	(4,400)	(4,700)
Gain on involuntary conversion of assets	(32,537)	(551,729)	(267,574)	(1,331,374)
Subtotal	6,287,656	5,982,118	31,099,364	28,977,915
Corporate general and administrative	1,471,566	1,688,535	4,968,465	5,458,340
Realized and unrealized (gain) loss on hedging activities	327,826	(103,946)	77,253	51,686
Hotel EBITDA	\$ 8,087,048	\$ 7,566,707	\$ 36,145,082	\$ 34,487,941

Sources and Uses of Cash

Our principal sources of cash are cash from hotel operations, proceeds from the sale of common and preferred stock, proceeds from the sale of secured and unsecured notes, proceeds of mortgage and other debt and hotel property sales. Our principal uses of cash are acquisitions of hotel properties, capital expenditures, debt service and balloon maturities, operating costs, corporate expenses and dividends. As of September 30, 2024, we had approximately \$14.0 million of unrestricted cash and \$18.5 million of restricted cash.

Operating Activities. Our net cash flow provided by operating activities for the nine months ended September 30, 2024, was approximately \$21.4 million, generally consisting of net cash flow provided by hotel operations. The positive cash flow from operations during the quarter and increase from the prior year was due to the increase in occupancy at our hotels as a result of increases in leisure transient, small group and corporate business travel. Cash used in or provided by operating activities generally consists of the cash flow from hotel operations, offset by the interest portion of our debt service, corporate expenses and positive or negative changes in working capital.

Investing Activities. Our cash used in investing activities for the nine months ended September 30, 2024, was approximately \$9.8 million. Of this amount approximately \$10.1 million was related to capital expenditures for improvements and additions to hotel properties. There were also insurance proceeds related to involuntary conversions of approximately \$0.3 million.

Financing Activities. During the nine months ended September 30, 2024, the Company and Operating Partnership received proceeds from mortgage loans of \$66.3 million, received proceeds from the redemption of the Tampa interest rate swap of approximately \$1.0 million, made principal payments on our mortgages of approximately \$63.2 million, payments on our unsecured notes of approximately \$0.6 million, purchased an interest rate cap on the Philadelphia hotel mortgage and payments on deferred financing costs of approximately \$1.8 million, and paid preferred dividends of approximately \$6.0 million.

Capital Expenditures

We intend to maintain all our hotels, including any hotel we acquire in the future, in good repair and condition, in conformity with applicable laws and regulations and, when applicable, with franchisor's standards. Routine capital improvements are determined through the annual budget process over which we maintain approval rights, and which are implemented or administered by our management company.

Historically, we have aimed to maintain overall capital expenditures, except for those required by our franchisors as a condition to a franchise license or license renewal, at 4.0% of gross revenue. For 2024, we expect total capital expenditures for the routine replacement and refurbishment of furniture, fixtures and equipment for 2024 to be approximately \$7.2 million.

We expect a substantial portion of our capital expenditures for the routine replacement or refurbishment of furniture, fixtures and equipment at our properties will be funded by our replacement reserve accounts, other than costs that we incur to make capital improvements required by our franchisors. Reserve accounts are escrowed accounts with funds deposited monthly and reserved for capital improvements or expenditures with respect to all of our hotels. We deposit an amount equal to 4.0% of gross revenue for The DeSoto, the Hotel Ballast Wilmington, Tapestry Collection by Hilton, the Hotel Alba Tampa, Tapestry Collection by Hilton, the DoubleTree Resort by Hilton Hollywood Beach, the DoubleTree by Hilton Jacksonville Riverside, the DoubleTree by Hilton Laurel, The Whitehall and the Georgian Terrace as well as 4.0% of room revenues for the DoubleTree by Hilton Philadelphia Airport and the Hyatt Centric Arlington on a monthly basis.

From time to time, certain of our hotel properties may undergo renovations as a result of our decision to upgrade portions of the hotel, such as guestrooms, meeting space and restaurants, in order to better compete with other hotels in our markets. In addition, we may be required by one or more of our franchisors to complete a PIP in order to bring the hotel up to the franchisor's standards. Generally, we expect to fund renovations and improvements out of working capital, including replacement reserve accounts, proceeds of mortgage debt or equity offerings.

During fiscal years 2024, 2025, and 2026, we expect total capital expenditures related to the renovation of our property in Philadelphia, Pennsylvania of approximately \$11.5 million as a condition to the renewal of our franchise license. On April 29, 2024, coincident with the extension of the mortgage loan, we placed \$5.0 million into a reserve account to partially fund the renovation. In addition, provided we meet certain financial covenants, we expect the release of \$1.2 million of other reserves in additional funding on or after June 30, 2025. The remainder of the capital expenditures will be funded out of working capital. As of September 30, 2024, we had incurred costs totaling approximately \$0.3 million.

During fiscal years 2024, 2025, and 2026, we expect total capital expenditures related to the renovation of our property in Jacksonville, Florida of approximately \$14.6 million, as a condition to the renewal of our franchise license. On July 8, 2024, in conjunction with the refinance of the mortgage with Fifth Third Bank, N.A., we secured additional funding of \$9.49 million to partially fund the product improvement plan. The remainder of the capital expenditures will be funded out of working capital. As of September 30, 2024, we had incurred costs totaling approximately \$0.2 million.

Liquidity and Capital Resources

As of September 30, 2024, we had total cash and cash equivalents of approximately \$14.0 million and restricted cash of approximately \$18.5 million. We expect that our cash on hand combined with our cash flow from our hotels should be adequate to fund continuing operations, routine capital expenditures for the refurbishment and replacement of furniture, fixtures and equipment, and monthly scheduled payments of principal and interest (excluding any balloon payments due upon maturity of our mortgage debt).

On February 7, 2024, we secured a \$35.0 million mortgage on the Hotel Alba located in Tampa, Florida with Citi Real Estate Funding, Inc. The loan has a maturity date of March 6, 2029; carries a fixed rate of interest of 8.49%, requires monthly payments of

interest only; and cannot be prepaid until the last four months of the loan term. We used a portion of the proceeds to repay the existing first mortgage on the hotel. The remainder of the proceeds were used for working capital.

On April 29, 2024, we amended the mortgage loan agreement on the DoubleTree by Hilton Philadelphia Airport with the existing lender, TD Bank, N.A. The amendment extends the loan's maturity to April 29, 2026; requires payments of interest only at existing terms of interest at a floating rate based on SOFR plus 3.50%; and required a principal reduction of \$3.0 million. Existing reserves were increased by \$2.0 million and a separate reserve of \$5.0 million was established for the anticipated renovation of the property in conjunction with the renewal of the franchise license.

On July 8, 2024, we secured a \$26.25 million mortgage loan on the DoubleTree by Hilton Jacksonville Riverfront hotel located in Jacksonville, Florida with Fifth Third Bank, N.A. The loan provides for an additional \$9.49 million available to fund a product improvement plan at the hotel; matures on July 8, 2029; and requires monthly payments of interest at a floating interest rate of SOFR plus 3.00% plus principal of \$38,700. Proceeds of the loan were used to repay the existing mortgage.

On August 14, 2024, we secured a \$5.0 million second mortgage loan on the DeSoto hotel located in Savannah, GA with MONY Life Insurance Company. The loan has a maturity date of July 1, 2026 and requires level payments of principal and interest at a fixed interest rate of 7.50% and amortizing on a 25-year schedule. Proceeds of the loan were used for working capital.

As of the date of this report, we were current on all mortgage and other loan payments per the terms of our agreements, as amended.

In June 2025, the mortgage on The Georgian Terrace in Atlanta, Georgia matures. We intend to refinance the mortgage but may be required to reduce the level of indebtedness by an amount of up to \$5.25 million based upon anticipated financial performance of the property and anticipated market conditions.

In October 2025, the mortgage on the DoubleTree Resort by Hilton Hollywood Beach matures. We intend to refinance the mortgage but may be required to reduce the level of indebtedness by an amount of up to \$12.5 million based upon anticipated financial performance of the property and anticipated market conditions.

We intend to continue to invest in hotel properties as suitable opportunities arise. The success of our acquisition strategy depends, in part, on our ability to access additional capital through other sources, which we expect to be limited as a result of the economic changes in the travel industry coming out of the COVID-19 pandemic. There can be no assurance that we will continue to make investments in properties that meet our investment criteria or have access to capital during this period. Additionally, we may choose to dispose of certain hotels as a means to provide liquidity.

Over the long term, we expect to meet our liquidity requirements for hotel property acquisitions, property redevelopment, investments in new joint ventures and debt maturities, and the retirement of maturing mortgage debt, through net proceeds from additional issuances of common shares, additional issuances of preferred shares, issuances of units of limited partnership interest in our Operating Partnership, secured and unsecured borrowings, the selective disposition of non-core assets, and cash on hand. We remain committed to a flexible capital structure and strive to maintain prudent debt leverage.

Financial Covenants

Mortgage Loans

Our mortgage loan agreements contain various financial covenants directly related to the financial performance of the collateralized properties. Failure to comply with these financial covenants could result from, among other things, changes in the local competitive environment, disruption caused by renovation activity, major weather disturbances as well as general economic conditions.

As described in "Liquidity and Capital Resources", as of September 30, 2024, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under any of our mortgage loans, with the exception of a covenant default under the mortgage on the DoubleTree by Hilton Jacksonville Riverfront. If we are unable to receive a waiver, we may be required to reduce the outstanding balance with a prepayment of approximately \$1.2 million or provide an equivalent amount of cash collateral until we establish compliance.

Certain of our loan agreements contain "cash trap" provisions that may be triggered if the performance of our hotels declines below a certain threshold. As of June 30, 2024, the provisions under the mortgage secured by the DoubleTree Resort by Hilton Hollywood Beach, were triggered which will require substantially all the revenue generated by the hotel to be deposited directly into a lockbox

account and swept into a cash management account for the benefit of the lender until the property meets the criteria in the loan agreement for exiting the “cash trap”.

Dividend Policy

We may not make distributions with respect to any shares of our common stock, unless and until full cumulative distributions on the outstanding preferred stock for all past unpaid periods are paid or declared and a sum sufficient for the payment thereof in cash is set aside.

On January 24, 2023, we announced that we will resume quarterly distributions to holders of our preferred stock and set a record date of February 28, 2023 with a payment date of March 15, 2023.

On April 24, 2023, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of May 31, 2023 and a payment date of June 13, 2023.

On May 30, 2023, we announced the declaration of a "catch up" distribution to holders of our preferred stock with a record date of June 30, 2023 and a payment date of July 14, 2023.

On August 1, 2023, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of August 31, 2023 and a payment date of September 15, 2023.

On October 30, 2023, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of November 30, 2023 and a payment date of December 15, 2023.

On January 30, 2024, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of February 29, 2024 and a payment date of March 15, 2024.

On April 30, 2024, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of May 31, 2024 and a payment date of June 17, 2024.

On July 30, 2024, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of August 30, 2024 and a payment date of September 16, 2024.

On October 29, 2024, we announced the declaration of a quarterly distribution to holders of our preferred stock with a record date of November 29, 2024 and a payment date of December 16, 2024.

As of September 30, 2024, the amount of cumulative unpaid dividends on our outstanding preferred shares is approximately \$21.9 million. We expect that any reduction in the level of cumulative unpaid distributions will be made in the form of a series of "catch up" distributions, such as the distribution announced on May 30, 2023. The amount, timing and frequency of distributions, including additional “catch-up” distributions, will be authorized by our board of directors and based upon a variety of factors deemed relevant by the directors. No assurance can be given that the distribution policy will not change in the future.

Off-Balance Sheet Arrangements

None.

Inflation

We generate revenues primarily from lease payments from our MHI TRS Entities and net income from the operations of our MHI TRS Entities. Therefore, we rely primarily on the performance of the individual properties and the ability of the management company to increase revenues and to keep pace with inflation. Operators of hotels, in general, possess the ability to adjust room rates daily to keep pace with inflation. However, competitive pressures at some or all of our hotels may limit the ability of the management company to raise room rates.

Our expenses, including hotel operating expenses, administrative expenses, real estate taxes and property and casualty insurance are subject to inflation. These expenses are expected to grow with the general rate of inflation, except for energy, liability insurance, property and casualty insurance, property tax rates, employee benefits, and some wages, which are expected to increase at rates that differ from the general rate of inflation.

Geographic Concentration and Seasonality

Our hotels are located in Florida, Georgia, Maryland, North Carolina, Pennsylvania, Texas and Virginia. As a result, we are particularly susceptible to adverse market conditions in these geographic areas, including industry downturns, relocation of businesses, local stay-at-home and business closure orders, adverse weather conditions and any oversupply of hotel rooms or a reduction in lodging demand. Adverse economic developments in the markets in which we have a concentration of hotels, or in any of the other markets in which we operate, or any increase in hotel supply or decrease in lodging demand resulting from the local, regional or national business climate, could materially and adversely affect us.

The operations of our hotel properties have historically been seasonal. The months of April and May are traditionally strong, as is October. The periods from mid-November through mid-February are traditionally slow with the exception of hotels located in certain markets, namely Florida and Texas, which typically experience significant room demand during this period.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. It is possible that the actual amounts may differ significantly from these estimates and assumptions. We evaluate our estimates, assumptions and judgment on an ongoing basis, based on information that is available to us, our business and industry experience, and various other matters that we believe are reasonable and appropriate for consideration under the circumstances. All of our significant accounting policies, including certain critical accounting policies, are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023. There have been no material changes in these critical accounting policies or the methods or assumptions we apply.

Recent Accounting Pronouncements

For a summary of recently adopted and newly issued accounting pronouncements, please refer to the *New Accounting Pronouncements* section of Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes “forward-looking statements” and represents an estimate of possible changes in fair value or future earnings that could occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses. As a result, actual future results may differ materially from those presented. The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market interest rates.

To meet in part our long-term liquidity requirements, we will borrow funds at a combination of fixed and variable rates. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. From time to time we may enter into interest rate hedge contracts such as collars and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not intend to hold or issue derivative contracts for trading or speculative purposes.

As of September 30, 2024, we had approximately \$245.4 million of fixed-rate debt, including the PPP Loans of approximately \$0.9 million with a fixed rate of 1.0%, and approximately \$75.9 million of variable-rate debt. The weighted-average interest rate on the fixed-rate debt was 5.32%. A change in market interest rates on the fixed portion of our debt would impact the fair value of the debt but have no impact on interest incurred or cash flows. Our variable-rate debt is exposed to changes in interest rates, specifically the changes in the Prime Rate. Assuming that the aggregate amount outstanding on the mortgages on our Philadelphia, Pennsylvania, Jacksonville, Florida and Houston, Texas hotels remains at approximately \$75.9 million, the balance at September 30, 2024, the impact on our annual interest incurred and cash flows of a one percent increase in SOFR and the Prime Rate, would be approximately \$0.6 million.

As of December 31, 2023, we had approximately \$266.0 million of fixed-rate debt, including the mortgage on our Hotel Alba Tampa, Tapestry Collection by Hilton, which is fixed by an interest rate swap to 5.576% and the PPP Loans of \$1.5 million with a fixed rate of 1.0%, and approximately \$52.9 million of variable-rate debt. The weighted-average interest rate on the fixed-rate debt was 4.87%. A change in market interest rates on the fixed portion of our debt would impact the fair value of the debt but have no impact on interest incurred or cash flows. Our variable-rate debt is exposed to changes in interest rates, specifically the changes in SOFR and in Prime Rate. Assuming that the aggregate amounts outstanding on the mortgage on The Whitehall remains at approximately \$14.0 million and the mortgage on the DoubleTree by Hilton Philadelphia Airport remains at approximately \$38.9 million, the balance at December 31, 2023, the impact on our annual interest incurred and cash flows of a one percent increase in 1-month SOFR and in Prime Rate, would be approximately \$0.4 million.

Item 4. Controls and Procedures

Sotherly Hotels Inc.

Disclosure Controls and Procedures

The Company's management, under the supervision and participation of its Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act), as of September 30, 2024. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2024, its disclosure controls and procedures were effective and designed to ensure that (i) information required to be disclosed in its reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions, and (ii) information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or its internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of the controls can provide absolute assurance that all control issues and instances of fraud, if any, within Sotherly Hotels Inc. have been detected.

Changes in Internal Control over Financial Reporting

There was no change in Sotherly Hotels Inc.'s internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during Sotherly Hotels Inc.'s last fiscal quarter that materially affected, or is reasonably likely to materially affect, Sotherly Hotels Inc.'s internal control over financial reporting.

Sotherly Hotels LP

Disclosure Controls and Procedures

The Operating Partnership's management, under the supervision and participation of the Chief Executive Officer and Chief Financial Officer of Sotherly Hotels Inc., as general partner, has evaluated the effectiveness of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as required by paragraph (b) of Rules 13a-15 and 15d-15 under the Exchange Act), as of September 30, 2024. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2024, the disclosure controls and procedures were effective and designed to ensure that (i) information required to be disclosed in the reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions, and (ii) information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

The Operating Partnership's management, including the Chief Executive Officer and Chief Financial Officer of Sotherly Hotels Inc., as general partner, does not expect that the disclosure controls and procedures or the internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of the controls can provide absolute assurance that all control issues and instances of fraud, if any, within Sotherly Hotels LP have been detected.

Changes in Internal Control over Financial Reporting

There was no change in Sotherly Hotels LP's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act during Sotherly Hotels LP's last fiscal quarter that materially affected, or is reasonably likely to materially affect, Sotherly Hotels LP's internal control over financial reporting.

PART II

Item 1. *Legal Proceedings*

We are not involved in any material legal proceedings, nor to our knowledge, is any material litigation threatened against us. We are involved in routine legal proceedings arising out of the ordinary course of business most of which is expected to be covered by insurance, and none of which is expected to have a material impact on our financial condition or results of operations.

Item 1A. *Risk Factors*

There have been no material changes in our risk factors from those disclosed in our annual report on Form 10-K for the year ended December 31, 2023.

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

From time to time, the Operating Partnership issues limited partnership units to the Company, as required by the Partnership Agreement, to mirror the capital structure of the Company to reflect additional issuances by the Company and to preserve equitable ownership ratios.

Item 3. *Defaults upon Senior Securities*

Preferred Stock

The Company's distribution on the shares of the Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock are in arrears for eleven quarterly periods. When distributions on any shares of the Company's Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock are in arrears for six or more quarterly periods, whether or not consecutive, the holders of the Company's preferred stock shall be entitled to vote for the election of a total of two additional directors of the Company, at a special meeting or at the next annual meeting of stockholders and at each subsequent annual meeting of the stockholders until full cumulative distributions for all past unpaid periods are paid or declared and a sum sufficient for the payment thereof in cash is set aside. In addition, the Company may not make distributions with respect to any shares of its common stock, unless and until full cumulative distributions on the preferred stock for all past unpaid periods are paid or declared and a sum sufficient for the payment thereof in cash is set aside.

As of November 11, 2024, the Company has deferred payment and is in arrears on dividends for the Company's Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock for the periods ending March 31, 2022, June 30, 2022, September 30, 2022, December 31, 2022, March 31, 2023, June 30, 2023, September 30, 2023, December 31, 2023, March 31, 2024, June 30, 2024, and September 30, 2024. The relevant distributions were as follows:

- A regular quarterly cash dividend of \$0.50 per share of beneficial interest of the Series B Preferred Stock;
- A regular quarterly cash dividend of \$0.4921875 per share of beneficial interest of the Series C Preferred Stock; and
- A regular quarterly cash dividend of \$0.515625 per share of beneficial interest of the Series D Preferred Stock.

The Company has declared dividends in the respective amounts shown above for each of the Series B, Series C, and Series D Preferred Stock, for the distribution period ending March 31, 2022, payable on December 16, 2024. The total arrearage of cumulative unpaid cash dividends on each of the Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock through November 11, 2024, are \$8,052,550, \$7,287,931, and \$6,596,958, respectively.

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

During the three months ended September 30, 2024, none of our directors or officers (as defined in Rule 16a-1(f) under the Exchange Act) adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" as defined in Item 408(c) of Regulation S-K.

Item 6. Exhibits

The following exhibits are filed as part of this Form 10-Q:

Exhibit Number	Description of Exhibit
31.1	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company. **</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Company. **</u>
31.3	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Operating Partnership. **</u>
31.4	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13(a)-14 and 15(d)-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the Operating Partnership. **</u>
32.1	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Company. (+)</u>
32.2	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Company. (+)</u>
32.3	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Operating Partnership. (+)</u>
32.4	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the Operating Partnership. (+)</u>
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema With Embedded Linkbase Documents
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

** Filed herewith

(+) This certification shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 18, 2024

SOTHERLY HOTELS INC.

By: /s/ David R. Folsom
David R. Folsom
President and Chief Executive Officer

By: /s/ Anthony E. Domalski
Anthony E. Domalski
Chief Financial Officer

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 18, 2024

SOTHERLY HOTELS LP

By: SOTHERLY HOTELS INC.
Its General Partner

By: /s/ David R. Folsom
David R. Folsom
President and Chief Executive Officer

By: /s/ Anthony E. Domalski
Anthony E. Domalski
Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE CHIEF EXECUTIVE OFFICER

I, David R. Folsom, certify that:

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

Date: November 18, 2024

By: /s/ David R. Folsom
Name: David R. Folsom
Title: President and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE CHIEF FINANCIAL OFFICER

I, Anthony E. Domalski, certify that:

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

Date: November 18, 2024

By: /s/ Anthony E. Domalski
Name: Anthony E. Domalski
Title: Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE CHIEF EXECUTIVE OFFICER

I, David R. Folsom, certify that:

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

Date: November 18, 2024

By: /s/ David R. Folsom
Name: David R. Folsom
Title: President and Chief Executive Officer
Sotherly Hotels, Inc., sole general partner of
Sotherly Hotels LP

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002
FOR THE CHIEF FINANCIAL OFFICER

I, Anthony E. Domalski, certify that:

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

Date: November 18, 2024

By: /s/ Anthony E. Domalski
Name: Anthony E. Domalski
Title: Chief Financial Officer
Sotherly Hotels, Inc., sole general partner of Sotherly
Hotels LP

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sotherly Hotels Inc. (the "Corporation") on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Folsom, Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Date: November 18, 2024

By: /s/ David R. Folsom
Name: David R. Folsom
Title: President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sotherly Hotels Inc. (the "Corporation") on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony E. Domalski, Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Date: November 18, 2024

By: /s/ Anthony E. Domalski
Name: Anthony E. Domalski
Title: Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sotherly Hotels LP (the "Operating Partnership") on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Folsom, Chief Executive Officer of the Sotherly Hotels Inc., sole general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Date: November 18, 2024

By: /s/ David R. Folsom
Name: David R. Folsom
Title: President and Chief Executive Officer
Sotherly Hotels Inc., sole general partner of
Sotherly Hotels LP

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Sotherly Hotels LP (the "Operating Partnership") on Form 10-Q for the period ending September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony E. Domalski, Chief Financial Officer of Sotherly Hotels Inc., sole general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Date: November 18, 2024

By: /s/ Anthony E. Domalski
Name: Anthony E. Domalski
Title: Chief Financial Officer
Sotherly Hotels, Inc., sole general partner of Sotherly
Hotels LP
