Section 1: 10-Q (10-Q)

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**

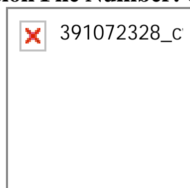
For the quarterly period ended September 30, 2017

or

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

For the transition period from_________ to __________

Commission File Number: 000-54263



CAREY WATERMARK INVESTORS INCORPORATED
(Exact name of registrant as specified in its charter)

Maryland	**26-2145060**
(State of incorporation)	(I.R.S. Employer Identification No.)
50 Rockefeller Plaza **New York, New York**	**10020**
(Address of principal executive office)	(Zip Code)

Investor Relations (212) 492-8920
(212) 492-1100
(Registrant's telephone numbers, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☑ (Do not check if a smaller reporting company)
Smaller reporting company ☐	Emerging growth company ☐	

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

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

Registrant has 138,164,440 shares of common stock, $0.001 par value, outstanding at November 3, 2017.

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Forward-Looking Statements

This Quarterly Report on Form 10-Q, or this Report, including Management's Discussion and Analysis of Financial Condition and Results of Operations, in Item 2 of Part I of this Report, contains forward-looking statements within the meaning of the federal securities laws. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result" and similar expressions. These statements are based on the current expectations of our management. Forward-looking statements in this Report include, among others, statements about the impact of Hurricane Irma on certain hotels, including the condition of the properties, cost estimate and the timing of resumption of operations. It is important to note that our actual results could be materially different from those projected in such forward-looking statements. You should exercise caution in relying on forward-looking statements, as they involve known and unknown risks, uncertainties, and other factors that may materially affect our future results, performance, achievements or transactions. Information on factors that could impact actual results and cause them to differ from what is anticipated in the forward-looking statements contained herein is included in this Report as well as in our other filings with the Securities and Exchange Commission, or the SEC, including but not limited to those described in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC on March 16, 2017, or the 2016 Annual Report. Except as required by federal securities laws and the rules and regulations of the SEC, we do not undertake to revise or update any forward-looking statements.

All references to "Notes" throughout the document refer to the footnotes to the consolidated financial statements of the registrant in Part I, Item 1. Financial Statements (Unaudited).

PART I — FINANCIAL INFORMATION
Item 1. Financial Statements.

CAREY WATERMARK INVESTORS INCORPORATED
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except share and per share amounts)

	September 30, 2017	December 31, 2016
Assets		
Investments in real estate:		
Hotels, at cost	$ 2,285,805	$ 2,290,542
Accumulated depreciation	(223,945)	(176,423)
Net investments in hotels	2,061,860	2,114,119
Assets held for sale (Note 4)	—	35,023
Equity investments in real estate	136,514	75,928
Cash	64,854	61,762
Intangible assets, net	78,819	80,117
Accounts receivable	39,063	23,879
Restricted cash	71,138	56,496
Other assets	27,101	29,620
Total assets	$ 2,479,349	$ 2,476,944
Liabilities and Equity		
Non-recourse debt, net, including debt attributable to Assets held for sale (Note 4)	$ 1,423,498	$ 1,456,152
WPC Credit Facility (Note 3)	97,835	—
Senior Credit Facility (Note 9)	—	22,785
Accounts payable, accrued expenses and other liabilities	125,598	112,033
Due to related parties and affiliates	3,243	2,628
Distributions payable	19,527	19,292
Other liabilities held for sale (Note 4)	—	797
Total liabilities	1,669,701	1,613,687
Commitments and contingencies (Note 10)		
Common stock, $0.001 par value; 300,000,000 shares authorized; 137,038,178 and 135,379,038 shares, respectively, issued and outstanding	137	135
Additional paid-in capital	1,144,797	1,125,835
Distributions and accumulated losses	(388,974)	(326,748)
Accumulated other comprehensive loss	(552)	(1,128)
Total stockholders' equity	755,408	798,094
Noncontrolling interests	54,240	65,163
Total equity	809,648	863,257
Total liabilities and equity	$ 2,479,349	$ 2,476,944

See Notes to Consolidated Financial Statements.

CAREY WATERMARK INVESTORS INCORPORATED
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues				
Hotel Revenues				
Rooms	$ 102,791	$ 111,812	$ 320,043	$ 332,986
Food and beverage	37,445	39,857	123,555	120,772
Other operating revenue	14,593	15,196	42,289	42,043
Total Hotel Revenues	154,829	166,865	485,887	495,801
Operating Expenses				
Hotel Expenses				
Rooms	23,276	24,409	71,095	70,979
Food and beverage	27,725	28,501	87,315	84,956
Other hotel operating expenses	7,486	7,927	22,413	22,585
Property taxes, insurance, rent and other	15,887	15,666	49,041	49,851
Sales and marketing	14,784	15,633	45,589	46,672
General and administrative	14,202	13,868	42,373	40,981
Repairs and maintenance	5,077	5,283	15,652	15,741
Management fees	3,248	3,100	13,516	13,824
Utilities	4,413	4,624	12,531	12,376
Depreciation and amortization	20,478	20,538	61,510	60,272
Total Hotel Expenses	136,576	139,549	421,035	418,237
Other Operating Expenses				
Asset management fees to affiliate and other expenses	3,660	4,029	11,679	11,740
Corporate general and administrative expenses	2,579	2,641	7,898	8,978
Hurricane loss	7,609	—	7,609	—
Impairment charges	—	452	—	4,112
Acquisition-related expenses	—	—	—	3,727
Total Other Operating Expenses	13,848	7,122	27,186	28,557
Operating Income	4,405	20,194	37,666	49,007
Other Income and (Expenses)				
Interest expense	(16,957)	(16,363)	(49,820)	(48,542)
Equity in (losses) earnings of equity method investments in real estate	(3,464)	(140)	1,072	4,976
Net loss on extinguishment of debt (Note 9)	—	(1,204)	(225)	(2,268)
Other income	33	8	93	22
Total Other Income and (Expenses)	(20,388)	(17,699)	(48,880)	(45,812)
(Loss) Income from Operations Before Income Taxes and Net Gain on Sale of Real Estate	(15,983)	2,495	(11,214)	3,195
Benefit from (provision for) income taxes	162	(1,037)	(630)	(3,041)
(Loss) Income from Operations Before Net Gain on Sale of Real Estate	(15,821)	1,458	(11,844)	154
Net gain on sale of real estate, net of tax	—	—	5,164	—
Net (Loss) Income	(15,821)	1,458	(6,680)	154
Loss (income) attributable to noncontrolling interests (inclusive of Available Cash Distributions to a related party of $2,498, $2,838, $5,743 and $6,931, respectively)	7,052	3,039	2,881	(2,039)
Net (Loss) Income Attributable to CWI Stockholders	$ (8,769)	$ 4,497	$ (3,799)	$ (1,885)
Basic and Diluted (Loss) Income Per Share	$ (0.06)	$ 0.03	$ (0.03)	$ (0.01)
Basic and Diluted Weighted-Average Shares Outstanding	137,326,890	134,956,598	136,759,817	134,329,382

Distributions Declared Per Share	$ 0.1425	$ 0.1425	$ 0.4275	$ 0.4275

See Notes to Consolidated Financial Statements.

CAREY WATERMARK INVESTORS INCORPORATED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
(in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net (Loss) Income	$ (15,821)	$ 1,458	$ (6,680)	$ 154
Other Comprehensive Income (Loss)				
Unrealized gain (loss) on derivative instruments	248	594	585	(464)
Comprehensive (Loss) Income	(15,573)	2,052	(6,095)	(310)
Amounts Attributable to Noncontrolling Interests				
Net loss (income)	7,052	3,039	2,881	(2,039)
Unrealized (gain) loss on derivative instruments	(5)	—	(9)	372
Comprehensive loss (income) attributable to noncontrolling interests	7,047	3,039	2,872	(1,667)
Comprehensive (Loss) Income Attributable to CWI Stockholders	$ (8,526)	$ 5,091	$ (3,223)	$ (1,977)

See Notes to Consolidated Financial Statements.

CAREY WATERMARK INVESTORS INCORPORATED
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
Nine Months Ended September 30, 2017 and 2016
(in thousands, except share and per share amounts)

	CWI Stockholders							
	Shares	Common Stock	Additional Paid-In Capital	Distributions and Accumulated Losses	Accumulated Other Comprehensive Loss	Total CWI Stockholders	Noncontrolling Interests	Total
Balance at January 1, 2017	135,379,038	$ 135	$1,125,835	$ (326,748)	$ (1,128)	$ 798,094	$ 65,163	$ 863,257
Net loss				(3,799)		(3,799)	(2,881)	(6,680)
Shares issued, net of offering costs	3,179,252	4	34,065			34,069		34,069
Shares issued to affiliates	1,078,350	1	11,614			11,615		11,615
Distributions to noncontrolling interests						—	(8,051)	(8,051)
Shares issued under share incentive plans	23,710	—	176			176		176
Stock-based compensation to directors	16,667	—	180			180		180
Distributions declared ($0.4275 per share)				(58,427)		(58,427)		(58,427)
Other comprehensive income:								
Net unrealized gain on derivative instruments					576	576	9	585
Repurchase of shares	(2,638,839)	(3)	(27,073)			(27,076)		(27,076)
Balance at September 30, 2017	137,038,178	$ 137	$1,144,797	$ (388,974)	$ (552)	$ 755,408	$ 54,240	$ 809,648
Balance at January 1, 2016	132,686,254	$ 134	$1,112,640	$ (241,379)	$ (885)	$ 870,510	$ 84,937	$ 955,447
Net (loss) income				(1,885)		(1,885)	2,039	154
Shares issued, net of offering costs	3,293,952	3	34,704			34,707		34,707
Distributions to noncontrolling interests						—	(13,417)	(13,417)
Shares issued under share incentive plans	24,664	—	168			168		168
Stock-based compensation to directors	16,886	—	180			180		180
Purchase of membership interest from noncontrolling interest			(16,024)		(923)	(16,947)	(4,174)	(21,121)
Distributions declared ($0.4275 per share)				(57,325)		(57,325)		(57,325)
Other comprehensive loss:								
Net unrealized loss on derivative instruments					(92)	(92)	(372)	(464)
Repurchase of shares	(1,303,174)	(2)	(13,191)			(13,193)		(13,193)
Balance at September 30, 2016	134,718,582	$ 135	$1,118,477	$ (300,589)	$ (1,900)	$ 816,123	$ 69,013	$ 885,136

See Notes to Consolidated Financial Statements.

CAREY WATERMARK INVESTORS INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Nine Months Ended September 30,	
	2017	2016
Cash Flows — Operating Activities		
Net (loss) income	$ (6,680)	$ 154
Adjustments to net (loss) income:		
Depreciation and amortization	61,510	60,272
Asset management fees to affiliates settled in shares	10,777	—
Hurricane loss	7,609	—
Net gain on sale of real estate (Note 4)	(5,164)	—
Straight-line rent adjustments	3,939	3,983
Amortization of deferred financing costs, fair market value of debt, ground lease intangible and other	2,250	611
Acquisition fees to affiliates settled in shares	2,065	—
Equity in losses (earnings) of equity method investments in real estate in excess of distributions received	1,092	(1,782)
Amortization of stock-based compensation expense	482	465
Net loss on extinguishment of debt (Note 9)	222	1,872
Impairment charges	—	4,112
Net changes in other operating assets and liabilities	1,976	2,031
Decrease in due to related parties and affiliates	(473)	(424)
Receipt of key money and other deferred incentive payments	66	1,075
Net Cash Provided by Operating Activities	79,671	72,369
Cash Flows — Investing Activities		
Funds placed in escrow	(114,046)	(107,304)
Funds released from escrow	98,831	105,809
Purchase of equity interest (Note 5)	(66,332)	—
Capital expenditures	(33,038)	(51,133)
Proceeds from the sale of investments (Note 4)	25,743	—
Distributions received from equity investments in excess of equity income	4,790	2,014
Repayments of loan receivable	203	—
Acquisitions of hotels	—	(75,263)
Deposits released for hotel investments	—	5,718
Net Cash Used in Investing Activities	(83,849)	(120,159)
Cash Flows — Financing Activities		
Proceeds from note payable to affiliate	97,835	—
Scheduled payments and prepayments of mortgage principal	(90,463)	(291,637)
Proceeds from mortgage financing	83,500	403,500
Distributions paid	(58,192)	(57,037)
Proceeds from issuance of shares, net of offering costs	34,075	34,707
Repurchase of shares	(27,076)	(13,142)
Repayment of Senior Credit Facility	(22,785)	(27,215)
Distributions to noncontrolling interests	(8,051)	(13,417)
Deposits released for mortgage financing	1,610	4,080
Deposits for mortgage financing	(1,510)	(1,970)
Deferred financing costs	(1,302)	(4,163)
Scheduled payments of loan	(234)	—
Withholding on restricted stock units	(126)	(116)
Purchase of interest rate caps	(11)	(74)
Proceeds from Senior Credit Facility	—	30,000
Purchase of membership interest from noncontrolling interest (Note 11)	—	(21,121)
Termination of interest rate swap	—	(1,221)

Defeasance premium and related costs on mortgage refinancing	—	(4,133)
Net Cash Provided by Financing Activities	7,270	37,041
Change in Cash During the Period		
Net increase (decrease) in cash	3,092	(10,749)
Cash, beginning of period	61,762	83,112
Cash, end of period	$ 64,854	$ 72,363

See Notes to Consolidated Financial Statements.

Note 1. Business

Organization

Carey Watermark Investors Incorporated, or CWI, together with its consolidated subsidiaries, is a publicly-owned, non-listed real estate investment trust, or REIT, that invests in, and through our advisor, manages and seeks to enhance the value of, interests in lodging and lodging-related properties primarily in the United States. We conduct substantially all of our investment activities and own all of our assets through CWI OP, LP, or the Operating Partnership. We are a general partner and a limited partner of, and own a 99.985% capital interest in, the Operating Partnership. Carey Watermark Holdings, LLC, or Carey Watermark Holdings, which is owned indirectly by both W. P. Carey Inc., or WPC, and Watermark Capital Partners, LLC, or Watermark Capital Partners, holds a special general partner interest in the Operating Partnership.

We are managed by Carey Lodging Advisors, LLC, or our Advisor, an indirect subsidiary of WPC. Our Advisor manages our overall portfolio, including providing oversight and strategic guidance to the independent hotel operators that manage our hotels. CWA, LLC, a subsidiary of Watermark Capital Partners, or the Subadvisor, provides services to our Advisor primarily relating to acquiring, managing, financing and disposing of our hotels and overseeing the independent operators that manage the day-to-day operations of our hotels. In addition, the Subadvisor provides us with the services of Mr. Michael G. Medzigian, our Chief Executive Officer, subject to the approval of our independent directors.

We held ownership interests in 32 hotels at September 30, 2017. See Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 — Portfolio Overview for a complete listing of the hotels that we consolidate, or our Consolidated Hotels, and the hotels that we record as equity investments, or our Unconsolidated Hotels, at September 30, 2017.

Public Offerings

We raised $575.8 million through our initial public offering, which ran from September 15, 2010 through September 15, 2013, and $577.4 million through our follow-on offering, which ran from December 20, 2013 through December 31, 2014. In addition, from inception through September 30, 2017, $158.7 million of distributions were reinvested in our common stock as a result of our distribution reinvestment plan, or DRIP. We have fully invested the proceeds from both our initial public offering and follow-on offering.

Note 2. Basis of Presentation

Basis of Presentation

Our interim consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair statement of our consolidated financial position, results of operations and cash flows in accordance with generally accepted accounting principles in the United States, or GAAP.

In the opinion of management, the unaudited financial information for the interim periods presented in this Report reflects all normal and recurring adjustments necessary for a fair statement of financial position, results of operations and cash flows. Our interim consolidated financial statements should be read in conjunction with our audited consolidated financial statements and accompanying notes for the year ended December 31, 2016, which are included in our 2016 Annual Report, as certain disclosures that would substantially duplicate those contained in the audited consolidated financial statements have not been included in this Report. Operating results for interim periods are not necessarily indicative of operating results for an entire year.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in our consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

Basis of Consolidation

Our consolidated financial statements reflect all of our accounts, including those of our controlled subsidiaries. The portions of equity in consolidated subsidiaries that are not attributable, directly or indirectly, to us are presented as noncontrolling interests. All significant intercompany accounts and transactions have been eliminated.

When we obtain an economic interest in an entity, we evaluate the entity to determine if it should be deemed a variable interest entity, or VIE, and, if so, whether we are the primary beneficiary and are therefore required to consolidate the entity. We apply accounting guidance for consolidation of VIEs to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Certain decision-making rights within a loan or joint-venture agreement can cause us to consider an entity a VIE. Limited partnerships and other similar entities which operate as a partnership will be considered a VIE unless the limited partners hold substantive kick-out rights or participation rights. Significant judgment is required to determine whether a VIE should be consolidated. We review the contractual arrangements provided for in the partnership agreement or other related contracts to determine whether the entity is considered a VIE, and to establish whether we have any variable interests in the VIE. We then compare our variable interests, if any, to those of the other variable interest holders to determine which party is the primary beneficiary of the VIE based on whether the entity (i) has the power to direct the activities that most significantly impact the economic performance of the VIE and (ii) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. The liabilities of these VIEs are non-recourse to us and can only be satisfied from each VIE's respective assets.

At both September 30, 2017 and December 31, 2016, we considered five entities to be VIEs, four of which we consolidated as we are considered the primary beneficiary. The following table presents a summary of selected financial data of consolidated VIEs included in the consolidated balance sheets (in thousands):

	September 30, 2017	December 31, 2016
Net investments in hotels	$ 504,525	$ 518,335
Intangible assets, net	38,849	39,451
Total assets	575,036	587,608
Non-recourse debt, net	$ 341,445	$ 341,082
Total liabilities	371,360	372,991

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU*, 2014-09*, *Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 supersedes or replaces nearly all GAAP revenue recognition guidance. The new guidance establishes a new control-based revenue recognition model that changes the basis for deciding when revenue is recognized over time or at a point in time and expands the disclosures about revenue. The new guidance also applies to sales of real estate and the new principles-based approach is largely based on the transfer of control of the real estate to the buyer. The guidance is effective for annual reporting periods beginning after December 15, 2017, and the interim periods within those annual periods. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. We expect to adopt this new standard on January 1, 2018 using the modified retrospective transition method, which requires a cumulative effect adjustment upon the date of adoption. We are currently evaluating the impact of the new standard and do not believe the adoption of this standard will have a material impact on our recognition of revenue, however, we expect that additional disclosures will be required as a result of implementation.

In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842).* ASU 2016-02 outlines a new model for accounting by lessees, whereby their rights and obligations under substantially all leases, existing and new, would be capitalized and recorded on the balance sheet. For lessors, however, the accounting remains largely unchanged from the current model, with the distinction between operating and financing leases retained, but updated to align with certain changes to the lessee model and the new revenue recognition standard. Additionally, the new standard requires extensive quantitative and qualitative disclosures. The new standard must be adopted using a modified retrospective transition of the new guidance and provides for certain practical expedients. Transition will require application of the new model at the beginning of the earliest comparative period presented. We will adopt this guidance for our interim and annual periods beginning January 1, 2019. We have not yet

completed our analysis on this new standard, but we believe the application of the new standard will result in the recording of a right-of-use asset and a lease liability on the consolidated balance sheet for each of our ground leases.

In August 2016, the FASB issued *ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 intends to reduce diversity in practice for certain cash flow classifications, including, but not limited to (i) debt prepayment or debt extinguishment costs, (ii) contingent consideration payments made after a business combination, (iii) proceeds from the settlement of insurance claims, (iv) distributions received from equity method investees and (v) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early application of the guidance permitted. We are in the process of evaluating the impact of adopting ASU 2016-15 on our consolidated financial statements and will retrospectively adopt the standard for the fiscal year beginning January 1, 2018.

In October 2016, the FASB issued *ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control.* ASU 2016-17 changes how a reporting entity that is a decision maker should consider indirect interests in a VIE held through an entity under common control. If a decision maker must evaluate whether it is the primary beneficiary of a VIE, it will only need to consider its proportionate indirect interest in the VIE held through a common control party. ASU 2016-17 amends ASU 2015-02, which we adopted on January 1, 2016, and which currently directs the decision maker to treat the common control party's interest in the VIE as if the decision maker held the interest itself. ASU 2016-17 is effective for public business entities in fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We adopted ASU 2016-17 as of January 1, 2017 on a prospective basis. The adoption of this standard did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued *ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash.* ASU 2016-18 intends to reduce diversity in practice for the classification and presentation of changes in restricted cash on the statement of cash flows. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 will be effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, with early adoption permitted. We are in the process of evaluating the impact of adopting ASU 2016-18 on our consolidated financial statements and will retrospectively adopt the standard for the fiscal year beginning January 1, 2018, reflecting the change in presentation, as discussed above.

In January 2017, the FASB issued *ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business*. ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist companies and other reporting organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The changes to the definition of a business will likely result in more acquisitions being accounted for as asset acquisitions across all industries. The guidance is effective for annual reporting periods beginning after December 15, 2017, and the interim periods within those annual periods. We will be adopting this new guidance on January 1, 2018. While we are evaluating the potential impact of the standard, we currently expect that certain future hotel acquisitions may be considered asset acquisitions rather than business combinations, which would affect the capitalization of acquisition costs (such costs are expensed for business combinations and capitalized for asset acquisitions).

In February 2017, the FASB issued *ASU 2017-05, Other Income — Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20)*. ASU 2017-05 clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. The amendments define the term "in substance nonfinancial asset," in part, as a financial asset promised to a counterparty in a contract if substantially all of the fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets within the scope of Subtopic 610-20. This amendment also clarifies that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. For example, a parent company may transfer control of nonfinancial assets by transferring ownership interests in a consolidated subsidiary. ASU 2017-05 is effective for periods beginning after December 15, 2017, with early application permitted for fiscal years beginning after December 15, 2016. We are in the process of evaluating the impact of ASU 2017-05 on our consolidated financial statements and will adopt the standard for the fiscal year beginning January 1, 2018.

In August 2017, the FASB issued *ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. ASU 2017-12 will make more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess hedge effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU 2017-12 will be effective in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We are in the process of evaluating the impact of adopting ASU 2017-12 on our consolidated financial statements.

Note 3. Agreements and Transactions with Related Parties

Agreements with Our Advisor and Affiliates

We have an advisory agreement with our Advisor, which we refer to as the Advisory Agreement, to perform certain services for us under a fee arrangement, including managing our overall business; the identification, evaluation, negotiation, purchase and disposition of lodging and lodging-related properties; and the performance of certain administrative duties. The Advisory Agreement has a term of one year and may be renewed for successive one-year periods. Our Advisor has entered into a subadvisory agreement with the Subadvisor, whereby our Advisor pays 20% of the fees earned under the Advisory Agreement to the Subadvisor and the Subadvisor provides certain personnel services to us, as discussed below.

The following tables present a summary of fees we paid, expenses we reimbursed and distributions we made to our Advisor, the Subadvisor and other affiliates, as described below, in accordance with the terms of those agreements (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Amounts Included in the Consolidated Statements of Operations				
Asset management fees	$ 3,578	$ 3,560	$ 10,777	$ 10,568
Available Cash Distributions	2,498	2,838	5,743	6,931
Personnel and overhead reimbursements	1,563	1,527	4,473	5,106
Interest expense	170	—	299	—
Disposition fees (Note 4)	—	—	225	—
Acquisition fees	—	—	—	2,158
	$ 7,809	$ 7,925	$ 21,517	$ 24,763
Other Transaction Fees Incurred				
Capitalized acquisition fees for equity method investment [(a)] (Note 5)	$ 4,131	$ —	$ 4,131	$ —
Capitalized loan refinancing fees	—	306	340	806
Capitalized acquisition fees for asset acquisition	—	29	—	29
Advisor fee for purchase of membership interest (Note 11)	—	—	—	527
	$ 4,131	$ 335	$ 4,471	$ 1,362

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(a) Our Advisor elected to receive 50% of the acquisition fee related to our investment in the Ritz-Carlton Bacara, Santa Barbara Venture in shares of our common stock and 50% in cash.

The following table presents a summary of the amounts included in Due to related parties and affiliates in the consolidated financial statements (in thousands):

	September 30, 2017	December 31, 2016
Amounts Due to Related Parties and Affiliates		
Reimbursable costs	$ 1,557	$ 1,311
Other amounts due to our Advisor	1,234	1,202
Accrued interest on WPC Credit Facility	299	—
Due to joint venture partners and other	153	115
	$ 3,243	$ 2,628

Asset Management Fees, Dispositions Fees and Loan Refinancing Fees

We pay our Advisor an annual asset management fee equal to 0.5% of the aggregate Average Market Value of our Investments, both as defined in our advisory agreement with our Advisor. Our Advisor is also entitled to receive disposition fees of up to 1.5% of the contract sales price of a property, as well as a loan refinancing fee of up to 1.0% of the principal amount of a refinanced loan, if certain conditions described in the advisory agreement are met. If our Advisor elects to receive all or a portion of its fees in shares, the number of shares issued is determined by dividing the dollar amount of fees by our most recently published estimated net asset value per share, or NAV. At our Advisor's election, we paid our asset management fees in shares of our common stock for the three and nine months ended September 30, 2017 and in cash for the three and nine months ended September 30, 2016. For the nine months ended September 30, 2017, $9.5 million in asset management fees were settled in shares of our common stock. No such fees were settled in shares during the nine months ended September 30, 2016. At September 30, 2017, our Advisor owned 2,579,378 shares (1.9%) of our outstanding common stock. Asset management fees are included in Asset management fees to affiliate and other expenses in the consolidated financial statements.

Available Cash Distributions

Carey Watermark Holdings' special general partner interest entitles it to receive distributions of 10% of Available Cash, as defined in the limited partnership agreement of the Operating Partnership, or Available Cash Distributions, generated by the Operating Partnership, subject to certain limitations. In addition, in the event of the dissolution of the Operating Partnership, Carey Watermark Holdings will be entitled to receive distributions of up to 15% of any net proceeds, provided certain return thresholds are met for the initial investors in the Operating Partnership. Available Cash Distributions are included in Loss (income) attributable to noncontrolling interests in the consolidated financial statements.

Personnel and Overhead Reimbursements/Reimbursable Costs

Under the terms of the advisory agreement, our Advisor generally allocates expenses of dedicated and shared resources, including the cost of personnel, rent and related office expenses, between us and our affiliate, Carey Watermark Investors 2 Incorporated, or CWI 2, based on total pro rata hotel revenues on a quarterly basis. Pursuant to the subadvisory agreement, after we reimburse our Advisor, it will subsequently reimburse the Subadvisor for personnel costs and other charges, including the services of our Chief Executive Officer, subject to the approval of our board of directors. We have also granted restricted stock units to employees of the Subadvisor pursuant to our 2010 Equity Incentive Plan. These reimbursements are included in Corporate general and administrative expenses and Due to related parties and affiliates in the consolidated financial statements.

Acquisition Fees to our Advisor

We pay our Advisor acquisition fees of 2.5% of the total investment cost of the properties acquired, as defined in our advisory agreement, described above, including on our proportionate share of equity method investments and loans originated by us. The total fees to be paid may not exceed 6% of the aggregate contract purchase price of all investments and loans, as measured over a period specified in our advisory agreement.

Other Amounts Due to our Advisor

This balance primarily represents asset management fees payable to our Advisor.

Other Transactions with Affiliates

WPC Line of Credit

During the first quarter of 2017, our board of directors and the board of directors of WPC approved unsecured loans from WPC to us of up to $25.0 million, at an interest rate equal to the rate at which WPC was able to borrow funds under its senior unsecured credit facility, which we refer to as the WPC Line of Credit, for the purpose of replacing our Senior Credit Facility (Note 9). On March 23, 2017, we borrowed $22.8 million from WPC at the London Interbank Offered Rate, or LIBOR, plus 1.0% and a maturity date of March 22, 2018 and simultaneously repaid and terminated our Senior Credit Facility. As further discussed below, the WPC Line of Credit was replaced by the Working Capital Facility (defined below).

WPC Credit Facility

During the third quarter of 2017, our board of directors and the board of directors of WPC approved secured loans from WPC to us of up to $100.0 million for acquisition funding purposes and $25.0 million for working capital purposes. On September 26, 2017, we entered into a secured credit facility, or the WPC Credit Facility, with our Operating Partnership as borrower and WPC as lender. The WPC Credit Facility consists of (i) a bridge term loan of $75.0 million, or the Bridge Loan, for the purpose of acquiring an interest in the Ritz-Carlton Bacara, Santa Barbara Venture (Note 5) and (ii) a $25.0 million revolving working capital facility, or the Working Capital Facility, to be used for our working capital needs. The Working Capital Facility replaced the WPC Line of Credit, which had an outstanding principal balance of $22.8 million on that date and a maturity date of March 22, 2018. Unless the Advisory Agreement expires or is terminated, the Bridge Loan and Working Capital Facility are scheduled to mature on June 30, 2018 and December 31, 2018, respectively. We can request a three month extension of the Bridge Loan, which WPC may grant in its sole discretion. Both loans bear interest at LIBOR plus 1.0%; provided however, that upon the occurrence of certain events of default (as defined in the loan agreement), all outstanding amounts will be subject to a 2% annual interest rate increase. We serve as guarantor of the WPC Credit Facility and have pledged our unencumbered equity interests in certain properties as collateral, as further described in the pledge and security agreement entered into between the borrower and lender. On September 27, 2017, the Operating Partnership drew down $75.0 million from the Bridge Loan to acquire our interest in the Ritz-Carlton Bacara, Santa Barbara.

The WPC Credit Facility includes various customary affirmative and negative covenants. We were in compliance with all applicable covenants at September 30, 2017.

At September 30, 2017, the outstanding balances under the Bridge Loan and Working Capital Facility were $75.0 million and $22.8 million, respectively, with $2.2 million available to be drawn on the Working Capital Facility. On October 12, 2017, we made a repayment of $3.8 million to WPC towards the outstanding balance of the Bridge Loan. Additionally, on October 27, 2017, we made repayments of $10.4 million and $15.0 million towards the Bridge Loan and Working Capital Facility, respectively (Note 13).

Jointly-Owned Investments

At September 30, 2017, we owned interests in three jointly-owned investments with CWI 2: the Ritz-Carlton Key Biscayne, a Consolidated Hotel, and the Marriott Sawgrass Golf Resort & Spa and the Ritz-Carlton Bacara, Santa Barbara, both Unconsolidated Hotels. A third-party also owns an interest in the Ritz-Carlton Key Biscayne. CWI 2 is a publicly owned, non-listed REIT that is also advised by our Advisor and invests in lodging and lodging-related properties.

Note 4. Net Investments in Hotels

Net investments in hotels are summarized as follows (in thousands):

	September 30, 2017	December 31, 2016
Buildings	$ 1,646,528	$ 1,670,895
Land	379,453	380,970
Furniture, fixtures and equipment	125,721	122,155
Building and site improvements	115,024	89,667
Construction in progress	19,079	26,855
Hotels, at cost	2,285,805	2,290,542
Less: Accumulated depreciation	(223,945)	(176,423)
Net investments in hotels	$ 2,061,860	$ 2,114,119

During the nine months ended September 30, 2017, we retired fully depreciated furniture, fixtures and equipment aggregating $10.6 million.

Hurricane-Related Disruption

Hurricane Irma made landfall in September 2017, impacting five of our Consolidated Hotels; Hawks Cay Resort, Marriott Boca Raton at Boca Center, Ritz-Carlton Key Biscayne, Ritz-Carlton Fort Lauderdale and Staybridge Suites Savannah Historic District. All five hotels sustained damage and all except for Marriott Boca Raton at Boca Center were forced to close for a period of time.

As of September 30, 2017, the estimated net book value of the property damage written off was $15.6 million. In addition, there was $5.8 million of remediation work that had been performed as of September 30, 2017 and $0.4 million of inventory that was written off. We recorded a corresponding receivable of $14.2 million for estimated insurance recoveries related to the net book value of the property damage written off and the remediation work performed. The receivable is recorded within Accounts receivable in our consolidated financial statements as of September 30, 2017. The net impact of $7.6 million, representing the property damage insurance deductibles as well as damage to certain hotels that was below the related deductible, is reflected as a hurricane loss in our consolidated financial statements for the three and nine months ended September 30, 2017.

In October and November 2017, we received advances aggregating approximately $10.0 million of insurance proceeds related to property insurance and business interruption claims. These advances have not been reflected in our consolidated financial statements for the third quarter of 2017 as they were received subsequent to September 30, 2017.

We are still assessing the impact of the hurricane on our hotels, and the final net book value write-offs could vary significantly from our estimate and additional remediation work may be performed. Any changes to the estimates for property damage will be recorded in the periods in which they are determined, and any additional remediation work will be recorded in the periods in which it is performed.

Property Dispositions and Assets and Liabilities Held for Sale

On February 1, 2017, we sold our 100% ownership interests in each of the Hampton Inn Frisco Legacy Park, the Hampton Inn Birmingham Colonnade and the Hilton Garden Inn Baton Rouge Airport to an unaffiliated third party for a contractual sales price of $33.0 million and net proceeds of approximately $7.4 million. The seller assumed the outstanding non-recourse debt on the three properties totaling $26.5 million. We recognized a loss on sale of $0.4 million during the first quarter of 2017. These three properties comprised the held for sale balance at December 31, 2016.

On May 11, 2017, we sold our 100% ownership interest in the Hampton Inn Boston Braintree to an unaffiliated third party for a contractual sales price of $19.0 million and net proceeds of approximately $6.6 million. During the second quarter of 2017, we recognized a gain on sale of $5.5 million, which is net of a $0.6 million participation management fee that was incurred as a result of the disposition and paid to StepStone Hospitality, the hotel management company, pursuant to the management agreement.

At September 30, 2017, no properties were classified as held for sale.

Below is a summary of our assets and liabilities held for sale (in thousands):

	September 30, 2017	December 31, 2016
Net investments in hotels	$ —	$ 32,300
Restricted cash	—	2,089
Accounts receivable	—	169
Other assets	—	465
Assets held for sale	$ —	$ 35,023
Non-recourse debt, net attributable to Assets held for sale	$ —	$ 26,560
Accounts payable, accrued expenses and other liabilities	$ —	$ 789
Due to related parties and affiliates	—	8
Other liabilities held for sale	$ —	$ 797

Construction in Progress

At September 30, 2017 and December 31, 2016, construction in progress, recorded at cost, was $19.1 million and $26.9 million, respectively, and related primarily to renovations at the Hutton Hotel Nashville and the Equinox, a Luxury Collection Golf Resort & Spa at September 30, 2017 and renovations at the Ritz-Carlton Key Biscayne and the Westin Pasadena at December 31, 2016 (Note 10). We capitalize interest expense and certain other costs, such as property taxes, property insurance, utilities expense and hotel incremental labor costs, related to hotels undergoing major renovations. We capitalized $0.3 million and $0.5 million of such costs during the three months ended September 30, 2017 and 2016, respectively, and $1.0 million and $1.7 million during the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017 and December 31, 2016, accrued capital expenditures were $5.0 million and $2.3 million, respectively, representing non-cash investing activity.

Note 5. Equity Investments in Real Estate

At September 30, 2017, we owned equity interests in five Unconsolidated Hotels, three with unrelated third parties and two with CWI 2. We do not control the ventures that own these hotels, but we exercise significant influence over them. We account for these investments under the equity method of accounting (i.e., at cost, increased or decreased by our share of earnings or losses, less distributions, plus contributions and other adjustments required by equity method accounting, such as basis differences from acquisition costs paid to our Advisor that we incur and other-than-temporary impairment charges, if any).

Under the conventional approach of accounting for equity method investments, an investor applies its percentage ownership interest to the venture's net income to determine the investor's share of the earnings or losses of the venture. This approach is inappropriate if the venture's capital structure gives different rights and priorities to its investors. We have priority returns on several of our equity method investments. Therefore, we follow the hypothetical liquidation at book value method in determining our share of these ventures' earnings or losses for the reporting period as this method better reflects our claim on the ventures' book value at the end of each reporting period. Earnings for our equity method investments are recognized in accordance with each respective investment agreement and, where applicable, based upon the allocation of the investment's net assets at book value as if the investment were hypothetically liquidated at the end of each reporting period.

Ritz-Carlton Bacara, Santa Barbara Venture

On September 28, 2017, we formed a tenancy-in-common venture with CWI 2 to acquire the Bacara Resort & Spa for $380.0 million. We own a 40% interest in the venture and CWI 2 owns a 60% interest. Upon acquisition, the hotel was rebranded as the Ritz-Carlton Bacara, Santa Barbara and will be managed by Marriott International. The venture meets the definition of joint control as all decisions with respect to the ownership, management and operation of the hotel must be made on a unanimous basis between the two parties; therefore, we have accounted for our interest in this investment under the equity method of accounting. The venture obtained debt comprised of a $175.0 million senior mortgage loan with a floating annual interest rate of LIBOR plus 2.8% and a $55.0 million mezzanine loan with a floating annual interest rate of LIBOR plus 5.8%, both subject to interest rate caps. Both loans have maturity dates of September 28, 2021, with one-year extension options. Our initial investment in this venture, which represents our share of the purchase price and capitalized costs, including fees paid to our

Advisor, was $66.3 million at acquisition. We capitalized our share of acquisition costs totaling $4.7 million, including acquisition fees of $4.1 million paid to our Advisor. Our Advisor has elected to receive 50% of its acquisition fees in shares of our common stock and 50% in cash, which was approved by our board of directors. For the nine months ended September 30, 2017, $2.1 million in acquisitions fees were settled in shares of our common stock.

Hurricane-Related Disruption

The Marriott Sawgrass Golf Resort & Spa was impacted by Hurricane Irma when it made landfall in September 2017. The hotel sustained damage and was forced to close for a period of time.

As of September 30, 2017, the estimated net book value of the property damage written off by the Marriott Sawgrass Golf Resort & Spa Venture was $6.2 million. In addition, there was $1.0 million of remediation work that had been performed as of September 30, 2017. The venture recorded a corresponding receivable of $3.3 million for estimated insurance recoveries related to the net book value of the property damage written off and the remediation work performed. The net impact to the Marriott Sawgrass Golf Resort & Spa Venture was $3.8 million, representing the property damage insurance deductible.

We are still assessing the impact of the hurricane on the venture, and the final net book value write-offs could vary significantly from our estimate and additional remediation work may be performed. Any changes to the estimates for property damage will be recorded by the venture in the periods in which they are determined, and any additional remediation work will be recorded by the venture in the periods in which it is performed.

The following table sets forth our ownership interests in our equity investments in real estate and their respective carrying values. The carrying values of these ventures are affected by the timing and nature of distributions (dollars in thousands):

						Carrying Value at	
Unconsolidated Hotels	State	Number of Rooms	% Owned	Acquisition Date	Hotel Type	September 30, 2017	December 31, 2016
Hyatt Centric French Quarter Venture [a]	LA	254	80%	9/6/2011	Full-service	$ 606	$ 664
Westin Atlanta Venture [b] [c]	GA	372	57%	10/3/2012	Full-service	4,464	5,795
Marriott Sawgrass Golf Resort & Spa Venture [d] [e]	FL	514	50%	4/1/2015	Resort	26,375	31,208
Ritz-Carlton Philadelphia Venture [f]	PA	301	60%	5/15/2015	Full-service	39,251	38,261
Ritz-Carlton Bacara, Santa Barbara Venture [g] [h]	CA	358	40%	9/28/2017	Resort	65,818	—
		1,799				$ 136,514	$ 75,928

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(a) We received cash distributions of $0.7 million from this investment during the nine months ended September 30, 2017. No cash distributions were received from this investment during the three months ended September 30, 2017.
(b) We received cash distributions of $0.6 million and $2.0 million from this investment during the three and nine months ended September 30, 2017, respectively.
(c) On October 19, 2017, the venture sold the Westin Atlanta Perimeter North to an unaffiliated third-party (Note 13).
(d) We received cash distributions of $0.3 million and $3.3 million from this investment during the three and nine months ended September 30, 2017, respectively.
(e) This investment is considered a VIE (Note 2). We do not consolidate this entity because we are not the primary beneficiary and the nature of our involvement in the activities of the entity allows us to exercise significant influence but does not give us power over decisions that significantly affect the economic performance of the entity.
(f) We received cash distributions of $0.4 million and $1.0 million from this investment during the three and nine months ended September 30, 2017, respectively.
(g) This investment represents a tenancy-in-common interest; the remaining 60% interest is owned by CWI 2.
(h) No cash distributions were received from this investment during the three or nine months ended September 30, 2017.

The following table sets forth our share of equity in earnings from our Unconsolidated Hotels, which are based on the hypothetical liquidation at book value model, as well as certain amortization adjustments related to basis differentials from acquisitions of investments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Venture	**2017**	**2016**	**2017**	**2016**
Ritz-Carlton Philadelphia Venture	$ 396	$ 804	$ 2,025	$ 2,190
Marriott Sawgrass Golf Resort & Spa Venture	(3,255)	(711)	(1,549)	1,512
Westin Atlanta Venture	166	204	638	728
Ritz-Carlton Bacara, Santa Barbara Venture	(532)	—	(532)	—
Hyatt Centric French Quarter Venture	(239)	(437)	490	546
Total equity in (losses) earnings of equity method investments in real estate	$ (3,464)	$ (140)	$ 1,072	$ 4,976

No other-than-temporary impairment charges related to our investments in these ventures were recognized during the three or nine months ended September 30, 2017 or 2016.

At September 30, 2017 and December 31, 2016, the unamortized basis differences on our equity investments were $7.3 million and $3.3 million, respectively. Net amortization of the basis differences reduced the carrying values of our equity investments by less than $0.1 million during both the three months ended September 30, 2017 and 2016, and by $0.2 million for both the nine months ended September 30, 2017 and 2016.

The following tables present combined summarized financial information of our Marriott Sawgrass Golf Resort & Spa Venture and Ritz-Carlton Philadelphia Venture. Amounts provided are the total amounts attributable to the ventures and does not represent our proportionate share (in thousands):

	September 30, 2017	December 31, 2016
Real estate, net	$ 230,673	$ 244,106
Other assets	20,311	19,882
Total assets	250,984	263,988
Debt	135,894	136,575
Other liabilities	24,807	23,394
Total liabilities	160,701	159,969
Members' equity	$ 90,283	$ 104,019

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenues	$ 18,590	$ 20,250	$ 68,420	$ 64,192
Expenses	(22,085)	(21,610)	(70,666)	(62,983)
Hurricane loss	(3,845)	—	(3,845)	—
Net (loss) income attributable to equity method investment	$ (7,340)	$ (1,360)	$ (6,091)	$ 1,209

Note 6. Intangible Assets and Liabilities

Intangible assets and liabilities, included in Intangible assets, net and Accounts payable, accrued expenses and other liabilities, respectively, in the consolidated financial statements, are summarized as follows (dollars in thousands):

		September 30, 2017			December 31, 2016		
	Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Finite-Lived Intangible Assets							
Villa/condo rental programs	45 – 55	$ 72,400	$ (4,639)	$ 67,761	$ 72,400	$ (3,510)	$ 68,890
Below-market hotel ground leases and parking garage lease	10 – 93	11,655	(678)	10,977	11,655	(531)	11,124
In-place leases	8 – 21	141	(60)	81	235	(132)	103
Total intangible assets, net		$ 84,196	$ (5,377)	$ 78,819	$ 84,290	$ (4,173)	$ 80,117
Finite-Lived Intangible Liability							
Above-market hotel ground lease	85	$ (2,100)	$ 83	$ (2,017)	$ (2,100)	$ 64	$ (2,036)

Net amortization of intangibles was $0.4 million for both the three months ended September 30, 2017 and 2016, and $1.3 million for both the nine months ended September 30, 2017 and 2016. Amortization of the villa/condo rental programs and in-place lease intangibles are included in Depreciation and amortization, and amortization of below-market hotel ground lease, below-market hotel parking garage lease and above-market hotel ground lease intangibles are included in Property taxes, insurance, rent and other in the consolidated financial statements.

Note 7. Fair Value Measurements

The fair value of an asset is defined as the exit price, which is the amount that would either be received when an asset is sold or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-tier fair value hierarchy based on the inputs used in measuring fair value. These tiers are: Level 1, for which quoted market prices for identical instruments are available in active markets, such as money market funds, equity securities and U.S. Treasury securities; Level 2, for which there are inputs other than quoted prices included within Level 1 that are observable for the instrument, such as certain derivative instruments, including interest rate caps and swaps; and Level 3, for securities that do not fall into Level 1 or Level 2 and for which little or no market data exists, therefore requiring us to develop our own assumptions.

Items Measured at Fair Value on a Recurring Basis

Derivative Assets and Liabilities — Our derivative assets and liabilities are comprised of interest rate swaps and caps that were measured at fair value using readily observable market inputs, such as quotations on interest rates. These derivative instruments were classified as Level 2 as these instruments are custom, over-the-counter contracts with various bank counterparties that are not traded in an active market (Note 8).

We did not have any transfers into or out of Level 1, Level 2 and Level 3 category of measurements during the three or nine months ended September 30, 2017 or 2016. Gains and losses (realized and unrealized) included in earnings are reported in Other income in the consolidated financial statements.

Our non-recourse debt, net, which we have classified as Level 3, had a carrying value of $1.4 billion and $1.5 billion at September 30, 2017 and December 31, 2016, respectively, and an estimated fair value of $1.4 billion and $1.5 billion at September 30, 2017 and December 31, 2016, respectively. We determined the estimated fair value using a discounted cash flow model with rates that take into account the interest rate risk. We also considered the value of the underlying collateral, taking into account the quality of the collateral and the then-current interest rate.

We estimated that our other financial assets and liabilities had fair values that approximated their carrying values at both September 30, 2017 and December 31, 2016.

Items Measured at Fair Value on a Non-Recurring Basis (Including Impairment Charges)

We periodically assess whether there are any indicators that the value of our real estate investments may be impaired or that their carrying value may not be recoverable.

For real estate assets held for investment and related intangible assets in which an impairment indicator is identified, we follow a two-step process to determine whether an asset is impaired and to determine the amount of the charge. First, we compare the carrying value of the property's asset group to the estimated future undiscounted net cash flows that we expect the property's asset group will generate, including any estimated proceeds from the eventual sale of the property's asset group. If this amount is less than the carrying value, the property's asset group is considered not recoverable. We then measure the impairment charge as the excess of the carrying value of the property's asset group over the estimated fair value of the property's asset group, which is primarily determined using market information from outside sources, such as broker quotes, recent comparable sales or third-party appraisals. If relevant market information is not available or is not deemed appropriate, we perform a future net cash flow analysis, discounted for the inherent risk associated with each investment.

We classify real estate assets as held for sale when we have entered into a contract to sell the property, all material due diligence requirements have been satisfied or we believe it is probable that the disposition will occur within one year. When we classify an asset as held for sale, we compare the asset's fair value less estimated cost to sell to its carrying value, and if the fair value less estimated cost to sell is less than the property's carrying value, we reduce the carrying value to the fair value less estimated cost to sell. We base the fair value on the contract and the estimated cost to sell on information provided by brokers and legal counsel. We will continue to review the property for subsequent changes in the fair value and may recognize an additional impairment charge, if warranted.

We determined that the significant inputs used to value these investments fall within Level 3 for fair value reporting. As a result of our assessments, we calculated an impairment charge based on market conditions and assumptions that existed at the time. The valuation of real estate is subject to significant judgment and actual results may differ materially if market conditions or the underlying assumptions change. During the three and nine months ended September 30, 2016, we recognized impairment charges totaling $0.5 million and $4.1 million, respectively, on three properties with an aggregate fair value measurement of $33.0 million in order to reduce the carrying value of the properties to their estimated fair values. We did not recognize any impairment charges during the three or nine months ended September 30, 2017.

Note 8. Risk Management and Use of Derivative Financial Instruments

Risk Management

In the normal course of our ongoing business operations, we encounter economic risk. There are two main components of economic risk that impact us: interest rate risk and market risk. We are primarily subject to interest rate risk on our interest-bearing assets and liabilities. Market risk includes changes in the value of our properties and related loans.

Derivative Financial Instruments

When we use derivative instruments, it is generally to reduce our exposure to fluctuations in interest rates. We have not entered into, and do not plan to enter into, financial instruments for trading or speculative purposes. In addition to entering into derivative instruments on our own behalf, we may also be a party to derivative instruments that are embedded in other contracts, which are considered to be derivative instruments. The primary risks related to our use of derivative instruments include a counterparty to a hedging arrangement defaulting on its obligation and a downgrade in the credit quality of a counterparty to such an extent that our ability to sell or assign our side of the hedging transaction is impaired. While we seek to mitigate these risks by entering into hedging arrangements with large financial institutions that we deem to be creditworthy, it is possible that our hedging transactions, which are intended to limit losses, could adversely affect our earnings. Furthermore, if we terminate a hedging arrangement, we may be obligated to pay certain costs, such as transaction or breakage fees. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities.

We measure derivative instruments at fair value and record them as assets or liabilities, depending on our rights or obligations under the applicable derivative contract. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. For a derivative designated, and that qualified, as a cash flow hedge, the effective portion of the change in fair value of the derivative is recognized in Other comprehensive (loss) income until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of any derivative is immediately recognized in earnings.

The following table sets forth certain information regarding our derivative instruments on our Consolidated Hotels (in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Asset Derivatives Fair Value at		Liability Derivatives Fair Value at	
		September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
Interest rate swaps	Other assets	$ 35	$ 48	$ —	$ —
Interest rate caps	Other assets	1	51	—	—
Interest rate swaps	Accounts payable, accrued expenses and other liabilities	—	—	—	(2)
		$ 36	$ 99	$ —	$ (2)

All derivative transactions with an individual counterparty are governed by a master International Swap and Derivatives Association agreement, which can be considered as a master netting arrangement; however, we report all our derivative instruments on a gross basis in our consolidated financial statements. At both September 30, 2017 and December 31, 2016, no cash collateral had been posted nor received for any of our derivative positions.

We recognized unrealized income of $0.1 million and $0.2 million in Other comprehensive (loss) income on derivatives in connection with our interest rate swaps and caps during the three months ended September 30, 2017 and 2016, respectively, and unrealized losses of $0.1 million and $1.5 million during the nine months ended September 30, 2017 and 2016, respectively.

We reclassified $0.1 million and $0.2 million from Other comprehensive (loss) income on derivatives into Interest expense during each of the three months ended September 30, 2017 and 2016, respectively, and $0.5 million and $0.8 million during the nine months ended September 30, 2017 and 2016, respectively.

Amounts reported in Other comprehensive (loss) income related to interest rate swaps and caps will be reclassified to Interest expense as interest expense is incurred on our variable-rate debt. At September 30, 2017, we estimated that an additional $0.5 million, inclusive of amounts attributable to noncontrolling interests of less than $0.1 million, will be reclassified as Interest expense during the next 12 months related to our interest rate swaps and caps.

Interest Rate Swaps and Caps

We are exposed to the impact of interest rate changes primarily through our borrowing activities. To limit this exposure, we attempt to obtain mortgage financing on a long-term, fixed-rate basis. However, from time to time, we or our investment partners may obtain variable-rate non-recourse mortgage loans and, as a result, may enter into interest rate swap or cap agreements with counterparties. Interest rate swaps, which effectively convert the variable-rate debt service obligations of a loan to a fixed rate, are agreements in which one party exchanges a stream of interest payments for a counterparty's stream of cash flow over a specific period. The face amount on which the swaps are based is not exchanged. An interest rate cap limits the effective borrowing rate of variable-rate debt obligations while allowing participants to share in downward shifts in interest rates. Our objective in using these derivatives is to limit our exposure to interest rate movements.

The interest rate swaps and caps that we had outstanding on our Consolidated Hotels at September 30, 2017 were designated as cash flow hedges and are summarized as follows (dollars in thousands):

Interest Rate Derivatives	Number of Instruments	Notional Amount	Fair Value at September 30, 2017
Interest rate swap	1	$ 47,450	$ 35
Interest rate caps	8	302,184	1
			$ 36

Credit Risk-Related Contingent Features

We measure our credit exposure on a counterparty basis as the net positive aggregate estimated fair value of our derivatives, net of any collateral received. No collateral was received as of September 30, 2017. At September 30, 2017, both our total credit exposure and the maximum exposure to any single counterparty were less than $0.1 million.

Some of the agreements we have with our derivative counterparties contain cross-default provisions that could trigger a declaration of default on our derivative obligations if we default, or are capable of being declared in default, on certain of our indebtedness. At September 30, 2017, we had not been declared in default on any of our derivative obligations. At September 30, 2017, we had no derivatives that were in a net liability position. At December 31, 2016, the estimated fair value of our derivatives in a net liability position was less than $0.1 million, which included accrued interest and any nonperformance risk adjustments. If we had breached any of these provisions at December 31, 2016, we could have been required to settle our obligations under these agreements at their aggregate termination value of less than $0.1 million.

Note 9. Debt

Non-Recourse Debt

Our non-recourse debt consists of mortgage notes payable, which are collateralized by the assignment of hotel properties. The following table presents the non-recourse debt, net on our Consolidated Hotel investments (dollars in thousands):

			Carrying Amount at	
	Interest Rate Range	Current Maturity Date Range [(a)]	September 30, 2017	December 31, 2016
Fixed rate	3.6% – 6.5%	3/2018 – 4/2024	$ 1,084,480	$ 1,084,987
Variable rate [(b)]	3.5% – 8.5%	10/2017 – 12/2020	339,018	371,165
			$ 1,423,498	$ 1,456,152

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(a) Many of our mortgage loans have extension options, which are subject to certain conditions. The maturity dates in the table do not reflect the extension options.

(b) These mortgage loans have variable interest rates, which have effectively been capped or converted to fixed rates through the use of interest rate caps or swaps (Note 8). The interest rate range presented for these mortgage loans reflect the rates in effect at September 30, 2017 through the use of an interest rate cap or swap, when applicable.

Most of our mortgage loan agreements contain “lock-box” provisions, which permit the lender to access or sweep a hotel’s excess cash flow and would be triggered under limited circumstances, including the failure to maintain minimum debt service coverage ratios. If a provision were triggered, we would generally be permitted to spend an amount equal to our budgeted hotel operating expenses, taxes, insurance and capital expenditure reserves for the relevant hotel. The lender would then hold all excess cash flow after the payment of debt service in an escrow account until certain performance hurdles are met. At December 31, 2016, the minimum debt service coverage ratio for the Holiday Inn Manhattan 6th Avenue Chelsea was not met; therefore, a cash management agreement was enacted that permits the lender to sweep the hotel’s excess cash flow. As of September 30, 2017, this ratio was still not met and the cash management agreement remained in effect. At June 30, 2017, the minimum debt service coverage ratio for the Lake Arrowhead Resort and Spa was not met; therefore we were required to fund $0.5 million into a lender held reserve account that will be released after a specified debt service coverage ratio is achieved for two consecutive quarters. We funded the required $0.5 million into the lender held reserve account during the third quarter of 2017, which is included in Restricted cash in our consolidated balance sheet. As of September 30, 2017, this ratio was still not met and the funds remained in the lender held reserve account. At September 30, 2017, the minimum debt service coverage ratio for both the senior mortgage loan and mezzanine loan for the Ritz-Carlton Fort Lauderdale were not met; therefore, we entered into a cash management agreement that permits the lender to sweep the hotel’s excess cash flow.

Covenants

Pursuant to our mortgage loan agreements, our consolidated subsidiaries are subject to various operational and financial covenants, including minimum debt service coverage ratios. Except as discussed above, at September 30, 2017, we were in compliance with the applicable covenants for each of our mortgage loans.

WPC Credit Facility

At September 30, 2017, we had outstanding balances under the Bridge Loan and Working Capital Facility of $75.0 million and $22.8 million, respectively, with $2.2 million available to be drawn on the Working Capital Facility. On October 12, 2017, we made a repayment of $3.8 million to WPC towards the outstanding balance of the Bridge Loan. Additionally, on October 27, 2017, we made repayments of $10.4 million and $15.0 million towards the Bridge Loan and Working Capital Facility, respectively (Note 13). These loans are described in Note 3.

Senior Credit Facility

At December 31, 2016, we had a senior credit facility that provided for a $25.0 million senior unsecured revolving credit facility, or our Senior Credit Facility. The Senior Credit Facility bore interest at LIBOR plus 2.75%, was scheduled to mature on December 4, 2017 and had an outstanding balance of $22.8 million at December 31, 2016. On March 23, 2017, we repaid the $22.8 million outstanding balance using proceeds from the WPC Line of Credit (Note 3) and simultaneously terminated the Senior Credit Facility. We recognized a loss on extinguishment of debt of $0.1 million during the first quarter of 2017 on this termination, related primarily to the write-off of unamortized deferred financing costs.

Mortgage Financing Activity During 2017

During the nine months ended September 30, 2017, we refinanced two non-recourse mortgage loans totaling $70.6 million with new non-recourse mortgage loans totaling $83.5 million, which have a weighted-average interest rate of 5.1% and term of 5 years. We recognized a net loss on extinguishment of debt of less than $0.1 million on these refinancings.

Scheduled Debt Principal Payments

Scheduled debt principal payments during the remainder of 2017, each of the next four calendar years following December 31, 2017, and thereafter are as follows (in thousands):

Years Ending December 31,	Total
2017 (remainder) [(a)]	$ 75,648
2018 [(b) (c)]	228,723
2019	148,727
2020	196,362
2021	458,253
Thereafter through 2024	420,973
	1,528,686
Unamortized deferred financing costs	(7,353)
Total	$ 1,521,333

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(a) Balance includes $72.5 million of scheduled balloon payments on two consolidated mortgage loans. We currently intend to refinance these mortgage loans, although there can be no assurance that we will be able to do so on favorable terms, if at all.

(b) Balance includes $117.1 million of scheduled balloon payments on five consolidated mortgage loans. We currently intend to refinance these mortgage loans, although there can be no assurance that we will be able to do so on favorable terms, if at all.

(c) Includes $75.0 million and $22.8 million of loan proceeds from the Bridge Loan and Working Capital Facility from WPC (Note 3).

Note 10. Commitments and Contingencies

At September 30, 2017, we were not involved in any material litigation. Various claims and lawsuits arising in the normal course of business are pending against us, but we do not expect the results of such proceedings to have a material adverse effect on our consolidated financial position or results of operations.

Hotel Management Agreements

As of September 30, 2017, our Consolidated Hotel properties were operated pursuant to long-term management agreements with 12 different management companies, with initial terms ranging from five to 30 years. For hotels operated with separate franchise agreements, each management company receives a base management fee, generally ranging from 1.0% to 3.5% of hotel revenues. Four of our management agreements contain the right and license to operate the hotels under specified brands; no separate franchise agreements exist and no separate franchise fee is required for these hotels. The management agreements that include the benefit of a franchise agreement incur a base management fee equal to 3.0% of hotel revenues. The management companies are generally also eligible to receive an incentive management fee, which is typically calculated as a percentage of operating profit, either (i) in excess of projections with a cap or (ii) after we have received a priority return on our investment in the hotel. For the three months ended September 30, 2017 and 2016, we incurred management fee expense, including amortization of deferred management fees, of $3.2 million and $3.1 million, respectively, and $13.5 million and $13.8 million for the nine months ended September 30, 2017 and 2016, respectively.

Franchise Agreements

As of September 30, 2017, we had 12 franchise agreements with Marriott owned brands, five with Hilton owned brands, two with InterContinental Hotels owned brands and one with a Hyatt owned brand related to our Consolidated Hotels. The franchise agreements have initial terms ranging from 15 to 25 years. This number excludes four hotels that receive the benefits of a franchise agreement pursuant to management agreements, as discussed above. Also, three of our Consolidated Hotels are independent and not subject to franchise agreements. Our franchise agreements grant us the right to the use of the brand name, systems and marks with respect to specified hotels and establish various management, operational, record-keeping, accounting, reporting and marketing standards and procedures that the licensed hotel must comply with. In addition, the franchisor establishes requirements for the quality and condition of the hotel and its furniture, fixtures and equipment, and we are obligated to expend such funds as may be required to maintain the hotel in compliance with those requirements. Typically, our franchise agreements provide for a license fee, or royalty, of 3.0% to 7.0% of room revenues and, if applicable, 2.0% to 3.0% of food and beverage revenue. In addition, we generally pay 1.0% to 4.0% of room revenues as marketing and reservation system contributions for the system-wide benefit of brand hotels. Franchise fees are included in sales and marketing expense in our consolidated financial statements. For the three months ended September 30, 2017 and 2016, we incurred franchise fee expense, including amortization of deferred franchise fees, of $4.4 million and $5.3 million, respectively, and $14.1 million and $15.4 million for the nine months ended September 30, 2017 and 2016, respectively.

Renovation Commitments

Certain of our hotel franchise and loan agreements require us to make planned renovations to our Consolidated Hotels (Note 4). We do not currently expect, and are not obligated, to fund any planned renovations on our Unconsolidated Hotels beyond our original investment. The table below does not reflect any renovation work to be undertaken as a result of Hurricane Irma, as discussed in Note 4.

At September 30, 2017, eight hotels were either undergoing renovation or in the planning stage of renovations, and we currently expect that three will be completed during the fourth quarter of 2017, one will be completed during the first half of 2018, three will be completed during the second half of 2018 and one will be completed during the first half of 2019. The following table summarizes our capital commitments related to our Consolidated Hotels (in thousands):

	September 30, 2017	December 31, 2016
Capital commitments	$ 57,760	$ 84,325
Less: amounts paid	(22,460)	(43,179)
Unpaid commitments	35,300	41,146
Less: amounts in restricted cash designated for renovations	(25,578)	(13,136)
Unfunded commitments [(a)]	$ 9,722	$ 28,010

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(a) Of our unfunded commitments at September 30, 2017 and December 31, 2016, approximately $0.6 million and $5.3 million, respectively, of unrestricted cash on our balance sheet was designated for renovations.

Capital Expenditures and Reserve Funds

With respect to our hotels that are operated under management or franchise agreements with major international hotel brands and for most of our hotels subject to mortgage loans, we are obligated to maintain furniture, fixtures and equipment reserve accounts for future capital expenditures at these hotels, sufficient to cover the cost of routine improvements and alterations at the hotels. The amount funded into each of these reserve accounts is generally determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents for each of the respective hotels and typically ranges between 3% and 5% of the respective hotel's total gross revenue. As of September 30, 2017 and December 31, 2016, $34.0 million and $29.3 million, respectively, was held in furniture, fixtures and equipment reserve accounts for future capital expenditures, and is included in Restricted cash in the consolidated financial statements.

Ground Lease Commitments

Three of our hotels are subject to ground leases. Scheduled future minimum ground lease payments during the remainder of 2017, each of the next four calendar years following December 31, 2017 and thereafter are as follows (in thousands):

Years Ending December 31,	Total
2017 (remainder)	$ 799
2018	3,254
2019	3,328
2020	3,404
2021	3,482
Thereafter through 2106	651,117
Total	$ 665,384

For each of the three months ended September 30, 2017 and 2016, we recorded rent expense of $1.0 million, inclusive of percentage rents of $0.2 million for each period, related to these ground leases, which are included in Property taxes, insurance, rent and other in the consolidated financial statements. For each of the nine months ended September 30, 2017 and 2016, we recorded rent expense of $2.9 million, inclusive of percentage rents of $0.6 million and $0.5 million, respectively, related to these ground leases. Additionally, we recorded straight-line rent adjustment expense related to these ground leases of $1.3 million for each of the three months ended September 30, 2017 and 2016 and $3.9 million and $4.0 million for the nine months ended September 30, 2017 and 2016, respectively.

Note 11. Equity

Transfers to Noncontrolling Interests

On February 12, 2016, we acquired the remaining 25% interest in the Fairmont Sonoma Mission Inn & Spa Venture from an unaffiliated third party for $20.6 million, bringing our ownership interest to 100%. In connection with this transaction, we also paid a fee to our Advisor of $0.5 million. Our acquisition of the additional interest in the venture is accounted for as an equity transaction and we recorded an adjustment of approximately $16.0 million to Additional paid-in capital in our consolidated statement of equity for the nine months ended September 30, 2016 related to the difference between the carrying value and the purchase price. No gain or loss was recognized in the consolidated statement of operations, and the components of accumulated other comprehensive loss are proportionately reallocated to us from the noncontrolling interest as presented in the consolidated statement of equity.

Reclassifications Out of Accumulated Other Comprehensive Loss

The following tables present a reconciliation of changes in Accumulated other comprehensive loss by component for the periods presented (in thousands):

	Three Months Ended September 30,	
Gains and Losses on Derivative Instruments	**2017**	**2016**
Beginning balance	$ (795)	$ (2,494)
Other comprehensive income before reclassifications	89	247
Amounts reclassified from accumulated other comprehensive loss to:		
Interest expense	110	242
Equity in earnings of equity method investments in real estate	49	105
Total	159	347
Net current period other comprehensive income	248	594
Net current period other comprehensive income attributable to noncontrolling interests	(5)	—
Ending balance	$ (552)	$ (1,900)

	Nine Months Ended September 30,	
Gains and Losses on Derivative Instruments	**2017**	**2016**
Beginning balance	$ (1,128)	$ (885)
Other comprehensive loss before reclassifications	(74)	(1,547)
Amounts reclassified from accumulated other comprehensive loss to:		
Interest expense	466	760
Equity in earnings of equity method investments in real estate	193	323
Total	659	1,083
Net current period other comprehensive income (loss)	585	(464)
Net current period other comprehensive (income) loss attributable to noncontrolling interests	(9)	372
Reclassification to additional-paid in capital relating to purchase of remaining 25% membership interest in Fairmont Sonoma Mission Inn & Spa venture	—	(923)
Ending balance	$ (552)	$ (1,900)

Distributions Declared

During the third quarter of 2017, our board of directors declared a quarterly distribution of $0.1425 per share, which was paid on October 16, 2017 to stockholders of record on September 29, 2017, in the aggregate amount of $19.5 million.

For the nine months ended September 30, 2017, our board of directors declared distributions of $58.4 million, including distributions of $38.9 million declared during the six months ended June 30, 2017. We paid distributions of $58.2 million during the nine months ended September 30, 2017, comprised of $38.9 million declared during the six months ended June 30, 2017 and $19.3 million declared during the three months ended December 31, 2016.

Note 12. Income Taxes

We elected to be treated as a REIT and believe that we have been organized and have operated in such a manner to maintain our qualification as a REIT for federal and state income tax purposes. As a REIT, we are generally not subject to corporate level federal income taxes on earnings distributed to our stockholders. Since inception, we have distributed at least 100% of our taxable income annually and intend to do so for the tax year ending December 31, 2017. Accordingly, we have not included any provisions for federal income taxes related to the REIT in the accompanying consolidated financial statements for the three and nine months ended September 30, 2017 and 2016. We conduct business in various states and municipalities within the United States, and, as a result, we or one or more of our subsidiaries file income tax returns in the U.S. federal jurisdiction and various

state jurisdictions. As a result, we are subject to certain state and local taxes and a provision for such taxes is included in the consolidated financial statements.

Certain of our subsidiaries have elected taxable REIT subsidiary, or TRS, status. A TRS may provide certain services considered impermissible for REITs and may hold assets that REITs may not hold directly. The accompanying consolidated financial statements include an interim tax provision for our TRSs for the three and nine months ended September 30, 2017 and 2016. Current income tax benefit was $0.2 million and $0.7 million for the three months ended September 30, 2017 and 2016, respectively. Current tax expense was $1.4 million and $3.0 million for the nine months ended September 30, 2017 and 2016, respectively.

Our TRSs are subject to U.S. federal and state income taxes. As such, deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of assets and liabilities at the enacted tax rates expected to be in effect when the temporary differences reverse. A valuation allowance for deferred tax assets is provided if we believe that it is more likely than not that we will not realize the tax benefit of deferred tax assets based on available evidence at the time the determination is made. A change in circumstances may cause us to change our judgment about whether a deferred tax asset will more likely than not be realized. We generally report any change in the valuation allowance through our income statement in the period in which such changes in circumstances occur. Deferred tax assets (net of valuation allowance) and liabilities for our TRSs were recorded, as necessary, as of September 30, 2017 and December 31, 2016. Deferred tax assets (net of valuation allowance) totaled $3.0 million and $4.4 million at September 30, 2017 and December 31, 2016, respectively, and are included in Other assets in the consolidated financial statements. Deferred tax liabilities totaled $5.5 million and $7.5 million at September 30, 2017 and December 31, 2016, respectively, and are included in Accounts payable, accrued expenses and other liabilities in the consolidated financial statements. The majority of our deferred tax assets relate to net operating losses, accrued expenses and deferred key money liabilities. The majority of our deferred tax liabilities relate to differences between the tax basis and financial reporting basis of the villa/condo rental management agreements. Provision for income taxes included deferred income tax expense of less than $0.1 million and $1.7 million for the three months ended September 30, 2017 and 2016, respectively, and deferred income tax benefit of $0.8 million for the nine months ended September 30, 2017 and deferred income tax expense of less than $0.1 million for the nine months ended September 30, 2016.

Note 13. Subsequent Events

On October 12, 2017, we made a repayment of $3.8 million to WPC towards the outstanding balance of the Bridge Loan (Note 3).

On October 19, 2017, the Westin Atlanta Venture sold the Westin Atlanta Perimeter North to an unaffiliated third-party for a contractual sales price of $85.5 million. We owned a 57% interest in the venture and received net proceeds of approximately $25.9 million from the sale. The carrying value of our investment in this venture was $4.5 million at September 30, 2017 (Note 5).

On October 27, 2017, we used $10.4 million and $15.0 million, respectively, of the proceeds from the sale of the Westin Atlanta Perimeter North to make repayments towards the Bridge Loan and Working Capital Facility, respectively (Note 3).

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

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to provide the reader with information that will assist in understanding our financial statements and the reasons for changes in certain key components of our financial statements from period to period. Management's Discussion and Analysis of Financial Condition and Results of Operations also provides the reader with our perspective on our financial position and liquidity, as well as certain other factors that may affect our future results. Our Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the 2016 Annual Report and subsequent reports filed under the Securities Exchange Act of 1934.

Business Overview

As described in more detail in Item 1 of the 2016 Annual Report, we are a publicly-owned, non-listed REIT that invests in, and through our Advisor, manages and seeks to enhance the value of, our interests in lodging and lodging-related properties. At September 30, 2017, we held ownership interests in 32 hotels, with a total of 8,719 rooms.

We have invested the proceeds from our initial public offering and follow-on offering in a diversified lodging portfolio, including full-service, select-service and resort hotels. Our results of operations are significantly impacted by seasonality, acquisition-related expenses and by hotel renovations. We often invest in hotels and then initiate significant renovations. Generally, during the renovation period, a portion of total rooms are unavailable and hotel operations are often disrupted, negatively impacting our results of operations.

Significant Developments

Acquisition

On September 28, 2017, we formed a tenancy-in-common venture with CWI 2 to acquire the Bacara Resort & Spa for $380.0 million. We own a 40% interest in the venture and CWI 2 owns a 60% interest. Upon acquisition, the hotel was rebranded as the Ritz-Carlton Bacara, Santa Barbara. This investment is accounted for under the equity method of accounting (Note 5).

WPC Credit Facility

During the third quarter of 2017, our board of directors and the board of directors of WPC approved secured loans from WPC to us of up to $100.0 million for acquisition funding purposes and $25.0 million for working capital purposes. On September 26, 2017, we entered into a secured credit facility, or the WPC Credit Facility, with our Operating Partnership as borrower and WPC as lender. The WPC Credit Facility consists of (i) a bridge term loan of $75.0 million, or the Bridge Loan, for the purpose of acquiring an interest in the Ritz-Carlton Bacara, Santa Barbara (Note 5) and (ii) a $25.0 million revolving working capital facility, or the Working Capital Facility, to be used for our working capital needs. The Working Capital Facility replaced the WPC Line of Credit, which had an outstanding principal balance of $22.8 million on that date and a maturity date of March 22, 2018. Unless the Advisory Agreement expires or is terminated, the Bridge Loan and Working Capital Facility are scheduled to mature on June 30, 2018 and December 31, 2018, respectively. We can request a three month extension of the Bridge Loan, which WPC may grant in its sole discretion. Both loans bear interest at LIBOR plus 1.0%; provided however, that upon the occurrence of certain events of default (as defined in the loan agreement), all outstanding amounts will be subject to a 2% annual interest rate increase. We serve as guarantor of the WPC Credit Facility and have pledged our unencumbered equity interests in certain properties as collateral, as further described in the pledge and security agreement entered into between the borrower and lender. On September 27, 2017, the Operating Partnership drew down $75.0 million from the Bridge Loan to acquire our interest in the Ritz-Carlton Bacara, Santa Barbara.

At September 30, 2017, the outstanding balances under the Bridge Loan and Working Capital Facility were $75.0 million and $22.8 million, respectively, with $2.2 million available to be drawn on the Working Capital Facility (Note 3). On October 12, 2017, we made a repayment of $3.8 million to WPC towards the outstanding balance of the Bridge Loan. Additionally, on October 27, 2017, we made repayments of $10.4 million and $15.0 million towards the Bridge Loan and Working Capital Facility, respectively (Note 13).

Financings

During the nine months ended September 30, 2017, we refinanced two non-recourse mortgage loans totaling $70.6 million with new non-recourse mortgage loans totaling $83.5 million, which have a weighted-average interest rate of 5.1% and a term of 5 years. We recognized a net loss on extinguishment of debt of less than $0.1 million on these refinancings (Note 9).

Weather-Related Disruption

At September 30, 2017, we held ownership interests in six hotels in Florida and Georgia that were impacted by Hurricane Irma when it made landfall in September 2017; Hawks Cay Resort, Marriott Boca Raton at Boca Center, Ritz-Carlton Key Biscayne, Ritz-Carlton Fort Lauderdale and Staybridge Suites Savannah Historic District, all of which are Consolidated Hotels and Marriott Sawgrass Golf Resort & Spa, which is an Unconsolidated Hotel. All six hotels sustained some damage and all except for Marriott Boca Raton at Boca Center were forced to close for a period of time. As of September 30, 2017, all hotels had reopened, with the exception of the Hawks Cay Resort, which is expected to remain closed for an extended period of time. During the third quarter of 2017, we recognized a hurricane loss of $7.6 million in our Consolidated Hotels, representing our best estimate of uninsured losses from Hurricane Irma as of September 30, 2017. The Sawgrass Golf Resort & Spa Venture, in which we own a 50% interest, recognized a $3.8 million hurricane loss, representing the property damage insurance deductible. We will continue to monitor the effects of the hurricane on our hotels. There can be no assurance that we will not recognize additional hurricane-related losses in the future, some of which may be material.

During October 2017, the Fairmont Sonoma Inn & Spa was closed for six days as a result of evacuations caused by wildfires in the Northern California region. We anticipate filing a claim for lost revenue under our business interruption coverage, which will be recorded when the recovery is probable and the claim is settled.

Senior Credit Facility

At December 31, 2016, we had a senior credit facility that provided for a $25.0 million senior unsecured revolving credit facility, or our Senior Credit Facility. The Senior Credit Facility bore interest at LIBOR plus 2.75%, was scheduled to mature on December 4, 2017 and had an outstanding balance of $22.8 million at December 31, 2016. On March 23, 2017, we repaid the $22.8 million outstanding balance using proceeds from the WPC Line of Credit (Note 3, Note 9) and simultaneously terminated our Senior Credit Facility. We recognized a loss on extinguishment of debt of $0.1 million during the first quarter of 2017 on this termination.

Financial and Operating Highlights

(Dollars in thousands, except average daily rate, or ADR, and revenue per available room, or RevPAR)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Hotel revenues	$ 154,829	$ 166,865	$ 485,887	$ 495,801
Hurricane loss	7,609	—	7,609	—
Acquisition-related expenses	—	—	—	3,727
Net (loss) income attributable to CWI stockholders	(8,769)	4,497	(3,799)	(1,885)
Cash distributions paid	19,423	19,103	58,192	57,037
Net cash provided by operating activities			79,671	72,369
Net cash used in investing activities			(83,849)	(120,159)
Net cash provided by financing activities			7,270	37,041
Supplemental financial measures: [a]				
FFO attributable to CWI stockholders	11,480	24,893	50,736	60,264
MFFO attributable to CWI stockholders	18,739	26,236	60,913	69,184
Consolidated Hotel Operating Statistics [b]				
Occupancy	77.9%	80.0%	77.2%	77.3%
ADR	$ 208.01	$ 204.83	$ 218.34	$ 214.74
RevPAR	162.03	163.80	168.66	166.08

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(a) We consider the performance metrics listed above, including funds from operations, or FFO, and modified funds from operations, or MFFO, which are supplemental measures that are not defined by GAAP, or non-GAAP measures, to be important measures in the evaluation of our results of operations and capital resources. We evaluate our results of operations with a primary focus on the ability to generate cash flow necessary to meet our objective of funding distributions to stockholders. See Supplemental Financial Measures below for our definitions of these non-GAAP measures and reconciliations to their most directly comparable GAAP measures.

(b) These statistics exclude information for the Hawks Cay Resort for the third quarter of 2017 and 2016 because it was closed during a portion of the third quarter of 2017 due to damage from Hurricane Irma.

The comparison of our results period over period is influenced by both the number and size of the hotels consolidated in each of the respective periods. At September 30, 2017, we owned 27 Consolidated Hotels, compared to 31 Consolidated Hotels at September 30, 2016.

Portfolio Overview

The following table sets forth certain information for each of our Consolidated Hotels and our Unconsolidated Hotels at September 30, 2017:

Hotels	State	Number of Rooms	% Owned	Acquisition Date	Hotel Type	Renovation Status at September 30, 2017 [a]
Consolidated Hotels						
2012 Acquisitions						
Hilton Garden Inn New Orleans French Quarter/CBD	LA	155	88%	6/8/2012	Select-service	Completed
Lake Arrowhead Resort and Spa	CA	173	97%	7/9/2012	Resort	Completed
Courtyard San Diego Mission Valley	CA	317	100%	12/6/2012	Select-service	Completed
2013 Acquisitions						
Hampton Inn Atlanta Downtown	GA	119	100%	2/14/2013	Select-service	Completed
Hampton Inn Memphis Beale Street	TN	144	100%	2/14/2013	Select-service	Completed
Courtyard Pittsburgh Shadyside	PA	132	100%	3/12/2013	Select-service	Completed
Hutton Hotel Nashville	TN	247	100%	5/29/2013	Full-service	In progress
Holiday Inn Manhattan 6th Avenue Chelsea	NY	226	100%	6/6/2013	Full-service	Completed
Fairmont Sonoma Mission Inn & Spa [b]	CA	226	100%	7/10/2013	Resort	Completed
Marriott Raleigh City Center	NC	400	100%	8/13/2013	Full-service	Completed/ Planned future
Hawks Cay Resort [c]	FL	426	100%	10/23/2013	Resort	Completed
Renaissance Chicago Downtown	IL	560	100%	12/20/2013	Full-service	Completed
2014 Acquisitions						
Hyatt Place Austin Downtown	TX	296	100%	4/1/2014	Select-service	None planned
Courtyard Times Square West	NY	224	100%	5/27/2014	Select-service	None planned
Sheraton Austin Hotel at the Capitol	TX	367	80%	5/28/2014	Full-service	Completed/ Planned future
Marriott Boca Raton at Boca Center	FL	259	100%	6/12/2014	Full-service	Completed
Hampton Inn & Suites/Homewood Suites Denver Downtown Convention Center	CO	302	100%	6/25/2014	Select-service	None planned
Sanderling Resort	NC	125	100%	10/28/2014	Resort	Completed/ Planned future
Staybridge Suites Savannah Historic District	GA	104	100%	10/30/2014	Select-service	Completed
Marriott Kansas City Country Club Plaza	MO	295	100%	11/18/2014	Full-service	Completed
2015 Acquisitions						
Westin Minneapolis	MN	214	100%	2/12/2015	Full-service	Planned future
Westin Pasadena	CA	350	100%	3/19/2015	Full-service	Completed
Hilton Garden Inn/Homewood Suites Atlanta Midtown	GA	228	100%	4/29/2015	Select-service	None planned
Ritz-Carlton Key Biscayne [d]	FL	458	47%	5/29/2015	Resort	Completed
Ritz-Carlton Fort Lauderdale [e]	FL	198	70%	6/30/2015	Resort	Completed/ Planned future
Le Méridien Dallas, The Stoneleigh	TX	176	100%	11/20/2015	Full-service	Completed/ In progress
2016 Acquisition						
Equinox, a Luxury Collection Golf Resort & Spa [f]	VT	199	100%	2/17/2016	Resort	Planned future
		6,920				
Unconsolidated Hotels						
Hyatt New Orleans French Quarter	LA	254	80%	9/6/2011	Full-service	Completed
Westin Atlanta Perimeter North	GA	372	57%	10/3/2012	Full-service	Completed
Marriott Sawgrass Golf Resort & Spa [g]	FL	514	50%	4/1/2015	Resort	Completed
Ritz-Carlton Philadelphia	PA	301	60%	5/15/2015	Full-service	Completed
Ritz-Carlton Bacara, Santa Barbara [h]	CA	358	40%	9/28/2017	Resort	Planned future
		1,799				

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(a) Status excludes any renovation work to be undertaken as a result of Hurricane Irma.

(b) On February 12, 2016, we acquired the remaining 25% interest in the Fairmont Sonoma Mission Inn & Spa venture from an unaffiliated third party, bringing our ownership interest in the hotel to 100%.

(c) Includes 249 privately owned villas that participate in the villa/condo rental program at September 30, 2017.

(d) CWI 2 owns an interest of approximately 19% in this venture. Also, the number of rooms presented includes 156 condo-hotel units that participate in the villa/condo rental program at September 30, 2017.

(e) Includes 32 condo-hotel units that participate in the villa/condo rental program at September 30, 2017.

(f) During the third quarter of 2017, we completed renovations on the single-family residence adjacent to the hotel that we acquired in August 2016 and created four additional available rooms at the resort.
(g) On October 3, 2014, we acquired the Marriott Sawgrass Golf Resort & Spa as a Consolidated Hotel. On April 1, 2015, we sold a 50% controlling interest to CWI 2 and began accounting for our interest in the hotel as an equity method investment. Our initial investment represents our remaining 50% interest in the Marriott Sawgrass Golf Resort & Spa venture after the sale to CWI 2.
(h) This investment represents a tenancy-in-common interest; the remaining 60% interest is owned by CWI 2.

Results of Operations

We evaluate our results of operations with a primary focus on our ability to generate cash flow necessary to meet our objectives of funding distributions to stockholders and increasing the value of our real estate investments. As a result, our assessment of operating results gives less emphasis to the effect of unrealized gains and losses, which may cause fluctuations in net income for comparable periods but have no impact on cash flows, and to other non-cash charges, such as depreciation and impairment charges.

In addition, we use other information that may not be financial in nature, including statistical information, to evaluate the operating performance of our business, such as occupancy rate, ADR or RevPAR. Occupancy rate, ADR and RevPAR are commonly used measures within the hotel industry to evaluate operating performance. RevPAR, which is calculated as the product of ADR and occupancy rate, is an important statistic for monitoring operating performance at our hotels. Our occupancy rate, ADR and RevPAR performance may be impacted by macroeconomic factors such as U.S. economic conditions, regional and local employment growth, personal income and corporate earnings, business relocation decisions, business and leisure travel, new hotel construction and the pricing strategies of competitors.

The comparability of our results year over year are impacted by, among other factors, the timing of acquisition and/or disposition activity and the timing of any renovation-related activity.

The following table presents our comparative results of operations (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
Hotel Revenues	$ 154,829	$ 166,865	$ (12,036)	$ 485,887	$ 495,801	$ (9,914)
Hotel Expenses	136,576	139,549	(2,973)	421,035	418,237	2,798
Other Operating Expenses						
Asset management fees to affiliate and other expenses	3,660	4,029	(369)	11,679	11,740	(61)
Corporate general and administrative expenses	2,579	2,641	(62)	7,898	8,978	(1,080)
Hurricane loss	7,609	—	7,609	7,609	—	7,609
Impairment charges	—	452	(452)	—	4,112	(4,112)
Acquisition-related expenses	—	—	—	—	3,727	(3,727)
Total Other Operating Expenses	13,848	7,122	6,726	27,186	28,557	(1,371)
Operating Income	4,405	20,194	(15,789)	37,666	49,007	(11,341)
Other Income and (Expenses)						
Interest expense	(16,957)	(16,363)	(594)	(49,820)	(48,542)	(1,278)
Equity in (losses) earnings of equity method investments in real estate	(3,464)	(140)	(3,324)	1,072	4,976	(3,904)
Net loss on extinguishment of debt (Note 9)	—	(1,204)	1,204	(225)	(2,268)	2,043
Other income	33	8	25	93	22	71
Total Other Income and (Expenses)	(20,388)	(17,699)	(2,689)	(48,880)	(45,812)	(3,068)
(Loss) Income from Operations Before Income Taxes and Net Gain on Sale of Real Estate	(15,983)	2,495	(18,478)	(11,214)	3,195	(14,409)
Benefit from (provision for) income taxes	162	(1,037)	1,199	(630)	(3,041)	2,411
(Loss) Income from Operations Before Net Gain on Sale of Real Estate	(15,821)	1,458	(17,279)	(11,844)	154	(11,998)
Net gain on sale of real estate, net of tax	—	—	—	5,164	—	5,164
Net (Loss) Income	(15,821)	1,458	(17,279)	(6,680)	154	(6,834)
Loss (income) attributable to noncontrolling interests	7,052	3,039	4,013	2,881	(2,039)	4,920
Net (Loss) Income Attributable to CWI Stockholders	$ (8,769)	$ 4,497	$ (13,266)	$ (3,799)	$ (1,885)	$ (1,914)
Supplemental financial measure:[(a)]						
MFFO Attributable to CWI Stockholders	$ 18,739	$ 26,236	$ (7,497)	$ 60,913	$ 69,184	$ (8,271)

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(a) We consider MFFO, a non-GAAP measure, to be an important metric in the evaluation of our results of operations and capital resources. We evaluate our results of operations with a primary focus on the ability to generate cash flow necessary to meet our objective of funding distributions to stockholders. See Supplemental Financial Measures below for our definition of non-GAAP measures and reconciliations to their most directly comparable GAAP measures.

The following table sets forth the average occupancy rate, ADR and RevPAR of our Consolidated Hotels for the three and nine months ended September 30, 2017 and 2016 for our Same Store Hotels. Our Same Store Hotels are comprised of our 2012 Acquisitions, 2013 Acquisitions, 2014 Acquisitions and 2015 Acquisitions, excluding the results of hotels sold or classified as held for sale at September 30, 2017 (Note 4), as well as the results for the Hawks Cay Resort, which was closed during a portion of the third quarter of 2017 due to damage from Hurricane Irma (Note 4).

Same Store Hotels	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Occupancy Rate	78.3%	80.1%	78.0%	77.8%
ADR	$ 205.77	$ 208.61	$ 218.75	$ 220.80
RevPAR	161.03	167.20	170.65	171.82

Hotel Revenues

For the three months ended September 30, 2017 as compared to the same period in 2016, hotel revenues decreased by $12.0 million, primarily comprised of a decrease in revenue from our Same Store Hotels totaling $4.8 million, largely attributable to the Ritz-Carlton Fort Lauderdale due to the impact of Hurricane Irma and the Hutton Hotel Nashville due to renovations that were ongoing during 2017, a decrease in revenue as a result of properties sold during the first and second quarters of 2017 totaling $4.6 million and a decrease in revenue from the Hawks Cay Resort of $2.3 million as a result of its closure in September 2017 due to Hurricane Irma.

For the nine months ended September 30, 2017 as compared to the same period in 2016, hotel revenues decreased by $9.9 million comprised of a decrease in revenue as a result of properties sold during the first and second quarters of 2017 totaling $10.6 million, a decrease in revenue from the Hawks Cay Resort of $1.2 million and a decrease in revenue from our Same Store Hotels totaling $0.2 million, partially offset by an increase in revenue from our 2016 Acquisition of $2.1 million, primarily representing the impact of a full period of revenue during 2017 as compared to a partial period in 2016.

Hotel Expenses

For the three months ended September 30, 2017 as compared to the same period in 2016, aggregate hotel operating expenses decreased by $3.0 million comprised of a decrease in expenses as a result of properties sold during the first and second quarters of 2017 totaling $3.8 million and a decrease in expenses from the Hawks Cay Resort of $1.3 million, partially offset by a net increase in expenses from our Same Store Hotels of $1.7 million.

For the nine months ended September 30, 2017 as compared to the same period in 2016, aggregate hotel operating expenses increased by $2.8 million comprised of a net increase in expenses from our Same Store Hotels of $8.6 million and an increase in expenses of $2.9 million related to our 2016 Acquisition, primarily representing the impact of a full period of expenses during 2017 as compared to a partial period in 2016, partially offset by a decrease in expenses due to properties sold during the first and second quarters of 2017 totaling $8.6 million and a decrease in expenses from the Hawks Cay Resort of $0.1 million.

Corporate General and Administrative Expenses

For the nine months ended September 30, 2017 as compared to the same period in 2016, corporate general and administrative expenses decreased by $1.1 million, primarily as a result of a decrease in personnel and overhead reimbursement costs and professional fees of $0.6 million and $0.3 million, respectively. The decrease in personnel and overhead reimbursement costs was primarily driven by an increase in pro rata hotel revenue from CWI 2 relative to our pro rata hotel revenue, which directly impacts the allocation of our Advisor’s expenses to us (Note 3). Professional fees include legal, accounting and investor-related expenses incurred in the normal course of business.

Hurricane Loss

During the third quarter of 2017, we recognized a $7.6 million hurricane loss representing our best estimate of uninsured losses from Hurricane Irma. Our insurance policies provide coverage for property damage, business interruption and reimbursement for other costs that were incurred relating to damages sustained during Hurricane Irma. Insurance proceeds are subject to deductibles.

We and CWI 2 maintain insurance on all of our hotels, with an aggregate policy limit of $500.0 million for both property damage and business interruption. Our insurance policies are subject to various terms and conditions, including property damage and business interruption deductibles on each hotel, which range from 2% to 5% of the insured value. We currently estimate our aggregate casualty insurance claim to be in the range of $75.0 to $100.0 million, which includes estimated clean up, repair and rebuilding costs, as well as lost revenue during this period and for up to 12 months after the hotels are back to full operations. This amount also includes casualty insurance proceeds due from our hotel manager for Marriott Boca Raton at Boca Center, who maintains the insurance on the hotel. We are continuing to assess the damage sustained, so this estimate is subject to change and could be further impacted by increased costs, including those associated with resource constraints in Florida relating to building materials, supplies and labor. We believe that we maintain adequate insurance coverage on each of our hotels and are working closely with the insurance carriers and claims adjusters to obtain the maximum amount of insurance recovery provided under the policies. However, we can give no assurances as to the amounts of such claims, the timing of payments or the ultimate resolution of the claims.

We experienced a reduction in revenues for the three and nine months ended September 30, 2017 as a result of Hurricane Irma. Our business interruption insurance covers lost revenue through the period of property restoration and for up to 12 months after the hotels are back to full operations. We have retained consultants to assess our business interruption claims and are currently reviewing our losses with our insurance carrier. We will record revenue for covered business interruption in the period when we determine that it is probable that we will be compensated under those policies.

If the estimated property damage increases or there is additional remediation work performed at the damaged hotels where the costs have not yet exceeded the property damage deductible, our hurricane loss could increase. We currently estimate the maximum additional hurricane loss we could incur for our Consolidated Hotels to be $3.2 million.

Impairment Charges

Where the undiscounted cash flows for an asset are less than the asset's carrying value when considering and evaluating the various alternative courses of action that may occur, we recognize an impairment charge to reduce the carrying value of the asset to its estimated fair value.

For the three and nine months ended September 30, 2016, we recognized impairment charges totaling $0.5 million and $4.1 million, respectively, to reduce the carrying value of three assets to their estimated fair values (Note 7).

Acquisition-Related Expenses

We expense acquisition-related costs and fees associated with acquisitions of our Consolidated Hotels that are accounted for as business combinations as incurred.

For the nine months ended September 30, 2016, we incurred $3.7 million of acquisition-related expenses in connection with the acquisition of the Equinox during the first quarter of 2016. We did not expense any acquisition-related fees during the nine months ended September 30, 2017.

Equity in (Losses) Earnings of Equity Method Investments in Real Estate

Equity in (losses) earnings of equity method investments in real estate represents earnings from our equity investments in Unconsolidated Hotels recognized in accordance with each investment agreement and based upon the allocation of the investment's net assets at book value as if the investment were hypothetically liquidated at the end of each reporting period (Note 5). We are required to periodically compare an investment's carrying value to its estimated fair value and recognize an impairment charge to the extent that the carrying value exceeds the estimated fair value and is determined to be other than temporary. No other-than-temporary impairment charges were recognized on our equity method investments in real estate during the nine months ended September 30, 2017 or 2016.

The following table sets forth our share of equity in (losses) earnings from our Unconsolidated Hotels, which are based on the hypothetical liquidation at book value model, as well as certain amortization adjustments related to basis differentials from acquisitions of investments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Ritz-Carlton Philadelphia Venture	396	804	2,026	2,190
Marriott Sawgrass Golf Resort & Spa Venture [(a)]	(3,255)	(711)	(1,549)	1,512
Westin Atlanta Venture [(b)]	166	204	638	728
Ritz-Carlton Bacara, Santa Barbara Venture [(c)]	(532)	—	(532)	—
Hyatt Centric French Quarter Venture	(239)	(437)	490	546
Total equity in (losses) earnings of equity method investments in real estate	$ (3,464)	$ (140)	$ 1,073	$ 4,976

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(a) Our share of equity in (losses) earnings during both the three and nine months ended September 30, 2017 was negatively impacted by Hurricane Irma. We are still assessing the impact of the hurricane on the property. If the estimated damage increases or there is additional remediation work performed at the hotel, the hurricane loss recognized by the venture could increase. We currently estimate the maximum additional hurricane loss we could incur for the venture to be $0.4 million, of which our share would be $0.2 million.

(b) On October 19, 2017, the venture sold the Westin Atlanta Perimeter North to an unaffiliated third-party (Note 13).

(c) We acquired our 40% tenancy-in-common interest in this venture on September 28, 2017 (Note 5). The results for the three and nine months ended September 30, 2017 above represent data from its acquisition date through September 30, 2017 and include pre-opening expenses.

Net Loss on Extinguishment of Debt

During the nine months ended September 30, 2017, we recognized a loss on extinguishment of debt of $0.2 million related to the termination of the Senior Credit Facility and the refinancing of two non-recourse mortgage loans (Note 9).

During the three and nine months ended September 30, 2016, we recognized a net loss on extinguishment of debt of $1.2 million and $2.3 million, respectively, primarily related to the refinancing of two non-recourse mortgage loans.

Net Gain on Sale of Real Estate, Net of Tax

During the nine months ended September 30, 2017, we recognized a net gain on sale of real estate, net of tax of $5.2 million, comprised of (i) a gain of $5.5 million related to the sale of our 100% ownership interest in the Hampton Inn Boston Braintree to an unaffiliated third party for a contractual sales price of $19.0 million during the second quarter of 2017 (Note 4), partially offset by (ii) a loss of $0.4 million in the aggregate related to the sale of our 100% ownership interests in the Hampton Inn Frisco Legacy Park, the Hampton Inn Birmingham Colonnade and the Hilton Garden Inn Baton Rouge Airport to an unaffiliated third party for a contractual sales price of $33.0 million during the first quarter of 2017.

Loss (Income) Attributable to Noncontrolling Interests

The following table sets forth our loss (income) attributable to noncontrolling interests (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
Venture	**2017**	**2016**	**2017**	**2016**
Ritz-Carlton Key Biscayne Venture [(a)]	$ 8,629	$ 5,802	$ 8,695	$ 5,430
Ritz-Carlton Fort Lauderdale Venture [(a)]	882	196	616	(101)
Sheraton Austin Hotel at the Capitol Venture	69	(91)	(585)	(556)
Hilton Garden Inn New Orleans French Quarter/CBD Venture	(30)	(30)	(102)	(177)
Fairmont Sonoma Mission Inn & Spa Venture [(b)]	—	—	—	296
Operating Partnership — Available Cash Distribution (Note 3)	(2,498)	(2,838)	(5,743)	(6,931)
	$ 7,052	$ 3,039	$ 2,881	$ (2,039)

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(a) The changes in loss (income) attributable to noncontrolling interests during both the three and nine months ended September 30, 2017 as compared to the same periods in 2016 were largely attributable to the impact of Hurricane Irma.

(b) On February 12, 2016, we acquired the remaining 25% interest in the Fairmont Sonoma Missions Inn & Spa Venture from an unaffiliated third party, bringing our ownership interest to 100%.

Liquidity and Capital Resources

Our principal demands for funds will be for the payment of operating expenses, interest and principal on current and future indebtedness, including the WPC Credit Facility, and distributions to stockholders. We expect to meet our long-term liquidity requirements, including funding any additional hotel property acquisitions, through cash flows from our hotel portfolio and long-term borrowings. We may also use proceeds from financings and asset sales for any hotel acquisition.

Liquidity is affected adversely by unanticipated costs and greater-than-anticipated operating expenses. To the extent that our working capital reserve is insufficient to satisfy our cash requirements, additional funds may be provided from cash generated from operations, as well as proceeds available under our Working Capital Facility, as described below in Cash Resources. In addition, we may incur indebtedness in connection with the acquisition of any property, refinance the debt thereon or reinvest the proceeds of financings or refinancings in additional properties.

Sources and Uses of Cash During the Period

We have fully invested the proceeds from both our initial public offering and follow-on offering. We use the cash flow generated from hotel operations to meet our normal recurring operating expenses, service debt and fund distributions to our shareholders. Our cash flows fluctuate from period to period due to a number of factors, including the financial and operating performance of our hotels, the timing of purchases or dispositions of hotels, the timing and characterization of distributions from equity method investments in hotels and seasonality in the demand for our hotels. Also, hotels we invest in may undergo renovations, during which they may experience disruptions, possibly resulting in reduced revenue and operating income. Despite these fluctuations, we believe that we will continue to generate sufficient cash from operations and from our equity method investments to meet our normal recurring short-term and long-term liquidity needs. We may also use existing cash resources, proceeds available under our Working Capital Facility, the proceeds of mortgage loans, sale of assets, distributions reinvested in our common stock through our DRIP and the issuance of additional equity securities to meet these needs. We assess our ability to access capital on an ongoing basis. Our sources and uses of cash during the period are described below.

Operating Activities

For the nine months ended September 30, 2017 as compared to the same period in 2016, net cash provided by operating activities increased by $7.3 million, primarily resulting from a decrease in acquisition-related expenses and the payment of asset management fees to our Advisor in shares, rather than in cash as in the prior year.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2017 was $83.8 million, primarily as a result of (i) the purchase of our equity interest in the Ritz-Carlton Bacara, Santa Barbara totaling $66.3 million (Note 5), (ii) the funding of $33.0 million of capital expenditures for our Consolidated Hotels and (iii) funds placed into and released from lender-held escrow accounts totaling $114.0 million and $98.8 million, respectively, for renovations, property taxes and insurance.

The net outflows were partially offset by (i) aggregate proceeds of $25.7 million from the sale of four properties comprised of $7.4 million of proceeds received from the sale of our 100% ownership interests in the Hampton Inn Frisco Legacy Park, the Hampton Inn Birmingham Colonnade and the Hilton Garden Inn Baton Rouge Airport to an unaffiliated third party (that is net of the outstanding non-recourse debt assumed by the seller at closing totaling $26.5 million) and $18.3 million from the sale of our 100% ownership interest in the Hampton Inn Boston Braintree to an unaffiliated third party (Note 4) and (ii) distributions received from equity investments in excess of equity income totaling $4.8 million.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2017 was $7.3 million, primarily as a result of: (i) proceeds totaling $97.8 million from WPC, comprised of borrowings under the Bridge Loan and WPC Line of Credit (which was replaced by the Working Capital Facility) of $75.0 million and $22.8 million, respectively, with the borrowings under the WPC Line of Credit used to repay in full, and terminate, the Senior Credit Facility as noted below, (ii) refinancing two mortgages totaling $83.5 million (Note 9) and (iii) the issuance of shares, net of offering costs, through our DRIP, totaling $34.1 million.

The net inflows were partially offset by proceeds received from (i) scheduled payments and prepayments of mortgage financing totaling $90.5 million, including the $11.7 million prepayment of the Hampton Inn Boston Braintree mortgage in connection with the sale of the property, (ii) cash distributions paid to stockholders aggregating $58.2 million, (iii) redemptions of our common stock pursuant to our redemption plan totaling $27.1 million and (iv) the repayment of the Senior Credit Facility totaling $22.8 million.

Distributions

Our objectives are to generate sufficient cash flow over time to provide stockholders with distributions and to seek investments with potential for capital appreciation throughout varying economic cycles. For the nine months ended September 30, 2017, we paid distributions to stockholders totaling $58.2 million, which were comprised of cash distributions of $24.0 million and distributions that were reinvested in shares of our common stock by stockholders through our DRIP of $34.2 million. From inception through September 30, 2017, we declared distributions, excluding distributions paid in shares of our common stock, to stockholders totaling $282.3 million, which were comprised of cash distributions of $112.5 million and $169.8 million of distributions that were reinvested by stockholders in shares of our common stock pursuant to our DRIP.

We believe that FFO, a non-GAAP measure, is the most appropriate metric to evaluate our ability to fund distributions to stockholders. For a discussion of FFO, see Supplemental Financial Measures below. Over the life of our company, the regular quarterly cash distributions we pay are expected to be principally sourced from our FFO or our Cash flow from operations. However, we have funded a portion of our cash distributions to date using net proceeds from our public offerings, as well as other sources, and there can be no assurance that our FFO or our Cash flow from operations will be sufficient to cover future distributions. FFO and Cash flow from operations are first applied to current period distributions, then to any deficit from prior period cumulative negative FFO and prior period cumulative negative cash flow, respectively, and finally to future period distributions. Our distribution coverage using FFO was approximately 78% and 59% of total distributions declared for the nine months ended September 30, 2017 and on a cumulative basis through that date, respectively. Our distribution coverage using Cash flow from operations was approximately 100% and 80% of total distributions declared for the nine months ended September 30, 2017 and on a cumulative basis through that date, respectively. The balance was funded from proceeds of our public offerings as well as other sources. As we have fully invested the proceeds of our offerings, we expect that in the future, if distributions cannot be fully sourced from FFO or Cash flow from operations, they may be sourced from the proceeds of financings, borrowings, the sales of assets or other sources of cash.

Redemptions

We maintain a quarterly redemption program pursuant to which we may, at the discretion of our board of directors, redeem shares of our common stock from stockholders seeking liquidity. During the nine months ended September 30, 2017, we redeemed 2,638,839 shares of our common stock pursuant to our redemption plan, comprised of 595 redemption requests at an average price per share of $10.26. As of the date of this Report, we have fulfilled all of the valid redemption requests that we received during the nine months ended September 30, 2017. We funded all share redemptions during the nine months ended September 30, 2017 with proceeds from the sale of shares of our common stock pursuant to our DRIP.

Summary of Financing

The table below summarizes our non-recourse debt, net, WPC Credit Facility and Senior Credit Facility (dollars in thousands):

	September 30, 2017	December 31, 2016
Carrying Value		
Fixed rate [a]	$ 1,084,480	$ 1,084,987
Variable rate:		
WPC Credit Facility — Bridge Loan (Note 3)	75,000	—
WPC Credit Facility — Working Capital Facility (Note 3)	22,835	—
Senior Credit Facility (Note 9) [b]	—	22,785
Non-recourse debt [a]:		
Amount subject to interest rate cap, if applicable	291,588	304,020
Amount subject to interest rate swap	47,430	67,145
	436,853	393,950
	$ 1,521,333	$ 1,478,937
Percent of Total Debt		
Fixed rate	71%	73%
Variable rate	29%	27%
	100%	100%
Weighted-Average Interest Rate at End of Period		
Fixed rate	4.3%	4.3%
Variable rate [c]	4.0%	4.0%

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(a) Aggregate debt balance includes deferred financing costs totaling $7.4 million and $8.4 million as of September 30, 2017 and December 31, 2016, respectively.

(b) On March 23, 2017, we repaid the $22.8 million outstanding balance using proceeds from the WPC Line of Credit (Note 3) and simultaneously terminated the Senior Credit Facility.

(c) The impact of our derivative instruments is reflected in the weighted-average interest rates.

Most of our mortgage loan agreements contain "lock-box" provisions, which permit the lender to access or sweep a hotel's excess cash flow and would be triggered under limited circumstances, including the failure to maintain minimum debt service coverage ratios. If a provision were triggered, we would generally be permitted to spend an amount equal to our budgeted hotel operating expenses, taxes, insurance and capital expenditure reserves for the relevant hotel. The lender would then retain all excess cash flow after the payment of debt service in an escrow account until certain performance hurdles are met. At December 31, 2016, the minimum debt service coverage ratio for the Holiday Inn Manhattan 6th Avenue Chelsea was not met; therefore, a cash management agreement was enacted that permits the lender to sweep the hotel's excess cash flow. As of September 30, 2017, this ratio was still not met and the cash management agreement remained in effect. At June 30, 2017, the minimum debt service coverage ratio for the Lake Arrowhead Resort and Spa was not met; therefore we were required to fund $0.5 million into a lender held reserve account that will be released after a specified debt service coverage ratio is achieved for two consecutive quarters. We funded the required $0.5 million into the lender held reserve account during the third quarter of 2017, which is included in Restricted cash in our consolidated balance sheet. As of September 30, 2017, this ratio was still not met and the funds remained in the lender held reserve account. At September 30, 2017, the minimum debt service coverage

ratio for both the senior mortgage loan and mezzanine loan for the Ritz-Carlton Fort Lauderdale were not met; therefore, we entered into a cash management agreement that permits the lender to sweep the hotel's excess cash flow.

Cash Resources

At September 30, 2017, our cash resources consisted of cash totaling $64.9 million, of which $23.4 million was designated as hotel operating cash. We also had the $25.0 million Working Capital Facility, of which $2.2 million remained available to be drawn at September 30, 2017. Our cash resources may be used to fund future investments and can be used for working capital needs, debt service and other commitments, such as the renovation commitments noted below.

Cash Requirements

During the next 12 months, we expect that our cash requirements will include paying distributions to our stockholders, fulfilling our renovation commitments (Note 10), funding hurricane-related repair and remediation costs in excess of insurance proceeds received, funding lease commitments, making scheduled mortgage loan principal payments, including scheduled balloon payments totaling $189.1 million on seven consolidated mortgage loans, our share of balloon payments scheduled for two Unconsolidated Hotels totaling $57.4 million, and paydown of the Bridge Loan, as well as other normal recurring operating expenses. We currently intend to refinance the scheduled balloon payments, although there can be no assurance that we will be able to do so on favorable terms, if at all.

We expect to use cash generated from operations, the Working Capital Facility, mortgage financing and cash received from dispositions of properties to fund these cash requirements in addition to amounts held in escrow to fund our renovation commitments.

Capital Expenditures and Reserve Funds

With respect to our hotels that are operated under management or franchise agreements with major international hotel brands and for most of our hotels subject to mortgage loans, we are obligated to maintain furniture, fixtures and equipment reserve accounts for future capital expenditures at these hotels, sufficient to cover the cost of routine improvements and alterations at the hotels. The amount funded into each of these reserve accounts is generally determined pursuant to the management agreements, franchise agreements and/or mortgage loan documents for each of the respective hotels and typically ranges between 3% and 5% of the respective hotel's total gross revenue. At September 30, 2017 and December 31, 2016, $34.0 million and $29.3 million, respectively, was held in furniture, fixtures and equipment reserve accounts for future capital expenditures.

Off-Balance Sheet Arrangements and Contractual Obligations

The table below summarizes our debt, off-balance sheet arrangements and other contractual obligations (primarily our capital commitments and lease obligations) at September 30, 2017 and the effect that these arrangements and obligations are expected to have on our liquidity and cash flow in the specified future periods (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Non-recourse debt — Principal [(a)]	$ 1,430,851	$ 202,442	$ 301,554	$ 748,923	$ 177,932
Interest on borrowings [(b)]	214,411	60,810	97,301	48,741	7,559
WPC Credit Facility (Bridge Loan) — Principal	75,000	75,000	—	—	—
WPC Credit Facility (Working Capital Facility) — Principal	22,835	—	22,835	—	—
Operating and other lease commitments [(c)]	669,184	4,375	8,974	7,384	648,451
Contractual capital commitments [(d)]	35,300	27,401	7,899	—	—
Asset retirement obligation, net [(e)]	1,454	—	—	—	1,454
	$ 2,449,035	$ 370,028	$ 438,563	$ 805,048	$ 835,396

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(a) Excludes deferred financing costs totaling $7.4 million.

(b) For variable-rate debt, interest on borrowings is calculated using the swapped or capped interest rate, when in effect.

(c) Operating and other lease commitments consist of rent obligations under ground leases and our share of future rents payable pursuant to the advisory agreement for the purpose of leasing office space used for the administration of real estate entities. At September 30, 2017, this balance primarily related to our commitments on ground leases for two hotels, which expire in 2087 and 2099 and have rent obligations consistently increasing throughout their respective terms; therefore, the most significant commitments occur near the conclusion of the leases.
(d) Capital commitments represent our remaining contractual renovation commitments at our Consolidated Hotels, which does not reflect any renovation work to be undertaken as a result of Hurricane Irma (Note 10).
(e) Represents the estimated future obligation for the removal of asbestos and environmental waste in connection with three of our hotels upon the retirement of the asset.

Supplemental Financial Measures

In the real estate industry, analysts and investors employ certain non-GAAP supplemental financial measures in order to facilitate meaningful comparisons between periods and among peer companies. Additionally, in the formulation of our goals and in the evaluation of the effectiveness of our strategies, we use FFO and MFFO, which are non-GAAP measures defined by our management. We believe that these measures are useful to investors to consider because they may assist them to better understand and measure the performance of our business over time and against similar companies. A description of FFO and MFFO, and reconciliations of these non-GAAP measures to the most directly comparable GAAP measures, are provided below.

FFO and MFFO

Due to certain unique operating characteristics of real estate companies, as discussed below, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, has promulgated a non-GAAP measure known as FFO, which we believe to be an appropriate supplemental measure, when used in addition to and in conjunction with results presented in accordance with GAAP, to reflect the operating performance of a REIT. The use of FFO is recommended by the REIT industry as a supplemental non-GAAP measure. FFO is not equivalent to nor a substitute for net income or loss as determined under GAAP.

We define FFO, a non-GAAP measure, consistent with the standards established by the White Paper on FFO approved by the Board of Governors of NAREIT, as revised in February 2004. The White Paper defines FFO as net income or loss computed in accordance with GAAP, excluding gains or losses from sales of property, impairment charges on real estate, and depreciation and amortization from real estate assets; and after adjustments for unconsolidated partnerships and jointly-owned investments. Adjustments for unconsolidated partnerships and jointly-owned investments are calculated to reflect FFO. NAREIT's definition of FFO does not distinguish between the conventional method of equity accounting and the hypothetical liquidation at book value method of accounting for unconsolidated partnerships and jointly-owned investments.

The historical accounting convention used for real estate assets requires straight-line depreciation of buildings and improvements, which implies that the value of real estate assets diminishes predictably over time, especially if such assets are not adequately maintained or repaired and renovated as required by relevant circumstances in order to maintain the value disclosed. We believe that, since real estate values historically rise and fall with market conditions, including inflation, interest rates, the business cycle, unemployment and consumer spending, presentations of operating results for a REIT using historical accounting for depreciation may be less informative. Historical accounting for real estate involves the use of GAAP. Any other method of accounting for real estate such as the fair value method cannot be construed to be any more accurate or relevant than the comparable methodologies of real estate valuation found in GAAP. Nevertheless, we believe that the use of FFO, which excludes the impact of real estate-related depreciation and amortization, as well as impairment charges of real estate-related assets, provides a more complete understanding of our performance to investors and to management; and when compared year over year, reflects the impact on our operations from trends in occupancy rates, operating costs, general and administrative expenses, and interest costs, which may not be immediately apparent from net income. In particular, we believe it is appropriate to disregard impairment charges, as this is a fair value adjustment that is largely based on market fluctuations and assessments regarding general market conditions, which can change over time. An asset will only be evaluated for impairment if certain impairment indicators exist. For real estate assets held for investment and related intangible assets in which an impairment indicator is identified, we follow a two-step process to determine whether an asset is impaired and to determine the amount of the charge. First, we compare the carrying value of the property's asset group to the estimated future net undiscounted cash flow that we expect the property's asset group will generate, including any estimated proceeds from the eventual sale of the property's asset group. It should be noted, however, the property's asset group's estimated fair value is primarily determined using market information from outside sources such as broker quotes or recent comparable sales. In cases where the available market information is not deemed appropriate, we perform a future net cash flow analysis discounted for inherent risk associated with each asset to determine an estimated fair value. While impairment charges are excluded from the calculation of

FFO described above due to the fact that impairments are based on estimated future undiscounted cash flows, it could be difficult to recover any impairment charges. However, FFO and MFFO, as described below, should not be construed to be more relevant or accurate than the current GAAP methodology in calculating net income or in its applicability in evaluating the operating performance of the company. The method utilized to evaluate the value and performance of real estate under GAAP should be construed as a more relevant measure of operational performance and considered more prominently than the non-GAAP measures FFO and MFFO and the adjustments to GAAP in calculating FFO and MFFO.

Changes in the accounting and reporting promulgations under GAAP (for acquisition fees and expenses from a capitalization/depreciation model to an expensed-as-incurred model) were put into effect in 2009. These changes to GAAP accounting for real estate subsequent to the establishment of NAREIT's definition of FFO have prompted an increase in cash-settled expenses, such as acquisition fees that are typically accounted for as operating expenses. Management believes these fees and expenses do not affect our overall long-term operating performance. Publicly registered, non-listed REITs typically have a significant amount of acquisition activity and are substantially more dynamic during their initial years of investment and operation. While other start-up entities may also experience significant acquisition activity during their initial years, we believe that non-listed REITs are unique in that they have a limited life with targeted exit strategies within a relatively limited time frame after acquisition activity ceases. We intend to begin the process of achieving a liquidity event (i.e., listing of our common stock on a national exchange, a merger or sale of our assets or another similar transaction) not later than six years following the conclusion of our initial public offering, which occurred on September 15, 2013. Thus, we intend to have a limited life. Due to the above factors and other unique features of publicly registered, non-listed REITs, the Investment Program Association, an industry trade group, has standardized a measure known as MFFO, which the Investment Program Association has recommended as a supplemental measure for publicly registered non-listed REITs and which we believe to be another appropriate non-GAAP measure to reflect the operating performance of a non-listed REIT having the characteristics described above. MFFO is not equivalent to our net income or loss as determined under GAAP, and MFFO may not be a useful measure of the impact of long-term operating performance on value if we do not continue to operate with a limited life and targeted exit strategy, as currently intended. We believe that, because MFFO excludes costs that we consider more reflective of investing activities and other non-operating items included in FFO and also excludes acquisition fees and expenses that affect our operations only in periods in which properties are acquired, MFFO can provide, on a going forward basis, an indication of the sustainability (that is, the capacity to continue to be maintained) of our operating performance after the period in which we are acquiring properties and once our portfolio is in place. By providing MFFO, we believe we are presenting useful information that assists investors and analysts to better assess the sustainability of our operating performance now that our offering has been completed and once essentially all of our properties have been acquired. We also believe that MFFO is a recognized measure of sustainable operating performance by the non-listed REIT industry. Further, we believe MFFO is useful in comparing the sustainability of our operating performance, with the sustainability of the operating performance of other real estate companies that are not as involved in acquisition activities. MFFO should only be used to assess the sustainability of a company's operating performance after a company's offering has been completed and properties have been acquired, as it excludes acquisition costs that have a negative effect on a company's operating performance during the periods in which properties are acquired.

We define MFFO consistent with the Investment Program Association's *Guideline 2010-01, Supplemental Performance Measure for Publicly Registered, Non-Listed REITs: Modified Funds from Operations*, or the Practice Guideline, issued by the Investment Program Association in November 2010. This Practice Guideline defines MFFO as FFO further adjusted for the following items included in the determination of GAAP net income, as applicable: acquisition fees and expenses; accretion of discounts and amortization of premiums on debt investments; where applicable, payments of loan principal made by our equity investees accounted for under the hypothetical liquidation model where such payments reduce our equity in earnings of equity method investments in real estate, nonrecurring impairments of real estate-related investments (i.e., infrequent or unusual, not reasonably likely to recur in the ordinary course of business); mark-to-market adjustments included in net income; nonrecurring gains or losses included in net income from the extinguishment or sale of debt, hedges, derivatives or securities holdings, where trading of such holdings is not a fundamental attribute of the business plan, unrealized gains or losses resulting from consolidation from, or deconsolidation to, equity accounting, and after adjustments for Consolidated and Unconsolidated Hotels, with such adjustments calculated to reflect MFFO on the same basis. The accretion of discounts and amortization of premiums on debt investments, unrealized gains and losses on hedges, derivatives or securities holdings, unrealized gains and losses resulting from consolidations, as well as other listed cash flow adjustments are adjustments made to net income in calculating the cash flows provided by operating activities and, in some cases, reflect gains or losses that are unrealized and may not ultimately be realized.

Our MFFO calculation complies with the Investment Program Association's Practice Guideline described above. In calculating MFFO, we exclude acquisition-related expenses, fair value adjustments of derivative financial instruments and the adjustments of such items related to noncontrolling interests. Under GAAP, acquisition fees and expenses are characterized as operating expenses in determining operating net income. These expenses are paid in cash by a company. All paid and accrued acquisition

fees and expenses will have negative effects on returns to investors, the potential for future distributions, and cash flows generated by the company, unless earnings from operations or net sales proceeds from the disposition of other properties are generated to cover the purchase price of the property, these fees and expenses and other costs related to such property. Further, under GAAP, certain contemplated non-cash fair value and other non-cash adjustments are considered operating non-cash adjustments to net income in determining cash flow from operating activities. We account for certain of our equity investments using the hypothetical liquidation model which is based on distributable cash as defined in the operating agreement.

Our management uses MFFO and the adjustments used to calculate it in order to evaluate our performance against other non-listed REITs, which have limited lives with short and defined acquisition periods and targeted exit strategies shortly thereafter. As noted above, MFFO may not be a useful measure of the impact of long-term operating performance on value if we do not continue to operate in this manner. We believe that MFFO and the adjustments used to calculate it allow us to present our performance in a manner that takes into account certain characteristics unique to non-listed REITs, such as their limited life, defined acquisition period and targeted exit strategy, and is therefore a useful measure for investors. For example, acquisition costs are generally funded from the proceeds of our offering and other financing sources and not from operations. By excluding expensed acquisition costs, the use of MFFO provides information consistent with management's analysis of the operating performance of the properties. Additionally, fair value adjustments, which are based on the impact of current market fluctuations and underlying assessments of general market conditions, but can also result from operational factors such as occupancy rates, may not be directly related or attributable to our current operating performance. By excluding such changes that may reflect anticipated and unrealized gains or losses, we believe MFFO provides useful supplemental information.

Presentation of this information is intended to provide useful information to investors as they compare the operating performance of different REITs, although it should be noted that not all REITs calculate FFO and MFFO the same way, so comparisons with other REITs may not be meaningful. Furthermore, FFO and MFFO are not necessarily indicative of cash flow available to fund cash needs and should not be considered as an alternative to net income as an indication of our performance, as an alternative to cash flows from operations as an indication of our liquidity, or indicative of funds available to fund our cash needs including our ability to make distributions to our stockholders. FFO and MFFO should be reviewed in conjunction with other GAAP measurements as an indication of our performance.

Neither the SEC, NAREIT nor any other regulatory body has passed judgment on the acceptability of the adjustments that we use to calculate FFO or MFFO. In the future, the SEC, NAREIT or another regulatory body may decide to standardize the allowable adjustments across the non-listed REIT industry and we would have to adjust our calculation and characterization of FFO and MFFO accordingly.

FFO and MFFO were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net (loss) income attributable to CWI stockholders	$ (8,769)	$ 4,497	$ (3,799)	$ (1,885)
Adjustments:				
Depreciation and amortization of real property	20,541	20,601	61,699	60,461
Gain on sale of real estate, net	—	—	(5,164)	—
Proportionate share of adjustments for partially-owned entities — FFO adjustments	(292)	(657)	(2,000)	(2,424)
Impairment charges	—	452	—	4,112
Total adjustments	20,249	20,396	54,535	62,149
FFO attributable to CWI stockholders (as defined by NAREIT)	11,480	24,893	50,736	60,264
Adjustments:				
Hurricane loss [(a)]	7,609	—	7,609	—
Straight-line and other rent adjustments	1,350	1,368	4,067	4,123
Proportionate share of adjustments for partially-owned entities — MFFO adjustments	(1,700)	(1,163)	(1,724)	668
Net loss on extinguishment of debt	—	1,204	225	2,268
Acquisition expenses [(b)]	—	—	—	3,727
Fair market value adjustments	—	(66)	—	(1,866)
Total adjustments	7,259	1,343	10,177	8,920
MFFO attributable to CWI stockholders	$ 18,739	$ 26,236	$ 60,913	$ 69,184

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(a) We excluded the hurricane loss because of the non-recurring nature of the charge.

(b) In evaluating investments in real estate, management differentiates the costs to acquire the investment from the operations derived from the investment. Such information would be comparable only for non-listed REITs that have completed their acquisition activity and have other similar operating characteristics. By excluding expensed acquisition costs, management believes MFFO provides useful supplemental information that is comparable for each type of real estate investment and is consistent with management's analysis of the investing and operating performance of our properties. Acquisition fees and expenses include payments to our Advisor or third parties. Acquisition fees and expenses under GAAP are considered operating expenses and as expenses included in the determination of net income and income from continuing operations, both of which are performance measures under GAAP. All paid and accrued acquisition fees and expenses will have negative effects on returns to investors, the potential for future distributions and cash flows generated by us, unless earnings from operations or net sales proceeds from the disposition of properties are generated to cover the purchase price of the property, these fees and expenses, and other costs related to the property.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

We currently have limited exposure to financial market risks, including changes in interest rates. We currently have no foreign operations and are not exposed to foreign currency fluctuations. At September 30, 2017, we were exposed to concentrations within the brands under which we operate our hotels and within the geographic areas in which we have invested. For the nine months ended September 30, 2017, we generated more than 10% of our revenue from the Ritz-Carlton Key Biscayne (12.7%); we generated more than 10% of our revenue from hotels in each of the following states: Florida (31.2%) and California (16.3%); and we generated more than 10% of our revenue from hotels in the following brands: Marriott (63.1%, including Courtyard by Marriott, Le Méridien, The Luxury Collection, Marriott, Marriott Autograph Collection, Renaissance, Ritz-Carlton, Sheraton and Westin) and Independent (15.0%, including Hawks Cay Resort, Hutton Hotel Nashville and Sanderling Resort). These results reflect the impact of the merger of Marriott and Starwood during the third quarter of 2016.

Interest Rate Risk

The values of our real estate and related fixed-rate debt obligations are subject to fluctuations based on changes in interest rates. The value of our real estate is also subject to fluctuations based on local and regional economic conditions, which may affect our ability to refinance property-level mortgage debt when balloon payments are scheduled, if we do not choose to repay the debt when due. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political conditions, and other factors beyond our control. An increase in interest rates would likely cause the fair value of our assets to decrease.

We are exposed to the impact of interest rate changes primarily through our borrowing activities. To limit this exposure, we have historically attempted to obtain non-recourse mortgage financing on a long-term, fixed-rate basis. However, from time to time, we or our joint investment partners have obtained, and may in the future obtain, variable-rate non-recourse mortgage loans, and, as a result, we have entered into, and may continue to enter into, interest rate swap agreements or interest rate cap agreements with lenders. Interest rate swap agreements effectively convert the variable-rate debt service obligations of a loan to a fixed rate, while interest rate cap agreements limit the underlying interest rate from exceeding a specified strike rate. Interest rate swaps are agreements in which one party exchanges a stream of interest payments for a counterparty's stream of cash flows over a specific period and interest rate caps limit the effective borrowing rate of variable-rate debt obligations while allowing participants to share in downward shifts in interest rates. These interest rate swaps and caps are derivative instruments that, where applicable, are designated as cash flow hedges on the forecasted interest payments on the debt obligation. The face amount on which the swaps or caps are based is not exchanged. Our objective in using these derivatives is to limit our exposure to interest rate movements.

At September 30, 2017, we estimated that the total fair value of our interest rate caps and swaps, which are included in Other assets in the consolidated financial statements, was in an asset position of less than $0.1 million (Note 8).

At September 30, 2017, all of our debt bore interest at fixed rates, was swapped to a fixed rate or was subject to an interest rate cap. The annual interest rates on our fixed-rate debt at September 30, 2017 ranged from 3.6% to 6.5%. The contractual annual interest rates on our variable-rate debt at September 30, 2017 ranged from 2.2% to 8.5%. The weighted-average interest rate of our fixed rate and variable rate debt was 4.3% and 4.0%, respectively, at September 30, 2017. Our debt obligations are more fully described under Liquidity and Capital Resources in Item 2 above.

The following table presents principal cash outflows for our Consolidated Hotels based upon expected maturity dates of our long-term debt obligations outstanding at September 30, 2017 and excludes deferred financing costs (in thousands):

	2017 (Remainder)	2018	2019	2020	2021	Thereafter	Total	Fair Value
Fixed-rate debt	$ 2,422	$ 42,768	$ 106,637	$ 58,623	$ 458,253	$ 420,973	$ 1,089,676	$ 1,087,862
Variable-rate debt [(a)]	$ 73,226	$ 88,120	$ 42,090	$ 137,739	$ —	$ —	$ 341,175	$ 340,728

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(a) Excludes $75.0 million and $22.8 million outstanding under the Bridge Loan and Working Capital Facility, respectively, from WPC (Note 3). Unless the Advisory Agreement expires or is terminated, the Bridge Loan and Working Capital Facility are scheduled to mature on June 30, 2018 and December 31, 2018, respectively.

The estimated fair value of our fixed-rate debt and our variable-rate debt that currently bears interest at fixed rates or has effectively been converted to a fixed rate through the use of interest rate swaps, or that has been subject to an interest rate cap, is affected by changes in interest rates. A decrease or increase in interest rates of 1.0% would change the estimated fair value of this debt at September 30, 2017 by an aggregate increase of $43.3 million or an aggregate decrease of $43.2 million, respectively. Annual interest expense on our variable-rate debt that is subject to an interest rate cap at September 30, 2017 would increase or decrease by $2.9 million for each respective 1.0% change in annual interest rates.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our disclosure controls and procedures include internal controls and other procedures designed to provide reasonable assurance that information required to be disclosed in this and other reports filed under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the required time periods specified in the SEC’s rules and forms; and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. It should be noted that no system of controls can provide complete assurance of achieving a company’s objectives and that future events may impact the effectiveness of a system of controls.

Our Chief Executive Officer and Chief Financial Officer, after conducting an evaluation, together with members of our management, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2017, have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of September 30, 2017 at a reasonable level of assurance.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities.

Unregistered Sales of Equity Securities

During the three months ended September 30, 2017, we issued 330,903 shares and 191,234 shares of common stock to our Advisor as consideration for asset management fees and acquisition fees, respectively. These shares were issued at our most recently published NAV of $10.80 per share. Since none of these transactions were considered to have involved a "public offering" within the meaning of Section 4(a)(2) of the Securities Act, the shares issued were deemed to be exempt from registration. In acquiring our shares, our Advisor represented that such interests were being acquired by it for investment purposes and not with a view to the distribution thereof.

All prior sales of unregistered securities have been reported in our previously filed quarterly reports on Form 10-Q and annual reports on Form 10-K.

Issuer Purchases of Equity Securities

The following table provides information with respect to repurchases of our common stock during the three months ended September 30, 2017:

2017 Period	Total number of shares purchased [a]	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
July	1,393	$ 10.26	N/A	N/A
August	—	—	N/A	N/A
September	832,727	10.26	N/A	N/A
Total	834,120			

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(a) Represents shares of our common stock repurchased under our redemption plan, pursuant to which we may elect to redeem shares at the request of our stockholders, subject to certain exceptions, conditions and limitations. The maximum amount of shares purchasable by us in any period depends on a number of factors and is at the discretion of our board of directors. We generally receive fees in connection with share redemptions. The average price paid per share will vary depending on the number of redemption requests that were made during the period, the number of redemption requests that qualify for special circumstances and the most recently published NAV.

Item 6. Exhibits.

The following exhibits are filed with this Report, expect where indicated.

Exhibit No.	Description	Method of Filing
10.1	Loan Agreement, between W. P. Carey Inc. as Lender, and CWI OP, LP as Borrower, dated as of September 26, 2017	Filed herewith
10.2	Pledge and Security Agreement, between W.P. Carey Inc. as Lender, and CWI OP, LP as Pledgor, dated as of September 26, 2017	Filed herewith
10.3	Amended, Restated and Consolidated Promissory Note, between W.P. Carey Inc. as Lender, and CWI OP, LP as Borrower, dated as of September 26, 2017	Filed herewith
10.4	Payment Guaranty, between W.P. Carey Inc. as Lender and Carey Watermark Investors Incorporated as Guarantor, dated as of September 26, 2017	Filed herewith
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101	The following materials from Carey Watermark Investors Incorporated’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2017 and December 31, 2016, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016, (iii) Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended September 30, 2017 and 2016, (iv) Consolidated Statements of Equity for the nine months ended September 30, 2017 and 2016, (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, and (vi) Notes to Consolidated Financial Statements.	Filed herewith

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.

			Carey Watermark Investors Incorporated
Date:	November 13, 2017		
		By:	/s/ Mallika Sinha
			Mallika Sinha
			Chief Financial Officer
			(Principal Financial Officer)
Date:	November 13, 2017		
		By:	/s/ Noah K. Carter
			Noah K. Carter
			Chief Accounting Officer
			(Principal Accounting Officer)

EXHIBIT INDEX

The following exhibits are filed with this Report, except where indicated.

Exhibit No.	Description	Method of Filing
10.1	Loan Agreement, between W. P. Carey Inc. as Lender, and CWI OP, LP as Borrower, dated as of September 26, 2017	Filed herewith
10.2	Pledge and Security Agreement, between W.P. Carey Inc. as Lender, and CWI OP, LP as Pledgor, dated as of September 26, 2017	Filed herewith
10.3	Amended, Restated and Consolidated Promissory Note, between W.P. Carey Inc. as Lender, and CWI OP, LP as Borrower, dated as of September 26, 2017	Filed herewith
10.4	Payment Guaranty, between W.P. Carey Inc. as Lender and Carey Watermark Investors Incorporated as Guarantor, dated as of September 26, 2017	Filed herewith
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
101	The following materials from Carey Watermark Investors Incorporated's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2017 and December 31, 2016, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016, (iii) Consolidated Statements of Comprehensive (Loss) Income for the three and nine months ended September 30, 2017 and 2016, (iv) Consolidated Statements of Equity for the nine months ended September 30, 2017 and 2016, (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016, and (vi) Notes to Consolidated Financial Statements.	Filed herewith

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Section 2: EX-10.1 (EXHIBIT 10.1)

Exhibit 10.1

LOAN AGREEMENT

Between

W. P. CAREY INC.

as Lender

and

CWI OP, LP

as Borrower

Dated as of September 26, 2017

803735090

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EXHIBIT A-1 Form of Advance Request (Loan A)

EXHIBIT A-2 Form of Advance Request (Loan B)

LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement"), dated as of the date set forth on the cover page of this Agreement, is made by and between CWI OP, LP, a Delaware limited partnership ("Borrower"), and W. P. CAREY INC., a Maryland corporation ("Lender").

RECITALS

Borrower has requested that Lender make certain loan advances to Borrower from time to time. Subject to the terms and conditions of this Agreement and of the other Loan Documents (as defined below) Lender is willing to make such advances as provided in this Agreement.

Accordingly, the parties agree as follows:

AGREEMENT

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.1 Certain Defined Terms. As used in this Agreement, the following terms will have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Advance" means an advance of proceeds of the Loan by Lender to Borrower pursuant to Article II.

"Advance Request" means a request in substantially the form of Exhibit A-1 or A-2, as applicable, or in such other form as Lender may specify from time to time, made by Borrower to Lender for a Borrowing pursuant to the terms of this Agreement.

"Advisor" means Carey Lodging Advisors LLC, a Delaware limited liability company.

"Affiliate" means any Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, another identified Person. A Person will be deemed to control a corporation or other entity if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation or other entity, whether through the ownership of voting securities, by contract or otherwise. For purposes of the Loan Documents, the Borrower and the Lender shall be deemed not to be Affiliates of one another.

"Borrower" has the meaning specified in the preamble to this Agreement.

"Borrowing" means a borrowing consisting of the making of an Advance.

"Bridge Commitment" means ONE HUNDRED MILLION AND 00/100 DOLLARS ($100,000,000.00), to the extent not cancelled, reduced or transferred by Lender under this Agreement.

"Business Day" means a day that is not a Saturday, Sunday or other day on which banks are required or authorized to close in the State of New York.

"Change of Control" means an event or series of events by which (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that a person or group shall be deemed to have "beneficial ownership" of all securities that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time (such right, an "option right")), directly or indirectly, of 50% or more of the equity securities of the entity entitled to vote for members of the board of directors or equivalent governing body of the Borrower or the Guarantor on a fully-diluted basis (and taking into account all such securities that such "person" or "group" has the right to acquire pursuant to any option right); (b) any Person or two or more Persons acting in concert shall have acquired by contract, or shall have entered into a contract or arrangement that, upon consummation thereof, will result in its or their acquisition of the power to exercise, directly or indirectly, a controlling influence over the management or policies of the Borrower or Guarantor, or control over the equity securities of the Borrower or Guarantor entitled to vote for members of the board of directors or equivalent governing body of the Borrower or Guarantor on a fully-diluted basis (and taking into account all such securities that such Person or Persons have the right to acquire pursuant to any option right) representing 50% or more of the combined voting power of such securities; or (c) the Guarantor shall cease to be the general partner of the Borrower or own directly or indirectly a majority of the Equity Interest in the Borrower. For the avoidance of doubt, any transfer by Guarantor in respect of, or of a direct or indirect interest listed on a nationally or internationally recognized stock exchange or stock quotation system shall not be considered a Change of Control.

"Collateral" has the meaning specified in the Pledge Agreement.

"Commitment" means, collectively, the Bridge Commitment and the Working Capital Commitment.

"Credit Agreement" shall mean that certain Third Amended and Restated Credit Agreement, dated as of February 22, 2017, by and among Lender, as borrower, certain subsidiaries of Lender identified therein, from time to time as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as administrative agent, as same may be amended from time to time.

"Default" has the meaning specified in the definition of "Event of Default."

"Dollars", "dollars" or the symbol "$" means lawful money of the United States of America denominated in United States dollars.

"Equity Interest" means: (a) if a Person is a corporation, its capital stock; (b) if a Person is a limited liability company, its membership interests; or (c) if a Person is a partnership, its partnership interests.

"Event of Default" means any of the events specified in Section 6.1, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and "Default" will mean any of such events, whether or not any such requirement has been satisfied.

"GAAP" means generally accepted accounting principles applicable in the United States, consistently applied.

"Guarantor" means Carey Watermark Investors Incorporated, a Maryland corporation, and the general partner of the Borrower.

"Guaranty" means that certain Payment Guaranty, dated as of the date hereof, executed by Guarantor guaranteeing the Loan and all amounts owing under the Loan Documents.

"Indebtedness" means, with respect to any Person: (a) all obligations of such Person in respect of money borrowed or for the deferred purchase price of property or services (excluding trade payables incurred in the ordinary course of business no more than 90 days past due) and all accrued expenses; (b) all obligations of such Person, whether or not for money borrowed (i) represented by notes payable, or drafts accepted, in each case representing extensions of credit, (ii) evidenced by bonds, debentures, notes or similar instruments, or (iii) constituting purchase money indebtedness, conditional sales contracts, title retention debt instruments or other similar instruments, upon which interest charges are customarily paid or that are issued or assumed as full or partial payment for property or for services rendered; (c) indebtedness secured by any Lien on property carried on the asset side of the balance sheet of such Person whether or not such Indebtedness has been assumed; (d) any other indebtedness or liability for borrowed money or for the deferred purchase price of property or services for which such Person is directly or contingently liable as obligor, guarantor, or otherwise, or in respect of which such Person otherwise assures a creditor against loss; and (e) any other obligations of such Person under leases that have been or, pursuant to GAAP, should be recorded as capital leases.

"Insolvency Proceeding" means any proceeding commenced by or against any Person under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, any assignment for the benefit of creditors, or any other proceeding seeking reorganization, arrangement or other relief from Indebtedness.

"Interest Rate" has the meaning specified in Section 2.3.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, or any lease in the nature thereof).

"Loan" means, collectively, Loan A and each Borrowing under Loan B.

"Loan A" means the loan to be made pursuant to this Agreement representing the Bridge Commitment only.

"Loan B" means the revolving loans to be made pursuant to this Agreement representing the Working Capital Commitment only.

"Loan Documents" means this Agreement, the Note, the Guaranty and the Pledge Agreement.

"Loan Parties" means Borrower and Guarantor.

"Maturity Date A" means the earlier to occur of (i) June 30, 2018 and (ii) expiration or termination by the Borrower or Guarantor of that certain Amended and Restated Advisory Agreement dated January 1, 2016 by and among the Borrower, the Guarantor and Carey Lodging Advisors, LLC, an indirect subsidiary of the Lender, as amended (the "Advisory Agreement"); provided, however, that Borrower may request to extend Maturity Date A by a period of three (3) months and Lender may grant or deny such request in Lender's

sole discretion; provided, further however, that no grant of such a request will be effective or enforceable unless and until it is provided for in a formal written extension agreement executed by Lender, Borrower and each of the other Loan Parties.

"Maturity Date B" means the earlier to occur of (i) December 31, 2018 and (ii) expiration or termination by the Borrower or Guarantor of the Advisory Agreement.

"Note" means that certain Amended, Restated and Consolidated Promissory Note, dated as of the date hereof, delivered by Borrower to Lender evidencing the aggregate Indebtedness of Borrower to Lender under this Agreement.

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, limited liability company, trust, unincorporated association, joint venture or other entity, or any governmental authority or entity.

"Pledge Agreement" means that certain Pledge and Security Agreement, dated as of the date hereof, delivered by Borrower to Lender securing the obligations of Borrower pursuant to this Agreement and the Note.

"Secured Indebtedness" means any Indebtedness secured by a Lien.

"Subsidiary" or "Subsidiaries" means any corporation, limited liability company, partnership or other entity a majority of (a) the total combined voting power of all classes of Equity Interests of which or (b) the outstanding Equity Interests of which are, as of the date of determination, owned by Borrower either directly or through Subsidiaries.

"Subadvisor" means CWA, LLC, a Delaware limited liability company.

"Swap Contract" means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and
(b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a "Master Agreement"), including any such obligations or liabilities under any Master Agreement.

"Working Capital Commitment" means TWENTY FIVE MILLION AND 00/100 DOLLARS ($25,000,000.00), to the extent not cancelled, reduced or transferred by the Lender under this Agreement.

Section 1.2 Computation of Time Periods. In this Agreement, in the computation of periods of time from a specified date to a later specified date: (a) the word "from" means "from and including," (b) the words "to" and "until" each means "to but excluding"; and (c) the word "through" means "through and including."

Section 1.3 Accounting Terms. All accounting terms not specifically defined in this Agreement will be construed, and all accounting procedures will be performed, in accordance with GAAP applicable as of the date of this Agreement.

ARTICLE II
AMOUNTS AND TERMS OF THE BORROWINGS

Section 2.1 The Commitment.

(a) Subject to the terms and conditions of this Agreement, Lender will make available to Borrower (i) a bridge term loan facility in an aggregate amount equal to the Bridge Commitment, funded in a single Advance in accordance with Section 2.2, and (b) a revolving term credit loan facility in a maximum aggregate amount at any one time outstanding not to exceed the Working Capital Commitment funded in one or more Advances in accordance with Section 2.2.

(b) The purpose of the Bridge Commitment is the financing of the acquisition of that certain real property and improvements known as 8301 Hollister Avenue, located in the City of Goleta, County of Santa Barbara, State of California and operated as the Bacara Resort and Spa.

(c) The purpose of the Working Capital Commitment is to fund the general working capital needs of a business and commercial nature only of the Borrower and its Subsidiaries, which may include, without limitation, the payment of distributions, the payment of debt service, acquisition and investment activities and other business activities. Borrower may use the Working Capital Commitment by borrowing, prepaying Loans under Loan B and reborrowing Loans under Loan B, all in accordance with the terms and conditions hereof.

Section 2.2 Advances.

(a) Advance Requests. Each Advance Request will be made by Borrower to Lender no later than 10:00 a.m. E.S.T. four Business Days prior to the date of the proposed Borrowing. Each Advance Request will be made by an authorized officer of Borrower by telecopy, e-mail or overnight courier delivery, in writing, on the form of Advance Request attached as Exhibit A-1 or Exhibit A-2, as applicable.

(b) Availability of Borrowings. Lender will make Borrowings available to Borrower in immediate available funds to account of Borrower with Lender, or such other account of Borrower as may be approved by Lender, by delivery of such funds to Borrower’s account on the first Business Day after delivery of applicable Advance Request in accordance with Section 2.2 (a) hereof.

Section 2.3 Interest Rate. Each Loan included in a Borrowing will bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until the date it is repaid, at the rate of interest payable by Lender and under the Credit Agreement (the “Interest Rate”).

Section 2.4 Payment of Interest. Borrower will pay all accrued interest on the outstanding principal amount of Loan A quarterly in arrears on the first Business Day of each calendar quarter, or earlier pursuant to Section 6.2 of this Agreement. Borrower will pay all accrued interest on the outstanding principal amount

of each Loan borrowed under Loan B in arrears on the date such Loan is repaid, including on any date of repayment pursuant to Section 6.2 of this Agreement.

Section 2.5 Default Rate. Upon the occurrence of an Event of Default, and without notice or demand, all amounts outstanding hereunder and under the Note and the other Loan Documents, including all accrued but unpaid interest, will thereafter bear interest at two percent (2%) per annum above the Interest Rate that would have been applicable from time to time had there been no Event of Default (the "Default Rate") until all Events of Default are cured. Failure to exercise any option granted to Lender hereunder will not waive the right to exercise the same in the event of any subsequent Event of Default. Interest at the Default Rate will commence to accrue upon the occurrence of any Event of Default, including the failure to pay all sums outstanding hereunder and under the other Loan Documents at maturity.

Section 2.6 Maximum Legal Rate of Interest. In no event will charges constituting interest payable by Borrower to Lender exceed the maximum amount permitted under any applicable law or regulation (the "Maximum Legal Rate"), and if any payments by Borrower exceed such Maximum Legal Rate, the excess will be applied first to reduce the amounts owing to Lender under this Agreement and the other Loan Documents in such order as Lender may elect, next to reduce any other amounts owing by Borrower to Lender in such order as Lender may elect, and any excess will be refunded to Borrower.

Section 2.7 Prepayments. Borrower may prepay the outstanding principal balance of each Loan in full or in part without premium or penalty at any time and from time to time. In connection with the tender of any prepayment, Borrower must indicate if such prepayment is to be applied to repay principal on Loan A or Loan B. If Borrower fails to so indicate, then Borrower shall be deemed to have elected that such prepayment be applied to repay principal on Loan A.

Section 2.8 Maturity; Extension of Maturity Date. Borrower will repay all remaining unpaid principal of and interest on Loan A on or before Maturity Date A. Borrower will repay all remaining unpaid principal of and interest on Loan B on or before Maturity Date B. Borrower may request to extend Maturity Date A by a period of three (3) months and Lender may grant or deny such request in Lender's sole discretion; provided, however, that no grant of such a request will be effective or enforceable unless and until it is provided for in a formal written extension agreement executed by Lender, Borrower and each of the other Loan Parties.

Section 2.9 Evidence of Indebtedness. The Advances made by Lender to Borrower will be evidenced by the Note, payable to the order of Lender and the Pledge Agreement delivered by Borrower to Lender. Lender may maintain in accordance with its usual practice an account or accounts evidencing the Indebtedness of Borrower resulting from Advances and payments made from time to time under this Agreement. In any legal action or proceeding in respect of this Agreement or the Note, the entries made in such account or accounts will be presumptive evidence of the existence and amounts of the obligations of Borrower therein recorded absent manifest error.

Section 2.10 Illegality. Notwithstanding any other provision of this Agreement, if the introduction of or any change in or in the interpretation of any law or regulation will make it unlawful, or any central bank or other governmental authority will assert that it is unlawful, for Lender to perform its obligations under this Agreement to make or maintain Advances, Lender may, by notice to Borrower, suspend the right of Borrower to elect such Advances and, if necessary in the reasonable opinion of Lender to comply with such law or regulation, Borrower will prepay the outstanding balance of principal and other sums owed to Lender under this Agreement and under the other Loan Documents at the latest time permitted by the

applicable law or regulation or, if earlier, on the date such amounts are due and payable under the terms of this Agreement and the other Loan Documents.

Section 2.11 Cancellation of Commitment. The Bridge Commitment which, at that time, is unutilized shall be immediately cancelled on December 31, 2017.

ARTICLE III

CONDITIONS OF BORROWING

Section 3.1 Conditions Precedent to Initial Advance. The obligation of Lender to make any Advance is subject to Lender having received the following documents in form and substance satisfactory to Lender and, as appropriate, duly executed by the parties thereto; this Agreement, the Note, the Guaranty, and Pledge Agreement.

Section 3.2 Conditions Precedent to Each Advance. The obligation of Lender to make each Advance (including but not limited to the first Advance) will be subject to the further conditions precedent that, on the date of such Advance**,** before and immediately after giving effect thereto, the following statements must be true and correct, and the making by Borrower of the applicable Advance Request will constitute Borrower's representation and warranty that on and as of the date of such Advance Request and as of the date of the requested Borrowing, before and immediately after giving effect thereto, the following statements are and will be true and correct:

(i) The representations and warranties contained in Article IV of this Agreement are and will be true and correct in all material respects as though made on and as of such date, unless such representations and warranties are expressly stated to be made as of an earlier date;

(ii) No event has occurred and is continuing or would result from the requested Advance that constitutes or would constitute a Default or an Event of Default;

(iii) Borrower is and will be in compliance with all covenants contained in Articles V and VI of this Agreement;

(iv) The representations, warranties and covenants contained in Section 5 of the Guaranty are and will be true and correct in all material respects as though made on and as of such date, unless such representations and warranties are expressly stated to be made as of an earlier date; and

(v) Guarantor is and will be in compliance with all covenants contained in Section 6 of the Guaranty.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Lender as follows:

Section 4.1 Organization. Borrower is duly organized and validly existing under the laws of the jurisdiction of its organization. Borrower has full power and authority to own its properties and to transact the businesses in which it is presently engaged or presently proposes to engage.

Section 4.2 Authorization; No Breach. The execution, delivery, and performance of this Agreement and the other Loan Documents by Borrower, to the extent to be executed, delivered or performed by Borrower, have been duly authorized by all necessary corporate, limited liability company, partnership or similar action, as applicable; do not require the consent or approval of any other Person, regulatory authority or governmental body; and do not conflict with, result in a violation of, or constitute a default under (a) any provision of Borrower’s organizational documents, or any agreement or (b) any law, governmental regulation applicable to Borrower.

Section 4.3 Legal Effect. This Agreement and the other Loan Documents constitute legal, valid and binding obligations of Borrower and the other parties thereto (other than Lender) enforceable against Borrower and such other parties in accordance with their respective terms, subject to applicable bankruptcy, insolvency or similar laws affecting creditors’ rights generally and to general principles of equity (whether considered in a proceeding at law or in equity).

Section 4.4 Information. All information furnished by Borrower or any Subsidiary to Lender in connection with this Agreement or any transaction contemplated hereby is, and all information hereafter furnished by or on behalf of Borrower or any Subsidiary to Lender will be, true and accurate in every material respect on the date as of which such information is dated or certified; and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading, provided, however, that the Borrower shall not be in breach of this representation and warranty, and shall have no liability for any failure of the information furnished to Lender to be accurate or complete, to the extent such information was prepared by the Advisor or the Subadvisor.

Section 4.5 Survival of Representations and Warranties. Borrower understands and agrees that Lender, without independent investigation, is relying upon the above representations and warranties in entering into this Agreement and the other Loan Documents. Such representations and warranties will be continuing in nature and will remain true and correct until all of Borrower’s Indebtedness under this Agreement has been paid in full, and Lender’s Commitment to make Advances under this Agreement has been permanently terminated in writing.

ARTICLE V

COVENANTS

Section 5.1 Additional Covenants. So long as the Note or any other amount payable by Borrower or Guarantor under the Loan Documents remains unpaid, Guarantor covenants and agrees that:

(a) Borrower will repay to Lender principal and accrued interest under Loan A utilizing the net proceeds received in connection with any sale, or disposition of any direct or indirect interest in any of the subsidiaries of the Borrower, Guarantor or their respective assets (subject to exceptions in relation to maintaining the Guarantor’s REIT compliance, or complying with any tax payment obligations of the Borrower, Guarantor or their respective Subsidiaries or as otherwise approved in writing by the Lender);

(b) Borrower will not (with respect to itself or the Guarantor) (i) permit a Change of Control to occur; or (ii) merge, dissolve, liquidate, consolidate with or into another Person, or dispose of (whether in one transaction or in a series of transactions or pledge) all or substantially all of its (except when the stock of a Borrower Subsidiary is being sold in an equity transaction whereby the underlying purpose of the transaction is to dispose of real property) to or in favor of any Person; and

(c) Borrower shall not (with respect to itself, Borrower Subsidiaries or the Guarantor) directly or indirectly create, incur, assume or suffer to exist any Indebtedness, except:

(i) this Loan;

(ii) Secured Indebtedness by Borrower Subsidiaries; and

(iii) in connection with any Secured Indebtedness by Borrower Subsidiaries, any unsecured obligations (contingent or otherwise) existing or arising under any Swap Contract, provided that (i) such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with fluctuations in interest rates or foreign exchange rates and (ii) such Swap Contract does not contain any provision exonerating the non-defaulting party from its obligation to make payments to the defaulting party on outstanding transactions.

ARTICLE VI

DEFAULT AND REMEDIES

Section 6.1 Events of Default. Each of the following events will constitute an event of default ("Event of Default") under this Agreement, provided, however, that the following events shall not constitute an Event of Default to the extent they are caused by any action or inaction by the Advisor or the Subadvisor:

(a) Default on Indebtedness to Lender.

(i) Any regular monthly payment of interest under this Agreement or any other amount payable pursuant to this Agreement or the other Loan Documents (excluding principal and interest due on Maturity Date A or Maturity Date B) is not paid so that it is received by Lender within 15 days after the date when due, or

(ii) Any outstanding principal or interest on Loan A is not paid on or before Maturity Date A, or any outstanding principal or interest on Loan B is not paid on or before Maturity Date B.

(b) Covenant Default.

(i) Violation of any of the covenants contained in Article V of this Agreement, or

(ii) Failure by Borrower or any Affiliate of Borrower to perform, keep, or observe any other material term, provision, condition, covenant, or agreement contained in this Agreement, in any of the other Loan Documents, or in any other present or future agreement between Borrower or such Affiliate on the one hand and Lender or any Affiliate of Lender on the other hand, and as to any such failure that can be cured and does not pose an imminent risk of loss to Lender, the failure of Borrower or such

Affiliate to cure such Default within 30 days after Borrower receives written notice thereof from Lender or after any officer, member, manager or partner of Borrower or such Affiliate becomes aware thereof; provided, however, that if the Default cannot by its nature be cured within the 30 day period or cannot after diligent attempts by Borrower or such Affiliate be cured within such 30 day period, and such Default is likely to be cured within a reasonable time, then Borrower or such Affiliate will have an additional reasonable period (which will not in any case exceed an additional 30 days) to attempt to cure such failure, and within such reasonable time period the failure to have cured such failure will not be deemed an Event of Default (provided that Lender will have no obligation to make Advances during such cure period).

(c) Insolvency. If (i) Borrower, any Borrower Subsidiary, or Guarantor becomes insolvent, (ii) an Insolvency Proceeding is commenced by Borrower, any Subsidiary or Guarantor, or (iii) an Insolvency Proceeding is commenced against Borrower, any Subsidiary or Guarantor and is not dismissed or stayed within 60 days (provided that no Advances will be made prior to the dismissal of such Insolvency Proceeding).

(d) Other Agreements. If there is a default under any agreement to which Borrower any Borrower Subsidiary, or Guarantor is a party with a third party resulting in a right by such third party, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of $20,000,000.

(e) Judgments. If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of $20,000,000 or more will be rendered against Borrower, any Borrower Subsidiary, or Guarantor and will remain unsatisfied and unstayed for a period of 30 days.

(f) Misrepresentations. If any material misrepresentation or material misstatement now or hereafter exists in any representation or warranty set forth in this Agreement or in any certificate or Advance Request submitted to Lender in connection with the Loan.

(g) Full Force and Effect, Defective Documentation, Etc. If this Agreement or any of the other Loan Documents ceases to be in full force and effect, at any time and for any reason, or Borrower, any Subsidiary or Guarantor repudiates any Loan Document or asserts that any Loan Document is not in full force and effect.

Section 6.2 Remedies. At any time after the occurrence and during the continuance of an Event of Default, Lender may, by notice to Borrower, (a) declare the obligation of Lender to make Advances to be terminated, whereupon the same will forthwith terminate, (b) exercise any and all rights under the Pledge Agreement and foreclose on the Collateral in accordance with the terms thereof, and (c) declare (i) the Note and all interest thereon and (ii) all other amounts payable under this Agreement and the other Loan Documents to be immediately due and payable, whereupon the Note, all such interest, and all such other amounts will become and be immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Borrower; provided, however, that if an Insolvency Proceeding by or against Borrower is commenced, (A) the obligation of Lender to make Advances will automatically be terminated and (B) the Note, all interest thereon, and all other amounts payable under this Agreement and the other Loan Documents will automatically become and be immediately due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by Borrower.

Section 6.3 Right of Offset. After the occurrence and during the continuance of an Event of Default, Lender and its Affiliates are hereby authorized at any time and from time to time, to the fullest extent permitted

by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other Indebtedness at any time owing by Lender or its Affiliates to or for the credit or the account of Borrower or any Subsidiary against any and all of the obligations of Borrower or any Subsidiary now or hereafter existing under this Agreement and the other Loan Documents irrespective of whether Lender has made any demand. The rights of Lender under this Section are in addition to other rights and remedies (including, without limitation, other rights of offset) that Lender may have.

Section 6.4 Cumulative Remedies. After the occurrence and during the continuance of an Event of Default, Lender may proceed to enforce the Loan Documents by exercising such remedies as are available thereunder or in respect thereof under applicable law, whether for specific performance of any covenant or other agreement contained in the Loan Documents or in aid of the exercise of any power granted in the Loan Documents. No remedy conferred in this Agreement or the other Loan Documents is intended to be exclusive of any other remedy, and each and every such remedy will be cumulative and will be in addition to every other remedy conferred herein or therein or now or hereafter existing at law, in equity, by statute or otherwise.

Section 6.5 Application of Payments. After the occurrence and during the continuance of an Event of Default, Lender will apply all funds received in respect of amounts owing under this Agreement and the other Loan Documents in such order as Lender may determine in its sole discretion notwithstanding any instruction from Borrower or any other Person.

ARTICLE VII

TRANSFERS

Section 7.1 Assignment by Lender. Lender may at any time assign all or a portion of its rights and obligations under this Agreement. The consent of the Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (x) a Default or Event of Default shall exist at the time of such assignment or (y) such assignment is to an Affiliate of a Lender; provided, however, that the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Lender within 10 Business Days after having received notice thereof;

ARTICLE VIII

MISCELLANEOUS

Section 8.1 Amendments. An amendment or waiver of any provision of this Agreement or the other Loan Documents, or a consent to any departure therefrom, will be effective against Lender if, but only if, it is in writing and signed by Lender, and then such a waiver or consent will be effective only in the specific instance and for the specific purpose for which given.

Section 8.2 Notices. Except as otherwise specifically provided in this Agreement, all notices and other communications provided for under this Agreement must be in writing and mailed, telecopied or otherwise transmitted or delivered to the recipient at its address as set forth in Schedule 1; or at such other address within the United States as may be designated by such party in a written notice to the other party or parties. All such notices and communications will, (a) if mailed, be effective three (3) Business Days following deposit in the United States mail, postage prepaid; (b) if delivered by recognized overnight delivery service (such as Federal Express) be effective upon delivery and (c) if telecopied, be effective when telecopied

and electronic confirmation of transmission is received, except that notices and communications to Lender pursuant to Article II will not be effective until received by Lender.

Section 8.3 No Waiver; Remedies. No failure on the part of Lender to exercise, and no delay in exercising, any right under this Agreement or any other Loan Document will operate as a waiver thereof; nor will any single or partial exercise of any right hereunder or under any other Loan Document preclude any other or further exercise thereof or the exercise of any other right. The remedies provided in this Agreement and the other Loan Documents are cumulative and not exclusive of any remedies provided by law.

Section 8.4 Costs and Expenses; Indemnification.

(a) Costs of Preparation and Administration of Loan Documents. Whether or not the transactions provided for in this Agreement are consummated, Borrower will pay on demand: (i) the reasonable fees and out-of-pocket expenses of counsel for Lender in connection with the preparation, execution and delivery of this Agreement and the other Loan Documents and any amendments or modifications thereof or waivers or consents with respect thereto, in an amount not to exceed $100,000 (ii) any and all out-of-pocket costs and expenses reasonably incurred by Lender in connection with the execution and delivery of this Agreement and the other Loan Documents and the administration thereof.

(b) Costs of Enforcement. In the event of any Default or Event of Default, or in the event that any dispute arises (whether or not such dispute is with Borrower) relating to the interpretation, enforcement or performance of this Agreement or any of the other Loan Documents, or Lender's rights thereunder, Lender will be entitled to collect from Borrower on demand all reasonable fees and expenses incurred in connection therewith, including but not limited to fees of attorneys, paralegals, accountants, expert witnesses, arbitrators, mediators and court reporters. Without limiting the generality of the foregoing, Borrower will pay all such costs and expenses incurred in connection with: (i) arbitration or other alternative dispute resolution proceedings, trial court actions and appeals; (ii) bankruptcy or other Insolvency Proceedings of Borrower, any Subsidiary or any party having any interest in any security for the Loan (if any); (iii) judicial or nonjudicial foreclosure on, or appointment of a receiver for, any property securing the Loan (if any); (iv) post-judgment collection proceedings; (v) all claims, counterclaims, cross-claims and defenses asserted in any of the foregoing whether or not they arise out of or are related to this Agreement or any other Loan Document; (vi) all preparation for any of the foregoing; and (vii) all settlement negotiations with respect to any of the foregoing.

(c) Survival. The provisions of this section will survive the termination of the commitment to lend under this Agreement and the repayment of the Loan and all other amounts payable under the Loan Documents.

Section 8.5 Binding Effect; Assignments and Participations. This Agreement will become effective when it has been executed by Borrower and Lender and thereafter will be binding upon and inure to the benefit of Borrower and Lender and their respective successors and assigns, except that Borrower will not have the right to assign its rights under this Agreement or any interest herein without the prior written consent of Lender. Lender may assign or grant participations in or to all or any part of its rights and obligations under this Agreement and the other Loan Documents.

Section 8.6 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which when so executed will be deemed to be an original and all of which taken together will constitute one and the same agreement.

Section 8.7 Governing Law. This Agreement will be governed by, and construed and enforced in accordance with, the laws of the State of New York, without reference to the choice of law principles of the State of New York.

Section 8.8 Service of Process. Borrower irrevocably consents to service of process in the manner provided for notices herein. Nothing in this Agreement will affect the right of Lender to serve process in any other manner permitted by law.

Section 8.9 Consent to Jurisdiction. Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any United States Federal or New York State court sitting in the Borough of Manhattan, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and Borrower hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Borrower hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that Lender may otherwise have to bring any action or proceeding relating to this Agreement against Borrower or its properties in the courts of any jurisdiction. Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in subsection (b) above. Borrower hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

Section 8.10 Waiver of Jury Trial**. EACH OF BORROWER AND LENDER (FOR ITSELF AND ITS SUCCESSORS, ASSIGNS AND PARTICIPANTS) WAIVES ITS RIGHT TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON, ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS PROVIDED FOR HEREIN OR THEREIN, IN ANY LEGAL ACTION OR PROCEEDING OF ANY TYPE BROUGHT BY ANY PARTY TO ANY OF THE FOREGOING AGAINST ANY OTHER SUCH PARTY, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. ANY SUCH CLAIM OR CAUSE OF ACTION WILL BE TRIED BY A COURT SITTING WITHOUT A JURY.**

Section 8.11 No Fiduciary Duty. Borrower acknowledges that Lender has no fiduciary relationship with, or fiduciary duty to, Borrower arising out of or in connection with this Agreement or any of the other Loan Documents, and the relationship between Lender and Borrower in connection herewith or therewith is solely that of creditor and debtor. None of this Agreement or the other Loan Documents create a joint venture among the parties.

Section 8.12 Severability. Any provision of the Loan Documents that is prohibited or unenforceable in any jurisdiction will be ineffective to the extent of such prohibition or unenforceability in such jurisdiction without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. To the extent permitted by applicable law, the parties waive any provision of law that renders any provision of this Agreement or any other Loan Document prohibited or unenforceable in any respect.

Section 8.13 Entire Agreement. This Agreement and the other Loan Documents constitute the final and complete expression of the parties with respect to the transactions contemplated by this Agreement and replace and supersede all prior discussions, negotiations and understandings with respect thereto. Neither this Agreement nor any term hereof nor of the other Loan Documents may be changed, waived, discharged or terminated except as provided herein.

Section 8.14 Descriptive Headings. The descriptive headings of the various provisions of this Agreement are for convenience of reference only, do not constitute a part hereof, and will not affect the meaning or construction of any provision hereof.

Section 8.15 Gender and Number. Whenever appropriate to the meaning of this Agreement or the other Loan Documents, use of the singular will be deemed to refer to the plural, the use of the plural to the singular, and pronouns of certain gender to either or both the other genders.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Borrower and Lender have caused this Agreement to be executed by their duly authorized officers and representatives effective as of the day first above written.

LENDER:

W. P. Carey Inc., a Maryland corporation

By: /s/ ToniAnn Sanzone
Name: ToniAnn Sanzone
Title: Chief Financial Officer

[signatures continue on following page]

<u>BORROWER</u>:

CWI OP, LP, a Delaware limited partnership

By: Carey Watermark Investors Incorporated, its general partner

By: /s/ Michael Medzigian
Name: Michael Medzigian
Title: Chief Executive Officer

[Loan Agreement – Borrower Signature Page]

SCHEDULE 1

NOTICE ADDRESSSES

Notice address for Borrower:

CWI OP, LP
c/o W. P. Carey Inc.
50 Rockefeller Plaza, 2nd Floor
New York, NY 10020
Attention: Chief Financial Officer

Carey Watermark Investors Inc.
150 North Riverside Plaza, Suite 4200
Chicago, IL 60606
Attention: Michael Medzigian

Notice address for Lender:

W. P. Carey Inc.
50 Rockefeller Plaza, 2nd Floor
New York, NY 10020
Attn: Chief Financial Officer – Managed Funds

With copy to:

W. P. Carey Inc.
50 Rockefeller Plaza, 2nd Floor
New York, NY 10020
Attn: Director, Legal Transactions

EXHIBIT A-1

ADVANCE REQUEST (LOAN A)

W. P. Carey Inc.
50 Rockefeller Plaza, 2nd Floor
New York, NY 10020
Attn: Chief Financial Officer – Managed Funds

Date: _______________, 2017

This refers to the Loan Agreement dated as of August __, 2017 (the "Loan Agreement") (capitalized terms used herein and not otherwise defined have the meanings given to them in the Loan Agreement), between the undersigned ("Borrower") and W. P. Carey Inc. ("Lender"), and hereby gives Lender notice, irrevocably, pursuant to Section 2.2 of the Loan Agreement that Borrower hereby requests a Borrowing under the Loan Agreement, and in that connection sets forth below the information relating to such Borrowing (the "Requested Borrowing") as required by the Loan Agreement:

REQUESTED BORROWING

(i) The Business Day on which the Requested Borrowing is to be made is __________, 2017.

(ii) The aggregate amount of the Requested Borrowing is $100,000,000.00, and the outstanding principal balance of Loan A is ________ and the outstanding principal balance of Loan B is $_____________.

CERTIFICATIONS

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Requested Borrowing, before and immediately after giving effect thereto and to the application of the proceeds therefrom:

(A) The representations and warranties contained in Article IV of the Loan Agreement are true and correct as though made on and as of such dates, unless such representations and warranties are expressly stated to be made as of an earlier date;

(B) Borrower is in full compliance with all covenants contained in Articles V and VI of the Loan Agreement; and

(C) No event has occurred and is continuing, or would result from such Requested Borrowing, that constitutes or would constitute an Event of Default or a Default under the Loan Agreement.

(D) The representations, warranties and covenants contained in Section 5 of the Guaranty are and will be true and correct in all material respects as though made on and as of such date, unless such representations and warranties are expressly stated to be made as of an earlier date; and

(E) Guarantor is and will be in compliance with all covenants contained in Section 6 of the Guaranty.

Very truly yours,

CWI OP, LP

By: Carey Watermark Investors
Incorporated, its general partner

By: ________________________
Name:
Title:

EXHIBIT A-2

ADVANCE REQUEST (LOAN B)

W. P. Carey Inc.
50 Rockefeller Plaza, 2nd Floor
New York, NY 10020
Attn: Chief Financial Officer – Managed Funds

Date: ______________, 2017

This refers to the Loan Agreement dated as of August __, 2017 (the "Loan Agreement") (capitalized terms used herein and not otherwise defined have the meanings given to them in the Loan Agreement), between the undersigned ("Borrower") and W. P. Carey Inc. ("Lender"), and hereby gives Lender notice, irrevocably, pursuant to Section 2.2 of the Loan Agreement that Borrower hereby requests a Borrowing under the Loan Agreement, and in that connection sets forth below the information relating to such Borrowing (the "Requested Borrowing") as required by the Loan Agreement:

REQUESTED BORROWING

(i) The Business Day on which the Requested Borrowing is to be made is __________, 2017.

(ii) The aggregate amount of the Requested Borrowing is $__________, and the outstanding principal balance of Loan A is ________ and the outstanding principal balance of Loan B is $_____________.

CERTIFICATIONS

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Requested Borrowing, before and immediately after giving effect thereto and to the application of the proceeds therefrom:

(A) The representations and warranties contained in Article IV of the Loan Agreement are true and correct as though made on and as of such dates, unless such representations and warranties are expressly stated to be made as of an earlier date;

(B) Borrower is in full compliance with all covenants contained in Articles V and VI of the Loan Agreement; and

(C) No event has occurred and is continuing, or would result from such Requested Borrowing, that constitutes or would constitute an Event of Default or a Default under the Loan Agreement.

(D) The representations, warranties and covenants contained in Section 5 of the Guaranty are and will be true and correct in all material respects as though made on and as of such date, unless such representations and warranties are expressly stated to be made as of an earlier date; and

(E) Guarantor is and will be in compliance with all covenants contained in Section 6 of the Guaranty.

Very truly yours,

CWI OP, LP

By: Carey Watermark Investors Incorporated, its general partner

By: ______________________________

Name:
Title:

[Exhibit A-2 to Loan Agreement]

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Section 3: EX-10.2 (EXHIBIT 10.2)

Exhibit 10.2

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT (as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, this "Agreement"), is made as of September 26, 2017, by **CWI OP, LP**, a Delaware limited partnership, having an address at 50 Rockefeller Plaza, 2nd Floor, New York, NY 10020 ("Pledgor") for the benefit of **W. P. CAREY INC**., a Maryland corporation having an address of 50 Rockefeller Plaza, 2nd Floor, New York, NY 10020 (together with its successors and assigns, collectively, "Lender").

RECITALS

A. Pledgor and Lender have entered into a Loan Agreement of even date herewith (as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, the "Loan Agreement").

B. Under the provisions of the Loan Agreement, Lender agreed, subject to the terms and conditions contained therein, to make a loan ("Loan") to Pledgor in the principal amount of up to One Hundred Twenty Five Million and 00/100 Dollars ($125,000,000.00), which Loan is evidenced by that certain Amended, Restated and Consolidated Promissory Note of even date herewith made by Pledgor to the order of Lender in the original principal amount of up to One Hundred Twenty Five Million and 00/100 Dollars ($125,000,000.00) (said note, as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, the "Note").

C. Pledgor is the sole member of each of the limited liability companies listed on Schedule 1 attached hereto (each, a "Subsidiary").

D. API STEWART HOLDINGS LLC, a California limited liability company ("API") is acting as an exchange accommodation title holder for Pledgor in connection with a reverse 1031 exchange (the "Reverse 1031 Exchange") and, in connection therewith, Pledgor holds title to 100% of the equity interests in CWI Santa Barbara Mezz GP, LLC and 99.9% of the

equity interests in CWI Santa Barbara Mezz, LP (collectively, the "Santa Barbara Equity Interests"). On the date hereof, in consideration of the Reverse 1031 Exchange API is pledging the Santa Barbara Equity Interests to Pledgor until such time as the Reverse 1031 Exchange is completed and title to the Santa Barbara Equity Interests will be transferred to Pledgor. Upon the day of such transfer, Pledgor shall deliver to Lender an assignment of interest in blank (the "Assignment of Interest") in the form set forth on Exhibit A hereto, with respect to the Santa Barbara Equity Interest.

E. Concurrently with the execution and delivery of the Loan Agreement, Carey Watermark Investors Incorporated, a Maryland corporation (the "Guarantor") executed and delivered to Lender that certain Payment Guaranty in favor of Lender dated as of the date hereof (as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, the "Guaranty") .

F. As a condition precedent to Lender's making the Loan, Lender has required that Pledgor execute and deliver this Agreement to Lender.

NOW, THEREFORE, for Ten Dollars ($10.00) and in consideration of the mutual covenants and agreements herein contained, and other good and valuable consideration, the receipt and sufficiency of which being hereby acknowledged, Pledgor agrees with Lender as follows:

AGREEMENT

1. Defined Terms. Unless otherwise provided herein, all capitalized terms used but not defined in this Agreement shall have the respective meanings ascribed thereto in the Loan Agreement and, for the purposes of this Agreement, the following capitalized terms shall have the following meanings:

(a) "Article 8 Matter" shall mean any action, decision, determination or election by Pledgor or its member(s) that its membership interests or other equity interests, or any of them, be, or cease to be, a "security" as defined in and governed by Article 8 of the Uniform Commercial Code, and all other matters related to any such action, decision, determination or election.

(b) "Bankruptcy Law" shall mean the United States Bankruptcy Code, as amended, or any other present or future applicable law respecting bankruptcy, reorganization, insolvency, readjustment of debts, relief of debtors, dissolution, liquidation, appointment of any receiver, liquidator, trustee or similar official, or any similar relief or remedy, any corresponding applicable law of any State, or any succeeding applicable law, and the rules and regulations promulgated thereunder; in each case as the same may have been and hereafter may be adopted, supplemented, modified, amended, restated or replaced from time to time.

(c) "Bankruptcy Proceeding" shall mean the filing or submission of any petition, answer, pleading or other document for relief, bankruptcy, insolvency, receivership or other remedy, or the existence of any case, action, suit, or proceeding, whether voluntary or involuntary, under any Bankruptcy Law.

(d) "Collateral" shall have the meaning ascribed thereto in Section 2 hereof.

(e) "Credit Action" shall mean any action or inaction by Lender or any other Person acting on behalf or for the benefit of Lender that is authorized, contemplated, permitted, waived or otherwise provided for or not restricted under this Agreement, any other Loan Document or applicable law or anything incidental thereto, including (without limitation) any exercise or enforcement of any Credit Right by Lender.

(f) "Credit Assurance" shall have the meaning assigned to it in Section 17 hereof.

(g) "Credit Attribute" of a referenced Person shall mean any of the following at the referenced or applicable time: (a) any of its accounts, assets, business, cash flow, credit, expenses, income, liabilities, operations, properties, prospects, reputation, strategies, taxation or financial or other condition; (b) any Collateral pledged by or other asset or property of the referenced Person (whether personality or realty, and whether tangible or intangible), whether with respect to its existence, condition, title, value, condition, use, operation, maintenance or regulation or otherwise; or (c) the willingness, ability or likelihood of the referenced Person to perform any of its obligations under any Loan Document, under any other material contract or under applicable law.

(h) "Credit Event" shall have the meaning assigned to it in Section 19 hereof.

(i) "Credit Obligations" shall mean any and all of the following: any and all Pledgor's Obligations; any and all Guarantor's Obligations; and any and all other Surety's Obligations.

(j) "Credit Party" shall mean any of the following: Pledgor; Guarantor; or any other Surety.

(k) "Credit Repayment" shall mean all of the following shall have occurred: (a) all of the outstanding monetary Credit Obligations (whether as to principal, interest, expenses or otherwise) have been paid in full in cash or other immediately available funds; (b) all commitments and lines of credit (if any) to provide additional funds related thereto have been terminated; and (c) with respect to any contingent indemnification, reimbursement, defense or similar obligation that by its express terms extends beyond such payment and termination, the cash collateralization (on terms reasonably acceptable to each affected Lender) of each such continuing contingent obligation to the extent any claim thereunder has been asserted by any Lender.

(l) "Guarantor's Obligations" shall mean any and all (i) Guaranteed Obligations under (and as defined in) the Guaranty, and (ii) other amounts to be paid and all other obligations to be performed or otherwise satisfied by Guarantor under the Guaranty or any other Loan Document (whether individually, jointly, severally or otherwise).

(m) "Pledgor’s Obligations" shall mean the payment and performance of all obligations of Pledgor under the Loan Documents, including, without limitation, payment of the Indebtedness.

(n) “Pledged Interests” shall have the meaning ascribed thereto in Section 2 hereof.

(o) "Post-Petition Amounts" shall mean any and all advances outstanding and interest and other amounts accrued, accruing or otherwise arising or applicable under any Loan Document during the pendency of any Bankruptcy Proceeding, irrespective of whether or to what extent such interest, fees and other amounts accrue or are allowed or allowable as claims in any such proceeding.

(p) "Proceeds" shall mean any and all proceeds (as defined in the UCC) and other awards, cash, collections, coupons, deposits, dividends, distributions, fees, funds, insurance proceeds, interest, original issue discount, payments, premiums, realizations, receipts, refunds, reimbursements, rent, repayments, returns of equity or principal, and similar amounts of every kind and nature.

(q) “Relevant Documents” shall mean the limited liability company operating agreement of each Subsidiary and all other organizational documents of such entities, and any other document evidencing or governing any of the Collateral, as any of them may hereafter be amended, restated, replaced, supplemented or otherwise modified from time to time in accordance with this Agreement.

(r) "Subordinated Right" and "Subordinated Rights" shall respectively mean any and all: (a) advances, loans and other indebtedness and other similar or related amounts (including interest and fees) directly or indirectly owed to Pledgor by any Subsidiary (whether individually, jointly, severally or otherwise) ("Intercompany Debt"); (b) subrogation, contribution, reimbursement, restitution, recoupment, counterclaim and other similar or related rights ("Subrogation Rights") of Pledgor against or in respect of (i) any Subsidiary or any Surety, or (ii) any of their respective assets and properties, whether resulting from any payment made by Pledgor or otherwise; and (c) any security interest, lien, encumbrance or other adverse claim or guaranty, pledge, mortgage or other credit support securing or otherwise supporting, or any right, power, privilege, remedy, entitlement, preference, support or interest of Pledgor authorized, contemplated, permitted or provided for under any agreement or applicable law or incidental thereto respecting, any such Intercompany Debt or Subrogation Rights; in each case whether now or hereafter existing, acquired or created.

(s) "Subsidiary" shall have the meaning set forth in the introductory paragraph of this Agreement.

(t) "Surety" and "Sureties" shall respectively mean any one or more of: (i) Guarantor; (ii) Pledgor; and (iii) any other co-obligor, indemnitor, guarantor, pledgor or surety of, or any other Person providing any guaranty, pledge, mortgage or other credit support for, any of Pledgor's Obligations or any Surety's Obligations; in each case whether or not disclosed to Pledgor or any other Surety.

(u) "Surety's Obligations" shall mean any and all of: (i) Guarantor's Obligations; (ii) Pledgor's Obligations; and (iii) and the other guaranty, pledge, mortgage or other credit support or supporting obligations from any other Surety under any Loan Document; in each case whether or not disclosed to Pledgor or any other Surety.

(v) "Uniform Commercial Code", "UCC" or "Code" shall mean the Uniform Commercial Code as in effect from time to time in the State of New York time; provided that all references herein to specific Sections or subsections of the UCC are references to such Sections or subsections, as the case may be, of the Uniform Commercial Code as in effect in the State of New York on the date hereof.

2. Pledge and Delivery of Collateral.

(a) The Pledge. As collateral security for the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the Pledgor's Obligations, Pledgor hereby absolutely, unconditionally and irrevocably pledges, assigns, conveys, transfers and delivers to Lender, and grants to Lender, a continuing lien on and security interest in and to the each of the assets and properties listed in this Section 2(a), and all of Pledgor's right, title and interest therein, in each case whether now or hereafter existing, acquired, created and wherever located coming into existence (all being collectively referred to herein as "***Collateral***"):

(i) 100% of the membership interests in each Subsidiary, together with the certificates evidencing the same (the "***Pledged Interests***"), and all of the Subordinated Rights;

(ii) all ownership interests, membership interests, shares, securities, moneys, instruments or property representing a dividend, a distribution or return of capital upon or in respect of the Pledged Interests or Subordinated Rights, or otherwise received in exchange therefor, and any warrants, rights, options, or other investment property (as defined in the UCC) or financial asset (as defined in the UCC) issued to the holders of, under or otherwise in respect of, any of the Pledged Interests or Subordinated Rights;

(iii) all rights, powers, privileges, remedies, interests and security entitlements of Pledgor under the Relevant Documents or any other agreement or instrument relating to any of the Pledged Interests or Subordinated Rights, including, without limitation, (i) all rights of Pledgor to receive moneys or distributions under or with respect to any of the Pledged Interests or Subordinated Rights due and to become due under or pursuant to the Relevant Documents, (ii) all rights of Pledgor to receive proceeds of any insurance, indemnity, warranty or guaranty with respect to any of the Pledged Interests or Subordinated Rights, (iii) all claims of Pledgor for damages arising out of or for breach of or default under a Relevant Document, and (iv) any right of Pledgor to perform thereunder and to compel performance and otherwise exercise all rights and remedies thereunder;

(iv) any accounts, as-extracted collateral, chattel paper, commercial tort claims, consumer goods, deposit accounts, documents and trust receipts (and the goods covered thereby, wherever located), equipment, financial assets, fixtures, general intangibles, goods, instruments,

inventory, investment properties, letter-of-credit rights, letters-of-credit, money, payment intangibles, proceeds, products, securities, securities accounts, security entitlements and software (as each such term is defined in the UCC), or any other contract right, indemnity, warranty, casualty or other insurance policy or right, or litigation claim or right, to the extent arising from or related to any asset, property, right, power, privilege, remedy, interest or entitlement listed in clause (i), (ii) or (iii) of this Section 2(a); and

(v) any and all products of, proceeds from and other collections, payments and other distributions and realizations respecting any asset, property, right, power, privilege, remedy, interest or entitlement described in clauses (i) through (iv) of this Section 2(a) and, any and all books, correspondence, credit files, records, invoices and other papers and documents evidencing, governing or related to any such asset, property, right, power, privilege, remedy, interest or entitlement;

in each case whether such item or any right, title or interest therein is owned beneficially or of record and individually, jointly or otherwise, and together with any and all other claims, entitlements, rights, powers, privileges, remedies and interests of Pledgor with respect thereto, any and all supporting obligations therefore, and any and all replacements and substitutions therefore and extensions and modifications thereof and any and all renewals, substitutions, modifications and extensions of any and all of the items listed in this Section 2(a).

(b) Delivery of the Collateral. All certificates or instruments, if any, representing or evidencing the Collateral shall be delivered to and held by or on behalf of Lender pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer endorsed by Pledgor in blank, or assignments in blank, all in form and substance satisfactory to Lender. Upon the occurrence and during the continuance of an Event of Default, Lender shall have the right, at any time, in its discretion, to transfer to or to register in the name of Lender or its nominee any or all of the Collateral to the greatest extent permitted by applicable law. Concurrently with the execution and delivery of this Agreement, Pledgor is delivering to Lender an Assignment of Interest in blank, for the Pledged Interests, transferring all of the Pledged Interests in blank, duly executed by Pledgor and undated. Lender shall have the right, at any time in its discretion upon the occurrence and during the continuance of an Event of Default and without notice to Pledgor, to transfer to, and to designate on the Assignment of Interest, any Person to whom the Pledged Interests are sold in accordance with the provisions hereof.

(c) Obligations Unconditional. The obligations of Pledgor hereunder are absolute and unconditional, irrespective of the value, genuineness, validity, regularity or enforceability of Guaranty, the Loan Agreement, the Note, any other Loan Documents, or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any guarantee of or security for any of the Pledgor's Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or Pledgor, it being the intent of this Section 2(d) that the obligations of Pledgor hereunder shall be absolute and unconditional under any and all circumstances. Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not affect the liability of Pledgor hereunder:

(i) at any time or from time to time, without notice to Pledgor, the time for any performance of or compliance with any of the Pledgor's Obligations shall be extended, or such performance or compliance shall be waived;

(ii) any of the acts mentioned in any of the provisions of the Guaranty, the Loan Agreement, the Note, or any other Loan Documents, or any other agreement or instrument referred to herein or therein shall be done or omitted;

(iii) the maturity of any of the Pledgor's Obligations shall be accelerated, or any of the Pledgor's Obligations shall be modified, supplemented or amended in any respect, or any right under the Guaranty, the Loan Agreement, the Note, or any other Loan Documents, or any other agreement or instrument referred to herein or therein shall be waived or any other guarantee of any of the Pledgor's Obligations or any security or collateral therefor shall be terminated, released or exchanged in whole or in part or otherwise dealt with; or

(iv) any lien or security interest granted to, or in favor of Lender as security for any of the Pledgor's Obligations shall fail to be perfected or shall be released.

(d) On the day that the Reverse 1031 Exchange is completed and title to the Santa Barbara Equity Interests is transferred to Pledgor, Pledgor shall deliver to Lender the certificates evidencing the Santa Barbara Equity Interest and an Assignment of Interest, with respect to such Santa Barbara Equity Interest.

3. Reinstatement. The obligations of Pledgor under this Agreement shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of Pledgor in respect of the Pledgor's Obligations is rescinded or must be otherwise restored by any holder of any of the Pledgor's Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise and Pledgor agrees that it will indemnify Lender on demand for all reasonable out of pocket costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by Lender in connection with such rescission or restoration.

4. Representations and Warranties of Pledgor. Pledgor represents and warrants to Lender that:

(a) Existence. (i) it is a limited partnership duly formed and validly existing under the laws of Delaware; (ii) has all requisite power, and has all governmental licenses, authorizations, consents and approvals necessary, to own its assets and carry on its business as now being or as proposed to be conducted; and (iii) is qualified to do business in New York State and in all other jurisdictions in which the nature of the business conducted by it makes such qualification necessary.

(b) Litigation. To Pledgor's knowledge, there are no legal or arbitral proceedings or any proceedings by or before any Governmental Authority or agency, now pending or (to the knowledge of Pledgor) threatened (i) against Pledgor or (ii) against the Collateral.

(c) No Breach. None of the execution and delivery of this Pledge or any other Loan Document to which Pledgor is a party, the consummation of the transactions herein or therein contemplated and compliance with the terms and provisions hereof or thereof will conflict with or result in a breach of, or require any consent (except such consents as have been obtained) under the organizational documents of .

(d) Necessary Action. Pledgor has all necessary power and authority to execute, deliver and perform its obligations under this Agreement; the execution, delivery and performance

by Pledgor of this Agreement has been duly authorized by all necessary action on its part; and this Agreement has been duly and validly executed and delivered by Pledgor and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms, subject to bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights in general and to general principles of equity.

(e) Approvals. No authorizations, approvals and consents of, and no filings and registrations with, any governmental or regulatory authority or agency are necessary for (i) the execution, delivery or performance by Pledgor of this Agreement or for the validity or enforceability thereof, (ii) the grant by Pledgor of the assignments and security interests granted hereby, or the pledge by Pledgor of the Collateral pursuant hereto, (iii) the perfection or maintenance of the pledge, assignment and security interest created hereby (including the first priority nature of such pledge, assignment and security interest) except for the filing of financing statements under the Uniform Commercial Code or (iv) the exercise by Lender of all rights and remedies in respect of the Collateral pursuant to this Agreement.

(f) Ownership. Pledgor has good and indefeasible title to, the Collateral free and clear of all pledges, liens, mortgages, hypothecations, security interests, charges, options or other encumbrances whatsoever, except for the Permitted Encumbrances and the lien and security interest created by this Agreement and the other Loan Documents. The Collateral is not and will not be subject to any contractual restriction upon the transfer thereof (except for any such restrictions contained herein and in the Loan Agreement).

(g) Principal Place of Business and State of Organization. Pledgor will not change Pledgor's principal place of business or state of organization unless Pledgor has previously notified Lender thereof and taken such action as is necessary or reasonably requested by Lender to cause the security interest of Lender in the Collateral to continue to be perfected.

(h) Valid Security Interest. This Agreement creates a valid security interest in the Collateral, securing the payment of the Obligations, and upon the filing in the appropriate filing offices of the financing statements to be delivered pursuant to this Agreement, such security interests will be perfected, first priority security interests, and all filings and other actions reasonably necessary to perfect such security interests will have been duly taken.

5. Covenants of Pledgor.

(a) No Transfer. Unless expressly permitted under the Loan Agreement and in connection with the completion of the Reverse 1031 Exchange, Pledgor will not sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Collateral, nor will it create, incur or permit to exist any pledge, lien, mortgage, hypothecation, security interest, charge, option or any other encumbrance with respect to any Collateral, or any interest therein, or any proceeds thereof, except for the lien and security interest provided for by this Agreement and the other Loan Documents.

(b) No Waiver, Amendment, Etc. Pledgor shall not, directly or indirectly, without the prior written consent of Lender, attempt to waive, alter, amend, modify, supplement or change in any way, or release, subordinate, terminate or cancel in whole or in part, or give any consent under, any of the instruments, documents, policies or agreements constituting the Collateral or exercise any of the rights,

options or interests of Pledgor as party, holder, mortgagee or beneficiary thereunder, except as otherwise expressly provided in the Loan Agreement. Subject to the provisions of the Loan Agreement, Pledgor agrees that all rights to do any and all of the foregoing have been assigned to Lender.

(c) Settlement and Release. Except as otherwise expressly permitted in the Loan Agreement and in connection with the Reverse 1031 Exchange, Pledgor shall not make any election, compromise, adjustment or settlement in respect of any of the Collateral.

(d) Preservation of Collateral. Lender may, in its reasonable discretion, for the account and expense of Pledgor, pay any amount or do any act required of Pledgor hereunder or under the Loan Agreement or reasonably requested by Lender to preserve, protect, maintain or enforce the Pledgor's Obligations, the Collateral or the security interests granted herein, but only if Pledgor has failed to pay such amount or take such action within ten (10) days after written demand by Lender. Any such payment shall be deemed an advance by Lender to Pledgor and shall be payable by such Pledgor within ten (10) days after written demand together with interest thereon at the Default Rate from the date expended by Lender until paid.

(e) Warranty of Title. Pledgor shall warrant and defend the right, title and interest of Lender in and to the Collateral and the proceeds thereof against the claims and demands of all persons whomsoever.

(f) Files and Records. Pledgor shall maintain, at its principal office, and, upon request, make available to Lender the originals, or copies in any case where the originals have been delivered to Lender of the instruments, documents, policies and agreements constituting the Collateral (to the extent not held by Lender) and related documents and instruments, and all files, surveys, certificates, correspondence, appraisals, computer programs, tapes, discs, cards, accounting records and other information and data relating to the Collateral in the possession or control of Pledgor.

(g) Litigation. After becoming aware of same, Pledgor shall promptly give to Lender notice of all pending legal or arbitration proceedings, and of all proceedings pending by or before any governmental or regulatory authority or agency, affecting Pledgor or the Collateral.

(h) Existence, etc. Pledgor shall preserve and maintain its existence and all of its material rights, privileges and franchises. Pledgor shall comply with the requirements of all applicable laws, rules, regulations and orders of governmental or regulatory authorities; and pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings.

6. Assignments of Pledgor. In furtherance of the grant of the pledge and security interest pursuant to Section 2 hereof, Pledgor hereby agrees with Lender as follows:

(a) Delivery and Other Perfection.

(i) Pledgor hereby represents and warrants that pursuant to the Relevant Documents the Pledged Interests constitute "securities" governed by Article 8 of the Uniform Commercial Code, as contemplated in UCC Section 8-103(c). Such election to treat the Pledged Interests as securities under Article 8 of the UCC may not be revoked or changed without the prior written consent of Lender. In the event that at any time after the date hereof any additional Collateral shall be evidenced by an instrument or

a certificate, Pledgor shall promptly deliver any such instrument or a certificate, duly endorsed or subscribed by Pledgor or accompanied by appropriate instruments of transfer or assignment duly executed in blank by Pledgor, to Lender as additional Collateral. Any such instruments or certificates received by Pledgor shall be held by Pledgor in trust, as agent for Lender.

(ii) Solely with respect to Article 8 Matters, Pledgor hereby irrevocably grants and appoints Lender, from the date of this Agreement until the termination of this Agreement in accordance with its terms, as Pledgor's true and lawful proxy, for and in Pledgor's name, place and stead to vote the Pledged Interests in the Collateral by Pledgor, whether directly or indirectly, beneficially or of record, now owned or hereafter acquired, with respect to such Article 8 Matters. The proxy granted and appointed in this Section 6 shall include the right to sign Pledgor's name (as the sole member of each Subsidiary) to any consent, certificate or other document relating to an Article 8 Matter and the Pledged Interests that applicable law may permit or require, to cause the Pledged Interests to be voted in accordance with the preceding sentence. Pledgor hereby represents and warrants that there are no other proxies and powers of attorney with respect to an Article 8 Matter and the Pledged Interests that Pledgor may have granted or appointed. Pledgor will not give a subsequent proxy or power of attorney or enter into any other voting agreement with respect to the Pledged Interests with respect to any Article 8 Matter and any attempt to do so with respect to an Article 8 Matter shall be void and of no effect. The proxies and powers granted by the Pledgor pursuant to this Agreement are coupled with an interest and are given to secure the performance of the Pledgor's obligations.

(iii) Pledgor shall give, execute, deliver, file and/or record any financing statement, notice, instrument, document, agreement or other papers that may be necessary (in the reasonable judgment of Lender) to create, preserve or perfect the security interest granted pursuant hereto or, after the occurrence and during the continuance of an Event of Default, to enable Lender to exercise and enforce its rights hereunder with respect to such pledge and security interest, including, without limitation, causing any or all of the Collateral to be transferred of record into the name of Lender or its nominee (and Lender agrees that if any Collateral is transferred into its name or the name of its nominee, Lender will thereafter promptly give to Pledgor copies of any notices and communications received by it with respect to the Collateral).

(iv) Pledgor shall permit representatives of Lender, upon reasonable prior written notice, at any time during normal business hours to inspect and make abstracts from its books and records pertaining to the Collateral, and permit representatives of Lender to be present at Pledgor's place of business to receive copies of all communications and remittances relating to the Collateral, and forward copies of any notices or communications received by Pledgor with respect to the Collateral, all in such manner as Lender may reasonably require.

(b) Preservation of Rights. Except in accordance with applicable law, Lender shall not be required to take steps necessary to preserve any rights against prior parties to any of the Collateral.

(c) Pledged Collateral; Distributions.

(i) So long as no Event of Default shall have occurred and be continuing, Pledgor shall have the right to exercise all of Pledgor's rights under the Relevant Documents for all purposes not inconsistent with the terms of this Agreement, or any other Loan Document or any other instrument or agreement referred to herein or therein, including the right to exercise any and all voting rights, the right to receive distributions on the Collateral and other rights relating to the Pledged Interests; and Lender shall execute and deliver to Pledgor or cause to be executed and delivered to Pledgor all such proxies, powers of attorney, distribution and other orders, and all such instruments, without recourse, as Pledgor may reasonably request for the

purpose of enabling Pledgor to exercise the rights and powers which they are entitled to exercise pursuant to this Section 6(c).

(ii) If any Event of Default shall have occurred, then so long as such Event of Default shall continue, and whether or not Lender exercises any available right to declare any of the Pledgor's Obligations due and payable or seeks or pursues any other relief or remedy available to it under applicable law or under this Agreement or any other Loan Document, (1) all distributions on the Collateral received after such event shall be paid directly to Lender for application to the Pledgor's Obligations pursuant to the terms hereof and the Loan Agreement, (2) if Lender shall so request in writing, Pledgor agrees to execute and deliver to Lender appropriate distribution and other orders and documents to that end and (3) Pledgor hereby irrevocably authorizes and directs Owner, after an Event of Default and for so long as such Event of Default is continuing, to pay all such distributions on the Collateral directly to Lender for application to the Pledgor's Obligations in the order, priority and manner set forth herein and in the Loan Agreement. The foregoing authorization and instructions are irrevocable, may be relied upon by Owner and may not be modified in any manner other than by Lender sending to Owner a notice terminating such authorization and direction.

(iii) Anything herein to the contrary notwithstanding, (1) Pledgor shall remain liable under the Relevant Documents to perform all of its duties and obligations thereunder to the same extent as if this Agreement had not been executed, (2) the exercise by Lender of any of the rights hereunder shall not release Pledgor from any of its duties or obligations under the Relevant Documents (3) Pledgor may not amend or modify any Relevant Document if such amendment or modification will or reasonably could adversely affect Lender's rights under this Agreement other than in an insignificant manner, and (4) Lender shall have no obligation or liability under the Relevant Documents by reason of this Agreement, nor shall Lender be obligated to perform any of the obligations or duties of Pledgor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder, except as provided by applicable law.

7. Further Assurances. In furtherance of the grant of the pledge and security interest pursuant to Section 2 hereof, Pledgor hereby agrees with Lender as follows:

(a) Delivery and Other Perfection. Pledgor shall:

(i) if any of the Collateral required to be pledged by Pledgor under Section 2(a) hereof is received by Pledgor, forthwith either (x) transfer and deliver to Lender such Collateral so received by Pledgor all of which thereafter shall be held by Lender, pursuant to the terms of this Agreement, as part of the Collateral or (y) take such other action as Lender shall deem reasonably necessary or appropriate to duly record the lien created hereunder in such Collateral referred to in said Section 2(a);

(ii) give, execute, deliver, file and/or record any financing statement, notice, instrument, document, agreement or other papers that may be necessary or desirable (in the reasonable judgment of Lender) to create, preserve, perfect or validate the security interest granted pursuant hereto or to enable Lender to exercise and enforce its rights hereunder with respect to such pledge and security interest, including, without limitation, causing any or all of the Collateral to be transferred of record into the name of Lender or its nominee (and Lender agrees that if any Collateral is transferred into its name or the name of its nominee, Lender will thereafter promptly give to Pledgor copies of any notices and communications received by it with respect to the Collateral); and

(iii) permit representatives of Lender, upon reasonable notice, at any time during normal business hours to inspect and make abstracts from its books and records pertaining to the Collateral,

and forward copies of any notices or communications received by Pledgor with respect to the Collateral, all in such manner as Lender may reasonably require.

(b) Preservation of Rights. Lender shall not be required to take steps necessary to preserve any rights against prior parties to any of the Collateral.

8. Remedies.

(a) Remedies of Lender. During the period during which an Event of Default shall have occurred and be continuing:

(i) Lender shall have all of the rights and remedies with respect to the Collateral of a secured party under the Uniform Commercial Code (whether or not the Uniform Commercial Code is in effect in the jurisdiction where the rights and remedies are asserted) and such additional rights and remedies to which a secured party is entitled under the laws in effect in any jurisdiction where any rights and remedies hereunder may be asserted, including, without limitation, the right, to the maximum extent permitted by law, to exercise all voting, consensual and other powers of ownership pertaining to the Collateral as if Lender were the sole and absolute owner thereof (and Pledgor agrees to take all such action as may be appropriate to give effect to such right);

(ii) Lender in its discretion may, in its name or in the name of Pledgor or otherwise, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for any of the Collateral, but shall be under no obligation to do so;

(iii) Lender may, at its option, apply all or any part of the Collateral to the Pledgor's Obligations in such order and priority as shall be selected by Lender;

(iv) Lender may accelerate the indebtedness secured hereby;

(v) Lender may, upon not less than ten (10) days' prior written notice to Pledgor of the time and place, with respect to the Collateral or any part thereof which shall then be or shall thereafter come into the possession, custody or control of Lender or any of its agents, sell, assign or otherwise dispose of all or any part of such Collateral, at such place or places as Lender deems best, and for cash or on credit or for future delivery (without thereby assuming any credit risk), at public or private sale, without demand of performance or notice of intention to effect any such disposition or of time or place thereof (except such notice as is required above or by applicable statute and cannot be waived) and Lender or anyone else may be the purchaser, assignee or recipient of any or all of the Collateral so disposed of at any public sale (or, to the extent permitted by law, at any private sale), and thereafter hold the same absolutely, free from any claim or right of whatsoever kind, including any right or equity of redemption (statutory or otherwise), of Pledgor, any such demand, notice or right and equity being hereby expressly waived and released. Unless prohibited by applicable law, Lender may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned; Lender shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption of Pledgor, which right or equity of redemption is hereby waived and released;

(vi) Lender may exercise all membership rights, powers and privileges to the same extent as Pledgor is entitled to exercise such rights, powers and privileges;

(vii) Upon notice to Pledgor, Lender may cause the Pledged Interests to be sold in accordance with clause (v) above and, in connection therewith, cause each purchaser of all or any part of any Pledged Interests to be admitted as a new member or owner of the Collateral, to the extent of such Pledged Interests, and cause Pledgor to withdraw as a member or owner the Collateral to the extent such Pledged Interests is sold (in accordance with clause (v) above), and complete by inserting the effective date of the sale and the name of the assignee thereunder and deliver to such assignee each Assignment of Interest executed and delivered by Pledgor and, if appropriate, cause one or more amended or restated certificates of limited partnership, certificates of limited liability company or articles of incorporation to be filed with respect to the Collateral.

(viii) Lender may exercise any and all rights and remedies of Pledgor under or in connection with the Relevant Documents or otherwise in respect of the Collateral, including, without limitation, any and all rights of Pledgor to demand or otherwise require payment of any amount under, or performance of any provisions of, the Relevant Documents;

(ix) all payments received by Pledgor under or in connection with the Relevant Documents or otherwise in respect of the Collateral shall be received in trust for the benefit of Lender, shall be segregated from other funds of Pledgor and shall be forthwith paid over to Lender in the same form as so received (with any necessary endorsement); and

(x) make any compromise or settlement deemed desirable with respect to any of the Collateral and may extend the time of payment, arrange for payment in installments, or otherwise modify the terms of, any of the Collateral.

The proceeds of each collection, sale or other disposition under this Section 9(a) shall be applied by Lender to the Pledgor's Obligations pursuant to Section 8(c) hereof.

(b) Private Sale. Lender shall not incur any liability as a result of the sale of the Collateral, or any part thereof, at any private sale pursuant to Section 8(a) hereof conducted in a commercially reasonable manner. Pledgor hereby waives any claims against Lender arising by reason of the fact that the price at which the Collateral may have been sold at such a private sale was less than the price which might have been obtained at a public sale or was less than the aggregate amount of the Pledgor's Obligations, even if Lender accepts the first offer received and does not offer the Collateral to more than one offeree.

(c) Application of Proceeds. Except as otherwise herein expressly provided, the proceeds of any collection, sale or other realization of all or any part of the Collateral pursuant hereto, and any other cash at the time held by Lender under this Section 8, shall be applied by Lender:

First, to the payment of the reasonable out-of-pocket costs and expenses of such collection, sale or other realization, including reasonable out-of-pocket costs and expenses of Lender and the fees and expenses of their respective agents and counsel, and all expenses, and advances made or incurred by Lender in connection therewith;

Next, to the payment in full of the Pledgor's Obligations; and

Finally, to the payment to Pledgor, or its successors or assigns, or as a court of competent jurisdiction may direct, of any surplus then remaining.

As used in this Section 8, "***proceeds***" of Collateral shall mean cash, securities and other property realized in respect of, and distributions in kind of, Collateral, including any thereof received under any reorganization, liquidation or adjustment of debt of Pledgor or any issuer of or obligor on any of the Collateral.

(d) Attorney-in-Fact. Without limiting any rights or powers granted by this Agreement to Lender while no Event of Default has occurred and is continuing, upon the occurrence and during the continuance of any Event of Default Lender is hereby appointed the attorney-in-fact of Pledgor for the purpose of carrying out the provisions of this Section 10 and taking any action and executing any instruments which Lender may deem necessary or advisable to accomplish the purposes hereof (including, without limitation, (i) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral; (ii) to receive, endorse and collect any drafts or other instruments, documents and chattel paper in connection with clause (i) above; (iii) to file any claims or take any action or institute any proceedings that the Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of Lender, with respect to any of the Collateral; and (iv) to execute, in connection with the sale provided for in this Section 8 or in Section 9 any endorsement, assignments, or other instruments of conveyance or transfer with respect to the Collateral) which appointment as attorney-in-fact is irrevocable and coupled with an interest. Without limiting the generality of the foregoing, so long as Lender shall be entitled under this Section 8 to collect and receive any payments in respect of the Collateral, Lender shall have the right and power to receive, endorse and collect all checks made payable to the order of Pledgor representing any payment or other distribution in respect of the Collateral or any part thereof and to give full discharge for the same. If so requested by Lender, Pledgor shall ratify and confirm any such sale or transfer by executing and delivering to Lender at Pledgor's expense all proper deeds, bills of sale, instruments of assignment, conveyance of transfer and releases as may be designated in any such request.

(e) Enforcement Expenses. Pledgor agrees to pay to Lender all reasonable out-of-pocket expenses (including reasonable attorneys fees) of, or incident to, the enforcement of any of the provisions of this Section 8, or performance by Lender of any obligations of Pledgor in respect of the Collateral which Pledgor has failed or refused to perform or any actual or attempted sale, or any exchange, enforcement, collection, compromise or settlement in respect of any of the Collateral, and for the care of the Collateral and defending or asserting rights and claims of Lender in respect thereof, by litigation or otherwise and all such expenses shall be Obligations to Lender secured under Section 2 hereof.

(f) No Election of Remedies. Without limitation as to any other right or remedy provided to Lender in this Agreement or the other Loan Documents, in the case of an Event of Default which has occurred and is continuing (i) Lender shall have the right to pursue all of its rights and remedies under this Agreement and the Loan Documents, at law and/or in equity, in one proceeding, or separately and independently in separate proceedings from time to time, as Lender, in its sole and absolute discretion, shall determine from time to time, (ii) Lender shall not be required to either marshall assets, sell any of the Collateral in any particular order of alienation (and may sell the same simultaneously and together or separately), or be subject to any "one action" or "election of remedies" law or rule with respect to any of the Collateral, (iii) the exercise by Lender of any remedies against any one item of Collateral will not impede Lender from subsequently or simultaneously exercising remedies against any other item of Collateral, (iv) all liens and other rights, remedies or privileges provided to Lender herein shall remain in full force and effect until Lender has exhausted all of its remedies against the Collateral and all Collateral has been sold and/or otherwise realized upon in satisfaction of the Indebtedness, and (v) Lender may resort for the payment of the Indebtedness to any security held by Lender in such order and manner as Lender, in its discretion, may elect and Lender may take action to recover the Indebtedness, or any portion thereof, or to enforce any covenant hereof without prejudice to the right of Lender thereafter to foreclose this Agreement.

(g) Foreclosure Sale. Pledgor agrees that Lender shall not have any general duty or obligation to make any effort to obtain or pay any particular price for any Collateral sold by Lender pursuant to this Agreement. Without in any way limiting Lender's right to conduct a foreclosure sale in any manner which is considered commercially reasonable, Pledgor hereby agrees that a foreclosure sale conducted in accordance with the following provisions shall be considered a commercially reasonable sale and hereby irrevocably waives any right to contest any such sale:

(i) Lender conducts the foreclosure sale in the State of New York;

(ii) The foreclosure sale is conducted in accordance with the laws of the State of New York;

(iii) Not more than ten (10) days, and not less than five (5) days in advance of the foreclosure sale, Lender notifies Pledgor in writing pursuant to Section 13(e) hereof of the time and place of such foreclosure sale;

(iv) The foreclosure sale is conducted by an auctioneer licensed in the State of New York and is conducted in front of the New York Supreme Court located in New York City or such other New York State Court having jurisdiction over the Pledged Collateral on any Business Day between the hours of 9 a.m. and 5 p.m.;

(v) The notice of the date, time and location of the foreclosure sale is published in the *New York Times* or *The Wall Street Journal* (or such other newspaper widely circulated in New York, New York) for seven (7) consecutive days prior to the date of the foreclosure sale; and

(vi) Lender sends written notification of the foreclosure sale to all secured parties identified as a result of a search of the UCC financings statements in the filing offices located in the States of Delaware and New York conducted not later than twenty (20) days and not earlier than thirty (30) days before such notification date.

9. Private Sales. (i) Upon request by Lender during the continuance of an Event of Default, Pledgor recognizes that Lender may be unable to effect a public sale of any or all of the Pledged Interests, by reason of certain prohibitions contained in the Securities Act of 1933, as amended, and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof conducted in accordance with the Code to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Pledgor acknowledges and agrees that any such private sale may result in prices and other terms less favorable to Lender than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall not be deemed to have been made in a commercially unreasonable manner solely by virtue of being a private sale. Lender shall be under no obligation to delay a sale of any of the Pledged Interests for the period of time necessary to permit Pledgor to register such securities for public sale under the Securities Act of 1933, as amended, or under applicable state securities laws, even if Pledgor would agree to do so.

(a) Pledgor further shall use its best efforts to do or cause to be done all such other acts as may be reasonably necessary to make any sale or sales of all or any portion of the Collateral pursuant to this Section 9 valid and binding and in compliance with any and all other requirements of applicable law. Pledgor further agrees that a breach of any of the covenants contained in this Section 9 will cause irreparable injury to Lender, that Lender has no adequate remedy at law in respect of such breach and, as a consequence,

that each and every covenant contained in this Section 9 shall be specifically enforceable against Pledgor, and Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred or is currently continuing under the Guaranty, Loan Agreement, this Agreement or the other Loan Documents.

(b) Lender shall not incur any liability as a result of the sale of any Pledged Interests, or any part thereof, at any private sale conducted in a commercially reasonable manner, it being agreed that some or all of the Pledged Interests is or may be of one or more types that threaten to decline speedily in value and that are not customarily sold in a recognized market. Pledgor hereby waives any claims against Lender arising by reason of the fact that the price at which any of the Pledged Interests may have been sold at such a private sale was less than the price which might have been obtained at a public sale or was less than the aggregate amount of the Pledgor's Obligations, even if Lender accepts the first offer received and does not offer any Collateral to more than one offeree. Notwithstanding the foregoing, such private sale shall be conducted in a commercially reasonable manner.

(c) The Code states that Lender is able to purchase the Pledged Interests only if they are sold at a public sale. Lender has advised Pledgor that Securities and Exchange Commission ("SEC") staff personnel have issued various No-Action Letters describing procedures which, in the view of the SEC staff, permit a foreclosure sale of securities to occur in a manner that is public for purposes of Article 9 of the Code, yet not public for purposes of Section 4(2) of the Securities Act of 1933, as amended. The Code permits Pledgor to agree on the standards for determining whether Lender has complied with its obligations under Article 9 of the Code. Pursuant to the Code, Pledgor specifically agrees that it shall not raise any objection to Lender's purchase of the Pledged Interests (through bidding on the Pledgor's Obligations or otherwise), in conformity with the principles set forth in the aforementioned No-Action Letters based upon a contention that such sale was not a "public" sale for purposes of the Code. Pledgor further agrees that (i) the failure by Lender to register the Pledged Interests under the Securities Laws, even if Pledgor agrees to pay all costs of the registration process, and (ii) Lender's purchase of the Pledged Interests at such a sale, in either case, shall not have any effect on the commercial reasonableness of such sale.

10. Limitation on Duties Regarding Collateral. Lender's sole duty with respect to the custody, safekeeping and physical preservation of the Collateral in its possession, under Section 9-207 of the Code or otherwise, shall be to deal with it in the same manner as Lender deals with similar securities and property for its own account. Neither Lender nor any of its directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon any of the Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Pledgor or otherwise.

11. Termination. When the Credit Repayment has been completed, this Agreement shall terminate and Lender shall forthwith cause to be assigned, transferred and delivered any remaining Collateral and money received in respect thereof to or on the order of Pledgor, in each case pursuant to documents acceptable to Lender in form and substance, at the sole expense of Pledgor, and without any recourse to or warranty or representation by Lender whatsoever.

12. The Pledgor's Independent Investment Decision, Etc. Pledgor represents and warrants to Lender, as of the date hereof and Pledgor hereby covenants and agrees with Lender, as follows in each subsection of this Section: (a) Pledgor (i) is a sophisticated and knowledgeable investor, both generally and with respect to each investment and other item of Collateral, (ii) has obtained and received directly from each holder or issuer of each investment and other item of Collateral (which for the purpose of this Section shall be deemed not to include Lender) and independently investigated, reviewed and fully evaluated all

financial and other information as it deemed necessary, prudent or desirable in order to make its own investment, business and economic decisions in respect of each investment and other item of Collateral, and will continue to do so, (iii) has made, and will continue to make, independent selections and decisions respecting the investments and other Collateral, and (iv) does not directly or indirectly control, and is not an officer, director, employee, general partner, member or trustee of, any holder or issuer of any Collateral other than any investment in any other Credit Party included in the Collateral; (b) Lender and its representatives have not offered, provided or made, and shall not be deemed or construed to have offered, provided or made, any Credit Assurance in respect of any investment or other Collateral, including (without limitation) any Credit Assurance with respect to any existing or future (i) existence, enforceability, genuineness, value or condition of any such Collateral or (ii) any Credit Attribute of any issuer or holder of any such Collateral or any other Person; (c) neither Lender nor any of its representatives shall have, or shall be deemed or construed to have, any duty, liability, obligation or responsibility whatsoever for any act or omission of any issuer or holder of any such Collateral or any other Person or any failure by anyone to perform any of its obligations under or with respect to any of the Collateral, all of which are hereby absolutely, unconditionally, irrevocably and expressly waived (to the fullest extent permitted by applicable law) forever by each Pledgor; and (d) neither Lender nor any of its representatives has, or shall be deemed or construed to have, any agreement, duty or obligation to notify or inform any Pledgor of any matter relating to any of the Collateral or any holder or issuer of any of the Collateral or to furnish to any Pledgor any information pertaining thereto.

13. Continuing Agreement, Payment in Accordance with Terms, Etc. Pledgor acknowledges and confirms to and covenants and agrees with Lender that: (a) the security interests granted by him or her hereunder are continuing security interests securing the full and timely payment and satisfaction of Pledgor's Obligations, and not securing collectability only, in each case whether Pledgor's Obligations are now or hereafter existing, acquired or created, and irrespective of the fact that from time to time under the provisions of the Loan Documents monies may be advanced, repaid and readvanced and the outstanding balance of the Loans may be zero; (b) the security interests granted by him or her hereunder may not be revoked or terminated by Pledgor until such time as the Credit Repayment shall have been completed; (c) Credit Repayment shall not be deemed to have been otherwise completed so long as any Loan Document (other than this Agreement) shall have any continuing force or effect; and (d) the Credit Obligations will be paid and satisfied in full in accordance with the provisions of the Loan Documents without regard to any applicable law now or hereafter in effect in any jurisdiction, including (without limitation) any applicable law that might in any manner affect any of those provisions or any of the rights, powers, privileges, remedies and interests of Lender with respect thereto, or that might cause or permit to be invoked any alteration by Pledgor, any other Surety or any other Person (other than Lender) in the time, amount or manner of payment of any of their respective obligations to Lender under any of the Loan Documents.

14. Subordination of Indebtedness, Subrogation and Contribution Rights, Etc. Pledgor acknowledges and confirms to and covenants and agrees with Lender that until Credit Repayment has been completed, any and all Subordinated Rights of Pledgor shall be subordinate and inferior in priority and dignity to Pledgor's Obligations and shall not be entitled to any payment or satisfaction (in whole or in part) until, Credit Repayment has been completed. Until such time (if ever) as Credit Repayment has been completed: (A) Pledgor shall not seek any payment or exercise or enforce any right, power, privilege, remedy or interest that Pledgor may have with respect to any Subordinated Right and (B) any payment, asset or property delivered to or for the benefit of Pledgor in respect of any Subordinated Right shall be accepted in trust for the benefit of Lender and shall be promptly paid or delivered to Lender to be credited and applied to the payment and satisfaction of the Pledgor's Obligations, whether contingent, matured or unmatured, or to be held by Lender as additional collateral, as Lender may elect in its sole and absolute discretion. Pledgor hereby acknowledges and agrees that pursuant to this Agreement Pledgor has granted to Lender a continuing

security interest in and to any and all Subordinated Rights of Pledgor and the proceeds thereof. In addition to the rights, powers, privileges, remedies and interest accorded to Lender by this Agreement or applicable law, Lender may exercise any voting, consent, enforcement or other right, power, privilege, remedy or interest pertaining to any Subordinated Right to the same extent as if Lender were the outright owner thereof.

15. Waiver of Impairment of Subrogation and Other Rights by Subordination, Etc. Pledgor acknowledges and confirms to and covenants and agrees with Lender that: (a) the payments, Proceeds and other amounts (if any) that potentially could be realized or retained eventually by Pledgor under or in respect of any Subordinated Right, as well as the collectability, effectiveness, enforceability, practicality or value of any Subordinated Right, may be substantially reduced, limited or otherwise impaired or completely eliminated by any of the subordinations and related waivers and agreements by Pledgor authorized, contemplated, permitted or provided for under this Agreement, any other Loan Document or applicable law (the "Pledgor Subordinations"), including (without limitation) any one or more of the following (either individually or in the aggregate) (i) the complete restrictions on Pledgor's ability to collect, receive or retain any payments, Proceeds or other amounts whatsoever under or to otherwise enforce or exercise any Subordinated Right until such time (if ever) as Credit Repayment has been completed, and the inherent effects of such delay, (ii) payments by Pledgor, any Surety or any other Person from declining or limited resources to Lender or any other Person, (iii) any foreclosure, sale, lease or other liquidation or disposition or realization respecting, or any other adverse change (however material) in, any Collateral or the amount, nature or application of any Proceeds or other amounts therefrom, (iv) any exercise or enforcement of any Credit Right or any other Credit Action by Lender, (v) any action or inaction by any Credit Party or any other Person, whether or not contemplated, authorized, permitted or provided for under any Loan Document or applicable law, (vi) any adverse or other change (however material) in any Credit Attribute of Pledgor, any Surety or any other Person, or (vii) any direct or indirect adverse effect (however likely or material) on any Subordinated Right, whether or not arising out of or related directly or indirectly to any of the foregoing; (b) Lender is not acting for Pledgor or its benefit, whether as agent, fiduciary or otherwise, as more fully provided in Section 20 hereof ("Relationship of the Parties, No Agency, Etc"), whether respecting any Subordinated Right or otherwise, and Lender may from time to time exercise or enforce any Credit Right(s) or take any other Credit Action(s) (in whole or in part), or stop or refrain from doing so, without any consideration of or regard to any Subordinated Right or any direct or indirect adverse effect thereupon (however likely or material); (d) Pledgor shall not be entitled to any payment or other asset or property (or any part thereof) delivered to or otherwise realized by Lender on account of Pledgor's Obligations or Surety's Obligations or to any accounting thereof; (e) none of the foregoing (whether individually or in the aggregate) shall (i) release, limit or otherwise affect Pledgor Subordinations or other Pledgor's Obligations, or (ii) give rise to any abatement, action, claim, counterclaim, determination, right of setoff, recoupment or reduction, or other defense or remedy on the part of Pledgor, any other Surety, or any other Person against or in respect of Pledgor Subordinations, Lender or any other Person, any Pledgor's Obligations or any Loan Document, and (f) Pledgor hereby absolutely, unconditionally, irrevocably, expressly and forever (to the greatest extent permitted by applicable law) waives, and agrees to not exercise or enforce or otherwise assert or pursue (by action, suit, counterclaim or otherwise), each and every claim, counterclaim, right of abatement, recoupment, reimbursement, reduction or setoff, or other defense, determination, right or remedy otherwise available to it at any time respecting any of the foregoing actions and events.

16. Certain Acknowledgments and Waivers Respecting Collateral Actions, Etc. Pledgor acknowledges and confirms to and covenants and agrees with Lender that: the Credit Rights include (without limitation) all of the things referenced in this Section and in Section 8 hereof; the Credit Rights in respect of and related to the Collateral are purely discretionary; and the existence, exercise or enforcement of any Credit Right or Loan Document (in whole or in part) shall not, and shall not be deemed or construed to, impose upon Lender any duty or other obligation of any kind or nature whatsoever, including (without

limitation) any duty or obligation (i) to sell, foreclose or otherwise realize upon any Collateral, (i) to protect, preserve, process, prepare, repair or improve any of the Collateral, whether or not in the possession or control of Lender or any of its designees, (i) to perform or satisfy any obligation under or respecting any of the Collateral or Pledgor, (i) to make any representation or warranty or assume any liability or obligation in its liquidation or disposition of any Collateral, (i) to mitigate or otherwise reduce any damage or other loss, or (i) to otherwise exercise or enforce any such right, power, privilege, remedy or interest. Any sale, foreclosure or other realization upon the Collateral, or any other exercise or enforcement of any such right, power, privilege, remedy or interest, if undertaken by Lender in its sole and absolute discretion, may be delayed, discontinued or otherwise not pursued or exhausted for any reason whatsoever (whether intentionally or otherwise). Without limiting the generality of the foregoing, Pledgor hereby absolutely, unconditionally, irrevocably, expressly and forever (to the greatest extent permitted by applicable law) waives, and agrees to not exercise or enforce or otherwise assert or pursue (by action, suit, counterclaim or otherwise), each and every claim, counterclaim, right of abatement, recoupment, reimbursement, reduction or setoff, or other defense, determination, right or remedy otherwise available to it at any time respecting (i) any settlement or compromise with any obligor or other third party under any account receivable, note, instrument, agreement, document or general intangible included in the Collateral, irrespective of any reduction in the potential proceeds therefrom, (ii) the selection or order of liquidation or disposition of the Collateral (which may be at random or in any order(s) Lender may select in its sole and absolute discretion), (iii) any disposition of any Collateral in its then current condition, in each case without any processing, preparation, repair, or improvement, any registration, qualification or other approval or change therein, or any other beneficial action respecting any Collateral, any of which Lender in its discretion may (but shall not be required to) undertake and which if so undertaken may be delayed, discontinued or otherwise not pursued or exhausted by Lender in its discretion for any or no reason whatsoever (whether intentionally or otherwise), (iv) the private sale or other disposition of any Collateral, whether or not any public market exists, or the sale or other liquidation or disposition of any Collateral pursuant to the relevant Related Document, (v) the choice or timing of any date for any sale, redemption or other liquidation or disposition (which Lender may select in its sole and absolute discretion), irrespective of whether greater proceeds or other amounts would be realizable on a different date, (vi) the choice of whether to sell, lease, license or otherwise dispose of any Collateral (which Lender may select in its discretion), irrespective of whether greater proceeds or other amounts would be realizable (immediately or otherwise) with a different form of disposition, (vii) the adequacy of any proceeds or other amounts received respecting any Collateral, (viii) any other term or condition of any disposition of any Collateral, including (without limitation) any disposition by Lender "as is" or with limited or no representations or warranties from Lender respecting title, infringement, interference, merchantability, fitness for a particular purpose or other condition, circumstance or event, (ix) any insufficiency of any such proceeds or other amounts to fully satisfy Pledgor’s Obligations and Surety's Obligations, (x) any sale or other disposition of Collateral to the first Person to receive an offer or make a bid, (xi) the selection of any purchaser or other acquiror of any Collateral, or (xii) any default by any purchaser or other acquiror of any Collateral. Pledgor hereby absolutely, unconditionally, irrevocably, expressly and forever (to the greatest extent permitted by applicable law) (A) waives, and agrees to not exercise or enforce or otherwise assert or pursue (by action, suit, counterclaim or otherwise), each and every applicable law pertaining to notice (other than notices to it required by any Loan Document), appraisal, valuation, extension, moratorium, stay, marshaling of assets, exemption or equity of redemption or similar defense, right or provision respecting collateral or its disposition that are or may be in conflict with the provisions of this Agreement and the other Loan Documents now or at any time in the future; and (B) agrees that Lender and its representative shall not owe any duty or incur any liability whatsoever in connection with any sale of or other action taken respecting any Collateral in accordance with this Agreement, any other Loan Document, any applicable Related Document or any applicable law.

17. Independent Review and Decision by Pledgor, No Assurances by Lender, Etc. Pledgor represents, warrants and acknowledges to and covenants and agrees with Lender that: (i) Pledgor has obtained, received and independently investigated, reviewed and fully evaluated (i) its own relevant Credit Attributes and the applicable Credit Attributes of each other Credit Party and the proposed Collateral, (ii) the Loan Documents, the obligations and transactions contemplated under the Loan Documents, and the potential effects of such documents, obligations and transactions (among other things) on the Credit Attributes of Pledgor, the other Credit Parties and their respective affiliates, and (iv) such other relevant documents and information (financial or otherwise), in each case as Pledgor deemed necessary, prudent or desirable in order to make its own business and economic decisions in respect of Pledgor's Obligations, the Collateral and the Loan Documents, which review and evaluation was made together with its own legal counsel and (to the extent it deemed necessary, prudent or desirable) its own financial and other advisors; (i) Lender and its representatives have not offered, provided or made, and shall not be deemed or construed to have offered, provided or made, any direct or indirect advice, analysis, confirmation, counsel, covenant, guaranty, guidance, indemnity, information, promise, recommendation, representation, responsibility, support, undertaking, warranty, or other assurance or obligation of any kind or nature whatsoever (each a "Credit Assurance"), including (without limitation) any Credit Assurance in respect of Pledgor, any other Credit Party, any of their respective Affiliates or any other Person or any of their respective Credit Attributes, any Pledgor's Obligations, any Collateral or any Loan Document, in each case whether (i) material or otherwise, (ii) known or unknown, (iii) oral, written or otherwise, (iv) affirmative or negative, (v) express or implied, (vi) adverse, material or otherwise, and (vii) now or hereafter existing; (i) Pledgor has not received and is not relying upon any such Credit Assurance from Lender or any of its representatives; (i) each Credit Party has the necessary business acumen, experience, expertise and industry and other knowledge for the ownership, development, operation and financing of its current and contemplated business, assets and properties and their effect on their respective Credit Attributes, and no Credit Party is relying upon any such business acumen, experience, expertise, industry or other knowledge or other guidance of any kind or nature whatsoever from or purportedly held by Lender, any of its Affiliates or any of their respective representatives; (i) such First Party has, and hereby expressly retains and assumes, all responsibility and risk for keeping itself fully informed and up to date respecting any Credit Attribute, Credit Event (as hereinafter defined) or other act, change, circumstance, event, matter, status or other information of any kind or nature respecting or relevant to any Credit Party, Pledgor's Obligations, Collateral or Loan Document, and to conduct any and all investigations, reviews and evaluations that it from time to time may deem necessary, prudent or desirable in connection therewith; and (i) no counsel to Lender has in any way provided any tax or other legal counsel, analysis or Credit Assurance to, or has in any way otherwise represented, any Credit Party, any of its Affiliates or any of their respective representatives, whether in connection with any Loan Document or otherwise (and each such counsel may rely on this clause (f) as if directly addressed to them and is an intended third party beneficiary hereof).

18. Agreement Absolute, Survival of Representations and Covenants, Etc. Each of the collateral grants, representations and warranties (as of the date(s) made or deemed made), subordinations, deferrals, standstills, bailments, trusts, covenants, waivers and other agreements and obligations of Pledgor (whether individual, joint, several or otherwise) contained in this Agreement and the other Loan Documents: (a) are and shall be absolute, irrevocable and unconditional, and shall survive and remain and continue in full force and effect in accordance with their respective provisions, in each case without regard to (among other things) any invalidity, illegality, non-binding effect or unenforceability (in whole or in part) for any reason whatsoever of any other Loan Document, or of any provision of this Agreement, including (without limitation) by reason of the absence (in whole or in part) of any required authentication, authority, capacity, consent, consideration, disclosure, equivalent value, filing, notice, recordation, signature, writing or other action, or the presence (in whole or in part) of any contractual conflict, defense, illegality, misconduct, misrepresentation, mistake, prohibition, restriction or right of reimbursement, recoupment or setoff; (b) are

and shall be absolute, irrevocable and unconditional with regard to, and shall survive and remain and continue in full force and effect in accordance with their respective provisions following and without regard to, each of the following (among other things), (i) the execution and delivery of this Agreement or any other Loan Document and the performance or non-performance of any Pledgor's Obligations or Surety's Obligations under any Loan Document, (ii) any advance, accrual, payment, repayment or readvance of any amount under any Loan Document, or any request or notice with respect thereto, or the inception, creation, acquisition, increase, decrease, satisfaction or existence from time to time of any Pledgor's Obligations or Surety's Obligations under any Loan Document, in each case irrespective of the fact that from time to time the outstanding balance of the Loans and other monetary Pledgor's Obligations may be zero, (iii) any waiver, modification, extension, renewal, consolidation, spreading, amendment or restatement of or other change in any provision of (A) this Agreement or any other Loan Document or (B) any one or more of Pledgor's Obligations or any Surety's Obligations, including (without limitation) any extension or other change in the time, manner, place or other term of payment or performance of any of the foregoing, in each case except as and to the extent expressly modified by the provisions of any such extension, change, waiver, modification, renewal, consolidation, spreading, amendment or restatement, (iv) any full, partial or non-exercise of any of the Credit Rights of Lender under any Loan Document or applicable law, against Pledgor, any Surety or any other Person or with respect to any of Pledgor's Obligations, any Surety's Obligations, any other obligations or any collateral or security interest therein, which exercise or enforcement may be delayed, discontinued or otherwise not pursued or exhausted for any or no reason whatsoever, or which may be waived, omitted or otherwise not exercised or enforced (whether intentionally or otherwise), (v) any surrender, repossession, sequestration, foreclosure, conveyance or assignment (by deed in lieu or otherwise), sale, lease or other realization, dealing, liquidation or disposition respecting any collateral or setoff respecting any account or other asset in accordance with any Loan Document or applicable law (except as and to the extent Pledgor's Obligations have been permanently reduced by the application of the net proceeds thereof), (vi) the perfected or non-perfected status or priority of any mortgage or other security interest in any such collateral, which may be held without recordation, filing or other perfection (whether intentionally or otherwise), (vii) any release, settlement, adjustment, subordination or impairment of all or any part of Pledgor's Obligations, any Surety's Obligations, any other obligations or any collateral or any security interest therein under or with respect to any Loan Document or applicable law, whether intentionally or otherwise (except as and to the extent expressly modified by the provisions of any such release, settlement or adjustment), (viii) any extension, stay, moratorium or statute of limitations or similar time constraint under any applicable law, (ix) any investigation, analysis or evaluation by Lender or its designees of any Credit Attribute of Pledgor, any other Surety, or any other Person, (x) any application to any obligations of Pledgor or any other Surety other than any Pledgor's Obligations or Surety's Obligations of (A) any payments from such Person not specifically designated for application to Pledgor's Obligations or Surety's Obligations or (B) any proceeds of collateral from such Person other than from the Collateral, (xi) any rejection (in whole or in part) or acceptance for retention as collateral (and not as payment) of any prepayment or tender of payment under any Loan Document not expressly required or permitted thereunder, (xii) any sale, conveyance, assignment, participation or other transfer by Lender (in whole or in part) to any other Person of any one or more of this Agreement or any of the Loan Documents or any one or more of the rights, powers, privileges, remedies or interests of Lender herein or therein, (xiii) any other Credit Action, (xiv) any diligence by Lender or any other Person respecting any Credit Attributes of any Credit Party or any other Person; (xv) any Credit Event (as hereinafter defined), or (xv) any act or omission on the part of Lender or any other Person or any other act, event or circumstance that otherwise might constitute a legal or equitable defense, counterclaim or discharge of a borrower, creditor, debtor, co-obligor, debtor, indemnitor, issuer, guarantor, maker, obligor, pledgor, subordinator, supporting obligor or surety; in each case in such manner and order, upon such provisions and subject to such conditions as Lender may deem necessary or desirable in its sole and absolute discretion, without notice to or further assent from Pledgor, any other Surety, or any other Person (except for such notices as may be expressly required to be given to such party under the applicable

Loan Document), and without affecting any of the rights, powers, privileges, remedies and other interests of Lender under this Agreement, the other Loan Documents and applicable law; (c) shall not be subject (to the greatest extent permitted by applicable law) to any claim, counterclaim, right of abatement, recoupment, reimbursement, reduction or setoff, or other defense, determination, right or remedy that Pledgor, any other Surety, or any other Person may have against Lender, any Surety or any other Person, and Pledgor hereby absolutely, unconditionally, irrevocably, expressly and forever (to the greatest extent permitted by applicable law) waives, and agrees to not exercise or enforce or otherwise assert or pursue (by action, suit, counterclaim or otherwise), each and every such claim, counterclaim, right of abatement, recoupment, reimbursement, reduction or setoff, or other defense, determination, right or remedy otherwise available to it at any time; (d) shall not be diminished or qualified by the death, disability, dissolution, reorganization, insolvency, bankruptcy, custodianship or receivership of Pledgor, any other Surety, or any other Person, or the inability of any of them to pay their respective debts or perform or otherwise satisfy their respective obligations as they become due for any reason whatsoever; and (e) shall remain and continue in full force and effect in accordance with their respective provisions without regard to any of the foregoing acts, events or circumstances. Pledgor contingent obligations under the Sections 3 and 21(f) hereof, as well as all of the general provisions of this Agreement (including, without limitation, all Sections beginning with Section 11 through the end of this Agreement and applicable definitions appearing elsewhere), shall survive completion of Credit Repayment and shall remain and continue in full force and effect thereafter throughout all applicable statute of limitation periods and the final resolution of all claims pending at the end of such periods.

19. Waivers of Notices, Certain Defenses, Etc. Except for notices to it expressly required under any Loan Document, Pledgor hereby absolutely, unconditionally, irrevocably, expressly and forever (to the greatest extent permitted by applicable law) waives, and agrees to not exercise or enforce or otherwise assert or pursue (by action, suit, counterclaim or otherwise), each and all of the following (each a "Credit Event"): (i) acceptance and notice of any acceptance of this Agreement or any other Loan Document; (i) notice of any action taken or omitted in reliance hereon; (i) presentment and notice of any presentment; (i) demand for payment and notice of any such demand, in each case except to the extent otherwise expressly required by this Agreement; (i) dishonor and notice of any dishonor; (i) protest and notice of any protest; (i) any right, power or privilege to make any prepayment or tender of payment (in whole or in part) of any Pledgor's Obligations or Surety's Obligations, in each case except to the extent otherwise expressly required or permitted in this Agreement or in any written consent or demand from Lender; (i) notice of any request for, any change in or any making, repayment or remaking of any loan, advance or other extension of credit at any time under this Agreement or any other Loan Document; (i) notice of any nonpayment or other event that constitutes a Default or an Event of Default; (i) notice of any act, change, circumstance, event, matter, status or other information of any kind or nature, irrespective of relevancy or materiality, effecting or respecting (i) any Credit Attribute respecting any Credit Party or any Collateral, (ii) the due authorization, due execution and delivery, or legality, validity, binding effect, enforceability or effectiveness of any Loan Document, (iii) the accuracy, completeness, comprehensiveness, genuineness or sufficiency of any Loan Document, any financial statement, certificate, report, printout or other item delivered at any time pursuant thereto, or any recital, representation, warranty, certification, statement or other information therein from or respecting any Credit Party therein, or whether any of them are in any way reasonable, relevant, truthful, up to date or useful, (iv) the permissibility, value, creation, attachment, perfection, description, relative priority, sufficiency, effectiveness or practical realization respecting any Lien contemplated under any Loan Document, or (v) the collectability, existence, value or practical realization of any Pledgor's Obligations; (i) notice that any Credit Party (i) is not solvent (*i.e.*, the aggregate fair value of its assets do not exceed the sum of its liabilities), (ii) does not have adequate working capital, (iii is not able to pay its debts as they mature, or (iv) has considered, threatened or commenced any Bankruptcy Proceeding respecting itself or any other Credit Party; (i) notice of any act, change, circumstance, matter, status or other event of any kind or nature, irrespective of relevancy or materiality, described in Section 15, 16, 17 or 18 hereof ; and (i) any

other proof, notice or demand of any kind whatsoever with respect to any or all of Pledgor's Obligations or Surety's Obligations or promptness in making any claim or demand under this Agreement or any other Loan Document. No act or omission of any kind in connection with any of the foregoing shall in any way impair or otherwise affect the continuation, applicability, legality, validity, binding effect or enforceability of any provision of this Agreement or any other Loan Document or any of Pledgor's Obligations or Surety's Obligations. No Lender has and no Lender shall be deemed or construed to have, any agreement, duty or obligation whatsoever to notify (except for notices expressly required hereunder) or inform any Credit Party or other Person respecting any Credit Party, Credit Attribute, Credit Event, Pledgor's Obligations, Collateral, Loan Document or other act, change, circumstance, event, matter, status or other information of any kind or nature, irrespective of materiality or relevancy, or to respond to any inquiry or request or to furnish any documentation with respect thereto.

20. Relationship of the Parties, No Agency, Etc. Pledgor represents, warrants and acknowledges to and covenants and agrees with Lender that: (i) Lender is acting solely in the capacity of lender and secured party and the Credit Parties are acting solely in their respective capacities as debtor, pledgor, guarantor and surety, and such debtor/creditor relationship is the only relationship between them, under the Loan Documents or in respect of any of the Collateral, Pledgor's Obligations, Credit Rights or Credit Actions; (i) no provision of this Agreement or any other Loan Document is intended to assign to or impose on any Lender Party or otherwise create, nor shall any such provision be deemed or construed to have assigned to or imposed on any Lender Party or otherwise created, any agency, joint venture, partnership, trust or other fiduciary or advisory relationship in favor or for the benefit of Pledgor, any Surety or any of their respective Affiliates; (i) Lender is not acting for Pledgor or its benefit, whether as an advisor, agent, fiduciary or otherwise (as more fully provided above), and Lender may from time to time exercise or enforce any Credit Right (s) or take any other Credit Action(s) (in whole or in part), or stop or refrain from doing so, without any consideration of or regard to any of Pledgor's Obligations or Surety's Obligations, any Collateral, any Subordinated Right, any Credit Attribute of any Credit Party or any direct or indirect adverse effect thereupon (however likely or material); (i) Lender and its Affiliates may be providing debt financing, equity capital or other services (including financial advisory services) to other companies or Persons in respect of which Pledgor, any Surety or any of their respective Affiliates may have competing or conflicting interests, and neither Lender nor any of its Affiliates or representatives has any obligation to use in connection with the transactions contemplated by any Loan Document, or to advise Pledgor, any Surety or any of their respective Affiliates of, or furnish to any of them, any confidential or other information obtained by Lender or any of their Affiliates or representatives from or with respect to other transactions, companies or Persons; and (i) by accepting or approving any certificate, statement, report or other document or information required to be given to Lender (whether as a required notice or report, for approval or otherwise), or any alleged performance of anything required to be observed, performed or fulfilled by any Pledgor, or any Surety, pursuant to this Agreement or any other Loan Document, neither Lender nor any of its representatives shall have, or shall be deemed or construed to have, made any representation or warranty to or agreement with Pledgor, or any Surety with respect thereto or affirmed the sufficiency, the legality, enforceability, effectiveness or financial impact or other effect thereof.

21. Miscellaneous.

(a) No Waiver. No failure on the part of Lender or any of its agents to exercise, and no course of dealing with respect to, and no delay in exercising, any right, power or remedy hereunder shall operate as a waiver thereof; nor shall any single or partial exercise by Lender or any of its agents of any right, power or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right, power or remedy. All representations, warranties, covenants, agreements and obligations of Pledgor (whether individual, joint, several or otherwise) in this Agreement and all rights, powers, privileges,

remedies and other interests of Lender under this Agreement, the other Loan Documents or applicable law are cumulative and not alternatives.

(b) Governing Law.

(i) THIS AGREEMENT WAS NEGOTIATED IN THE STATE OF NEW YORK, AND MADE BY PLEDGOR AND ACCEPTED BY LENDER IN THE STATE OF NEW YORK, AND THE PROCEEDS OF THE NOTE SECURED HEREBY WERE DISBURSED FROM THE STATE OF NEW YORK, WHICH STATE THE PARTIES AGREE HAS A SUBSTANTIAL RELATIONSHIP TO THE PARTIES AND TO THE UNDERLYING TRANSACTION EMBODIED HEREBY. TO THE FULLEST EXTENT PERMITTED BY LAW, THIS AGREEMENT AND THE OBLIGATIONS ARISING HEREUNDER IN ALL RESPECTS, INCLUDING, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE (WITHOUT REGARD TO ITS PRINCIPLES OF CONFLICT OF LAWS THAT WOULD DEFER TO THE SUBSTANTIVE LAW OF ANY OTHER JURISDICTION) AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA. TO THE FULLEST EXTENT PERMITTED BY LAW, PLEDGOR HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES ANY CLAIM TO ASSERT THAT THE LAW OF ANY OTHER JURISDICTION GOVERNS THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS, AND THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK PURSUANT TO SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

(ii) ANY LEGAL SUIT, ACTION OR PROCEEDING AGAINST LENDER OR PLEDGOR ARISING OUT OF OR RELATING TO THIS AGREEMENT MAY AT LENDER'S OPTION BE INSTITUTED IN ANY FEDERAL OR STATE COURT IN THE CITY OF NEW YORK, COUNTY OF NEW YORK, PURSUANT TO SECTION 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW, AND PLEDGOR WAIVES ANY OBJECTIONS WHICH IT MAY NOW OR HEREAFTER HAVE BASED ON VENUE AND/OR FORUM NON CONVENIENS OF ANY SUCH SUIT, ACTION OR PROCEEDING, AND PLEDGOR HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY SUCH COURT IN ANY SUIT, ACTION OR PROCEEDING. PLEDGOR DOES HEREBY DESIGNATE AND APPOINT THE SECRETARY OF STATE OF THE STATE OF NEW YORK AS ITS AUTHORIZED AGENT TO ACCEPT AND ACKNOWLEDGE ON ITS BEHALF SERVICE OF ANY AND ALL PROCESS WHICH MAY BE SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY FEDERAL OR STATE COURT IN NEW YORK, NEW YORK, AND AGREES THAT SERVICE OF PROCESS UPON SAID AGENT AND WRITTEN NOTICE OF SAID SERVICE MAILED OR DELIVERED TO PLEDGOR IN THE MANNER PROVIDED HEREIN SHALL BE DEEMED IN EVERY RESPECT EFFECTIVE SERVICE OF PROCESS UPON PLEDGOR IN ANY SUCH SUIT, ACTION OR PROCEEDING IN THE STATE OF NEW YORK. PLEDGOR (I) SHALL GIVE PROMPT NOTICE TO LENDER OF ANY CHANGED ADDRESS OF ITS AUTHORIZED AGENT HEREUNDER, (II) MAY AT ANY TIME AND FROM TIME TO TIME DESIGNATE A SUBSTITUTE AUTHORIZED AGENT WITH AN OFFICE IN NEW YORK, NEW YORK (WHICH SUBSTITUTE AGENT AND OFFICE SHALL BE DESIGNATED AS THE PERSON AND ADDRESS FOR SERVICE OF PROCESS), AND (III) SHALL PROMPTLY DESIGNATE

SUCH A SUBSTITUTE IF ITS AUTHORIZED AGENT CEASES TO HAVE AN OFFICE IN NEW YORK, NEW YORK OR IS DISSOLVED WITHOUT LEAVING A SUCCESSOR.

(c) Notices. All notices, consents, approvals and requests required or permitted hereunder shall be given in the manner and to the addresses set forth in the Loan Agreement.

(d) Waivers, etc. The terms of this Agreement may be waived, altered or amended only by an instrument in writing duly executed by Pledgor and Lender. Any such amendment or waiver shall be binding upon Lender and Pledgor.

(e) Successors and Assigns. This Agreement shall be binding upon the successors, assigns and legal representatives of Pledgor and inure to the benefit of the successors, assigns and legal representatives of Lender (*provided, however*, that Pledgor shall not assign or transfer its rights hereunder without the prior written consent of Lender, except as otherwise specifically provided in the Loan Agreement). Without limiting the foregoing, Lender may at any time and from time to time without the consent of Pledgor, assign or otherwise transfer all or any portion of its rights and remedies under this Agreement to any other person, either separately or together with other property of Pledgor for such purposes in connection with a transfer of Lender's interest in the other Loan Documents and on such terms as Lender shall elect, and such other person or entity shall thereupon become vested with all of the rights and obligations in respect thereof granted to Lender herein or otherwise. Without limiting the foregoing, in connection with any assignment of the Loan, Lender may assign or otherwise transfer all of its rights and remedies under this Agreement to the assignee and such assignee shall thereupon become vested with all of the rights and obligations in respect thereof granted to Lender herein or otherwise. Each representation and agreement made by Pledgor in this Agreement shall be deemed to run to, and each reference in this Agreement to Lender shall be deemed to refer to, Lender and each of its successors and assigns.

(f) Expenses, Indemnification.

(i) Pledgor agrees to pay or reimburse Lender for paying: (1) all out-of-pocket expenses of Lender (including, without limitation, the reasonable attorneys' fees), in connection with (A) the negotiation, preparation, execution and delivery of this Agreement and (B) any amendment, modification or waiver of any of the terms of this Agreement requested or initiated by Pledgor; (2) all costs and expenses of Lender (including attorneys' fees) in connection with any Event of Default or any enforcement or collection proceedings resulting therefrom; and (3) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement, or any other document referred to herein and all costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration, recording or perfection of any security interest contemplated by this Agreement or any document referred to herein.

(ii) Pledgor hereby agrees to indemnify Lender and its directors, officers, employees and agents from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them arising out of or by reason of any claim of any Person (1) relating to or arising out of the acts or omissions of Pledgor under this Agreement (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified), or (2) resulting from the ownership of or lien on any Collateral, including, without limitation, the fees and disbursements of counsel incurred in connection with any such investigation or litigation or other

proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified).

(g) No Liability on Part of Lender. Lender, by its acceptance of this Agreement, the Collateral and any payments on account thereof, shall not be deemed to have assumed or to have become liable for any of the obligations or liabilities of Pledgor. Lender shall have no duty to collect any sums due in respect of any of the Collateral in its possession or control, or to enforce, protect or preserve any rights pertaining thereto, and Lender shall not be liable for failure to collect or realize upon the Collateral, or any part thereof, or for any delay in so doing, nor shall Lender be under any obligation to take any action whatsoever with regard thereto. Lender shall, if requested by the payor of any Collateral, give receipts for any payments received by Lender on account of the Collateral.

(h) Limitation of Duties Regarding Collateral. Lender's sole duty with respect to the custody, safekeeping and physical preservation of the Pledged Collateral in its possession, under Section 9-207 of the Code or otherwise, shall be to deal with it in the same manner as Lender deals with similar securities and property for its own account. Neither Lender nor any of its directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon any of the Pledged Collateral or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Collateral upon the request of Pledgor or otherwise.

(i) Financing Statements; Other Documents. On the date hereof, Pledgor hereby authorizes Lender to file UCC-1 financing statements with respect to the Pledged Collateral. Pledgor agrees to execute and/or deliver any other document or instrument which Lender may reasonably request with respect to the Pledged Collateral for the purposes of obtaining or preserving the full benefits of this Agreement and of the rights and powers herein granted.

(j) Further Assurances. Pledgor agrees that, from time to time upon the written request of Lender, Pledgor will execute and deliver such further documents and do such other acts and things as Lender may reasonably request in order fully to effect the purposes of this Agreement.

(k) Delay Not a Waiver. Neither any failure nor any delay on the part of Lender in insisting upon strict performance of any term, condition, covenant or agreement, or exercising any right, power, remedy or privilege hereunder, shall operate as or constitute a waiver thereof, nor shall a single or partial exercise thereof preclude any other future exercise, or the exercise of any other right, power, remedy or privilege.

(l) Counterparts. This Agreement and any supplement or amendment hereto or waiver, modification or restatement hereof may be executed in any number of counterparts of the entire document or of the signature pages thereto, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart and may deliver it delivering it by telecopy, pdf file or other electronic means.

(m) Severability. If any provision hereof is invalid and unenforceable in any jurisdiction, then, to the fullest extent permitted by law, (i) the other provisions hereof shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of Lender in order to carry out the intentions of the parties hereto as nearly as may be possible and (ii) the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Pledgor has caused this Pledge Agreement to be duly executed as of the day and year first above written.

Pledgor:

CWI OP, LP

By: Carey Watermark Investors Incorporated, a Maryland Corporation, its general partner

By: /s/ Michael Medzigian

Name: Michael Medzigian

Title: Chief Executive Officer

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 26th day of September, in the year 2017, before me, the undersigned, a Notary Public in and for said state, personally appeared M. Medzigian , personally known to me or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

/s/ Gillian Richards-Deshong

Notary Public

Lender:

W. P. Carey Inc., a Maryland corporation

By: /s/ ToniAnn Sanzone
Name: ToniAnn Sanzone
Title: Chief Financial Officer

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 26th day of September, in the year 2017, before me, the undersigned, a Notary Public in and for said state, personally appeared Toni Ann Sanzone, personally known to me or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

/s/ Gillian Richards-Deshong
Notary Public

SCHEDULE 1

1. CWI Atlanta Perimeter Hotel, LLC
2. CWI Atlanta Midtown Hotel, LLC
3. CWI Manchester Hotel, LLC
4. CWI Sonoma Hotel, LLC
5. CWI Denver CBD Hotel, LLC
6. CWI New Orleans CBD Hotel, LLC
7. CWI Chelsea Hotel, LLC
8. CWI Austin Hotel, LLC
9. CWI Lake Arrowhead Resort, LLC
10. CWI Shadyside Hotel, LLC

[Pledgor Signature to Pledge Agreement]

Exhibit A

FORM OF ASSIGNMENT OF INTERESTS

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto ________________________________ all of the undersigned's interest in [Name of LLC] (the "Company"), which constitutes [___]% of the outstanding membership interests in the Company and, subject to the terms of that certain Pledge and Security Agreement dated September ___, 2017, by and among ______________________ and W. P. Carey Inc. hereby irrevocably constitutes and appoints W. P. Carey Inc. as its true and lawful agent and attorney-in-fact with full power of substitution (together with its successors and assigns, the "Agent"), which agency and power is for the benefit of the Agent, and coupled with an interest to execute from time to time in the name, place and stead of the undersigned or such transferee any and all assignments and other documents and take any and all other actions in any and all lawful ways and means for the transfer or other use, recovery and enjoyment thereof, including (without limitation) the power to direct the Company and its member, managers and officers to transfer the same on the books and records of the Company to such person as the Agent may direct, and the undersigned hereby ratifies and confirms all that such Agent shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, Assignor has executed this instrument as of the ___ day of _____, ______.

Assignor:

[Name of Pledgor]

By: ______________________________

Name:

Title:

[Lender Signature Page to Pledge Agreement]

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Section 4: EX-10.3 (EXHIBIT 10.3)

Exhibit 10.3

AMENDED, RESTATED AND CONSOLIDATED PROMISSORY NOTE

$125,000,000.00

New York, New York
September 26, 2017

FOR VALUE RECEIVED **CWI OP, LP**, a Delaware limited partnership, having an address at 50 Rockefeller Plaza, 2nd Floor, New York, NY 10020 (referred to herein as "Borrower"), as maker, hereby unconditionally promises to pay to the order of **W. P. Carey Inc.**, a Maryland corporation, having an address at 50 Rockefeller Plaza, 2nd Floor, New York, NY 10020 (together with its successors and/or assigns, "Lender"), or at such other place as the holder hereof may from time to time designate in writing, the principal sum of up to ONE HUNDRED TWENTY-FIVE MILLION AND NO/100 DOLLARS ($125,000,000.00), or so much thereof as is advanced, in lawful money of the United States of America, with interest thereon to be computed from the date of this Note at the Interest Rate, and to be paid in accordance with the terms of this Note and that certain Loan Agreement dated the date hereof between Borrower and Lender (as the same may be amended, restated, replaced, supplemented or otherwise modified from time to time, the "Loan Agreement"). All capitalized terms not defined herein shall have the respective meanings set forth in the Loan

Agreement.

This Amended, Restated and Consolidated Promissory Note (this "Note") amends, restates and supersedes that certain Note, dated as of March 23, 2017, which is attached hereto as Exhibit "A" (the "Old Note"), and is secured by, among other things, Pledge and Security Agreement, dated as of even date herewith given by Borrower to Lender (the "Pledge Agreement"), identifying this Note and the Loan Agreement as obligations secured thereby and encumbering the Collateral.

ARTICLE 1: PAYMENT TERMS

Borrower promises to pay the principal sum of this Note and interest on the unpaid principal sum of this Note from time to time outstanding at the rates and at the times specified in Article 2 of the Loan Agreement and the outstanding balance of the principal sum of this Note and all accrued and unpaid interest thereon shall be due and payable on the Maturity Date.

ARTICLE 2: DEFAULT AND ACCELERATION

The Debt shall without notice become immediately due and payable at the option of Lender if any Event of Default occurs and is continuing under any Loan Document.

ARTICLE 3: LOAN DOCUMENTS

This Note is secured by the Pledge Agreement and the Loan Agreement. All of the terms, covenants and conditions contained in the Loan Agreement and the Pledge Agreement are hereby made part of this Note to the same extent and with the same force as if they were fully set forth herein. In the event of a conflict or inconsistency between the terms of this Note and the Loan Agreement, the terms and provisions of the Loan Agreement shall govern.

ARTICLE 4: SAVINGS CLAUSE

Notwithstanding anything to the contrary, (a) all agreements and communications between Borrower and Lender are hereby and shall automatically be limited so that, after taking into account all amounts deemed interest, the interest contracted for, charged or received by Lender shall never exceed the

Maximum Legal Rate, (b) in calculating whether any interest exceeds the Maximum Legal Rate, all such interest shall be amortized, prorated, allocated and spread over the full amount and term of all principal indebtedness of Borrower to Lender, and (c) if through any contingency or event, Lender receives or is deemed to receive interest in excess of the Maximum Legal Rate, any such excess shall be applied in accordance with the terms of Section 2.6 of the Loan Agreement.

ARTICLE 5: NO ORAL CHANGE

This Note may not be modified, amended, waived, extended, changed, discharged or terminated orally or by any act or failure to act on the part of Borrower or Lender, but only by an agreement in writing signed by the party against whom enforcement of any modification, amendment, waiver, extension, change, discharge or termination is sought.

ARTICLE 6: WAIVERS

Borrower and all others who may become liable for the payment of all or any part of the Debt do hereby severally waive presentment and demand for payment, notice of dishonor, notice of intention to accelerate, notice of acceleration, protest and notice of protest and non-payment and all other notices of any kind. Subject to the terms of the Loan Agreement, no release of any security for the Debt or extension of time for payment of this Note or any installment hereof, and no alteration, amendment or waiver of any provision of this Note, the Loan Agreement or the other Loan Documents made by agreement between Lender or any other Person shall release, modify, amend, waive, extend, change, discharge, terminate or affect the liability of Borrower or any other Person who may become liable for the payment of all or any part of the Debt under this Note, the Loan Agreement or the other Loan Documents (except as expressly set forth in such alteration, amendment or waiver). No notice to or demand on Borrower shall be deemed to be a waiver of the obligation of Borrower or of the right of Lender to take further action without further notice or demand as provided for in this Note, the Loan Agreement or the other Loan Documents. If Borrower is a partnership or limited liability company, the agreements herein contained shall remain in force and be applicable, notwithstanding any changes in the individuals comprising the partnership or limited liability company, and the term "Borrower," as used herein, shall include any alternate or successor partnership or limited liability company, but any predecessor partnership or limited liability company and their partners or members shall not thereby be released from any liability. If Borrower is a corporation, the agreements contained herein shall remain in full force and be applicable notwithstanding any changes in the shareholders comprising, or the officers and directors relating to, the corporation, and the term "Borrower," as used herein, shall include any alternative or successor corporation, but any predecessor corporation shall not be relieved of liability hereunder. Nothing in the foregoing sentence shall be construed as either (i) a consent to, or a waiver of, any prohibition or restriction on transfers of interests in such partnership, limited liability company or corporation, which may be set forth in the Loan Agreement, the Pledge Agreement or any other Loan Document or (ii) a limitation on Borrower's right to transfer its interests which is expressly permitted pursuant the Loan Agreement, the Pledge Agreement or any other Loan Document.

ARTICLE 7: TRANSFER

Upon the transfer of this Note, Borrower hereby waiving notice of any such transfer, Lender may deliver all the collateral mortgaged, granted, pledged or assigned pursuant to the Loan Documents, or any part thereof, to the transferee who shall thereupon become vested with all the rights herein or under applicable law given to Lender with respect thereto, and Lender shall thereafter forever be relieved and fully discharged from any liability or responsibility in the matter; but Lender shall retain all rights hereby given

to it with respect to any liabilities and the collateral not so transferred. None of Borrower's obligations pursuant to the Loan Documents shall be amended or modified as a result of such transfer.

ARTICLE 8: GOVERNING LAW

(A) THIS NOTE WAS NEGOTIATED IN THE STATE OF NEW YORK AND MADE BY BORROWER AND ACCEPTED BY LENDER IN THE STATE OF NEW YORK, WHICH STATE THE PARTIES AGREE HAS A SUBSTANTIAL RELATIONSHIP TO THE PARTIES AND TO THE UNDERLYING TRANSACTION EMBODIED HEREBY, AND IN ALL RESPECTS, INCLUDING, WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THIS NOTE AND THE OBLIGATIONS ARISING HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN SUCH STATE (WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS) AND ANY APPLICABLE LAW OF THE UNITED STATES OF AMERICA. TO THE FULLEST EXTENT PERMITTED BY LAW, BORROWER HEREBY UNCONDITIONALLY AND IRREVOCABLY WAIVES ANY CLAIM TO ASSERT THAT THE LAW OF ANY OTHER JURISDICTION GOVERNS THIS NOTE AND THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK PURSUANT TO SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

(B) ANY LEGAL SUIT, ACTION OR PROCEEDING AGAINST LENDER OR BORROWER ARISING OUT OF OR RELATING TO THIS NOTE MAY AT LENDER'S OPTION BE INSTITUTED IN ANY FEDERAL OR STATE COURT IN THE CITY OF NEW YORK, COUNTY OF NEW YORK, PURSUANT TO SECTION 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW, AND BORROWER WAIVES ANY OBJECTIONS WHICH IT MAY NOW OR HEREAFTER HAVE BASED ON VENUE AND/OR FORUM NON CONVENIENS OF ANY SUCH SUIT, ACTION OR PROCEEDING, AND BORROWER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY SUCH COURT IN ANY SUIT, ACTION OR PROCEEDING. BORROWER DOES HEREBY DESIGNATE AND APPOINT _______________ AS ITS AUTHORIZED AGENT TO ACCEPT AND ACKNOWLEDGE ON ITS BEHALF SERVICE OF ANY AND ALL PROCESS WHICH MAY BE SERVED IN ANY SUCH SUIT, ACTION OR PROCEEDING IN ANY FEDERAL OR STATE COURT IN NEW YORK, NEW YORK, AND AGREES THAT SERVICE OF PROCESS UPON SAID AGENT AT SAID ADDRESS AND WRITTEN NOTICE OF SAID SERVICE MAILED OR DELIVERED TO BORROWER IN THE MANNER PROVIDED HEREIN SHALL BE DEEMED IN EVERY RESPECT EFFECTIVE SERVICE OF PROCESS UPON BORROWER IN ANY SUCH SUIT, ACTION OR PROCEEDING IN THE STATE OF NEW YORK. BORROWER (I) SHALL GIVE PROMPT NOTICE TO LENDER OF ANY CHANGED ADDRESS OF ITS AUTHORIZED AGENT HEREUNDER, (II) MAY AT ANY TIME AND FROM TIME TO TIME DESIGNATE A SUBSTITUTE AUTHORIZED AGENT WITH AN OFFICE IN NEW YORK, NEW YORK (WHICH SUBSTITUTE AGENT AND OFFICE SHALL BE DESIGNATED AS THE PERSON AND ADDRESS FOR SERVICE OF PROCESS), AND (III) SHALL PROMPTLY DESIGNATE SUCH A SUBSTITUTE IF ITS AUTHORIZED AGENT CEASES TO HAVE AN OFFICE IN NEW YORK, NEW YORK OR IS DISSOLVED WITHOUT LEAVING A SUCCESSOR.

ARTICLE 9: NOTICES

All notices or other written communications hereunder shall be delivered in accordance with the Loan Agreement.

ARTICLE 10: STATE-SPECIFIC PROVISIONS

Section 10.1. PRINCIPLES OF CONSTRUCTION. In the event of any inconsistencies between the terms and conditions of this Article 10 and the other terms and conditions of this Note, the terms and conditions of this Article 10 shall control and be binding.

Section 10.2. NEW YORK – SPECIFIC PROVISIONS

THIS NOTE, TOGETHER WITH THE LOAN AGREEMENT AMENDS AND RESTATES THE OLD NOTE IN THE AGGREGATE PRINCIPAL SUM OF UP TO ONE HUNDRED TWENTY-FIVE MILLION AND NO/100 DOLLARS ($125,000,000.00). THE AGGREGATE OUTSTANDING PRINCIPAL BALANCE OF THE OLD NOTE AS OF THE DATE HEREOF IS TWENTY TWO MILLION EIGHT HUNDRED THIRTY FIVE THOUSAND FOUR HUNDRED THIRTY ONE and 17/100 DOLLARS ($22,835,431.17). THE PRINCIPAL BALANCE IS BEING INCREASED BY ONE HUNDRED TWO MILLION ONE HUNDRED SIXTY FOUR THOUSAND FIVE HUNDRED SIXTY EIGHT AND 83/100 DOLLARS (102,164,568.83).

The Old Note is hereby modified, extended and restated by this Note so that hereafter it shall constitute in law but one note, subject to the terms of the Loan Agreement, evidencing the aggregate principal amount of up to ONE HUNDRED TWENTY-FIVE MILLION AND NO/100 DOLLARS ($125,000,000.00). The terms and provisions of the Old Note are hereby modified, extended and restated in their entirety upon the terms and conditions set forth herein and in the Loan Agreement.

Borrower hereby renews and extends its covenant and agreement to pay the indebtedness evidenced by the Old Note, as amended, extended and restated in its entirety pursuant to this Note, and Borrower hereby renews and extends its covenant and agreement to perform, comply with and be bound by each and every term and provisions of the Old Note, as amended, extended and restated in their entirety by the terms of this Note and the Loan Agreement.

Borrower confirms and agrees that this Note is, and shall continue to be, secured by the Pledge Agreement.

[NO FURTHER TEXT ON THIS PAGE]

IN WITNESS WHEREOF, Borrower has duly executed this Note as of the day and year first above written.

BORROWER:

CWI OP, LP

By: Carey Watermark Investors Incorporated,
its general partner

By: /s/ Michael Medzigian
Name: Michael Medzigian
Title: Chief Executive Officer

[Signature Page to Promissory Note]

AFFIDAVIT OF LOST NOTE

STATE OF NEW YORK }

}ss.

COUNTY OF NEW YORK }

The undersigned, Toni Ann Sanzone, as Chief Financial Officer, and in such capacity only, of W. P. Carey Inc., a Maryland Corporation ("Lender"), with offices at c/o W. P. Carey Inc., 50 Rockefeller Plaza, 2nd Floor, New York, NY 10020, being duly sworn deposes and says:

1. That the Lender is the presently the owner of that certain Note dated as of March 23, 2017, made by Borrower to the order of Lender, in the amount of $22,835,431.17 (the "Lost Note"), a copy of which is attached hereto as Exhibit A.

2. That the Lender, after having conducted a diligent investigation of its records and files, has been unable to locate the original Lost Note secured by the Mortgage.

3. That the indebtedness evidenced by the Lost Note has not been satisfied, assigned, transferred, encumbered, endorsed, pledged, hypothecated or otherwise disposed of by the Lender, and that the Lost Note has either been lost, misplaced, misfiled, or destroyed.

LENDER:

W. P. Carey Inc., a Maryland corporation

By: /s/ Toni Ann Sanzone
Name: Toni Ann Sanzone
Title: Chief Financial Officer

THE STATE OF NEW YORK §
§
COUNTY OF NEW YORK §

This affidavit was acknowledged before me on the 26th day of September 2017, by Toni Sanzonne, the Chief Financial Officer of W. P. Carey Inc.

/s/ Gillian Richards-Deshong
Notary Public

EXHIBIT A

[Attached]

NOTE

$22,835,431.17 U.S. Dollars New York, New York

March 23, 2017

FOR VALUE RECEIVED, **CWI OP, LP**, a Delaware limited partnership ("**Borrower**"), promises to pay to the order of **W. P. Carey Inc.,** a Maryland corporation **("Lender"**), at its principal place of business located at, 50 Rockefeller Plaza, Second Floor, New York, New York 10020, the principal sum of Twenty-Two Million Eight-Hundred Thirty-Five Thousand Four-Hundred Thirty-One and 17/100 Dollars ($22,835,431.17), together with interest on the unpaid balance of the principal sum hereof at a rate of interest equal to a rate of interest equal to the "Applicable Rate" for a Eurocurrency Rate Loan (for the avoidance of doubt, as of the date of this Note, such rate is LIBOR + 100 basis points) as those terms are defined in that certain Third Amended and Restated Credit Agreement, dated as of February 22, 2017 (as amended, the "**Credit Agreement"**), by and among Lender, as borrower, certain subsidiaries of Lender identified therein, from time to time as Guarantors, the lenders from time to time party thereto, and Bank of America, N.A. as administrative agent. Interest shall be calculated in the same manner as set forth in the Credit Agreement for each applicable rate set forth herein and without regard to whether sums remain outstanding under the Credit Agreement.

The unpaid principal balance of this Note and accrued interest thereon shall be immediately due and payable, without further notice, on March 22, 2018. Lender will notify Borrower of LIBOR and any LIBOR resets and interest due each Interest Period.

Borrower may at any time prepay in whole or in part without penalty or premium the unpaid principal balance of this Note, EXCEPT THAT, if any payment or prepayment of principal would result in additional costs or charges (break costs or otherwise) if such amounts were paid or prepaid under the Credit Agreement, Borrower shall, upon demand, also pay to Lender such additional costs or charges.

Except as otherwise expressly provided herein, Borrower, all endorsers and all other persons liable or to become liable on this Note, if any, waive presentment, protest and demand, notice of protest, demand and dishonor and nonpayment of this Note, without in any way affecting the liability of any party to this Note or any person liable or to become liable with respect to any indebtedness evidenced hereby.

In addition to the repayment of the principal and interest due hereunder, Borrower shall reimburse Lender for all of its costs and expenses, including, without limitation, attorney's fees, bank fees, points or commissions, incurred by Lender in acquiring and repaying the funds to make this loan through a draw against its line of credit and/or in enforcing its rights hereunder; it being the intent of Borrower and Lender that provision of this Note to Borrower shall be at absolutely no cost to Lender.

If any provision of this Note is invalid or unenforceable, the other provisions of this Note shall remain in full force and effect, and the invalidity of any provision hereof shall not affect the validity or enforceability of any other provision of this Note.

This Note shall be governed by, and construed and enforced in accordance with, the laws of the State of New York.

This Note shall be binding upon and inure to the benefit of Lender and Borrower and their respective successors and assigns.

IN WITNESS WHEREOF, Borrower has caused this Note to be executed as of the date first written hereinabove.

CWI OP, LP, a Delaware limited partnership

By Carey Watermark Investors Incorporated, its general partner

By: /s/ Mark Foresi
Name: Mark Foresi
Title: Treasurer

[EXHIBIT A TO PROMISSORY NOTE]

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Section 5: EX-10.4 (EXHIBIT 10.4)

Exhibit 10.4

PAYMENT GUARANTY

THIS PAYMENT GUARANTY (this "Guaranty") is made as of September 26, 2017 by **CAREY WATERMARK INVESTORS INCORPORATED**, a Maryland corporation having an address at 50 Rockefeller Plaza, 2nd Floor, New York, NY 10020 ("Guarantor"), in favor of **W. P. CAREY INC.**, a Maryland corporation, having an address at 50 Rockefeller Plaza, 2nd Floor, New York, NY 10020 ("Lender").

RECITALS

A. Lender has agreed to make one or more loans (collectively, the "Loan") in the maximum aggregate principal amount outstanding at any one time of up to ONE HUNDRED TWENTY FIVE MILLION and No/100 Dollars ($125,000,000.00) to CWI OP, LP, a Delaware limited partnership ("Borrower").

B. The Loan is evidenced by that certain Amended, Restated and Consolidated Promissory Note (the "**Note**") dated as of the date hereof and payable to Lender, and is secured by that certain Pledge and Security Agreement, dated as of the date hereof (the "Pledge Agreement") and delivered by Borrower to Lender encumbering the Collateral (as defined in the Loan Agreement).

C. The Note, the Loan Agreement the Pledge Agreement and all other documents, instruments and agreements (other than, and specifically excluding, any certificate and indemnity agreement regarding hazardous substances) now in effect or hereafter entered into in connection with the Loan are referred to, collectively, as the "Loan Documents."

D. It is a condition to Lender's agreement to make the Loan that Guarantor be unconditionally liable for and guarantee the payment and performance of the obligations represented by the Note and all other liabilities and obligations of Borrower under the Loan Documents on the terms and conditions set forth in this Guaranty.

NOW, THEREFORE, in order to induce Lender to make the Loan to Borrower, Guarantor, intending to be legally bound, represents and warrants to Lender and covenants and agrees with Lender as follows:

AGREEMENT

1. **Unconditional Guaranty**. Guarantor unconditionally, absolutely and irrevocably: (a) guarantees and promises to pay to Lender or order, on demand, in lawful money of the United States of America, in immediately available funds, the Loan when due, whether by acceleration or otherwise, together with all interest thereon, and any and all other amounts that become due and owing to Lender under the Loan Documents (including, without limitation, late charges, premiums for prepayment, expenditures by Lender to preserve and protect collateral, amounts that would become due but for the effect of any bankruptcy or other insolvency proceedings, and all attorneys' fees, costs and expenses of collection incurred by Lender in enforcing its rights and remedies under the Loan Documents); and (b) guarantees the full and complete discharge and performance of each and every other term, covenant, liability, obligation and warranty contained in the Loan Documents. All amounts and obligations guaranteed by Guarantor under this Guaranty are referred to, collectively, as the "Guaranteed Obligations."

2. **Remedies**. If Guarantor fails promptly to perform its obligations under this Guaranty, Lender may from time to time, and without first requiring performance by Borrower or any other Person (as defined in Section 9.2 below) or exhausting any security for the Loan, bring any action at law or in equity or both to compel Guarantor to perform its obligations under this Guaranty, and to collect in any such action compensation for all loss, cost, damage, injury and expense sustained or incurred by Lender as a direct or

indirect consequence of the failure of Guarantor to perform such obligations, together with interest thereon at the rate of interest applicable to the principal balance of the Note. Any amounts due under this Section 2 will be in addition to the amounts due under Section 1 of this Guaranty. This is a guaranty of payment and not merely of collection. Notwithstanding anything contained in this Guaranty or the other Loan Documents to the contrary, this Guaranty and all obligations of Guarantor arising under it will not be secured by the Pledge Agreement or any other Loan Document.

3. **Rights of Lender**. Guarantor authorizes Lender, without giving notice to Guarantor or obtaining Guarantor’s consent and without affecting the liability of Guarantor, from time to time to: (a) renew or extend all or any portion of Borrower’s obligations under the Note, the Loan Agreement, the Pledge Agreement or any of the other Loan Documents or delay the enforcement thereof for any period of time; (b) declare all amounts owing to Lender under the Note, the Loan Agreement, the Pledge Agreement and the other Loan Documents due and payable upon the occurrence of an Event of Default (as defined in the Loan Agreement); (c) agree to changes in the dates specified for payment of any amounts payable under the Note, the Loan Agreement or any of the other Loan Documents; (d) otherwise agree to modify, amend, waive, supplement or replace from time to time the terms of any of the Loan Documents in any manner; (e) take and hold security for the performance of Borrower’s obligations under the Note, the Loan Agreement, the Pledge Agreement or the other Loan Documents and exchange, enforce, waive, fail to perfect its interest in, or release any such security; (f) apply such security and direct the order or manner of sale thereof as Lender in its sole discretion may determine; (g) release, substitute or add any one or more indorsers of the Note or guarantors of any or all of the Guaranteed Obligations; and (h) apply payments received by Lender from Borrower or any other Person liable for the Loan to any obligations of the payor to Lender, in such order as Lender may determine in its sole discretion, whether or not any such obligations are covered by this Guaranty; and (i) assignment of this Guaranty in whole or in part.

4. **Waivers**. Guarantor waives: (a) any defense based upon any legal disability or other defense of Borrower or any other Person, or by reason of the cessation or limitation of the liability of Borrower or any other Person from any cause other than full payment of all of the Guaranteed Obligations; (b) any defense based upon any lack of capacity of Borrower or any lack of authority of the officers, directors, partners, members, managers, trustees, attorneys in fact or agents acting or purporting to act on behalf of Borrower or any principal of Borrower or any defect in the formation of Borrower or any principal of Borrower (and Lender shall have no obligation to inquire into any of the foregoing); (c) any defense based upon the application by Borrower of the proceeds of the Loan for purposes other than the purposes represented by Borrower to Lender or Guarantor or intended or understood by Lender or Guarantor; (d) all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a Guaranteed Obligation, has destroyed Guarantor’s rights of subrogation and reimbursement against Borrower or any other Person; (e) any defense based upon Lender’s failure to disclose to Guarantor any information concerning Borrower’s financial condition or any other circumstances bearing on Borrower’s ability to pay the Guaranteed Obligations; provided, however, that this waiver shall not extend to any failure by the Company's external advisor, which is an affiliate of Lender, to perform its obligations under its advisory agreement with Borrower; (f) any defense based upon any statute or rule of law providing that the obligation of a surety must be neither larger in amount nor in any other respect more burdensome than that of a principal; (g) any and all claims for subrogation, reimbursement, indemnification or contribution against Borrower, any general partner of Borrower or any other Person or any collateral or security for the Guaranteed Obligations until the Guaranteed Obligations have been indefeasibly paid and satisfied in full; (h) acceptance of this Guaranty by Lender; (i) presentment, demand, protest and notice of any kind; and (j) the benefit of any statute of limitation affecting the liability of Guarantor under, or the enforcement of, this Guaranty. Guarantor agrees any act or event that tolls any statute of

limitation applicable to the Guaranteed Obligations will similarly operate to toll any statute of limitation applicable to Guarantor's liability under this Guaranty.

5. **Representations, Warranties and Covenants**. Guarantor represents, warrants and acknowledges to and for the benefit of Lender that: (a) Lender would not make the Loan but for this Guaranty; (b) there are no conditions precedent to the effectiveness of this Guaranty; and (c) Guarantor has had the opportunity to review the Loan Documents and discuss them with an attorney of Guarantor's choosing and has done so to Guarantor's satisfaction or has voluntarily declined to do so.

6. **Additional Covenants.** So long as the Note or any other amount payable by Borrower or Guarantor under the Loan Documents remains unpaid, Guarantor covenants and agrees that:

6.1 Guarantor will repay, or cause the Borrower to repay, to Lender principal and accrued interests under Loan A utilizing the net proceeds received in connection with any sale, disposition, with respect to any direct or indirect interest in any of the subsidiaries of the Borrower, Guarantor or their respective assets (subject to exceptions in relation to maintaining the Guarantor's REIT compliance, or complying with any tax payment obligations of the Borrower, Guarantor or their respective Subsidiaries (as defined in the Loan Agreement) or as otherwise approved in writing by the Lender); and

6.2 Guarantor will not (with respect to itself or the Borrower) (i) permit a Change of Control (as defined in the Loan Agreement) to occur; or (ii) merge, dissolve, liquidate, consolidate with or into another Person (as defined in the Loan Agreement), or dispose of (whether in one transaction or in a series of transactions or pledge) all or substantially all of its assets or all of substantially all of the stock of any Subsidiaries to or in favor of any Person.

7. **Subordination**. Guarantor hereby subordinates all present and future obligations and liabilities owing by Borrower to Guarantor to the Guaranteed Obligations. While any Event of Default exists, Guarantor will enforce such subordinated obligations, and receive payment thereof, only as a trustee for Lender, and Guarantor will promptly pay over to Lender all payments on and other proceeds of such subordinated obligations for application to the Guaranteed Obligations.

8. **Subrogation**. Any rights which Guarantor may have or acquire by way of subrogation, reimbursement, restitution, exoneration, contribution or indemnity, and any similar rights (whether arising by operation of law, by agreement or otherwise), against the Borrower or any other Person, arising from the existence, payment, performance or enforcement of any of the obligations of Guarantor under or in connection with this Guaranty, shall be subordinate in right of payment to the obligations of Borrower to Lender under the Loan Documents, and Guarantor shall not exercise any such rights until all of the obligations of Borrower to Lender under the Loan Documents and all of Guarantor's obligations under this Guaranty have been paid in cash and performed in full and all commitments to extend credit under, and any and all letters of credit issued under, the Loan Documents shall have terminated. If, notwithstanding the foregoing, any amount shall be received by Guarantor on account of any such rights prior to such time such amount shall be held by Guarantor in trust for the benefit of Lender, segregated from other funds held by Guarantor, and shall be forthwith delivered to Lender in the exact form received by Guarantor (with any necessary endorsement), to be applied to the Borrower's obligations to Lender under the Loan Documents, whether matured or unmatured, in such order as Lender may elect, or to be held by Lender as security for the Borrower's obligations to Lender under the Loan Documents and disposed of by Lender in any lawful manner, all as Lender may elect.

9. **Disclosure of Information; Participations, Etc**. Guarantor agrees that Lender may elect, at any time, to sell, assign, participate or all or any portion of Lender's rights and obligations under the Loan Documents. Guarantor agrees that Lender may disseminate any and all information pertaining to the Property, Borrower, Guarantor or any other guarantor to any relevant Person in connection with any such transaction.

10. **Additional and Independent Obligations**. The obligations of Guarantor under this Guaranty are in addition to, and do not limit or in any way affect, the obligations of Guarantor under any other existing or future guaranties. This Guaranty is independent of the obligations of Borrower under the Note, the Pledge Agreement, the Loan Agreement and the other Loan Documents. Nothing contained in this Guaranty will prevent Lender from suing to collect on the Note or from exercising concurrently or successively any rights available to it under applicable law or any of the Loan Documents, and that the exercise of any of such rights will not constitute a legal or equitable discharge of Guarantor. Guarantor hereby authorizes and empowers Lender to exercise, in its sole discretion, any rights and remedies, or any combination thereof, that may then be available, since it is the intent and purpose of Guarantor that the obligations under this Guaranty will be absolute, independent and unconditional under any and all circumstances. Lender may bring a separate action to enforce the provisions of this Guaranty against Guarantor without taking action against Borrower or any other Person or joining Borrower or any other Person as a party to such action.

11. **Miscellaneous**.

11.1 **Attorneys' Fees; Enforcement**. If any attorney is engaged by Lender to enforce or defend any provision of this Guaranty, or any of the other Loan Documents, or as a consequence of any Event of Default under the Loan Documents, with or without the filing of any legal action or proceeding (including any bankruptcy or other insolvency proceeding and including all post-judgment collection proceedings), Guarantor will pay to Lender immediately upon demand all reasonable attorneys' fees and costs incurred by Lender in connection therewith, together with interest thereon, from the date Lender pays such amounts until they are repaid to Lender, at the rate of interest applicable from time to time to the principal balance of the Note (and if more than one such rate applies to the principal balance at any one time, the highest such rate shall be used for purposes of this Section).

11.2 **Certain Definitions and Rules of Construction**. The word "Borrower" as used in this Guaranty includes both the named Borrower and any other Person at any time assuming or otherwise becoming primarily liable for all or any part of the obligations of the named Borrower under the Note, the Pledge Agreement, the Loan Agreement and the other Loan Documents. If this Guaranty is executed by more than one Person, the term "Guarantor" includes all such Persons. As used in this Guaranty, the term "Person" means any individual, corporation, limited or general partnership, limited liability company, trust or trustee(s) acting with respect to property held in trust, governmental agency or body, or other legal entity. When the context and construction so require, all words used in the singular will be deemed to have been used in the plural and vice versa. All headings appearing in this Guaranty are for convenience only and will be disregarded in construing this Guaranty. All references in this Guaranty to the Note, the Pledge Agreement or any other document include the same as now in effect and as it may be modified, amended, restated, supplemented, extended, replaced or consolidated.

11.3 **Captions**. The headings and captions in this Guaranty are for convenience only and shall not affect the interpretation or construction of this Guaranty.

11.4 **Notices**. All notices or other written communications hereunder shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy or email, as follows:

(a) if to Lender, to it at 50 Rockefeller Plaza, 2nd Floor, New York, NY 10020, Attention of Chief Financial Officer; and

(b) if to Guarantor, to it at 50 Rockefeller Plaza, New York, New York 10020, Attention of Chief Financial Officer (Telecopy No. 212-492-8922); and

(c) if to Guarantor, to it at Carey Watermark Investors Inc., 150 North Riverside Plaza, Suite 4200, Chicago, IL 60606 Attention: Michael Medzigian.

Guarantor and Lender Agent may change their addresses or telecopy numbers or email addresses for notices and other communications hereunder by notice to the other party. All notices and other communications given to Guarantor or Lender in accordance with the provisions of this Guaranty shall be deemed to have been given on the date of receipt, in the case of email notices, as evidenced by sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt function").

11.5 **Governing Law**. This Guaranty will be governed by, and construed in accordance with, the laws of the State of New York, without regard to its conflict of laws principles.

11.6 **Service of Process**. Guarantor irrevocably consents to service of process in the manner provided for notices herein. Nothing in this Guaranty will affect the right of Lender to serve process in any other manner permitted by law.

11.7 **Consent to Jurisdiction**. Guarantor hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any United States Federal or New York State court sitting in the Borough of Manhattan, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Guaranty, or for recognition or enforcement of any judgment, and Guarantor hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Guarantor hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Guaranty shall affect any right that Lender may otherwise have to bring any action or proceeding relating to this Guaranty against Guarantor or its properties in the courts of any jurisdiction. Guarantor hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Guaranty in any court referred to in subsection (b) above. Guarantor hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

11.8 **Successors and Assigns**. The provisions of this Guaranty will bind and benefit the heirs, executors, administrators, legal representatives, successors and assigns of Guarantor and Lender.

11.9 **Severability**. If any provision of this Guaranty is determined by a court of competent jurisdiction to be invalid, illegal or unenforceable, that portion will be deemed severed from this Guaranty and the remaining parts will remain in full force as though the invalid, illegal or unenforceable portion had never been part of this Guaranty.

11.10 **Survival**. This Guaranty will be deemed to be continuing in nature and will remain in full force and effect and will survive the exercise of any remedy by Lender under the Pledge Agreement or any of the other Loan Documents, including, without limitation, any foreclosure or deed in lieu thereof. This Guaranty will continue to be effective, or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or otherwise must be returned by Lender due to the insolvency, bankruptcy or reorganization of the payor, or for any other reason, all as though such payment to Lender had not been made.

11.11 **Counterparts**. This Guaranty may be executed in counterparts, each of which will be deemed an original, and all such counterparts when taken together will constitute but one agreement.

11.12 **Entire Agreement; Amendments.** This Guaranty and the other Loan Documents represent the final expression of the entire agreement of the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements. There are no unwritten oral agreements between the parties. All prior or contemporaneous agreements, understandings, representations and statements, oral or written, are merged into this Guaranty and the other Loan Documents. Neither this Guaranty nor any of its provisions may be waived, modified, amended, discharged or terminated except by an agreement in writing signed by the party against which the enforcement of the waiver, modification, amendment, discharge or termination is sought, and then only to the extent set forth in that agreement.

11.13 Waiver Of Jury Trial. **EACH OF GUARANTOR AND LENDER (FOR ITSELF AND ITS SUCCESSORS, ASSIGNS AND PARTICIPANTS) WAIVES ITS RIGHT TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON, ARISING OUT OF OR RELATED TO THIS GUARANTY, THE LOAN DOCUMENTS OR THE TRANSACTIONS PROVIDED FOR HEREIN OR THEREIN, IN ANY LEGAL ACTION OR PROCEEDING OF ANY TYPE BROUGHT BY ANY PARTY TO ANY OF THE FOREGOING AGAINST ANY OTHER SUCH PARTY, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE. ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT SITTING WITHOUT A JURY.**

[Remainder of page intentionally left blank]

DATED as of the date first set forth above.

GUARANTOR:

Carey Watermark Investors Incorporated, a Maryland corporation

By: /s/ Michael Medzigian
Name: Michael Medzigian
Title: Executive Officer

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 26th day of September, in the year 2017, before me, the undersigned, a Notary Public in and for said state, personally appeared M. Medzigian, personally known to me or proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

/s/ Gillian Richards-Deshong
Notary Public

[Payment Guaranty - Borrower Signature Page]

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Section 6: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael G. Medzigian, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Carey Watermark Investors Incorporated;

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 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 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 13, 2017

/s/ Michael G. Medzigian
Michael G. Medzigian
Chief Executive Officer

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Section 7: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mallika Sinha, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Carey Watermark Investors Incorporated;

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 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 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 13, 2017

/s/ Mallika Sinha
Mallika Sinha
Chief Financial Officer

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Section 8: EX-32 (EXHIBIT 32)

Exhibit 32

Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Carey Watermark Investors Incorporated on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of Carey Watermark Investors Incorporated, does hereby certify, to the best of such officer's knowledge and belief, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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 Carey Watermark Investors Incorporated.

Date: November 13, 2017

/s/ Michael G. Medzigian
Michael G. Medzigian
Chief Executive Officer

Date: November 13, 2017

/s/ Mallika Sinha
Mallika Sinha
Chief Financial Officer

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and is not being filed as part of the Report as a separate disclosure document of Carey Watermark Investors Incorporated or the certifying officers.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Carey Watermark Investors Incorporated and will be retained by Carey Watermark Investors Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.

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