MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 1 DATED APRIL 14, 2017
TO THE PROSPECTUS DATED APRIL 14, 2017

This document supplements, and should be read in conjunction with, our prospectus dated April 14, 2017 relating to our offering of up to $1,100,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 1 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 1 is to disclose:

- the status of our public offering;
- the estimated value per share of our common stock;
- our investment portfolio;
- our pending mergers with Moody National REIT I, Inc.;
- the real estate portfolio that would result from the pending mergers;
- changes to our board of directors in connection with the pending mergers;
- portfolio information following the pending mergers;
- an update to our risk factors regarding the pending mergers;
- selected financial data;
- our performance — funds from operations and modified funds from operations;
- our net tangible book value;
- information regarding our indebtedness;
- information regarding our distributions;
- information regarding redemption of shares of our common stock;
- compensation paid to our advisor and its affiliates;
- information on experts;
- incorporation of certain information by reference;
- unaudited pro forma condensed consolidated financial statements furnished in connection with our pending mergers, attached hereto as Appendix A to this supplement; and
- audited financial statements of Moody National REIT I, Inc. as of December 31, 2016, which are furnished in connection with our pending mergers, attached hereto as Appendix B to this supplement.

Status of Our Public Offering

We commenced our offering of up to $1,100,000,000 in shares of our common stock on January 20, 2015. On July 2, 2015, we received subscriptions aggregating $2,000,000 and the subscription proceeds held in escrow were released to us pursuant to the terms of our offering. As of December 31, 2016, we had received and accepted investors' subscriptions for and issued 3,145,348 shares of our common stock in our offering, including 35,065 shares of common stock pursuant to our distribution reinvestment plan, or DRP, resulting in gross offering proceeds of $77,757,076. As of April 4, 2017, we had received and accepted investors' subscriptions for and issued 4,297,535 shares of our common stock in our offering, including 52,360 shares of common stock pursuant to our DRP, resulting in gross offering proceeds of $106,129,398. As of April 4, 2017, 35,734,824 shares remained to be sold in our offering. We intend to continue to offer shares of our common stock on a continuous basis until January 20, 2018, unless we determine to pursue a follow-on offering of shares of our common stock. However, in certain states our offering may continue for only one year unless we renew the offering period for an additional year. We reserve the right to terminate our offering at any time.

Estimated Value Per Share of Common Stock

Background

On March 16, 2017, our board of directors, including all of our independent directors, determined an estimated value per share of our common stock of $25.04 as of December 31, 2016. We are providing the estimated value per share to assist broker-dealers in complying with certain rules of the Financial Industry Regulatory Authority, Inc., or FINRA. In determining an estimated value per share of our common stock, our board of directors relied upon information provided in a report, or the valuation report, provided by our advisor, the recommendation of our audit committee and the board of directors' experience with, and knowledge of, our real property and other assets as of December 31, 2016.

The objective of the board of directors in determining the estimated value per share of our common stock was to arrive at a value, based on recent, available data, that it believed was reasonable based on methods that it deemed appropriate after consultation with our advisor and our audit committee. Accordingly, our advisor performed the valuation of our common stock in accordance with Practice Guideline 2013-01, Valuations of Publicly Registered Non-Listed REITs, issued by the Investment Program Association in April 2013. To assist our advisor in its performance of the valuation of our common stock, our advisor engaged CBRE, Inc. – Valuation & Advisory Services and Landauer Valuation & Advisory, a division of Newmark Grubb Knight Frank, together, the appraisers, to provide appraisals of the fair value of our investment in hotel properties.

The estimated value per share is based on (x) the estimated value of our assets less the estimated value of our liabilities divided by (y) the number of outstanding shares of our common stock, all as of December 31, 2016.

Valuation Summary

The following is a summary of the valuation methods used on our assets and liabilities and the results of the valuation.

Real Estate Investments. As of December 31, 2016, we owned two hotel properties. Our board of directors determined the fair value of our investment in hotel properties to be $116,000,000 as of that date. This determination was based on appraisals of the fair value of our investment in hotel properties performed by the appraisers, which appraisals were included in the valuation report.

Material Assumptions in Property Valuation. The appraisers made certain key assumptions in the discounted cash flow models that they used to value our investment in hotel properties, which are set forth below:

Capitalization rate	7.50%
Discount rate	9.50%

While we believe that the appraisers' assumptions are reasonable, a change in these assumptions would significantly impact the appraised values of our investment in hotel properties and thus, our estimated value per share. The table below illustrates the impact on the estimated value per share if the capitalization rate and discount rate listed above were increased or decreased by 2.5%, assuming all other factors remain unchanged:

	Decrease of 2.5%	Increase of 2.5%
Capitalization rate	$ 0.44	$ (0.47)
Discount rate	$ 0.56	$ (0.60)

Note Receivable. The valuation report contained an estimated fair value of a note receivable that we hold as equal to its carrying value as of December 31, 2016. Our board of directors determined that the value of our note receivable as of December 31, 2016 was $11,200,000.

Notes Payable. The valuation report contained an estimated value of our notes payable as equal to their fair value as of December 31, 2016. Our board of directors determined that the value of our notes payable as of December 31, 2016 was $69,975,000.

Other Assets and Liabilities. The valuation report contained our other assets and liabilities, consisting primarily of cash and cash equivalents, restricted cash, earnest money deposit, deferred franchise costs, accounts receivable, prepaid expenses and other assets and accounts payable and accrued expenses. The fair value of other assets and liabilities were considered by our board of directors to be equal to their carrying values as of December 31, 2016 due to their short maturities.

Estimated Value Per Share. The estimated value per share was based upon 3,173,348 shares of our common stock outstanding as of December 31, 2016. Although the estimated value per share has been developed as a measure of value as of December 31, 2016, a specific date, the estimated value per share does not reflect a liquidity discount for the fact that the shares are not currently traded on a national securities exchange or the limited nature in which a stockholder may redeem shares under our share repurchase program, which is currently suspended pending the completion of our merger with Moody I, a discount for the non-assumability or prepayment obligations associated with certain of our debt, or a discount for our corporate level overhead.

The following table presents how the estimated value per share was determined as of December 31, 2016:

Investment in hotel properties	$116,000,000
Cash, cash equivalents and restricted cash	21,447,616
Note receivable	11,200,000
Other assets	3,121,418
	$151,769,034
Notes payable	$ 69,975,000
Other liabilities	1,885,834
Special limited partnership interests	1,000
Noncontrolling interest in Operating Partnership	450,691
Total liabilities, special limited partnership interests and noncontrolling interest in Operating Partnership	$ 72,312,525
Estimated value	$ 79,456,509
Common stock outstanding	3,173,348
Estimated value per share	$ 25.04

As of December 31, 2016, our estimated value per share was allocated on a per share basis as follows:

Investment in hotel properties	$ 36.55
Notes payable	(22.05)
Other assets, liabilities, and special limited partnership interests	10.68
Noncontrolling interest in Operating Partnership	(0.14)
Estimated value per share	$ 25.04

Limitations of Valuation Method

FINRA rules provide limited guidance on the methods an issuer must use to determine its estimated value per share. As with any valuation method, and as noted above, the methods used to determine our estimated value per share were based upon a number of assumptions, estimates and judgments that may not be accurate or complete. The estimated value per share determined by our board of directors is not a representation, warranty or guarantee that, among other things:

- a stockholder would be able to realize the estimated value per share if such stockholder attempts to sell his or her shares;
- a stockholder would ultimately realize distributions per share equal to the estimated value per share upon liquidation of our assets and settlement of our liabilities or if we were sold;
- shares of our common stock would trade at the estimated value per share on a national securities exchange;
- a third party would offer the estimated value per share in an arms-length transaction to purchase all or substantially all of the shares of our common stock; or
- the methods used to determine the estimated value per share would be acceptable to FINRA, the Securities and Exchange Commission, any state securities regulatory entity or in accordance with the Employee Retirement Income Security Act, of 1974, as amended, with respect to their respective requirements.

Further, the estimated value per share was calculated as of a particular moment in time and the value of our shares will fluctuate over time as a result of, among other things, future acquisitions or dispositions of assets, developments related to individual assets and changes in the real estate and capital markets.

Our Investment Portfolio

Hotel Properties

As of December 31 2016, our portfolio included of two hotel properties comprising a total of 346 guest rooms:

Property Name	Date Acquired	Location	Ownership Interest	Purchase Price(1)	Rooms	Mortgage Debt Outstanding(2)
Residence Inn Austin........	October 15, 2015	Austin, Texas	100%	$ 27,500,000	112	$ 16,575,000
Springhill Suites Seattle....	May 24, 2016	Seattle, Washington	100%	$ 74,100,000	234	$ 56,250,000

(1) Excludes closing costs and includes gain on acquisition.
(2) See "Information Regarding Our Indebtedness," below.

Mortgage Note Receivable from Related Party

On October 6, 2016, our operating partnership originated a secured loan in the aggregate principal amount of $11,200,000, or the MN TX II note, to MN TX II, LLC, or MN TX II, a Texas limited liability company affiliated with our advisor. Proceeds from the MN TX II note were used by MN TX II solely to acquire a commercial property located in Houston, Texas. The entire unpaid principal balance of the MN TX II note and all accrued and unpaid interest thereon and all other amounts due thereunder are due and payable on October 6, 2018. Interest on the outstanding principal balance of the MN TX II note accrues at a fixed per annum rate equal to 5.50%, provided that in no event will the interest rate exceed the maximum rate permitted by applicable law. The MN TX II note may be prepaid in whole or in part by MN TX II without penalty at any time upon prior written notice to our operating partnership. We financed the mortgage note receivable in part with the proceeds of a loan secured by the MN TX II note with an initial principal balance of $8,400,000. See "Information Regarding Our Indebtedness," below for more information.

Our Pending Mergers with Moody National REIT I, Inc.

On September 27, 2016, we jointly announced with Moody National REIT I, Inc., or Moody I, a Maryland corporation and a related party, that we had entered into a non-binding letter of intent that set forth the terms and conditions upon which we would acquire Moody I and its subsidiaries. Moody I is a public, non-listed REIT formed in January 2008 to invest primarily in hotel properties. Moody I is managed by Moody National Advisor I, LLC, or Moody I advisor, which is indirectly owned and controlled by Moody National REIT Sponsor, LLC, our sponsor.

On November 16, 2016, we, along with our operating partnership, our advisor, Moody I, Moody National Operating Partnership I, LP, the operating partnership of Moody I, or Moody I OP, Moody I advisor, and Moody Merger Sub, LLC, our wholly-owned subsidiary, or merger sub, entered into an agreement and plan of merger, or the merger agreement. Pursuant to the merger agreement, Moody I will merge with and into merger sub, with merger sub continuing as the surviving entity and our wholly-owned subsidiary. We refer to the foregoing transaction as the "merger." In addition, pursuant to the merger agreement, our operating partnership will merge with and into Moody I OP, with Moody I OP continuing as the "surviving partnership," and which transaction we refer to as the "partnership merger." Unless context suggests otherwise, we refer to the merger and the partnership merger together as the "mergers." The merger agreement was the product of a negotiation between a special committee of our board of directors and a special committee of the board of directors of Moody I (both consisting solely of independent directors), each of which was represented by its own counsel and financial advisor. Entry into the merger agreement was unanimously approved by our board of directors upon the recommendation of the special committee of our board of directors.

Subject to the terms and conditions of the merger agreement, we agreed to pay gross consideration of $11.00 per share of Moody I common stock, which amount will be reduced by all fees and expenses that Moody I incurs as a result of or in connection with the mergers and other transactions contemplated by the merger agreement (including certain disposition fees and profit sharing amounts to Moody I's sponsor and parties related thereto, financial advisory and legal fees payable by Moody I, and other transaction and closing costs incurred by Moody I), which fees and expenses are referred to as the "Moody I transaction fees and expenses," to arrive at the net merger consideration payable to the holders of Moody I common stock, which is referred to as the "net per share price;" *provided*, that in no event will the net per share price be less than $10.25. Pursuant to the terms of the merger agreement, the parties thereto have determined the final amount of the Moody I transaction fees and expenses and have calculated the net per share price. Based on such determination, the net per share price was determined to be $10.25.

At the effective time of the merger, each outstanding share of Moody I common stock will be automatically cancelled and retired, and converted into the right to receive, at the election of each holder of such share of Moody I's common stock, but subject to the limitations discussed below, either:

(i) an amount in cash equal to the net per share price, which we refer to as the "cash consideration;" or

(ii) a number of shares of our common stock, which we refer to as the "stock consideration," equal to the net per share price divided by $25.00, which quotient, as adjusted pursuant to the merger agreement, is referred to as the "exchange ratio."

We refer to the stock consideration together with the cash consideration as the "merger consideration."

Notwithstanding the above, the maximum number of shares of Moody I common stock that may be converted into the right to receive the cash consideration may not exceed 50% of the aggregate number of shares of Moody I common stock entitled to receive merger consideration. If the elections of Moody I's stockholders would cause more than 50% of the aggregate number of shares of Moody I common stock to be converted into the right to receive the cash consideration, then the shares of Moody I common stock that would be converted into the right to receive the cash consideration will be reduced proportionally so that the number of shares of Moody I common stock that will be converted into the right to receive the cash consideration will not exceed 50%, and the remaining shares of Moody I common stock will be converted into the right to receive the stock consideration.

Subject to the terms and conditions of the merger agreement, at the effective time of the partnership merger, each outstanding unit of limited partnership interest in Moody I OP will be automatically cancelled and retired, and converted into the right to receive a number of units of limited partnership interests in the surviving partnership equal to the exchange ratio. Each unit of limited partnership interest in Moody I OP designated as a special partnership unit pursuant to Moody I OP's limited partnership agreement will be automatically cancelled and retired and shall cease to exist, and no consideration shall be paid, nor, except as expressly provided in the termination agreement (described below), shall any other payment or right inure or be made with respect thereto in connection with or as a consequence of the partnership merger. Each outstanding unit of limited partnership interest in our operating partnership will be converted into one unit of equity ownership in the surviving partnership, and each unit designated as a special partnership unit pursuant to the limited partnership agreement of our operating partnership will be converted into one special unit in the surviving partnership.

The merger agreement contains customary covenants, including covenants prohibiting Moody I and its subsidiaries and representatives from soliciting, providing information with respect to or entering into discussions concerning proposals relating to alternative business combination transactions, subject to certain limited exceptions. However, under the terms of the merger agreement, during the period that began on November 16, 2016 and continued until 11:59 p.m. New York City time on December 31, 2016, or the go shop period end time, Moody I had the right to initiate, solicit, provide information and enter into discussions concerning proposals relating to alternative business combination transactions. Additionally, for up to five business days after the go shop period end time, Moody I had the right to continue to participate in such discussions with certain other parties, each referred to as a "go shop bidder," and could have, subject to certain conditions set forth in the merger agreement regarding the proposal made by such go shop bidder, terminated the merger agreement and entered into an agreement with a go shop bidder with respect to the proposal made by such go shop bidder. None of the parties contacted during the go shop process submitted a proposal that was deemed an "acquisition proposal" under the merger agreement to Moody I prior to the go shop period end time.

Concurrently with the entry into the merger agreement, we, Moody I, Moody I OP, Moody I advisor, Moody National Realty Company, LP, or Moody National, and Moody OP Holdings I, LLC, or OP Holdings, the holder of all of the outstanding special partnership units in Moody I OP, entered into a termination agreement, or the termination agreement. Pursuant to the termination agreement, at the effective time of the mergers, the amended and restated advisory agreement, dated August 14, 2009, among Moody I, Moody I OP, Moody I advisor and Moody National will be terminated and Moody I will pay Moody I advisor a payment of $5,580,685, or the Moody I advisor payment. The Moody I advisor payment was a negotiated amount that represents a reduction in the disposition fee to which the Moody I advisor could have been entitled and a waiver of any other contractual termination fee that the Moody I advisor would have been due under the advisory agreement between Moody I and Moody I advisor in connection with the merger. In addition, the termination agreement provides that at the effective time of the partnership merger and in accordance with the terms of the limited partnership agreement of Moody I OP, Moody I OP will pay to OP Holdings an amount not to exceed $613,751, or the promote payment. In the event that the merger agreement is terminated prior to the consummation of the mergers, the termination agreement will automatically terminate and be of no further effect and no Moody I advisor payment or promote payment will be owed and payable.

Also concurrently with the entry into the merger agreement, we, our operating partnership and our advisor entered into an amended and restated advisory agreement, or the amended and restated advisory agreement, which will become effective concurrently with the effective time of the mergers. Pursuant to the amended and restated advisory agreement, we will be obligated to pay our advisor an acquisition fee of 1.5% of the aggregate cash consideration paid in the merger. However, during the first year following the consummation of the mergers, if we sell a property that was previously owned by Moody I, then any disposition fee to which our advisor would be entitled under the amended and restated advisory agreement will be reduced by an amount equal to the portion of the Moody I advisor payment attributable to such property.

The merger agreement may be terminated under certain circumstances by both Moody I and us. If such termination occurs under certain circumstances, then Moody I would be obligated to pay us a termination fee of $2,000,000 (or $1,000,000 if the merger agreement had been terminated pursuant to its go shop provisions), plus an expense reimbursement fee of up to $500,000. The merger agreement also provides that one party may be required to reimburse the other party's expenses, up to $500,000, if the merger agreement is terminated under certain circumstances.

The obligation of each party to consummate the mergers is subject to a number of conditions, including the approval of Moody I's stockholders, receipt of any regulatory approvals, delivery of certain documents and consents, the truth and correctness of the representations and warranties of the parties, subject to the materiality standards contained in the merger agreement, and the absence of a material adverse effect with respect to either us or Moody I. There is no guarantee that the mergers will close. Our management has, and will continue to, expend time and resources to consummate the mergers, which time and resources may otherwise have been allocated to our other operational needs.

In connection with the mergers, on February 2, 2017, we entered into a stockholder servicing coordination agreement, or the stockholder servicing coordination agreement, with Moody Securities, which also serves as the dealer manager for this offering. Pursuant to the stockholder servicing coordination agreement, we will pay to Moody Securities certain stockholder servicing fees, or the stockholder servicing fees, of up to $2.125 per share of our common stock issued as stock consideration. All stockholder servicing fees will be re-allowed to broker-dealers that provide ongoing financial advisory services to Moody I stockholders and that enter into participating broker-dealer agreements with Moody Securities. The aggregate amount of stockholder servicing fees will depend on the number of shares of our common stock issued as consideration in the merger, and could range from approximately $5,797,034 to $11,594,068, assuming that the maximum stockholder servicing fee of $2.125 per share is paid for all shares issued as stock consideration. No stockholder servicing fees will be paid with respect to any cash consideration paid in the merger.

The foregoing descriptions of the mergers, the merger agreement, the termination agreement, the amended and restated advisory agreement and the stockholder servicing agreement are not complete and are subject to and qualified in their entirety by reference to the terms of such agreements, which are included in the exhibit index of the registration statement of which this Supplement No. 1 forms a part.

Portfolio Information Following the Pending Mergers

If the mergers are consummated, our resulting assets are expected to consist of (i) interests in 14 hotel properties with a total of 1,941 rooms located in six states and (ii) three notes receivable from related parties with an aggregate principal amount of $24,700,000.

Property Portfolio Following Mergers

Property Name	Date Acquired	Location	Ownership Interest	Purchase Price[1]	Rooms	Mortgage Debt Outstanding[2]
Properties Currently Owned by Moody I						
Woodlands Hotel (Homewood Suites by Hilton)	November 8, 2012	The Woodlands, Texas	100%	$ 12,000,000	91	$ 9,300,000
Germantown Hotel (Hyatt Place)..........................	April 9, 2013	Germantown, Tennessee	100%	11,300,000	127	7,325,393
Charleston Hotel (Hyatt Place)..........................	July 2, 2013	North Charleston, South Carolina	100%	11,800,000	113	7,417,921
Austin Hotel (Hampton Inn).......................	December 30, 2013	Austin, Texas	100%	15,350,000	123	11,044,471
Grapevine Hotel (Residence Inn)	March 31, 2014	Grapevine, Texas	100%	20,500,000	133	12,759,654
Lyndhurst Hotel (Marriott Courtyard).............	September 30, 2014	Lyndhurst, New Jersey	[3]	33,322,000	227	30,839,847
Austin Arboretum Hotel (Hilton Garden Inn)...............	November 20, 2014	Austin, Texas	100%	29,250,000	138	19,000,000
Great Valley Hotel (Hampton Inn).......................	March 27, 2015	Frazer, Pennsylvania	100%	11,000,000	125	8,200,000
Nashville Hotel (Embassy Suites)..................	June 16, 2015	Nashville, Tennessee	100%	66,300,000	208	43,000,000
Homewood Suites Austin Hotel (Homewood Suites)...............	August 3, 2015	Austin, Texas	100%	14,250,000	96	11,000,000
Fort Worth Hotel (TownPlace Suites)	December 18, 2015	Fort Worth, Texas	[4]	7,301,887	95	7,038,313
Houston Hotel (Hampton Inn).......................	April 21, 2016	Houston, Texas	100%	8,000,000	119	4,711,651
Properties Currently Owned by Us						
Residence Inn Austin	October 15, 2015	Austin, Texas	100%	25,500,000	112	16,575,000
Springhill Suites Seattle............	May 24, 2016	Seattle, Washington	100%	74,100,000	234	45,000,000
Totals.......................................				$ 339,973,887	1,941	$ 233,212,250

(1) Excludes closing costs.
(2) As of December 31, 2016.
(3) The Lyndhurst Hotel is owned by MN Lyndhurst Venture, LLC, of which Moody I OP is a member and holds 100% of the Class B membership interests therein.
(4) The Fort Worth Hotel is owned by MN Fort Worth Venture, LLC, of which Moody I OP is a member and holds 100% of the Class B membership interests therein.

Notes Receivable from Related Parties Following Mergers

In addition to the MN TX II note described above under "Our Investment Portfolio—Mortgage Note Receivable From Related Party," we will also hold the following two notes receivable from related parties that are currently held by Moody I.

Moody I Related Party Note. On August 21, 2015, Moody I originated a loan in the aggregate principal amount of $9,000,000, or the Moody I related party note, to Moody National DST Sponsor, LLC, a Texas limited liability company and affiliate of our sponsor, or DST Sponsor. Proceeds from the Moody I related party note were used by DST Sponsor to acquire a commercial real property located in Katy, Texas. Interest on the outstanding principal balance of the Moody I related party note accrues at a fixed per annum rate equal to 12%, provided that in no event will the interest rate exceed the maximum rate permitted by applicable law. The entire unpaid principal balance of the Moody I related party note and all accrued and unpaid interest thereon and all other amounts due thereunder were due and payable in full on August 21, 2016. On August 15, 2016, the maturity date of the Moody I related party note was extended from August 21, 2016 to August 21, 2017 and an origination fee in the amount of $90,000 and an extension fee in the amount of $45,000 were paid to Moody I by DST Sponsor. An exit fee of $90,000 is payable by DST Sponsor to Moody I upon maturity of the Moody I related party note, including any earlier prepayment date or accelerated maturity date of the Moody I related party note. The Moody I related party note may be prepaid in whole or part by DST Sponsor without penalty at any time upon prior written notice to Moody I.

Moody I Mezzanine Note. On April 29, 2016, Moody I originated a loan in the aggregate principal amount of $4,500,000, or the Moody I mezzanine note, to Moody National Realty Company, L.P., a Texas limited partnership and an affiliate of our sponsor, or Moody Realty. Proceeds from the Moody I mezzanine note were used by Moody Realty to acquire a multifamily real property located in Houston, Texas. The entire unpaid principal balance of the Moody I mezzanine note and all accrued and unpaid interest thereon and all other amounts due thereunder are due and payable in full on the earlier of (1) April 30, 2018, or (2) upon 90 days' written notice of acceleration of the maturity date by Moody I to Moody Realty. Interest on the outstanding principal balance of the Moody I mezzanine note accrues at a fixed per annum rate equal to 10%, provided that in no event will the interest rate exceed the maximum rate permitted by applicable law. Moody Realty will pay to Moody I an origination fee in the amount of $45,000 and an exit fee in the amount of $45,000 upon the maturity date of the Moody I mezzanine note, including any earlier prepayment date or accelerated maturity date. The Moody I mezzanine note may be prepaid in whole or part by Moody Realty without penalty at any time upon prior written notice to Moody I.

The aggregate estimated fair value of the notes receivable from related parties as of December 31, 2016 and 2015 were $13,500,000 and $9,000,000, respectively. Interest income on the foregoing notes receivable was $1,558,000 and $479,300 for the years ended December 31, 2016 and 2015. Partial payments of interest on the notes receivable have been made.

Changes to our Board of Directors in Connection with the Pending Mergers

In addition to our current directors, pursuant to the merger agreement, if the mergers are consummated then our board of directors will be expanded from three to five directors and William H. Armstrong and John P. Thompson, both of whom currently serve as directors of Moody I, will be appointed to our board of directors to fill the two resulting vacancies. Biographies of Messrs. Armstrong and Thompson are set forth below:

William H. Armstrong III (age 52) has served as one of Moody I's independent directors since September 2008. Mr. Armstrong serves as Chairman of the Board, Chief Executive Officer and President of Stratus Properties Inc. (NASDAQ: STRS), a company engaged in the acquisition, development, management, operation and sale of commercial, hotel, entertainment, multifamily and single-family residential real estate properties located primarily in the Austin, Texas area. Mr. Armstrong has been employed by Stratus Properties since its inception in 1992, served as Chief Financial Officer and Chief Operating Officer of Stratus Properties from 1996 to 1998, and has served as Chairman of the Board, Chief Executive Officer and President of Stratus Properties since 1998. Prior to joining Stratus Properties, Mr. Armstrong was Vice President of Sonnenblick Goldman, a national real estate investment banking and advisory firm. Mr. Armstrong serves on the Finance Committee of the U.S. Green Building Council, a Washington, D.C. based non-profit organization, and he has been active in the National Association of Real Estate Investment Trusts, or NAREIT, the Urban Land Institute and the Real Estate Council of Austin. Mr. Armstrong received his B.A. in Economics from the University of Colorado Denver.

Our current board of directors, in approving Mr. Armstrong's election to our board of directors pursuant to the merger agreement, has determined that Mr. Armstrong's previous leadership positions, including directorships, with other organizations primarily engaged in investing in commercial real estate have provided Mr. Armstrong with the experience, attributes and skills necessary to effectively carry out the duties and responsibilities of a director.

John P. Thompson (age 53) has served as one of Moody I's independent directors since September 2008. Mr. Thompson is the founder of PinPoint Commercial, L.P., which provides real estate services focusing on industrial, senior housing and medical related projects primarily in Texas. As CEO of Pinpoint Commercial, Mr. Thompson leads all investment and development activities for the firm and oversees the company's financial and management operations. Prior to founding PinPoint Commercial in 1998, Mr. Thompson served as an industrial real estate broker with CB Richard Ellis, Inc. Mr. Thompson received his B.B.A. in Finance from the University of Texas at Austin.

Our current board of directors, in approving Mr. Thompson's election to our board of directors pursuant to the merger agreement, has determined that Mr. Thompson's experience managing investments in industrial and retail properties and brokering industrial properties has provided Mr. Thompson with the experiences, attributes and skills necessary to effectively carry out the duties and responsibilities of a director.

Summary Pro Forma Financial Information In Connection with Our Pending Merger

The following summary unaudited pro forma condensed consolidated financial information is based on the historical consolidated financial statements of Moody I and us after giving effect to the mergers and the assumptions described in "Unaudited Pro Forma Condensed Consolidated Financial Information" attached as Appendix A to this supplement. The unaudited pro forma condensed consolidated financial information is presented for informational purposes only and is not necessarily indicative of the future financial position or results of operations of the combined company that will result from the pending mergers or the combined financial position or results of operations that would have been realized had the mergers been consummated during the period or as of the dates for which the unaudited pro forma condensed consolidated financial information is presented. For more information, see "Unaudited Pro Forma Condensed Consolidated Financial Information" contained in Appendix A to this supplement.

Moody National REIT II, Inc.
Summary Unaudited Pro Forma Condensed Consolidated Balance Sheet Data
As of December 31, 2016

	Moody National REIT II, Inc. Historical	Moody National REIT I, Inc. Historical	Pro Forma Adjustments	Moody National REIT II, Inc. Pro Forma
Total Assets	$ 135,758,774	$ 267,249,966	$ 45,222,527	$ 448,231,267
Total Liabilities	$ 70,929,336	$ 176,673,041	$ 36,936,664	$ 284,539,041
Special Partnership Units	$ 1,000	$ 1,000	$ (1,000)	$ 1,000
Total Equity	$ 64,828,438	$ 90,575,925	$ 8,286,863	$ 163,691,226

Moody National REIT II, Inc.
Summary Unaudited Pro Forma Condensed Consolidated Statement of Operations
Year Ended December 31, 2016

	Moody National REIT II, Inc. Historical	Prior Acquisition Pro Forma Adjustments	Moody National REIT I, Inc. Historical	Other Pro Forma Adjustments	Moody National REIT II, Inc. Pro Forma
STATEMENT OF OPERATIONS DATA:					
Total revenue	$ 14,858,872	$ 5,252,699	$ 61,930,033	$ —	$ 82,041,604
Total expenses	$ 17,136,343	$ 4,828,611	$ 67,371,906	$ (2,239,414)	$ 87,097,446
Income tax benefit	$ 4,000	—	$ 1,054,423	—	$ 1,058,423
Net income (loss)	$ (2,273,471)	$ 424,088	$ (4,387,450)	$ 2,239,414	$ (3,997,419)
PER SHARE DATA – BASIC AND DILUTED					
Net loss attributable to common stockholders	$ (1.26)		$ (0.32)		$ (0.61)
Weighted average shares outstanding	1,798,364		13,219,957		6,411,173

Consolidated Financial Statements of Moody I

In connection with our pending merger with Moody I, the consolidated financial statements of Moody I as of December 31, 2016 and 2015, and Moody I's related consolidated statements of operations, equity, and cash flows for the years then ended can be found in Appendix B to this supplement.

Risks Related to Our Pending Merger

The following risks related to our pending merger with Moody I should be read in conjunction with the "Risk Factors" section of our prospectus.

The pendency of the mergers could adversely affect our business and operations.

Between the date that the merger agreement was signed and the date that the mergers are consummated, the attention of our management may be diverted from day-to-day operations, regardless of whether or not the mergers are ultimately completed. The pendency of the mergers could have an adverse impact on our relationships with other parties, which parties may delay or decline entering into agreements with us as a result of the announcement of our entry into the merger agreement. In addition, due to operating covenants in the merger agreement, we may be unable during the pendency of the mergers to pursue certain transactions, undertake certain capital projects, undertake certain financing transactions and otherwise pursue other actions that are not in the ordinary course of business, even if such actions would prove beneficial.

There can be no certainty that the mergers will be consummated, and failure to consummate the mergers could negatively affect our future business and financial results.

Consummation of the mergers remains subject to the satisfaction or waiver of a number of conditions, some of which are beyond our control, including receipt of the approval of Moody I's stockholders, receipt of regulatory approvals, delivery of certain documents, consents and legal opinions, the truth and correctness of the representations and warranties of the parties, subject to the materiality standards contained in the merger agreement. There can be no certainty that such conditions will be met or waived, or that the mergers will be consummated. If the mergers are not consummated, our ongoing business could be adversely affected and we may be subject to a number of material risks, including the following:

- we will have incurred substantial costs and expenses related to the mergers, such as legal, accounting and advisory fees, which will be payable by us even if the mergers are not consummated, and are only subject to reimbursement under certain limited circumstances; and
- we may be required to pay Moody I's out-of-pocket expenses incurred in connection with the mergers if the merger agreement is terminated under certain circumstances.

If the mergers are not consummated, these risks could materially affect our business and financial results.

Our stockholders and Moody I stockholders will be diluted by the pending mergers.

The merger will dilute the ownership position of our current stockholders and result in Moody I stockholders having an ownership stake in us that is smaller than their current stake in Moody I. In connection with the merger, we could issue up to (i) approximately 2,727,301 shares of our common stock to the holders of Moody I common stock, based on approximately 13,303,908 shares of Moody I common stock outstanding as of March 30, 2017, and assuming that 50% of Moody I's common stock is exchanged for the stock consideration, or (ii) approximately 5,454,602 shares of our common stock to the holders of Moody I common stock, based on approximately 13,303,908 shares of Moody I common stock outstanding as of March 30, 2017, and assuming that 100% of Moody I's common stock is exchanged for the stock consideration. Assuming that 50% of Moody I's common stock is exchanged for the stock consideration, our current stockholders and former Moody I stockholders are expected to hold approximately 60% and 40% of our common stock, respectively, following the merger, based on 4,173,640 shares of our common stock and 13,303,908 shares of Moody I common stock outstanding as of March 30, 2017. In addition, as of March 30, 2017, approximately 18,000 units of limited partnership interest in our operating partnership were issuable in connection with the partnership merger. Consequently, our stockholders and Moody I stockholders, as a general matter, will have less influence over the management and policies of us after the merger than each exercise over the management and policies of us and Moody I, as applicable, immediately prior to the merger.

We intend to incur debt in connection with the pending mergers, which may limit our financial and operating flexibility and we may incur additional borrowings, which could increase the risks associated with our borrowings.

In connection with the mergers, we intend to incur additional debt. Our new borrowings could have material adverse consequences for our business and may:

- require us to dedicate a large portion of our cash flow to pay principal and interest on our borrowings, which will reduce the availability of cash flow to fund working capital, capital expenditures, and other business activities;
- increase our vulnerability to general adverse economic and industry conditions;
- subject us to maintaining various debt, operating income, net worth, cash flow, and other financial covenant ratios;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict our operating policies and ability to make strategic acquisitions, dispositions, or exploiting business opportunities;

- place us at a competitive disadvantage compared to our competitors that have less borrowings;
- limit our ability to borrow more funds (even when necessary to maintain adequate liquidity), dispose of assets, or make distributions to stockholders; or
- increase our costs of capital.

If new borrowings are added to our existing borrowing levels, the related risks that we now face would increase. In addition, at the time that any of our outstanding borrowings or new borrowings mature, we may not be able to refinance such borrowings or have the funds to pay them off.

There may be unexpected delays in the consummation of the pending mergers.

The merger agreement provides that either we or Moody I may terminate the merger agreement if the mergers have not occurred by September 30, 2017. Certain events may delay the consummation of the mergers. Some of the events that could delay the consummation of the pending mergers include difficulties in obtaining the approval of Moody I's stockholders, or satisfying the other closing conditions to which the mergers are subject.

Following the consummation of the mergers, we will assume certain potential liabilities relating to Moody I.

If the mergers are consummated, we will have assumed certain potential liabilities relating to Moody I. These liabilities could have a material adverse effect on our business to the extent we have not identified such liabilities or have underestimated the amount of such liabilities.

The future results of the combined company will suffer if the combined company does not effectively integrate and manage its expanded operations following the mergers.

Following the mergers, we expect to continue to expand our operations through additional acquisitions and other strategic transactions, some of which may involve complex challenges. Our future success will depend, in part, upon our ability to manage expansion opportunities, which may pose substantial challenges to integrate new operations into our existing business in an efficient and timely manner, and upon our ability to successfully monitor our operations, costs, regulatory compliance and service quality, and to maintain other necessary internal controls. There is no assurance that our expansion or acquisition opportunities will be successful, or that we will realize the expected operating efficiencies, cost savings, revenue enhancements or other benefits.

Selected Financial Data

The following selected financial data should be read in conjunction with our consolidated financial statements and related notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report on Form 10-K for the year ended December 31, 2016, which is incorporated by reference herein. Our historical results are not necessarily indicative of results for any future period.

	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014
BALANCE SHEET DATA:			
Total assets	$ 135,758,774	$ 29,798,425	$ 198,624
Total liabilities	$ 70,929,336	$ 17,537,214	$ —
Special limited partnership interests	$ 1,000	$ 1,000	$ 1,000
Total equity	$ 64,828,438	$ 12,260,211	$ 197,624

	Year ended December 31, 2016	Year ended December 31, 2015	Period from July 25, 2014 (Inception) to December 31, 2014
STATEMENT OF OPERATIONS DATA:			
Total revenue	$ 14,858,872	$ 1,077,074	$ —
Total expenses	13,999,135	1,426,966	2,376
Total other income (expense)	(3,137,208)	1,828,589	—
Income tax benefit	4,000	6,000	—
Net income (loss)	(2,273,471)	1,484,697	(2,376)
STATEMENT OF CASH FLOWS DATA:			
Net cash provided by (used in) operating activities	$ 921,090	$ (18,993)	$ (2,376)
Net cash used in investing activities	88,665,861	25,683,518	—
Net cash provided by financing activities	105,741,116	27,084,854	201,000
OTHER DATA:			
Distributions declared	3,161,440	217,365	—

Our Performance—Funds from Operations and Modified Funds from Operations

One of our objectives is to provide cash distributions to our stockholders from cash generated by our operations. Cash generated from operations is not equivalent to net income as determined under generally accepted account principles, or GAAP. Due to certain unique operating characteristics of real estate companies, NAREIT has promulgated a standard known as Funds from Operations, or FFO, which it believes more accurately reflects the operating performance of a REIT. As defined by NAREIT, FFO means net income computed in accordance with GAAP, excluding gains (or losses) from sales and on acquisitions of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures in which the REIT holds an interest. We have adopted the NAREIT definition for computing FFO because, in our view, FFO is a meaningful supplemental performance measure in conjunction with net income.

Changes in the accounting and reporting rules under GAAP that have been put into effect since the establishment of NAREIT's definition of FFO have prompted a significant increase in the magnitude of non-cash and non-operating items included in FFO, as defined. As a result, in addition to FFO, we also calculate modified funds from operations, or MFFO, a non-GAAP supplemental financial performance measure that our management uses in evaluating our operating performance. Similar to FFO, MFFO excludes items such as depreciation and amortization. However, MFFO excludes non-cash and non-operating items included in FFO, such as amortization of certain in-place lease intangible assets and liabilities and the amortization of certain tenant incentives. Our calculation of MFFO excludes these items, as well as the effects of straight-line rent revenue recognition, fair value adjustments to derivative instruments that do not qualify for hedge accounting treatment, non-cash impairment charges and certain other items, when applicable. Our calculation of MFFO also includes, when applicable, items such as master lease rental receipts, which are excluded from net income (loss) and FFO, but which we consider in the evaluation of the operating performance of our real estate investments.

We believe that MFFO reflects the overall impact on the performance of our real estate investments of occupancy rates, rental rates, property operating costs and development activities, as well as general and administrative expenses and interest costs, which is not immediately apparent from net income (loss). As such, we believe MFFO, in addition to net income (loss) as defined by GAAP, is a meaningful supplemental performance measure which is used by our management to evaluate our operating performance and determine our operating, financing and dividend policies.

Please see the limitations listed below associated with the use of MFFO as compared to net income (loss):

- Our calculation of MFFO will exclude any gains (losses) related to changes in estimated values of derivative instruments related to any interest rate swaps which we hold. Although we expect to hold these instruments to maturity, if we were to settle these instruments prior to maturity, it would have an impact on our operations. We do not currently hold any such derivate instruments and thus our calculation of MFFO set forth in the table below does not reflect any such exclusion.

- Our calculation of MFFO will exclude any impairment charges related to long-lived assets that have been written down to current market valuations. Although these losses will be included in the calculation of net income (loss), we will exclude them from MFFO because we believe doing so will more appropriately present the operating performance of our real estate investments on a comparative basis. We have not recognized any such impairment charges and thus our calculation of MFFO set forth in the table below does not reflect any such exclusion.

- Our calculation of MFFO will exclude organizational and offering expenses and acquisition expenses payable to our advisor. Although these amounts reduce net income, we fund such costs with proceeds from our offering and acquisition-related indebtedness and do not consider these expenses in the evaluation of our operating performance and determining MFFO. Our calculation of MFFO set forth in the table below reflects such exclusions.

We believe MFFO is useful to investors in evaluating how our portfolio might perform after our offering and acquisition stage has been completed and, as a result, may provide an indication of the sustainability of our distributions in the future. However, as described in greater detail below, MFFO should not be considered as an alternative to net income (loss) or as an indication of our liquidity. Many of the adjustments to MFFO are similar to adjustments required by SEC rules for the presentation of pro forma business combination disclosures, particularly acquisition expenses, gains or losses recognized in business combinations and other activity not representative of future activities. MFFO is also more comparable in evaluating our performance over time and as compared to other real estate companies, which may not be as involved in acquisition activities or as affected by impairments and other non-operating charges.

MFFO has limitations as a performance measure in an offering such as ours, but it is useful in assisting management and investors in assessing the sustainability of operating performance in future operating periods, and in particular, after the offering and acquisition stages are complete and net asset value is disclosed. MFFO is not a useful measure in evaluating net asset value because impairments are taken into account in determining net asset value but not in determining MFFO. Investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flows and given the relatively limited term of our operations, it could be difficult to recover any impairment charges.

The calculation of FFO and MFFO may vary from entity to entity because capitalization and expense policies tend to vary from entity to entity. Consequently, our presentation of FFO and MFFO may not be comparable to other similarly titled measures presented by other REITs. In addition, FFO and MFFO should not be considered as an alternative to net income (loss) or to cash flows from operating activities and are not intended to be used as a liquidity measure indicative of cash flow available to fund our cash needs. In particular, as we are currently in the acquisition phase of our life cycle, acquisition costs and other adjustments which are increases to MFFO are, and may continue to be, a significant use of cash. MFFO also excludes impairment charges, rental revenue adjustments and unrealized gains and losses related to certain other fair value adjustments. Accordingly, both FFO and MFFO should be reviewed in connection with other GAAP measurements.

The table below summarizes our calculation of FFO and MFFO for the years ended December 31, 2016 and 2015 and a reconciliation of such non-GAAP financial performance measures to our net income (loss).

	Year ended December 31,	
	2016	**2015**
Net Income (Loss)	$ (2,273,471)	$ 1,484,697
Adjustments:		
Depreciation and amortization	1,711,145	135,540
Gain on acquisition of hotel property	—	(2,000,000)
Funds from Operations	(562,326)	(379,763)
Adjustments:		
Acquisition expenses	2,407,445	496,165
Modified Funds from Operations	$ 1,845,119	$ 116,402

Our Net Tangible Book Value Per Share

As of December 31, 2016, our net tangible book value per share was $20.24, compared to our offering price of $25.00 per share as of December 31, 2016 and our offering price of $27.82 as of April 3, 2017. Net tangible book value per share of our common stock is determined by dividing the net tangible book value based on the December 31, 2016 net book value of tangible assets (consisting of total assets less intangible assets, which are comprised of deferred financing and leasing costs and acquired in-place lease value, net of liabilities to be assumed) by the number of shares of our common stock outstanding as of December 31, 2016. Net tangible book value is used generally as a conservative measure of net worth that we do not believe reflects our estimated value per share. It is not intended to reflect the value of our assets upon an orderly liquidation of the company in accordance with our investment objectives. Additionally, investors who purchase shares in this offering will experience dilution in the percentage of their equity investment in us as we sell additional common shares in the future pursuant to this offering, if we sell securities that are convertible into common shares or if we issue shares upon the exercise of options, warrants or other rights.

Information Regarding Our Indebtedness

The following is a summary of our notes payable secured by our real estate investments as of December 31, 2016:

Mortgage Loan	Payment Type	Maturity Date	Interest Rate	Mortgage Debt	Outstanding Principal Balance
Residence Inn Austin	Principal and interest(1)	November 1, 2025	4.580%	$ 16,575,000	$ 16,575,000
Springhill Suites Seattle	Principal and interest(2)	October 1, 2026	4.380%	$ 45,000,000	$ 45,000,000
MN TX II note(3)	Interest only(4)	October 6, 2018	3.750%	$ 8,400,000	$ 8,400,000
				$ 69,975,000	$ 69,975,000(5)

(1) A monthly payment of interest only was due and payable during the calendar year 2016. Following December 31, 2016, a monthly payment of principal and interest is due and payable until the maturity date.
(2) A monthly payment of interest only is due and payable during the years 2016 and 2017, after which a monthly payment of principal and interest is due and payable until the maturity date.
(3) On October 6, 2016, we originated the MN TX II note in the aggregate principal amount of $11,200,000. Proceeds from the MN TX II note were used by MN TX II solely to acquire a commercial real property located in Houston, Texas. The MN TX II note was financed in part with the proceeds of a loan secured by the note with an initial principal balance of $8,400,000.
(4) Monthly payments of interest only are due until the maturity date.
(5) Unamortized debt issuance costs as of December 31, 2016 were $931,498 and the total outstanding balance of our mortgage notes payable, less unamortized debt issuance costs as of December 31, 2016 was $69,043,502.

Information Regarding Our Distributions

On July 2, 2015, our board authorized and declared the payment of cash distributions to our stockholders. The distribution (1) accrues daily to our stockholders of record as of the close of business on each day commencing on August 1, 2015, (2) is payable in cumulative amounts on or before the 15th day of each calendar month with respect to the prior month and (3) is calculated at a rate of $0.00479 per share of our common stock per day, a rate that, if paid each day over a 365-day period, is equivalent to a 6.28% annualized distribution rate based on a purchase price of $27.82 per share of our common stock.

Distributions paid during the years ended December 31, 2016 and 2015 are presented in the following table:

Period	Cash Distribution	Distribution Paid Pursuant to DRP[(1)]	Total Amount of Distribution	Net Cash Provided by (Used in) Operating Activities	Funds From Operations
First Quarter 2015	—	—	—	—	—
Second Quarter 2015	—	—	—	—	—
Third Quarter 2015	$ 16,959	$ 5,838	$ 22,797	$ (5,421)	—[(2)]
Fourth Quarter 2015	$ 86,452	$ 40,362	$ 126,814	$ (13,572)	$ (379,763)
First Quarter 2016	$ 185,952	$ 84,466	$ 270,418	$ 393,477	$ 338,504
Second Quarter 2016	$ 351,169	$ 157,799	$ 508,968	$ 762,888	$ (899,013)
Third Quarter 2016	$ 634,948	$ 229,708	$ 864,656	$ 351,342	$ 1,040,052
Fourth Quarter 2016	$ 818,892	$ 314,629	$ 1,133,521	$ (586,617)	$ (1,041,869)
Total	$ 2,094,372	$ 832,802	$ 2,927,174	$ 902,097	$ (942,089)

(1) Amount of distributions paid in shares of common stock pursuant to our distribution reinvestment plan.
(2) As of September 30, 2015, no properties had been purchased and we had not yet commenced real estate operations.

For the year ended December 31, 2015 we had cash used in operating activities of $18,993, and a deficit of $379,763 in funds from operations. From July 2, 2015 (the date our board of directors authorized and declared the payment of a distribution) through December 31, 2015, we paid aggregate distributions of $149,611, including $103,411 of distributions paid in cash and $46,200 in shares of our common stock issued pursuant to our distribution reinvestment plan. For the year ended December 31, 2015, all distributions were paid from offering proceeds. For the year ended December 31, 2016, we had cash provided by operating activities of $921,090, and a deficit of $562,326 in funds from operations. For the year ended December 31, 2016, 33% of distributions were paid from cash provided by operating activities and 67% were paid from offering proceeds.

We intend to fund future distributions from cash generated by operations, provided that we have sufficient cash generated by operations to do so. However, we may fund distributions from proceeds from our public offering, borrowings, advances from our sponsor or advisor and the deferral of fees and expense reimbursements to our advisor, in its sole discretion. The payment of distributions from sources other than cash flow from operations or FFO may be dilutive to our per share value because it may reduce the amount of proceeds available for investment and operations or cause us to incur additional interest expense as a result of borrowed funds.

Information Regarding Redemption of Our Shares

During the year ended December 31, 2016, we redeemed 16,893 shares of our common stock. On March 14, 2017, in connection with our pending merger with Moody I, as described in a supplement to this prospectus, we suspended our share repurchase program, effective March 24, 2017. We anticipate reinstating the share repurchase program following the completion of the merger or the termination of related merger agreement; provided that the merger is subject to significant closing conditions and there can be no assurance as to when the merger will be completed, if at all.

Compensation Paid to Our Advisor and its Affiliates

The following data supplements, and should be read in conjunction with, the section of our prospectus captioned "Management Compensation Table."

The following table summarizes the compensation, fees and reimbursements we paid to (or incurred with respect to) our advisor and its affiliates, including the dealer manager, during the years ended December 31, 2016 and 2015.

Type of Fee or Reimbursement	Year ended December 31, 2016	Year ended December 31, 2015
Offering Stage:		
Selling commissions	$ 4,982,034	$ 939,752
Dealer manager fees	1,080,374	229,885
Organization and offering expense reimbursement[(1)]	2,160,076	633,210
Operational Stage:		
Acquisition fee	1,111,500	382,500
Reimbursement of acquisition expenses to advisor	—	—
Financing coordination fee	562,500	165,700
Asset management fee	725,751	42,500
Property management fees	588,396	42,723
Property manager incentive fee	—	—
Operating expense reimbursement	472,000	
Disposition Stage:		
Disposition fee	—	—

(1) As of December 31, 2016, total offering costs were $10,616,692, comprised of $7,823,406 of offering costs incurred directly by us and $2,793,286 in offering costs incurred by and reimbursable to our advisor. As of December 31, 2016, the Company had $327,778 due to our advisor for reimbursable offering costs.

Experts

Our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2016 (including the schedule appearing therein) have been audited by Frazier & Deeter LLC, an independent registered public accounting firm, as set forth in their report included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Moody I appearing in its Annual Report on Form 10-K for the year ended December 31, 2016 (including the schedule appearing therein) have been audited by Frazier & Deeter LLC, an independent registered public accounting firm, as set forth in their report included therein, and incorporated herein by reference. Such consolidated financial statements are attached hereto as Appendix B in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The combined financial statements of Moody National SHS Seattle MT, LLC and the tenant-in-common owners contained in our Current Report on Form 8-K/A filed with the SEC on August 8, 2016 have been audited by Frazier & Deeter LLC, an independent auditor, as stated in their report included therein. Such combined financial statements are incorporated herein by reference in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The financial statements of Mueller Hospitality, LP contained in our Current Report on Form 8-K/A filed with the SEC on December 30, 2015 have been audited by Frazier & Deeter LLC, an independent auditor, as stated in their report included therein. Such financial statements are incorporated herein by reference in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

Incorporation of Certain Information by Reference

We have elected to "incorporate by reference" certain information into this prospectus. By incorporating by reference, we are disclosing important information to you by referring you to documents we have filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, except for information incorporated by reference that is superseded by information contained in this prospectus. You can access documents that are incorporated by reference into this prospectus at the website we maintain at *www.moodynationalreit.com*. There is additional information about us and our affiliates at our website, but unless specifically incorporated by reference herein as described in the paragraphs below, the contents of that site are not incorporated by reference in or otherwise a part of this prospectus.

The following documents filed with the SEC are incorporated by reference in this prospectus (Commission File No. 333-198305), except for any document or portion thereof deemed to be "furnished" and not filed in accordance with SEC rules:

- Annual Report on Form 10-K filed with the SEC on March 23, 2017;
- Current Report on Form 8-K filed with the SEC on March 20, 2017;
- Current Report on Form 8-K filed with the SEC on March 14, 2017;
- Current Report on Form 8-K filed with the SEC on February 3, 2017;
- Current Report on Form 8-K filed with the SEC on January 6, 2017;
- Current Report on Form 8-K/A filed with the SEC on August 8, 2016; and
- Current Report on Form 8-K/A filed with the SEC on December 30, 2015.

We will provide to each person, including any beneficial owner of our shares of common stock, to whom this prospectus is delivered, upon request, a copy of any or all of the information that we have incorporated by reference into this prospectus but not delivered with this prospectus. To receive a free copy of any of the documents incorporated by reference in this prospectus, other than exhibits, unless they are specifically incorporated by reference in those documents, call or write us at:

Moody National REIT II, Inc.
6363 Woodway Drive, Suite 110
Houston, Texas 77057
Attention: Investor Relations

APPENDIX A

MOODY NATIONAL REIT II, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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MOODY NATIONAL REIT II, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Introduction

On November 16, 2016 (the "Signing Date"), Moody National REIT II, Inc. ("REIT II") entered into an agreement and plan of merger, or the Merger Agreement, by and among REIT II, Moody National Operating Partnership II, LP, Moody National Advisor II, LLC, REIT II's operating partnership ("OP II"), REIT II's advisor ("Advisor II"), Moody National REIT I, Inc. ("REIT I"), Moody National Operating Partnership I, LP, REIT I's operating partnership ("OP I"), Moody National Advisor I, LLC, REIT I's advisor ("Advisor I"), and Moody Merger Sub, LLC, REIT II's wholly owned subsidiary ("Merger Sub"). Pursuant to the Merger Agreement, REIT I will merge with and into Merger Sub, with Merger Sub continuing as a wholly-owned subsidiary of REIT II (such transaction, the "Merger"). Also pursuant to the Merger Agreement, OP II will merge with and into OP I, with OP I being the surviving partnership (such transaction, the "Partnership Merger").

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Merger, each outstanding share of REIT I's common stock, or REIT I common stock, will be automatically cancelled and retired, and converted into the right to receive, at the election of each holder of such share of REIT I common stock but subject to the limitations discussed below, either:

(i) an amount in cash equal to the "net per share price" of $10.25 per share; or

(ii) a number of shares of REIT II common stock determined by dividing the net per share price by $25.00 (such quotient, as adjusted pursuant to the Merger Agreement, the "Exchange Ratio").

As of the Signing Date, there were 13,307,394 shares of REIT I common stock issued and outstanding.

Notwithstanding the above, (i) no more than 50% of the aggregate net merger consideration may be paid in cash, and (ii) each share of REIT I common stock, if any, then held by REIT II or any of REIT II's wholly owned subsidiaries, or REIT I or any of its wholly owned subsidiaries, will no longer be outstanding and will automatically be retired and will cease to exist, and no consideration will be paid, nor shall any other payment or right inure or be made with respect to such shares of REIT I common stock in connection with or as a consequence of the Merger.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Partnership Merger, each outstanding unit of limited partnership interest in OP I will be automatically cancelled and retired, and converted into the right to receive a number of units of limited partnership interests in the surviving partnership equal to the Exchange Ratio. Each unit of limited partnership interests in OP I designated as special partnership units by the Limited Partnership Agreement of OP I will be automatically cancelled and retired and will cease to exist, and no "partnership merger consideration," as defined in the Merger Agreement, will be paid. Each outstanding unit of limited partnership interest in OP II will be converted into one unit of limited partnership interest in the surviving partnership, and each unit of limited partnership interests in OP II designated as a special partnership unit will be converted into one special limited partnership unit of the surviving partnership.

Pro forma information

The following unaudited pro forma condensed consolidated financial statements combine the historical consolidated financial statements of REIT II and REIT I as if the Merger had previously occurred on the dates specified below. The accompanying unaudited pro forma condensed consolidated balance sheet as of December 31, 2016 has been prepared as if the Merger had occurred as of that date. The accompanying unaudited pro forma condensed consolidated statements of operations for year ended December 31, 2016 have been prepared as if the Merger had occurred as of January 1, 2016 and as if REIT II's acquisition of the Springhill Suites Seattle hotel property, which occurred on May 20, 2016, had occurred as of January 1, 2016.

Pro forma adjustments, and the assumptions on which they are based, are described in the accompanying Notes to Unaudited Pro Forma Condensed Consolidated Financial Statements (the "Notes").

The pro forma adjustments and the purchase price allocation as presented are based on assumptions, estimates and certain information that is currently available. The total merger consideration and the assignment of fair values to REIT I's assets and liabilities has not been finalized, is subject to change and could vary materially from the actual amounts presented herein at the time the Merger is completed. The purchase price allocation will not be finalized until after the Merger is consummated.

The pro forma information has been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). All significant adjustments necessary to reflect the effects of the Merger that can be factually supported within the SEC regulations covering the preparation of pro forma financial statements have been made. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the combined operating results or

financial position that would have occurred if such transactions had been consummated on the dates and in accordance with the assumptions described herein, nor is it necessarily indicative of future operating results or financial position.

You are urged to read the pro forma information below together with REIT II's and REIT I's publicly available historical consolidated financial statements and accompanying notes. See "Additional Information" in the accompanying prospectus.

Merger Costs

The pro forma financial information reflects estimated aggregate gross cost of approximately $157.3 million for the Merger, as calculated with REIT II being the accounting acquirer based on the assumptions as discussed herein (in millions):

Cash to be paid	$	67.0
Estimated value of REIT II shares to be issued to REIT I stockholders		90.3
Estimated aggregate gross merger cost		157.3
Less transaction costs		(20.9)
Estimated aggregate net merger consideration to REIT I stockholders	$	136.4

Under the terms of the Merger Agreement, REIT I stockholders will receive either (1) an amount in cash equal to the net per share price of $10.25 per share, or (2) a number of shares of REIT II common stock determined by dividing the net per share price by $25.00. As of the signing date, there were 13,307,394 shares of REIT I common stock issued and outstanding, resulting in an estimated aggregate net merger consideration of $136.4 million.

Based on current information, the pro forma financial information assumes that approximately 34% of REIT I stockholders will elect to receive cash consideration in the Merger resulting in current REIT II stockholders owning approximately 54% and former REIT I stockholders owning approximately 46% of the common stock of the Combined Company outstanding after the consummation of the Merger, estimated as follows:

REIT II shares outstanding at December 31, 2016	3,173,348
REIT II shares issued subsequent to December 31, 2016 to pay cash consideration on date of merger[(1)]	1,000,000
Total REIT II shares outstanding prior to merger	4,173,648
REIT II shares issued to REIT I stockholders on date of merger	3,612,809
Total REIT II shares outstanding after merger	7,786,157

(1) Number of shares accounts for offering costs associated with the sale of such shares in REIT II's initial public offering.

After consideration of all applicable factors pursuant to the business combination accounting rules, REIT II is considered the "legal acquirer" because REIT II is issuing common stock to REIT I stockholders, and also due to various factors including that REIT II stockholders will hold the largest portion of the voting rights in the combined company based on current information.

Transaction Costs

For purposes of the pro forma financial information, adjustments for estimated transaction costs for the Merger have been made. These aggregate estimated transaction costs are expected to be approximately $20.9 million and include estimated costs associated with financial advisor advisory fees, legal and accounting fees, stockholder servicing fees and other transaction costs. These costs will impact stockholders' equity and the results of operations and will be recognized when incurred. Certain costs will be recognized pre-Merger by both REIT II and REIT I and the remainder will be recognized by the combined company after the Merger.

The unaudited pro forma condensed consolidated financial statements included herein do not give effect to any potential cost reductions or other operating efficiencies that are expected to result from the Merger.

MOODY NATIONAL REIT II, INC.
UNAUDITED PRO FORMA CONSENDED CONSOLIDATED BALANCE SHEET
December 31, 2016

	Moody National REIT II, Inc. Historical (a)	Moody National REIT I, Inc. Historical (a)	Pro Forma Adjustments		Moody National REIT II, Inc. Pro Forma
ASSETS					
Investment in hotel properties, net	$ 99,989,740	$ 238,165,886	$ 55,478,027	(c),(d)	$ 393,633,653
Cash and cash equivalents	19,577,312	2,419,383	(10,000,000)	(e)	11,996,695
Restricted cash	1,870,304	5,684,811	—		7,555,115
Accounts receivable, net of allowance for doubtful accounts	278,796	949,616	—		1,228,412
Notes receivable from related parties	11,200,000	13,500,000	—		24,700,000
Prepaid expenses and other assets	209,535	3,163,089	—		3,372,624
Earnest money	2,000,000	—	—		2,000,000
Deferred franchise costs, net of amortization	234,344	914,881	—		1,149,225
Due from related parties	398,743	2,452,300	(255,500)	(f)	2,595,543
Total Assets	$ 135,758,774	$ 267,249,966	$ 45,222,527		$ 448,231,267
LIABILITIES AND EQUITY					
Liabilities:					
Notes payable, net of unamortized debt issuance costs	$ 69,043,502	$ 169,445,086	$ 37,192,164	(c),(d)	$ 275,680,752
Accounts payable and accrued expenses	1,431,535	5,131,497	—		6,563,032
Due to related parties	—	1,145,500	(255,500)	(f)	890,000
Dividends payable	451,631	901,702	—		1,353,333
Operating partnership distributions payable	2,668	49,256	—		51,924
Total Liabilities	70,929,336	176,673,041	36,936,664		284,539,041
Special Partnership Units of the Operating Partnership	1,000	1,000	(1,000)		1,000
Commitments and Contingencies					
Equity:					
Stockholders' equity:					
Preferred stock	—	—	—		—
Common stock	31,733	133,074	(86,946)	(b),(c)	77,861
Additional paid-in capital	68,571,270	116,651,244	(25,296,584)	(b),(c)	159,925,930
Accumulated deficit	(4,154,395)	(32,590,777)	32,590,777	(b),(c)	(4,154,395)
Total stockholders' equity	64,448,608	84,193,541	7,207,247		155,849,396
Noncontrolling interests in Operating Partnership	379,830	6,382,384	1,079,616	(c),(d)	7,841,830
Total Equity	64,828,438	90,575,925	8,286,863		163,691,226
TOTAL LIABILITIES AND EQUITY	$ 135,758,774	$ 267,249,966	$ 45,222,527		$ 448,231,267

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

MOODY NATIONAL REIT II, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
Year ended December 31, 2016

	Moody National REIT II, Inc. Historical (a)	Prior Acquisition Pro Forma Adjustments (b)	Moody National REIT I, Inc. Historical	Other Pro Forma Adjustments	Moody National REIT II, Inc. Pro Forma
Revenue					
Room revenue	$ 13,853,608	$ 4,765,040	$ 56,858,625	$ —	$ 75,477,273
Other hotel revenue	857,799	487,659	3,242,025	—	4,587,483
Total hotel revenue	14,711,407	5,252,699	60,100,650	—	80,064,756
Interest income from notes receivable	147,465	—	1,829,383	—	1,976,848
Total revenue	14,858,872	5,252,699	61,930,033	—	82,041,604
Expenses					
Hotel operating expenses	7,496,095	2,856,364	37,025,559	—	47,378,018
Property taxes, insurance and other	793,763	225,097	3,999,649	—	5,018,509
Depreciation and amortization	1,711,145	625,224	11,576,178	(4,140,510)(c)	9,772,037
Acquisition expenses	2,407,445	—	1,321,263	—	3,728,708
Corporate general and administrative	1,590,687	—	4,030,289	(197,278)(d)	5,423,698
Total expenses	13,999,135	3,706,685	57,952,938	(4,337,788)	71,320,970
Operating income	859,737	1,546,014	3,977,095	4,337,788	10,720,634
Interest expense and amortization of debt issuance costs	3,137,208	1,121,926	9,418,968	2,098,374(e)	15,776,476
Income (loss) before income tax benefit	(2,277,471)	424,088	(5,441,873)	2,239,414	(5,055,842)
Income tax benefit	4,000	—	1,054,423	—	1,058,423
Net income (loss)	(2,273,471)	424,088	(4,387,450)	2,239,414	(3,997,419)
Income attributable to noncontrolling interests in consolidated joint ventures	—	—	(31,333)	—	(31,333)
Loss attributable to noncontrolling interest in variable interest entity	—	—	15,745	—	15,745
(Income) loss attributable to noncontrolling interests in Operating Partnership	15,560	(2,903)	229,487	(138,237)	103,907
Net income (loss) attributable to common stockholders	$ (2,257,911)	$ 421,185	$ (4,173,551)	$ 2,101,177	$ (3,909,100)
Per-share information – basic and diluted:					
Net loss attributable to common stockholders	$ (1.26)	—	$ (0.32)	—	$ (0.61)
Weighted average shares outstanding	1,798,364		13,219,957		6,411,173(f)

See accompanying notes to unaudited pro forma condensed consolidated financial statements.

MOODY NATIONAL REIT II, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Pro Forma Condensed Consolidated Balance Sheet

a. Reflects REIT II's and REIT I's historical unaudited condensed consolidated balance sheets as of December 31, 2016 derived from REIT II's and REIT I's Annual Reports on Form 10-K year ended December 31, 2016, as filed with the SEC on March 23, 2017.

b. Reflects issuance of approximately 1,000,000 shares of REIT II common stock at $25.00, net of offering costs, needed to fund the cash consideration in the Merger and pay other expenses related to the Merger.

c. Reflects the net purchase price as shown above, allocated to assets and liabilities of REIT I on a preliminary basis as of December 31, 2016:

Investment in hotel properties	$ 293,643,913
Cash and cash equivalents	2,419,383
Restricted cash	5,684,811
Accounts receivable	949,616
Notes receivable from related parties	13,500,000
Prepaid expenses and other assets	3,163,089
Deferred franchise costs	914,881
Due from related parties	2,452,300
Notes payable	(171,637,250)
Accounts payable and accrued expenses	(5,131,497)
Due to related parties	(1,145,500)
Dividends payable	(901,702)
Operating partnership distributions payable	(49,256)
Noncontrolling interests in Operating Partnership	(7,462,000)
	$ 136,400,788

The cash paid at closing of $67,000,000 includes $35,000,000 proceeds of purchase money debt and the proceeds from the sale of approximately 1,000,000 shares of REIT II common stock at $25.00, net of offering costs.

d. Depreciation and amortization are computed using the straight-line method based upon the following estimated useful lives:

Description	Allocation	Estimated Useful Life
Land	$ 27,663,000	—
Building and improvements	256,836,000	40 years
Furniture, fixtures, and equipment	9,144,913	9 years
	$ 293,643,913	

The fair value of deferred franchise cost is estimated to be the original cost prorated for the number of years remaining on the franchise agreements.

The fair value of notes payable is estimated to be $171,637,250 based on remaining payments of interest and principal due on the loans discounted at the current market loan rates for loans with comparable maturities and amortization rates.

The fair value of noncontrolling interest in Operating Partnership is estimated to be the noncontrolling interest's pro-rata share of the fair value of the net assets and liabilities of OP I.

e. Reflects use of $10,000,000 of cash balance as of December 31, 2016 to fund the cash consideration in the merger and pay other expenses related to the Merger.

f. Reflects the elimination of intercompany balances.

MOODY NATIONAL REIT II, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 2016

a. Reflects REIT II's and REIT I's historical unaudited condensed consolidated operations for the year ended December 31, 2016 derived from the companies' Annual Reports on Form 10-K as filed with the SEC on March 23, 2017.

b. Reflects the acquisition of REIT II's Springhill Suites Seattle hotel property, which occurred on May 24, 2016, as if such acquisition occurred on January 1, 2016.

c. Reflects the removal of historical depreciation and amortization expense of $11,576,178 for REIT I and the recognition of pro forma depreciation and amortization expense of $7,435,668 for REIT I. Depreciation for buildings and improvements is computed using the straight-line method over the estimated useful life of 40 years and for furniture, fixtures and equipment is computed using a straight-line method over the useful life of 9 years.

   Historical depreciation or amortization expenses are computed using the straight-line and accelerated methods based upon the following estimated useful lives:

	Estimated Useful Lives (years)
Buildings and improvements	39-40
Exterior improvements	10-20
Furniture, fixtures and equipment	5-10

d. Reflects adjustments to general and administrative expenses directly attributable to the Merger, including transaction costs that have been expensed prior to December 31, 2016.

e. Reflects the removal of historical amortization of debt issuance costs of $701,626 for REIT I, the recognition of amortization of debt discount or premium generated by the difference between fair value of debt and historical cost and the recognition of pro forma interest expense of $2,800,000 on purchase money debt of $35,000,000.

f. Reflects pro-forma issuance of shares necessary to fund the cash portion of the merger consideration and the issuance of REIT II shares at closing in exchange for REIT I shares. Pro forma weighted average shares outstanding for the nine months ended December 31, 2016 was computed as follows:

Actual weighted average shares outstanding for the year ended December 31, 2016	1,798,364
Additional shares necessary to fund cash portion of merger	1,000,000
REIT II shares issued at closing in exchange for REIT I shares	3,612,809
Pro forma weighted average shares outstanding for the year ended December 31, 2016	6,411,173

APPENDIX B

CONSLIDATED FINANCIAL STATEMENTS AND SCHEDULE OF MOODY NATIONAL REIT I, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Moody National REIT I, Inc.

We have audited the accompanying consolidated balance sheets of Moody National REIT I, Inc. and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, equity, and cash flows for the years then ended. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedule III as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Moody National REIT I, Inc. and subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for classifying debt issuance costs during 2016.

/s/ Frazier & Deeter, LLC

Atlanta, Georgia
March 23, 2017

MOODY NATIONAL REIT I, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
ASSETS		
Investment in hotel properties, net	$ 238,165,886	$ 232,948,200
Cash and cash equivalents	2,419,383	14,071,228
Restricted cash	5,684,811	12,038,451
Accounts receivable, net of allowance of $30,000 and $32,000 as of December 31, 2016 and 2015, respectively	949,616	731,618
Mortgage note receivable	—	11,839,171
Notes receivable from related parties	13,500,000	9,000,000
Prepaid expenses and other assets	3,163,089	1,962,532
Earnest money and deposits	—	2,125,000
Deferred costs, net of accumulated amortization of $145,119 and $79,651 as of December 31, 2016 and 2015, respectively	914,881	905,349
Due from related parties	2,452,300	1,479,300
Total Assets	$ 267,249,966	$ 287,100,849
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of unamortized debt issuance costs of $2,192,164 and $2,767,439 as of December 31, 2016 and 2015, respectively	$ 169,445,086	$ 175,468,985
Accounts payable and accrued expenses	5,131,497	6,268,155
Due to related parties	1,145,500	96,088
Dividends payable	901,702	888,434
Operating partnership distributions payable	49,256	49,391
Total Liabilities	176,673,041	182,771,053
Special Partnership Units—100 Special Units of the Operating Partnership	1,000	1,000
Commitments and Contingencies—Note 10		
Equity:		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value per share; 400,000,000 shares authorized, 13,307,394 and 13,091,766 shares issued and outstanding at December 31, 2016 and 2015, respectively	133,074	130,918
Additional paid-in capital	116,651,244	114,526,834
Accumulated deficit	(32,590,777)	(17,843,394)
Total stockholders' equity	84,193,541	96,814,358
Noncontrolling interests in Operating Partnership	6,382,384	7,193,407
Noncontrolling interests in consolidated joint ventures	—	321,031
Total Equity	90,575,925	104,328,796
Total Liabilities and Equity	$ 267,249,966	$ 287,100,849

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT I, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31,	
	2016	2015
Revenue		
Room revenue	$ 56,858,625	$ 48,250,399
Other hotel revenue	3,242,025	2,813,601
Total hotel revenue	60,100,650	51,064,000
Interest income from notes receivable	1,829,383	1,103,132
Total revenue	61,930,033	52,167,132
Expenses		
Hotel operating expenses	37,025,559	30,895,349
Property taxes, insurance and other	3,999,649	3,251,501
Depreciation and amortization	11,576,178	9,481,115
Acquisition expenses	1,321,263	3,946,882
Corporate general and administrative	4,030,289	3,196,995
Total expenses	57,952,938	50,771,842
Operating income	3,977,095	1,395,290
Other income (expense)		
Gain on sale of hotel property	—	10,145,221
Gain on acquisition of hotel property	—	2,698,113
Interest expense and amortization of debt issuance costs	(9,418,968)	(7,795,764)
Total other income (expense)	(9,418,968)	5,047,570
Income (loss) before income tax benefit	(5,441,873)	6,442,860
Income tax benefit	1,054,423	492,000
Net Income (Loss)	(4,387,450)	6,934,860
Income attributable to noncontrolling interests from consolidated joint ventures	(31,333)	(77,938)
Loss attributable to noncontrolling interest in variable interest entity	15,745	—
(Income) loss attributable to noncontrolling interest in Operating Partnership	229,487	(241,693)
Net income (loss) attributable to common stockholders	$ (4,173,551)	$ 6,615,229
Per-share information—basic and diluted:		
Net income (loss) attributable to common stockholders	$ (0.32)	$ 0.52
Dividends declared	$ 0.80	$ 0.80
Weighted average shares outstanding	13,219,957	12,667,556

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT I, INC.
CONSOLIDATED STATEMENTS OF EQUITY
Years ended December 31, 2016 and 2015

	Preferred Stock		Common Stock				Noncontrolling Interests in Operating Partnership				
	Number of Shares	Par Value	Number of Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Number of Units	Value	Noncontrolling Interest in Variable Interest Entity	Noncontrolling Interests in Consolidated Joint Ventures	Total Equity
Balance at December 31, 2014	—	$ —	10,023,463	$ 100,235	$ 87,457,901	$ (14,324,615)	100	$ 610	$ —	$ 291,577	$ 73,525,708
Issuance of common stock, net of offering costs	—	—	2,735,046	27,350	23,894,084	—	—	—	—	—	23,921,434
Issuance of operating partnership units	—	—	—	—	—	—	726,820	7,268,197	—	—	7,268,197
Special contribution	—	—	—	—	—	350,000	—	—	—	—	350,000
Redemption of common stock		—	(51,610)	(516)	(506,715)	—	—	—	—	—	(507,231)
Issuance of common stock pursuant to dividend reinvestment plan	—	—	382,367	3,824	3,628,666	—	—	—	—	—	3,632,490
Stock/unit-based compensation	—	—	2,500	25	52,898	—	—	—	—	—	52,923
Net income	—	—	—	—	—	6,615,229	—	241,693	—	77,938	6,934,860
Dividends and distributions declared	—	—	—	—	—	(10,484,008)	—	(317,093)	—	(48,484)	(10,849,585)
Balance at December 31, 2015	—	—	13,091,766	130,918	114,526,834	(17,843,394)	726,920	7,193,407	—	321,031	104,328,796
Redemption of common stock		—	(107,061)	(1,071)	(1,084,280)	—	—	—	—	—	(1,085,351)
Issuance of common stock pursuant to dividend reinvestment plan	—	—	322,689	3,227	3,194,613	—	—	—	—	—	3,197,840
Contribution of equity in variable interest entity	—	—	—	—	—	—	—	—	15,745	—	15,745
Stock/unit-based compensation	—	—	—	—	14,077	—	—	—	—	—	14,077
Net income (loss)	—	—	—	—	—	(4,173,551)	—	(229,487)	(15,745)	31,333	(4,387,450)
Dividends and distributions declared	—	—	—	—	—	(10,573,832)	—	(581,536)	—	(352,364)	(11,507,732)
Balance at December 31, 2016	—	$ —	13,307,394	$ 133,074	$ 116,651,244	$ (32,590,777)	726,920	$ 6,382,384	$ —	$ —	$ 90,575,925

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT I, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2016	2015
Cash flows from operating activities		
Net income (loss)	$ (4,387,450)	$ 6,934,860
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on sale of hotel property	—	(10,145,221)
Gain on acquisition of hotel property	—	(2,698,113)
Depreciation and amortization	11,576,178	9,481,115
Amortization of debt issuance costs	701,626	522,682
Stock-based compensation	14,077	52,923
Deferred income tax	(1,260,000)	(758,000)
Changes in operating assets and liabilities:		
Restricted cash	321,314	(1,263,715)
Accounts receivable	(217,998)	16,040
Prepaid expenses and other assets	59,443	(472,683)
Accounts payable and accrued expenses	(1,136,658)	3,064,427
Due to related parties	205,565	(527,628)
Net cash provided by operating activities	5,876,097	4,206,687
Cash flows from investing activities		
Proceeds from sale of hotel property	—	22,111,900
(Increase) decrease in restricted cash	6,032,326	(5,386,543)
Repayments of mortgage note receivable	11,839,171	220,761
Origination of notes receivable from related parties	(4,500,000)	(9,000,000)
(Increase) decrease in earnest money and deposits	2,125,000	(452,500)
Payment of deferred franchise costs	(75,000)	(525,000)
Due from related parties	—	(1,479,300)
Improvements and additions to hotel properties	(8,728,396)	(8,386,102)
Acquisitions of hotel properties	(8,000,000)	(84,416,539)
Net cash used in investing activities	(1,306,899)	(87,313,323)
Cash flows from financing activities		
Proceeds from issuance of common stock	—	27,341,593
Redemptions of common stock	(1,085,351)	(507,231)
Offering costs paid	(129,153)	(3,476,841)
Special contribution	—	350,000
Dividends paid	(7,362,724)	(6,605,520)
Operating partnership distributions paid	(581,671)	(267,709)
Contribution of equity in variable interest entity	15,745	—
Proceeds from notes payable	4,800,000	71,500,000
Repayments of notes payable	(11,399,174)	(13,135,923)
Payment of debt issuance costs	(126,351)	(1,816,093)
Distributions to noncontrolling interests in joint ventures	(352,364)	(48,484)
Net cash (used in) provided by financing activities	(16,221,043)	73,333,792
Net change in cash and cash equivalents	(11,651,845)	(9,772,844)
Cash and cash equivalents at beginning of period	14,071,228	23,844,072
Cash and cash equivalents at end of period	$ 2,419,383	$ 14,071,228
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 8,728,332	$ 7,127,305
Income taxes paid	$ 277,239	$ 188,780
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Decrease in accrued offering costs due to related party	$ (129,153)	$ (56,682)
Contributions from noncontrolling interest in operating partnership	$ —	$ 7,268,197
Assumption of notes payable in connection with acquisition of hotel properties	$ —	$ 7,167,151
Issuance of common stock from dividend reinvestment plan	$ 3,197,840	$ 3,632,490
Dividends payable	$ 901,702	$ 888,434
Operating partnership distributions payable	$ 49,256	$ 49,391

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT I, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

1. Organization

Overview

Moody National REIT I, Inc. (the "Company") was formed on January 15, 2008 as a Maryland corporation and elected to qualify as a real estate investment trust ("REIT") commencing with the year ended December 31, 2011. The Company was organized to acquire a diverse portfolio of real properties, primarily in the hospitality sector, as well as other commercial properties, real estate securities and debt-related investments. The Company was initially capitalized with the sale of shares of its common stock to Moody National REIT Sponsor, LLC ("Sponsor") on February 19, 2008. The Company's fiscal year end is December 31. For more information on the Company's capitalization, see Note 6 ("Equity").

As of December 31, 2016, the Company owned (1) ten hotel properties located in Texas, Tennessee, South Carolina and Pennsylvania, comprising a total of 1,273 rooms, (2) a joint venture interest in a 227-suite hotel property located in Lyndhurst, New Jersey and a joint venture interest in a 95-suite hotel property in Fort Worth, Texas, (3) a loan in the aggregate principal amount of $9,000,000 originated to an affiliate of Sponsor used to acquire a commercial property located in Katy, Texas and (4) a loan in the aggregate principal amount of $4,500,000 originated to an affiliate of Sponsor used to acquire a commercial property located in Houston, Texas. For more information on the Company's portfolio, see Notes 3 ("Investment in Hotel Properties") and 4 ("Notes Receivable").

On April 15, 2009, the Company commenced its initial public offering (the "Initial Public Offering") pursuant to a registration statement on Form S-11 with the Securities and Exchange Commission (the "SEC") to offer a maximum of $1,000,000,000 in shares of its common stock to the public in its primary offering and up to $100,000,000 in shares of its common stock to its stockholders pursuant to its distribution reinvestment plan (the "DRIP"). The Company accepted subscriptions for, and issued, 1,126,253 shares of its common stock in its Initial Public Offering, including 29,582 shares of common stock pursuant to the DRIP, resulting in aggregate gross offering proceeds of $10,966,713. On October 12, 2012, the Company terminated its Initial Public Offering.

On October 12, 2012, the Company commenced its follow-on public offering (the "Follow-On Offering") of up to $1,000,000,000 in shares of the Company's common stock, comprised of up to $900,000,000 in shares offered to the public in the primary offering and up to $100,000,000 in shares offered to its stockholders pursuant to the DRIP. Effective February 20, 2015, the Company terminated the offer and sale of shares to the public in the primary portion of the Follow-On Offering, but continued to offer shares of common stock pursuant to the DRIP. As of the termination of the Follow-On Offering, the Company had accepted investors' subscriptions for, and issued, 11,719,636 shares of its common stock in the Follow-On Offering, including 510,457 shares of common stock issued pursuant to the DRIP, resulting in aggregate gross offering proceeds of $112,091,790. On November 4, 2015, the Company filed a new registration statement to register the sale of up to $25,000,000 in shares of the Company's common stock pursuant to the DRIP ("DRIP Offering"). The DRIP was suspended in October 2016. As of December 31, 2016, the Company had accepted subscriptions for, and issued, 12,845,889 shares of common stock in the Company's Initial Public Offering and Follow-On Offering, including 540,039 shares of common stock pursuant to the DRIP, resulting in aggregate gross offering proceeds of $123,058,503. As of December 31, 2016, the Company had sold 388,033 shares pursuant to the DRIP in the DRIP Offering, and 2,111,967 shares of common stock remained available for sale pursuant to the DRIP Offering.

Subject to the mergers described below, the Company intends to use substantially all of the remaining net proceeds from the foregoing offerings and the proceeds from any other offering of the Company's securities that the Company may conduct in the future to continue to acquire a diversified portfolio of real properties, real estate securities and debt-related investments. The Company intends to continue to invest primarily in hotel properties located in the United States and Canada that it owns exclusively or in joint ventures or other co-ownership arrangements with other persons. The Company may also invest in other property types consisting of multifamily, office, retail and industrial assets located in the United States and Canada as well as securities of real estate companies and debt-related investments. The Company may also make opportunistic investments in properties that may be under-developed or newly constructed and in properties that it believes are undervalued.

The Company's advisor is Moody National Advisor I, LLC ("Advisor"), a Delaware limited liability company and an affiliate of Sponsor. Subject to certain restrictions and limitations, Advisor is responsible for managing the Company's affairs on a day-to-day basis and for identifying and making acquisitions and investments on behalf of the Company pursuant to an amended and restated advisory agreement (the "Advisory Agreement"), by and among the Company, Moody National Operating Partnership I, L.P., the Company's operating partnership (the "OP"), and Advisor.

The OP's partnership agreement provides that the OP will be operated in a manner that will enable the Company to (1) satisfy the requirements for being classified as a REIT for tax purposes, (2) avoid any federal income or excise tax liability

and (3) ensure that the OP will not be classified as a "publicly traded partnership" for purposes of Section 7704 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), which classification could result in the OP being taxed as a corporation rather than as a partnership. In addition to the administrative and operating costs and expenses incurred by the OP in acquiring and operating real estate assets, the OP will pay all of the Company's administrative costs and expenses, and such expenses will be treated as expenses of the OP. The common units of the OP may be tendered for redemption once they have been outstanding for at least one year. At such time, the Company has the option to redeem the common units for shares of the Company's common stock, cash or a combination thereof at the Company's sole discretion. The special units of the OP (the "Special Units") held by an affiliate of Advisor will be redeemed pursuant to the OP's partnership agreement upon the termination or nonrenewal of the Advisory Agreement or upon certain other events outside of the control of the Special Unit holder. Upon the termination or nonrenewal of the Advisory Agreement by the Company for "cause" (as defined in the Advisory Agreement), all of the Special Units will be redeemed for $1.00. As described in more detail in Note 9 ("Subordinated Participation Interest"), upon the occurrence of any of the other events which trigger redemption of the Special Units, the Special Units will be redeemed, at Advisor's option, for shares of the Company's common stock, a non-interest bearing promissory note payable solely from the proceeds of asset sales, or a combination thereof. Notwithstanding the foregoing, if the Mergers (as described below) are completed, all of the Special Units will be cancelled and retired and cease to exist, and the only payment made in respect of the Special Units will be a promote payment not to exceed $613,751.

Pending Merger with Moody National REIT II, Inc.

On September 27, 2016, the Company jointly announced with Moody National REIT II, Inc. ("Moody II") that the Company had entered into a non-binding Letter of Intent that set forth the terms and conditions upon which Moody II would acquire the Company and the Company's subsidiaries.

On November 16, 2016, the Company, the OP, the Advisor, Moody II, Moody National Operating Partnership II, LP, the operating partnership of Moody II ("Moody II OP"), Moody National Advisor II, LLC, Moody II's advisor ("Moody II Advisor"), and Moody Merger Sub, LLC, a wholly owned subsidiary of Moody II (the "Merger Sub"), entered into an agreement and plan of merger (the "Merger Agreement"). Pursuant to the Merger Agreement, the Company will merge with and into Merger Sub, with Merger Sub continuing as the "Surviving Entity" and a wholly-owned subsidiary of Moody II. The foregoing transaction is referred to herein as the "Merger." In addition, pursuant to the Merger Agreement, Moody II OP will merge with and into the OP, with the OP being referred to as the "Surviving Partnership," and which transaction is referred to herein as the "Partnership Merger." Unless context suggests otherwise, the Merger and the Partnership Merger shall be referred to herein together as the "Mergers." The Merger Agreement was the product of a negotiation between a special committee of the Company's board of directors and a special committee of the board of directors of Moody II (both consisting solely of independent directors), each of which was represented by its own counsel and financial advisor. Entry into the Merger Agreement was unanimously approved by the Company's board of directors upon the recommendation of the special committee of the Company's board of directors.

Subject to the terms and conditions of the Merger Agreement, Moody II agreed to pay gross consideration of $11.00 per share of the Company's common stock, which amount will be reduced by all fees and expenses that the Company incurs as a result of or in connection with the Mergers and other transactions contemplated by the Merger Agreement (including certain disposition fees and profit sharing amounts to Sponsor and parties related thereto, financial advisory and legal fees payable by the Company, and other transaction and closing costs incurred by the Company) (all such fees and expenses, the "Moody I Transaction Fees and Expenses") to arrive at the net merger consideration payable to the holders of the Company's common stock, which is referred to herein as the "Net Per Share Price;" *provided*, that in no event will the Net Per Share Price be less than $10.25. Pursuant to the terms of the Merger Agreement, the parties thereto have determined the final amount of the Moody I Transaction Fees and Expenses and have calculated the Net Per Share Price. Based on such determination, Net Per Share Price was determined to be $10.25.

At the effective time of the Merger, each outstanding share of the Company's common stock will be automatically cancelled and retired, and converted into the right to receive, at the election of each holder of such share of the Company's common stock, but subject to the limitations discussed below, either:

(i) an amount in cash equal to the Net Per Share Price (the "Cash Consideration"); or

(ii) a number of shares of common stock of Moody II (the "Stock Consideration") equal to the Net Per Share Price divided by $25.00; with such quotient, as adjusted pursuant to the Merger Agreement, being referred to herein as the "Exchange Ratio."

The "Stock Consideration" and the "Cash Consideration" are referred to together as the "Merger Consideration."

Notwithstanding the above, the maximum number of shares of the Company's common stock that may be converted into the right to receive the Cash Consideration may not exceed 50% of the aggregate number of shares of the Company's common stock entitled to receive Merger Consideration in connection with the Merger. If the elections of the Company's

stockholders would cause more than 50% of the aggregate number of shares of the Company's common stock to be converted into the right to receive the Cash Consideration, then the shares of the Company's common stock that would be converted into the right to receive the Cash Consideration will be reduced proportionally so that the number of shares of the Company's common stock that will be converted into the right to receive the Cash Consideration will not exceed 50%, and the remaining shares of the Company's common stock will be converted into the right to receive the Stock Consideration.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Partnership Merger, each outstanding unit of limited partnership interest in the OP will be automatically cancelled and retired, and converted into the right to receive a number of units of limited partnership interests in the Surviving Partnership equal to the exchange ratio. Each unit of limited partnership interest in the OP designated as a special partnership unit pursuant to the OP's limited partnership agreement will be automatically cancelled and retired and shall cease to exist, and no consideration shall be paid, nor, except as expressly provided in the Termination Agreement (described below), shall any other payment or right inure or be made with respect thereto in connection with or as a consequence of the Partnership Merger. Each outstanding unit of limited partnership interest in Moody II OP will be converted into one unit of equity ownership in the Surviving Partnership, and each unit designated as a special partnership unit pursuant to the limited partnership agreement of Moody II OP will be converted into one special unit in the Surviving Partnership.

The Merger Agreement contains customary covenants, including covenants prohibiting the Company and its subsidiaries and representatives from soliciting, providing information or entering into discussions concerning proposals relating to alternative business combination transactions, subject to certain limited exceptions. However, under the terms of the Merger Agreement, during the period beginning on November 16, 2016 and continuing until 11:59 p.m. New York City time on December 31, 2016 (the "Go Shop Period End Time"), the Company had the right to initiate, solicit, provide information and enter into discussions concerning proposals relating to alternative business combination transactions. Additionally, for up to five business days after the Go Shop Period End Time, the Company had the right to continue to participate in such discussions with certain other parties (a "Go Shop Bidder") and could have, subject to certain conditions set forth in the Merger Agreement regarding the proposal made by such Go Shop Bidder, terminated the Merger Agreement and entered into an agreement with a Go Shop Bidder with respect to the proposal made by such Go Shop Bidder.

In the go shop process described in the preceding paragraph, 99 prospective buyers, including 77 prospective financial buyers and 22 prospective strategic buyers, were contacted regarding each such party's potential interest in exploring a transaction with the Company. During the go shop period (*i.e.*, between November 16, 2016 and December 31, 2016), seven parties (two of which were financial buyers and five of which were strategic buyers) negotiated and entered into confidentiality agreements with the Company and were provided with non-public information about the Company. None of the parties contacted during the go shop process, including the seven parties that entered into confidentiality agreements with the Company, submitted a proposal that was deemed an "Acquisition Proposal" under the Merger Agreement to the Company prior to the Go Shop Period End Time.

Additionally, in connection with the Merger, the Company will also seek the approval of its stockholders of an amendment to the Company's charter to delete certain provisions regarding roll-up transactions (the "Charter Amendment"). Pursuant to the Merger Agreement, approval by the Company's stockholders of the Charter Amendment is a condition to completing the Mergers.

Concurrently with the entry into the Merger Agreement, the Company, the OP, the Advisor, Moody National Realty Company, LP ("Moody National"), and Moody OP Holdings I, LLC ("OP Holdings") entered into a termination agreement (the "Termination Agreement"). Pursuant to the Termination Agreement, at the effective time of the Mergers, the Amended and Restated Advisory Agreement, dated August 14, 2009, among the Company, the OP, the Advisor and Moody National will be terminated and the Company will pay the Advisor a payment of $5,580,685 (the "Moody I Advisor Payment"). In addition, the Termination Agreement provides that at the effective time of the Partnership Merger and in accordance with the terms of the limited partnership agreement of the OP, the OP will pay to OP Holdings an amount not to exceed $613,751 (the "Promote Payment"). In the event that the Merger Agreement is terminated prior to the consummation of the Mergers, the Termination Agreement will automatically terminate and be of no further effect and no Moody I Advisor Payment or Promote Payment will be owed and payable.

Also concurrently with the entry into the Merger Agreement, Moody II, Moody II OP and Moody II Advisor entered into an amended and restated advisory agreement, pursuant to which Moody II will be obligated to pay Moody II Advisor an acquisition fee of 1.5% of the aggregate cash consideration paid in the Merger. However, during the first year following the consummation of the Mergers, if Moody II sells a property that was previously owned by the Company, then any disposition fee to which Moody II Advisor would otherwise be entitled under the amended and restated advisory agreement will be reduced by an amount equal to the portion of the Moody I Advisor Payment attributable to such property.

The Merger Agreement may be terminated under certain circumstances by both Moody II and the Company. If such termination occurs under certain circumstances, then the Company would be obligated to pay Moody II a termination fee of $2,000,000 (of $1,000,000 if the Merger Agreement had been terminated pursuant to the go shop provisions therein), plus an

expense reimbursement fee of up to $500,000. The Merger Agreement also provides that one party may be required to reimburse the other party's expenses, up to $500,000, if the Merger Agreement is terminated under certain circumstances.

The obligation of each party to consummate the Mergers is subject to a number of conditions, including the approval of the Company's stockholders, receipt of any regulatory approvals, delivery of certain documents and consents, the truth and correctness of the representations and warranties of the parties, subject to the materiality standards contained in the Merger Agreement, the effectiveness of the registration statement on Form S-4 (File No. 333-215362) filed by Moody II to register the shares of Moody II's common stock to be issued as stock consideration in the Merger, and the absence of a material adverse effect with respect to either the Company or Moody II. There is no guarantee that the Mergers will close. The Company's management has, and will continue to, expend time and resources to consummate the Mergers, which time and resources may otherwise have been allocated to the Company's other operational needs.

In connection with the Mergers, on February 2, 2017, Moody II entered into a stockholder servicing coordination agreement (the "Stockholder Servicing Coordination Agreement") with Moody Securities. Pursuant to the Stockholder Servicing Coordination Agreement, Moody II will pay to Moody Securities certain stockholder servicing fees (the "Stockholder Servicing Fees"), of up to $2.125 per share of Moody II's common stock issued as stock consideration. All Stockholder Servicing Fees will be re-allowed to broker-dealers that provide ongoing financial advisory services to the Company's stockholders and that enter into participating broker-dealer agreements with Moody Securities. The aggregate amount of Stockholder Servicing Fees will depend on the number of shares of Moody II's common stock issued as stock consideration, and could range from approximately $5,797,034 to $11,594,068, assuming that the maximum stockholder servicing fee of $2.125 per share is paid for all shares issued as stock consideration. No Stockholder Servicing Fees will be paid with respect to any cash paid by Moody II as cash consideration in the Merger.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Company's consolidated financial statements include its accounts and the accounts of its subsidiaries over which it has control. All intercompany balances and transactions are eliminated in consolidation.

The Company includes the accounts of certain entities in its consolidated financial statements when the Company is the primary beneficiary for entities deemed to be variable interest entities ("VIEs") through which the Company has a controlling interest. Interests in entities acquired are evaluated based on U.S. generally accepted accounting principles ("GAAP"), which requires the consolidation of VIEs in which the Company is deemed to have the controlling financial interest. The Company has the controlling financial interest if the Company has the power to direct the activities of the VIE that most significantly impact its economic performance and the obligation to absorb losses or receive benefits from the VIE that could be significant to the Company. If the interest in the entity is determined not to be a VIE, then the entity is evaluated for consolidation based on legal form, economic substance and the extent to which the Company has control or substantive participating rights under the respective ownership agreement. There are judgments and estimates involved in determining if an entity in which the Company has an investment is a VIE. The entity is evaluated to determine if it is a VIE by determining, among other things, if the equity investors as a group have a controlling financial interest in the entity and if the entity has sufficient equity at risk to finance its activities without additional subordinated financial support. The Company did not have a VIE interest as of December 31, 2016 or 2015.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accompanying consolidated financial statements and reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates.

Organization and Offering Costs

Organization and offering costs of the Company are paid directly by the Company or may be incurred by Advisor on behalf of the Company. Pursuant to the Advisory Agreement, the Company is obligated to reimburse Advisor or its affiliates, as applicable, for organization and offering costs incurred by Advisor associated with each of the Company's public offerings, provided that within 60 days of the last day of the month in which a public offering ends, Advisor is obligated to reimburse the Company to the extent organization and offering costs incurred by the Company in connection with the completed public offering exceed 15.0% of the gross offering proceeds from the sale of the Company's shares of common stock in the completed public offering. Such organization and offering costs include selling commissions and dealer manager fees paid to a dealer manager, legal, accounting, printing and other offering expenses, including marketing, salaries and direct expenses of Advisor's employees and employees of Advisor's affiliates and others. Any reimbursement of Advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by Advisor.

All offering costs, including selling commissions and dealer manager fees, are recorded as an offset to additional paid-in capital, and all organization costs are recorded as an expense when the Company has an obligation to reimburse Advisor.

The Company terminated its Follow-On Offering on February 20, 2015. Total offering costs for the Follow-On Offering were $14,122,588, comprised of $11,397,725 of offering costs for that offering incurred directly by the Company and $2,724,863 in offering costs incurred by and reimbursable to Advisor. As of December 31, 2016, total offering costs for the DRIP Offering were $124,000. The Company directly incurred $0 of offering costs for the DRIP Offering and $124,000 in offering costs that were reimbursed to Advisor. As of December 31, 2016, the Company had $0 payable to Advisor for reimbursable offering costs related to the Follow-On Offering and DRIP Offering. Offering costs related to the Follow-On Offering did not exceed 15.0% of the gross offering proceeds from the sale of the Company's shares of common stock in that offering. The Company has not reimbursed Advisor any funds for organization costs for the Follow-On Offering.

Income Taxes

The Company has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2011. Prior to qualifying for taxation as a REIT, the Company was subject to normal federal and state corporation income taxes.

As a REIT, the Company generally will not be subject to federal corporate income tax to the extent it distributes its REIT taxable income to its stockholders, so long as it distributes at least 90% of its REIT taxable income (which is computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP) and satisfy the other organizational and operational requirements for REIT qualification. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, and federal income and excise taxes on its undistributed income. The Company leases the hotels it acquires to wholly-owned taxable REIT subsidiaries ("TRSs") that are subject to federal, state and local income taxes.

The Company accounts for income taxes of its TRSs using the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company records a valuation allowance for net deferred tax assets that are not expected to be realized.

The Company has reviewed tax positions under GAAP guidance that clarify the relevant criteria and approach for the recognition and measurement of uncertain tax positions. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the consolidated financial statements if it is more likely than not that the tax position will be sustained upon examination. The Company had no material uncertain tax positions as of December 31, 2016.

The preparation of the Company's various tax returns requires the use of estimates for federal and state income tax purposes. These estimates may be subjected to review by the respective taxing authorities. A revision to an estimate may result in an assessment of additional taxes, penalties and interest. At this time, a range in which the Company's estimates may change is not expected to be material. The Company will account for interest and penalties relating to uncertain tax provisions in the current period results of operations, if necessary. The Company has tax years 2011 through 2015 remaining subject to examination by various federal and state tax jurisdictions.

Fair Value Measurement

Fair value measures are classified into a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs, such as quoted prices in active markets.

Level 2: Directly or indirectly observable inputs, other than quoted prices in active markets.

Level 3: Unobservable inputs for which there is little or no market data, which require a reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following valuation techniques:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: Amount required to replace the service capacity of an asset (replacement cost).

Income approach: Techniques used to convert future income amounts to a single amount based on market expectations (including present-value, option-pricing, and excess-earnings models).

The Company's estimates of fair value were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts. The Company classifies assets and liabilities in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

The Company elected not to use the fair value option in recording its financial instruments, which include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, notes payable, and accounts payable and accrued expenses. With the exception of the Company's fixed-rate notes payable, the carrying amounts of these financial instruments approximate their fair values due to their short-term nature or variable interest rates. For fair value of the Company's fixed-rate notes payable, see Note 5 ("Debt").

Concentration of Risk

As of December 31, 2016, the Company had cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. The Company diversifies its cash and cash equivalents with several banking institutions in an attempt to minimize exposure to any one of these institutions. The Company regularly monitors the financial stability of these financial institutions and believes that it is not exposed to any significant credit risk in cash and cash equivalents or restricted cash.

The Company is also exposed to credit risk with respect to its notes receivable from related parties. The failure of the borrowers on the notes receivable from related parties to make payments of interest and principal when due, or any other event of default under the notes receivable from related parties, would have an adverse impact on the Company's results of operations.

The Company is exposed to geographic risk in that seven of its twelve hotel properties are located in one state, Texas.

Valuation and Allocation of Hotel Properties—Acquisition

Upon acquisition, the purchase price of a hotel property is allocated to the tangible assets acquired, consisting of land, buildings and furniture, fixtures and equipment, any assumed debt, identified intangible assets and asset retirement obligations, if any, based on their fair values. Acquisition costs are charged to expense as incurred. Initial valuations are subject to change during the measurement period, but the measurement period ends as soon as the information is available. The measurement period shall not exceed one year from the acquisition date.

Land fair values are derived from appraisals, and fair value of buildings are calculated as replacement cost less depreciation or estimates of the relative fair value of these assets using discounted cash flow analyses or similar methods. The fair value of furniture, fixtures and equipment is based on their fair value using replacement costs less depreciation. Any difference between the fair value of the hotel property acquired and the purchase price of the hotel property is recorded as goodwill or a gain on acquisition of hotel property.

The Company determines the fair value of any assumed debt by calculating the net present value of the scheduled mortgage payments using interest rates for debt with similar terms and remaining maturities that the Company believes it could obtain at the date of acquisition. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan as interest expense.

In allocating the purchase price of each of the Company's properties, the Company makes assumptions and uses various estimates, including, but not limited to, the estimated useful lives of the assets, the cost of replacing certain assets and discount rates used to determine present values. Many of these estimates are obtained from independent third party appraisals. However, the Company is responsible for the source and use of these estimates. These estimates are based on judgments and subject to being imprecise; accordingly, if different estimates and assumptions were used, the valuation of the various categories of the Company's hotel properties or related intangibles could in turn result in a difference in the depreciation or amortization expense recorded in the Company's consolidated financial statements. These variances could be material to the Company's results of operations and financial condition.

Valuation and Allocation of Hotel Properties—Ownership

Investment in hotel properties is recorded at cost less accumulated depreciation. Major improvements that extend the life of an asset are capitalized and depreciated over a period equal to the shorter of the life of the improvement or the remaining useful life of the asset. The cost of ordinary repairs and maintenance are charged to expense when incurred.

Depreciation expense is computed using the straight-line and accelerated methods based upon the following estimated useful lives:

	Estimated Useful Lives (years)
Buildings and improvements	39-40
Exterior improvements	10-20
Furniture, fixtures and equipment	5-10

The Company designates a hotel property as held for sale when the sale is probable within the next twelve months. Generally, the Company considers a sale to be probable when a buyer completes its due diligence review, the Company has an executed contract for sale and the Company has received a substantial non-refundable deposit.

Impairments

The Company monitors events and changes in circumstances indicating that the carrying amounts of the hotel properties that it owns may not be recoverable. When such events or changes in circumstances are present, the Company assesses potential impairment by comparing estimated future undiscounted cash flows expected to be generated over the life of the asset from operating activities and from its eventual disposition, to the carrying amount of the asset. In the event that the carrying amount exceeds the estimated future undiscounted cash flows, the Company recognizes an impairment loss to adjust the carrying amount of the asset to estimated fair value for assets held for use and fair value less costs to sell for assets held for sale. There were no such impairment losses for the years ended December 31, 2016 and 2015.

In evaluating the Company's hotel properties for impairment, the Company makes several estimates and assumptions, including, but not limited to, the projected date of disposition of the properties, the estimated future cash flows of the properties during the Company's ownership and the projected sales price of each of the properties. A change in these estimates and assumptions could result in a change in the estimated undiscounted cash flows or fair value of the Company's hotel properties, which could in turn result in different conclusions regarding impairment and material changes to the Company's consolidated financial statements.

Revenue Recognition

Hotel revenues, including room, food, beverage and other ancillary revenues, are recognized as the related services are delivered. Interest income is recognized when earned. Revenue is recorded net of any sales and other taxes collected from customers. Amounts received prior to guest arrival are recorded as an advance from the customer and are recognized at the time of occupancy.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand or held in banks and short-term investments with an initial maturity of three months or less at the date of purchase.

Restricted Cash

Restricted cash includes reserves for debt service, property taxes and insurance, as well as reserves for property improvements and replacement of furniture, fixtures and equipment, as required by certain management or mortgage debt agreement restrictions and provisions.

Accounts Receivable

The Company takes into consideration certain factors that require judgments to be made as to the collectability of receivables. Collectability factors taken into consideration are the amounts outstanding, payment history and financial strength of the customer, which taken as a whole determines the valuation. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Impairment of Notes Receivable

The Company reviews the notes receivable for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts recorded as assets on the consolidated balance sheets. The Company applies normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment.

When a loan is impaired, the Company measures impairment based on the present value of expected cash flows discounted at the loan's effective interest rate against the value of the asset recorded on the consolidated balance sheets. The Company may also measure impairment based on a loan's observable market price or the fair value of collateral, if the loan is collateral dependent. If a loan is deemed to be impaired, the Company records a valuation allowance through a charge to earnings for any shortfall. The Company's assessment of impairment is based on considerable judgment and estimates. The Company did not record a valuation allowance during the years ended December 31, 2016 or 2015.

Prepaid Expenses and Other Assets

Prepaid expenses include prepaid property insurance and hotel operating expenses. Other assets include accrued interest receivable and the deferred income tax asset.

Earnest money and Deposits

Earnest money and deposits includes earnest money, rate-lock deposits and expense deposits for future acquisitions.

Deferred Franchise Costs

Deferred franchise costs are recorded at cost and amortized over the term of the respective franchise contract on a straight-line basis. Accumulated amortization of deferred franchise costs was $145,119 and $79,651 as of December 31, 2016 and 2015, respectively. Expected future amortization of deferred franchise costs as of December 31, 2016 is as follows:

Years Ending December 31,		
2017	$	68,368
2018		68,368
2019		68,368
2020		68,368
2021		68,368
Thereafter		573,041
Total	$	914,881

Debt Issuance Costs

In accordance with ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," debt issuance costs are presented as a direct deduction from the carrying value of the notes payable on the consolidated balance sheets. All periods presented have been reclassified to conform with this presentation. Debt issuance costs are amortized as a component of interest expense over the term of the related debt using the straight-line method, which approximates the effective interest method. Accumulated amortization of debt issuance costs was $1,260,945 and $630,688 as of December 31, 2016 and 2015, respectively. Expected future amortization of debt issuance costs as of December 31, 2016 is as follows:

Years Ending December 31,		
2017	$	506,665
2018		238,049
2019		238,049
2020		238,700
2021		238,049
Thereafter		732,652
Total	$	2,192,164

Earnings (Loss) per Share

Earnings (loss) per share ("EPS") is calculated based on the weighted average number of shares outstanding during each period. Basic and diluted EPS are the same for all periods presented. Non-vested shares of restricted stock, totaling 0 and 1,875 shares as of December 31, 2016 and 2015, respectively, held by the Company's independent directors are included in the calculation of basic EPS because such shares have been issued and participate in dividends.

Comprehensive Income

For the periods presented, there were no differences between reported net income (loss) attributable to common stockholders and comprehensive income (loss).

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In July 2015, the FASB voted to defer the effective date to January 1, 2018 with early adoption beginning January 1, 2017. The Company has begun to evaluate each of its revenue streams under the new model. Based on preliminary assessments, the Company does not expect the adoption of ASU No. 2014-09 to have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Liabilities," which enhances the reporting requirements surrounding the measurement of financial instruments and requires equity securities to be measured at fair value with changes in the fair value recognized through net income for the period. ASU No. 2016-01 is effective for the Company's fiscal year commencing on January 1, 2018. The Company does not anticipate that the adoption of ASU No. 2016-01 will have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which changes lessee accounting to reflect the financial liability and right-of-use asset that are inherent to leasing an asset on the balance sheet. ASU No. 2016-02 is effective for the Company's fiscal year commencing on January 1, 2019, but early adoption is permitted. The effect that the adoption of ASU No. 2016-02 will have on the Company's consolidated financial position or the Company's consolidated results of operations is not currently reasonably estimable.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies the accounting for income taxes for certain equity-based awards to employees. ASU No. 2016-09 is effective for the Company's fiscal year commencing on January 1, 2017. The Company does not anticipate that the adoption of ASU No. 2016-09 will have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addresses the Statement of Cash Flow classification and presentation of certain cash transactions. ASU No. 2016-15 is effective for the Company's fiscal year commencing on January 1, 2018. The effect of this amendment is to be applied retrospectively where practical and early adoption is permitted. The Company expects to adopt ASU No. 2016-15 for the Company's fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-15 will not have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In October 2016, the FASB issued ASU No. 2016-17, "Interest Held Through Related Parties That Are Under Common Control," which amends the accounting guidance when determining the treatment of certain VIE's to include the interest of related parties under common control in a VIE when considering whether or not the reporting entity is the primary beneficiary of the VIE when considering consolidation. ASU No. 2016-17 is effective for the Company's fiscal year commencing on January 1, 2017. The adoption of ASU No. 2016-17 will not have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In November 2016, the FASB issued ASU No. 2016-18, "Classification of Restricted Cash," which addresses the Statement of Cash Flow classification and presentation of restricted cash transactions. ASU No. 2016-18 is effective for the Company's fiscal year commencing on January 1, 2018. The effect of this amendment is to be applied retrospectively and early adoption is permitted. The Company expects to adopt ASU No. 2016-18 for the Company's fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-18 will not have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business," with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as an acquisition of assets or a business. ASU No. 2017-01 is effective for the Company's fiscal year commencing on January 1, 2018. The effect of this guidance is to be applied prospectively and early adoption is permitted. The adoption of ASU No. 2017-01 will not have a material effect on the Company's financial position or the Company's results of operations.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

3. Investment in Hotel Properties

The following table sets forth summary information regarding the Company's investments in hotel properties as of December 31, 2016:

Property Name	Date Acquired	Location	Ownership Interest	Purchase Price[(1)]	Rooms	Mortgage Debt Outstanding[(2)]
Woodlands Hotel (Homewood Suites by Hilton)	November 8, 2012	The Woodlands, Texas	100%	$ 12,000,000	91	$ 9,300,000
Germantown Hotel (Hyatt Place).........	April 9, 2013	Germantown, Tennessee	100%	11,300,000	127	7,325,393
Charleston Hotel (Hyatt Place).........	July 2, 2013	North Charleston, South Carolina	100%	11,800,000	113	7,417,921
Austin Hotel (Hampton Inn).........	December 30, 2013	Austin, Texas	100%	15,350,000	123	11,044,471
Grapevine Hotel (Residence Inn)	March 31, 2014	Grapevine, Texas	100%	20,500,000	133	12,759,654
Lyndhurst Hotel (Marriott Courtyard)	September 30, 2014	Lyndhurst, New Jersey	(3)	33,322,000	227	30,839,847
Austin Arboretum Hotel (Hilton Garden Inn).......	November 20, 2014	Austin, Texas	100%	29,250,000	138	19,000,000
Great Valley Hotel (Hampton Inn)	March 27, 2015	Frazer, Pennsylvania	100%	11,000,000	125	8,200,000
Nashville Hotel (Embassy Suites)........	June 16, 2015	Nashville, Tennessee	100%	66,300,000	208	43,000,000
Homewood Suites Austin Hotel (Homewood Suites)...............	August 3, 2015	Austin, Texas	100%	14,250,000	96	11,000,000
Fort Worth Hotel (TownPlace Suites)......	December 18, 2015	Fort Worth, Texas	(4)	7,301,887	95	7,038,313
Houston Hotel (Hampton Inn).........	April 21, 2016	Houston, Texas	100%	8,000,000	119	4,711,651
Totals.................................				$ 240,373,887	1,595	$ 171,637,250

(1) Excludes closing costs.
(2) As of December 31, 2016.
(3) The Lyndhurst Hotel is owned by MN Lyndhurst Venture, LLC (the "Lyndhurst Joint Venture"). The OP contributed $100 to the Lyndhurst Joint Venture in exchange for 100% of the Class B membership interests of the Lyndhurst Joint Venture (the "Lyndhurst Class B Interests"). Pursuant to the operating agreement of the Lyndhurst Joint Venture, the OP also agreed to pay up to $5.37 million in costs and fees and capital reserve requirements associated with the transfer of the Lyndhurst Hotel to the Lyndhurst Joint Venture, all of which amounts are deemed to be additional capital contributions by the OP to the Lyndhurst Joint Venture in exchange for additional Lyndhurst Class B Interests. The prior tenant-in-common owners of the Lyndhurst Hotel (the "Lyndhurst TIC Owners") contributed their tenant-in-common ownership interests in the Lyndhurst Hotel (valued at $1,000 in the aggregate) to the Lyndhurst Joint Venture in exchange for non-voting Class A membership interests of the Lyndhurst Joint Venture (the "Lyndhurst Class A Interests"). The OP serves as the sole manager of the Lyndhurst Joint Venture and manages the business and affairs of the Lyndhurst Joint Venture. Cash available for distribution to the members of the Lyndhurst Joint Venture will be distributed as follows: (1) first, 100% to the OP until it has received cash distributions equal to a 12% annual, cumulative, non-compounded return on its capital contributions to the Lyndhurst Joint Venture and a return of 100% of its unreturned capital contributions to the Lyndhurst Joint Venture, (2) next, 100% to the holders of the Lyndhurst Class A Interests until they have received a return of 100% of their capital contributions to the Lyndhurst Joint Venture (valued at $1,000 in the aggregate), and (3) next, 60% to the OP and 40% to the holders of the Lyndhurst Class A Interests.

(4) The Fort Worth Hotel is owned by MN Fort Worth Venture, LLC (the "Fort Worth Joint Venture"). The OP contributed $100 to the Fort Worth Joint Venture in exchange for 100% of the Class B membership interests of the Fort Worth Joint Venture (the "Fort Worth Class B Interests"). Pursuant to the operating agreement of the Fort Worth Joint Venture, the OP also agreed to pay up to $3.146 million in costs and fees and capital reserve requirements associated with the transfer of the Fort Worth Hotel to the Fort Worth Joint Venture, all of which amounts are deemed to be additional capital contributions by the OP to the Fort Worth Joint Venture in exchange for additional Fort Worth Class B Interests. The prior tenant-in-common owners of the Fort Worth Hotel (the "Fort Worth TIC Owners") contributed their tenant-in-common ownership interests in the Fort Worth Hotel (valued at $1,000 in the aggregate) to the Fort Worth Joint Venture in exchange for non-voting Class A membership interests of the Fort Worth Joint Venture (the "Fort Worth Class A Interests"). The OP serves as the sole manager of the Fort Worth Joint Venture and manages the business and affairs of the Fort Worth Joint Venture. Cash available for distribution to the members of the Fort Worth Joint Venture will be distributed as follows: (1) first, 100% to the OP until it has received cash distributions equal to a 12% annual, cumulative, non-compounded return on its capital contributions to the Fort Worth Joint Venture and a return of 100% of its unreturned capital contributions to the Fort Worth Joint Venture, (2) next, 100% to the holders of the Fort Worth Class A Interests until they have received a return of 100% of their capital contributions to the Fort Worth Joint Venture (valued at $1,000 in the aggregate), and (3) next, 50% to the OP and 50% to the holders of the Fort Worth Class A Interests.

Investments in hotel properties consisted of the following at December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Land	$ 27,923,000	$ 26,300,000
Buildings and improvements	208,287,853	199,088,102
Furniture, fixtures and equipment	27,731,547	21,825,902
Total cost	263,942,400	247,214,004
Accumulated depreciation	(25,776,514)	(14,265,804)
Investment in hotel properties, net	$ 238,165,886	$ 232,948,200

Houston Hotel

On April 21, 2016, Moody Katy EC-Houston Holding, LLC, a wholly owned subsidiary of the OP ("Moody Katy EC-Houston Holding"), acquired fee simple title to the Houston Hotel from the current tenant-in-common owners of the Houston Hotel, for an aggregate purchase price of $8,000,000, excluding acquisition costs. The Company financed the acquisition of the Houston Hotel with proceeds from its public offering and $4,800,000 of indebtedness secured by the Houston Hotel. The purchase price of the Houston Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $1,623,000, $6,247,000, and $130,000, respectively. Acquisition costs of $112,283 were expensed when incurred in connection with the acquisition of the Houston Hotel. The Company has recognized approximately $1,531,000 in revenues and a $430,000 net loss, which includes acquisition costs, for the Houston Hotel for the period from the date of acquisition to December 31, 2016. In connection with the acquisition of the Houston Hotel, the Company formed a taxable REIT subsidiary (the "Houston Hotel TRS").

Great Valley Hotel

On March 27, 2015, Moody National Lancaster-Frazer Holding, LLC, a wholly owned subsidiary of the OP ("Moody Great Valley Holding"), acquired fee simple title to the Great Valley Hotel from the current tenant-in-common owners of the Great Valley Hotel, for an aggregate purchase price of $11,000,000, excluding acquisition costs. The Company financed the acquisition of the Great Valley Hotel with proceeds from its public offering and $8,200,000 of indebtedness secured by the Great Valley Hotel. The purchase price of the Great Valley Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $2,125,000, $8,125,000, and $750,000, respectively. Acquisition costs of $358,830 were expensed when incurred in connection with the acquisition of the Great Valley Hotel. The Company has recognized approximately $6,760,000 in revenues and a $520,000 net loss, which includes acquisition costs, for the Great Valley Hotel for the period from the acquisition date through December 31, 2016. In connection with the acquisition of the Great Valley Hotel, the Company formed a taxable REIT subsidiary.

Nashville Hotel

On June 16, 2015, Moody National Broadway-Nashville Holding, LLC, a wholly owned subsidiary of the OP ("Moody Nashville Holding"), acquired fee simple title to the Nashville Hotel from the current tenant-in-common owners of the Nashville Hotel, for an aggregate purchase price of $66,300,000, excluding acquisition costs. The Company financed the acquisition of the Nashville Hotel with a portion of the remaining proceeds from its public offering and $43,000,000 of indebtedness secured by the Nashville Hotel. The purchase price of the Nashville Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $7,100,000, $57,550,000, and $1,650,000, respectively. Acquisition costs of $1,417,679 were expensed when incurred in connection with the acquisition of the Nashville Hotel. The Company has recognized approximately $20,174,000 in revenues and a $425,000 net income, which includes acquisition costs, for the Nashville Hotel for the period from the acquisition date through December 31, 2016. In connection with the acquisition of the Nashville Hotel, the Company formed a taxable REIT subsidiary.

Homewood Suites Austin Hotel

On August 3, 2015, Moody National Governors-Austin Holding, LLC, a wholly owned subsidiary of the OP ("Moody Homewood Suites Austin Holding"), acquired fee simple title to the Homewood Suites Austin Hotel from a third-party seller, for an aggregate purchase price of $14,250,000, excluding acquisition costs. The Company financed the acquisition of the Homewood Suites Austin Hotel with a portion of the remaining proceeds from its public offering and $11,000,000 of indebtedness secured by the Homewood Suites Austin Hotel. The purchase price of the Homewood Suites Austin Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $1,022,000, $12,515,000, and $713,000, respectively. Acquisition costs of $283,853 were expensed when incurred in connection with the acquisition of the Homewood Suites Austin Hotel. The Company has recognized approximately $5,474,000 in revenues and a $538,000 net loss, which includes acquisition costs, for the Homewood Suites Austin Hotel for the period from the acquisition date through December 31, 2016. In connection with the acquisition of the Homewood Suites Austin Hotel, the Company formed a taxable REIT subsidiary.

Fort Worth Hotel

On December 18, 2015, the Company acquired an interest in a 95-unit TownPlace Suites hotel property located in Fort Worth, Texas (the "Fort Worth Hotel") from the then current tenant-in-common owners ("TIC Owners") of the Fort Worth Hotel for an aggregate purchase price of $7,301,887, exclusive of closing costs, including the assumption of the outstanding debt secured by the Fort Worth Hotel. In connection with the acquisition of the Fort Worth Hotel, Moody National International-Fort Worth Holding, LLC, a wholly owned subsidiary of the OP ("Moody TownPlace Suites Fort Worth Holding") assumed a loan secured by the Fort Worth Hotel with an original principal amount of $7,840,000. The Company recorded the Fort Worth Hotel at its fair value as of the date of acquisition of $10,000,000. The Company recognized a gain on acquisition of hotel property of $2,698,113.

Effective December 18, 2015, fifteen of the TIC Owners (the "Contributing Members") contributed title to their respective ownership interests, as tenants-in-common in the Fort Worth Hotel, to MN Fort Worth Venture, LLC, a subsidiary of the Company's OP (the "Fort Worth Joint Venture"), in exchange for 100% of the Class A membership interests ("Class A Interests") of the Fort Worth Joint Venture. The tenant-in common ownership interests in the Fort Worth Hotel contributed to the Fort Worth Joint Venture by the Contributing Members are valued at $1,000 in the aggregate. In addition, the OP contributed $100 in cash to the Fort Worth Joint Venture in exchange for 100% of the Class B membership interests (the "Class B Interests") of the Fort Worth Joint Venture. Pursuant to the limited liability company operating agreement of the Fort Worth Joint Venture (the "Fort Worth JV Agreement"), the OP has also paid approximately $3,146,000 in costs and fees and capital reserve requirements associated with the transfer of the Fort Worth Hotel to the Fort Worth Joint Venture, including (i) a loan assumption fee of approximately $36,000, (ii) a franchise property improvement plan escrow of approximately $2,689,000, and (iii) approximately $421,000 in other closing costs, including a disposition fee of $250,850 to Moody National Realty Company, L.P., an affiliate of the Company, all of which amounts will be deemed additional capital contributions by the OP to the Fort Worth Joint Venture in exchange for additional Class B Interests.

Pursuant to the Fort Worth JV Agreement, the OP will serve as the sole manager of the Fort Worth Joint Venture and will manage the business and affairs of the Fort Worth Joint Venture. Under the Fort Worth JV Agreement, the Contributing Members, as holders of the Class A Interests ("Class A Holders"), will have no voting or consent rights with respect to the management of the Fort Worth Joint Venture except as specifically set forth in the Fort Worth JV Agreement or as required by applicable law. Pursuant to the Fort Worth JV Agreement, cash available for distribution to the members of the Fort Worth Joint Venture, as determined by the OP in its discretion as the manager, will be distributed as follows: first, 100% to the OP as the holder of the Class B Interests (the "Class B Holder") until the Class B Holder has received cash distributions equal to a 12% annual, cumulative, non-compounded return on its unreturned capital contributions to the Fort Worth Joint Venture; second, 100% to the Class B Holder until the Class B Holder has received a return of 100% of its unreturned capital contributions to the Fort Worth Joint Venture; and third, 50% to the Class B Holder and 50% to the Class A Holders (in accordance with each Class A Holder's respective membership interests in the Fort Worth Joint Venture).

Two of the TIC Owners elected not to contribute their respective tenant-in-common ownership interests in the Fort Worth Hotel to the Fort Worth Joint Venture and instead elected to have their tenant-in-common ownership interests redeemed by Moody National Realty Company, L.P. for $1.00 and the assumption of the Property Loan by the Moody TownPlace Suites Fort Worth Holding.

The purchase price of the Fort Worth Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $1,800,000, $7,107,000, and $1,093,000, respectively. Acquisition costs of $528,544 were expensed when incurred in connection with the acquisition of the Fort Worth Hotel. The Company has recognized approximately $2,000,000 in revenues and a $1,482,000 net loss, which includes acquisition costs and excludes gain on acquisition of hotel property, for the Fort Worth Hotel for the period from the acquisition date through December 31, 2016. In connection with the acquisition of the Fort Worth Hotel, the Company formed a taxable REIT subsidiary.

The following unaudited pro forma consolidated financial information for the years ended December 31, 2016 and 2015 is presented as if the Company had acquired the Great Valley Hotel, Nashville Hotel, Homewood Suites Austin Hotel, the Fort Worth Hotel and the Houston Hotel on January 1, 2015 and excludes the effect of the Company's investment in a hotel property located in Newark, California that was sold during the year ended December 31, 2015. This information is not necessarily indicative of what the actual results of operations would have been had the Company completed the acquisition of the Great Valley Hotel, Nashville Hotel, Homewood Suites Austin Hotel, the Fort Worth Hotel and the Houston Hotel on January 1, 2015, nor does it purport to represent the Company's future operations:

	Years ended December 31,	
	2016	**2015**
	(unaudited)	
Revenue	$ 62,666,486	$ 61,855,987
Net loss	(4,221,563)	(6,319,290)
Net loss attributable to common stockholders	(4,023,409)	(6,638,921)
Net loss per common share - basic and diluted	$ (0.30)	$ (0.52)

4. Notes Receivable

As of December 31, 2016 and 2015, mortgage note receivable amounts were $0 and $11,839,171, respectively. As of December 31, 2016 and 2015, the amounts of notes receivable from related parties were $13,500,000 and $9,000,000, respectively.

Hyatt Place Note

On June 3, 2011 (the "Closing Date"), and effective as of May 5, 2011 (the "Effective Date"), the Company acquired a 74.5% joint venture interest in a mortgage note secured by a hotel property in Grapevine, Texas (the "Hyatt Place Note") pursuant to the transaction described below. The Hyatt Place Note was issued by Moody National HP Grapevine Trust, a Delaware statutory trust (the "Trust"), in favor of Patriot Bank, a Texas banking association ("Patriot Bank"), and was secured by a lien on the underlying hotel property. As of the Closing Date, the Hyatt Place Note had an outstanding principal balance of $12,759,199.

The entire unpaid principal balance of the Hyatt Place Note and all accrued and unpaid interest thereon was due and payable in full on February 1, 2018 (the "Maturity Date"). The Hyatt Place Note accrued interest at a fixed rate of 5.15% per annum from the Closing Date through August 21, 2012 (the "First Change Date"). For the period from the First Change Date through August 21, 2015 (the "Second Change Date"), the Hyatt Place Note accrued interest at 5.15%, which is a fixed rate equal to (a) the variable interest rate per annum published in *The Wall Street Journal* as the "Prime Rate" of 3.25% (the "Prime Rate") in effect as of the First Change Date, plus (b) 1.90%. For the period from the Second Change Date through the Maturity Date, the Hyatt Place Note accrued interest at 5.15%, which is a fixed rate equal to (a) the Prime Rate in effect as of the Second Change Date, plus (b) 1.90%, provided that in no event will the interest rate exceed the maximum interest rate permitted by applicable law.

On June 10, 2016, the Hyatt Place Note and all accrued interest thereon was paid in full.

The estimated fair value of the Hyatt Place Note as of December 31, 2015 was $11,839,171. The fair value of the Hyatt Place Note was estimated based on discounted cash flow analyses using the current incremental borrowing rates for similar types of borrowing arrangements as of the respective reporting dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

Notes Receivable from Related Parties

On August 21, 2015, the Company originated an unsecured loan in the aggregate principal amount of $9,000,000 (the "Related Party Note") to Moody National DST Sponsor, LLC, a Texas limited liability company and an affiliate of Sponsor ("DST Sponsor"). Proceeds from the Related Party Note were used by DST Sponsor solely to acquire a commercial real property located in Katy, Texas.

The entire unpaid principal balance of the Related Party Note and all accrued and unpaid interest thereon and all other amounts due under the Related Party Note were due and payable in full on the earlier of (1) August 21, 2016 or (2) ten days following the sale of 100% of the equity ownership interests that are to be syndicated in the Subject Property. Interest on the outstanding principal balance of the Related Party Note accrues at a fixed per annum rate equal to 12%, provided that in no event will the interest rate exceed the maximum rate permitted by applicable law. DST Sponsor was required to pay the Company an origination fee in the amount of $90,000 and an exit fee in the amount of $90,000 upon the maturity date of the Related Party Note, including any earlier prepayment date or accelerated maturity date of the Related Party Note. The Related Party Note may be prepaid in whole or part by DST Sponsor without penalty at any time upon prior written notice to the Company.

On August 15, 2016, the maturity date of the Related Party note was extended from August 21, 2016 to August 21, 2017 and the origination fee in the amount of $90,000 and an extension fee in the amount of $45,000 were paid to the Company by DST Sponsor.

On April 29, 2016, the Company originated an unsecured loan in the aggregate principal amount of $4,500,000 (the "Related Party Mezzanine Note") to Moody National Realty Company, L.P., a Texas limited partnership and an affiliate of Sponsor ("Moody National"). Proceeds from the Related Party Mezzanine Note were used by Moody National solely to acquire a multifamily real property located in Houston, Texas.

The entire unpaid principal balance of the Related Party Mezzanine Note and all accrued and unpaid interest thereon and all other amounts due under the Related Party Mezzanine Note are due and payable in full on the earlier of (1) April 30, 2018, or (2) upon 90 days' written notice of acceleration of the maturity date by the Company to Moody National. Interest on the outstanding principal balance of the Related Party Mezzanine Note accrues at a fixed per annum rate equal to 10%, provided that in no event will the interest rate exceed the maximum rate permitted by applicable law. Moody National will pay the Company an origination fee in the amount of $45,000 and an exit fee in the amount of $45,000 upon the maturity date of the Related Party Mezzanine Note, including any earlier prepayment date or accelerated maturity date. The Related Party Mezzanine Note may be prepaid in whole or part by Moody National without penalty at any time upon prior written notice to the Company.

Interest income from notes receivable from related parties was $1,558,000 and $479,300 for the years ended December 31, 2016 and 2015, respectively. Interest receivable on notes receivable from related parties was $1,452,300 and $479,300 as of December 31, 2016 and 2015, respectively. The aggregate estimated fair values of the notes receivable from related parties as of December 31, 2016 and 2015 were $13,500,000 and $9,000,000, respectively.

5. Debt

The Company's aggregate borrowings are reviewed by the Company's board of directors at least quarterly. Under the Company's Second Articles of Amendment and Restatement (as amended, the "Charter"), the Company is prohibited from borrowing in excess of 300% of the value of the Company's net assets. "Net assets" for purposes of this calculation is defined to be the Company's total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. However, the Company may temporarily borrow in excess of these amounts if such excess is approved by a majority of the Company's independent directors and disclosed to stockholders in the Company's next quarterly report, along with an explanation for such excess. As of December 31, 2016, the Company's debt levels did not exceed 300% of the value of the Company's net assets, as defined above.

As of December 31, 2016 and 2015, the Company's notes payable consisted of the following:

	Principal as of December 31, 2016	Principal as of December 31, 2015	Interest Rate at December 31, 2016	Maturity Date
Hyatt Place Note Acquisition Note	$ —	$ 9,994,173	3.000%	N/A
Woodlands Hotel Loan	9,300,000	9,300,000	4.690%	April 11, 2025
Germantown Hotel Loan	7,325,393	7,465,018	4.300%	May 6, 2023
Charleston Hotel Loan	7,417,921	7,536,474	5.193%	August 1, 2023
Austin Hotel Loan	11,044,471	11,207,445	5.426%	January 6, 2024
Grapevine Hotel Loan	12,759,654	12,951,025	5.250%	April 6, 2024
Lyndhurst Hotel Loan	30,839,847	31,415,138	5.916%	September 6, 2017
Austin Arboretum Hotel Loan	19,000,000	19,000,000	4.530%	December 11, 2024
Great Valley Hotel Loan	8,200,000	8,200,000	4.700%	April 11, 2025
Nashville Hotel Loan	43,000,000	43,000,000	4.2123%	July 11, 2025
Homewood Suites Austin Loan	11,000,000	11,000,000	4.650%	August 11, 2025
Fort Worth Loan	7,038,313	7,167,151	6.136%	June 6, 2017
Houston Loan	4,711,651	—	5.750%	April 28, 2017
Total notes payable	171,637,250	178,236,424		
Less unamortized debt issuance costs	(2,192,164)	(2,767,439)		
Total notes payable, net of debt issuance costs	$ 169,445,086	$ 175,468,985		

The notes payable are secured by the respective hotel properties and are payable in monthly installments of principal and interest.

Maturities of notes payable as of December 31, 2016 are as follows:

Year ending December 31,		
2017	$	44,043,280
2018		2,145,768
2019		2,248,650
2020		2,340,140
2021		2,468,800
Thereafter		118,390,612
Total	$	171,637,250

Each of the Lyndhurst Hotel Loan, the Fort Worth Loan, and the Houston Loan mature in 2017. If the mergers are consummated, these loans may be extended or re-financed with financing obtained by Moody II. In the event the mergers are not consummated, the Company intends to extend the Houston Loan and refinance the Lyndhurst Hotel Loan and Fort Worth Hotel Loan with proceeds from new loans. The Company may not be able to extend or refinance the foregoing loans at all, or be able to extend or refinance such loans on favorable terms.

The estimated fair value of the Company's notes payable as of December 31, 2016 and 2015 was $172,000,000 and $177,000,000, respectively. The fair value of notes payable was estimated based on discounted cash flow analyses using Level 2 inputs for the current incremental borrowing rates for similar types of borrowing arrangements as of the respective reporting dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

6. Equity

Capitalization

Under the Charter, the Company has the authority to issue 400,000,000 shares of common stock and 50,000,000 shares of preferred stock. All shares of common and preferred stock have a par value of $0.01 per share. As of December 31, 2016, the Company had issued 13,233,922 shares of common stock in the Company's public offerings, net of redemptions, including 928,072 shares issued pursuant to the DRIP. As of December 31, 2016, there were a total of 13,307,394 shares of the Company's common stock issued and outstanding, including 22,222 shares sold to Sponsor and 51,250 shares of restricted stock, as discussed in Note 8 ("Incentive Award Plan").

The Company's board of directors is authorized to amend the Charter, without the approval of the stockholders, to increase the aggregate number of authorized shares of capital stock or the number of shares of any class or series that the Company has authority to issue.

Distributions

The Company's board of directors has authorized and declared a distribution to its stockholders that (1) accrues daily to the Company's stockholders of record as of the close of business on each day; (2) is payable in cumulative amounts on or before the 15th day of each calendar month; and (3) is calculated at a rate of $0.002192 per share of the Company's common stock per day, which, if paid each day over a 365-day period, is equivalent to an 8.0% annualized distribution rate based on a purchase price of $10.00 per share of common stock.

The following table summarizes distributions paid in cash and pursuant to the DRIP for the years ended December 31, 2016 and 2015. (The DRIP was suspended in October 2016.)

Period	Cash Distribution	Distribution Paid Pursuant to DRIP[(1)]	Total Amount of Distribution[(1)]
First Quarter 2016	$ 1,643,571	$ 965,287	$ 2,608,858
Second Quarter 2016	1,683,097	967,084	2,650,181
Third Quarter 2016	1,703,955	954,614	2,658,569
Fourth Quarter 2016	2,332,101	310,855	2,642,956
Total	$ 7,362,724	$ 3,197,840	$ 10,560,564
First Quarter 2015	$ 1,348,289	$ 746,826	$ 2,095,115
Second Quarter 2015	1,623,871	964,050	2,587,921
Third Quarter 2015[(2)]	1,980,101	978,008	2,958,109
Fourth Quarter 2015	1,653,259	943,606	2,596,865
Total	$ 6,605,520	$ 3,632,490	$ 10,238,010

(1) Amount of distributions paid in shares of common stock pursuant to the DRIP.
(2) Includes special distribution of $350,000 in third quarter of 2015.

Noncontrolling Interest in Operating Partnership

Noncontrolling interest in Operating Partnership at December 31, 2016 was $6,382,384, which represented ownership interests in the Operating Partnership, and is reported in equity in the consolidated balance sheets. Income (loss) from the Operating Partnership attributable to these noncontrolling interests was $(229,487) and $241,693 for the years ended December 31, 2016 and 2015, respectively.

Noncontrolling Interest in Variable Interest Entity

Noncontrolling interest in Moody VIE at December 31, 2016 was $0, which represented ownership interests in Moody VIE. Income (loss) from Moody VIE attributable to these noncontrolling interests was $(15,745) and $0 for the years ended December 31, 2016 and 2015, respectively.

Noncontrolling Interests in Consolidated Joint Ventures

Noncontrolling interest in consolidated joint ventures at December 31, 2016 was $0, which represented third-party ownership interests in the Lyndhurst Joint Venture, the Fort Worth Joint Venture, and the Note Joint Venture, and is reported in equity in the consolidated balance sheets. Income from consolidated joint venture attributable to these noncontrolling interests was $31,333 and $77,938 for the years ended December 31, 2016 and 2015, respectively.

7. Related Party Arrangements

Advisor and certain affiliates of Advisor received fees and compensation in connection with the Company's public offerings and have received and will continue to receive fees and compensation in connection with the acquisition, management and sale of the Company's real estate investments.

Selling Commissions and Dealer Manager Fees

Moody Securities, LLC ("Moody Securities"), the dealer manager of the Company's Initial Public Offering and Follow-On Offering, received a selling commission of up to 6.5% of gross offering proceeds raised in those offerings, all or a portion of which could be re-allowed to participating broker-dealers. In addition, the Company paid Moody Securities a dealer manager fee of up to 3.5% of gross offering proceeds raised in those offerings, a portion of which could be re-allowed to participating broker-dealers. No selling commissions or dealer manager fees are paid for sales pursuant to the DRIP. As of December 31, 2016, the Company had paid Moody Securities $746,368 and $8,646,755 in selling commissions related to the Initial Public Offering and Follow-On Offering, respectively, and $190,626 and $2,455,643 in dealer manager fees related to the Initial Public Offering and Follow-On Offering, respectively, which amounts have been recorded as a reduction to additional paid-in capital in the consolidated balance sheets.

Organization and Offering Costs

Advisor and its affiliates will be reimbursed up to 15.0% of offering proceeds for reimbursement of organization and offering expenses (including selling commissions and the dealer manager fee payable to Moody Securities) not to exceed actual expenses incurred. Advisor will be responsible for the payment of organization and offering expenses, other than selling commissions and dealer manager fees, to the extent they exceed 15.0% of gross offering proceeds, without recourse against or reimbursement by the Company. As of December 31, 2016, Advisor and its affiliates had incurred organization and offering expenses of approximately $3,214,000 related to the Initial Public Offering and $2,849,000 related to the Follow-On Offering and the DRIP Offering.

As of December 31, 2016, total offering costs for the Follow-On Offering were $14,122,588. The Company directly incurred $11,397,725 of offering costs for the Follow-On Offering and $2,724,863 in offering costs reimbursable to Advisor for the Follow-On Offering. As of December 31, 2016, total offering costs for the DRIP Offering were $124,000. The Company directly incurred $0 of offering costs for the DRIP Offering and $124,000 in offering costs were reimbursed to Advisor for the DRIP Offering. As of December 31, 2016, the Company had $0 payable to Advisor for offering costs related to the Follow-On Offering and DRIP Offerings. As of December 31, 2016, offering costs related to the Follow-On Offering did not exceed 15.0% of the gross offering proceeds from the sale of the Company's shares of common stock in the Follow-On Offering. The Company has not reimbursed Advisor any funds for organization costs for the Follow-On Offering.

Advisory Fees and Expense Reimbursement

Acquisition Fee

Advisor, or its affiliates, receives an acquisition fee equal to 1.5% of (1) the cost of investments the Company acquires or (2) the Company's allocable cost of investments acquired in a joint venture. With respect to investments in and originations of loans, Advisor will receive an origination fee in lieu of an acquisition fee. The origination fee will equal 1.5% of the amount funded by the Company to invest in or originate such loan. For the year ended December 31, 2016, the Company paid Advisor acquisition fees of $120,000 in connection with the acquisition of the Houston Hotel. For the year ended

December 31, 2015, the Company paid Advisor acquisition fees of $1,476,750 in connection with the acquisition of the Great Valley Hotel, the Nashville Hotel, the Homewood Suites Austin Hotel, and the Fort Worth Hotel. Acquisition fees are recorded as acquisition expenses in the Company's consolidated statements of operations. As of December 31, 2016, the Company had not paid any origination fees to Advisor.

Debt Financing Fee

Advisor receives a debt financing fee of 1.0% of the amount available under any loan or line of credit made available to the Company. It is anticipated that Advisor will pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for the Company. For the year ended December 31, 2016, the Company paid $48,000 in debt financing fees to Advisor incurred in connection with the acquisition of the Houston Hotel. For the year ended December 31, 2015, the Company paid $787,000 in debt financing fees to Advisor for financing obtained in connection with the refinancing of the Woodlands Hotel and the acquisition of the Great Valley Hotel, the Nashville Hotel, the Homewood Suites Austin Hotel, and the Fort Worth Hotel.

Asset Management Fee

The Company pays Advisor a monthly asset management fee of one-twelfth of 1.0% of the aggregate cost (before non-cash reserves and depreciation) of all real estate investments held by the Company at month-end. For the years ended December 31, 2016 and 2015, the Company incurred asset management fees of $2,626,589 and $2,071,879, respectively, payable to Advisor, which are recorded in corporate general and administrative expenses in the accompanying consolidated statements of operations.

Disposition Fee

If Advisor provides a substantial amount of services in connection with the sale of a property or other investment, Advisor or its affiliates also will be paid a disposition fee equal to 3.0% of the contract sales price of each property or other investment sold, provided that total real estate commissions, including the disposition fee, do not exceed 6.0% of the contract sales price. For the year ended December 31, 2015, the Company paid a disposition fee to Advisor in the amount of $551,250, or 2.25% of the contract sales price, in connection with the sale of the Silicon Valley Hotel. The Company did not pay Advisor any disposition fees for the year ended December 31, 2016.

Operating Expense Reimbursement

The Company will reimburse Advisor for all operating expenses paid or incurred by Advisor in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse Advisor for any amount by which its operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of the Company's average invested assets, or (2) 25% of the Company's net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of the Company's assets for that period (the "2%/25% Limitation"). Notwithstanding the above, the Company may reimburse Advisor for expenses in excess of this limitation if a majority of the independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended December 31, 2016, total operating expenses of the Company were $4,031,112, which included $2,799,289 in operating expenses incurred directly by the Company and $1,231,823 incurred by Advisor on behalf of the Company. Of the $4,031,112 in total operating expenses incurred during the four fiscal quarters ended December 31, 2016, $0 exceeded the 2%/25% Limitation. The Company reimbursed Advisor approximately $1,231,000 in operating expenses during the four fiscal quarters ended December 31, 2016. Additionally, Advisor has incurred $5,293,044 in operating expenses on the Company's behalf prior to the four fiscal quarters ended December 31, 2016. Subject to a future determination by the Company's board of directors, this amount is not reimbursable to Advisor nor an obligation of the Company.

Advisor has waived all operating expenses reimbursable to Advisor for each of the 12 prior fiscal quarters ended March 31, 2014 to the extent such expenses had not been previously reimbursed to Advisor. Advisor further agreed that all expenses incurred directly by the Company during the waiver period will be paid by Advisor on behalf of the Company. Total reimbursable expenses so waived or assumed by Advisor were $1,967,721 as of December 31, 2016.

Property Management Fees

The Company has engaged Moody National Hospitality Management, LLC, an affiliate of the Sponsor (the "Property Manager"), as its property manager. The Company pays Property Manager a market-based property management fee in connection with the operation and management of its properties pursuant to the terms of hotel management agreements. For the years ended December 31, 2016 and 2015, the Company paid the Property Manager property management fees of $1,776,468 and $1,532,740, respectively, and accounting fees of $340,000 and $287,500, respectively, which are included in hotel operating expenses in the accompanying consolidated statements of operations.

Notes Receivable from Related Parties

On August 21, 2015, pursuant to the Related Party Note, the Company made a loan in the amount of $9,000,000 to DST Sponsor, an affiliate of the Company, the proceeds of which were used by DST Sponsor for the acquisition of a commercial property located in Katy, Texas. An origination fee of $90,000 and an extension fee in the amount of $45,000 were paid to the Company by DST Sponsor on August 15, 2016 and an exit fee of $90,000 is payable by DST Sponsor to the Company upon maturity of the Related Party Note. The Related Party Note bears interest at a rate of 12% per annum and was due August 21, 2016. The maturity date of the Related Party note was extended to August 21, 2017. On April 29, 2016, pursuant to the Related Party Mezzanine Note, the Company made a loan in the amount of $4,500,000 to Moody National, the proceeds of which were used by Moody National for the acquisition of a commercial property located in Houston, Texas. An origination fee of $45,000 and an exit fee of $45,000 is payable by Moody National to the Company upon maturity of the Related Party Mezzanine Note. The Related Party Mezzanine Note bears interest at a rate of 10% per annum and is due April 30, 2018. Interest income from notes receivable from related parties was $1,558,000 and $479,300 for the years ended December 31, 2016 and 2015, respectively, which has been partially paid.

Due from Related Parties

On September 22, 2015, the Company assigned and transferred its Purchase Agreement, as amended, between the Company and a third-party seller for the property commonly referred to as the Hampton Inn Boston Logan Airport to Moody National for the sum of $1,000,000. The $1,000,000 receivable from Moody National is recorded in due from related parties in the accompanying consolidated balance sheets.

Note Joint Venture

As discussed in Note 4 (“Notes Receivable”), during the year ended December 31, 2016, the OP owned a 74.5% membership interest in the Note Joint Venture, Moody National Mortgage owned a 14% membership interest in the Note Joint Venture and the Trust Members owned the remaining 11.5% membership interests in the Note Joint Venture. Pursuant to the terms of the Note Joint Venture Agreement, Moody National Mortgage received approximately 14% of all distributions of cash from operations of the Note Joint Venture and the OP and the other Members received the remaining approximately 86% of distributions of cash from operations of the Note Joint Venture in proportion to their respective membership interests in the Note Joint Venture.

On June 10, 2016, the Hyatt Place Note receivable and all accrued interest thereon was paid in full.

Great Valley Hotel

On March 27, 2015, the OP acquired fee simple title to the Great Valley Hotel from the current tenant-in-common owners of the Great Valley Hotel (the “Great Valley TIC Owners”), for an aggregate purchase price, exclusive of closing costs, of $11,000,000. The Great Valley TIC Owners acquired their tenant-in-common interests in the Great Valley Hotel in a tenant-in-common program sponsored by an affiliate of the Company.

Nashville Hotel

On June 16, 2015, the OP acquired fee simple title to the Nashville Hotel from the current tenant-in-common owners of the Nashville Hotel (the “Nashville TIC Owners”), for an aggregate purchase price, exclusive of closing costs, of $66,300,000. The Nashville TIC Owners acquired their tenant-in-common interests in the Nashville Hotel in a tenant-in-common program sponsored by an affiliate of the Company.

Fort Worth Hotel

On December 18, 2015, the OP acquired an interest in the Fort Worth Hotel from the Fort Worth TIC Owners for an aggregate purchase price, exclusive of closing costs, including the assumption of the outstanding debt secured by the Fort Worth Hotel, of $7,301,887. The Fort Worth TIC Owners acquired their tenant-in-common interests in the Fort Worth Hotel in a tenant-in-common program sponsored by an affiliate of the Company.

Houston Hotel

On April 21, 2016, the OP acquired fee simple title to the Houston Hotel from the current tenant-in-common owners of the Houston Hotel (the “Houston TIC Owners”), for an aggregate purchase price, exclusive of closing costs, of $8,000,000. The Houston TIC Owners acquired their tenant-in-common interests in the Houston Hotel in a tenant-in-common program sponsored by an affiliate of the Company.

Payment from Moody Securities

On March 27, 2015, Moody Securities entered into a Notice of Acceptance Letter, Waiver and Consent with FINRA whereby Moody Securities, among other things, agreed to pay the Company $350,000 to be distributed pro rata to the Company's stockholders in connection with the failure of Moody Securities to comply with FINRA Rule 2310 and the computation of organization and offering expenses incurred in connection with the Company's initial public offering under FINRA rules. Moody Securities paid the Company $350,000 on July 21, 2015 which was recorded as a special contribution to the Company in the consolidated statements of equity and the Company made a special distribution to stockholders of $350,000 on July 28, 2015.

Pending Merger with Moody II

On November 16, 2016, the Company entered into the Merger Agreement. Concurrently with the entry into the Merger Agreement, the Company, the OP, the Advisor, Moody II, Moody National and OP Holdings entered into the Termination Agreement. See Note 1 ("Organization—Pending Merger with Moody National REIT II, Inc.").

8. Incentive Award Plan

The Company has adopted an incentive plan (the "Incentive Award Plan") that provides for the grant of equity awards to its employees, directors and consultants and those of the Company's affiliates. The Incentive Award Plan authorizes the grant of non-qualified and incentive stock options, restricted stock awards, restricted stock units, stock appreciation rights, dividend equivalents and other stock-based awards or cash-based awards. Shares of common stock will be authorized and reserved for issuance under the Incentive Award Plan. The Company has also adopted an independent directors compensation plan (the "Independent Directors Compensation Plan") pursuant to which each of the Company's then current independent directors were entitled to receive 5,000 shares of restricted stock when the Company raised the minimum offering amount of $2,000,000 in its initial public offering. Each new independent director that subsequently joins the Company's board of directors receives 5,000 shares of restricted stock on the date he or she joins the Company's board of directors. In addition, on the date of each of the first four annual meetings of the Company's stockholders at which an independent director is re-elected to the Company's board of directors, he or she receives 2,500 restricted shares. Subject to certain conditions, the non-vested shares of restricted stock granted pursuant to the Independent Directors Compensation Plan will vest and become non-forfeitable in four equal quarterly installments beginning on the first day of the first quarter following the date of grant; provided, however, that the restricted stock will become fully vested on the earlier to occur of (1) the termination of the independent director's service as a director due to his or her death or disability, or (2) a change in control of the Company. As of December 31, 2016, there were 1,948,750 common shares remaining available for future issuance under the Incentive Award Plan and the Independent Directors Compensation Plan.

A total of 0 and 2,500 shares of restricted stock were granted pursuant to the Independent Directors Compensation Plan during the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, a total of 51,250 shares of restricted common stock have been issued by the Company to the Company's independent directors pursuant to the Independent Directors Compensation Plan.

The weighted average grant date fair value of the shares of restricted stock issued by the Company pursuant to the Independent Directors Compensation Plan was $10.00 per share based on observable market transactions occurring near the dates of the grants. The Company recorded compensation related to such shares of restricted stock ratably from the grant date to the date the shares become fully vested based on the fair market value of such shares at the date they were granted. The Company recorded compensation related to such shares of restricted stock of $14,077 and $52,923 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, all shares of restricted common stock granted pursuant to the Independent Directors Compensation Plan which were granted as of August 12, 2015 had been vested and there was no remaining unrecognized compensation expense.

The following is a summary of activity under the Independent Directors Compensation Plan for the years ended December 31, 2016 and 2015:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance of non-vested shares as of December 31, 2014	5,625	$ 10.00
Shares granted on August 12, 2015	2,500	10.00
Shares vested	(6,250)	10.00
Balance of non-vested shares as of December 31, 2015	1,875	10.00
Shares vested	(1,875)	10.00
Balance of non-vested shares as of December 31, 2016	0	$ 10.00

9. Subordinated Participation Interest

Pursuant to the limited partnership agreement of the OP, the holders of the Special Units will be entitled to distributions from the OP in an amount equal to 15.0% of net sales proceeds received by the OP on dispositions of its assets and dispositions of real properties by joint ventures or partnerships in which the OP owns a partnership interest, after the other holders of common units, including the Company, have received in the aggregate cumulative distributions from operating income, sales proceeds or other sources equal to their capital contributions plus an 8.0% cumulative non-compounded annual pre-tax return thereon. The Special Units will be redeemed for the above amount upon the earliest of: (1) the occurrence of certain events that result in the termination or non-renewal of the Advisory Agreement or (2) a listing of the Company's common stock on a national securities exchange. Notwithstanding the foregoing, if the Mergers are completed, all of the Special Units will be cancelled and retired and cease to exist, and the only payment made in respect of the Special Units will be the Promote Payment, not to exceed $613,751.

10. Commitments and Contingencies

Restricted Cash

Under certain management and debt agreements existing at December 31, 2016 and 2015, the Company escrows payments required for insurance, real estate taxes, capital improvements, property improvement plans, replacement of hotel furniture and fixtures, and debt service.

The composition of the Company's restricted cash as of December 31, 2016 and 2015 are as follows:

	2016	2015
Property improvement plan	$ 667,997	$ 7,031,398
Real estate taxes	1,592,615	2,182,435
Insurance	392,910	379,907
Hotel furniture and fixtures	2,485,725	2,154,650
Seasonality	290,064	290,061
Expense deposit	255,500	—
Total restricted cash	$ 5,684,811	$ 12,038,451

Franchise Agreements

As of December 31, 2016, all of the Company's hotel properties are operated under franchise agreements with initial terms ranging from 10 to 20 years. Franchise agreements allow the properties to operate under their respective brands. Pursuant to the franchise agreements, the Company pays a royalty fee, generally between 3.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs that amount to between 1.5% and 4.3% of room revenue. For the years ended December 31, 2016 and 2015, the Company incurred franchise fee expense of approximately $4.9 million and $4.1 million, respectively, which is included in hotel operating expenses in the accompanying consolidated statements of operations.

Merger-Related Contingencies

The consummation of the Mergers is subject to certain customary closing conditions, including, among others, the approval of the Mergers by the Company's stockholders. The Merger Agreement may be terminated under certain circumstances by both the Company and Moody II. If such termination occurs under certain circumstances, then the Company would be obligated to pay Moody II a termination fee of $2,000,000, plus an expense reimbursement fee of up to $500,000. The Merger Agreement also provides that one party may be required to reimburse the other party's expenses, up to $500,000, if the Merger Agreement is terminated under certain circumstances.

11. Income Taxes

The Company has formed TRSs that are C-corporations for federal income tax purposes and use the consolidated asset and liability method of accounting for income taxes. Tax return positions are recognized in the consolidated financial statements when they are "more-likely-than-not" to be sustained upon examination by the taxing authority. Deferred income tax assets and liabilities result from temporary differences. Temporary differences are differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future periods. A valuation allowance may be placed on deferred income tax assets, if it is determined that it is more likely than not that a deferred tax asset may not be realized.

No provision for income taxes has been made for the Company (other than each TRS) for the years ended December 31, 2016 and 2015 as it made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2011. Prior to January 1, 2011, the Company was subject to federal and state income taxes as it had not elected to be taxed as a REIT.

The TRSs had deferred tax assets of $2,605,000 and $1,345,000 as of December 31, 2016 and 2015, respectively, resulting from net operating loss carry-forwards. As of December 31, 2016, the TRSs had net operating loss carry-forwards of approximately $6,495,000 expiring in 2033, 2034, 2035 and 2036.

As of December 31, 2016, the Company had operating loss carry-forwards of $355,800 expiring in 2033.

The income tax expense (benefit) for the years ended December 31, 2016 and 2015 consisted of the following:

	Years ended December 31,	
	2016	2015
Current expense	$ 205,577	$ 266,000
Deferred benefit	(1,260,000)	(758,000)
Total income tax benefit	$ (1,054,423)	$ (492,000)
Federal	$ (1,211,000)	$ (531,500)
State	156,577	39,500
Total income tax benefit	$ (1,054,423)	$ (492,000)

The reconciliation of income tax expense (benefit) to the expected amount computed by applying federal statutory rate to income (loss) before income taxes is as follows:

	2016	2015
Expected federal tax expense (benefit) at statutory rate	$ (1,959,000)	$ 2,319,000
Tax impact of REIT election	748,000	(2,850,500)
Expected tax benefit at TRS	(1,211,000)	(531,500)
State income tax expense, net of federal tax benefit	156,577	39,500
Income tax benefit	$ (1,054,423)	$ (492,000)

12. Subsequent Events

Distributions Declared

On December 31, 2016, the Company declared a distribution in the aggregate amount of $901,702, which was paid in cash on January 15, 2017. On January 31, 2017 the Company declared a distribution in the aggregate amount of $904,192 which was paid in cash on February 15, 2017. On February 28, 2016, the Company declared a distribution in the aggregate amount of $816,682 which was paid in cash on March 15, 2017.

Extension of Term of Advisory Agreement

On March 22, 2017, the Company entered into an amendment to the Advisory Agreement with Advisor, which extended the term of the Advisory Agreement until the earlier of (i) the termination of the Advisory Agreement pursuant to the Termination Agreement or (ii) April 15, 2018.

MOODY NATIONAL REIT I, INC.
SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2016
(in thousands)

				Initial Cost to Company				Gross Amount at which Carried at Close of Period					
Description	**Location**	**Ownership Percent**	**Encumbrances**	**Land**	**Building, Improvements, and FF&E**	**Total**	**Cost Capitalized Subsequent to Acquisition**	**Land**	**Building, Improvements and FF&E (1)**	**Total (1)**	**Accumulated Depreciation and Amortization**	**Original Date of Construction**	**Date Acquired**
Homewood Suites Woodlands	The Woodlands, Texas	100.0%	$ 9,300,000	$ 2,460,000	$ 9,540,000	$ 12,000,000	$ 2,492,200	$ 2,460,000	$ 12,032,200	$ 14,492,200	$ 2,244,727	2001	November 8, 2012
Hyatt Place Germantown	Germantown, Tennessee	100.0%	7,325,393	1,800,000	9,500,000	11,300,000	94,517	1,800,000	9,594,517	11,394,517	1,816,528	2009	April 9, 2013
Hyatt Place North Charleston	North Charleston, South Carolina	100.0%	7,417,921	1,000,000	10,800,000	11,800,000	99,912	1,000,000	10,899,912	11,899,912	1,874,629	2009	July 2, 2013
Hampton Inn Austin	Austin, Texas	100.0%	11,044,471	1,500,000	13,850,000	15,350,000	2,988,165	1,500,000	16,838,165	18,338,165	2,686,080	1997	December 30, 2013
Residence Inn Grapevine	Grapevine, Texas	100.0%	12,759,654	2,600,000	17,900,000	20,500,000	2,302,574	2,600,000	20,202,574	22,802,574	2,173,046	2007	March 31, 2014
Marriott Courtyard Lyndhurst	Lyndhurst, New Jersey	(2)	30,839,847	3,400,000	29,922,000	33,322,000	2,039,542	3,400,000	31,961,542	35,361,542	4,306,208	1990	December 31, 2014
Hilton Garden Inn Austin	Austin, Texas	100.0%	19,000,000	1,493,000	27,757,000	29,250,000	1,080,062	1,493,000	28,837,062	30,330,062	2,788,843	2002	November 20, 2014
Hampton Inn Great Valley	Frazer, Pennsylvania	100.0%	8,200,000	2,125,000	8,875,000	11,000,000	1,983,326	2,125,000	10,858,326	12,983,326	1,515,686	1998	March 27, 2015
Embassy Suites Nashville	Nashville, Tennessee	100.0%	43,000,000	7,100,000	59,200,000	66,300,000	2,627,991	7,100,000	61,827,991	68,927,991	4,047,988	2001	June 16, 2015
Homewood Suites Austin	Austin, Texas	100.0%	11,000,000	1,022,000	13,228,000	14,250,000	2,316,070	1,022,000	15,544,070	16,566,070	1,264,240	1998	August 3, 2015
TownPlace Suites Fort Worth	Fort Worth, Texas	**(2)**	7,038,313	1,800,000	8,200,000	10,000,000(3)	2,846,041	1,800,000	11,046,041	12,846,041	921,905	1998	December 18, 2015
Hampton Inn Houston	Hosuton, Texas	100.0%	4,711,651	1,623,000	6,377,000	8,000,000	_	1,623,000	6,377,000	8,000,000	136,634	1995	April 21, 2016
		Total	$ 171,637,250	$ 27,923,000	$ 215,149,000	$ 243,072,000	$ 20,870,400	$ 27,923,000	$ 236,019,400	$ 263,942,400	$ 25,776,514		

(1) The aggregate cost of real estate for federal income tax purposes was $236,019,400 as of December 31, 2016.
(2) 100% of the Class B membership interests of a joint venture.
(3) Includes gain on acquisition of hotel property of $2,698,113.

MOODY NATIONAL REIT I, INC.
SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION (continued)
DECEMBER 31, 2016

	2016	2015
Real estate:		
Balance at the beginning of the year	$ 247,214,004	$ 149,810,607
Acquisitions	8,000,000	101,550,000
Improvements and additions	8,728,396	8,386,102
Dispositions	—	(12,532,705)
Balance at the end of the year	$ 263,942,400	$ 247,214,004
Accumulated depreciation:		
Balance at the beginning of the year	$ 14,265,804	$ 5,569,963
Depreciation	11,510,710	9,431,263
Dispositions	—	(735,422)
Balance at the end of the year	$ 25,776,514	$ 14,265,804