

MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 1 DATED APRIL 16, 2018
TO THE PROSPECTUS DATED APRIL 16, 2018

This document supplements, and should be read in conjunction with, our prospectus dated April 16, 2018 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 NAV per share of our common stock;
- our real estate portfolio;
- 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; and
- incorporation of certain information by reference.

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. On January 18, 2018, we filed with the SEC a registration statement on Form S-11 (Registration No. 333-222610) registering \$990,000,000 in any combination of the Shares to be sold on a “best efforts” basis in a follow-on public offering. Such registration statement is not yet effective. We are currently taking advantage of an extension to our offering which allows us to continue selling the Shares in our offering until July 19, 2018. As of April 5, 2018, we had received and accepted investors’ subscriptions for and issued 5,377,799 shares of our common stock in our offering, including 158,983 shares pursuant to our DRP, resulting in gross offering proceeds of \$131,377,975. As of April 5, 2018, \$965,147,711 of stock remained to be sold in our offering. We reserve the right to terminate this offering at any time.

Estimated NAV Per Share of Our Common Stock

Background

On March 19, 2018, our board of directors, including all of our independent directors, determined an estimated NAV per share of our Class A Shares, Class D Shares, Class I Shares and Class T Shares of \$23.19 as of December 31, 2017. The estimated NAV 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, 2017. We provided the estimated NAV per share to assist broker-dealers in connection with their obligations under National Association of Securities Dealers Conduct Rule 2340, as required by FINRA, with respect to customer account statements. In determining the estimated NAV per share, our board of directors relied upon information contained in a report, or the Valuation Report, provided by our advisor, the recommendation of the audit committee of our board and our board of directors’ experience with, and knowledge of, our real property and other assets as of December 31, 2017. The objective of our board of directors in determining the estimated NAV per share of our common stock was to arrive at a value, based on recent, available data, that our board believed was reasonable based on methods that it deemed appropriate after consultation with our advisor and the Audit Committee. In preparing the Valuation Report, our advisor relied in part on appraisals of the fair value of our investments in hotel properties provided by Kendall Realty Consulting Group, LLC, and CBRE, Inc. Valuation & Advisory Services, each, an “Appraiser”. To calculate the estimated NAV per share in the Valuation Report, our advisor used a methodology pursuant to the provisions of Practice Guideline 2013-01, *Valuations of Publicly Registered Non-Listed REITs*, issued by the Investment Program Association in April 2013.

The table below sets forth material items included in the calculation of the estimated NAV per share as of December 31, 2017. A summary of methodologies, assumptions and limitations follows the table (amounts in the table are unaudited).

Investment in hotel properties	\$ 439,000,000
Cash, cash equivalents and restricted cash	22,864,488
Notes receivable	22,450,000
Other assets	5,427,012
	<u>\$ 489,741,500</u>
Notes payable	\$ 269,173,319
Other liabilities	11,526,764
Special limited partnership interests	1,000
Noncontrolling interests in Operating Partnership	7,426,422
Total liabilities, special limited partnership interests and noncontrolling interest in Operating Partnership	<u>\$ 288,127,505</u>
Estimated value	<u>\$ 201,613,995</u>
Common stock outstanding	8,693,367
Estimated value per share	\$ 23.19

As of December 31, 2017, the estimated NAV was allocated on a per share basis as follows:

Investment in hotel properties	\$ 50.50
Notes payable	(30.97)
Other assets, liabilities, and special limited partnership interests	4.51
Noncontrolling interests in Operating Partnership	(0.85)
Estimated value per share	<u>\$ 23.19</u>

Investment in Hotel Properties

As of December 31, 2017, we owned 14 hotel properties. Each of the Appraisers appraised certain of the hotel properties in our portfolio using the income method of valuation, specifically a discounted cash flow analysis, as well as the sales comparison approach. The income method is a customary valuation method for income-producing properties, such as hotels. The appraisals were conducted on a property-by-property basis. In performing this analysis, each of the Appraisers reviewed property-level information provided by our advisor and us, including: property-level operating and financial data, prior appraisals (as available), franchise agreements, management agreements, agreements governing the ownership structure of each property and other property-level information. In addition, each of the Appraisers (i) discussed the applicable hotel properties with our advisor, (ii) conducted inspections of the applicable hotels, and (iii) reviewed information from a variety of sources about market conditions for the applicable hotels.

After completing the foregoing reviews, each of the Appraisers developed multi-year discounted cash flow analyses for each hotel appraised based on a review of such property's historical operating statements, a review of such property's 2018 forecasts and 2018 preliminary budget, as well as estimated occupancy, average daily room rate, and revenues and expenses for each hotel based on an analysis of market demand. In addition, each of the Appraisers determined an estimated residual value of the applicable hotel in the final year of the discounted cash flow analysis by estimating the next year's net operating income and capitalizing that income at a capitalization rate indicative of the location, quality and type of the hotel. Each of the Appraisers made deductions for capital expenditures based on discussions with our advisor, their review of the applicable property's improvements and estimates of reserves for replacements going forward.

The discount rates and capitalization rates used to value our hotel properties were selected and applied on a property-by-property basis and were selected based on several factors, including but not limited to industry surveys, discussions with industry professionals, hotel type, franchise, location, age, current room rates and other factors that each Appraiser deemed appropriate. The following summarizes the overall discount rates and capitalization rates used by the Appraisers:

	Range		Weighted Average
	Low	High	
Capitalization Rate	7.00%	9.00%	7.85%
Discount Rate	9.50%	11.50%	10.11%

While we believe that the discount rates and capitalization rates used by the Appraisers were reasonable, a change in those rates would significantly impact the appraised values of our hotel properties and thus, the estimated NAV per share. The table below illustrates the impact on the estimated NAV per share if the weighted average capitalization rate and weighted average discount rate listed above were increased or decreased by 2.5%, assuming all other factors remain unchanged:

	Estimated NAV per Share due to	
	Decrease of 2.5%	Increase of 2.5%
Capitalization Rate	\$ 23.77	\$ 22.60
Discount Rate	\$ 24.01	\$ 22.38

The appraisals are each addressed to our advisor to assist it in calculating an estimated NAV per share of our Class A Shares, Class D Shares, Class I Shares and Class T Shares. None of the appraisals are addressed to the public, may not be relied upon by any person other than our advisor and our board (including any committee thereof) to establish an estimated NAV per share of our shares of common stock, and do not constitute a recommendation to any person to purchase or sell any such shares.

Notes Receivable

As of December 31, 2017, we held three notes receivable from related parties. The Valuation Report contained an estimate based on discounted cash flow analyses using the current incremental lending rates for similar types of lending 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 Payable

As of December 31, 2017, we had 14 notes payable, which were secured by certain of our assets. The Valuation Report contained an estimated fair value of each such note payable 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.

Other Assets and Liabilities

The Valuation Report contained estimates of our other assets and liabilities, consisting primarily of cash and cash equivalents, restricted cash, deferred franchise costs, accounts receivable, prepaid expenses, other assets and accounts payable, and accrued expenses. The fair values of such other assets and liabilities were considered by our board of directors to be equal to their carrying value as of December 31, 2017 due to their short maturities.

Limitations of the Estimated NAV per Share

The various factors considered by our board of directors in determining the estimated NAV per share were based on a number of assumptions and estimates that may not be accurate or complete. Different parties using different assumptions and/or different estimates could derive a different estimated NAV per share. We disclosed the estimated NAV per share to assist broker-dealers that participate, or participated, in our offering in meeting their customer account statement reporting obligations. The estimated NAV per share is not audited and does not represent the value of our assets or liabilities according to GAAP. Moreover, the estimated NAV per share determined by the board of directors is not a representation, assurance, warranty or guarantee that, among other things:

- a stockholder would be able to realize the estimated NAV per share if such stockholder attempts to sell his or her shares;

- a stockholder would ultimately realize distributions per share equal to the estimated NAV per share upon a liquidation of our assets and settlement of our liabilities, or upon our sale;
- our shares would trade at the estimated NAV per share on a national securities exchange;
- another independent third-party appraiser or third-party valuation firm would agree with the estimated NAV per share; or
- the estimated NAV per share, or the methods used to determine the estimated NAV per share, will be acceptable to FINRA, the SEC, any state securities regulatory entity or in accordance with ERISA, as amended, or with any other regulatory requirements.

Similarly, the amount that a stockholder may receive upon repurchase of his or her shares, if he or she participates in our share repurchase program, may be greater than or less than the amount that such stockholder paid for the shares, regardless of any increase in the underlying value of any assets owned by us. Further, the value of our common stock will fluctuate over time in response to developments related to individual assets in our portfolio, the management of those assets, and in response to the real estate and capital markets. The estimated NAV per share does not reflect a discount for the fact that we are externally managed, nor does it reflect a real estate portfolio premium/discount versus the sum of the individual property values. The estimated NAV per share also does not take into account estimated disposition costs and fees for real estate properties that are not held for sale.

Portfolio Information

As of December 31, 2017, our portfolio consisted of the following:

Hotel Properties

Our portfolio contained fourteen hotel properties, as described below.

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	45,000,000
Homewood Suites Woodlands	September 27, 2017 ⁽⁵⁾	The Woodlands, Texas	100%	17,355,672	91	9,208,948
Hyatt Place Germantown	September 27, 2017 ⁽⁵⁾	Germantown, Tennessee	100%	16,073,719	127	7,178,639
Hyatt Place North Charleston	September 27, 2017 ⁽⁵⁾	North Charleston, South Carolina	100%	13,805,648	113	7,291,839
Hampton Inn Austin	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	19,327,908	123	10,870,546
Residence Inn Grapevine	September 27, 2017 ⁽⁵⁾	Grapevine, Texas	100%	25,244,614	133	12,555,885
Marriott Courtyard Lyndhurst	September 27, 2017 ⁽⁵⁾	Lyndhurst, New Jersey	⁽³⁾	39,547,484	227	—
Hilton Garden Inn Austin	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	29,287,695	138	18,707,199
Hampton Inn Great Valley	September 27, 2017 ⁽⁵⁾	Frazer, Pennsylvania	100%	15,284,824	125	8,119,879
Embassy Suites Nashville	September 27, 2017 ⁽⁵⁾	Nashville, Tennessee	100%	82,207,322	208	42,714,881
Homewood Suites Austin	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	18,834,848	96	10,946,152
Townplace Suites Fort Worth	September 27, 2017 ⁽⁵⁾	Fort Worth, Texas	⁽⁴⁾	11,241,742	95	—
Hampton Inn Houston	September 27, 2017 ⁽⁵⁾	Houston, Texas	100%	9,959,747	119	4,604,351
Totals				<u>\$ 399,771,223</u>	<u>1,941</u>	<u>\$ 193,773,319</u>

(1) Excludes closing costs and includes gain on acquisition.

(2) As of December 31, 2017.

(3) The Marriott Courtyard Lyndhurst is owned by MN Lyndhurst Venture, LLC, of which our operating partnership is a member and holds 100% of the Class B membership interests therein.

(4) The Townplace Suites Fort Worth is owned by MN Fort Worth Venture, LLC, of which our operating partnership is a member and holds 100% of the Class B membership interests therein.

(5) Property acquired as a result of the mergers.

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 and a party related to 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.

Notes Receivable from Related Parties

Related Party Note. On August 21, 2015, Moody I originated an unsecured loan in the aggregate principal amount of \$9,000,000, or the Related Party Note, to Moody National DST Sponsor, LLC, a Texas limited liability company and an affiliate of our Sponsor, or DST Sponsor. Proceeds from the Related Party Note were used by DST Sponsor solely to acquire a commercial real property located in Katy, Texas, or the Subject Property". The balance of the Related Party Note was \$6,750,000 and \$0 as of December 31, 2017 and 2016, respectively. We acquired the Related Party Note in connection with the mergers.

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 us 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 us.

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 Moody I by DST Sponsor. On September 24, 2017, the maturity date was extended to August 21, 2018.

Related Party Mezzanine Note. On April 29, 2016, Moody I originated an unsecured loan in the aggregate principal amount of \$4,500,000, or the Related Party Mezzanine Note, to Moody Realty, an affiliate of Sponsor. Proceeds from the Related Party Mezzanine Note were used by Moody Realty solely to acquire a multifamily real property located in Houston, Texas. We acquired the Related Party Mezzanine Note in connection with the mergers.

In March 2018, the 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, were paid in full. Prior to the retirement of the Related Party Mezzanine Note, interest on the outstanding principal balance of such note accrued at a fixed per annum rate equal to 10%. Moody Realty also agreed to pay an origination fee in the amount of \$45,000, and an exit fee of \$45,000 upon maturity.

Consolidated Financial Statements of Moody I

In connection with the mergers, the audited consolidated financial statements of Moody I as of December 31, 2016 and 2015 and unaudited financial statements of Moody I as of June 30, 2017, and Moody I's related consolidated statements of operations, equity, and cash flows for the periods then ended are incorporated into this supplement by reference to our Current Report on Form 8-K/A filed with the SEC on October 23, 2017.

Selected Financial Data

The following selected financial data as of December 31, 2017, 2016, 2015 and 2014, and for the years ended December 31, 2017, 2016 and 2015 and for the period from July 25, 2014 (inception) to December 31, 2014 should be read in conjunction with the 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, 2017, which is incorporated by reference herein. Our historical results are not necessarily indicative of results for any future period.

Selected Financial Data	As of December 31,			
	2017	2016	2015	2014
BALANCE SHEET DATA:				
Total assets	\$ 446,476,370	\$ 135,758,774	\$ 29,479,123	\$ 198,624
Total liabilities	\$ 274,962,562	\$ 70,929,336	\$ 17,217,912	\$ —
Special limited partnership interests	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Total equity	\$ 171,512,808	\$ 64,828,438	\$ 12,260,211	\$ 197,624
				Period from July 25, 2014 (inception) to December 31, 2014
	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015	
STATEMENT OF OPERATIONS DATA:				
Total revenue	\$ 36,568,594	\$ 14,858,872	\$ 1,077,074	\$ —
Total expenses	\$ 50,947,594	\$ 17,136,343	\$ 1,598,377	\$ 2,376
Gain on acquisition of hotel property	\$ —	\$ —	\$ 2,000,000	\$ —
Income tax expense (benefit)	\$ 666,000	\$ (4,000)	\$ (6,000)	\$ —
Net income (loss)	\$ (15,045,000)	\$ (2,273,471)	\$ 1,484,697	\$ (2,376)
STATEMENT OF CASH FLOWS DATA:				
Net cash provided by (used in) operating activities	\$ (13,486,126)	\$ 921,090	\$ (18,993)	\$ (2,376)
Net cash used in investing activities	\$ 86,486,226	\$ 88,665,861	\$ 25,683,518	\$ —
Net cash provided by financing activities	\$ 88,608,562	\$ 105,741,116	\$ 27,084,854	\$ 201,000
OTHER DATA:				
Distributions declared	\$ 9,562,152	\$ 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 derivative 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, 2017 and 2016 and a reconciliation of such non-GAAP financial performance measures to our net income (loss).

	Year ended December 31,	
	2017	2016
Net Income (Loss)	\$ (15,045,000)	\$ (2,273,471)
Adjustments:		
Depreciation and amortization	4,748,528	1,711,145
Funds from Operations	(10,296,472)	(562,326)
Adjustments:		
Acquisition expenses	11,829,874	2,407,445
Modified Funds from Operations	<u>\$ 1,533,402</u>	<u>\$ 1,845,119</u>

Our Net Tangible Book Value Per Share

As of December 31, 2017, our net tangible book value per share was \$19.61. Net tangible book value per share of our common stock is determined by dividing the net tangible book value based on the December 31, 2017 net book value of tangible assets (consisting of total assets less intangible assets, which are comprised of deferred franchise costs) by the number of shares of our common stock outstanding as of December 31, 2017. 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

As of December 31, 2017 and 2016, our notes payable consisted of the following:

	Principal as of December 31, 2017	Principal as of December 31, 2016	Interest Rate at December 31, 2017	Maturity Date
Mortgage Loan				
Residence Inn Austin ⁽¹⁾	\$ 16,575,000	\$ 16,575,000	4.580%	November 1, 2025
Springhill Suites Seattle ⁽²⁾	45,000,000	45,000,000	4.380%	October 1, 2026
MN TX II Note ⁽³⁾	8,400,000	8,400,000	4.500%	October 6, 2018
Homewood Suites Woodlands ⁽⁴⁾	9,208,948	—	4.690%	April 11, 2025
Hyatt Place Germantown ⁽⁴⁾	7,178,639	—	4.300%	May 6, 2023
Hyatt Place North Charleston ⁽⁴⁾	7,291,839	—	5.193%	August 1, 2023
Hampton Inn Austin ⁽⁴⁾	10,870,546	—	5.426%	January 6, 2024
Residence Inn Grapevine ⁽⁴⁾	12,555,885	—	5.250%	April 6, 2024
Hilton Garden Inn Austin ⁽⁴⁾	18,707,199	—	4.530%	December 11, 2024
Hampton Inn Great Valley ⁽⁴⁾	8,119,879	—	4.700%	April 11, 2025
Embassy Suites Nashville ⁽⁴⁾	42,714,881	—	4.2123%	July 11, 2025
Homewood Suites Austin ⁽⁴⁾	10,946,152	—	4.650%	August 11, 2025
Hampton Inn Houston ⁽⁴⁾	4,604,351	—	6.500%	April 28, 2018
			30-day	
			LIBOR plus	September 27,
			7.250%	2018
Term Loan ⁽⁵⁾	67,000,000	—		
Total notes payable	269,173,319	69,975,000		
Less unamortized debt issuance costs	(4,837,521)	(931,498)		
Total notes payable, net of unamortized debt issuance costs	<u>\$ 264,335,798</u>	<u>\$ 69,043,502</u>		

(1) Monthly payments of interest are due and payable until the maturity date. Monthly payments of principal are due and payable beginning in December 2017 until the maturity date.

(2) Monthly payments of interest only are due and payable in calendar years 2016 and 2017, after which monthly payments of principal and interest are due and payable until the maturity date.

(3) Monthly payments of interest only are due until the maturity date.

- (4) Monthly payments of principal and interest are due and payable until the maturity date.
- (5) Monthly payments of interest are due and payable until the maturity date. Monthly payments of principal and interest are due and payable beginning in November 2017 until the maturity date.

Hotel properties secure their respective loans. The MN TX II note loan is secured by the MN TX II note. The Term Loan is partially secured by Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth, and is partially unsecured.

Term Loan

On September 27, 2017, our operating partnership, as borrower, we and certain of our subsidiaries, as guarantors, and KeyBank National Association, or KeyBank, as agent and lender, entered into a term loan agreement, or, as amended, the Term Loan Agreement (we refer to KeyBank, in its capacity as lender, together with any other lender institutions that may become parties, as amended, thereto as the Lenders). Pursuant to the Term Loan Agreement, the Lenders have made a term loan to our operating partnership in the original principal amount of \$70.0 million, or the Term Loan. Capitalized terms used in this description of the Term Loan Agreement and not defined herein have the same meaning as in the Term Loan Agreement. We used proceeds from the Term Loan to pay the cash consideration in connection with the mergers, other costs and expenses related to the mergers and for other corporate purposes.

The outstanding principal of the Term Loan will initially bear interest at either (i) 6.25% per year over the base rate, which is defined in the Term Loan Agreement as the greatest of (a) the fluctuating annual rate of interest announced from time to time by the Agent at the Agent's Head Office as its "prime rate," (b) the then applicable LIBOR for a one month Interest Period plus one percent (1.00%), or (c) one half of one percent (0.5%) above the Federal Funds Effective Rate or (ii) 7.25% per year over the LIBOR rate for the applicable Interest Period, but upon reduction of the outstanding principal balance of the Term Loan to a specified level, the margins over the base rate or LIBOR rate will be reduced to 2.95% and 3.95%, respectively. As a condition to the funding of the Term Loan, our operating partnership has entered into an interest rate cap arrangement with KeyBank that caps LIBOR at 1.75% until the initial Maturity Date with respect to \$26.0 million of the principal of the Term Loan.

The Term Loan will mature on September 27, 2018, but can be extended for six months, to March 27, 2019, subject to satisfaction of certain conditions, including payment of an extension fee in the amount of 0.5% of the then outstanding principal amount of the Term Loan. The Outstanding Balance, together with any and all accrued and unpaid interest thereon, and all other Obligations, will be due on the Maturity Date. In addition, the Term Loan provides for monthly interest payments, for mandatory payments of principal from the proceeds of certain capital events, and for monthly payments of principal in an amount equal to the greater of (i) 50% of our operating partnership's Consolidated Net Cash Flow or (ii) \$1,500,000. The Term Loan may be prepaid at any time, in whole or in part, without premium or penalty, as described in the Term Loan Agreement. Upon the occurrence of an event of default, the Lenders may accelerate the payment of the Outstanding Balance.

We plan to extend the Term Loan for six months when it matures in September 2018. We intend to retire the Term Loan with proceeds from long-term loans secured by the Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth hotel properties, with proceeds from our offering, and through our monthly principal reductions of \$1.5 million. We also intend to refinance or extend the loans secured by the MN TX II Note and the Hampton Inn Houston upon their maturities in 2018. If we cannot successfully refinance these loans, it may be necessary to sell these or other assets to repay the loans. We may not be able to extend, refinance or repay the forgoing loans at all, or be able to extend or refinance such loans on a favorable basis.

The performance of our obligations under the Term Loan Agreement is secured by, among other things, mortgages on our hotel properties in Lyndhurst, New Jersey, which we refer to as the Lyndhurst Property, and Fort Worth, Texas, which we refer to as the Fort Worth Property, and by pledges of certain portions of the ownership interests in certain subsidiaries of our operating partnership. Pursuant to a Guaranty Agreement in favor of KeyBank, we and certain of our subsidiaries, including the owners of the Lyndhurst hotel property and Fort Worth hotel property, will be fully and personally liable for the payment and performance of the obligations set forth in the Term Loan Agreement and all other loan documents, including the payment of all indebtedness and obligations due under the Loan Agreement.

We will be limited in the acquisition of real property and other investments for the near future in that the Term Loan is due September 27, 2018 (unless extended, as described above). Also, provisions of the Term Loan Agreement require that we raise a minimum of \$10 million per quarter in gross offering proceeds from our public offerings, initially beginning with the quarter ended December 31, 2017 and subsequently extended to the quarter ended March 31, 2018. On March 28, 2018, the parties to the Term Loan Agreement entered into a letter agreement, or the Term Loan Letter Agreement, pursuant to which the parties thereto agreed to change the commencement of our obligation under the Term Loan Agreement to raise \$10 million per quarter in gross offering proceeds to the calendar quarter ending June 30, 2018. We began making principal payments of \$1.5 million per month in November 2017.

The Term Loan Agreement also contains various customary covenants, including but not limited to financial covenants, covenants requiring monthly deposits in respect of certain property costs, such as taxes, furniture, fixtures and equipment, and insurance, covenants imposing restrictions on indebtedness and liens, and restrictions on investments and participation in other asset disposition, merger or business combination or dissolution transactions. The balance of the term loan was \$67,000,000 as of December 31, 2017.

Pursuant to an Environmental Indemnity Agreement, or the Environmental Indemnity, we, our operating partnership and certain of our subsidiaries, including the owners of the Lyndhurst Property and Fort Worth Property, which we refer to collectively as the Indemnitors, have agreed to jointly and severally indemnify and hold harmless the Lenders, as defined therein, their successors and assigns, their respective affiliate, parent and subsidiary corporations, and the respective officers, directors, employees and agents of any of the foregoing, from and against any losses, damages, costs, claims, suits or other liabilities of any nature that the Lenders or any other indemnified party may suffer or incur as a result of, among other things, (1) any hazardous substances on, in, under or affecting the Lyndhurst Property or the Fort Worth Property or any surrounding property in violation of environmental law, (2) any violation by Indemnitors of any environmental law with respect to the Lyndhurst Property or the Fort Worth Property or any surrounding property, (3) any breach by the Indemnitors of any representation, warranty, or covenant under the Environmental Indemnity, or (4) costs of enforcing the Environmental Indemnity, including any costs of investigation or remediation.

Covenants and Other Terms Regarding our Debt

Failure by us to comply with financial and other covenants contained in our mortgage loans or the Term Loan could result from, among other things, changes results of operations, the incurrence of additional debt or changes in general economic conditions.

If we violate financial and other covenants contained in any of the mortgage loans or Term Loan described above we may attempt to negotiate waivers of the violations or amend the terms of the applicable mortgage loan or the Term Loan with the lenders thereunder; however, we can make no assurance that we would be successful in any such negotiations or that, if successful in obtaining waivers or amendments, such amendments or waivers would be on terms attractive to us. If a default under the mortgage loans or the Term Loan were to occur, we would possibly have to refinance debt through additional debt financing, private or public offering of debt securities, or additional equity financings. If we are unable to refinance debt on acceptable terms, including a maturity of the mortgage loans or the Term Loan, we may be forced to dispose of some of our hotel properties on disadvantageous terms, potentially resulting in losses that reduce cash flow from operating activities. If, at the time of any refinancing, prevailing interest rates or other factors result in higher interest rates upon refinancing, increased interest expense would lower our cash flow, and, consequently, cash available for distribution to stockholders.

Cash traps associate with a mortgage loan may limit our overall liquidity as cash from the hotel securing such mortgage would not be available for us to use. If we are unable to meet mortgage payment obligations, including the payment obligation upon maturity of the mortgage borrowing, the mortgage securing the specific property could be foreclosed upon by, or the property could be otherwise transferred to, the mortgagee with a consequent loss of income and asset value to us.

As of December 31, 2017, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under the mortgage loans or the Term Loan.

As of December 31, 2017, our outstanding indebtedness totaled \$269,173,319, which amount includes debt associated with properties previously owned by Moody I. Our aggregate borrowings are reviewed by our board of directors at least quarterly. Under our charter, we are prohibited from borrowing in excess of 300% of the value of our net assets. "Net assets" for purposes of this calculation is defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75% of the aggregate cost of our assets before non-cash reserves and depreciation. However, we may temporarily borrow in excess of these amounts if such excess is approved by a majority of our independent directors and disclosed to our stockholders in our next quarterly report, along with an explanation for such excess. As of December 31, 2017 and 2016, our debt levels did not exceed 300% of the value of our net assets.

Information Regarding Our Distributions

Since July 2, 2015, our board of directors has authorized and declared the payment of cash distributions to our stockholders. We first paid distributions on September 15, 2015. Our board of directors authorized and declared a distribution to our stockholders for 2017 that (1) is calculated daily and reduced for class-specific expenses; (2) is payable in cumulative amounts on or before the 15th day of each calendar month to stockholders of record as of the last day of the previous month; and (3) is calculated at a rate of \$1.75 per share of our common stock per year, or approximately \$0.00479 per share per day, before any class-specific expenses. Our board of directors authorized and declared a distribution to our stockholders for the quarter ending March 31, 2018 that (1) is calculated daily and reduced for class-specific expenses (if any); (2) is payable in cumulative amounts on or before the 15th day of each calendar month to stockholders of record as of the last day of the previous month; and (3) is calculated at a rate of \$1.7528 per share of our common stock per year, or approximately \$0.004802 per share per day, before class-specific expenses (if any).

Distributions paid during the years ended December 31, 2017, 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)
First Quarter 2017 2017	1,016,749	410,733	1,427,482	(954,243)	(329,329)
Second Quarter 2017	1,325,157	589,483	1,914,640	(295,263)	479,536
Third Quarter 2017	1,478,301	626,925	2,105,226	(12,590,298)	(9,365,893)
Fourth Quarter 2017	2,161,214	819,851	2,981,065	353,678	(1,080,786)
Total	<u>\$ 8,075,793</u>	<u>\$ 3,279,794</u>	<u>\$ 11,355,587</u>	<u>\$ (12,584,029)</u>	<u>\$ (11,238,561)</u>

(1) Amount of distributions paid in shares of common stock pursuant to our DRP.

(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 DRP. 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. For the year ended December 31, 2017, we had cash used in operating activities of \$13,486,126, and a deficit of \$10,296,472 in funds from operations. For the year ended December 31, 2017, 0% of distributions were paid from cash provided by operating activities and 100% were paid from offering proceeds. For the year ended December 31, 2017, all distributions were paid from offering proceeds because we were conserving cash in anticipation of the mergers rather than investing immediately into additional operating assets. Of the \$11,355,587 in total distributions we have paid during the period from our inception through December 31, 2017, including shares issued pursuant to the DRP, 0% was funded from cash flow from operations and 100% was funded from offering proceeds.

On December 31, 2017, we declared a distribution in the aggregate amount of \$1,284,972, of which \$1,284,972 was paid in cash on January 15, 2018, \$0 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, and \$44,635 was paid to reduce deferred distributions pending the return of letters of transmittal by former Moody I stockholders. On January 31, 2018, we declared a distribution in the aggregate amount of \$1,294,076 of which \$956,869 was paid in cash on February 15, 2018, \$337,207 was paid pursuant to the DRP in the form of additional shares of our common stock, and \$35,531 was paid in cash to reduce deferred dividends pending the return of letters of transmittal by former Moody I stockholders. On February 28, 2018, we declared a distribution in the aggregate amount of \$1,180,845 of which \$884,062 was paid in cash on March 15, 2018, \$296,381 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, and \$402 was deferred pending the return of letters of transmittal.

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 merger with Moody I, we suspended our share repurchase program, effective March 24, 2017. As a result, during the six months ended June 30, 2017, we did not redeem any shares of our common stock. On September 27, 2017, the closing date of the merger, our board of directors reinstated our share repurchase program. During the three months ended December 31, 2017, we redeemed 36,718.08 shares of our common stock.

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, 2017, 2016 and 2015.

Type of Fee or Reimbursement	Years ended December 31,		
	2017	2016	2015
Offering Stage:			
Selling commissions ⁽¹⁾	\$ 3,501,347	\$ 4,982,034	\$ 939,752
Dealer manager fees ⁽¹⁾	788,759	1,080,374	229,885
Organization and offering expense reimbursement ⁽²⁾	2,109,773	2,160,076	633,210
Operational Stage:			
Acquisition fee (base)	670,000	1,111,500	382,500
Acquisition fee (contingent)	—	—	—
Reimbursement of acquisition expenses to advisor	—	—	—
Financing coordination fee	1,720,000	562,500	165,700
Asset management fee	1,913,000	725,751	42,500
Property management fees	1,409,841	588,396	42,723
Property manager incentive fee	—	—	—
Operating expense reimbursement	1,297,000	472,000	—
Disposition Stage:			
Disposition fee	—	—	—

(1) As of January 16, 2018, our selling commissions, dealer manager fees and stockholder servicing fees are paid by our advisor with no reimbursement from us.

(2) As of December 31, 2017, total offering costs were \$17,236,706, comprised of \$12,333,647 of offering costs incurred directly by us and \$4,903,059 in offering costs incurred by and reimbursable to our advisor. As of December 31, 2017, we had \$631,995 due to our advisor for reimbursable offering costs.

In connection with the mergers and as noted in the table above, we paid our advisor an acquisition fee of \$670,000, which equaled 1.5% of the cash consideration paid to Moody I stockholders, and a financing coordination fee of \$1,720,000, which amount was based on the loans assumed from Moody I in connection with the mergers, including debt held by us with respect to two properties that were previously owned by Moody I. Moody I paid the Moody I advisor \$5,580,685, which we refer to as 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 fees that the Moody I advisor would have been due under the Moody I advisory agreement in connection with the mergers. 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 our advisory agreement will be reduced by an amount equal to the portion of the Moody I advisor payment attributable to such property. In addition, Moody I OP paid \$613,751 to OP Holdings, which amount was the promote payment to which OP Holdings was entitled under the terms of the limited partnership agreement. We also paid Moody Securities a stockholder servicing fee of up to \$2.125 per share of our Class A Shares issued as stock consideration in the merger, for an aggregate amount of approximately \$7.0 million in stockholder servicing fees, all of which was reallocated to broker-dealers that provide ongoing financial advisory services to former stockholders of Moody I following the mergers and that entered into participating broker-dealer agreements with Moody Securities.

Experts

Our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2017 (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) and incorporated by reference in our Current Report on Form 8-K/A filed with the SEC on October 23, 2017 have been audited by Frazier & Deeter, LLC, an independent registered public accounting firm, as set forth in their report included therein. 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 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 set forth 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 set forth 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.

CBRE, Inc., an independent valuation services firm, provided individual appraisal reports with respect to our TownePlace Suites, Hampton Inn Katy Freeway, Homewood Suites Austin South, Residence Inn Austin University and Residence Inn Grapevine properties as of December 31, 2017 that our advisor used to calculate the number provided for “Investment in hotel properties” provided on page 2 of this Supplement No. 1 under the section “Estimated NAV Per Share of Our Common Stock,” which is included in this Supplement No. 1 given the authority of such firm as an expert in property valuations and appraisals. CBRE, Inc. did not calculate our estimated NAV per share.

Kendall Realty Consulting Group, LLC an independent valuation services firm, provided individual appraisal reports with respect to our CY Lyndhurst, Embassy Suites, Nashville, Hampton Austin, Hampton Great Valley, HGI Austin, HWS Woodlands, Hyatt Germantown, Hyatt North Charleston, SHS Seattle properties as of December 31, 2017 that our advisor used to calculate the number provided for “Investment in hotel properties” provided on page 2 of this Supplement No. 1 under the section “Estimated NAV Per Share of Our Common Stock,” which is included in this Supplement No. 1 given the authority of such firm as an expert in property valuations and appraisals. Kendall Realty Consulting Group, LLC did not calculate our estimated NAV per share.

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 that have been separately filed 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 April 2, 2018;
- Current Report on Form 8-K filed with the SEC on March 20, 2018;
- Current Report on Form 8-K filed with the SEC on January 16, 2018;
- Current Report on Form 8-K filed with the SEC on January 2, 2018;
- Current Report on Form 8-K/A filed with the SEC on October 23, 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