Filed Pursuant to Rule 424(b)(3)
Registration No. 333-222610

MOODY NATIONAL REIT II, INC.

SUPPLEMENT NO. 8 DATED JANUARY 17, 2020

TO THE PROSPECTUS DATED APRIL 26, 2019

This document supplements, and should be read in conjunction with, our prospectus dated April 26, 2019, as supplemented by Supplement No. 1 dated April 26, 2019, Supplement No. 2 dated May 9, 2019, Supplement No. 3 dated May 16, 2019, Supplement No. 4 dated June 3, 2019, Supplement No. 5 dated July 29, 2019, Supplement No. 6 dated August 16, 2019 and Supplement No. 7 dated November 14, 2019, relating to our offering of up to $990,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 8 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 8 is to disclose:

- Our advisor's agreement to make certain payments to the holders of our Class I shares prior to or upon our dissolution or other liquidity event.

Payment by Advisor to Holders of Class I Shares

As disclosed in our prospectus, our advisor is entitled to receive an acquisition fee of up to 3.85% of (1) the cost of all investments we acquire, (2) our allocable cost of investments acquired in a joint venture or (3) the amount funded by us to acquire or originate a loan or other investment. Such acquisition fee consists of (i) a 1.5% base acquisition fee and (ii) up to an additional 2.35% contingent acquisition fee, which we refer to as the "Contingent Advisor Payment." The amount of the Contingent Advisor Payment paid in connection with the closing of an acquisition is reviewed on an acquisition-by-acquisition basis and will never exceed the then-outstanding amount of selling commissions, dealer manager fees, stockholder servicing fees or other fees paid by our advisor on our behalf at the time of such closing (taking into account all prior payments of the Contingent Advisor Payment).

The Contingent Advisor Payment is intended to allow our advisor to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it has paid on our behalf. However, no upfront selling commissions or ongoing stockholder servicing fees are paid with respect to our Class I shares, and the upfront dealer manager fee paid with respect to the sale of our Class I shares is only 1.0% of the total purchase price for Class I shares sold (and is typically waived by the dealer manager with respect to nonaffiliated registered investment advisors). As a result, payments of the Contingent Advisor Payment reduce the amount available for distribution to all of our share classes, without adjustment for the significantly lower upfront selling commissions, dealer manager fees and stockholders servicing fees associated with our Class I shares as compared to our Class T shares and Class A shares.

In light of the foregoing, our advisor has agreed to make a one-time cash payment to the holders of our Class I shares acquired subsequent to January 16, 2018 (the date that the Contingent Advisor Payment first became payable) in an amount designed to compensate the holders of such Class I shares for the amount of the Contingent Advisor Payments attributable to such Class I shares, which we refer to as the "Class I payment." The Class I payment will be made by our advisor prior to or upon our liquidation and dissolution or other liquidity event, provided that the specific timing of the Class I payment will be in our advisor's sole discretion. The aggregate Class I payment will be an amount equal to (x) aggregate Contingent Advisor Payments paid to our advisor as of the date of the Class I payment, multiplied by (y) a fraction, the numerator of which is the aggregate gross offering proceeds from the sale of Class I shares subsequent to January 16, 2018 and the denominator of which is the aggregate gross offering proceeds from the sale of all classes of shares subsequent to January 16, 2018. Each holder of Class I shares acquired subsequent to January 16, 2018 will be entitled to receive a pro rata portion of the aggregate Class I payment based upon the number of Class I shares held by such holder. The Class I payment will be the sole responsibility of our advisor and our advisor will not be entitled to any reimbursement from us with respect to the Class I payment.

As of the date hereof, we have paid our advisor an aggregate of $ 1,222,000 in Contingent Advisor Payments.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-222610

MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 6 DATED NOVEMBER 14, 2019
TO THE PROSPECTUS DATED APRIL 26, 2019

This document supplements, and should be read in conjunction with, our prospectus dated April 26, 2019, as supplemented by Supplement No. 1 dated April 26, 2019, Supplement No. 2 dated May 9, 2019, Supplement No. 3 dated May 16, 2019, Supplement No. 4 dated June 3, 2019 and Supplement No. 5 dated July 29, 2019, relating to our offering of up to $990,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 6 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 6 is to disclose:

- the filing of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2019.

Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2019

On November 13, 2019, we filed our Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 with the SEC. A copy of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (without exhibits) is attached to this supplement as Appendix A.

APPENDIX A

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from _________to ___________

Commission file number 000-55778

MOODY NATIONAL REIT II, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland **(State or Other Jurisdiction of Incorporation or Organization)**	**47-1436295** **(I.R.S. Employer Identification No.)**
6363 Woodway Drive, Suite 110 **Houston, Texas** **(Address of Principal Executive Offices)**	**77057** **(Zip Code)**

(713) 977-7500
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None		

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging Growth Company	☒

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

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

As of November 7, 2019, there were 12,926,784 million shares of the Registrant's common stock issued and outstanding, consisting of 12,324,475 million shares of Class A common stock, 150,886 shares of Class I common stock, and 451,423 shares of Class T common stock.

MOODY NATIONAL REIT II, INC.
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MOODY NATIONAL REIT II, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	September 30, 2019	December 31, 2018
ASSETS		
Investments in hotel properties, net	$ 442,158	$ 393,140
Cash and cash equivalents	6,973	8,990
Restricted cash	8,750	10,204
Investment in marketable securities	5,182	—
Accounts receivable, net of allowance for doubtful accounts of $35 and $33 at September 30, 2019 and December 31, 2018, respectively	1,200	711
Notes receivable from related parties	—	6,750
Prepaid expenses and other assets	3,299	3,014
Deferred franchise costs, net of accumulated amortization of $196 and $134 at September 30, 2019 and December 31, 2018, respectively	871	934
Due from related parties, net	—	1,159
Total Assets	$ 468,433	$ 424,902
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of unamortized debt issuance costs of $3,464 and $3,462 as of September 30, 2019 and December 31, 2018, respectively	$ 239,525	$ 227,174
Note payable to related party	6,847	—
Accounts payable and accrued expenses	9,655	8,089
Due to related parties, net	909	—
Dividends payable	1,888	1,744
Operating partnership distributions payable	46	47
Total Liabilities	258,870	237,054
Special Limited Partnership Interests	1	1
Commitments and Contingencies		
Equity:		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value per share; 1,000,000 shares authorized, 12,655 and 10,636 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	127	106
Additional paid-in capital	283,159	237,216
Accumulated deficit	(78,282)	(54,674)
Total stockholders' equity	205,004	182,648
Noncontrolling interests in Operating Partnership	4,558	5,199
Total Equity	209,562	187,847
TOTAL LIABILITIES AND EQUITY	$ 468,433	$ 424,902

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Revenue				
Room revenue	$ 21,436	$ 19,646	$ 60,546	$ 58,112
Other hotel revenue	1,317	1,238	3,737	3,711
Total hotel revenue	22,753	20,884	64,283	61,823
Interest and dividend income	101	187	554	970
Total revenue	22,854	21,071	64,837	62,793
Expenses				
Hotel operating expenses	14,837	12,947	41,366	37,795
Property taxes, insurance and other	1,873	1,476	4,889	4,102
Depreciation and amortization	3,698	3,042	10,368	8,921
Acquisition expenses	—	—	2,212	—
Corporate general and administrative	1,503	1,281	4,633	4,980
Total expenses	21,911	18,746	63,468	55,798
Operating income	943	2,325	1,369	6,995
Other expenses (income)				
Interest expense and amortization of debt issuance costs	3,413	4,060	9,732	12,694
Gain on sale of marketable securities	—	—	(9)	—
Unrealized loss on change in fair value of investment in marketable securities	24	—	57	—
Total other expenses	3,437	4,060	9,780	12,694
Loss before income tax expense	(2,494)	(1,735)	(8,411)	(5,699)
Income tax expense (benefit)	60	60	156	(150)
Net loss	(2,554)	(1,795)	(8,567)	(5,549)
Loss attributable to noncontrolling interests in Operating Partnership	63	55	225	182
Net loss attributable to common stockholders	$ (2,491)	$ (1,740)	$ (8,342)	$ (5,367)
Per-share information – basic and diluted:				
Net loss attributable to common stockholders	$ (0.20)	$ (0.18)	$ (0.71)	$ (0.58)
Dividends declared	$ 0.44	$ 0.44	$ 1.31	$ 1.31
Weighted average common shares outstanding	12,347	9,858	11,680	9,321

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENT OF EQUITY
Nine months ended September 30, 2019
(in thousands)
(unaudited)

	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	Total Equity
Balance at December 31, 2018	—	$ —	10,636	$ 106	$ 237,216	$ (54,674)	316	$ 5,199	$ 187,847
Issuance of common stock, net of offering costs	—	—	2,047	21	46,619	—	—	—	46,640
Redemption of common stock	—	—	(195)	(2)	(4,496)	—	—	—	(4,498)
Issuance of common stock pursuant to dividend reinvestment plan	—	—	157	2	3,649	—	—	—	3,651
Stock-based compensation	—	—	10	—	171	—	—	—	171
Net loss	—	—	—	—	—	(8,342)	—	(225)	(8,567)
Dividends and distributions declared	—	—	—	—	—	(15,266)	—	(416)	(15,682)
Balance at September 30, 2019	—	$ —	12,655	$ 127	$ 283,159	$ (78,282)	316	$ 4,558	$ 209,562

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cash flows from operating activities		
Net loss	$ (8,567)	$ (5,549)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	10,368	8,921
Amortization of debt issuance costs	854	1,695
Deferred income tax	—	(274)
Gain on sale of marketable securities	(9)	—
Unrealized loss on change in fair value of investment in marketable securities	57	—
Stock-based compensation	171	295
Changes in operating assets and liabilities:		
Accounts receivable	(489)	(3)
Prepaid expenses and other assets	(285)	(239)
Accounts payable and accrued expenses	1,566	(230)
Due from related parties	1,159	(563)
Due to related parties	838	—
Net cash provided by operating activities	5,663	4,053
Cash flows from investing activities		
Repayment of mortgage note receivable from related party	6,750	11,200
Repayment of note receivable from related party	—	4,500
Investment in marketable securities	(9,389)	—
Proceeds from the sale of marketable securities	4,160	—
Improvements and additions to hotel properties	(7,323)	(5,898)
Acquisition of hotel property	(350)	—
Net cash (used in) provided by investing activities	(6,152)	9,802
Cash flows from financing activities		
Proceeds from issuance of common stock	47,635	31,851
Redemptions of common stock	(4,498)	(1,551)
Offering costs paid	(925)	(2,516)
Dividends paid	(11,472)	(9,498)
Operating partnership distributions paid	(416)	(415)
Proceeds of notes payable	25,000	—
Repayment of notes payable	(41,747)	(27,725)
Repayment of note payable to related party	(15,703)	
Payment of debt issuance costs	(856)	—
Net cash used in financing activities	(2,982)	(9,854)
Net change in cash and cash equivalents and restricted cash	(3,471)	4,001
Cash and cash equivalents and restricted cash at beginning of period	19,194	21,735
Cash and cash equivalents and restricted cash at end of period	$ 15,723	$ 25,736
Supplemental Disclosure of Cash Flow Activity		
Interest paid	$ 9,066	$ 11,178
Income tax paid	$ 229	$ 272
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Increase (decrease) in accrued offering costs due to related party	$ 70	$ (706)
Issuance of common stock from dividend reinvestment plan	$ 3,651	$ 2,631
Assumption of note payable in connection with acquisition of hotel property	$ 29,100	$ —
Note payable to related party issued in connection with acquisition of hotel property	$ 22,550	$ —
Dividends payable	$ 1,888	$ 1,662
Operating partnership distributions payable	$ 46	$ 46

See accompanying notes to unaudited consolidated financial statements.

1. Organization

As discussed in Note 6, "Equity," Moody National REIT II, Inc. (the "Company") was initially capitalized by Moody National REIT Sponsor, LLC (the "Sponsor"). The Company's fiscal year end is December 31.

As of September 30, 2019, the Company owned (1) interests in fifteen hotel properties located in six states comprising a total of 2,123 rooms and (2) investment in marketable securities of $5.2 million. For more information on the Company's real estate investments, see Note 3, "Investment in Hotel Properties."

On January 20, 2015, the Securities and Exchange Commission (the "SEC") declared the Company's registration statement on Form S-11 effective, and the Company commenced its initial public offering of up to $1.1 billion in shares of common stock consisting of up to $1.0 billion in shares of the Company's common stock offered to the public, and up to $100.0 million in shares offered to the Company's stockholders pursuant to its distribution reinvestment plan (the "DRP").

On June 26, 2017, the SEC declared effective the Company's post-effective amendment to its registration statement for the Company's initial public offering, which reallocated the Company's shares of common stock as Class A common stock, $0.01 par value per share ("Class A Shares"), Class D common stock, $0.01 par value per share ("Class D Shares"), Class I common stock, $0.01 par value per share ("Class I Shares"), and Class T common stock, $0.01 par value per share ("Class T Shares" and, together with the Class A Shares, the Class D Shares and the Class I Shares, the "Shares") to be sold on a "best efforts" basis. On January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company's public offering; provided, however that the Advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through an increased acquisition fee, or "Contingent Advisor Payment," as described in Note 7, "Related Party Arrangements."

On January 18, 2018, the Company filed a registration statement on Form S-11 (Registration No. 333-222610) registering $990.0 million in any combination of the Shares to be sold on a "best efforts" basis in the Company's follow-on public offering. The SEC declared the registration statement effective on July 19, 2018. The Company will continue to offer Shares in the follow-on offering on a continuous basis until July 19, 2021, subject to extension for an additional year by our board of directors.

The Company is currently offering the Shares (i) to the public in the Company's primary offering at a purchase price of $23.32 per share, which is equal to the estimated net asset value ("NAV") per share for each class as of December 31, 2018, and (ii) to the Company's stockholders pursuant to the DRP at a purchase price of $23.32 per share, which is equal to the estimated NAV per share for each class as of December 31, 2018.

As of September 30, 2019, the Company had accepted investors' subscriptions for and issued 9.2 million shares in the Company's initial public offering and follow-on offering, excluding shares issued in connection with the Company's merger with Moody National REIT I, Inc. and including 449,000 shares pursuant to the DRP, resulting in gross offering proceeds of $212.7 million. The Company accepted investors' subscriptions for and issued 6.1 million shares in the initial public offering, excluding shares issued in connection with the Company's merger with Moody National REIT I, Inc. and including 215,000 shares pursuant to the DRP in the initial public offering, resulting in gross offering proceeds of $147.4 million for the initial public offering. As of September 30, 2019, the Company had accepted investors' subscriptions for and issued 3.1 million shares in the follow-on offering, including 234,000 shares pursuant to the DRP in the follow-on offering, resulting in gross offering proceeds of $65.3 million for the follow-on offering.

The Company's advisor is Moody National Advisor II, LLC (the "Advisor"), a Delaware limited liability company and an affiliate of the Sponsor. Pursuant to an advisory agreement among the Company, the OP (defined below) and the Advisor (the "Advisory Agreement"), and subject to certain restrictions and limitations therein, the 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.

Substantially all of the Company's business is conducted through Moody National Operating Partnership II, LP, a Delaware limited partnership (the "OP"). The Company is the sole general partner of the OP. The initial limited partners of the OP were Moody OP Holdings II, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company ("Moody Holdings II"), and Moody National LPOP II, LLC ("Moody LPOP II"), an affiliate of the Advisor. Moody Holdings II initially invested $1,000 in the OP in exchange for limited partnership interests, and Moody LPOP II has invested $1,000 in the OP in exchange for a separate class of limited partnership interests (the "Special Limited Partnership Interests"). As the Company accepts subscriptions for shares of common stock, it transfers substantially all of the net proceeds from such sales to the OP as a capital contribution. The limited partnership agreement of the OP 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 properties, the OP will pay all of the Company's administrative costs and expenses, and such expenses will be treated as expenses of the OP.

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.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during 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 incurred by the Advisor on behalf of the Company. Pursuant to the Advisory Agreement between the Company and the Advisor, the Company is obligated to reimburse the Advisor or its affiliates, as applicable, for organization and offering costs incurred by the 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, the Advisor is obligated to reimburse the Company to the extent aggregate 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 the Advisor's employees and employees of the Advisor's affiliates and others. Any reimbursement of the Advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by the Advisor. The Company's organization and offering costs incurred in connection with the Company's initial public offering did not exceed 15% of the gross offering proceeds from the sale of our shares of common stock in such offering.

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 the Advisor.

As of September 30, 2019, total offering costs for the initial public offering and the follow-on offering were \$20.3 million, comprised of \$12.3 million of offering costs incurred directly by the Company and \$8.0 million in offering costs incurred by and reimbursable to the Advisor. Total offering costs for the initial public offering were \$18.3 million, comprised of \$12.3 million of offering costs incurred directly by the Company and \$6.0 million in offering costs incurred by and reimbursable to the Advisor. As of September 30, 2019, total offering costs for the follow-on offering were \$2.0 million, comprised of \$0 of offering costs incurred directly by the Company and \$2.0 million in offering costs incurred by and reimbursable to the Advisor. As of September 30, 2019, the Company had \$123,000 due to the Advisor for reimbursable offering costs.

Income Taxes

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. The Company did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the years ended December 31, 2015 and 2014, including not having 100 shareholders for a sufficient number of days in 2015. Prior to qualifying to be taxed as a REIT, the Company was subject to normal federal and state corporation income taxes.

Provided that the Company continues to qualify as a REIT, it 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 satisfies the other organizational and operational requirements for qualification as a REIT. 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 a wholly-owned taxable REIT subsidiary ("TRS") that is subject to federal, state and local income taxes.

The Company accounts for income taxes of its TRS 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. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period prior to when the new rates become effective. 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 September 30, 2019.

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 positions in the current period results of operations, if necessary. The Company has tax years 2014 through 2018 remaining subject to examination by various federal and state tax jurisdictions. For more information, see Note 11, "Income Taxes."

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 in 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 has elected the fair value option in recording its investment in marketable securities whereby unrealized holding gains and losses on available-for-sale securities are included in earnings. With the exception of the Company's fixed-rate notes receivable from related parties and notes payable, the carrying amounts of other financial instruments, which include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, notes payable, and accounts payable and accrued expenses, approximate their fair values due to their short-term nature. For the fair value of the Company's note receivable from related parties and notes payable, see Note 4 and "Notes Receivable from Related Parties" and Note 5, "Debt."

Concentration of Risk

As of September 30, 2019, 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 any 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 nine of its fifteen hotel properties are located in one state, Texas.

Valuation and Allocation of Hotel Properties — Acquisition

Upon acquisition, the purchase price of hotel properties 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 values are derived from appraisals and building values 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 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 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. The Company uses Level 3 inputs to value acquired properties. 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 require judgment and are subject to being imprecise; accordingly, if different estimates and assumptions were derived, 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 costs of ordinary repairs and maintenance are charged to expense when incurred.

Depreciation expense is computed using the straight-line method 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

Impairments

The Company monitors events and changes in circumstances indicating that the carrying amount of a hotel property 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 three and nine months ended September 30, 2019 and 2018.

In evaluating a hotel property for impairment, the Company makes several estimates and assumptions, including, but not limited to, the projected date of disposition of the property, the estimated future cash flows of the property during the Company's ownership and the projected sales price of the property. 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 property which could then 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. Revenue is recorded net of any sales and other taxes collected from customers. Interest income is recognized when earned. Amounts received prior to guest arrival are recorded as advances 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 property taxes, as well as reserves for property improvements, replacement of furniture, fixtures, and equipment and debt service, as required by certain management or mortgage and term debt agreements restrictions and provisions.

Investment in Marketable Securities

Investment in marketable securities of $5.2 million at September 30, 2019 consists primarily of common stock investments in other REITs and which are classified as available-for-sale securities and recorded at fair value. The Company has elected the fair value option whereby unrealized holding gains and losses on available-for-sale securities are included in earnings. For the three months ended September 30, 2019 and 2018, unrealized loss on investment in marketable securities was $24,000 and $0, respectively. For the nine months ended September 30, 2019 and 2018, unrealized loss on investment in marketable securities was $57,000 and $0, respectively. For the three months ended September 30, 2019 and 2018, realized gain on investment in marketable securities was $0 and $0, respectively. For the nine months ended September 30, 2019 and 2018, realized gain on investment in marketable securities was $9,000 and $0, respectively.

Dividend income is recognized when earned. For the three months ended September 30, 2019 and 2018, dividend income of $101,000 and $0, respectively, was recognized and is included in interest and dividend income on the consolidated statements of operations. For the nine months ended September 30, 2019 and 2018, dividend income of $288,000 and $0, respectively, was recognized and is included in interest and dividend income on the consolidated statements of operations.

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 from Related Parties

The Company reviews the notes receivable from related parties 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 three and nine months ended September 30, 2019 or 2018.

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 $196,000 and $134,000 as of September 30, 2019 and December 31, 2018, respectively.

Expected future amortization of deferred franchise costs as of September 30, 2019 is as follows (all amounts in thousands):

Years Ending December 31,		
2019	$	21
2020		83
2021		83
2022		82
2023		80
Thereafter		522
Total	$	871

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. 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 interest method. Accumulated amortization of debt issuance costs was $3.9 million and $3.0 million as of September 30, 2019 and December 31, 2018, respectively. Expected future amortization of debt issuance costs as of September 30, 2019 is as follows (all amounts in thousands):

Years Ending December 31,	
2019	$ 170
2020	679
2021	677
2022	677
2023	632
Thereafter	629
Total	$ 3,464

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 common stock totaling 10,000 and 7,500 shares as of September 30, 2019 and December 31, 2018, 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.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company adopted this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on the Company's consolidated financial statements and related disclosures, the Company believes the impact will be minimal to the Company's ongoing consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities," which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The Company adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on the Company's ongoing consolidated financial statements.

3. Investment in Hotel Properties

The following table sets forth summary information regarding the Company's investment in hotel properties as of September 30, 2019 (all $ amounts in thousands):

Property Name	Date Acquired	Location	Ownership Interest	Original Purchase Price[(1)]	Rooms	Mortgage Debt Outstanding[(2)]
Residence Inn Austin	October 15, 2015	Austin, Texas	100%	$ 27,500	112	$ 16,365
Springhill Suites Seattle	May 24, 2016	Seattle, Washington	100%	74,100	234	44,349
Homewood Suites Woodlands	September 27, 2017[(5)]	The Woodlands, Texas	100%	17,356	91	8,954
Hyatt Place Germantown	September 27, 2017[(5)]	Germantown, Tennessee	100%	16,074	127	6,906
Hyatt Place North Charleston	September 27, 2017[(5)]	North Charleston, South Carolina	100%	13,806	113	7,054
Hampton Inn Austin	September 27, 2017[(5)]	Austin, Texas	100%	19,328	123	10,543
Residence Inn Grapevine	September 27, 2017[(5)]	Grapevine, Texas	100%	25,245	133	12,173
Marriott Courtyard Lyndhurst	September 27, 2017[(5)]	Lyndhurst, New Jersey	[(3)]	39,547	227	19,000
Hilton Garden Inn Austin	September 27, 2017[(5)]	Austin, Texas	100%	29,288	138	18,162
Hampton Inn Great Valley	September 27, 2017[(5)]	Frazer, Pennsylvania	100%	15,285	125	7,895
Embassy Suites Nashville	September 27, 2017[(5)]	Nashville, Tennessee	100%	82,207	208	41,441
Homewood Suites Austin	September 27, 2017[(5)]	Austin, Texas	100%	18,835	96	10,647
Townplace Suites Fort Worth	September 27, 2017[(5)]	Fort Worth, Texas	[(4)]	11,242	95	6,000
Hampton Inn Houston	September 27, 2017[(5)]	Houston, Texas	100%	9,958	119	4,400
Residence Inn Houston Medical Center	April 29, 2019[(6)]	Houston, Texas	100%	52,000	182	35,947
Totals				$ 451,771	2,123	$ 249,836

(1) Excludes closing costs and includes gain on acquisition.
(2) As of September 30, 2019.
(3) The Marriott Courtyard Lyndhurst is owned by MN Lyndhurst Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Marriott Courtyard Lyndhurst is pledged as security for the Term Loan. See Note 5, "Debt."
(4) The Townplace Suites Fort Worth is owned by MN Fort Worth Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Townplace Suites Fort Worth is pledged as security for the Term Loan. See Note 5, "Debt."
(5) Property acquired on September 27, 2017 as a result of the merger of Moody National REIT I, Inc. ("Moody I") with and into the Company (the "Merger") and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I ("Moody I OP"), with and into the OP (the "Partnership Merger," and together with the Merger, the "Mergers").
(6) Includes balance of $29.1 million for first mortgage loan and balance of $6.8 million for promissory note payable to seller of the Residence Inn Houston Medical Center in the original principal amount of $22.6 million.

Investment in hotel properties consisted of the following at September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Land	$ 76,936	$ 70,456
Buildings and improvements	338,728	297,680
Furniture, fixtures and equipment	55,427	43,632
Total cost	471,091	411,768
Accumulated depreciation	(28,933)	(18,628)
Investment in hotel properties, net	$ 442,158	$ 393,140

Acquisition of Residence Inn Houston Medical Center

On the April 29, 2019 ("Closing Date"), Moody National Kirby-Houston Holding, LLC, a wholly-owned subsidiary of the OP ("Houston Holding"), acquired fee simple title to the Residence Inn Houston Medical Center ("Residence Inn Houston") located in Houston, Texas from a related party for an aggregate purchase price, excluding acquisition costs, of $52.0 million, inclusive of (i) Houston Holding's assumption as of the Closing Date of an existing mortgage loan from an institutional lender ("Lender"), secured by the Residence Inn Houston, with an outstanding balance as of the Closing Date of $28,180,000 ("Existing Loan"), and (ii) financing from the Seller in the amount of $22,550,000 ("Note Payable to Related Party"). See below for an additional discussion of the Existing Loan and the Note Payable to Related Party. In connection with the acquisition of the Residence Inn Houston, Advisor earned an aggregate acquisition fee of $2,002,000 (inclusive of a $1,222,000 contingent acquisition fee paid to reimburse Advisor for upfront selling commissions and dealer manager fees paid by Advisor) and a financing coordination fee of $290,000.

The Residence Inn Houston is a 16-story select-service hotel consisting of 182 guest rooms located in Houston, Texas. The Residence Inn Houston is located in the Texas Medical Center, the world's largest medical center, and is located adjacent to NRG Park area. The Residence Inn Houston includes a four and a half story parking garage.

Houston Holding leases the Residence Inn Houston to Moody National Kirby-Houston MT, LLC ("Master Tenant"), an indirect, wholly-owned subsidiary of OP, pursuant to a Hotel Lease Agreement between Houston Holding and the Master Tenant ("Hotel Lease"). Moody National Hospitality Management, LLC, a related party ("Property Manager"), manages the Residence Inn Houston pursuant to a Hotel Management Agreement between the Property Manager and the Master Tenant ("Management Agreement"), which Management Agreement was assigned to Master Tenant by Seller on the Closing Date.

Existing Loan

On the Closing Date, pursuant to an Assignment and Assumption Agreement, Houston Holding assumed all of the Seller's rights, duties and obligations under and with respect to the Existing Loan and all loan documents associated therewith, including, without limitation, (i) a Promissory Note, dated September 13, 2017, in the original principal amount of $29.1 million, evidencing the Existing Loan and payable to the Lender, or the Note, (ii) the Construction Loan Agreement, dated September 13, 2017, between the Seller and the Lender ("Loan Agreement"), and (iii) the Deed of Trust, Security Agreement and Financing Statement, dated September 13, 2017, for the benefit of Lender, securing payment of the Note (" Deed of Trust.")

The Existing Loan bears interest at a rate of 5% per annum. Payments of interest only will be due on the Existing Loan on a monthly basis through October 1, 2019, and thereafter equal monthly payments of principal and interest in the amount of $170,000 will be due. Upon and during any event of default by Houston Holdings under the Note, the Loan Agreement or any other loan document relating to the Existing Loan, the Existing Loan will bear interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 17%. The entire outstanding principal balance of the Existing Loan and all accrued interest thereon and all other amounts payable under the Note is due and payable in full on October 1, 2024. Houston Holding may not prepay the Existing Loan, in whole or in part, prior to November 1, 2021. Thereafter, upon at least 30 but not more than 90 days prior written notice to the Lender, Houston Holding may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in full (but not in part), provided that such prepayment will be subject to certain additional prepayment fees as set forth in the Note.

The Note provides for customary events of default, including failure by Houston Holding to pay when due and payable any amounts payable under the terms of the Note. Upon any event of default by Houston Holding, Lender may accelerate the maturity date of the Loan and declare the entire unpaid principal balance of the Loan and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

The performance of the obligations of Houston Holding under the Existing Loan is secured by, among other things, a security interest in the Residence Inn Houston and other collateral granted to the Lender pursuant to the Deed of Trust. Pursuant to payment and completion guaranties in favor of the Lender, Brett C. Moody has agreed to irrevocably and unconditionally guarantee the prompt and unconditional payment to the Lender and its successors and assigns of all obligations and liabilities of Houston Holding for which Houston Holding may be personally liable with respect to the Existing Loan.

Note Payable to Related Party

On the Closing Date, the OP issued a promissory note payable to Seller in the original principal amount of approximately $22.6 million, evidencing the note payable to related party (the "Note Payable to Related Party"). The Note Payable to Related Party bears interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 3%. Any amounts payable under the Note Payable to Related Party which are not paid by our operating partnership when due will bear interest at a past due rate equal to the lesser of the maximum rate permitted by applicable law and 18%. On the Closing Date, our operating partnership made a principal payment of $7.8 million, and beginning on May 15, 2019 and ending on October 15, 2019, our operating partnership will make a monthly principal and interest payment of $2.0 million. The entire outstanding principal balance of the Note Payable to Related Party, together with all accrued interest thereon and all other amounts payable under the Note Payable to Related Party, is due and payable in full on December 15, 2019. If our operating partnership fails to make when due any payment under the Note Payable to

Related Party, our operating partnership will pay to Seller on demand a late fee equal to 5% of the amount of such payment. Upon at least five days prior written notice to the Seller, our operating partnership may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in whole or in part, without penalty. The balance of the Note Payable to Related Party was $6.8 million as of September 30, 2019.

The Note Payable to Related Party provides for customary events of default, including failure by our operating partnership to pay when due and payable any amounts payable under the terms of the Note Payable to Related Party. Upon any event of default by our operating partnership, Seller may accelerate the maturity date of the Note Payable to Related Party and declare the entire unpaid principal balance of the Note Payable to Related Party and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

The following table presents a summary of assets acquired and the purchase price consideration in the acquisition of the Residence Inn Houston (in thousands):

Assets acquired at fair value:		
Land	$	6,480
Building		40,920
Furniture, fixtures and equipment		4,600
Net assets acquired at fair value	$	52,000
Purchase price consideration:		
Cash	$	350
Existing Loan		29,100
Note payable to related party		22,550
Purchase price consideration	$	52,000

The results of operations of the Residence Inn Houston have been included in the consolidated statement of operations as of the date of acquisition of April 29, 2019. The following unaudited pro forma consolidated financial information for the three and nine months ended September 30, 2019 and 2018 is presented as if the Company acquired the Residence Inn Houston on January 1, 2018. This information is not necessarily indicative of what the actual results of operations would have been had the Company completed the acquisition of the Residence Inn Houston on January 1, 2018, nor does it purport to represent the Company's future operations (in thousands, except per common share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2019	**2018**	**2019**	**2018**
Revenue	$ 22,854	$ 23,514	$ 67,970	$ 70,042
Net loss	(2,554)	(1,370)	(5,819)	(4,288)
Net loss attributable to common shareholders	(2,491)	(1,314)	(5,594)	(4,106)
Net loss per common share - basic and diluted	$ (0.20)	$ (0.18)	$ (0.71)	$ (0.58)

4. Notes Receivable from Related Party

As of September 30, 2019 and December 31, 2018, the amount of the note receivable from related party was $0 and $6,750,000, respectively.

On August 21, 2015, Moody I 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 "Subject Property"). The Company acquired the Related Party Note in connection with the Mergers.

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. On August 30, 2018, the maturity date was extended to April 30, 2019. The Related Party Note was paid in full on April 29, 2019.

Interest income from notes receivable from related parties was $0 and $187,000 for the three months ended September 30, 2019 and 2018, respectively, and was $264,000 and $661,000 for the nine months ended September 30, 2019 and 2018, respectively. Interest receivable on notes receivable from related parties was $0 and $810,000 as of September 30, 2019 and December 31, 2018, respectively.

The estimated fair value of the note receivable from related party as of December 31, 2018 was $6,750,000. The fair value of the note receivable from related party was estimated 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.

5. Debt

The Company's aggregate borrowings are reviewed by the Company's board of directors at least quarterly. Under the Company's 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 September 30, 2019, the Company's debt levels did not exceed 300% of the value of the Company's net assets, as defined above.

As of September 30, 2019 and December 31, 2018, the Company's mortgage notes payable secured by the respective assets, consisted of the following (all $ amounts in thousands):

Loan	Principal as of September 30, 2019	Principal as of December 31, 2018	Interest Rate at September 30, 2019	Maturity Date
Residence Inn Austin[1]	$ 16,365	$ 16,554	4.580%	November 1, 2025
Springhill Suites Seattle[1]	44,349	44,884	4.380%	October 1, 2026
Homewood Suites Woodlands[1]	8,954	9,066	4.690%	April 11, 2025
Hyatt Place Germantown[1]	6,906	7,025	4.300%	May 6, 2023
Hyatt Place North Charleston[1]	7,054	7,158	5.193%	August 1, 2023
Hampton Inn Austin[1]	10,543	10,687	5.426%	January 6, 2024
Residence Inn Grapevine[1]	12,173	12,341	5.250%	April 6, 2024
Marriott Courtyard Lyndhurst[1]	19,000	—	4.700%	September 27, 2024
Hilton Garden Inn Austin[1]	18,162	18,401	4.530%	December 11, 2024
Hampton Inn Great Valley[1]	7,895	7,994	4.700%	April 11, 2025
Embassy Suites Nashville[1]	41,441	41,998	4.2123%	July 11, 2025
Homewood Suites Austin[1]	10,647	10,778	4.650%	August 11, 2025
Townplace Suites Fort Worth[1]	6,000	—	4.700%	September 27, 2024
Hampton Inn Houston[1]	4,400	4,480	7.000%	April 28, 2023
Residence Inn Houston Medical Center[4]	29,100	—	5.000%	October 1, 2024
Term Loan[2]	—	26,300	30-day LIBOR plus 3.750%	September 27, 2019
Short Term Loan[3]	—	12,970	30-day LIBOR plus 2.50%	April 24, 2019
Total notes payable	242,989	230,636		
Less unamortized debt issuance costs	(3,464)	(3,462)		
Total notes payable, net of unamortized debt issuance costs	$ 239,525	$ 227,174		

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

(2) Monthly payments of principal and interest are due and payable until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019. All unpaid principal and interest thereon was repaid in full on September 27, 2019, the maturity date.

(3) Monthly payments of principal and interest were due and payable until the maturity date. All unpaid principal and interest thereon was repaid in full on April 24, 2019, the maturity date.

(4) Monthly payments of interest due and payable until October 2019. Monthly payments of principal and interest due and payable beginning in November 2019 until the maturity date.

Hotel properties secure their respective loans. The Term Loan was partially secured by Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth and was partially unsecured.

Scheduled maturities of the Company's notes payable as of September 30, 2019 are as follows (all amounts in thousands):

Years ending December 31,		
2019	$	1,030
2020		4,566
2021		4,821
2022		5,663
2023		43,750
Thereafter		183,159
Total	$	242,989

Term Loan Agreement

On September 27, 2017, the OP, as borrower, the Company and certain of the Company's subsidiaries, as guarantors, and KeyBank National Association ("KeyBank," and together with any other lender institutions that may become parties thereto, the "Lenders"), as agent and lender, entered into a term loan agreement (as amended, the "Term Loan Agreement"). Pursuant to the Term Loan Agreement, the Lenders have made a term loan to the OP in the principal amount of $70.0 million (the "Term Loan"). Capitalized terms used in this description of the Term Loan and not defined herein have the same meaning as in the Term Loan Agreement. The Company 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 Company began making principal payments of $1.5 million per month in November 2017.

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 the Company's obligation under the Term Loan Agreement to raise $10 million per quarter in gross offering proceeds to the calendar quarter June 30, 2018. The Company satisfied such obligation with respect to the calendar quarter ended September 30, 2019.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018 and on October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan. The Outstanding Balance of $26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, was repaid in full on September 27, 2019. The Term Loan originally provided for monthly interest payments, for mandatory prepayments 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% the OP's Consolidated Net Cash Flow or (ii) $1.5 million. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal were $100,000 per month, and the margins over the base rate or LIBOR rate were 2.75% and 3.75%, respectively.

Short Term Loan

On October 24, 2018, the Company and the OP issued a promissory note in favor of Green Bank, N.A. in the original principal amount of $16.0 million (the "Short Term Loan"). The proceeds of the promissory note were used to retire a portion of the Term Loan, resulting in a balance of $26.5 million for the Term Loan as of October 24, 2018. The note bore interest at an annual rate equal to the one-month LIBOR plus 2.5% and the Company and the OP were collectively required to make a monthly payment on the outstanding principal and interest of the promissory note equal to the greater of $1.5 million and 50% of our consolidated net cash flow. The entire outstanding principle amount of the Short Term Loan and all accrued interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

The estimated fair value of the Company's notes payable as of September 30, 2019 and December 31, 2018 was $241.3 million and $231.0 million, respectively. The fair value of the notes payable 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.

6. Equity

Capitalization

Under its Charter, the Company has the authority to issue 1.0 billion shares of common stock and 100.0 million shares of preferred stock. All shares of such stock have a par value of $0.01 per share. On August 15, 2014, the Company sold 8,000 shares of common stock to the Sponsor at a purchase price of $25.00 per share for an aggregate purchase price of $200,000, which was paid in cash. As of September 30, 2019, there were a total of 12.7 million shares of the Company's common stock issued and outstanding, including 9.2 million shares, net of redemptions, issued in the Company's public offerings, 3.4 million shares, net of redemptions, issued in connection with the Merger, the 8,000 shares sold to Sponsor and 55,000 shares of restricted stock issued to the Company's directors, as discussed in Note 8, "Incentive Award Plan," as follows:

Class	Shares Outstanding as of September 30, 2019
Class A Shares	12,070
Class T Shares	441
Class I Shares	144
Total	12,655

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 for 2019 and 2018 that will be (1) calculated daily and reduced for class-specific expenses; (2) 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) calculated at a rate of $1.7528 per share of the Company's common stock per year, or approximately $0.00480 per share per day, before any class-specific expenses. The Company first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the three and nine months ended September 30, 2019 and 2018 (in thousands):

Period	Cash Distribution	Distribution Paid Pursuant to DRP(1)	Total Amount of Distribution
First Quarter 2019	$ 3,517	$ 1,121	$ 4,638
Second Quarter 2019	3,858	1,228	5,086
Third Quarter 2019	4,097	1,302	5,399
Total	$ 11,472	$ 3,651	$ 15,123
First Quarter 2018	$ 3,218	$ 634	$ 3,852
Second Quarter 2018	3,039	963	4,002
Third Quarter 2018	3,241	1,034	4,275
Total	$ 9,498	$ 2,631	$ 12,129

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

Noncontrolling Interest in Operating Partnership

Noncontrolling interest in the OP at September 30, 2019 and December 31, 2018 was $4.6 million and $5.2 million, respectively, which represented 316,000 common units in the OP issued in connection with the acquisition of the Springhill Suites Seattle and the Partnership Merger, and is reported in equity in the consolidated balance sheets. Loss from the OP attributable to these noncontrolling interests was $63,000 and $55,000 for the three months ended September 30, 2019 and 2018, respectively, and was $225,000 and $182,000 for the nine months ended September 30, 2019 and 2018, respectively.

7. Related Party Arrangements

Pursuant to the Advisory Agreement, the Advisor and certain affiliates of Advisor receive fees and compensation in connection with the Offering and the acquisition, management and sale of the Company's real estate investments. In addition, in exchange for $1,000 and in consideration of services to be provided by the Advisor, the OP has issued an affiliate of the Advisor, Moody LPOP II, a separate, special limited partnership interest, in the form of Special Limited Partnership Interests. For further detail, please see Note 9, "Subordinated Participation Interest."

Sales Commissions and Dealer Manager Fees

From January 1, 2017 through June 12, 2017, the Company paid Moody Securities an up-front selling commission of up to 7.0% of the gross proceeds of what are now the Class A Shares sold in the primary offering and a dealer manager fee of up to 3.0% of the gross proceeds of what are now the Class A Shares sold in the primary offering. Beginning on June 12, 2017, the Company reallocated its common shares into four separate share classes, Class A Shares, Class T Shares, Class I Shares and Class D Shares, with the differing fees for each class of shares

Beginning January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company's public offering; provided, however, that the Advisor intends to recoup the funding of such amounts through the Contingent Advisor Payment (described below). In connection with the implementation of the Contingent Advisor Payment, the Company reduced the up-front selling commission paid with respect to the Class A Shares from up to 7.0% to up to 6.0% of the gross proceeds of the Class A Shares sold in the primary offering and reduced the dealer manager fee paid with respect to the Class A Shares from up to 3.0% to up to 2.5% of the gross proceeds of the Class A Shares sold in the primary offering. As of September 30, 2019, the Company had paid Moody Securities $9.4 million in selling commissions and trailing stockholder servicing fees related to the Company's ongoing public offering and $2.1 million in dealer manager fees related to the Company's ongoing public offering, which amounts have been recorded as a reduction to additional paid-in capital in the consolidated balance sheets. As of September 30, 2019, Advisor had paid Moody Securities $7.6 million in selling commissions, trailing stockholder servicing fees, and dealer manager fees related to the Company's ongoing public offering, of which $6.4 million could potentially be recouped by the Advisor at a later date through the Contingent Advisor Payment.

Organization and Offering Expenses

The Advisor will receive reimbursement for organizational and offering expenses incurred on the Company's behalf, but only to the extent that such reimbursements do not exceed actual expenses incurred by Advisor and do not cause the cumulative selling commissions, dealer manager fees, stockholder servicing fees and other organization and offering expenses borne by the Company to exceed 15.0% of gross offering proceeds from the sale of shares in the Company's follow-on offering as of the date of reimbursement.

As of September 30, 2019, total offering costs for the initial public offering and the follow-on offering were $20.3 million, comprised of $12.3 million of offering costs incurred directly by the Company and $8.0 million in offering costs incurred by and reimbursable to the Advisor. As of September 30, 2019, total offering costs for the initial public offering were $18.3 million, comprised of $12.3 million of offering costs incurred directly by the Company and $6.0 million in offering costs incurred by and reimbursable to the Advisor. As of September 30, 2019, total offering costs for the follow-on offering were $2.0 million, comprised of $0 of offering costs incurred directly by the Company and $2.0 million in offering costs incurred by and reimbursable to the Advisor. As of September 30, 2019, the Company had $123,000 due from the Advisor for reimbursable offering costs.

Acquisition Fees

As of January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees in connection with the Company's public offering. In connection therewith, as of January 16, 2018, the acquisition fee payable to the Advisor was increased from 1.5% to up to a maximum of 3.85% of (1) the cost of all investments the Company acquires (including the Company's pro rata share of any indebtedness assumed or incurred in respect of the investment and exclusive of acquisition and financing coordination fees), (2) the Company's allocable cost of investments acquired in a joint venture (including the Company's pro rata share of the purchase price and the Company's pro rata share of any indebtedness assumed or incurred in respect of that investment and exclusive of acquisition fees and financing coordination fees) or (3) the amount funded by the Company to acquire or originate a loan or other investment, including mortgage, mezzanine or bridge loans (including any third-party expenses related to such investment and exclusive of acquisition fees and financing coordination fees). The up to 3.85% acquisition fee consists of (i) a 1.5% base acquisition fee and (ii) up to an additional 2.35% contingent acquisition fee (the "Contingent Advisor Payment"). The 1.5% base acquisition fee will always be payable upon the acquisition of an investment by the Company, unless the receipt thereof is waived by the Advisor. The amount of the Contingent Advisor Payment to be paid in connection with the closing of an acquisition will be reviewed on an acquisition-by-acquisition basis and such payment shall not exceed the then-outstanding amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees at the time of such closing. For purposes of determining the amount of Contingent Advisor Payment payable, the amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees and considered "outstanding" will be reduced by the amount of the Contingent Advisor Payment previously paid and taking into account the amount of the Contingent Advisor Holdback. The Advisor may waive or defer all or a portion of the acquisition fee at any time and from time to time, in the Advisor's sole discretion. For the three months ended September 30, 2019 and 2018, the Company incurred acquisition fees of $0 each, and for the nine months ended September 30, 2019 and 2018, the Company incurred acquisition fees of $2.0 million, composed of a base acquisition fee of $780,000 and a contingent acquisition fee of $1.2 million, and $0, respectively, payable to Advisor, which are recorded in the accompanying consolidated statements of operations.

Reimbursement of Acquisition Expenses

The Advisor may also be reimbursed by the Company for actual expenses related to the evaluation, selection and acquisition of real estate investments, regardless of whether the Company actually acquires the related assets. The Company did not reimburse the Advisor for any acquisition expenses during the three and nine months ended September 30, 2019 and 2018.

Financing Coordination Fee

The Advisor also receives financing coordination fees of 1% of the amount available under any loan or line of credit made available to the Company and 0.75% of the amount available or outstanding under any refinanced loan or line of credit. The Advisor will pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for the Company. For the three months ended September 30, 2019 and 2018, the Company incurred financing coordination fees of $0 each, and for the nine months ended September 30, 2019 and 2018, the Company incurred financing coordination fees of $290,000 and $0, respectively, payable to Advisor, which are recorded in the accompanying consolidated statements of operations.

Property Management Fee

The Company pays Moody National Hospitality Management, LLC ("Property Manager") a monthly hotel management fee equal to 4.0% of the monthly gross operating revenues from the properties managed by Property Manager for services it provides in connection with operating and managing properties. The hotel management agreements between the Company and the Property Manager generally have initial terms of ten years. Property Manager may pay some or all of the compensation it receives from the Company to a third-party property manager for management or leasing services. In the event that the Company contracts directly with a non-affiliated third-party property manager, the Company will pay Property Manager a market-based oversight fee. The Company will reimburse the costs and expenses incurred by Property Manager on the Company's behalf, including legal, travel and other out-of-pocket expenses that are directly related to the management of specific properties, but the Company will not reimburse Property Manager for general overhead costs or personnel costs other than employees or subcontractors who are engaged in the on-site operation, management, maintenance or access control of the properties. For the three months ended September 30, 2019 and 2018, the Company paid the Property Manager property management fees of $910,000 and $835,000, respectively, and accounting fees of $112,000 and $105,000. For the nine months ended September 30, 2019 and 2018, the Company paid the Property Manager property management fees of $2.6 million and $2.5 million, respectively, and accounting fees of $325,000 and $315,000, respectively, which are included in hotel operating expenses in the accompanying consolidated statements of operations.

The Company pays an annual incentive fee to Property Manager. Such annual incentive fee is equal to 15% of the amount by which the operating profit from the properties managed by Property Manager for such fiscal year (or partial fiscal year) exceeds 8.5% of the total investment of such properties. Property Manager may pay some or all of this annual incentive fee to third-party sub-property managers for management services. For purposes of this annual incentive fee, "total investment" means the sum of (i) the price paid to acquire a property, including closing costs, conversion costs, and transaction costs; (ii) additional invested capital and (iii) any other costs paid in connection with the acquisition of the property, whether incurred pre- or post-acquisition. As of September 30, 2019, the Company had not paid any annual incentive fees to Property Manager.

Asset Management Fee

The Company pays the Advisor a monthly asset management fee of one-twelfth of 1.0% of the cost of investment of all real estate investments the Company acquires. For the three months ended September 30, 2019 and 2018, the Company incurred asset management fees of $1.2 million and $1.0 million, respectively, and for the nine months ended September 30, 2019 and 2018, the Company incurred asset management fees of $3.4 million and $3.2 million, respectively, payable to Advisor, which are recorded in corporate general and administrative expenses in the accompanying consolidated statements of operations.

Disposition Fee

The Company also pays the Advisor or its affiliates a disposition fee (subject to a limitation if the property was previously owned by Moody I discussed below) in an amount of up to one-half of the brokerage commission paid on the sale of an asset, but in no event greater than 3% of the contract sales price of each property or other investment sold; provided, however, in no event may the aggregate disposition fees paid to the Advisor and any real estate commissions paid to unaffiliated third parties exceed 6% of the contract sales price. During the first year following the consummation of the Mergers, if the Company sold a property that was previously owned by Moody I, then any disposition fee to which the Advisor would be entitled under the Advisory Agreement would have been reduced by an amount equal to the portion of the Moody I Advisor Payment attributable to such property. As of September 30, 2019, the Company had not incurred any disposition fees payable to the Advisor.

Operating Expense Reimbursement

The Company will reimburse the Advisor for all expenses paid or incurred by the Advisor in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse the Advisor for any amount by which the Company's aggregate operating expenses (including the asset management fee payable to the Advisor) 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 the Advisor for expenses in excess of the 2%/25% Limitation if a majority of the Company's independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended September 30, 2019, total operating expenses of the Company were $6.2 million, which included $5.0 million in operating expenses incurred directly by the Company and $1.2 million incurred by the Advisor on behalf of the Company. Of the $6.2 million in total operating expenses incurred during the four fiscal quarters ended September 30, 2019, $0 exceeded the 2%/25% Limitation. The Company reimbursed the Advisor $1.2 million during the four fiscal quarters ended September 30, 2019. As of September 30, 2019, the Company had $413,000 due from the Advisor for operating expense reimbursement.

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 independent directors was entitled, subject to the Independent Directors Compensation Plan's conditions and restrictions, to receive an initial grant of 5,000 shares of restricted stock when the Company raised the minimum offering amount of $2.0 million in the Offering. Each new independent director who subsequently joins the Company's board of directors will receive a grant of 5,000 shares of restricted stock upon his or her election to 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 will receive an additional grant of 2,500 shares of restricted stock. 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 September 30, 2019, there were 1,945,000 common shares remaining available for future issuance under the Incentive Award Plan and the Independent Directors Compensation Plan.

The Company recorded compensation expense related to such shares of restricted stock of $41,000 and $37,000 for the three months ended September 30, 2019 and 2018, respectively, and $171,000 and $$295,000 for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, there were 10,000 non-vested shares of restricted common stock granted pursuant to the Independent Directors Compensation Plan. The remaining unrecognized compensation expense associated with those 10,000 non-vested shares of $193,000 will be recognized during the fourth quarter of 2019 and the first, second and third quarters of 2020.

The following is a summary of activity under the Independent Directors Compensation Plan for the three months ended September 30, 2019 and year ended December 31, 2018:

	Number of Shares		Weighted Average Grant Date Fair Value
Balance of non-vested shares as of December 31, 2017	11,250	$	27.82
Shares granted on August 13, 2018	10,000	$	23.19
Shares vested	(13,750)	$	26.98
Balance of non-vested shares as of December 31, 2018	7,500	$	23.19
Shares granted on August 5, 2019	10,000		23.32
Shares vested	(7,500)	$	23.19
Balance of non-vested shares as of September 30, 2019	10,000	$	23.32

9. Subordinated Participation Interest

Pursuant to the limited partnership agreement for the OP, Moody LPOP II, the holder of the Special Limited Partnership Interests, is entitled to receive distributions equal to 15.0% of the OP's net cash flows, whether from continuing operations, the repayment of loans, the disposition of assets or otherwise, but only after the Company's stockholders (and current and future limited partnership interest holders of the OP other than the former limited partners of Moody I OP) have received, in the aggregate, cumulative distributions equal to their total invested capital plus a 6.0% cumulative, non-compounded annual pre-tax return on such aggregated invested capital. Former limited partners of Moody I OP must have received a cumulative annual return of 8.0%, which is equal to the same return to which such holders were entitled before distributions to the special limited partner of Moody I OP could have been paid under the limited partnership agreement of Moody I OP. In addition, Moody LPOP II is entitled to a separate payment if it redeems its Special Limited Partnership Interests. The Special Limited Partnership Interests may be redeemed upon: (1) the listing of the Company's common stock on a national securities exchange or (2) the occurrence of certain events that result in the termination or non-renewal of the Advisory Agreement, in each case for an amount that Moody LPOP II would have been entitled to receive had the OP disposed of all of its assets at the enterprise valuation as of the date of the event triggering the redemption.

10. Commitments and Contingencies

Restricted Cash

Under certain management and debt agreements existing at September 30, 2019, the Company escrows payments required for property improvement plans, real estate taxes, replacement of hotel furniture and fixtures, debt service and rent holdback. The composition of the Company's restricted cash as of September 30, 2019 and December 31, 2018 are as follows (in thousands):

	September 30, 2019	December 31, 2018
Property improvement plan	$ 189	$ 1,239
Real estate taxes	3,564	2,894
Insurance	176	231
Hotel furniture and fixtures	3,032	4,168
Debt service	830	764
Seasonality	879	883
Expense deposit	10	10
Rent holdback	15	15
Immediate repairs	55	
Total restricted cash	$ 8,750	$ 10,204

Franchise Agreements

As of September 30, 2019, all of the Company's hotel properties, including those acquired as part of the Moody I Portfolio, are operated under franchise agreements with initial terms ranging from 10 to 20 years. The franchise agreements allow the properties to operate under the franchisor's brand. 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. The Company incurred franchise fee expense of $2.1 million and $1.7 million for the three months ended September 30, 2019 and 2018, respectively, and $5.7 million and $5.1 million for the nine months ended September 30, 2019 and 2018, respectively, which amounts are included in hotel operating expenses in the accompanying consolidated statements of operations.

11. Income Taxes

The Company has formed a TRS that is treated as a C-corporation for federal income tax purposes and uses the 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.

As of September 30, 2019, the Company had operating loss carry-forwards of $6.0 million.

The Company had deferred tax assets of $2.3 million as of September 30, 2019 and December 31, 2018, net of a valuation allowance of $2.5 million and $1.2 million as of September 30, 2019 and December 31, 2018, respectively, related to net operating loss carry forwards of the TRS which are included in prepaid expenses and other assets on the consolidated balance sheets. As of September 30, 2019, the TRS had a net operating loss carry-forward of $16.7 million, of which $7.3 million was transferred from Moody I's taxable REIT subsidiaries when they were merged into the Company's TRS on the date of the closing of the Mergers.

The income tax expense (benefit) for the three and nine months ended September 30, 2019 and 2018 consisted of the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Current expense	$ 60	$ 60	$ 156	$ 124
Deferred expense (benefit)	(488)	(328)	(1,314)	(602)
Valuation provision for deferred benefit	488	328	1,314	328
Total expense (benefit), net	$ 60	$ 60	$ 156	$ (150)
Federal	$ (488)	$ (328)	$ (1,314)	$ (602)
Valuation provision for federal taxes	488	328	1,314	328
State	60	60	156	124
Total tax expense (benefit)	$ 60	$ 60	$ 156	$ (150)

On September 30, 2019, the Company had net deferred tax assets of $2.3 million primarily due to past years' federal and state tax operating losses of the TRS. These loss carryforwards will generally expire in 2033 through 2038 if not utilized by then. The Company analyzes state loss carryforwards on a state by state basis and records a valuation allowance when management deems it more likely than not that future results will not generate sufficient taxable income in the respective state to realize the deferred tax asset prior to the expiration of the loss carryforwards. Management believes that it is more likely than not that the results of future operations of the TRS will generate sufficient taxable income to realize the deferred tax assets, in excess of the valuation allowance, related to federal and state loss carryforwards prior to the expiration of the loss carryforwards and has determined that no valuation allowance is necessary. From time to time, the Company may be subjected to federal, state or local tax audits in the normal course of business.

12. Subsequent Events

Distributions Declared

On September 30, 2019, the Company declared a distribution in the aggregate amount of approximately $1.8 million, of which approximately $1.4 million was paid in cash on October 15, 2019 and [approximately] $400,000 was paid pursuant to the DRP in the form of additional shares of the Company's common stock. On October 31, 2019, the Company declared a distribution in the aggregate amount of approximately $1.9 million, which is scheduled to be paid in cash and pursuant to the DRP in the form of additional shares of the Company's common stock on or about November 15, 2019.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements of Moody National REIT II, Inc. and the notes thereto. As used herein, the terms "we," "our," "us" and "our company" refer to Moody National REIT II, Inc. and, as required by context, Moody National Operating Partnership II, LP, a Delaware limited partnership, which we refer to as our "operating partnership," and to their respective subsidiaries. References to "shares" and "our common stock" refer to the shares of our common stock.

Forward-Looking Statements

Certain statements included in this quarterly report on Form 10-Q, or this Quarterly Report, that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terms.

The forward-looking statements included herein are based upon our current expectations, plans, estimates, assumptions and beliefs, which involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to:

- our ability to raise capital in our ongoing public offering;
- our ability to effectively deploy the proceeds raised in our public offering;
- our ability to obtain financing on acceptable terms;
- our levels of debt and the terms and limitations imposed on us by our debt agreements;
- our ability to identify and acquire real estate and real estate-related assets on selling terms that are favorable to us;
- risks inherent in the real estate business, including the lack of liquidity for real estate and real estate-related assets on terms that are favorable to us;
- changes in demand for rooms at our hotel properties;
- our ability to compete in the hotel industry;
- adverse developments affecting our sponsor and its affiliates;
- the availability of cash flow from operating activities for distributions;
- changes in economic conditions generally and the real estate and debt markets specifically;
- conflicts of interest arising out of our relationship with our advisor and its affiliates;
- legislative or regulatory changes, including changes to the laws governing the taxation of REITs (as defined below);
- the availability of capital; and
- changes in interest rates.

Any of the assumptions underlying the forward-looking statements included herein could be inaccurate, and undue reliance should not be placed upon any forward-looking statements included herein. All forward-looking statements are made as of the date of this Quarterly Report and the risk that actual results will differ materially from the expectations expressed herein will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements made after the date of this Quarterly Report, whether as a result of new information, future events, changed circumstances or any other reason. In light of the significant uncertainties inherent in the forward-looking statements included in this Quarterly Report, including, without limitation, the risks described under "Risk Factors," the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this Quarterly Report will be achieved.

Overview

We are a Maryland corporation formed on July 25, 2014 to invest in a portfolio of hospitality properties focusing primarily on the select-service segment of the hospitality sector with premier brands including, but not limited to, Marriott, Hilton and Hyatt. We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, beginning with our taxable year ended December 31, 2016. We own, and in the future intend to own, substantially all of our assets and conduct our operations through our operating partnership. We are the sole general partner of our operating partnership, and the initial limited partners of our operating partnership were our subsidiary, Moody OP Holdings II, LLC, or Moody Holdings II, and Moody National LPOP II, LLC, or Moody LPOP II, an affiliate of our advisor (as defined below). Moody Holdings II invested $1,000 in our operating partnership in exchange for limited partnership interests, and Moody LPOP II invested $1,000 in our operating partnership in exchange for special limited partnership interests. As we accept subscriptions for sales of shares of our common stock, we transfer substantially all of the net proceeds from such sales to our operating partnership in exchange for limited partnership interests and our percentage ownership in our operating partnership increases proportionally.

We are externally managed by Moody National Advisor II, LLC, a related party, which we refer to as our "advisor," pursuant to an advisory agreement among us, our operating partnership and our advisor, or the advisory agreement. Our advisor was formed in July 2014. Moody National REIT Sponsor, LLC, which we refer to as our "sponsor," is owned and managed by Brett C. Moody, who also serves as our Chief Executive Officer and President and the Chief Executive Officer and President of our advisor.

On January 20, 2015, we commenced our initial public offering of up to $$1.1 billion in shares of common stock, consisting of up to $$1.0 billion in shares of our common stock offered to the public and up to $$100.0 million in shares offered to our stockholders pursuant to our distribution reinvestment plan, or the DRP. On June 26, 2017, the Securities and Exchange Commission, or SEC, declared effective a post-effective amendment to our registration statement which reallocated the shares of our common stock being sold in our initial public offering as Class A common stock, $0.01 par value per share, or the Class A Shares, Class I common stock, $0.01 par value per share, or the Class I Shares, and Class T common stock, $0.01 par value per share, or the Class T Shares. We collectively refer to the Class A Shares, Class I Shares and Class T Shares as our "shares." Effective July 19, 2018, the SEC declared effective our registration statement (Registration No. 333-222610) and we commenced our follow-on public offering of up to $990.0 million in any combination of the three classes of our shares, consisting of up to $895.0 million in shares of our common stock offered to the public, which we refer to as the "primary offering," and up to $95.0 million in shares of our common stock offered to our stockholders pursuant to the DRP. We will continue to offer shares in our follow-on offering on a continuous basis until July 19, 2020, subject to extension for an additional year (to July 29, 2021) by our board of directors.

Effective January 16, 2018, our advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with our ongoing public offering; provided, however, that our advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through receipt of an increased acquisition fee (as discussed in Note 7, "Related Party Agreements-Acquisition Fees," in the accompanying consolidated financial statements).

On March 14, 2019, our board of directors determined an estimated net asset value, or NAV, per share of all classes of our common stock as of December 31, 2018 of $23.32. We are currently offering our shares (i) to the public in our primary offering at a purchase price of $23.32 per share, which is equal to the estimated NAV per share for each class of our common stock as of December 31, 2018, and (ii) to our stockholders pursuant to the DRP at a purchase price of $23.32 per share, which is equal to the NAV per share for each class of our common stock as of December 31, 2018.

As of September 30, 2019, we had accepted investors' subscriptions for and issued 9.2 million shares in our initial public offering and our follow-on offering, excluding shares issued in connection with the Mergers (discussed below) and including 449,000 shares pursuant to the DRP, resulting in gross offering proceeds of $212.7 million. We accepted investors' subscriptions for and issued 6.1 million shares in the initial public offering, excluding shares issued in connection with the Mergers and including 215,000 shares pursuant to the DRP, resulting in gross offering proceeds of $147.4 million for the initial public offering. As of September 30, 2019, we had accepted investors' subscriptions for and issued 3.1 million shares in the follow-on offering, including 234,000 shares pursuant to the DRP, resulting in gross offering proceeds of $65.3 million for the follow-on offering. As of November 7, 2019, we had accepted investors' subscriptions for and 3.3 million shares in our follow-on offering, including 253,000 shares issued pursuant to our DRP, resulting in gross offering proceeds of $71.2 million. As of November 7, 2019, $912.9 million of stock remained to be sold in our follow-on offering. We reserve the right to terminate our follow-on offering at any time.

Moody Securities, LLC, an affiliate of our advisor, which we refer to as the "dealer manager" or "Moody Securities," is our dealer manager and is responsible for the distribution of our common stock in our ongoing follow-on offering.

We intend to continue to use the net proceeds from our public offerings to acquire hotel properties located in the East Coast, the West Coast and the Sunbelt regions of the United States. To a lesser extent, we may also invest in other hospitality properties located within other markets and regions, as well as real estate securities and debt-related investments related to the hospitality sector.

As of September 30, 2019, our portfolio consisted of (1) ownership interests in fifteen hotel properties located in six states, comprising a total of 2,123 rooms and (2) investment in marketable securities of $5.2 million.

Our principle executive offices are located at 6363 Woodway Drive, Suite 110, Houston, Texas 77057, and our main telephone number is (713) 977-7500.

Merger with Moody National REIT I, Inc.

On September 27, 2017, the merger of Moody National REIT I, Inc., or Moody I, with and into our company, or the Merger, and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I, or Moody I OP, with and into our operating partnership, or the Partnership Merger, were completed. We refer to the Merger and the Partnership Merger herein as the "Mergers." For additional discussion of the Mergers, see Part I., Item 1. "Business—Merger with Moody National REIT I, Inc." of our Annual Report on Form 10-K, as filed with the SEC on March 29, 2019, and the notes to the consolidated financial statements included in this Quarterly Report.

Factors Which May Influence Results of Operations

Economic Conditions Affecting Our Target Portfolio

Adverse economic conditions affecting the hospitality sector, the geographic regions in which we plan to invest or the real estate market generally may have a material impact on our capital resources and the revenue or income to be derived from the operation of our hospitality investments.

Offering Proceeds

Our ability to make investments depends upon the net proceeds raised in our offering and our ability to finance the acquisition of our investments. If we raise substantially less than the maximum offering amount of $990.0 million in our offering, we will make fewer investments resulting in less diversification in terms of the number of investments owned and fewer sources of income. In such event, the likelihood of our profitability being affected by the performance of any one of our investments will increase. In addition, if we are unable to raise substantial funds, our fixed operating expenses as a percentage of gross income would be higher, which could affect our net income and results of operations.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the three and nine months ended September 30, 2019 and 2018. We were formed on July 25, 2014. As of September 30, 2018, we owned (1) interests in fourteen hotel properties located in nine states, comprising a total of 1,941 rooms, and (2) a loan with a current principal amount of $6,750,000 originated to an affiliate of our sponsor used to acquire a commercial property located in Katy, Texas. As of September 30, 2019, we owned (1) interests in fifteen hotel properties located in nine states, comprising a total of 2,123 rooms and (2) investment in marketable securities of $5.2 million. Primarily because we did not own any notes receivable as of September 30, 2019 and we did own an investment in marketable securities of $5.2 million as of September 30, 2019, our interest and dividend income for the three and nine months ended September 30, 2019 are not directly comparable to those for the three and nine months ended September 30, 2018. In general, we expect that our income and expenses related to our investment portfolio will increase in future periods as a result of anticipated future acquisitions of real estate and real estate-related investments. In addition, we expect that our income and expenses related to our investment portfolio will differ significantly if the mergers are consummated.

Comparison of the three months ended September 30, 2019 versus the three months ended September 30, 2018

Revenue

Total revenue increased to $22.9 million for the three months ended September 30, 2019 from $21.1 million for the three months ended September 30, 2018. Hotel revenue increased to $22.9 million for the three months ended September 30, 2019 from $20.9 million for the three months ended September 30, 2018 due to the fact that we owned fifteen hotel properties at September 30, 2019 compared to fourteen hotel properties at September 30, 2018. Interest and dividend income decreased to $101,000 for the three months ended September 30, 2019 from $187,000 for three months ended September 30, 2018 due to the repayment of the related party note and the related party mezzanine note. We expect that room revenue, other hotel revenue and total revenue will each increase in future periods as a result of having full periods of operations for properties owned and future acquisitions of real estate assets.

A comparison of hotel revenues for the hotels owned continuously for the three months ended September 30, 2019 and 2018 follows (in thousands):

	Three months ended September 30, 2019	Three months ended September 30, 2018	Increase (Decrease)
Residence Inn Austin	$ 1,244	$ 1,086	$ 158
Springhill Suites Seattle	3,857	4,490	(633)
Homewood Suites Woodlands	765	719	46
Hyatt Place Germantown	1,032	1,058	(26)
Hyatt Place North Charleston	883	,966	(83)
Hampton Inn Austin	984	850	134
Residence Inn Grapevine	1,715	1,678	37
Marriott Courtyard Lyndhurst	2,399	2,449	(50)
Hilton Garden Inn Austin	1,206	1,174	32
Hampton Inn Great Valley	977	987	(10)
Embassy Suites Nashville	3,462	3,259	203
Homewood Suites Austin	1,073	1,025	48
Townplace Suites Fort Worth	794	658	136
Hampton Inn Houston	542	485	57
	$ 20,933	$ 20,884	$ 49

Revenues for the Springhill Suites Seattle decreased for the three months ended September 30, 2019 compared to the three months ended September 30, 2018 due to ongoing renovations to the hotel.

Hotel Operating Expenses

Hotel operating expenses increased to $14.8 million for the three months ended September 30, 2019 from $12.9 million for the three months ended September 30, 2019. The increase in hotel operating expenses was primarily due to the fact that we owned fifteen hotel properties at September 30, 2019 compared to fourteen hotel properties at September 30, 2018.

Property Taxes, Insurance and Other

Property taxes, insurance and other expenses increased to $1.9 million for the three months ended September 30, 2019 from $1.5 million for the three months ended September 30, 2018. The increase in property taxes, insurance and other expenses was primarily due to the fact that we owned fifteen hotel properties at September 30, 2019 compared to fourteen hotel properties at September 30, 2018.

Depreciation and Amortization

Depreciation and amortization increased to $3.7 million, for the three months ended September 30, 2019 from $3.0 million for the three months ended September 30, 2018. The increase in depreciation and amortization was primarily due to the fact that we owned fifteen hotel properties at September 30, 2019 compared to fourteen hotel properties at September 30, 2018.

Acquisition Expenses

Acquisition expenses were $0 for the three months ended September 30, 2019 and 2018.

Corporate General and Administrative Expenses

Corporate general and administrative expenses increased to $1.5 million for the three months ended September 30, 2019 from $1.3 million for the three months ended September 30, 2018. These general and administrative expenses consisted primarily of asset management fees, professional fees, restricted stock compensation and directors’ fees. We expect corporate general and administrative expenses to increase in future periods as a result of anticipated future acquisitions, but to decrease as a percentage of total revenue.

Interest Expense and Amortization of Debt issuance Costs

Interest expense and amortization of debt issuance costs decreased to $3.4 million for the three months ended September 30, 2019 from $4.1 million for the three months ended September 30, 2018. Interest expense and amortization of debt issuance costs decreased primarily due to the repayment of debt associated with the acquisition of the Moody I portfolio on September 27, 2017. In future periods our interest expense will vary based on the amount of our borrowings, which will depend on the availability and cost of borrowings and our ability to identify and acquire real estate and real estate-related assets that meet our investment objectives.

Income Tax Expense

Our income tax expense was $60,000 for each of the three months ended September 30, 2019 and 2018 due to aggregate state taxable income of certain of our subsidiaries remaining approximately constant for each of the three months ended September 30, 2019 and 2018.

Comparison of the nine months ended September 30, 2019 versus the nine months ended September 30, 2018

Revenue

Total revenue increased to $64.8 million for the nine months ended September 30, 2019 from $62.8 million for the nine months ended September 30, 2018. Hotel revenue increased to $64.3 million for the nine months ended September 30, 2019 from $61.8 million for the nine months ended September 30, 2018 due to the fact that we owned fifteen hotel properties at September 30, 2019 compared to fourteen hotel properties at September 30, 2018. Interest and dividend income decreased to $554,000 for the nine months ended September 30, 2019 from $970,000 for nine months ended September 30, 2018 due to the repayment of the related party note and the related party mezzanine note. We expect that room revenue, other hotel revenue and total revenue will each increase in future periods as a result of having full periods of operations for properties currently owned and future acquisitions of real estate assets.

A comparison of hotel revenues for the hotels owned continuously for the nine months ended September 30, 2019 and 2018 follows (in thousands):

	Nine months ended September 30, 2019	Nine months ended September 30, 2018	Increase (Decrease)
Residence Inn Austin	$ 3,879	$ 3,762	$ 117
Springhill Suites Seattle	9,031	10,857	(1,826)
Homewood Suites Woodlands	2,304	2,338	(34)
Hyatt Place Germantown	2,872	3,117	(245)
Hyatt Place North Charleston	2,734	3,092	(358)
Hampton Inn Austin	3,435	3,119	316
Residence Inn Grapevine	5,184	5,241	(57)
Marriott Courtyard Lyndhurst	6,767	6,986	(219)
Hilton Garden Inn Austin	4,151	4,003	148
Hampton Inn Great Valley	2,826	2,872	(46)
Embassy Suites Nashville	10,639	9,444	1,195
Homewood Suites Austin	3,350	3,274	76
Townplace Suites Fort Worth	2,331	2,083	248
Hampton Inn Houston	1,704	1,635	69
	$ 61,207	$ 61,823	$ (616)

Revenues for the Springhill Suites Seattle decreased for the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018 due to ongoing renovations to the hotel.

Hotel Operating Expenses

Hotel operating expenses increased to $41.3 million for the nine months ended September 30, 2019 from $37.8 million for the nine months ended September 30, 2019. The increase in hotel operating expenses was primarily due to the fact that we owned fifteen hotel properties at September 30, 2019 compared to fourteen hotel properties at September 30, 2018.

Property Taxes, Insurance and Other

Property taxes, insurance and other expenses increased to $4.9 million for the nine months ended September 30, 2019 from $4.1 million for the nine months ended September 30, 2018. The increase in property taxes, insurance and other expenses was primarily due to the fact that we owned fifteen hotel properties at September 30, 2019 compared to fourteen hotel properties at September 30, 2018.

Depreciation and Amortization

Depreciation and amortization increased to $10.4 million for the nine months ended September 30, 2019 from $8.9 million for the nine months ended September 30, 2018. The increase in depreciation and amortization was primarily due to the fact that we owned fifteen hotel properties at September 30, 2019 compared to fourteen hotel properties at September 30, 2018.

Acquisition Expenses

Acquisition expenses increased to $2.2 million for the nine months ended September 30, 2019 from $0 for the nine months ended September 30, 2018 due to the acquisition of the Residence Inn Houston Medical Center during the nine months ended September 30, 2019 compared to no acquisitions during the nine months ended September 30, 2018.

Corporate General and Administrative Expenses

Corporate general and administrative expenses decreased to $4.6 million for the nine months ended September 30, 2019 from $5.0 million for the nine months ended September 30, 2018 due to a decrease in operating expenses reimbursable to our advisor. These general and administrative expenses consisted primarily of asset management fees, professional fees, restricted stock compensation and directors' fees. We expect corporate general and administrative expenses to increase in future periods as a result of anticipated future acquisitions, but to decrease as a percentage of total revenue.

Interest Expense and Amortization of Debt issuance Costs

Interest expense and amortization of debt issuance costs decreased to $9.7 million for the nine months ended September 30, 2019 from $12.7 million for the nine months ended September 30, 2018. Interest expense and amortization of debt issuance costs decreased primarily due to the repayment of debt associated with the acquisition of the Moody I portfolio on September 27, 2017. In future periods our interest expense will vary based on the amount of our borrowings, which will depend on the availability and cost of borrowings and our ability to identify and acquire real estate and real estate-related assets that meet our investment objectives.

Income Tax Benefit

Our income tax expense increased to $156,000 for the nine months ended September 30, 2019 from an income tax benefit $150,000 for the nine months ended September 30, 2018 due to a decrease in taxable loss of the taxable REIT subsidiary (“TRS”) for the nine months ended September 30, 2019 from the nine months ended September 30, 2018.

Liquidity and Capital Resources

Our principal demand for funds is for the acquisition of real estate assets, the payment of operating expenses, principal and interest payments on our outstanding indebtedness and the payment of distributions to our stockholders. Proceeds from our public offering currently supply a significant portion of our cash. Over time, however, we anticipate that cash from operations will generally fund our cash needs for items other than asset acquisitions.

There may be a delay between the sale of shares of our common stock during our public offering and our purchase of assets, which could result in a delay in the benefits to our stockholders, if any, of returns generated from our investment operations. Our advisor, subject to the oversight of our board, will evaluate potential acquisitions and will engage in negotiations with sellers and lenders on our behalf. If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures.

We may, but are not required to, establish working capital reserves out of cash flow generated by our real estate assets or out of proceeds from the sale of our real estate assets. We do not anticipate establishing a general working capital reserve; however, we may establish working capital reserves with respect to particular investments. We also may, but are not required to, establish reserves out of cash flow generated by our real estate assets or out of net sale proceeds in non-liquidating sale transactions. Working capital reserves are typically used to fund tenant improvements, leasing commissions and major capital expenditures. We also escrow funds for hotel property improvements. Our lenders also may require working capital reserves. The Term Loan Agreement (described below) 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.

To the extent that any working capital reserve we establish is insufficient to satisfy our cash requirements, additional funds may be provided from cash generated from operations, short-term borrowing, equity capital from joint venture partners, or the proceeds of public or private offerings of our shares or interests in our operating partnership. In addition, subject to certain limitations, we may incur indebtedness in connection with the acquisition of any real estate assets, refinance the debt thereon, arrange for the leveraging of any previously unfinanced property or reinvest the proceeds of financing or refinancing in additional properties. There can be no assurance that we will be able to obtain such capital or financing on favorable terms, if at all.

Net Cash Provided by Operating Activities

As of September 30, 2019, we owned interests in fifteen hotel properties and investment in marketable securities of $5.2 million. As of September 30, 2018, we owned interests in fourteen hotel properties and a note receivable from related party in the amount of $6.8 million. Net cash provided by operating activities for the nine months ended September 30, 2019 and 2018 was $5.7 million and $4.1 million, respectively. The increase in cash provided by operating activities for the nine months ended September 30, 2019 was primarily due to a decrease in the amount due from related parties of $1.2 million, an increase in accounts payable and accrued expenses of $1.6 million, and an increase in the amount due to related parties of $909,000 during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

Net Cash (Used in) Provided by Investing Activities

Our cash (used in) provided by investing activities will vary based on how quickly we invest the net offering proceeds from our offering towards acquisitions of real estate and real-estate related investments. Net cash (used in) provided by investing activities for the nine months ended September 30, 2019 and 2018 was $(6.2) million and $9.8 million, respectively. The decrease in cash provided by investing activities for the nine months ended September 30, 2019 was due to a decrease in the repayment in the related party mortgage note and the related party mezzanine note receivable during the nine months ended September 30, 2019 compared to the nine months ended September 30, 2018.

Net Cash Used in Financing Activities

For the nine months ended September 30, 2019, our cash flows from financing activities consisted primarily of proceeds from our offering, net of offering costs, and proceeds of notes payable offset by repayment of notes payable and distributions paid to our stockholders. Net cash used in financing activities for the nine months ended September 30, 2019 and 2018 was $3.0 million and $9.9

million, respectively. The decrease in cash used in financing activities for the nine months ended September 30, 2019 was primarily due to an increase in gross offering proceeds of $47.6 million for the nine months ended September 30, 2019 compared to $31.2 million for the nine months ended September 30, 2018, net of an increase in redemptions of common stock to $4.5 million for the nine months ended September 30, 2019 compared to $1.6 million for the nine months ended September 30, 2018.

Cash and Cash Equivalents and Restricted Cash

As of September 30, 2019, we had cash on hand and restricted cash of $15.7 million.

Debt

We use, and intend to use in the future, secured and unsecured debt as a means of providing additional funds for the acquisition of real property, and potentially securities and debt-related investments. By operating on a leveraged basis, we expect that we will have more funds available for investments. This will generally allow us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, our use of leverage increases the risk of default on loan payments and the resulting foreclosure on a particular asset. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness. When debt financing is unattractive due to high interest rates or other reasons, or when financing is otherwise unavailable on a timely basis, we may purchase certain assets for cash with the intention of obtaining debt financing at a later time.

Term Loan Agreement

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 (KeyBank, in its capacity as lender, together with any other lender institutions that may become parties to the term loan agreement are referred to herein as the Lenders), entered into a term loan agreement, or, as amended, the Term Loan Agreement. Pursuant to the Term Loan Agreement, the Lenders 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. We began making principal payments of $1.5 million per month on the Term Loan in November 2017. 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 date 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.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018, and on October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan. The Outstanding Balance of $26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, was repaid in full on September 27, 2019. The Term Loan originally provided 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) $1.5 million. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal were $100,000 per month, and the margins over the base rate or LIBOR rate were 2.75% and 3.75%, respectively.

Short Term Loan

On October 24, 2018, our operating partnership issued a promissory note in favor Green Bank, N.A. in the original principal amount of $16.0 million, or the Short Term Loan. The proceeds of the Short Term Loan were used to retire a portion of the Term Loan, resulting in a balance of $26.5 million for the Term Loan as of October 24, 2018. The Short Term Loan bore interest at an annual rate equal to the one-month LIBOR plus 2.5% and our company and the operating partnership were collectively required to make a monthly payment on the outstanding principal and interest of the Short Term Loan equal to the greater of $1.5 million or 50% of our consolidated net cash flow. The entire principal balance of the Short Term Loan and all interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

Note Payable to Related Party

On the April 29, 2019, the acquisition date of the Residence Inn Houston Medical Center, our operating partnership issued a promissory note payable to the seller of the Residence Inn Houston Medical Center property in the original principal amount of $22.6 million, evidencing a note payable to related party. The note payable to related party bears interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 3%. Any amounts payable under the note payable to related party which are not paid by our operating partnership when due will bear interest at a past due rate equal to the lesser of the maximum rate permitted by applicable law and 18%. On the April 29, 2019, our operating partnership made a principal payment of $7.8 million, and beginning on May 15, 2019 and ending on October 15, 2019, our operating partnership will make a monthly principal and interest payment of $2.0 million. The entire outstanding principal balance of the note payable to related party, together with all accrued interest thereon and all other amounts payable under the note payable to related party, is due and payable in full on December 15, 2019. If our operating partnership fails to make when due any payment under the note payable to related party, our operating partnership will pay to the seller on demand a late fee equal to 5% of the amount of such payment. Upon at least five days prior written notice to the seller, our operating partnership may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in whole or in part, without penalty. The balance of the note payable to related party was $6.8 million as of September 30, 2019.

The note payable to related party provides for customary events of default, including failure by our operating partnership to pay when due and payable any amounts payable under the terms of the note payable to related party. Upon any event of default by our operating partnership, seller may accelerate the maturity date of the note payable to related party and declare the entire unpaid principal balance of the note payable to related party and all accrued and unpaid interest thereon due and payable in full immediately and exercise any other rights available to it under law or equity.

As of September 30, 2019, our outstanding indebtedness totaled $243.0 million, 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 Articles of Amendment and Restatement, or 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 September 30, 2019 and 2018, our debt levels did not exceed 300% of the value of our net assets.

For more information on our outstanding indebtedness, see Note 5, "Debt" to the consolidated financial statements included in this Quarterly Report.

Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of September 30, 2019 (in thousands):

	Payments Due By Period				
Contractual Obligations	**Total**	**2019**	**2020-2021**	**2022-2023**	**Thereafter**
Long-term debt obligations[1]	$ 242,989	$ 1,030	$ 9,387	$ 49,413	$ 183,159
Interest payments on outstanding debt obligations[2]	60,053	2,788	22,588	21,995	12,682
Total	$ 303,042	$ 3,818	$ 31,975	$ 71,408	$ 195,841

(1) Amounts include principal payments only.
(2) Projected interest payments are based on the outstanding principal amounts and weighted-average interest rates at September 30, 2019.

Organization and Offering Costs

Our organization and offering costs may be incurred directly by us or such costs may be incurred by our advisor on our behalf. Pursuant to the advisory agreement with our advisor, we are obligated to reimburse our advisor or its affiliates, as applicable, for organization and offering costs incurred by our advisor associated with our public offerings, provided that within 60 days of the last day of the month in which such an offering ends, our advisor is obligated to reimburse us to the extent that organization and offering costs we may have incurred in connection with the offering exceed 15% of the gross offering proceeds from the sale of our shares of common stock in the 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 our advisor's employees and employees of our advisor's affiliates and others. Any reimbursement to our advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by our 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 we have an obligation to reimburse our advisor.

As of September 30, 2019, total organization and offering costs for the initial public offering and the follow-on offering were $20.3 million, comprised of $12.3 million of costs incurred directly by us and $8.0 million in costs incurred by and reimbursable to our advisor. The total organization and offering costs for the initial public offering were $18.3 million, comprised of $12.3 million of costs incurred directly by us and $6.0 million in costs incurred by and reimbursable to our advisor. As of September 30, 2019, total organization and offering costs for the follow-on offering were $2.0 million, comprised of $0 of costs incurred directly by us and $2.0 million in costs incurred by and reimbursable to our advisor. As of September 30, 2019, we had $123,000 due to our advisor for reimbursable offering costs.

Operating Expense

We will reimburse our advisor for all expenses paid or incurred by our advisor in connection with the services it provides to us, subject to the limitation that we will not reimburse our advisor for any amount by which our operating expenses (including the asset management fee we pay to our advisor) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of our average invested assets, or (2) 25% of our 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 our assets for that period, which we refer to as the "2%/25% Limitation." Notwithstanding the above, we may reimburse our advisor for expenses in excess of the 2%/25% Limitation if a majority of our independent directors determine that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended September 30, 2019, our total operating expenses were $6.2 million, which included $5.0 million in operating expenses incurred directly by us and $1.2 million incurred by our advisor on our behalf. Of that $6.2 million in total operating expenses incurred during four fiscal quarters ended September 30, 2019, $0 exceeded the 2%/25% Limitation. We reimbursed our advisor $$1.2 million during four fiscal quarters ended September 30, 2019. As of September 30, 2019, we had $413,000 due from our advisor for operating expense reimbursement.

Critical Accounting Policies

General

We consider the accounting policies described below to be critical because they involve significant judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management's judgment or interpretation of the facts and circumstances relating to various transactions is different, it is possible that different accounting policies will be applied or different amounts of assets, liabilities, revenues and expenses will be recorded, resulting in a different presentation of the consolidated financial statements or different amounts reported in the consolidated financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Income Taxes

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. We did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the year ended December 31, 2015 and for the period from July 25, 2014 (inception) to December 31, 2014, including not having the requisite number of shareholders for a sufficient number of days in those periods. Prior to qualifying to be taxed as a REIT we were subject to normal federal and state corporation income taxes.

Provided that we continue to qualify as a REIT, we generally will not be subject to federal corporate income tax to the extent we distribute our REIT taxable income to our stockholders, so long as we distribute at least 90% of our 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 we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and federal income and excise taxes on our undistributed income.

We lease the hotels that we acquire to a wholly owned TRS that is subject to federal, state and local income taxes.

We account for income taxes of our TRS 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. We record a valuation allowance for net deferred tax assets that are not expected to be realized.

We have 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. We had no material uncertain tax positions as of September 30, 2019.

The preparation of our 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 our estimates may change is not expected to be material. We will account for interest and penalties relating to uncertain tax provisions in the current period's results of operations, if necessary. We have tax years 2014 through 2018 remaining subject to examination by various federal and state tax jurisdictions.

Valuation and Allocation of Hotel Properties — Acquisitions

Upon acquisition, the purchase price of hotel properties are 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 building fair values are calculated as replacement cost less depreciation or our 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.

We determine 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 we believe we 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 our properties, we make assumptions and use 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, we are responsible for the source and use of these estimates. These estimates are based on judgment and subject to being imprecise; accordingly, if different estimates and assumptions were derived, the valuation of the various categories of our hotel properties or related intangibles could, in turn, result in a difference in the depreciation or amortization expense recorded in our consolidated financial statements. These variances could be material to our results of operations and financial condition.

Valuation and Allocation of Hotel Properties — Ownership

Depreciation expense is computed using the straight-line method 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

Impairment

We monitor events and changes in circumstances indicating that the carrying amounts of our hotel properties may not be recoverable. When such events or changes in circumstances are present, we assess 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, we recognize 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 three and nine months ended September 30, 2019 and 2018.

In evaluating our hotel properties for impairment, we make 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 our 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 our hotel properties which could then result in different conclusions regarding impairment and material changes to our consolidated financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. We adopted this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on our consolidated financial statements and related disclosures, we believe the impact will be minimal to our ongoing consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities,” which improves the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. We adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on our ongoing consolidated financial statements.

Inflation

As of September 30, 2019, our investments consisted of interests in fifteen hotel properties and one note receivable from a related party. Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Competitive pressures may, however, limit the operators' ability to raise room rates. The note receivable from a related party bears interest at a fixed rate of interest and inflation could, therefore, have an impact on their fair value. As of September 30, 2019, we were not experiencing any material impact from inflation.

REIT Compliance

We elected to be taxed as a REIT commencing with the taxable year ended December 31, 2016. To qualify as a REIT for tax purposes, we are required to distribute at least 90% of our REIT taxable income (determined for this purpose without regard to the dividends-paid deduction and excluding net capital gain) to our stockholders. We must also meet certain asset and income tests, as well as other requirements. We will monitor the business and transactions that may potentially impact our REIT status. If we fail to qualify as a REIT in any taxable year following the taxable year in which we initially elect to be taxed as a REIT, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which our REIT qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. We did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the year ended December 31, 2015 and the period from July 25, 2014 (inception) to December 31, 2014.

Distributions

Our board of directors authorized and declared a distribution to our stockholders for 2019 that will be (1) calculated daily and reduced for class-specific expenses; (2) 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) calculated at a rate of $1.7528 per share of our common stock per year, or approximately $0.00480 per share per day, before any class-specific expenses. We first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the nine months ended September 30, 2019 and 2018 (in thousands):

Period	Cash Distribution	Distribution Paid Pursuant to DRP[(1)]	Total Amount of Distribution
First Quarter 2019	$ 3,517	$ 1,121	$ 4,638
Second Quarter 2019	3,858	1,228	5,086
Third Quarter 2019	4,097	1,302	5,399
Total	$ 11,472	$ 3,651	$ 15,123
First Quarter 2018	$ 3,218	$ 634	$ 3,852
Second Quarter 2018	3,039	963	4,002
Third Quarter 2018	3,241	1,034	4,275
Total	$ 9,498	$ 2,631	$ 12,129

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

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 GAAP. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, 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 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 will exclude 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 will also include, 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. Although organizational and acquisition expenses 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. Offering expenses do not affect net income. Our calculation of MFFO set forth in the table below reflects the exclusion of acquisition expenses.

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 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. However, 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 three months ended September 30, 2019 and 2018 and a reconciliation of such non-GAAP financial performance measures to our net income (in thousands).

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Net loss	$ (2,554)	$ (1,795)	$ (8,567)	$ (5,549)
Adjustments:				
Depreciation of real estate	3,698	3,042	10,368	8,921
Gain on sale of marketable securities	—	—	(9)	—
Funds from Operations	1,144	1,247	1,792	3,372
Adjustments:				
Acquisition expenses	—	—	2,212	—
Unrealized loss on change in fair value of investment in marketable securities	24	—	57	—
Amortization of debt issuance costs	254	556	854	1,695
Modified Funds from Operations	$ 1,422	$ 1,803	$ 4,915	$ 5,067

Off-Balance Sheet Arrangements

As of September 30, 2019, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Related Party Transactions and Agreements

We have entered into agreements with our advisor and its affiliates whereby we have paid, and may continue to pay, certain fees to, or reimburse certain expenses of, our advisor or its affiliates in connection with the mergers and for acquisition and advisory fees and expenses, financing coordination fees, organization and offering costs, sales commissions, dealer manager fees, asset and property management fees and expenses, leasing fees and reimbursement of certain operating costs. See Note 1, "Organization-Merger with Moody I," and Note 7, "Related Party Arrangements," to the consolidated financial statements included in this Quarterly Report for a discussion of our related-party transactions, agreements and fees.

Subsequent Events

Distributions Declared

On September 30, 2019, we declared a distribution in the aggregate amount of $1.8 million, of which $1.4 million was paid in cash on October 15, 2019 and $400,000 was paid pursuant to the DRP in the form of additional shares of our common stock. On October 31, 2019, we declared a distribution in the aggregate amount of $1.9 million, which is scheduled to be paid in cash and pursuant to the DRP in the form of additional shares of our common stock on or about November 15, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market Risk

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity, fund capital expenditures and expand our real estate investment portfolio and operations. Market fluctuations in real estate financing may affect the availability and cost of funds needed to expand our investment portfolio. In addition, restrictions upon the availability of real estate financing or high interest rates for real estate loans could adversely affect our ability to dispose of real estate in the future. We will seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

With regard to variable rate financing, our advisor will assess our interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. Our advisor will maintain risk management control systems to monitor interest rate cash flow risk attributable to both our outstanding and forecasted debt obligations as well as our potential offsetting hedge positions. While this hedging strategy will be designed to minimize the impact on our net income and funds from operations from changes in interest rates, the overall returns on your investment may be reduced.

As of September 30, 2019, our indebtedness, as described below, was comprised of notes secured by our hotel properties. All such notes, except the Term Loan, accrue interest at a fixed rate and, therefore, an increase or decrease in interest rates would have no effect on our interest expense with respect such notes. Interest rate changes will affect the fair value of any fixed rate instruments that we hold. As we expect to hold our fixed rate instruments to maturity and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

As of September 30, 2019 and 2018, our notes payable consisted of the following (all $ amounts in thousands):

Loan	Principal as of September 30, 2019	Principal as of December 31, 2018	Interest Rate at September 30, 2019	Maturity Date
Residence Inn Austin[(1)]	$ 16,365	$ 16,554	4.580%	November 1, 2025
Springhill Suites Seattle[(1)]	44,349	44,884	4.380%	October 1, 2026
Homewood Suites Woodlands[(1)]	8,954	9,066	4.690%	April 11, 2025
Hyatt Place Germantown[(1)]	6,906	7,025	4.300%	May 6, 2023
Hyatt Place North Charleston[(1)]	7,054	7,158	5.193%	August 1, 2023
Hampton Inn Austin[(1)]	10,543	10,687	5.426%	January 6, 2024
Residence Inn Grapevine[(1)]	12,173	12,341	5.250%	April 6, 2024
Marriott Courtyard Lyndhurst[(1)]	19,000	—	4.700%	September 27, 2024
Hilton Garden Inn Austin[(1)]	18,162	18,401	4.530%	December 11, 2024
Hampton Inn Great Valley[(1)]	7,895	7,994	4.700%	April 11, 2025
Embassy Suites Nashville[(1)]	41,441	41,998	4.2123%	July 11, 2025
Homewood Suites Austin[(1)]	10,647	10,778	4.650%	August 11, 2025
Townplace Suites Fort Worth[(1)]	6,000	—	4.700%	September 27, 2024
Hampton Inn Houston[(1)]	4,400	4,480	7.000%	April 28, 2023
Residence Inn Houston Medical Center[(4)]	29,100	—	5.000%	October 1, 2024
Term Loan[(2)]	—	26,300	30-day LIBOR plus 3.750%	September 27, 2019
Short Term Loan[(3)]	—	12,970	30-day LIBOR plus 2.50%	April 24, 2019
Total notes payable	242,989	230,636		
Less unamortized debt issuance costs	(3,464)	(3,462)		
Total notes payable, net of unamortized debt issuance costs	$ 239,525	$ 227,174		

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

(2) Monthly payments of principal and interest are due and payable until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019. All unpaid principal and interest thereon was repaid in full on September 27, 2019, the maturity date.

(3) Monthly payments of principal and interest were due and payable until the maturity date. All unpaid principal and interest thereon was repaid in full on April 24, 2019, the maturity date.

(4) Monthly payments of interest due and payable until October 2019. Monthly payments of principal and interest due and payable beginning in November 2019 until the maturity date.

Hotel properties secure their respective loans. The Term Loan was partially secured by Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth and was partially unsecured.

Credit Risk

We will also be exposed to credit risk. Credit risk in our investments in debt and securities relates to each individual borrower's ability to make required interest and principal payments on scheduled due dates. We seek to manage credit risk through our advisor's comprehensive credit analysis prior to making an investment, actively monitoring our asset portfolio and the underlying credit quality of our holdings and subordination and diversification of our portfolio. Our analysis is based on a broad range of real estate, financial, economic and borrower-related factors which we believe are critical to the evaluation of credit risk inherent in a transaction.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based upon, and as of the date of, the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may be party to legal proceedings that arise in the ordinary course of our business. Management is not aware of any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition, nor are we aware of any such legal proceedings contemplated by government agencies.

ITEM 1A. RISK FACTORS.

Except as set forth below, there have been no material changes to the risk factors contained in Part I, Item 1A set forth in our Annual Report on Form 10-K for the year ended December 31, 2018, as filed with the SEC on April 2, 2019.

We have paid, and may continue to pay, distributions from the proceeds of our offering. To the extent that we pay distributions from sources other than our cash flow from operations, we will have reduced funds available for investment and the overall return to our stockholders may be reduced.

Our organizational documents permit us to pay distributions from any source, including net proceeds from our public offerings, borrowings, advances from our sponsor or advisor and the deferral of fees and expense reimbursements by our advisor, in its sole discretion. Since our inception, our cash flow from operations has not been sufficient to fund all of our distributions. Of the $43.1 million in total distributions we paid during the period from our inception through September 30, 2019, including shares issued pursuant to our DRP, $559,000, or 1%, were paid from cash provided by operating activities and $42.6 million, or 99%, were paid from offering proceeds. Until we make substantial investments, we may continue to fund distributions from the net proceeds from our offering or sources other than cash flow from operations. We have not established a limit on the amount of offering proceeds, or other sources other than cash flow from operations, which we may use to fund distributions.

If we are unable to consistently fund distributions to our stockholders entirely from our cash flow from operations, the value of the shares of our common stock may be reduced, including upon a listing of our common stock, the sale of our assets or any other liquidity event should such event occur. To the extent that we fund distributions from sources other than our cash flow from operations, our funds available for investment will be reduced relative to the funds available for investment if our distributions were funded solely from cash flow from operations, our ability to achieve our investment objectives will be negatively impacted and the overall return to our stockholders may be reduced. In addition, if we make a distribution in excess of our current and accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, which will reduce the stockholder's tax basis in its shares of common stock. The amount, if any, of each distribution in excess of a stockholder's tax basis in its shares of common stock will be taxable as gain realized from the sale or exchange of property.

Our bylaws contain provisions that may make it more difficult for a stockholder to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers, agents or employees, if any, and may discourage lawsuits against us and our directors, officers, agents or employees, if any.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that Court does not have jurisdiction, the U.S. District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of our company, (ii) any action asserting a claim of breach of any duty owed by any of our directors or officers or employees to us or to our stockholders, (iii) any action asserting a claim against us or any of our directors or officers or employees arising pursuant to any provision of the Maryland General Corporation Law, or the MGCL, or our charter or bylaws or (iv) any action asserting a claim against us or any of our directors or officers or employees that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in our shares shall be deemed to have notice of and to have consented to these provisions of our bylaws, as they may be amended from time to time. Our board of directors, without stockholder approval, adopted this provision of the bylaws so that we can respond to such litigation more efficiently, reduce the costs associated with our responses to such litigation, particularly litigation that might otherwise be brought in multiple forums, and make it less likely that plaintiffs' attorneys will be able to employ such litigation to coerce us into otherwise unjustified settlements. This exclusive forum provision may limit a stockholder's ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers, agents or employees, if any, and may discourage lawsuits against us and our directors, officers, agents or employees, if any. We believe the risk of a court declining to enforce this provision is remote, as the General Assembly of Maryland has specifically amended the MGCL to authorize the adoption of such provisions. However, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings notwithstanding that the MGCL expressly provides that the charter or bylaws of a Maryland corporation may require that any internal corporate claim be brought only in courts sitting in one or more specified jurisdictions, we may incur additional costs that we do not currently anticipate associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition and results of operations.

Operational risks, including the risk of cyberattacks, may disrupt our businesses, result in losses or limit our growth.

We rely heavily on our and our sponsor's financial, accounting, treasury, communications and other data processing systems. Such systems may fail to operate properly or become disabled as a result of tampering or a breach of the network security systems or otherwise. In addition, such systems are from time to time subject to cyberattacks which may continue to increase in sophistication and frequency in the future. Attacks on our sponsor and its affiliates or on third-party service providers' systems could result in, and in some instances have in the past resulted in, unauthorized access to our proprietary information or personal identifying information of our stockholders, or could destroy data or disable, degrade or sabotage our systems, including through the introduction of computer viruses and other malicious code.

Cyber security incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. Our sponsor and its affiliates and their portfolio entities' and third-party service providers' information and technology systems may be vulnerable to damage or interruption from cyber security breaches, computer viruses or other malicious code, network failures, computer and telecommunication failures, infiltration by unauthorized persons and other security breaches, usage errors by their respective professionals or service providers, power, communications or other service outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Cyberattacks and other security threats could originate from a wide variety of sources, including cyber criminals, nation state hackers, hacktivists and other outside parties. There has been an increase in the frequency and sophistication of the cyber and security threats our sponsor faces, with attacks ranging from those common to businesses generally to those that are more advanced and persistent. As a result, our sponsor may face a heightened risk of a security breach or disruption with respect to this information. If successful, these types of attacks on our sponsor's network or other systems could have a material adverse effect on our business and results of operations, due to, among other things, the loss of investor or proprietary data, interruptions or delays in the operation of our business and damage to our reputation. There can be no assurance that measures our sponsor takes to ensure the integrity of its systems will provide protection, especially because cyberattack techniques used change frequently or are not recognized until successful.

Although our sponsor has implemented various measures to manage risks relating to these types of events, such systems could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. Our sponsor does not control the cyber security of third-party service providers, and those service providers' systems have been attacked and may continue to be attacked in the future. Such third-party service providers may have limited or no indemnification obligations to our sponsor, us or our respective affiliates, each of whom could be negatively impacted as a result.

Breaches such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing them from being addressed appropriately. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in our, our sponsor's its affiliates' and/or a portfolio entities' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to shareholders, material nonpublic information and the intellectual property and trade secrets and other sensitive information in the possession of our sponsor and/or portfolio entities. We, our sponsor or our affiliates could be required to make a significant investment to remedy the effects of any such failures, harm to their reputations, legal claims that they and their respective affiliates may be subjected to, regulatory action or enforcement arising out of applicable privacy and other laws, adverse publicity and other events that may affect their business and financial performance.

In addition, our sponsor operates in businesses that are highly dependent on information systems and technology. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. In addition, cybersecurity and data privacy have become top priorities for regulators around the world. Many jurisdictions in which our sponsor operates have laws and regulations relating to data privacy, cybersecurity and protection of personal information. Some jurisdictions have also enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. Breaches in security could potentially jeopardize our sponsor, its employees' or our investors' or counterparties' confidential and other information processed and stored in, and transmitted through our sponsor's computer systems and networks, or otherwise cause interruptions or malfunctions in its, its employees', our investors', our counterparties' or third parties' operations, which could result in significant losses, increased costs, disruption of our sponsor's business, liability to our investors and other counterparties, regulatory intervention or reputational damage. Furthermore, if our sponsor fails to comply with the relevant laws and regulations, it could result in regulatory investigations and penalties, which could lead to negative publicity and may cause our investors to lose confidence in the effectiveness of our or our sponsor's security measures.

Finally, we depend on our sponsor's headquarters in Houston, Texas, where most of our sponsor's personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our sponsor's disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Unregistered Sales of Equity Securities

During the three months ended September 30, 2019, we issued each of our four independent directors 2,500 additional shares of restricted common stock pursuant to our Independent Directors Compensation Plan following their re-election to our board of directors. The shares issued to our independent directors were issued in transactions exempt from registration under the Securities Act pursuant to the exemption from registration provided by Section 4(a)(2) of the Securities Act.

Use of Proceeds

On January 20, 2015, our Registration Statement on Form S-11 (File No. 333-198305) registering our offering of up to $1.1 billion in shares of our common stock was declared effective and we commenced our initial public offering. In our initial public offering we offered up to $1.0 billion in shares of any class of our common stock to the public in our primary offering and up to $100.0 million of shares of any class of our common stock pursuant to the DRP. The initial offering price of our common stock in our initial public offering was $25.00 per share, and thereafter was adjusted based upon our annually determined estimated NAV per share.

On January 18, 2018, we filed a Registration Statement on Form S-11 (Registration No. 333-222610) with the SEC registering $990,000,000 in any combination of our shares to be sold on a "best efforts" basis in our follow-on offering. Effective July 19, 2018, the SEC declared the registration statement for our follow-on offering effective, we commenced our follow-on offering and we ceased selling shares pursuant to the registration statement for our initial public offering. Each class of our shares of common stock is currently offered (i) to the public in the primary offering at a purchase price of $23.32 per share, equal to the NAV per share of such class as of December 31, 2018, and (ii) to our stockholders pursuant to the DRP at a purchase price of $23.32 per share, equal to the NAV per share of such class as of December 31, 2018.

As of September 30, 2019, we had accepted investors' subscriptions for and issued an aggregate of 9.2 million shares in our initial public offering and our follow-on offering, excluding shares issued in connection with the Mergers and including 449,000 shares pursuant to the DRP, resulting in gross offering proceeds of $212.7 million. We accepted investors' subscriptions for and issued 6.1 million shares in the initial public offering, excluding shares issued in connection with our Mergers and including 215,000 shares pursuant to the DRP, resulting in gross offering proceeds of $147.4 million for the initial public offering. As of September 30, 2019, we had accepted investors' subscriptions for and issued 3.1 million shares in the follow-on offering, including 234,000 shares pursuant to the DRP, resulting in gross offering proceeds of $65.3 million for the follow-on offering.

We incurred selling commissions, dealer manager fees and organization and other offering costs in our initial public offering in the amounts set forth in the table below (in thousands). Our dealer manager reallowed all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers (in thousands).

Type of Expense	Amount	Estimated/ Actual
Selling commissions, dealer manager fees and stockholder servicing fees	$ 11,522	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	6,843	Actual
Total expenses	$ 18,365	

As of September 30, 2019, we had incurred selling commissions, dealer manager fees, stockholder servicing fees and organization and other offering costs in our follow-on offering in the amounts set forth in the table below (in thousands). Effective January 16, 2018, our advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with our ongoing public offering.

Type of Expense	Amount	Estimated/ Actual
Selling commissions, dealer manager fees and stockholder servicing fees	$ —	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	1,975	Actual
Total expenses	$ 1,975	

The net offering proceeds to us from our initial public offering, after deducting the total expenses incurred as described above, were $129.1 million, excluding $5.2 million in offering proceeds from shares of our common stock issued pursuant to the DRP.

As of September 30, 2019, the net offering proceeds to us from our follow-on offering, after deducting the total expenses incurred as described above, were $63.3 million, excluding $5.4 million in offering proceeds from shares of our common stock issued pursuant to the DRP.

We intend to use the proceeds from our initial public offering and our follow-on offering to acquire additional hotel properties located in the East Coast, the West Coast and the Sunbelt regions of the United States. To a lesser extent, we may also invest in other hospitality properties located within other markets and regions as well as real estate securities and debt-related investments related to the hospitality sector.

As of September 30, 2019, we used $159.6 million of the net proceeds from our initial public and follow-on offerings to acquire the Residence Inn Austin, the Springhill Suites Seattle, the Moody I portfolio (pursuant to the Mergers), and the Residence Inn Houston Medical Center, and to reduce the debt on Springhill Suites Seattle, to originate the MN TX II note, and to reduce Term Loan and Short Term Loan debt. As of September 30, 2019, we had paid a cumulative amount of $16.9 million of acquisition expenses, including $13.0 million related to the Mergers.

Share Redemption Program

During the three months ended September 30, 2019, we fulfilled redemption requests and redeemed shares of our common stock pursuant to our share redemption program as follows:

	Total Number of Shares Requested to be Redeemed(1)	Average Price Paid per Share	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
July 2019	194,964.20	$ 23.07	(2)
August 2019	—	$ —	(2)
September 2019	—	$ —	(2)
	194,964.20		

(1) We generally redeem shares on the last business day of the month following the end of each fiscal quarter in which redemption requests were received. The 194,964.20 shares requested to be redeemed were redeemed during the quarter ended September 30, 2019 at an average price of $23.07 per share.

(2) The number of shares that may be redeemed pursuant to the share redemption program during any calendar year is limited to: (1) 5% of the weighted-average number of shares outstanding during the prior calendar year and (2) those that can be funded from the net proceeds we received from the sale of shares under the DRP during the prior calendar year plus such additional funds as may be reserved for that purpose by our board of directors. This volume limitation will not apply to redemptions requested within two years after the death of a stockholder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFTEY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

3.1	Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305) filed January 12, 2015)
3.2	Articles of Amendment to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 12, 2017)
3.3	Articles Supplementary to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on June 12, 2017)
3.4	Bylaws of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 (No. 333-198305))
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOODY NATIONAL REIT II, INC.

Date: November 13, 2019

By: /s/ Brett C. Moody
Brett C. Moody
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)

Date: November 13, 2019

By: /s/ Robert W. Engel
Robert W. Engel
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1

**Certification of Principal Executive Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Brett C. Moody, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Moody National REIT II, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

/s/ Brett C. Moody
Brett C. Moody
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)

EXHIBIT 31.2

Certification of Principal Financial and Accounting Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert W. Engel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Moody National REIT II, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

/s/ Robert W. Engel
Robert W. Engel
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of Moody National REIT II, Inc. (the "Company") for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Executive Officer and President of the Company, certifies, to his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2019

/s/ Brett C. Moody
Brett C. Moody
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)

EXHIBIT 32.2

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Quarterly Report on Form 10-Q of Moody National REIT II, Inc. (the “Company”) for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Financial Officer and Treasurer of the Company, certifies, to his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2019

/s/ Robert W. Engel
Robert W. Engel
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-222610

MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 6 DATED AUGUST 16, 2019
TO THE PROSPECTUS DATED APRIL 19, 2019

This document supplements, and should be read in conjunction with, our prospectus dated April 19, 2019, as supplemented by Supplement No. 1 dated April 26, 2019, Supplement No. 2 dated May 9, 2019, Supplement No. 3 dated May 16, 2019, Supplement No. 4 dated June 3, 2019, and Supplement No. 5 dated July 29, 2019, relating to our offering of up to $990,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 6 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 6 is to disclose:

- the filing of Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2018; and

- the filing of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.

Form 10-K/A

On August 9, 2019, we filed Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2018 (the "Form 10-K/A") with the SEC. A copy of the Form 10-K/A (without exhibits) is attached to this supplement as Appendix A.

Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2019

On August 14, 2019, we filed our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 with the SEC. A copy of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (without exhibits) is attached to this supplement as Appendix B.

EXHIBIT A

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

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2018

or

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

For the Transition Period from to .

Commission file number 000-55778

MOODY NATIONAL REIT II, INC.

(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of incorporation or organization)**	**47-1436295** **(I.R.S. Employer Identification No.)**
6363 Woodway Drive, Suite 110 **Houston, Texas** **(Address of principal executive offices)**	**77057** **(Zip Code)**

(713) 977-7500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

Common Stock, $0.01 par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☒
	Emerging growth company ☒

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

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

There is no established market for the registrant's shares of common stock. The registrant is currently conducting an ongoing initial public offering of its Class A shares, Class I shares and Class T shares of common stock pursuant to a Registration Statement on Form S-11, which shares are being sold at $23.19 per share. The registrant was formed on July 25, 2014, and commenced its initial public offering on January 20, 2015. There were 4,750,286 shares of common stock held by non-affiliates at June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 12, 2019, there were 11,203,284 shares of the Registrant's common stock issued and outstanding, consisting of 10,797,933 shares of Class A common stock, 89,423 shares of Class I common stock, and 315,928 shares of Class T common stock.

EXPLANATORY NOTE

Moody National REIT II, Inc. (the “Company”) filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2018 (the “Original Filing”) with the Securities and Exchange Commission (the “SEC”) on March 29, 2019. The Company is filing this Amendment No. 1 to the Original Filing (this “Amendment”) with the SEC for the sole purpose of revising the Report of Independent Registered Public Accounting Firm of Frazier & Deeter, LLC, the Company’s independent auditors (the “Report”), contained in Part IV, Item 15 of the Original Filing. The revised Report includes a statement regarding the length of Frazier & Deeter, LLC’s tenure as the Company’s independent auditors that was inadvertently omitted from the version of the Report included in the Original Filing. The inclusion of the inadvertently omitted tenure statement does not in any way change the conclusions expressed by Frazier & Deeter, LLC in the Report.

Pursuant to Rule 12b-15 of the Securities Exchange Act of 1934, as amended, new certifications by the Company’s principal executive officer and the principal financial officer, as required by Section 302 and Section 906 of the Sarbanes-Oxley Act of 2002, each dated as of the filing date of this Amendment, are included as Exhibits to this Amendment.

Except as described above, this Amendment does not reflect events that may have occurred after the date of the Original Filing and does not revise, supplement or supersede in any way the disclosures made in the Original Filing. This Amendment should be read in conjunction with the Original Filing and with the Company’s subsequent filings with the SEC.

MOODY NATIONAL REIT II, INC.
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PART IV

Item 15.	Exhibits and Financial Statement Schedules	1

PART IV

ITEM 15. *Exhibits and Financial Statement Schedules*

The following documents are filed as part of this Annual Report:

(a) List of Documents Filed

(1) The financial statements contained herein begin on page F-1 hereof

(2) Financial Statement Schedules

Schedule III – Real Estate Assets and Accumulated Depreciation is set forth on page F-30 hereof.

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are not applicable and therefore have been omitted.

(3) Exhibits

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of November 16, 2016, among Moody National REIT II, Inc., Moody National Operating Partnership II, LP, Moody National Advisor II, LLC, Moody Merger Sub, LLC, Moody National REIT I, Inc., Moody National Operating Partnership I, LP and Moody National Advisor I, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed November 17, 2016)
2.2	Amendment No. 1, dated as of August 9, 2017 to the Agreement and Plan of Merger, dated as of November 16, 2017, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP, Moody Merger Sub, LLC, Moody National Advisor II, LLC, Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., and Moody National Advisor I, LLC (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed on August 10, 2017)
3.1	Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 3 to the Registration Statement (defined below) filed January 12, 2015 ("Pre-Effective Amendment No. 3"))
3.2	Articles of Amendment to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on June 13, 2017)
3.3	Articles Supplementary to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on June 12, 2017)
3.4	Bylaws of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.3 to the Registration Statement on Form S-11 (File No. 333-198305) filed on August 22, 2014 (the "Registration Statement"))
4.1	Form of Subscription Agreement (included in Appendix B to prospectus and incorporated by reference to Exhibit 4.1 to Post-Effective Amendment No. 2 to the Registration Statement filed January 15, 2016 ("Post-Effective Amendment No. 2"))
4.2	Second Amended and Restated Distribution Reinvestment Plan of Moody National REIT II, Inc. (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on June 13, 2017)
10.1	Amended and Restated Limited Partnership Agreement of Moody National Operating Partnership II, LP (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 26, 2016 (the "May 26, 2016 Form 8-K"))
10.2	Moody National REIT II, Inc. 2015 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to Pre-Effective Amendment No. 3)
10.3	Moody National REIT II, Inc. Independent Directors Compensation Plan (incorporated by reference to Exhibit 10.5 to Pre-Effective Amendment No. 3)
10.4	Assignment Agreement, dated September 25, 2015, by and between Moody National REIT I, Inc. and Moody National REIT II, Inc. (incorporated by reference to the Company's Quarterly Report on Form 10-Q filed with the SEC on November 16, 2015)
10.5	Agreement of Purchase and Sale, made as of May 11, 2015, by and between Mueller Hospitality, LP and Moody National REIT I, Inc. (incorporated by reference to Exhibit 10.7 to Post-Effective Amendment No. 2)
10.6	Assignment and Assumption of Agreement of Purchase and Sale, dated as of October 15, 2015, by and between Moody National REIT II, Inc. Moody National Lancaster-Austin Holding, LLC and Moody National Lancaster-Austin MT, LLC (incorporated by reference to Exhibit 10.8 to Post-Effective Amendment No. 2)

10.7	Hotel Lease Agreement, effective October 15, 2015, between Moody National Lancaster-Austin Holding, LLC and Moody National Lancaster-Austin MT, LLC (incorporated by reference to Exhibit 10.9 to Post-Effective Amendment No. 2)
10.8	Hotel Management Agreement, effective October 15, 2015, between Moody National Lancaster-Austin, LLC and Moody National Hospitality Management, LLC (incorporated by reference to Exhibit 10.10 to Post-Effective Amendment No. 2)
10.9	Relicensing Franchise Agreement, dated October 15, 2015, between Marriott International, Inc. and Moody National Lancaster-Austin MT, LLC (incorporated by reference to Exhibit 10.11 to Post-Effective Amendment No. 2)
10.10	Loan Agreement, dated as of October 15, 2015 between Moody National Lancaster-Austin Holdings, LLC and KeyBank National Association (incorporated by reference to Exhibit 10.12 to Post-Effective Amendment No. 2)
10.11	Guarantee Agreement, dated as of October 15, 2015 by and among Brett C. Moody, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.13 to Post-Effective Amendment No. 2)
10.12	Environmental Indemnity Agreement, dated as of October 15, 2015, by and among Moody National Lancaster-Austin Holding, LLC, Brett C. Moody, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.14 to Post-Effective Amendment No. 2)
10.13	Assignment and Assumption of Agreement of Purchase and Sale, dated January 28, 2016, by and between Moody National Companies, L.P. and Moody National REIT II, Inc. (incorporated by reference to Exhibit 10.16 to Post-Effective Amendment No. 3 to Moody National REIT II, Inc.'s Registration Statement on Form S-11 (File No. 333-198305) filed on April 21, 2016 ("Post-Effective Amendment No. 3"))
10.14	Agreement of Purchase and Sale, dated as of October 26, 2015, by and among Moody National SHS Seattle MT, LLC, certain Fee Owners, and Moody National Companies, LP (incorporated by reference to Exhibit 10.17 to Post-Effective Amendment No. 3)
10.15	Assignment and Assumption of Agreement of Purchase and Sale, dated May 24, 2016, by and between Moody National REIT II, Inc., Moody National Yale-Seattle Holding, LLC and Moody National Yale-Seattle MT, LLC (incorporated by reference to Exhibit 10.2 to the May 26, 2016 Form 8-K)
10.16	Hotel Lease Agreement, effective May 24, 2016, between Moody National Yale-Seattle Holding, LLC and Moody National Yale-Seattle MT, LLC (incorporated by reference to Exhibit 10.3 to the May 26, 2016 Form 8-K)
10.17	Hotel Management Agreement, effective May 24, 2016, between Moody National Yale-Seattle MT, LLC and Moody National Hospitality Management, LLC (incorporated by reference to Exhibit 10.4 to the May 26, 2016 Form 8-K)
10.18	Promissory Note, dated May 24, 2016, by Moody National Yale-Seattle Holding, LLC in favor of KeyBank National Association (incorporated by reference to Exhibit 10.5 to the May 26, 2016 Form 8-K))
10.19	Loan Agreement, dated as of May 24, 2016, between Moody National Yale-Seattle Holding, LLC and KeyBank National Association (incorporated by reference to Exhibit 10.6 to the May 26, 2016 Form 8-K)
10.20	Guaranty of Recourse Obligations Agreement, made as of May 24, 2016 by and among Brett C. Moody, Moody National Operating Partnership II, LP, Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.7 to the May 26, 2016 Form 8-K)
10.21	Guaranty of Payment Agreement, made as of May 24, 2016 by and among Brett C. Moody, Moody

	National Operating Partnership II, LP, Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.8 to the May 26, 2016 Form 8-K)
10.22	Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of May 24, 2016, by and among Moody National Yale-Seattle Holding, LLC, Old Republic Title, Ltd. For the benefit of KeyBank National Association (incorporated by reference to Exhibit 10.9 to the May 26, 2016 Form 8-K)
10.23	Environmental Indemnity Agreement, made as of May 24, 2016, by and among Moody National Yale-Seattle Holding, LLC, Brett C. Moody, Moody National Operating Partnership II, LP, Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.10 to the May 26, 2016 Form 8-K)
10.24	Relicensing Franchise Agreement, dated as of May 24, 2016, between Marriott International, Inc. and Moody National Yale-Seattle MT, LLC (incorporated by reference to Exhibit 10.11 to the May 26, 2016 Form 8-K)
10.25	Promissory Note, dated September 20, 2016, by Moody National Yale-Seattle Holding, LLC in favor of KeyBank National Association (incorporated by reference to Exhibit 10.1 to Moody National REIT II, Inc.'s Current Report on Form 8-K, filed on September 26, 2016 (the "September 26, 2016 Form 8-K"))
10.26	Loan Agreement, dated as of September 20, 2016, between Moody National Yale-Seattle Holding, LLC and KeyBank National Association (incorporated by reference to Exhibit 10.2 to the September 26, 2016 Form 8-K)
10.27	Guaranty Agreement, made as of September 20, 2016, by Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.3 to the September 26, 2016 Form 8-K)
10.28	Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of September 20, 2016, by and among Moody National Yale-Seattle Holding, LLC, Old Republic Title, Ltd., for the benefit of KeyBank National Association (incorporated by reference to Exhibit 10.4 to the September 26, 2016 Form 8-K)
10.29	Environmental Indemnity Agreement, made as of September 20, 2016, by and among Moody National Yale-Seattle Holding, LLC, Moody National REIT II, Inc. in favor of KeyBank National Association (incorporated by reference to Exhibit 10.5 to the September 26, 2016 Form 8-K)
10.30	First Amendment to Hotel Lease Agreement, effective as of September 20, 2016, between Moody National Yale-Seattle Holding, LLC and Moody National Yale-Seattle MT, LLC (incorporated by reference to Exhibit 10.6 to the September 26, 2016 Form 8-K)
10.31	Amended and Restated Advisory Agreement, dated as of November 16, 2016, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP and Moody National Advisor II, LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on November 17, 2016)
10.32	Termination Agreement, dated as of November 16, 2016, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC, Moody National Realty Company, L.P., Moody OP Holdings I, LLC and Moody National REIT II, Inc. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on November 17, 2016)
10.33	Second Amended and Restated Advisory Agreement, dated as of June 12, 2017, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP and Moody National Advisor II, LLC (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on June 13, 2017)
10.34	Second Amended and Restated Limited Partnership Agreement of Moody National Operating Partnership II, LP (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on June 13, 2017)

10.35	Moody National REIT II, Inc. Amended and Restated Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on June 13, 2017)
10.36	Promissory Note, dated August 15, 2017, by Moody National International-Fort Worth Holding, LLC in favor of Moody National Operating Partnership II, LP (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on August 18, 2017)
10.37	Promissory Note, dated September 6, 2017, by Moody National 1 Polito Lyndhurst Holding, LLC in favor of Moody National Operating Partnership II, LP (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 12, 2017)
10.38	Term Loan Agreement, dated as of September 27, 2017 by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 28, 2017)
10.39	Guaranty dated as of September 27, 2017 and executed and delivered for KeyBank National Association by Moody National REIT II, Inc., MN REIT II TRS, Inc., Moody National 1 Polito Lyndhurst Holding, LLC, Moody National International-Fort Worth Holding, LLC, MN Lyndhurst Venture, LLC and MN Fort Worth Venture, LLC (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on September 28, 2017)
10.40	Environmental Indemnity given as of September 27, 2017 by Moody National REIT II, Inc., MN REIT II TRS, Inc., Moody National Operating Partnership II, LP, Moody National 1 Polito Lyndhurst Holding, LLC, Moody National International-Fort Worth Holding, LLC, MN Lyndhurst Venture, LLC and MN Fort Worth Venture, LLC (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed on September 28, 2017)
10.41	Third Amended and Restated Limited Partnership Agreement of Moody National Operating Partnership II, LP dated as of September 27, 2017 (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on September 28, 2017)
10.42	Letter Agreement, dated as of December 27, 2017, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on January 2, 2018)
10.43	Amendment No. 1 to the Second Amended and Restated Advisory Agreement, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP and Moody National Advisor II, LLC dated as of January 16, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on January 16, 2018)
10.44	Amendment No. 2 to the Second Amended and Restated Dealer Manager Agreement by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP, Moody Securities, LLC and Moody National Advisor II, LLC dated as of March 19, 2018 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on March 20, 2018)
10.45	Letter Agreement, dated as of March 28, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc., MN REIT II TRS, Inc., Keybank National Association and certain other parties (incorporated by reference to Exhibit 10.46 to the Annual Report on Form 10-K filed on April 2, 2018)
10.46	Second Master Amendment to Loan Documents, dated as of October 24, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on October 30, 2018)
10.47	Letter Agreement, dated as of October 24, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and KeyBank National Association (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on October 30, 2018)
10.48	Promissory Note, dated as of October 24, 2018, by Moody National Operating Partnership II, LP and Moody National REIT II, Inc. as makers, in favor of Green Bank, N.A. as payee (incorporated by

	reference to Exhibit 10.3 to the Current Report on Form 8-K filed on October 30, 2018)
10.49	Loan Agreement, dated as of October 24, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and Green Bank, N.A. (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed on October 30, 2018)
10.50	Security Agreement, dated as of October 24, 2018, by and among Moody National Operating Partnership II, LP, Moody National REIT II, Inc. and Green Bank, N.A. (incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed on October 30, 2018)
21.1	Subsidiaries of the Company (incorporated by reference to Exhibit 21.1 to Post-Effective Amendment No. 8 to the Registration Statement on Form S-11 (Registration No. 333-198305), filed on October 31, 2017)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

MOODY NATIONAL REIT II, INC.

Date: August 9, 2019

By: /s/ Brett C. Moody
Brett C. Moody
Chief Executive Officer and President

Moody National REIT II, Inc.
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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
Moody National REIT II, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Moody National REIT II, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, equity, and cash flows for the years then ended, and the related notes and financial statement schedule III (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Frazier & Deeter, LLC

Atlanta, Georgia
March 29, 2019

We have served as the Company's auditors since 2014.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	December 31, 2018	December 31, 2017
ASSETS		
Investments in hotel properties, net	$ 393,140	$ 396,635
Cash and cash equivalents	8,990	8,214
Restricted cash	10,204	13,521
Accounts receivable, net of allowance for doubtful accounts of $33 at December 31, 2018 and 2017	711	1,383
Mortgage note receivable from related party	—	11,200
Notes receivable from related parties	6,750	11,250
Prepaid expenses and other assets	3,014	3,027
Deferred franchise costs, net of accumulated amortization of $132 and $50 at December 31, 2018 and 2017, respectively	934	1,016
Due from related parties	1,159	230
Total Assets	$ 424,902	$ 446,476
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of unamortized debt issuance costs of $3,463 and $4,838 as of December 31, 2018 and 2017, respectively	$ 227,174	$ 264,336
Accounts payable and accrued expenses	8,089	8,425
Due to related parties	—	569
Dividends payable	1,744	1,585
Operating partnership distributions payable	47	47
Total Liabilities	237,054	274,962
Special Limited Partnership Interests	1	1
Commitments and Contingencies		
Equity:		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value per share; 1,000,000 shares authorized, 10,636 and 8,693 shares issued and outstanding at December 31, 2018 and December 31, 2017, respectively	106	87
Additional paid-in capital	237,216	193,865
Accumulated deficit	(54,674)	(28,501)
Total stockholders' equity	182,648	165,451
Noncontrolling interests in Operating Partnership	5,199	6,062
Total Equity	187,847	171,513
TOTAL LIABILITIES AND EQUITY	$ 424,902	$ 446,476

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years ended December 31,	
	2018	**2017**
Revenue		
Room revenue	$ 74,782	$ 33,102
Other hotel revenue	4,884	2,324
Total hotel revenue	79,666	35,426
Interest income from notes receivable	1,175	1,143
Total revenue	80,841	36,569
Expenses		
Hotel operating expenses	50,182	21,404
Property taxes, insurance and other	5,542	2,225
Depreciation and amortization	12,166	4,749
Acquisition expenses	—	11,830
Corporate general and administrative	6,503	3,668
Total expenses	74,393	43,876
Operating income (loss)	6,448	(7,307)
Interest expense and amortization of debt issuance costs	15,960	7,072
Loss before income taxes	(9,512)	(14,379)
Income tax expense	158	666
Net loss	(9,670)	(15,045)
Net loss attributable to noncontrolling interests in Operating Partnership	309	260
Net loss attributable to common stockholders	$ (9,361)	$ (14,785)
Per-share information – basic and diluted:		
Net loss attributable to common stockholders	$ (0.98)	$ (2.70)
Dividends declared	$ 1.75	$ 1.75
Weighted average common shares outstanding	9,578	5,480

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF EQUITY
Years ended December 31, 2018 and 2017
(in thousands)

	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	Total Equity
Balance at December 31, 2016	—	$ —	3,173	$ 32	$ 68,571	$ (4,154)	18	$ 380	$ 64,829
Issuance of common stock, net of offering costs	—	—	1,818	18	39,925	—	—	—	39,943
Redemption of common stock			(37)		(897)				(897)
Issuance of common stock in connection with Merger	—	—	3,625	36	83,592	83,628			
Issuance of operating partnership units, net of offering costs	—	—	—	—	—	—	298	6,111	6,111
Issuance of common stock pursuant to dividend reinvestment plan	—	—	99	1	2,446	—	—	—	2,447
Stock-based compensation	—	—	15	228	—	—	—	228	
Net loss	—	—	—	—	—	(14,785)	—	(260)	(15,045)
Dividends and distributions declared	—	—	—	—	—	(9,562)	—	(169)	(9,731)
Balance at December 31, 2017	—	—	8,693	87	193,865	(28,501)	316	6,062	171,513
Issuance of common stock, net of offering costs	—	—	1,884	18	41,897	—	—	—	41,915
Redemption of common stock			(110)	(1)	(2,623)				(2,624)
Issuance of common stock pursuant to dividend reinvestment plan	—	—	159	2	3,716	—	—	—	3,718
Stock-based compensation	—	—	10	—	361	—	—	—	361
Net loss	—	—	—	—	—	(9,361)	—	(309)	(9,670)
Dividends and distributions declared	—	—	—	—	—	(16,812)	—	(554)	(17,366)
Balance at December 31, 2018	—	$ —	10,636	$ 106	$ 237,216	$ (54,674)	316	$ 5,199	$ 187,847

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31, 2018	Year ended December 31, 2017
Cash flows from operating activities		
Net loss	$ (9,670)	$ (15,045)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,166	4,749
Amortization of debt issuance costs	1,973	794
Deferred income tax expense (benefit)	—	610
Stock-based compensation	361	228
Changes in operating assets and liabilities:		
Accounts receivable	672	181
Prepaid expenses and other assets	13	176
Accounts payable and accrued expenses	(336)	(2,787)
Due to related parties	(919)	485
Net cash provided by (used in) operating activities	4,260	(10,609)
Cash flows from investing activities		
Repayment of mortgage note receivable from related party	11,200	—
Due to related parties	—	2,000
Repayment of notes receivable from related parties	4,500	—
Origination of notes receivable from Moody I	—	(37,754)
Improvements and additions to hotel properties	(8,588)	(3,188)
Acquisition of Moody I, net of cash acquired	—	(38,771)
Net cash provided by (used in) investing activities	7,112	(77,713)
Cash flows from financing activities		
Proceeds from issuance of common stock	44,027	46,564
Redemptions of common stock	(2,624)	(898)
Offering costs paid	(2,692)	(12,663)
Dividends paid	(12,935)	(5,981)
Operating partnership distributions paid	(554)	(166)
Proceeds from notes payable	16,000	70,000
Repayment of notes payable	(54,537)	(3,547)
Payment of debt issuance costs	(598)	(4,700)
Net cash provided by (used in) financing activities	(13,913)	88,609
Net change in cash, cash equivalents and restricted cash	(2,541)	287
Cash, cash equivalents and restricted cash at beginning of year	21,735	21,448
Cash, cash equivalents and restricted cash at end of year	$ 19,194	$ 21,735
Supplemental Disclosure of Cash Flow Activity		
Interest paid	$ 14,166	$ 6,022
Income tax paid	$ 290	$ —
Supplemental Disclosure of Non-Cash Financing Activity		
Increase (decrease) in accrued offering costs due to related party	$ (580)	$ 960
Issuance of common stock from dividend reinvestment plan	$ 3,718	$ 2,447
Issuance of common stock in connection with Merger	$ —	$ 90,632
Issuance of operating partnership units in connection with Merger	$ —	$ 6,111
Assumption of notes payable in connection with Merger	$ —	$ 132,745
Repayment of notes receivable from Moody I in connection with Merger	$ —	$ 37,754
Dividends payable	$ 1,744	$ 1,585
Operating partnership distribution payable	$ 47	$ 47

See accompanying notes to consolidated financial statements.

1. Organization

As discussed in Note 6, "Equity," Moody National REIT II, Inc. (the "Company") was initially capitalized by Moody National REIT Sponsor, LLC (the "Sponsor"). The Company's fiscal year end is December 31.

As of December 31, 2018, the Company owned (1) interests in fourteen hotel properties located in six states comprising a total of 1,941 rooms, and (2) a loan with a current principal amount of $6,750,000 originated to an affiliate of Sponsor used to acquire a commercial property located in Katy, Texas. For more information on the Company's real estate investments, see Note 3, "Investment in Hotel Properties" and Note 4, "Notes Receivable from Related Parties."

On January 20, 2015, the Securities and Exchange Commission (the "SEC") declared the Company's registration statement on Form S-11 effective, and the Company commenced its initial public offering, of up to $1,100,000,000 in shares of common stock consisting of up to $1,000,000,000 in shares of the Company's common stock offered to the public, and up to $100,000,000 in shares offered to the Company's stockholders pursuant to its distribution reinvestment plan (the "DRP").

On June 26, 2017, the SEC declared effective the Company's post-effective amendment to its registration statement for the Offering, which reallocated the Company's shares of common stock as Class A common stock, $0.01 par value per share ("Class A Shares"), Class D common stock, $0.01 par value per share ("Class D Shares"), Class I common stock, $0.01 par value per share ("Class I Shares"), and Class T common stock, $0.01 par value per share ("Class T Shares" and, together with the Class A Shares, the Class D Shares and the Class I Shares, the "Shares") to be sold on a "best efforts" basis. On January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Offering; provided, however that the Advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through an increased acquisition fee, or "Contingent Advisor Payment," as described in Note 7, "Related Party Arrangements."

The Company is currently offering the Shares (i) to the public in the Company's primary offering at a purchase price of $23.19 per share, which is equal to the estimated net asset value ("NAV") per share for each class as of December 31, 2017, and (ii) to the Company's stockholders pursuant to the DRP at a purchase price of $23.19 per share, which is equal to the estimated NAV per share for each class as of December 31, 2017. On March 14, 2019, the Company's board of directors determined an estimated NAV per share of all classes of the Company's common stock of $23.32 per share as of December 31, 2018.

On January 18, 2018, the Company filed 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 the Company's follow-on public offering. The SEC declared the registration statement effective on July 19, 2018. The Company will continue to offer Shares in the follow-on offering on a continuous basis until July 19, 2021, subject to extension for an additional year by our board of directors.

As of December 31, 2018, the Company had received and accepted investors' subscriptions for and issued 7,011,982 shares in the Company's initial public offering and follow-on offering, excluding shares issued in connection with the Company's merger with Moody National REIT I, Inc. and including 292,204 shares pursuant to the DRP, resulting in gross offering proceeds of $166,178,977. As of December 31, 2018, the Company had received and accepted investors' subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with the Company's merger with Moody National REIT I, Inc. and including 214,764 shares pursuant to the DRP in the initial public offering, resulting in gross offering proceeds of $147,415,625 for the initial public offering. As of December 31, 2018, the Company had received and accepted investors' subscriptions for and issued 885,989 shares in the follow-on offering, including 77,440 shares pursuant to the DRP in the follow-on offering, resulting in gross offering proceeds of $18,763,352 for the follow-on offering.

The Company's advisor is Moody National Advisor II, LLC (the "Advisor"), a Delaware limited liability company and an affiliate of the Sponsor. Pursuant to an advisory agreement among the Company, the OP (defined below) and the Advisor (the "Advisory Agreement"), and subject to certain restrictions and limitations therein, the 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.

Substantially all of the Company's business is conducted through Moody National Operating Partnership II, LP, a Delaware limited partnership (the "OP"). The Company is the sole general partner of the OP. The initial limited partners of the OP were Moody OP Holdings II, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company ("Moody Holdings II"), and Moody National LPOP II, LLC ("Moody LPOP II"), an affiliate of the Advisor. Moody Holdings II initially invested $1,000 in the OP in exchange for limited partnership interests, and Moody LPOP II has invested $1,000 in the OP in exchange for a separate class of limited partnership interests (the "Special Limited Partnership Interests"). As the Company accepts subscriptions for shares of common stock, it transfers substantially all of the net proceeds from such sales to the OP as a capital contribution. The limited partnership agreement of the OP 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 properties, the OP will pay all of the Company's administrative costs and expenses, and such expenses will be treated as expenses of the OP.

Merger with Moody National REIT I, Inc.

On September 27, 2017, the merger of Moody National REIT I, Inc. ("Moody I") with and into the Company (the "Merger") and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I ("Moody I OP"), with and into the OP (the "Partnership Merger," and together with the Merger, the "Mergers"), were completed. Upon the consummation of the Merger, former Moody I stockholders received a total of approximately 3.61 million Class A shares of the Company's common stock as stock consideration, which was equal to approximately 42% of the Company's diluted common equity as of the closing date, and a total of approximately $45.4 million in cash consideration. In addition, upon consummation of the Partnership Merger, each issued and outstanding unit of limited partnership interest in Moody I OP was automatically cancelled and retired and converted into 0.41 units of Class A limited partnership interest in the OP.

In connection with the Mergers, the Company paid the 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 the Company with respect to two properties that were previously owned by Moody I. Moody I paid its advisor $5,580,685 (the "Moody I Advisor Payment"). The Moody I Advisor Payment was a negotiated amount that represents a reduction in the disposition fee to which Moody I's advisor could have been entitled and a waiver of any other fees that Moody I's 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 the Company sells a property that was previously owned by Moody I, then any disposition fee to which the Advisor would be entitled under the 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 I, LLC, which amount was the promote payment to which OP Holdings I, LLC was entitled under the terms of the limited partnership agreement of Moody I OP. The Company also paid Moody Securities a stockholder servicing fee of up to $2.125 per share of the Company's 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 reallowed 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.

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 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 and/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, among other things, determining 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 any VIE interests as of December 31, 2018 or 2017.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during 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 incurred by the Advisor on behalf of the Company. Pursuant to the Advisory Agreement between the Company and the Advisor, the Company is obligated to reimburse the Advisor or its affiliates, as applicable, for organization and offering costs incurred by the 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, the Advisor is obligated to reimburse the Company to the extent aggregate 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 the Advisor's employees and employees of the Advisor's affiliates and others. Any reimbursement of the Advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by the Advisor. The Company's organization and offering costs incurred in connection with the Company's initial public offering did not exceed 15% of the gross offering proceeds from the sale of our shares of common stock in such offering.

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 the Advisor.

As of December 31, 2018, total offering costs for the initial public offering and the follow-on offering were $19,344,749, comprised of $12,333,647 of offering costs incurred directly by the Company and $7,011,102 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2018, total offering costs for the initial public offering were $18,365,295, comprised of $12,333,647 of offering costs incurred directly by the Company and $6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2018, total offering costs for the follow-on offering were $979,454, comprised of $0 of offering costs incurred directly by the Company and $979,454 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2018, the Company had $52,275 due to the Advisor for reimbursable offering costs.

Income Taxes

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. The Company did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the years ended December 31, 2015 and 2014, including not having 100 shareholders for a sufficient number of days in 2015. Prior to qualifying to be taxed as a REIT, the Company was subject to normal federal and state corporation income taxes.

Provided that the Company continues to qualify as a REIT, it 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 satisfies the other organizational and operational requirements for qualification as a REIT. 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 a wholly-owned taxable REIT subsidiary ("TRS") that is subject to federal, state and local income taxes.

The Company accounts for income taxes of its TRS 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. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period prior to when the new rates become effective. 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, 2018.

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 positions in the current period results of operations, if necessary. The Company has tax years 2014 through 2017 remaining subject to examination by various federal and state tax jurisdictions. For more information, see Note 11, "Income Taxes."

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 in 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 receivable from related parties and notes payable, the carrying amounts of these financial instruments approximate their fair values due to their short-term nature. For the fair value of the Company's note receivable from related parties and notes payable, see Note 4, "Notes Receivable from Related Parties" and Note 5, "Debt." Additionally, for the fair value information related to purchase accounting for the Mergers, see Note 3, "Investment in Hotel Properties."

Concentration of Risk

As of December 31, 2018, 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 any 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 eight of its fourteen hotel properties are located in one state, Texas.

Valuation and Allocation of Hotel Properties — Acquisition

Upon acquisition, the purchase price of hotel properties 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 values are derived from appraisals and building values 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 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 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. The Company uses Level 3 inputs to value acquired properties. 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 require judgment and are subject to being imprecise; accordingly, if different estimates and assumptions were derived, 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 costs of ordinary repairs and maintenance are charged to expense when incurred.

Depreciation expense is computed using the straight-line method 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

Impairments

The Company monitors events and changes in circumstances indicating that the carrying amount of a hotel property 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 three and year ended December 31, 2018 and 2017.

In evaluating a hotel property for impairment, the Company makes several estimates and assumptions, including, but not limited to, the projected date of disposition of the property, the estimated future cash flows of the property during the Company's ownership and the projected sales price of the property. 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 property which could then 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. Revenue is recorded net of any sales and other taxes collected from customers. Interest income is recognized when earned. Amounts received prior to guest arrival are recorded as advances from the customer and are recognized at the time of occupancy. Refer to "Recent Accounting Pronouncements" below for further discussion of revenue recognition.

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 property taxes, as well as reserves for property improvements, replacement of furniture, fixtures, and equipment and debt service, as required by certain management or mortgage and term debt agreements 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 from Related Parties

The Company reviews the notes receivable from related parties 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 years ended December 31, 2018 or 2017.

Prepaid Expenses and Other Assets

Prepaid expenses include prepaid property insurance and hotel operating expenses. Other assets also include the Company's deferred income tax asset.

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 $133,518 and $50,430 as of December 31, 2018 and 2017, respectively.

Expected future amortization of deferred franchise costs as of December 31, 2018 is as follows (in thousands):

Years Ending December 31,	
2019	$ 83
2020	83
2021	83
2022	83
2023	80
Thereafter	522
Total	$ 934

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. 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 interest method. Accumulated amortization of debt issuance costs was $3,003,186 and $1,029,922 as of December 31, 2018 and 2017, respectively. Expected future amortization of debt issuance costs as of December 31, 2018 is as follows (in thousands):

Years Ending December 31,	
2019	$ 957
2020	512
2021	511
2022	511
2023	466
Thereafter	506
Total	$ 3,463

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 common stock totaling 7,500 and 11,250 shares as of December 31, 2018 and 2017, 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 loss attributable to common stockholders and comprehensive loss.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "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 full retrospective or modified retrospective adoption. In July 2015, the FASB voted to defer the effective date to January 1, 2018 with early adoption beginning January 1, 2017. The Company completed its evaluation of the effect that ASU No. 2014-09 will have on the Company's consolidated financial statements and evaluated each of our revenue streams under the new standard. Because of the short-term day-to-day nature of the Company's hotel revenues, the Company determined that the pattern of revenue recognition will not materially change. Under ASU No. 2014-09, there will be a recharacterization of certain revenue streams affecting both gross and net revenue reporting due to changes in principal versus agency guidance, which presentation is deemed immaterial for the Company and will not affect net income. Additionally, the Company does not sell hotel properties to customers as defined by FASB, but have historically disposed of hotel properties for cash sales with no contingencies and no future involvement in the hotel operations, and therefore, ASU No. 2014-09 will not impact the recognition of hotel sales. The Company finalized its expanded disclosure for the notes to the consolidated financial statements pursuant to the new requirements. The Company adopted this standard on its effective date of January 1, 2018 under the cumulative effect transition method. No adjustment was recorded to the Company's opening balance of retained earnings on January 1, 2018 as there was no impact to net income. Additionally, comparative information beginning in 2018 will not be restated and will continue to be reported in a manner consistent with Revenue Recognition (Topic 605). The Company also expects that the effect of adoption of ASU No. 2014-09 will be immaterial to the Company on an on-going basis.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company anticipates adopting this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on the Company's consolidated financial statements and related disclosures, the Company believes the impact will be minimal to the Company's ongoing consolidated statements 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 adopted ASU No. 2016-15 for the Company's fiscal year commencing on January 1, 2018. The Company does not believe that the adoption of ASU No. 2016-15 has a material effect on the Company's ongoing consolidated financial position or the Company's ongoing consolidated results of operations.

In November 2016, the FASB issued ASU No. 2016-18, "Classification of Restricted Cash," which requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard will be effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. The Company adopted this standard on January 1, 2018. As a result, restricted cash reserves are included with cash and cash equivalents on the Company's consolidated statements of cash flows. The adoption did not change the presentation of the Company's consolidated balance sheets.

The following table provides additional detail by financial statement line item of the ASU No. 2016-18 impact on the Company's consolidated statement of cash flows for the years ended December 31, 2018 and 2017:

(in thousands)	**As Reported (Pre-Adoption)**	**ASU No. 2016-18 Impact**	**Reported (Post Adoption)**
Year Ended December 31, 2018			
Net change in cash, cash equivalents and restricted cash	$ 776	$ (3,317)	$ (2,541)
Cash, cash equivalents and restricted cash at beginning of year	8,214	13,521	21,735
Cash, cash equivalents and restricted cash at end of year	$ 8,990	$ 10,204	$ 19,194
Year Ended December 31, 2017			
Net change in cash, cash equivalents and restricted cash	$ (11,363)	$ 11,650	$ 287
Cash, cash equivalents and restricted cash at beginning of year	19,577	1,871	21,448
Cash, cash equivalents and restricted cash at end of year	$ 8,214	$ 13,521	$ 21,735

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 Company does not believe that the adoption of ASU No. 2017-01 will have a material effect on the Company's ongoing consolidated financial position or the Company's ongoing consolidated results of operations.

In February 2017, the FASB issued ASU No. 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets: Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets," which clarifies the scope of asset derecognition and adds further guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. ASU No. 2017-05 will impact the recognition of gains and losses from hotel sales. This standard is effective for the first annual period beginning after December 15, 2017, including interim periods within those periods. Early adoption is permitted. The Company adopted this standard on January 1, 2018 and does not anticipate that ASU No. 2017-05 will affect the Company's ongoing consolidated statements of operations and comprehensive income.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities," which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The Company adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on the Company's ongoing consolidated financial statements.

3. Investment in Hotel Properties

The following table sets forth summary information regarding the Company's investment in hotel properties as of December 31, 2018 (all $ amounts in thousands):

Property Name	Date Acquired	Location	Ownership Interest	Original Purchase Price(1)	Rooms	Mortgage Debt Outstanding(2)
Residence Inn Austin	October 15, 2015	Austin, Texas	100%	$ 27,500	112	$ 16,554
Springhill Suites Seattle	May 24, 2016	Seattle, Washington	100%	74,100	234	44,884
Homewood Suites Woodlands	September 27, 2017(5)	The Woodlands, Texas	100%	17,356	91	9,066
Hyatt Place Germantown	September 27, 2017(5)	Germantown, Tennessee	100%	16,074	127	7,025
Hyatt Place North Charleston	September 27, 2017(5)	North Charleston, South Carolina	100%	13,806	113	7,158
Hampton Inn Austin	September 27, 2017(5)	Austin, Texas	100%	19,328	123	10,687
Residence Inn Grapevine	September 27, 2017(5)	Grapevine, Texas	100%	25,245	133	12,341
Marriott Courtyard Lyndhurst	September 27, 2017(5)	Lyndhurst, New Jersey	(3)	39,547	227	—
Hilton Garden Inn Austin	September 27, 2017(5)	Austin, Texas	100%	29,288	138	18,401
Hampton Inn Great Valley	September 27, 2017(5)	Frazer, Pennsylvania	100%	15,285	125	7,994
Embassy Suites Nashville	September 27, 2017(5)	Nashville, Tennessee	100%	82,207	208	41,998
Homewood Suites Austin	September 27, 2017(5)	Austin, Texas	100%	18,835	96	10,778
Townplace Suites Fort Worth	September 27, 2017(5)	Fort Worth, Texas	(4)	11,242	95	—
Hampton Inn Houston	September 27, 2017(5)	Houston, Texas	100%	9,958	119	4,480
Totals				$ 399,771	1,941	$ 191,366

(1) Excludes closing costs and includes gain on acquisition.
(2) As of December 31, 2018.
(3) The Marriott Courtyard Lyndhurst is owned by MN Lyndhurst Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Marriott Courtyard Lyndhurst is pledged as security for the Term Loan. See Note 5, "Debt."
(4) The Townplace Suites Fort Worth is owned by MN Fort Worth Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Townplace Suites Fort Worth is pledged as security for the Term Loan. See Note 5, "Debt."
(5) Property acquired as a result of the Mergers.

Investment in hotel properties consisted of the following at December 31, 2018 and December 31, 2017 (in thousands):

	December 31, 2018	December 31, 2017
Land	$ 70,456	$ 70,456
Buildings and improvements	297,680	297,554
Furniture, fixtures and equipment	43,632	35,170
Total cost	411,768	403,180
Accumulated depreciation	(18,628)	(6,545)
Investment in hotel properties, net	$ 393,140	$ 396,635

Acquisition of Moody I

On September 27, 2017, in connection with the Mergers, the Company acquired interests in twelve hotel properties, including two joint venture interests, and two notes receivable from related parties from Moody I (the "Moody I Portfolio").

As of the date of the Mergers, there were 13,257,126 shares of Moody I common stock issued and outstanding, resulting in aggregate merger consideration of $135,885,546, consisting of the following (in thousands):

Value of Company's Class A Shares issued to Moody I stockholders	$ 90,486
Cash consideration paid	45,400
Aggregate merger consideration	$ 135,886

67% of Moody I stockholders elected to receive stock consideration in the Merger, resulting in the Company's then current stockholders and former Moody I stockholders owning 58% and 42%, respectively, of the common stock of the Company outstanding after the consummation of the Merger, as follows (in thousands):

Company shares outstanding at date of merger	4,904
Company Class A common shares issued to Moody I stockholders on date of Merger	3,619
Total Company shares outstanding after Merger	8,523

After consideration of all applicable factors pursuant to the business combination accounting rules, the Company is considered the "accounting acquirer" because the Company is issuing common stock to Moody I stockholders, and also due to various factors including that the Company's stockholders immediately preceding the Merger hold the largest portion of the voting rights in the Company immediately after the Merger.

The aggregate purchase price consideration as shown above was allocated to assets and liabilities of Moody I was as follows (in thousands):

Assets	
Investment in hotel properties	$ 298,171
Cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other assets, deferred income tax asset, deferred franchise costs, and due from related parties	13,340
Notes receivable from related parties	11,250
Liabilities and Equity	
Notes payable	(132,745)
Notes receivable from Moody I	(37,754)
Accounts payable and accrued expenses, due to related parties, and operating partnership distributions payable	(10,265)
Noncontrolling interests in OP	(6,111)
Aggregate merger consideration	$ 135,886

The purchase price allocation was based on the Company's assessment of the fair value of the acquired assets and liabilities, as summarized below.

Investment in hotel properties – The Company estimated the fair value generally by applying an income approach methodology using a discounted cash flow analysis. Key assumptions include terminal capitalization rates, discount rates and future cash flows of the properties. Capitalization and discount rates were determined by market based on recent appraisals, transactions or other market data. This valuation methodology is based on Level 3 inputs in the fair value hierarchy.

Cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other assets, deferred franchise costs, and due from related parties – The fair value was estimated to be their cost basis due to their short-term nature.

Deferred income tax asset – The Company estimated the fair value of the deferred income tax asset by estimating the amount of the net operating loss that will be utilized in future periods by the TRS. The estimated fair value assumes the net operating losses of Moody I will be able to be utilized by the Company's TRS, subject to limitations caused by the change in control of the TRS.

Notes receivable from related parties – The fair value was determined using discounted cash flow analyses at market interest rates. The valuation methodology is based on Level 2 inputs in the fair value hierarchy.

Notes payable – The fair value was determined using discounted cash flow analyses at market interest rates, which are Level 2 inputs in the fair value hierarchy.

Accounts payable and accrued expenses, due to related parties, and operating partnership distributions payable – The fair value was estimated to be their cost basis due to their short-term maturities.

Noncontrolling interests in Operating Partnership – The Company estimated the portion of the fair value of the net assets of the OP owned by third parties. This valuation methodology is based on Level 3 inputs in the fair value hierarchy.

The results of operations of the Moody I Portfolio have been included in the consolidated statement of operations as of the date of acquisition of September 27, 2017. The following unaudited pro forma consolidated financial information for the year ended December 31, 2017 is presented as if the Company acquired the Moody I Portfolio on January 1, 2017. This information is not necessarily indicative of what the actual results of operations would have been had the Company completed the acquisition of the Moody I Portfolio on January 1, 2017, nor does it purport to represent the Company’s future operations (in thousands, except per common share amounts):

Revenue	$ 85,210
Net loss	(6,172)
Net loss attributable to common stockholders	(5,863)
Net loss per common share - basic and diluted	$ (0.69)

4. Notes Receivable from Related Parties

As of December 31, 2018 and 2017, the amount of the mortgage note receivable from related party was $0 and $11,200,000, respectively. As of December 31, 2018 and 2017, the amounts of notes receivable from related parties were $6,750,000 and $11,250,000, respectively.

Mortgage Note Receivable from Related Party

On October 6, 2016, the Company originated a secured loan in the aggregate principal amount of $11,200,000 (the “MN TX II Note”) to MN TX II, LLC, a Texas limited liability company and a related party (“MN TX II”). 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 Company financed the MN TX II Note in part with the proceeds of a loan from a bank secured by the MN TX II Note, with an initial principal balance of $8,400,000.

The MN TX II Note was paid in full with all accrued interest thereon on June 29, 2018. While outstanding, interest on the outstanding principal balance of the MN TX II Note accrued at a fixed per annum rate equal to 5.50%, provided that in no event would the interest rate exceed the maximum rate permitted by applicable law. The MN TX II Note could be prepaid in whole or part by MN TX II without penalty at any time upon prior written notice to the Company. Interest income on the MN TX II Note was $309,854 and $624,555, respectively, for the years ended December 31, 2018 and 2017.

The estimated fair value of the MN TX II Note as of December 31, 2018 and December 31, 2017 was $0 and $11,200,000, respectively. The fair value of the MN TX II Note was estimated 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 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 (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 “Subject Property”). The balance of the Related Party Note was $6,750,000 as of December 31, 2018 and 2017. The Company acquired the Related Party Note in connection with the Mergers.

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. On August 30, 2018, the maturity date was extended to April 30, 2019.

Related Party Mezzanine Note. On April 29, 2016, Moody I originated an unsecured loan in the aggregate principal amount of $4,500,000 (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. The Company 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 paid an origination fee in the amount of $45,000, and an exit fee of $45,000 upon maturity.

Interest income from notes receivable from related parties was $864,900 and $348,800 for the years ended December 31, 2018 and 2017, respectively. Interest receivable on notes receivable from related parties was $810,000 and $0 as of December 31, 2018 and 2017, respectively.

The aggregate estimated fair values of the notes receivable from related parties as of December 31, 2018 and December 31, 2017 was $6,750,000 and $11,250,000, respectively. The fair value of the notes receivable from related parties was estimated 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.

Lyndhurst Loan. On September 6, 2017, the OP made a loan in the amount of $30,647,770 (the “Lyndhurst Loan”) to Moody National 1 Polito Lyndhurst Holding, LLC (“Lyndhurst Holding”), an indirect subsidiary of Moody I OP, and Lyndhurst Holding executed a promissory note (the “Lyndhurst Note”) evidencing the Lyndhurst Loan in favor of the Company. The Lyndhurst Note bore interest at a rate of 6.50% per annum and was secured by the Marriott Courtyard hotel property owned by Lyndhurst Holding and located in Lyndhurst, New Jersey (the “Lyndhurst Property”). The Lyndhurst Loan matured and was retired upon the consummation of the Mergers. Interest income from the Lyndhurst Loan was $0 and $115,000 for the years ended December 31, 2018 and 2017, respectively. Lyndhurst Holding used the proceeds of the Lyndhurst Loan to repay a loan secured by the Lyndhurst Property that had matured and had become due.

Fort Worth Loan. On August 15, 2017, the OP made a loan in the amount of $7,106,506 (the “Fort Worth Loan”) to Moody National International-Fort Worth Holding, LLC, (“Fort Worth Holding”), an indirect subsidiary of Moody I OP, and Fort Worth Holding executed a promissory note (the “Fort Worth Note”) evidencing the Fort Worth Loan in favor of the Company. The Fort Worth Note bore interest at a rate of 6.50% per annum and was secured by a Townplace Suites hotel property owned by Moody I and located in Ft. Worth, Texas (the “Fort Worth Property”). The Fort Worth Loan matured and was retired upon the consummation of the Mergers. Interest income from the Fort Worth Loan was $0 and $55,000 for the years ended December 31, 2018 and 2017, respectively. Fort Worth Holding used the proceeds of the Fort Worth Loan to repay an existing loan secured by the Fort Worth Property that had matured and had become due. See Note 7, “Related Party Arrangements.”

5. Debt

The Company’s aggregate borrowings are reviewed by the Company’s board of directors at least quarterly. Under the Company’s 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, 2018, 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, 2018 and 2017, the Company's mortgage notes payable secured by the respective assets, consisted of the following (all $ amounts in thousands):

Loan	Principal as of December 31, 2018	Principal as of December 31, 2017	Interest Rate at December 31, 2018	Maturity Date
Residence Inn Austin(1)	$ 16,554	$ 16,575	4.580%	November 1, 2025
Springhill Suites Seattle(2)	44,884	45,000	4.380%	October 1, 2026
MN TX II Note(3)	—	8,400	4.500%	October 6, 2018
Homewood Suites Woodlands(4)	9,066	9,209	4.690%	April 11, 2025
Hyatt Place Germantown(4)	7,025	7,179	4.300%	May 6, 2023
Hyatt Place North Charleston(4)	7,158	7,292	5.193%	August 1, 2023
Hampton Inn Austin(4)	10,687	10,871	5.426%	January 6, 2024
Residence Inn Grapevine(4)	12,341	12,556	5.250%	April 6, 2024
Hilton Garden Inn Austin(4)	18,401	18,707	4.530%	December 11, 2024
Hampton Inn Great Valley(4)	7,994	8,120	4.700%	April 11, 2025
Embassy Suites Nashville(4)	41,998	42,715	4.2123%	July 11, 2025
Homewood Suites Austin(4)	10,778	10,946	4.650%	August 11, 2025
Hampton Inn Houston(4)	4,480	4,604	7.250%	April 28, 2023
Term Loan(5)	26,300	67,000	30-day LIBOR plus 3.750%	September 27, 2019
Short Term Loan(6)	12,971	—	30-day LIBOR plus 2.50%	April 24, 2019
Total notes payable	230,637	269,174		
Less unamortized debt issuance costs	(3,463)	(4,838)		
Total notes payable, net of unamortized debt issuance costs	$ 227,174	$ 264,336		

(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 and continue to be due and payable until the maturity date.
(2) Monthly payments of interest only were due and payable in calendar year 2017, after which monthly payments of principal and interest are due and payable until the maturity date.
(3) Monthly payments of interest only were due until the maturity date. The entire principal balance and all interest thereon was repaid in full prior to June 30, 2018.
(4) Monthly payments of principal and interest are due and payable until the maturity date.
(5) Monthly payments of interest were due and payable until October 2017. Monthly payments of principal and interest were due and payable beginning in November 2017 until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019, as discussed below. The Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth properties are pledged as security for the Term Loan.
(6) Monthly payments of interest only were due until the maturity date. All unpaid principal and interest thereon will be due at maturity on April 24, 2019.

Hotel properties secure their respective loans. The loan from a bank with which the Company financed the MN TX II Note was 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.

Scheduled maturities of the Company's notes payable as of December 31, 2018 are as follows (in thousands):

Years ending December 31,		
2019	$	42,597
2020		3,463
2021		3,655
2022		3,832
2023		20,415
Thereafter		156,674
Total	$	230,636

Term Loan Agreement

On September 27, 2017, the OP, as borrower, the Company and certain of the Company's subsidiaries, as guarantors, and KeyBank National Association ("KeyBank"), as agent and lender, entered into a term loan agreement (as amended, the "Term Loan Agreement") (KeyBank, in its capacity as lender, together with any other lender institutions that may become parties thereto, are referred to as the "Lenders"). Pursuant to the Term Loan Agreement, the Lenders have made a term loan to the OP in the principal amount of $70.0 million (the "Term Loan"). Capitalized terms used in this description of the Term Loan and not defined herein have the same meaning as in the Term Loan Agreement. The Company 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, payable monthly, 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, the OP 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 Company began making principal payments of $1.5 million per month in November 2017.

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 the Company's obligation under the Term Loan Agreement to raise $10 million per quarter in gross offering proceeds to the calendar quarter June 30, 2017. The Company satisfied such obligation with respect to the calendar quarter ended December 31, 2018.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018. On October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan, 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 of $26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, will be due on the maturity date of the Term Loan. In addition, the Term Loan originally provided for monthly interest payments, for mandatory prepayments 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% the OP's Consolidated Net Cash Flow or (ii) $1,500,000. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal of $100,000 per month, and the margins over the base rate or LIBOR rate will be 2.75% and 3.75%, respectively. 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.

The performance of the Company's obligations under the Term Loan Agreement is secured by, among other things, mortgages on the Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth, and by pledges of certain portions of the ownership interests in certain subsidiaries of the OP. Pursuant to a Guaranty Agreement in favor of KeyBank, the Company and certain of its 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 Term Loan Agreement.

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.

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

If the Company violates financial and other covenants contained in any of the mortgage loans or Term Loan described above, the Company 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, the Company can make no assurance that it 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 the Company. If a default under the mortgage loans or the Term Loan were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offering of debt securities, or additional equity financings. If the company is unable to refinance its debt on acceptable terms, including a maturity of the mortgage loans or the Term Loan, it may be forced to dispose of the 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, increase interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to stockholders.

Requirements associated with a mortgage loan to deposit and disburse operating receipts in a specified manner may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is 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 the Company.

As of December 31, 2018, the Company was in compliance with all debt covenants, current on all loan payments and not otherwise in default under the mortgage loans or the Term Loan.

Short Term Loan

On October 24, 2018, the Company and the OP issued a promissory note in favor Green Bank, N.A. in the original principal amount of $16,000,000 ("Short Term Loan"). The proceeds of the promissory note were used to retire a portion of the Term Loan, resulting in a balance of $26.5 million for the Term Loan as of October 24, 2018. The maturity date of the promissory note is April 24, 2019 and the note bears interest at an annual rate equal to the one-month London Interbank Offered Rate (LIBOR) plus 2.5%. The Company and the OP are collectively required to make a monthly payment on the outstanding principal and interest of the promissory note equal to the greater of $1,500,000 and 50% of our consolidated net cash flow. The promissory note may be prepaid at any time in whole or in part without penalty.

The estimated fair value of the Company's notes payable as of December 31, 2018 and 2017 was $231,000,000 and $269,000,000, respectively. The fair value of the notes payable 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.

6. Equity

Capitalization

Under its Charter, the Company has the authority to issue 1,000,000,000 shares of common stock and 100,000,000 shares of preferred stock. All shares of such stock have a par value of $0.01 per share. On August 15, 2014, the Company sold 8,000 shares of common stock to the Sponsor at a purchase price of $25.00 per share for an aggregate purchase price of $200,000, which was paid in cash. As of December 31, 2018, there were a total of 10,635,728 shares of the Company's common stock issued and outstanding, including 7,011,982 shares, net of redemptions, issued in the Offering, 3,570,746 shares, net of redemptions, issued in connection with the Merger, the 8,000 shares sold to Sponsor and 45,000 shares of restricted stock, as discussed in Note 8, "Incentive Award Plan," as follows:

Class	Shares Outstanding as of December 31, 2018
Class A Shares	10,294,007
Class D Shares	—
Class T Shares	270,162
Class I Shares	71,559
Total	10,635,728

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 for 2018 that will be (1) calculated daily and reduced for class-specific expenses; (2) 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) calculated at a rate of $1.7528 per share of the Company's common stock per year, or approximately $0.00480 per share per day, before any class-specific expenses. The Company's board of directors authorized and declared a distribution to its stockholders for 2017 that (1) was calculated daily and reduced for class-specific expenses; (2) was 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) was calculated at a rate of $1.75 per share of the Company's common stock per year, or approximately $0.00479 per share per day, before any class-specific expenses. The Company first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the three and year ended December 31, 2018 and 2017 (in thousands):

Period	Cash Distribution	Distribution Paid Pursuant to DRP[(1)]	Total Amount of Distribution
First Quarter 2018	$ 3,218	$ 634	$ 3,852
Second Quarter 2018	3,039	963	4,002
Third Quarter 2018	3,241	1,034	4,275
Fourth Quarter 2018	3,437	1,087	4,524
Total	$ 12,935	$ 3,718	$ 16,653
First Quarter 2017	$ 1,017	$ 410	$ 1,427
Second Quarter 2017	1,325	590	1,915
Third Quarter 2017	1,478	627	2,105
Fourth Quarter 2017	2,161	820	2,981
Total	$ 5,981	$ 2,447	$ 8,428

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

Noncontrolling Interest in Operating Partnership

Noncontrolling interest in the OP at December 31, 2018 and 2017 was $5,199,310 and $6,062,150, respectively, which represented 316,037 common units in the OP issued in connection with the acquisition of the Springhill Suites Seattle and the Partnership Merger, and is reported in equity in the consolidated balance sheets. Loss from the OP attributable to these noncontrolling interests was $308,892 and $260,071 for the years ended December 31, 2018 and 2017, respectively.

7. Related Party Arrangements

Pursuant to the Advisory Agreement, the Advisor and certain affiliates of Advisor receive fees and compensation in connection with the Company's public offerings and the acquisition, management and sale of the Company's real estate investments. In addition, in exchange for $1,000 and in consideration of services to be provided by the Advisor, the OP has issued an affiliate of the Advisor, Moody LPOP II, a separate, special limited partnership interest, in the form of Special Limited Partnership Interests. For further detail, please see Note 9, "Subordinated Participation Interest."

Sales Commissions, Dealer Manager Fees and Stockholder Servicing Fees

From January 1, 2017 through June 12, 2017, the Company paid Moody Securities an up-front selling commission of up to 7.0% of the gross proceeds of what are now the Class A Shares sold in the Company's primary offering and a dealer manager fee of up to 3.0% of the gross proceeds of what are now the Class A Shares sold in the Company's primary offering. Beginning on June 12, 2017, the Company reallocated its common shares into four separate share classes with the following fees: (A) up-front selling commissions of up to (i) 7.0% of the gross proceeds of the Class A Shares sold in the Company's primary offering and (ii) 3.0% of the gross proceeds of the Class T Shares sold in the Company's primary offering; (B) up-front dealer manager fees of up to (i) 3.0% of the gross proceeds of the Class A Shares sold in the Company's primary offering and (ii) 2.5% of the gross proceeds of the Class T Shares sold in the Company's primary offering (the Sponsor may also pay Moody Securities (i) up-front dealer manager fees of up to 1.0% of the total amount of Class I Shares purchased in the primary offering and (ii) up-front selling commissions of up to 3.0% on purchases of $5,000,000 or more of Class D Shares purchased in the primary offering, which will not be reimbursed by the Company); and (C) a trailing stockholder servicing fee of (i) 1.0% per annum of the NAV of Class T Shares sold in the primary offering and (ii) 0.5% per annum of the NAV of Class D Shares sold in the primary offering. Shares sold pursuant to the DRP are not subject to selling commissions, dealer manager fees or stockholder servicing fees. Moody Securities may reallow all or a portion of the foregoing selling commissions, dealer manager fees or stockholder servicing fees to participating broker-dealers.

Beginning January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company's ongoing public offering; provided, however, that the Advisor intends to recoup the funding of such amounts through the Contingent Advisor Payment. In connection with the implementation of the Contingent Advisor Payment, the Company reduced the up-front selling commission paid with respect to the Class A Shares from up to 7.0% to up to 6.0% of the gross proceeds of the Class A Shares sold in the Company's primary offering and reduced the dealer manager fee paid with respect to the Class A Shares from up to 3.0% to up to 2.5% of the gross proceeds of the Class A Shares sold in the Company's primary offering. As of December 31, 2018, the Company and the Advisor had paid Moody Securities $9,423,133 in selling commissions and trailing stockholder servicing fees and $2,099,018 in dealer manager fees, which amounts have been recorded as a reduction to additional paid-in capital in the consolidated balance sheets and $3,731,889 which could potentially be recouped by the Advisor at a later date through the Contingent Advisor Payment.

Organization and Offering Expenses

The Advisor will receive reimbursement for organizational and offering expenses incurred on the Company's behalf, but only to the extent that such reimbursements do not exceed actual expenses incurred by Advisor and do not cause the cumulative selling commissions, dealer manager fees, stockholder servicing fees and other organization and offering expenses borne by the Company to exceed 15.0% of gross offering proceeds from the sale of shares in the Company's follow-on offering as of the date of reimbursement.

As of December 31, 2018, total offering costs for the initial public offering and the follow-on offering were $19,344,749, comprised of $12,333,647 of offering costs incurred directly by the Company and $7,011,102 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2018, total offering costs for the initial public offering were $18,365,295, comprised of $12,333,647 of offering costs incurred directly by the Company and

$6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2018, total offering costs for the follow-on offering were $979,454, comprised of $0 of offering costs incurred directly by the Company and $979,454 in offering costs incurred by and reimbursable to the Advisor. As of December 31, 2018, the Company had $52,275 due to the Advisor for reimbursable offering costs.

Acquisition Fees

As of January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees in connection with the Offering. In connection therewith, as of January 16, 2018, the acquisition fee payable to the Advisor was increased from 1.5% to up to a maximum of 3.85% of (1) the cost of all investments the Company acquires (including the Company's pro rata share of any indebtedness assumed or incurred in respect of the investment and exclusive of acquisition and financing coordination fees), (2) the Company's allocable cost of investments acquired in a joint venture (including the Company's pro rata share of the purchase price and the Company's pro rata share of any indebtedness assumed or incurred in respect of that investment and exclusive of acquisition fees and financing coordination fees) or (3) the amount funded by the Company to acquire or originate a loan or other investment, including mortgage, mezzanine or bridge loans (including any third-party expenses related to such investment and exclusive of acquisition fees and financing coordination fees). The up to 3.85% acquisition fee consists of (i) a 1.5% base acquisition fee and (ii) up to an additional 2.35% contingent acquisition fee (the "Contingent Advisor Payment"). The 1.5% base acquisition fee will always be payable upon the acquisition of an investment by the Company, unless the receipt thereof is waived by the Advisor. The amount of the Contingent Advisor Payment to be paid in connection with the closing of an acquisition will be reviewed on an acquisition-by-acquisition basis and such payment shall not exceed the then-outstanding amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees at the time of such closing. In addition, the first $3,500,000 of aggregate Contingent Advisor Payments that would otherwise be paid to the Advisor (the "Contingent Advisor Holdback"), will be retained by the Company until January 16, 2019, at which time any portion of the Contingent Advisor Holdback owed to the Advisor will be paid. For purposes of determining the amount of Contingent Advisor Payment payable, the amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees and considered "outstanding" will be reduced by the amount of the Contingent Advisor Payment previously paid and taking into account the amount of the Contingent Advisor Holdback. The Advisor may waive or defer all or a portion of the acquisition fee at any time and from time to time, in the Advisor's sole discretion. For the year ended December 31, 2018, the Company did not pay Advisor any acquisition fees. For the year ended December 31, 2017, the Company paid the Advisor acquisition fees of $670,000 in connection with the Mergers, which amount was equal to 1.5% of the cash consideration paid to Moody I stockholders

Reimbursement of Acquisition Expenses

The Advisor may also be reimbursed by the Company for actual expenses related to the evaluation, selection and acquisition of real estate investments, regardless of whether the Company actually acquires the related assets. The Company did not reimburse the Advisor for any acquisition expenses during the years ended December 31, 2018 and 2017.

Financing Coordination Fee

The Advisor also receives financing coordination fees of 1% of the amount available under any loan or line of credit made available to the Company and 0.75% of the amount available or outstanding under any refinanced loan or line of credit. The Advisor will pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for the Company. The Company did not incur any financing coordination fees payable to the Advisor during year ended December 31, 2018. For the year ended December 31, 2017, the Company paid $1,720,000 in financing coordination fees to the Advisor in connection with the acquisition of the Moody I Portfolio based on the loans assumed from Moody I in connection with the Merger, including the debt held by the Company related to the Marriott Courtyard Lyndhurst and the Townplace Suites Forth Worth.

Property Management Fee

The Company pays Moody National Hospitality Management, LLC ("Property Manager") a monthly hotel management fee equal to 4.0% of the monthly gross operating revenues from the properties managed by Property Manager for services it provides in connection with operating and managing properties. The hotel management agreements between the Company and the Property Manager generally have initial terms of ten years. Property Manager may pay some or all of the compensation it receives from the Company to a third-party property manager for management or leasing services. In the event that the Company contracts directly with a non-affiliated third-party property manager, the Company will pay Property Manager a market-based oversight fee. The Company will reimburse the costs and expenses incurred by Property Manager on the Company's behalf, including legal, travel and other out-of-pocket expenses that are directly related to the management of specific properties, but the Company will not reimburse Property Manager for general overhead costs or personnel costs other than employees or subcontractors who are engaged in the on-site operation, management, maintenance or access control of the properties. For the years ended December 31, 2018 and 2017, the Company paid the Property Manager property management fees of $3,185,388 and $1,409,841, and accounting fees of $420,000 and $154,000, respectively, which are included in hotel operating expenses in the accompanying consolidated statements of operations.

The Company pays an annual incentive fee to Property Manager. Such annual incentive fee is equal to 15% of the amount by which the operating profit from the properties managed by Property Manager for such fiscal year (or partial fiscal year) exceeds 8.5% of the total investment of such properties. Property Manager may pay some or all of this annual incentive fee to third-party sub-property managers for management services. For purposes of this annual incentive fee, "total investment" means the sum of (i) the price paid to acquire a property, including closing costs, conversion costs, and transaction costs; (ii) additional invested capital and (iii) any other costs paid in connection with the acquisition of the property, whether incurred pre- or post-acquisition. As of December 31, 2018, the Company had not paid any annual incentive fees to Property Manager.

Asset Management Fee

The Company will pay Advisor a monthly asset management fee of one-twelfth of 1.0% of the cost of investment of all real estate investments the Company acquires. For the year ended December 31, 2018 and 2017, the Company incurred asset management fees of $4,197,000 and $1,913,000, respectively, payable to the Advisor, which are recorded in corporate general and administrative expenses in the accompanying consolidated statements of operations.

Disposition Fee

The Company also pays the Advisor or its affiliates a disposition fee (subject to a limitation if the property was previously owned by Moody I discussed below) in an amount of up to one-half of the brokerage commission paid on the sale of an asset, but in no event greater than 3% of the contract sales price of each property or other investment sold; provided, however, in no event may the aggregate disposition fees paid to the Advisor and any real estate commissions paid to unaffiliated third parties exceed 6% of the contract sales price. During the first year following the consummation of the Mergers, if the Company sells a property that was previously owned by Moody I, then any disposition fee to which the Advisor would be entitled under the Advisory Agreement will be reduced by an amount equal to the portion of the Moody I Advisor Payment attributable to such property. As of December 31, 2018, the Company had not incurred any disposition fees payable to the Advisor.

Operating Expense Reimbursement

The Company will reimburse the Advisor for all expenses paid or incurred by the Advisor in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse the Advisor for any amount by which the Company's aggregate operating expenses (including the asset management fee payable to the Advisor) 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 the Advisor for expenses in excess of the 2%/25% Limitation if a majority of the Company's independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended December 31, 2018, total operating expenses of the Company were $6,503,476, which included $4,861,283 in operating expenses incurred directly by the Company and $1,642,193 incurred by the Advisor on behalf of the Company. Of the $6,503,476 in total operating expenses incurred during the four fiscal quarters ended December 31, 2018, $0 exceeded the 2%/25% Limitation. The Company reimbursed the Advisor $1,642,000 during four fiscal quarters ended December 31, 2018, which includes reimbursements for quarters prior to the four quarters ended December 31, 2018. As of December 31, 2018, the Company had $376,000 due from the Advisor for operating expense reimbursement.

Merger with Moody I

See Note 1, "Organization—Merger with Moody National REIT I, Inc."

Fort Worth Loan

On August 15, 2017, the OP made a loan in the amount of $7,106,506 (the "Fort Worth Loan") to Moody National International-Fort Worth Holding, LLC, an indirect subsidiary of Moody I OP. The loan matured and was retired upon completion of the Mergers. Interest income from the Fort Worth Loan was $0 and $55,000 for the year ended December 31, 2018 and 2017, respectively.

Lyndhurst Loan

On September 6, 2017, the OP made a loan in the amount of $30,647,770 (the "Lyndhurst Loan") to Moody National 1 Polito Lyndhurst Holding, LLC, an indirect subsidiary of Moody I OP. The loan matured and was retired upon completion of the Mergers. Interest income from the Lyndhurst Loan was $0 and $155,000 for the year ended December 31, 2018 and 2017, respectively.

Related Party Mezzanine Note

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.

Earnest Money

The Company assigned its earnest money contract in the amount of $2,000,000 to a related party for consideration paid to the Company of $2,000,000 during the year ended December 31, 2017.

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 independent directors was entitled, subject to the Independent Directors Compensation Plan's conditions and restrictions, to receive an initial grant of 5,000 shares of restricted stock when the Company raised the minimum offering amount of $2,000,000 in the Offering. Each new independent director who subsequently joins the Company's board of directors will receive a grant of 5,000 shares of restricted stock upon his or her election to 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 will receive an additional grant of 2,500 shares of restricted stock. 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, 2018, there were 1,955,000 common shares remaining available for future issuance under the Incentive Award Plan and the Independent Directors Compensation Plan.

The Company recorded compensation expense related to such shares of restricted stock of $361,020 and $227,695 for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, there were 7,500 non-vested shares of restricted common stock granted pursuant to the Independent Directors Compensation Plan. The remaining unrecognized compensation expense associated with those 7,500 non-vested shares of $130,668 will be recognized during the first, second and third quarters of 2019.

The following is a summary of activity under the Independent Directors Compensation Plan for the years ended December 31, 2018 and 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance of non-vested shares as of December 31, 2016	5,000	$ 25.00
Shares granted on August 10, 2017	5,000	$ 27.82
Shares granted on September 27, 2017	10,000	$ 27.82
Shares vested	(8,750)	$ 26.21
Balance of non-vested shares as of December 31, 2017	11,250	$ 27.82
Shares granted on August 13, 2018	10,000	$ 23.19
Shares vested	(13,750)	$ 26.98
Balance of non-vested shares as of December 31, 2018	7,500	$ 23.19

9. Subordinated Participation Interest

Pursuant to the limited partnership agreement for the OP, Moody LPOP II, the holder of the Special Limited Partnership Interests, is entitled to receive distributions equal to 15.0% of the OP's net cash flows, whether from continuing operations, the repayment of loans, the disposition of assets or otherwise, but only after the Company's stockholders (and current and future limited partnership interest holders of the OP other than the former limited partners of Moody I OP) have received, in the aggregate, cumulative distributions equal to their total invested capital plus a 6.0% cumulative, non-compounded annual pre-tax return on such aggregated invested capital. Former limited partners of Moody I OP must have received a cumulative annual return of 8.0%, which is equal to the same return to which such holders were entitled before distributions to the special limited partner of Moody I OP could have been paid under the limited partnership agreement of Moody I OP. In addition, Moody LPOP II is entitled to a separate payment if it redeems its Special Limited Partnership Interests. The Special Limited Partnership Interests may be redeemed upon: (1) the listing of the Company's common stock on a national securities exchange or (2) the occurrence of certain events that result in the termination or non-renewal of the Advisory Agreement, in each case for an amount that Moody LPOP II would have been entitled to receive had the OP disposed of all of its assets at the enterprise valuation as of the date of the event triggering the redemption.

10. Commitments and Contingencies

Restricted Cash

Under certain management and debt agreements existing at December 31, 2018, the Company escrows payments required for property improvement plans, real estate taxes, replacement of hotel furniture and fixtures, debt service and rent holdback. The composition of the Company's restricted cash as of December 31, 2018 and 2017 are as follows (in thousands):

	December 31, 2018	December 31, 2017
Property improvement plan	$ 1,239	$ 4,018
Real estate taxes	2,894	2,768
Insurance	231	228
Hotel furniture and fixtures	4,168	3,199
Debt service	764	2,913
Seasonality	883	370
Expense deposit	10	10
Rent holdback	15	15
Total restricted cash	$ 10,204	$ 13,521

Franchise Agreements

As of December 31, 2018, all of the Company's hotel properties, including those acquired as part of the Moody I Portfolio, are operated under franchise agreements with initial terms ranging from 10 to 20 years. The franchise agreements allow the properties to operate under the franchisor's brand. 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. The Company incurred franchise fee expense of approximately \$6,603,000 and \$2,832,000 for the years ended December 31, 2018 and 2017, respectively, which amounts are included in hotel operating expenses in the accompanying consolidated statements of operations.

11. Income Taxes

The Company has formed a TRS that is a C-corporation for federal income tax purposes and uses the 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.

As of December 31, 2018, the Company had operating loss carry-forwards of \$3,599,399.

The Company had deferred tax assets of \$2,303,000 as of December 31, 2018 and 2017, net of a valuation allowance of \$1,194,000 and \$0 as of December 31, 2018 and December 31, 2017, respectively, related to net operating loss carry forwards of the TRS which are included in prepaid expenses and other assets on the consolidated balance sheets. As of December 31, 2018, the TRS had a net operating loss carry-forward of \$15,776,091, of which \$7,292,853 was transferred from Moody I's taxable REIT subsidiaries when they were merged into the Company's TRS on the date of the closing of the Mergers.

The income tax expense (benefit) for the years ended December 31, 2018 and 2017 consisted of the following (in thousands):

	Years ended December 31,	
	2018	2017
Current expense	\$ 158	\$ 56
Deferred expense (benefit)	(1,194)	610
Valuation provision for deferred benefit	1,194	—
Total expense (benefit), net	\$ 158	\$ 666
Federal	\$ (1,194)	\$ 610
Valuation provision for federal taxes	1,194	—
State	158	56
Total tax expense (benefit)	\$ 158	\$ 666

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

	Years ended December 31,	
	2018	2017
Expected federal tax benefit at statutory rate	\$ (1,998)	\$ (3,020)
Tax impact of REIT election	2,156	3,686
Income tax expense (benefit)	\$ 158	\$ 666

On December 31, 2018, the Company had net deferred tax assets of \$2,303,000 primarily due to past years' federal and state tax operating losses of the TRS. These loss carryforwards will generally expire in 2033 through 2037 if not utilized by then. The Company analyzes state loss carryforwards on a state by state basis and records a valuation allowance when management deems it more likely than not that future results will not generate sufficient taxable income in the respective state to realize the deferred tax asset prior to the expiration of the loss carryforwards. Management believes that it is more likely than not that the results of future operations of the TRS will generate sufficient taxable income to realize the deferred tax assets related to federal and state loss carryforwards prior to the expiration of the loss carryforwards. From time to time, the Company may be subjected to federal, state or local tax audits in the normal course of business.

The recently enacted tax reform bill, informally known as the Tax Cuts and Jobs Act, made significant changes to the U.S. federal income tax laws. For example, the top corporate income tax rate was reduced to 21%, and the corporate alternative minimum tax was repealed. Additionally, for taxable years beginning after December 31, 2017, the Tax Cuts and Jobs Act limits interest deductions for businesses, whether in corporate or pass-through form, to the sum of the taxpayer's business interest income for the tax year and 30% of the taxpayer's adjusted taxable income for the tax year, but the tax rules do permit a real estate business, such as a REIT, to elect out of the interest limitation rules in exchange for depreciating its real estate assets using alternative depreciation system principles. Technical corrections or other amendments to, or administrative guidance interpreting, the Tax Cuts and Job Act may be forthcoming at any time. The Company cannot predict the long-term effect of the Tax Cuts and Jobs Act or any future changes on REITs and their stockholders. For the Company, the reduction in the federal corporate tax rate resulted in a change to the net deferred tax assets of the TRS.

12. Subsequent Events

Distributions Declared

On December 31, 2018, the Company declared a distribution in the aggregate amount of $1,602,154, of which $1,114,635 was paid in cash on January 15, 2019, $352,824 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, $99,395 was paid on February 15, 2019, and $35,300 was deferred pending the return of letters of transmittal by former Moody I stockholders. On January 31, 2019, the Company declared a distribution in the aggregate amount of $1,555,304, of which $1,219,540 was paid in cash on February 15, 2019, $385,053 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, and $49,289 was paid in cash to reduce deferred dividends pending the return of letters of transmittal by former Moody I stockholders. On February 28, 2019, the Company declared a distribution in the aggregate amount of $1,466,518 of which $1,106,960 was paid in cash on March 15, 2019, $359,718 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, and $160 was paid in cash to reduce deferred dividends pending the return of letters of transmittal by former Moody I stockholders.

Approval of Proposed Acquisition of Residence Inn Houston Medical Center

On March 29, 2019, the Company's board of directors authorized the acquisition by the Company of a 182-unit Residence Inn by Marriott hotel property located in Houston, Texas (the "Residence Inn Houston Medical Center") from an affiliate of Sponsor for an aggregate purchase price, exclusive of closing costs, of approximately $52.0 million. The Company intends to finance a portion of the purchase price of the Residence Inn Houston Medical Center (i) by assuming an existing loan in the amount of $29.1 million secured by a lien and security interest in the Residence Inn Houston Medical Center, and (ii) by obtaining an additional unsecured loan in the amount of $22.9 million from the seller of the Residence Inn Houston Medical Center. The acquisition is subject to various conditions to closing and there can be no guarantee that the Company will complete the acquisition on the terms described above, or at all.

MOODY NATIONAL REIT II, INC.
SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2017

(in thousands)

				Initial Cost to Company				Total Cost					
Description	**Location**	**Ownership Percent**	**Encumbrances**	**Land**	**Building, Improvements, and FF&E**	**Total**	**Cost Capitalized Subsequent to Acquisition**	**Land**	**Building, Improvements and FF&E**	**Total [(1)]**	**Accumulated Depreciation and Amortization**	**Original Date of Construction**	**Date Acquired**
Residence Inn Austin	Austin, Texas	100.0%	$ 16,554	$ 4,310	$ 23,190	$ 27,500(2)	$ 69	$ 4,310	$ 23,259	$ 27,569	$ 2,274	2014	October 15, 2015
Springhill Suites Seattle	Seattle, Washington	100.0%	44,884	14,040	60,060	74,100	2,026	14,040	62,086	76,126	4,319	2001	May 24, 2016
Homewood Suites Woodlands	The Woodlands, Texas	100.0%	9,066	2,828	14,528	17,356	300	2,828	14,828	17,656	675	2001	September 27, 2017
Hyatt Place Germantown	Germantown, Tennessee	100.0%	7,025	1,874	14,200	16,074	57	1,874	14,257	16,131	654	2009	September 27, 2017
Hyatt Place North Charleston	North Charleston, South Carolina	100.0%	7,158	783	13,022	13,805	123	783	13,145	13,928	596	2009	September 27, 2017
Hampton Inn Austin	Austin, Texas	100.0%	10,687	4,329	14,999	19,328	157	4,329	15,156	19,485	789	1997	September 27, 2017
Residence Inn Grapevine	Grapevine, Texas	100.0%	12,341	2,028	23,217	25,245	350	2,028	23,567	25,595	1,046	2007	September 27, 2017
Marriott Courtyard Lyndhurst	Lyndhurst, New Jersey	(3)	–	2,663	36,885	39,548	175	2,663	37,060	39,723	1,655	1990	September 27, 2017
Hilton Garden Inn Austin	Austin, Texas	100.0%	18,401	9,058	20,230	29,288	114	9,058	20,344	29,402	1,068	2002	September 27, 2017
Hampton Inn Great Valley	Frazer, Pennsylvania	100.0%	7,994	1,730	13,554	15,284	1,683	1,730	15,237	16,967	852	1998	September 27, 2017
Embassy Suites Nashville	Nashville, Tennessee	100.0%	41,998	14,805	67,402	82,207	3,374	14,805	70,776	85,581	2,964	2001	September 27, 2017
Homewood Suites Austin	Austin, Texas	100.0%	10,778	4,218	14,617	18,835	749	4,218	15,366	19,584	805	1998	September 27, 2017
TownPlace Suites Fort Worth	Fort Worth, Texas	(3)	–	4,240	7,001	11,241	25	4,240	7,026	11,266	399	1998	September 27, 2017
Hampton Inn Houston	Houston, Texas	100.0%	4,480	3,550	6,410	9,960	2,795	3,550	9,205	12,755	532	1995	September 27, 2017
		Total	$ 191,366	$70,456	$ 329,315	$399,771	$ 11,997	$70,456	$ 341,312	$411,768	$ 18,628		

(1) The aggregate cost of real estate for federal income tax purposes was $354,176,649 as of December 31, 2018.
(2) Includes gain on acquisition of hotel property of $2,000,000.
(3) 100% of sthe Class B membership interests of a joint venture.

MOODY NATIONAL REIT II, INC.
SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION (CONTINUED)
DECEMBER 31, 2018

	2018	2017
Real estate:		
Balance at the beginning of the year	$ 403,180	$ 101,821
Acquisitions	—	298,171
Improvements and additions	8,588	3,188
Dispositions	—	—
Balance at the end of the year	$ 411,768	$ 403,180
Accumulated depreciation:		
Balance at the beginning of the year	$ 6,545	$ 1,831
Depreciation	12,083	4,714
Dispositions	—	—
Balance at the end of the year	$ 18,628	$ 6,545

EXHIBIT B

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2019

OR

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

For the transition period from _________to ___________

Commission file number 000-55778

MOODY NATIONAL REIT II, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland **(State or Other Jurisdiction of Incorporation or Organization)**	**47-1436295** **(I.R.S. Employer Identification No.)**
6363 Woodway Drive, Suite 110 **Houston, Texas** **(Address of Principal Executive Offices)**	**77057** **(Zip Code)**

(713) 977-7500
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None		

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
(Do not check if a smaller reporting company)		Emerging Growth Company	☒

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

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

As of August 5, 2019, there were 12,335,690 shares of the Registrant's common stock issued and outstanding, consisting of 11,791,191 shares of Class A common stock, 123,106 shares of Class I common stock, and 421,393 shares of Class T common stock.

MOODY NATIONAL REIT II, INC.
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MOODY NATIONAL REIT II, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	June 30, 2019	December 31, 2018
ASSETS		
Investments in hotel properties, net	$ 442,464	$ 393,140
Cash and cash equivalents	7,403	8,990
Restricted cash	8,711	10,204
Investment in marketable securities	3,193	—
Accounts receivable, net of allowance for doubtful accounts of $33 at June 30, 2019 and December 31, 2018	1,287	711
Notes receivable from related parties	—	6,750
Prepaid expenses and other assets	3,534	3,014
Deferred franchise costs, net of accumulated amortization of $175 and $134 at June 30, 2019 and December 31, 2018, respectively	892	934
Due from related parties, net	267	1,159
Total Assets	$ 467,751	$ 424,902
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of unamortized debt issuance costs of $3,167 and $3,462 as of June 30, 2019 and December 31, 2018, respectively	$ 241,342	$ 227,174
Note payable to related party	12,745	—
Accounts payable and accrued expenses	8,202	8,089
Dividends payable	1,834	1,744
Operating partnership distributions payable	46	47
Total Liabilities	264,169	237,054
Special Limited Partnership Interests	1	1
Commitments and Contingencies		
Equity:		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 100,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value per share; 1,000,000,000 shares authorized, 12,031 and 10,636 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	120	106
Additional paid-in capital	269,037	237,216
Accumulated deficit	(70,337)	(54,674)
Total stockholders' equity	198,820	182,648
Noncontrolling interests in Operating Partnership	4,761	5,199
Total Equity	203,581	187,847
TOTAL LIABILITIES AND EQUITY	$ 467,751	$ 424,902

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue				
Room revenue	$ 21,795	$ 21,119	$ 39,109	$ 38,466
Other hotel revenue	1,279	1,273	2,421	2,473
Total hotel revenue	23,074	22,392	41,530	40,939
Interest and dividend income	124	364	453	783
Total revenue	23,198	22,756	41,983	41,722
Expenses				
Hotel operating expenses	14,414	13,081	26,530	24,848
Property taxes, insurance and other	1,648	1,330	3,016	2,626
Depreciation and amortization	3,495	2,957	6,669	5,879
Acquisition expenses	2,212	—	2,212	—
Corporate general and administrative	1,508	1,658	3,130	3,699
Total expenses	23,277	19,026	41,557	37,052
Operating income (loss)	(79)	3,730	426	4,670
Other expenses (income)				
Interest expense and amortization of debt issuance costs	3,233	4,299	6,319	8,634
Gain on sale of marketable securities	(9)	—	(9)	—
Unrealized loss (gain) on change in fair value of investment in marketable securities	(126)	—	33	—
Total other expenses	3,098	4,299	6,343	8,634
Loss before income taxes	(3,177)	(569)	(5,917)	(3,964)
Income tax expense (benefit)	46	111	96	(210)
Net loss	(3,223)	(680)	(6,013)	(3,754)
Loss attributable to noncontrolling interests in Operating Partnership	85	20	163	127
Net loss attributable to common stockholders	$ (3,138)	$ (660)	$ (5,850)	$ (3,627)
Per-share information – basic and diluted:				
Net loss attributable to common stockholders	$ (0.27)	$ (0.07)	$ (0.52)	$ (0.40)
Dividends declared	$ 0.44	$ 0.44	$ 0.87	$ 0.87
Weighted average common shares outstanding	11,725	9,296	11,341	9,048

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENT OF EQUITY
Six months ended June 30, 2019
(in thousands)
(unaudited)

	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	Total Equity
Balance at December 31, 2018	—	$ —	10,636	$ 106	$ 237,216	$ (54,674)	316	$ 5,199	$187,847
Issuance of common stock, net of offering costs	—	—	1,425	14	32,372	—	—	—	32,386
Redemption of common stock	—	—	(131)	(1)	(3,029)	—	—	—	(3,030)
Issuance of common stock pursuant to dividend reinvestment plan	—	—	101	1	2,348	—	—	—	2,349
Stock-based compensation	—	—	—	—	130	—	—	—	130
Net loss	—	—	—	—	—	(5,850)	—	(163)	(6,013)
Dividends and distributions declared	—	—	—	—	—	(9,813)	—	(275)	(10,088)
Balance at June 30, 2019	—	$ —	12,031	$ 120	$ 269,037	$ (70,337)	316	$ 4,761	$203,581

See accompanying notes to unaudited consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash flows from operating activities		
Net loss	$ (6,013)	$ (3,754)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	6,669	5,879
Amortization of debt issuance costs	600	1,139
Deferred income tax	—	(274)
Gain on sale of marketable securities	(9)	—
Unrealized loss on change in fair value of investment in marketable securities	33	—
Stock-based compensation	130	258
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(576)	(915)
Prepaid expenses and other assets	(520)	(517)
Accounts payable and accrued expenses	113	(656)
Due from related parties	616	899
Net cash provided by operating activities	1,043	2,059
Cash flows from investing activities		
Repayment of mortgage note receivable from related party	—	11,200
Repayment of note receivable from related party	6,750	4,500
Investment in marketable securities	(7,377)	—
Proceeds from the sale of marketable securities	4,160	—
Improvements and additions to hotel properties	(3,950)	(3,895)
Acquisition of hotel property	(350)	—
Net cash (used in) provided by investing activities	(767)	11,805
Cash flows from financing activities		
Proceeds from issuance of common stock	33,097	21,199
Redemptions of common stock	(3,030)	(782)
Offering costs paid	(435)	(1,900)
Dividends paid	(7,375)	(6,257)
Operating partnership distributions paid	(276)	(276)
Repayment of notes payable	(15,227)	(19,474)
Repayment of notes payable to related party	(9,805)	—
Payment of debt issuance costs	(305)	—
Net cash used in financing activities	(3,356)	(7,490)
Net change in cash and cash equivalents and restricted cash	(3,080)	6,374
Cash and cash equivalents and restricted cash at beginning of period	19,194	21,735
Cash and cash equivalents and restricted cash at end of period	$ 16,114	$ 28,109
Supplemental Disclosure of Cash Flow Activity		
Interest paid	$ 5,723	$ 7,618
Income tax paid	$ 229	$ 221
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Increase (decrease) in accrued offering costs due to related party	$ 276	$ (491)
Issuance of common stock from dividend reinvestment plan	$ 2,349	$ 1,597
Assumption of note payable in connection with acquisition of hotel property	$ 29,100	$ —
Note payable to related party issued in connection with acquisition of hotel property	$ 22,550	$ —
Dividends payable	$ 1,834	$ 1,592
Operating partnership distributions payable	$ 46	$ 46

See accompanying notes to unaudited consolidated financial statements.

1. Organization

As discussed in Note 6, "Equity," Moody National REIT II, Inc. (the "Company") was initially capitalized by Moody National REIT Sponsor, LLC (the "Sponsor"). The Company's fiscal year end is December 31.

As of June 30, 2019, the Company owned (1) interests in fifteen hotel properties located in six states comprising a total of 2,123 rooms and (2) investment in marketable securities of approximately $3.2 million. For more information on the Company's real estate investments, see Note 3, "Investment in Hotel Properties."

On January 20, 2015, the Securities and Exchange Commission (the "SEC") declared the Company's registration statement on Form S-11 effective, and the Company commenced its initial public offering of up to $1,100,000,000 in shares of common stock consisting of up to $1,000,000,000 in shares of the Company's common stock offered to the public, and up to $100,000,000 in shares offered to the Company's stockholders pursuant to its distribution reinvestment plan (the "DRP").

On June 26, 2017, the SEC declared effective the Company's post-effective amendment to its registration statement for the Company's initial public offering, which reallocated the Company's shares of common stock as Class A common stock, $0.01 par value per share ("Class A Shares"), Class D common stock, $0.01 par value per share ("Class D Shares"), Class I common stock, $0.01 par value per share ("Class I Shares"), and Class T common stock, $0.01 par value per share ("Class T Shares" and, together with the Class A Shares, the Class D Shares and the Class I Shares, the "Shares") to be sold on a "best efforts" basis. On January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company's public offering; provided, however that the Advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through an increased acquisition fee, or "Contingent Advisor Payment," as described in Note 7, "Related Party Arrangements."

On January 18, 2018, the Company filed 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 the Company's follow-on public offering. The SEC declared the registration statement effective on July 19, 2018. The Company will continue to offer Shares in the follow-on offering on a continuous basis until July 19, 2021, subject to extension for an additional year by our board of directors.

The Company is currently offering the Shares (i) to the public in the Company's primary offering at a purchase price of $23.32 per share, which is equal to the estimated net asset value ("NAV") per share for each class as of December 31, 2018, and (ii) to the Company's stockholders pursuant to the DRP at a purchase price of $23.32 per share, which is equal to the estimated NAV per share for each class as of December 31, 2018.

As of June 30, 2019, the Company had received and accepted investors' subscriptions for and issued 8,510,459 shares in the Company's initial public offering and follow-on offering, excluding shares issued in connection with the Company's merger with Moody National REIT I, Inc. and including 393,191 shares pursuant to the DRP, resulting in gross offering proceeds of $198,665,114. As of June 30, 2019, the Company had received and accepted investors' subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with the Company's merger with Moody National REIT I, Inc. and including 214,764 shares pursuant to the DRP in the initial public offering, resulting in gross offering proceeds of $147,415,625 for the initial public offering. As of June 30, 2019, the Company had received and accepted investors' subscriptions for and issued 2,384,466 shares in the follow-on offering, including 178,427 shares pursuant to the DRP in the follow-on offering, resulting in gross offering proceeds of $51,249,489 for the follow-on offering.

The Company's advisor is Moody National Advisor II, LLC (the "Advisor"), a Delaware limited liability company and an affiliate of the Sponsor. Pursuant to an advisory agreement among the Company, the OP (defined below) and the Advisor (the "Advisory Agreement"), and subject to certain restrictions and limitations therein, the 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.

Substantially all of the Company's business is conducted through Moody National Operating Partnership II, LP, a Delaware limited partnership (the "OP"). The Company is the sole general partner of the OP. The initial limited partners of the OP were Moody OP Holdings II, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company ("Moody Holdings II"), and Moody National LPOP II, LLC ("Moody LPOP II"), an affiliate of the Advisor. Moody Holdings II initially invested $1,000 in the OP in exchange for limited partnership interests, and Moody LPOP II has invested $1,000 in the OP in exchange for a separate class of limited partnership interests (the "Special Limited Partnership Interests"). As the Company accepts subscriptions for shares of common stock, it transfers substantially all of the net proceeds from such sales to the OP as a capital contribution. The limited partnership agreement of the OP 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 properties, the OP will pay all of the Company's administrative costs and expenses, and such expenses will be treated as expenses of the OP.

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.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during 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 incurred by the Advisor on behalf of the Company. Pursuant to the Advisory Agreement between the Company and the Advisor, the Company is obligated to reimburse the Advisor or its affiliates, as applicable, for organization and offering costs incurred by the 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, the Advisor is obligated to reimburse the Company to the extent aggregate 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 the Advisor's employees and employees of the Advisor's affiliates and others. Any reimbursement of the Advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by the Advisor. The Company's organization and offering costs incurred in connection with the Company's initial public offering did not exceed 15% of the gross offering proceeds from the sale of our shares of common stock in such offering.

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 the Advisor.

As of June 30, 2019, total offering costs for the initial public offering and the follow-on offering were $20,055,274, comprised of $12,333,647 of offering costs incurred directly by the Company and $7,721,627 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, total offering costs for the initial public offering were $18,365,295, comprised of $12,333,647 of offering costs incurred directly by the Company and $6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, total offering costs for the follow-on offering were $1,689,980, comprised of $0 of offering costs incurred directly by the Company and $1,689,980 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, the Company had $327,800 due to the Advisor for reimbursable offering costs.

Income Taxes

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. The Company did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the years ended December 31, 2015 and 2014, including not having 100 shareholders for a sufficient number of days in 2015. Prior to qualifying to be taxed as a REIT, the Company was subject to normal federal and state corporation income taxes.

Provided that the Company continues to qualify as a REIT, it 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 satisfies the other organizational and operational requirements for qualification as a REIT. 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 a wholly-owned taxable REIT subsidiary ("TRS") that is subject to federal, state and local income taxes.

The Company accounts for income taxes of its TRS 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. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period prior to when the new rates become effective. 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 June 30, 2019.

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 positions in the current period results of operations, if necessary. The Company has tax years 2014 through 2017 remaining subject to examination by various federal and state tax jurisdictions. For more information, see Note 11, "Income Taxes."

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 in 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 has elected the fair value option in recording its investment in marketable securities whereby unrealized holding gains and losses on available-for-sale securities are included in earnings. With the exception of the Company's fixed-rate notes receivable from related parties and notes payable, the carrying amounts of other financial instruments, which include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, notes payable, and accounts payable and accrued expenses, approximate their fair values due to their short-term nature. For the fair value of the Company's note receivable from related parties and notes payable, see Note 4 and "Notes Receivable from Related Parties" and Note 5, "Debt."

Concentration of Risk

As of June 30, 2019, 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 any 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 eight of its fifteen hotel properties are located in one state, Texas.

Valuation and Allocation of Hotel Properties — Acquisition

Upon acquisition, the purchase price of hotel properties 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 values are derived from appraisals and building values 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 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 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. The Company uses Level 3 inputs to value acquired properties. 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 require judgment and are subject to being imprecise; accordingly, if different estimates and assumptions were derived, 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 costs of ordinary repairs and maintenance are charged to expense when incurred.

Depreciation expense is computed using the straight-line method 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

Impairments

The Company monitors events and changes in circumstances indicating that the carrying amount of a hotel property 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 three and six months ended June 30, 2019 and 2018.

In evaluating a hotel property for impairment, the Company makes several estimates and assumptions, including, but not limited to, the projected date of disposition of the property, the estimated future cash flows of the property during the Company's ownership and the projected sales price of the property. 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 property which could then 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. Revenue is recorded net of any sales and other taxes collected from customers. Interest income is recognized when earned. Amounts received prior to guest arrival are recorded as advances 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 property taxes, as well as reserves for property improvements, replacement of furniture, fixtures, and equipment and debt service, as required by certain management or mortgage and term debt agreements restrictions and provisions.

Investment in Marketable Securities

Investment in marketable securities of $3,193,200 at June 30, 2019 consists primarily of common stock investments in other REITs and which are classified as available-for-sale securities and recorded at fair value. The Company has elected the fair value option whereby unrealized holding gains and losses on available-for-sale securities are included in earnings. For the three months ended June 30, 2019 and 2018, unrealized gain on investment in marketable securities was $125,747 and $0, respectively. For the six months ended June 30, 2019 and 2018, unrealized loss on investment in marketable securities was $33,141 and $0, respectively. For the three months ended June 30, 2019 and 2018, realized gain on investment in marketable securities was $8,824 and $0, respectively. For the six months ended June 30, 2019 and 2018, realized gain on investment in marketable securities was $8,824 and $0, respectively.

Dividend income is recognized when earned. For the three months ended June 30, 2019 and 2018, dividend income of $59,400 and $0, respectively, was recognized and is included in interest and dividend income on the consolidated statements of operations. For the six months ended June 30, 2019 and 2018, dividend income of $187,770 and $0, respectively, was recognized and is included in interest and dividend income on the consolidated statements of operations.

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 from Related Parties

The Company reviews the notes receivable from related parties 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 three and six months ended June 30, 2019 or 2018.

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 $175,062 and $133,518 as of June 30, 2019 and December 31, 2018, respectively.

Expected future amortization of deferred franchise costs as of June 30, 2019 is as follows (all amounts in thousands):

Years Ending December 31,	
2019	$ 41
2020	83
2021	83
2022	83
2023	80
Thereafter	522
Total	$ 892

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. 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 interest method. Accumulated amortization of debt issuance costs was $3,602,679 and $3,003,186 as of June 30, 2019 and December 31, 2018, respectively. Expected future amortization of debt issuance costs as of June 30, 2019 is as follows (all amounts in thousands):

Years Ending December 31,	
2019	$ 395
2020	568
2021	567
2022	567
2023	522
Thereafter	548
Total	$ 3,167

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 common stock totaling 2,500 and 7,500 shares as of June 30, 2019 and December 31, 2018, 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.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company adopted this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on the Company's consolidated financial statements and related disclosures, the Company believes the impact will be minimal to the Company's ongoing consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities," which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The Company adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on the Company's ongoing consolidated financial statements.

3. Investment in Hotel Properties

The following table sets forth summary information regarding the Company's investment in hotel properties as of June 30, 2019 (all $ amounts in thousands):

Property Name	Date Acquired	Location	Ownership Interest	Original Purchase Price[1]	Rooms	Mortgage Debt Outstanding[2]
Residence Inn Austin	October 15, 2015	Austin, Texas	100%	$ 27,500	112	$ 16,427
Springhill Suites Seattle	May 24, 2016	Seattle, Washington	100%	74,100	234	44,526
Homewood Suites Woodlands	September 27, 2017[5]	The Woodlands, Texas	100%	17,356	91	8,991
Hyatt Place Germantown	September 27, 2017[5]	Germantown, Tennessee	100%	16,074	127	6,946
Hyatt Place North Charleston	September 27, 2017[5]	North Charleston, South Carolina	100%	13,806	113	7,088
Hampton Inn Austin	September 27, 2017[5]	Austin, Texas	100%	19,328	123	10,590
Residence Inn Grapevine	September 27, 2017[5]	Grapevine, Texas	100%	25,245	133	12,228
Marriott Courtyard Lyndhurst	September 27, 2017[5]	Lyndhurst, New Jersey	[3]	39,547	227	—
Hilton Garden Inn Austin	September 27, 2017[5]	Austin, Texas	100%	29,288	138	18,241
Hampton Inn Great Valley	September 27, 2017[5]	Frazer, Pennsylvania	100%	15,285	125	7,928
Embassy Suites Nashville	September 27, 2017[5]	Nashville, Tennessee	100%	82,207	208	41,626
Homewood Suites Austin	September 27, 2017[5]	Austin, Texas	100%	18,835	96	10,690
Townplace Suites Fort Worth	September 27, 2017[5]	Fort Worth, Texas	[4]	11,242	95	—
Hampton Inn Houston	September 27, 2017[5]	Houston, Texas	100%	9,958	119	4,428
Residence Inn Houston Medical Center	April 29, 2019[6]	Houston, Texas	100%	52,000	182	41,845
Totals				$ 451,771	2,123	$ 231,554

(1) Excludes closing costs and includes gain on acquisition.
(2) As of June 30, 2019.
(3) The Marriott Courtyard Lyndhurst is owned by MN Lyndhurst Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Marriott Courtyard Lyndhurst is pledged as security for the Term Loan. See Note 5, "Debt."
(4) The Townplace Suites Fort Worth is owned by MN Fort Worth Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Townplace Suites Fort Worth is pledged as security for the Term Loan. See Note 5, "Debt."
(5) Property acquired on September 27, 2017 as a result of the merger of Moody National REIT I, Inc. ("Moody I") with and into the Company (the "Merger") and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I ("Moody I OP"), with and into the OP (the "Partnership Merger," and together with the Merger, the "Mergers").
(6) Includes balance of $29,100,000 for first mortgage loan and balance of $12,745,218 for promissory note payable to seller of the Residence Inn Houston Medical Center in the original principal amount of $22,550,000.

Investment in hotel properties consisted of the following at June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019	December 31, 2018
Land	$ 76,936	$ 70,456
Buildings and improvements	338,637	297,680
Furniture, fixtures and equipment	52,146	43,632
Total cost	467,719	411,768
Accumulated depreciation	(25,255)	(18,628)
Investment in hotel properties, net	$ 442,464	$ 393,140

Acquisition of Residence Inn Houston Medical Center

On the April 29, 2019 ("Closing Date"), Moody National Kirby-Houston Holding, LLC, a wholly-owned subsidiary of the OP ("Houston Holding"), acquired fee simple title to the Residence Inn Houston Medical Center ("Residence Inn Houston") located in Houston, Texas from a related party for an aggregate purchase price, excluding acquisition costs, of $52,000,000, inclusive of (i) Houston Holding's assumption as of the Closing Date of an existing mortgage loan from an institutional lender ("Lender"), secured by the Residence Inn Houston, with an outstanding balance as of the Closing Date of $28,180,000 ("Existing Loan"), and (ii) financing from the Seller in the amount of $22,900,000 ("Note Payable to Related Party"). See below for an additional discussion of the Existing Loan and the Note Payable to Related Party. In connection with the acquisition of the Residence Inn Houston, Advisor earned an aggregate acquisition fee of $2,002,000 (inclusive of a $1,222,000 contingent acquisition fee paid to reimburse Advisor for upfront selling commissions and dealer manager fees paid by Advisor) and a financing coordination fee of $290,000.

The Residence Inn Houston is a 16-story select-service hotel consisting of 182 guest rooms located in Houston, Texas. The Residence Inn Houston is located in the Texas Medical Center, the world's largest medical center, and is located adjacent to NRG Park area. The Residence Inn Houston includes a four and a half story structured parking garage.

Houston Holding leases the Residence Inn Houston to Moody National Kirby-Houston MT, LLC ("Master Tenant"), an indirect, wholly-owned subsidiary of OP, pursuant to a Hotel Lease Agreement between Houston Holding and the Master Tenant ("Hotel Lease"). Moody National Hospitality Management, LLC, a related party ("Property Manager"), manages the Residence Inn Houston pursuant to a Hotel Management Agreement between the Property Manager and the Master Tenant ("Management Agreement"), which Management Agreement was assigned to Master Tenant by Seller on the Closing Date.

Existing Loan

On the Closing Date, pursuant to an Assignment and Assumption Agreement, Houston Holding assumed all of the Seller's rights, duties and obligations under and with respect to the Existing Loan and all loan documents associated therewith, including, without limitation, (i) a Promissory Note, dated September 13, 2017, in the original principal amount of $29,100,000, evidencing the Existing Loan and payable to the Lender, or the Note, (ii) the Construction Loan Agreement, dated September 13, 2017, between the Seller and the Lender("Loan Agreement"), and (iii) the Deed of Trust, Security Agreement and Financing Statement, dated September 13, 2017, for the benefit of Lender, securing payment of the Note (" Deed of Trust.")

The Existing Loan bears interest at a rate of 5% per annum. Payments of interest only will be due on the Existing Loan on a monthly basis through October 1, 2019, and thereafter equal monthly payments of principal and interest in the amount of $170,116 will be due. Upon and during any event of default by Houston Holdings under the Note, the Loan Agreement or any other loan document relating to the Existing Loan, the Existing Loan will bear interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 17%. The entire outstanding principal balance of the Existing Loan and all accrued interest thereon and all other amounts payable under the Note is due and payable in full on October 1, 2014. Houston Holding may not prepay the Existing Loan, in whole or in part, prior to November 1, 2021. Thereafter, upon at least 30 but not more than 90 days prior written notice to the Lender, Houston Holding may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in full (but not in part), provided that such prepayment will be subject to certain additional prepayment fees as set forth in the Note.

The Note provides for customary events of default, including failure by Houston Holding to pay when due and payable any amounts payable under the terms of the Note. Upon any event of default by Houston Holding, Lender may accelerate the maturity date of the Loan and declare the entire unpaid principal balance of the Loan and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

The performance of the obligations of Houston Holding under the Existing Loan is secured by, among other things, a security interest in the Residence Inn Houston and other collateral granted to the Lender pursuant to the Deed of Trust. Pursuant to payment and completion guaranties in favor of the Lender, Brett C. Moody has agreed to irrevocably and unconditionally guarantee the prompt and unconditional payment to the Lender and its successors and assigns of all obligations and liabilities of Houston Holding for which Houston Holding may be personally liable with respect to the Existing Loan.

Note Payable to Related Party

On the Closing Date, the OP issued a promissory note payable to Seller in the original principal amount of $22,550,000, evidencing the note payable to related party (the "Note Payable to Related Party"). The Note Payable to Related Party bears interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 3%. Any amounts payable under the Note Payable to Related Party which are not paid by our operating partnership when due will bear interest at a past due rate equal to the lesser of the maximum rate permitted by applicable law and 18%. On the Closing Date, our operating partnership made a principal payment of $7,824,082, and beginning on May 15, 2019 and ending on October 15, 2019, our operating partnership will make a monthly principal and interest payment of $2,000,000. The entire outstanding principal balance of the Note Payable to Related Party, together with all accrued interest thereon and all other amounts payable under the Note Payable to Related Party, is due and payable in full on December 15, 2019. If our operating partnership fails to make when due any payment under the Note Payable to Related Party, our operating partnership will pay to Seller on demand a late fee equal to 5% of the amount of such payment. Upon at least five days prior written notice to the Seller, our operating partnership may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in whole or in part, without penalty. The balance of the Note Payable to Related Party was $12,745,218 as of June 30, 2019.

The Note Payable to Related Party provides for customary events of default, including failure by our operating partnership to pay when due and payable any amounts payable under the terms of the Note Payable to Related Party. Upon any event of default by our operating partnership, Seller may accelerate the maturity date of the Note Payable to Related Party and declare the entire unpaid principal balance of the Note Payable to Related Party and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

The following table presents a summary of assets acquired and the purchase price consideration in the acquisition of the Residence Inn Houston (in thousands):

Assets acquired at fair value:	
Land	$ 6,480
Building	40,920
Furniture, fixtures and equipment	4,600
Net assets acquired at fair value	$ 52,000
Purchase price consideration:	
Cash	$ 350
Existing Loan	29,100
Note payable to related party	22,550
Purchase price consideration	$ 52,000

The results of operations of the Residence Inn Houston have been included in the consolidated statement of operations as of the date of acquisition of April 29, 2019. The following unaudited pro forma consolidated financial information for the three and six months ended June 30, 2019 and 2018 is presented as if the Company acquired the Residence Inn Houston on January 1, 2018. This information is not necessarily indicative of what the actual results of operations would have been had the Company completed the acquisition of the Residence Inn Houston on January 1, 2018, nor does it purport to represent the Company's future operations (in thousands, except per common share amounts):

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Revenue	$ 23,942	$ 25,172	$ 45,116	$ 46,528
Net loss	(891)	(260)	(3,266)	(2,918)
Net loss attributable to common shareholders	(807)	(240)	(3,106)	(2,791)
Net loss per common share - basic and diluted	$ (0.07)	$ (0.03)	$ (0.27)	$ (0.31)

4. Notes Receivable from Related Party

As of June 30, 2019 and December 31, 2018, the amount of the note receivable from related party was $0 and $6,750,000, respectively.

On August 21, 2015, Moody I 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 "Subject Property"). The Company acquired the Related Party Note in connection with the Mergers.

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. On August 30, 2018, the maturity date was extended to April 30, 2019. The Related Party Note was paid in full on April 29, 2019.

Interest income from notes receivable from related parties was $64,382 and $210,400 for the three months ended June 30, 2019 and 2018, respectively, and $264,082 and $473,300 for the six months ended June 30, 2019 and 2018, respectively. Interest receivable on notes receivable from related parties was $0 and $810,000 as of June 30, 2019 and December 31, 2018, respectively.

The estimated fair value of the note receivable from related party as of December 31, 2018 was $6,750,000. The fair value of the note receivable from related party was estimated 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.

5. Debt

The Company's aggregate borrowings are reviewed by the Company's board of directors at least quarterly. Under the Company's 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 June 30, 2019, the Company's debt levels did not exceed 300% of the value of the Company's net assets, as defined above.

As of June 30, 2019 and December 31, 2018, the Company's mortgage notes payable secured by the respective assets, consisted of the following (all $ amounts in thousands):

Loan	Principal as of June 30, 2019	Principal as of December 31, 2018	Interest Rate at June 30, 2019	Maturity Date
Residence Inn Austin[1]	$ 16,427	$ 16,554	4.580%	November 1, 2025
Springhill Suites Seattle[1]	44,526	44,884	4.380%	October 1, 2026
Homewood Suites Woodlands[1]	8,991	9,066	4.690%	April 11, 2025
Hyatt Place Germantown[1]	6,946	7,025	4.300%	May 6, 2023
Hyatt Place North Charleston[1]	7,088	7,158	5.193%	August 1, 2023
Hampton Inn Austin[1]	10,590	10,687	5.426%	January 6, 2024
Residence Inn Grapevine[1]	12,228	12,341	5.250%	April 6, 2024
Hilton Garden Inn Austin[1]	18,241	18,401	4.530%	December 11, 2024
Hampton Inn Great Valley[1]	7,928	7,994	4.700%	April 11, 2025
Embassy Suites Nashville[1]	41,626	41,998	4.2123%	July 11, 2025
Homewood Suites Austin[1]	10,690	10,778	4.650%	August 11, 2025
Hampton Inn Houston[1]	4,428	4,480	7.500%	April 28, 2023
Residence Inn Houston Medical Center[4]	29,100	—	5.000%	October 1, 2024
Term Loan[2]	25,700	26,300	30-day LIBOR plus 3.750%	September 27, 2019
Short Term Loan[3]	—	12,970	30-day LIBOR plus 2.50%	April 24, 2019
Total notes payable	244,509	230,636		
Less unamortized debt issuance costs	(3,167)	(3,462)		
Total notes payable, net of unamortized debt issuance costs	$ 241,342	$ 227,174		

(1) Monthly payments of principal and interest are due and payable until the maturity date.
(2) Monthly payments of principal and interest are due and payable until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019, as discussed below.
(3) Monthly payments of principal and interest were due and payable until the maturity date. All unpaid principal and interest thereon was repaid in full on April 24, 2019, the maturity date.
(4) Monthly payments of interest due and payable until October 2019. Monthly payments of principal and interest due and payable beginning in November 2019 until the maturity date.

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

Scheduled maturities of the Company's notes payable as of June 30, 2019 are as follows (all amounts in thousands):

Years ending December 31,		
2019	$	27,464
2020		4,043
2021		4,270
2022		4,479
2023		21,095
Thereafter		183,158
Total	$	244,509

Term Loan Agreement

On September 27, 2017, the OP, as borrower, the Company and certain of the Company's subsidiaries, as guarantors, and KeyBank National Association ("KeyBank," and together with any other lender institutions that may become parties thereto, the "Lenders"), as agent and lender, entered into a term loan agreement (as amended, the "Term Loan Agreement"). Pursuant to the Term Loan Agreement, the Lenders have made a term loan to the OP in the principal amount of $70.0 million (the "Term Loan"). Capitalized terms used in this description of the Term Loan and not defined herein have the same meaning as in the Term Loan Agreement. The Company 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, payable monthly, 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 London Interbank Offered Rate ("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, the OP 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 Company began making principal payments of $1.5 million per month in November 2017.

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 the Company's obligation under the Term Loan Agreement to raise $10 million per quarter in gross offering proceeds to the calendar quarter June 30, 2018. The Company satisfied such obligation with respect to the calendar quarter ended June 30, 2018.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018. On October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan, 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 of $26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, will be due on the maturity date of the Term Loan. In addition, the Term Loan originally provided for monthly interest payments, for mandatory prepayments 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% the OP's Consolidated Net Cash Flow or (ii) $1,500,000. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal will be $100,000 per month, and the margins over the base rate or LIBOR rate will be 2.75% and 3.75%, respectively. 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.

The performance of the Company's obligations under the Term Loan Agreement is secured by, among other things, mortgages on the Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth, and by pledges of certain portions of the ownership interests in certain subsidiaries of the OP. Pursuant to a Guaranty Agreement in favor of KeyBank, the Company and certain of its 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 Term Loan Agreement.

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.

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

If the Company violates financial and other covenants contained in any of the mortgage loans or Term Loan described above, the Company 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, the Company can make no assurance that it 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 the Company. If a default under the mortgage loans or the Term Loan were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offering of debt securities, or additional equity financings. If the company is unable to refinance its debt on acceptable terms, including at maturity of the mortgage loans or the Term Loan, it may be forced to dispose of the 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, increase interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to stockholders.

Requirements associated with a mortgage loan to deposit and disburse operating receipts in a specified manner may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is 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 the Company.

As of June 30, 2019, the Company was in compliance with all debt covenants, current on all loan payments and not otherwise in default under the mortgage loans secured by the Company's properties or the Term Loan.

Short Term Loan

On October 24, 2018, the Company and the OP issued a promissory note in favor of Green Bank, N.A. in the original principal amount of $16,000,000 (the "Short Term Loan"). The proceeds of the promissory note were used to retire a portion of the Term Loan, resulting in a balance of $26.5 million for the Term Loan as of October 24, 2018. The note bore interest at an annual rate equal to the one-month LIBOR plus 2.5% and the Company and the OP were collectively required to make a monthly payment on the outstanding principal and interest of the promissory note equal to the greater of $1,500,000 and 50% of our consolidated net cash flow. The entire outstanding principle amount of the Short Term Loan and all accrued interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

The estimated fair value of the Company's notes payable as of June 30, 2019 and December 31, 2018 was $245,000,000 and $231,000,000, respectively. The fair value of the notes payable 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.

6. Equity

Capitalization

Under its Charter, the Company has the authority to issue 1,000,000,000 shares of common stock and 100,000,000 shares of preferred stock. All shares of such stock have a par value of $0.01 per share. On August 15, 2014, the Company sold 8,000 shares of common stock to the Sponsor at a purchase price of $25.00 per share for an aggregate purchase price of $200,000, which was paid in cash. As of June 30, 2019, there were a total of 12,029,983 shares of the Company's common stock issued and outstanding, including 8,510,459 shares, net of redemptions, issued in the Company's public offerings, 3,466,524 shares, net of redemptions, issued in connection with the Merger, the 8,000 shares sold to Sponsor and 45,000 shares of restricted stock issued to the Company's directors, as discussed in Note 8, "Incentive Award Plan," as follows:

Class	Shares Outstanding as of June 30, 2019
Class A Shares	11,507,016
Class T Shares	403,911
Class I Shares	119,056
Total	12,029,983

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 for 2019 and 2018 that will be (1) calculated daily and reduced for class-specific expenses; (2) 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) calculated at a rate of $1.7528 per share of the Company's common stock per year, or approximately $0.00480 per share per day, before any class-specific expenses. The Company first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the three and six months ended June 30, 2019 and 2018 (in thousands):

Period	Cash Distribution	Distribution Paid Pursuant to DRP[1]	Total Amount of Distribution
First Quarter 2019	$ 3,517	$ 1,121	$ 4,638
Second Quarter 2019	3,858	1,228	5,086
Total	$ 7,375	$ 2,349	$ 9,724
First Quarter 2018	$ 3,218	$ 634	$ 3,852
Second Quarter 2018	3,039	963	4,002
Total	$ 6,257	$ 1,597	$ 7,854

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

Noncontrolling Interest in Operating Partnership

Noncontrolling interest in the OP at June 30, 2019 and December 31, 2018 was $4,761,581 and $5,199,310, respectively, which represented 316,037 common units in the OP issued in connection with the acquisition of the Springhill Suites Seattle and the Partnership Merger, and is reported in equity in the consolidated balance sheets. Loss from the OP attributable to these noncontrolling interests was $84,793 and $20,110 for the three months ended June 30, 2019 and 2018, respectively, and was $163,031 and $126,703 for the six months ended June 30, 2019 and 2018, respectively.

7. Related Party Arrangements

Pursuant to the Advisory Agreement, the Advisor and certain affiliates of Advisor receive fees and compensation in connection with the Offering and the acquisition, management and sale of the Company's real estate investments. In addition, in exchange for $1,000 and in consideration of services to be provided by the Advisor, the OP has issued an affiliate of the Advisor, Moody LPOP II, a separate, special limited partnership interest, in the form of Special Limited Partnership Interests. For further detail, please see Note 9, "Subordinated Participation Interest."

Sales Commissions and Dealer Manager Fees

From January 1, 2017 through June 12, 2017, the Company paid Moody Securities an up-front selling commission of up to 7.0% of the gross proceeds of what are now the Class A Shares sold in the primary offering and a dealer manager fee of up to 3.0% of the gross proceeds of what are now the Class A Shares sold in the primary offering. Beginning on June 12, 2017, the Company reallocated its common shares into four separate share classes, Class A Shares, Class T Shares, Class I Shares and Class D Shares, with the differing fees for each class of shares

Beginning January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company's public offering; provided, however, that the Advisor intends to recoup the funding of such amounts through the Contingent Advisor Payment (described below). In connection with the implementation of the Contingent Advisor Payment, the Company reduced the up-front selling commission paid with respect to the Class A Shares from up to 7.0% to up to 6.0% of the gross proceeds of the Class A Shares sold in the primary offering and reduced the dealer manager fee paid with respect to the Class A Shares from up to 3.0% to up to 2.5% of the gross proceeds of the Class A Shares sold in the primary offering. As of June 30, 2019, the Company and the Advisor had paid Moody Securities $9,423,133 in selling commissions and trailing stockholder servicing fees related to the offering and $2,099,018 in dealer manager fees related to the offering, which amounts have been recorded as a reduction to additional paid-in capital in the consolidated balance sheets and $5,214,191 of which could potentially be recouped by the Advisor at a later date through the Contingent Advisor Payment.

Organization and Offering Expenses

The Advisor will receive reimbursement for organizational and offering expenses incurred on the Company's behalf, but only to the extent that such reimbursements do not exceed actual expenses incurred by Advisor and do not cause the cumulative selling commissions, dealer manager fees, stockholder servicing fees and other organization and offering expenses borne by the Company to exceed 15.0% of gross offering proceeds from the sale of shares in the Company's follow-on offering as of the date of reimbursement.

As of June 30, 2019, total offering costs for the initial public offering and the follow-on offering were $20,055,274, comprised of $12,333,647 of offering costs incurred directly by the Company and $7,721,627 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, total offering costs for the initial public offering were $18,365,295, comprised of $12,333,647 of offering costs incurred directly by the Company and $6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, total offering costs for the follow-on offering were $1,689,980, comprised of $0 of offering costs incurred directly by the Company and $1,689,980 in offering costs incurred by and reimbursable to the Advisor. As of June 30, 2019, the Company had $327,800 due from the Advisor for reimbursable offering costs.

Acquisition Fees

As of January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees in connection with the Company's public offering. In connection therewith, as of January 16, 2018, the acquisition fee payable to the Advisor was increased from 1.5% to up to a maximum of 3.85% of (1) the cost of all investments the Company acquires (including the Company's pro rata share of any indebtedness assumed or incurred in respect of the investment and exclusive of acquisition and financing coordination fees), (2) the Company's allocable cost of investments acquired in a joint venture (including the Company's pro rata share of the purchase price and the Company's pro rata share of any indebtedness assumed or incurred in respect of that investment and exclusive of acquisition fees and financing coordination fees) or (3) the amount funded by the Company to acquire or originate a loan or other investment, including mortgage, mezzanine or bridge loans (including any third-party expenses related to such investment and exclusive of acquisition fees and financing coordination fees). The up to 3.85% acquisition fee consists of (i) a 1.5% base acquisition fee and (ii) up to an additional 2.35% contingent acquisition fee (the "Contingent Advisor Payment"). The 1.5% base acquisition fee will always be payable upon the acquisition of an investment by the Company, unless the receipt thereof is waived by the Advisor. The amount of the Contingent Advisor Payment to be paid in connection with the closing of an acquisition will be reviewed on an acquisition-by-acquisition basis and such payment shall not exceed the then-outstanding amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees at the time of such closing. For purposes of determining the amount of Contingent Advisor Payment payable, the amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees and considered "outstanding" will be reduced by the amount of the Contingent Advisor Payment previously paid and taking into account the amount of the Contingent Advisor Holdback. The Advisor may waive or defer all or a portion of the acquisition fee at any time and from time to time, in the Advisor's sole discretion. For the three months ended June 30, 2019 and 2018, the Company incurred acquisition fees of $2,002,000, composed of a base acquisition fee of $780,000 and a contingent acquisition fee of $1,222,000, and $0, respectively, and for the six months ended June 30, 2019 and 2018, the Company incurred acquisition fees of $2,002,000, composed of a base acquisition fee of $780,000 and a contingent acquisition fee of $1,222,000, and $0, respectively, payable to Advisor, which are recorded in the accompanying consolidated statements of operations.

Reimbursement of Acquisition Expenses

The Advisor may also be reimbursed by the Company for actual expenses related to the evaluation, selection and acquisition of real estate investments, regardless of whether the Company actually acquires the related assets. The Company did not reimburse the Advisor for any acquisition expenses during the three and six months ended June 30, 2019 and 2018.

Financing Coordination Fee

The Advisor also receives financing coordination fees of 1% of the amount available under any loan or line of credit made available to the Company and 0.75% of the amount available or outstanding under any refinanced loan or line of credit. The Advisor will pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for the Company. For the three months ended June 30, 2019 and 2018, the Company incurred financing coordination fees of $290,000 and $0, respectively, and for the six months ended June 30, 2019 and 2018, the Company incurred financing coordination fees of $290,000 and $0, respectively, payable to Advisor, which are recorded in the accompanying consolidated statements of operations.

Property Management Fee

The Company pays Moody National Hospitality Management, LLC ("Property Manager") a monthly hotel management fee equal to 4.0% of the monthly gross operating revenues from the properties managed by Property Manager for services it provides in connection with operating and managing properties. The hotel management agreements between the Company and the Property Manager generally have initial terms of ten years. Property Manager may pay some or all of the compensation it receives from the Company to a third-party property manager for management or leasing services. In the event that the Company contracts directly with a non-affiliated third-party property manager, the Company will pay Property Manager a market-based oversight fee. The Company will reimburse the costs and expenses incurred by Property Manager on the Company's behalf, including legal, travel and other out-of-pocket expenses that are directly related to the management of specific properties, but the Company will not reimburse Property Manager for general overhead costs or personnel costs other than employees or subcontractors who are engaged in the on-site operation, management, maintenance or access control of the properties. For the three months ended June 30, 2019 and 2018, the Company paid the Property Manager property management fees of $922,972 and $894,772, respectively, and accounting fees of $107,500 and $105,000. For the six months ended June 30, 2019 and 2018, the Company paid the Property Manager property management fees of $1,661,220 and $1,636,681, respectively, and accounting fees of $212,500 and $210,000, respectively, which are included in hotel operating expenses in the accompanying consolidated statements of operations.

The Company pays an annual incentive fee to Property Manager. Such annual incentive fee is equal to 15% of the amount by which the operating profit from the properties managed by Property Manager for such fiscal year (or partial fiscal year) exceeds 8.5% of the total investment of such properties. Property Manager may pay some or all of this annual incentive fee to third-party sub-property managers for management services. For purposes of this annual incentive fee, "total investment" means the sum of (i) the price paid to acquire a property, including closing costs, conversion costs, and transaction costs; (ii) additional invested capital and (iii) any other costs paid in connection with the acquisition of the property, whether incurred pre- or post-acquisition. As of June 30, 2019, the Company had not paid any annual incentive fees to Property Manager.

Asset Management Fee

The Company pays the Advisor a monthly asset management fee of one-twelfth of 1.0% of the cost of investment of all real estate investments the Company acquires. For the three months ended June 30, 2019 and 2018, the Company incurred asset management fees of $1,136,000 and $1,058,000, respectively, and for the six months ended June 30, 2019 and 2018, the Company incurred asset management fees of $2,182,000 and $2,122,000, respectively, payable to Advisor, which are recorded in corporate general and administrative expenses in the accompanying consolidated statements of operations.

Disposition Fee

The Company also pays the Advisor or its affiliates a disposition fee in an amount of up to one-half of the brokerage commission paid on the sale of an asset, but in no event greater than 3% of the contract sales price of each property or other investment sold; provided, however, in no event may the aggregate disposition fees paid to the Advisor and any real estate commissions paid to unaffiliated third parties exceed 6% of the contract sales price. As of June 30, 2019, the Company had not incurred any disposition fees payable to the Advisor.

Operating Expense Reimbursement

The Company will reimburse the Advisor for all expenses paid or incurred by the Advisor in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse the Advisor for any amount by which the Company's aggregate operating expenses (including the asset management fee payable to the Advisor) 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 the Advisor for expenses in excess of the 2%/25% Limitation if a majority of the Company's independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended June 30, 2019, total operating expenses of the Company were $6,120,146, which included $4,811,745 in operating expenses incurred directly by the Company and $1,308,401 incurred by the Advisor on behalf of the Company. Of the $6,120,146 in total operating expenses incurred during the four fiscal quarters ended June 30, 2019, $0 exceeded the 2%/25% Limitation. The Company reimbursed the Advisor $1,308,000 during the four fiscal quarters ended June 30, 2019. As of June 30, 2019, the Company had $612,000 due from the Advisor for operating expense reimbursement.

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 independent directors was entitled, subject to the Independent Directors Compensation Plan's conditions and restrictions, to receive an initial grant of 5,000 shares of restricted stock when the Company raised the minimum offering amount of $2,000,000 in the Offering. Each new independent director who subsequently joins the Company's board of directors will receive a grant of 5,000 shares of restricted stock upon his or her election to 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 will receive an additional grant of 2,500 shares of restricted stock. 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 June 30, 2019, there were 1,955,000 common shares remaining available for future issuance under the Incentive Award Plan and the Independent Directors Compensation Plan.

The Company recorded compensation expense related to such shares of restricted stock of $65,334 and $129,894 for the three months ended June 30, 2019 and 2018, respectively, and $129,950 and $258,361 for the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, there were 2,500 non-vested shares of restricted common stock granted pursuant to the Independent Directors Compensation Plan. The remaining unrecognized compensation expense associated with those 2,500 non-vested shares of $718 will be recognized during the third quarter of 2019.

The following is a summary of activity under the Independent Directors Compensation Plan for the six months ended June 30, 2019 and year ended December 31, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance of non-vested shares as of December 31, 2017	11,250	$ 27.82
Shares granted on August 13, 2018	10,000	$ 23.19
Shares vested	(13,750)	$ 26.98
Balance of non-vested shares as of December 31, 2018	7,500	$ 23.19
Shares vested	(5,000)	$ 23.19
Balance of non-vested shares as of June 30, 2019	2,500	$ 23.19

9. Subordinated Participation Interest

Pursuant to the limited partnership agreement for the OP, Moody LPOP II, the holder of the Special Limited Partnership Interests, is entitled to receive distributions equal to 15.0% of the OP's net cash flows, whether from continuing operations, the repayment of loans, the disposition of assets or otherwise, but only after the Company's stockholders (and current and future limited partnership interest holders of the OP other than the former limited partners of Moody I OP) have received, in the aggregate, cumulative distributions equal to their total invested capital plus a 6.0% cumulative, non-compounded annual pre-tax return on such aggregated invested capital. Former limited partners of Moody I OP must have received a cumulative annual return of 8.0%, which is equal to the same return to which such holders were entitled before distributions to the special limited partner of Moody I OP could have been paid under the limited partnership agreement of Moody I OP. In addition, Moody LPOP II is entitled to a separate payment if it redeems its Special Limited Partnership Interests. The Special Limited Partnership Interests may be redeemed upon: (1) the listing of the Company's common stock on a national securities exchange or (2) the occurrence of certain events that result in the termination or non-renewal of the Advisory Agreement, in each case for an amount that Moody LPOP II would have been entitled to receive had the OP disposed of all of its assets at the enterprise valuation as of the date of the event triggering the redemption.

10. Commitments and Contingencies

Restricted Cash

Under certain management and debt agreements existing at June 30, 2018, the Company escrows payments required for property improvement plans, real estate taxes, replacement of hotel furniture and fixtures, debt service and rent holdback. The composition of the Company's restricted cash as of June 30, 2019 and December 31, 2018 are as follows (in thousands):

	June 30, 2019	December 31, 2018
Property improvement plan	$ 189	$ 1,239
Real estate taxes	2,652	2,894
Insurance	120	231
Hotel furniture and fixtures	4,205	4,168
Debt service	863	764
Seasonality	657	883
Expense deposit	10	10
Rent holdback	15	15
Total restricted cash	$ 8,711	$ 10,204

Franchise Agreements

As of June 30, 2019, all of the Company's hotel properties, including those acquired as part of the Moody I Portfolio, are operated under franchise agreements with initial terms ranging from 10 to 20 years. The franchise agreements allow the properties to operate under the franchisor's brand. 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. The Company incurred franchise fee expense of approximately $2,039,870 and $1,856,199 for the three months ended June 30, 2019 and 2018, respectively, and $3,620,576 and $3,421,650 for the six months ended June 30, 2019 and 2018, respectively, which amounts are included in hotel operating expenses in the accompanying consolidated statements of operations.

11. Income Taxes

The Company has formed a TRS that is treated as a C-corporation for federal income tax purposes and uses the 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.

As of June 30, 2019, the Company had operating loss carry-forwards of $5,979,914.

The Company had deferred tax assets of $2,303,000 as of June 30, 2019 and December 31, 2018, net of a valuation allowance of $2,020,000 and $1,194,000 as of June 30, 2019 and December 31, 2018, respectively, related to net operating loss carry forwards of the TRS which are included in prepaid expenses and other assets on the consolidated balance sheets. As of June 30, 2019, the TRS had a net operating loss carry-forward of $16,738,064, of which $7,292,853 was transferred from Moody I's taxable REIT subsidiaries when they were merged into the Company's TRS on the date of the closing of the Mergers.

The income tax expense (benefit) for the three and six months ended June 30, 2019 and 2018 consisted of the following (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Current expense	$ 46	$ 55	$ 96	$ 64
Deferred expense (benefit)	(358)	56	(826)	(274)
Valuation provision for deferred benefit	358	—	826	—
Total expense (benefit)	$ 46	$ 111	$ 96	$ (210)
Federal	$ (358)	$ 56	$ (826)	$ (274)
Valuation provision for federal taxes	358	—	826	—
State	46	55	96	64
Total tax expense (benefit)	$ 46	$ 111	$ 96	$ (210)

On June 30, 2019, the Company had net deferred tax assets of $2,303,000 primarily due to past years' federal and state tax operating losses of the TRS. These loss carryforwards will generally expire in 2033 through 2038 if not utilized by then. The Company analyzes state loss carryforwards on a state by state basis and records a valuation allowance when management deems it more likely than not that future results will not generate sufficient taxable income in the respective state to realize the deferred tax asset prior to the expiration of the loss carryforwards. Management believes that it is more likely than not that the results of future operations of the TRS will generate sufficient taxable income to realize the deferred tax assets, in excess of the valuation allowance, related to federal and state loss carryforwards prior to the expiration of the loss carryforwards and has determined that no valuation allowance is necessary. From time to time, the Company may be subjected to federal, state or local tax audits in the normal course of business.

12. Subsequent Events

Distributions Declared

On June 30, 2019, the Company declared a distribution in the aggregate amount of $1,718,046, of which $1,302,682 was paid in cash on July 15, 2019, $415,364 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, and $4,568 was paid to reduce deferred distribution pending the return of letters of transmittal by former Moody I stockholders. On July 31, 2019, the Company declared a distribution in the aggregate amount of $1,761,445, which is scheduled to be paid in cash and pursuant to the DRP in the form of additional shares of the Company's common stock on or about August 15, 2019.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements of Moody National REIT II, Inc. and the notes thereto. As used herein, the terms "we," "our," "us" and "our company" refer to Moody National REIT II, Inc. and, as required by context, Moody National Operating Partnership II, LP, a Delaware limited partnership, which we refer to as our "operating partnership," and to their respective subsidiaries. References to "shares" and "our common stock" refer to the shares of our common stock.

Forward-Looking Statements

Certain statements included in this quarterly report on Form 10-Q, or this Quarterly Report, that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terms.

The forward-looking statements included herein are based upon our current expectations, plans, estimates, assumptions and beliefs, which involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to:

- our ability to raise capital in our ongoing public offering;
- our ability to effectively deploy the proceeds raised in our public offering;
- our ability to obtain financing on acceptable terms;
- our levels of debt and the terms and limitations imposed on us by our debt agreements;
- our ability to identify and acquire real estate and real estate-related assets on selling terms that are favorable to us;
- our ability to effectively integrate and manage our expanded operations following the consummation of our merger with Moody National REIT I, Inc.;

- risks inherent in the real estate business, including the lack of liquidity for real estate and real estate-related assets on terms that are favorable to us;
- changes in demand for rooms at our hotel properties;
- our ability to compete in the hotel industry;
- adverse developments affecting our sponsor and its affiliates;
- the availability of cash flow from operating activities for distributions;
- changes in economic conditions generally and the real estate and debt markets specifically;
- conflicts of interest arising out of our relationship with our advisor and its affiliates;
- legislative or regulatory changes, including changes to the laws governing the taxation of REITs (as defined below);
- the availability of capital; and
- changes in interest rates.

Any of the assumptions underlying the forward-looking statements included herein could be inaccurate, and undue reliance should not be placed upon any forward-looking statements included herein. All forward-looking statements are made as of the date of this Quarterly Report and the risk that actual results will differ materially from the expectations expressed herein will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements made after the date of this Quarterly Report, whether as a result of new information, future events, changed circumstances or any other reason. In light of the significant uncertainties inherent in the forward-looking statements included in this Quarterly Report, including, without limitation, the risks described under “Risk Factors,” the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this Quarterly Report will be achieved.

Overview

We are a Maryland corporation formed on July 25, 2014 to invest in a portfolio of hospitality properties focusing primarily on the select-service segment of the hospitality sector with premier brands including, but not limited to, Marriott, Hilton and Hyatt. We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, beginning with our taxable year ended December 31, 2016. We own, and in the future intend to own, substantially all of our assets and conduct our operations through our operating partnership. We are the sole general partner of our operating partnership, and the initial limited partners of our operating partnership were our subsidiary, Moody OP Holdings II, LLC, or Moody Holdings II, and Moody National LPOP II, LLC, or Moody LPOP II, an affiliate of our advisor (as defined below). Moody Holdings II invested $1,000 in our operating partnership in exchange for limited partnership interests, and Moody LPOP II invested $1,000 in our operating partnership in exchange for special limited partnership interests. As we accept subscriptions for sales of shares of our common stock, we transfer substantially all of the net proceeds from such sales to our operating partnership in exchange for limited partnership interests and our percentage ownership in our operating partnership increases proportionally.

We are externally managed by Moody National Advisor II, LLC, a related party, which we refer to as our “advisor,” pursuant to an advisory agreement among us, our operating partnership and our advisor, or the advisory agreement. Our advisor was formed in July 2014. Moody National REIT Sponsor, LLC, which we refer to as our “sponsor,” is owned and managed by Brett C. Moody, who also serves as our Chief Executive Officer and President and the Chief Executive Officer and President of our advisor.

On January 20, 2015, we commenced our initial public offering of up to $1,100,000,000 in shares of common stock, consisting of up to $1,000,000,000 in shares of our common stock offered to the public and up to $100,000,000 in shares offered to our stockholders pursuant to our distribution reinvestment plan, or the DRP. On June 26, 2017, the Securities and Exchange Commission, or SEC, declared effective a post-effective amendment to our registration statement which reallocated the shares of our common stock being sold in our initial public offering as Class A common stock, $0.01 par value per share, or the Class A Shares, Class I common stock, $0.01 par value per share, or the Class I Shares, and Class T common stock, $0.01 par value per share, or the Class T Shares. We collectively refer to the Class A Shares, Class I Shares and Class T Shares as our “shares.” Effective July 19, 2018, the SEC declared effective our registration statement (Registration No. 333-222610) and we commenced our follow-on public offering of up to $990,000,000 in any combination of the three classes of our shares, consisting of up to $895,000,000 in shares of our common stock offered to the public, which we refer to as the "primary offering," and up to $95,000,000 in shares of our common stock offered to our stockholders pursuant to the DRP. We will continue to offer shares in our follow-on offering on a continuous basis until July 19, 2020, subject to extension for an additional year (to July 29, 2021) by our board of directors.

Effective January 16, 2018, our advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with our ongoing public offering; provided, however, that our advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through receipt of an increased acquisition fee (as discussed in Note 7, "Related Party Agreements-Acquisition Fees," in the accompanying consolidated financial statements).

On March 14, 2019, our board of directors determined an estimated net asset value, or NAV, per share of all classes of our common stock as of December 31, 2018 of $23.32. We are currently offering our shares (i) to the public in our primary offering at a purchase price of $23.32 per share, which is equal to the estimated NAV per share for each class of our common stock as of December 31, 2018, and (ii) to our stockholders pursuant to the DRP at a purchase price of $23.32 per share, which is equal to the NAV per share for each class of our common stock as of December 31, 2018.

As of June 30, 2019, we had received and accepted investors' subscriptions for and issued 8,510,459 shares in our initial public offering and our follow-on offering, excluding shares issued in connection with the Mergers (discussed below) and including 393,191 shares pursuant to the DRP, resulting in gross offering proceeds of $198,665,114. As of June 30, 2019, we had received and accepted investors' subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with the Mergers and including 214,764 shares pursuant to the DRP in the initial public offering, resulting in gross offering proceeds of $147,415,625 for the initial public offering. As of June 30, 2019, we had received and accepted investors' subscriptions for and issued 2,384,466 shares in the follow-on offering, including 178,427 shares pursuant to the DRP in the follow-on offering, resulting in gross offering proceeds of $51,249,489 for the follow-on offering. As of August 5, 2019, we had received and accepted investors' subscriptions for and issued 2,690,173 shares in our follow-on offering, including 196,239 shares issued pursuant to our DRP, resulting in gross offering proceeds of $57,956,811. As of August 5, 2019, $927,483,248 of stock remained to be sold in our follow-on offering. We reserve the right to terminate our follow-on offering at any time.

Moody Securities, LLC, an affiliate of our advisor, which we refer to as the "dealer manager" or "Moody Securities," is our dealer manager and is responsible for the distribution of our common stock in our ongoing follow-on offering.

We intend to continue to use the net proceeds from our public offerings to acquire hotel properties located in the East Coast, the West Coast and the Sunbelt regions of the United States. To a lesser extent, we may also invest in other hospitality properties located within other markets and regions, as well as real estate securities and debt-related investments related to the hospitality sector.

As of June 30, 2019, our portfolio consisted of (1) ownership interests in fifteen hotel properties located in six states, comprising a total of 2,123 rooms and (2) investment in marketable securities of approximately $3.2 million.

Our principle executive offices are located at 6363 Woodway Drive, Suite 110, Houston, Texas 77057, and our main telephone number is (713) 977-7500.

Merger with Moody National REIT I, Inc.

On September 27, 2017, the merger of Moody National REIT I, Inc., or Moody I, with and into our company, or the Merger, and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I, or Moody I OP, with and into our operating partnership, or the Partnership Merger, were completed. We refer to the Merger and the Partnership Merger herein as the "Mergers." For additional discussion of the Mergers, see Part I., Item 1. "Business—Merger with Moody National REIT I, Inc." of our Annual Report on Form 10-K, as filed with the SEC on March 29, 2019, and the notes to the consolidated financial statements included in this Quarterly Report.

Factors Which May Influence Results of Operations

Economic Conditions Affecting Our Target Portfolio

Adverse economic conditions affecting the hospitality sector, the geographic regions in which we plan to invest or the real estate market generally may have a material impact on our capital resources and the revenue or income to be derived from the operation of our hospitality investments.

Offering Proceeds

Our ability to make investments depends upon the net proceeds raised in our offering and our ability to finance the acquisition of our investments. If we raise substantially less than the maximum offering amount of $990,000,000 in our offering, we will make fewer investments resulting in less diversification in terms of the number of investments owned and fewer sources of income. In such event, the likelihood of our profitability being affected by the performance of any one of our investments will increase. In addition, if we are unable to raise substantial funds, our fixed operating expenses as a percentage of gross income would be higher, which could affect our net income and results of operations.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the three and six months ended June 30, 2019 and 2018. We were formed on July 25, 2014. As of June 30, 2018, we owned (1) interests in fourteen hotel properties located in six states, comprising a total of 1,941 rooms, and (2) a loan with a current principal amount of $6,750,000 originated to an affiliate of our sponsor used to acquire a commercial property located in Katy, Texas. As of June 30, 2019, we owned (1) interests in fifteen hotel properties located in six states, comprising a total of 2,123 rooms and (2) investment in marketable securities of approximately $3.2 million. Primarily because we did not own any notes receivable as of June 30, 2019 and we did own an investment in marketable securities of $3.2 million as of June 30, 2019, our interest and dividend income for the three and six months ended June 30, 2019 are not directly comparable to those for the three and six months ended June 30, 2018. In general, we expect that our income and expenses related to our investment portfolio will increase in future periods as a result of anticipated future acquisitions of real estate and real estate-related investments. In addition, we expect that our income and expenses related to our investment portfolio will differ significantly if the mergers are consummated.

Comparison of the three months ended June 30, 2019 versus the three months ended June 30, 2018

Revenue

Total revenue increased to $23,198,055 for the three months ended June 30, 2019 from $22,755,610 for the three months ended June 30, 2018. Hotel revenue increased to $23,074,063 for the three months ended June 30, 2019 from $22,391,495 for the three months ended June 30, 2018 due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018. Interest and dividend income decreased to $123,992 for the three months ended June 30, 2019 from $364,115 for three months ended June 30, 2018 due to the repayment of the related party note and the related party mezzanine note. We expect that room revenue, other hotel revenue and total revenue will each increase in future periods as a result of having full periods of operations for properties owned and future acquisitions of real estate assets.

A comparison of hotel revenues for the hotels owned continuously for the three months ended June 30, 2019 and 2018 follows (all amounts in thousands):

	Three months ended June 30,		Increase
	2019	2018	(Decrease)
Residence Inn Austin	$ 1,353	$ 1,360	$ (7)
Springhill Suites Seattle	3,005	3,721	(716)
Homewood Suites Woodlands	785	808	(23)
Hyatt Place Germantown	1,016	1,168	(152)
Hyatt Place North Charleston	1,007	1,175	(168)
Hampton Inn Austin	1,233	1,145	88
Residence Inn Grapevine	1,761	1,794	(33)
Marriott Courtyard Lyndhurst	2,520	2,535	(15)
Hilton Garden Inn Austin	1,525	1,438	87
Hampton Inn Great Valley	1,077	1,120	(43)
Embassy Suites Nashville	3,988	3,761	227
Homewood Suites Austin	1,174	1,143	31
Townplace Suites Fort Worth	793	797	(4)
Hampton Inn Houston	583	427	156
	$ 21,820	$ 22,392	$ (572)

Revenues declined at Springhill Suites Seattle for the three months ended June 30, 2019 compared to the three months ended June 30, 2018 due to ongoing renovations to the hotels.

Hotel Operating Expenses

Hotel operating expenses increased to $14,414,330 for the three months ended June 30, 2019 from $13,080,565 for the three months ended June 30, 2019. The increase in hotel operating expenses was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Property Taxes, Insurance and Other

Property taxes, insurance and other expenses increased to $1,647,579 for the three months ended June 30, 2019 from $1,329,597 for the three months ended June 30, 2018. The increase in property taxes, insurance and other expenses was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Depreciation and Amortization

Depreciation and amortization increased to $3,495,441, for the three months ended June 30, 2019 from $2,957,012 for the three months ended June 30, 2018. The increase in depreciation and amortization was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Acquisition Expenses

Acquisition expenses increased to $2,211,663 for the three months ended June 30, 2019 from $0 for the three months ended June 30, 2018 due to the acquisition of the Residence Inn Houston Medical Center during the three months ended June 30, 2019 compared to no acquisitions during the three months ended June 30, 2018.

Corporate General and Administrative Expenses

Corporate general and administrative expenses decreased to $1,508,116 for the three months ended June 30, 2019 from $1,658,277 for the three months ended June 30, 2018. These general and administrative expenses consisted primarily of asset management fees, professional fees, restricted stock compensation and directors' fees. We expect corporate general and administrative expenses to increase in future periods as a result of anticipated future acquisitions, but to decrease as a percentage of total revenue.

Interest Expense and Amortization of Debt issuance Costs

Interest expense and amortization of debt issuance costs decreased to $3,233,164 for the three months ended June 30, 2019 from $4,299,380 for the three months ended June 30, 2018. Interest expense and amortization of debt issuance costs decreased primarily due to the repayment of debt associated with the acquisition of the Moody I portfolio on September 27, 2017. In future periods our interest expense will vary based on the amount of our borrowings, which will depend on the availability and cost of borrowings and our ability to identify and acquire real estate and real estate-related assets that meet our investment objectives.

Income Tax Expense

Our income tax expense decreased to $46,000 for the three months ended June 30, 2019 from $111,228 for the three months ended June 30, 2018 due to a decrease in taxable income of the TRS for the three months ended June 30, 2019 from the three months ended June 30, 2018.

Comparison of the six months ended June 30, 2019 versus the six months ended June 30, 2018

Revenue

Total revenue increased to $41,982,914 for the six months ended June 30, 2019 from $41,721,815 for the six months ended June 30, 2018. Hotel revenue increased to $41,530,125 for the six months ended June 30, 2019 from $40,938,661 for the six months ended June 30, 2018 due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018. Interest and dividend income decreased to $452,789 for the six months ended June 30, 2019 from $783,154 for six months ended June 30, 2018 due to the repayment of the related party note and the related party mezzanine note. We expect that room revenue, other hotel revenue and total revenue will each increase in future periods as a result of having full periods of operations for properties currently owned and future acquisitions of real estate assets.

The table below sets forth a comparison of hotel revenues for the hotels we owned continuously for the six months ended June 30, 2019 and 2018 (all amounts in thousands):

	Six months ended June 30, 2019	Six months ended June 30, 2018	Increase (Decrease)
Residence Inn Austin	$ 2,635	$ 2,676	(41)
Springhill Suites Seattle	5,174	6,367	(1,193)
Homewood Suites Woodlands	1,539	1,619	(80)
Hyatt Place Germantown	1,841	2,059	(218)
Hyatt Place North Charleston	1,851	2,126	(275)
Hampton Inn Austin	2,452	2,268	184
Residence Inn Grapevine	3,469	3,563	(94)
Marriott Courtyard Lyndhurst	4,368	4,538	(170)
Hilton Garden Inn Austin	2,945	2,829	116
Hampton Inn Great Valley	1,849	1,885	(36)
Embassy Suites Nashville	7,177	6,185	992
Homewood Suites Austin	2,277	2,249	28
Townplace Suites Fort Worth	1,537	1,425	112
Hampton Inn Houston	1,161	1,150	11
	$ 40,275	$ 40,939	(664)

Revenues declined at Springhill Suites Seattle for the six months ended June 30, 2019 compared to the six months ended June 30, 2018 due to ongoing renovations to the hotel.

Hotel Operating Expenses

Hotel operating expenses increased to $26,529,674 for the six months ended June 30, 2019 from $24,848,170 for the six months ended June 30, 2018. The increase in hotel operating expenses was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Property Taxes, Insurance and Other

Property taxes, insurance and other expenses increased to $3,016,368 for the six months ended June 30, 2019 from $2,625,593 for the six months ended June 30, 2018. The increase in property taxes, insurance and other expenses was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Depreciation and Amortization

Depreciation and amortization increased to $6,669,437 for the six months ended June 30, 2019 from $5,879,027 for the six months ended June 30, 2018. The increase in depreciation and amortization was primarily due to the fact that we owned fifteen hotel properties at June 30, 2019 compared to fourteen hotel properties at June 30, 2018.

Acquisition Expenses

Acquisition expenses increased to $2,211,663 for the six months ended June 30, 2019 from $0 for the six months ended June 30, 2018 due to the acquisition of the Residence Inn Houston Medical Center during the six months ended June 30, 2019 compared to no acquisitions during the six months ended June 30, 2018.

Corporate General and Administrative Expenses

Corporate general and administrative expenses decreased to $3,130,058 for the six months ended June 30, 2019 from $3,699,020 for the six months ended June 30, 2018 due to a decrease in operating expenses reimbursable to our advisor. These general and administrative expenses consisted primarily of asset management fees, professional fees, restricted stock compensation and directors' fees. We expect corporate general and administrative expenses to increase in future periods as a result of anticipated future acquisitions, but to decrease as a percentage of total revenue.

Interest Expense and Amortization of Debt issuance Costs

Interest expense and amortization of debt issuance costs decreased to $6,319,127 for the six months ended June 30, 2019 from $8,633,938 for the six months ended June 30, 2018. Interest expense and amortization of debt issuance costs decreased primarily due to the repayment of debt associated with the acquisition of the Moody I portfolio on September 27, 2017. In future periods our interest expense will vary based on the amount of our borrowings, which will depend on the availability and cost of borrowings and our ability to identify and acquire real estate and real estate-related assets that meet our investment objectives.

Income Tax Expense (Benefit)

Our income tax expense increased to $95,817 for the six months ended June 30, 2019 from an income tax benefit of $209,772 for the six months ended June 30, 2018 due to our taxable REIT subsidiary having a taxable income for the six months ended June 30, 2019 and taxable loss for the six months ended June 30, 2018.

Liquidity and Capital Resources

Our principal demand for funds is for the acquisition of real estate assets, the payment of operating expenses, principal and interest payments on our outstanding indebtedness and the payment of distributions to our stockholders. Proceeds from our public offering currently supply a significant portion of our cash. Over time, however, we anticipate that cash from operations will generally fund our cash needs for items other than asset acquisitions.

There may be a delay between the sale of shares of our common stock during our public offering and our purchase of assets, which could result in a delay in the benefits to our stockholders, if any, of returns generated from our investment operations. Our advisor, subject to the oversight of our board, will evaluate potential acquisitions and will engage in negotiations with sellers and lenders on our behalf. If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures.

We may, but are not required to, establish working capital reserves out of cash flow generated by our real estate assets or out of proceeds from the sale of our real estate assets. We do not anticipate establishing a general working capital reserve; however, we may establish working capital reserves with respect to particular investments. We also may, but are not required to, establish reserves out of cash flow generated by our real estate assets or out of net sale proceeds in non-liquidating sale transactions. Working capital reserves are typically used to fund tenant improvements, leasing commissions and major capital expenditures. We also escrow funds for hotel property improvements. Our lenders also may require working capital reserves. The Term Loan Agreement (described below) 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.

To the extent that any working capital reserve we establish is insufficient to satisfy our cash requirements, additional funds may be provided from cash generated from operations, short-term borrowing, equity capital from joint venture partners, or the proceeds of public or private offerings of our shares or interests in our operating partnership. In addition, subject to certain limitations, we may incur indebtedness in connection with the acquisition of any real estate assets, refinance the debt thereon, arrange for the leveraging of any previously unfinanced property or reinvest the proceeds of financing or refinancing in additional properties. There can be no assurance that we will be able to obtain such capital or financing on favorable terms, if at all.

Net Cash Provided by Operating Activities

As of June 30, 2019, we owned interests in fifteen hotel properties and investment in marketable securities of approximately $3.2 million. As of June 30, 2018, we owned interests in fourteen hotel properties and a note receivable from related party in the amount of $6,750,000. Net cash provided by operating activities for the six months ended June 30, 2019 and 2018 was $1,043,920 and $2,059,000 respectively. The decrease in cash provided by operating activities for the six months ended June 30, 2019 was primarily due to the fact that acquisition expenses increased to $2,211,663 for the six months ended June 30, 2019 from $0 for the six months ended June 30, 2018

Net Cash (Used in) Provided By Investing Activities

Our cash used in investing activities will vary based on how quickly we invest the net offering proceeds from our public offering towards acquisitions of real estate and real-estate related investments. Net cash (used in) provided by investing activities for the six months ended June 30, 2019 and 2018 was $(769,170) and $11,805,310, respectively. The decrease in cash provided by investing activities for the six months ended June 30, 2019 was due to a decrease in the repayment in the related party mortgage note and the related party mezzanine note receivable during the six months ended June 30, 2019 compared to the six months ended June 30, 2018.

Net Cash Used in Financing Activities

For the six months ended June 30, 2019, our cash flows from financing activities consisted primarily of proceeds from our public offering, net of offering costs, distributions paid to our stockholders, and repayment of debt. Net cash used in financing activities for the six months ended June 30, 2019 and 2018 was $(3,355,880) and $(7,490,239), respectively. The decrease in cash used in financing activities for the six months ended June 30, 2019, was primarily due to an increase in gross offering proceeds of $33,096,760 for the six months ended June 30, 2019 compared to $21,198,873 for the six months ended June 30, 2018 net of an increase in redemptions of common stock to $3,029,876 for the six months ended June 30, 2019 compared to $781,749 for the six months ended June 30, 2018.

Cash and Cash Equivalents and Restricted Cash

As of June 30, 2019, we had cash on hand, cash equivalents and restricted cash of $16,113,458.

Debt

We use, and intend to use in the future, secured and unsecured debt as a means of providing additional funds for the acquisition of real property, and potentially securities and debt-related investments. By operating on a leveraged basis, we expect that we will have more funds available for investments. This will generally allow us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, our use of leverage increases the risk of default on loan payments and the resulting foreclosure on a particular asset. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness. When debt financing is unattractive due to high interest rates or other reasons, or when financing is otherwise unavailable on a timely basis, we may purchase certain assets for cash with the intention of obtaining debt financing at a later time.

Term Loan Agreement

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 (KeyBank, in its capacity as lender, together with any other lender institutions that may become parties to the term loan agreement are referred to herein as the Lenders), entered into a term loan agreement, or, as amended, the Term Loan Agreement. Pursuant to the Term Loan Agreement, the Lenders have made a term loan to our operating partnership in the original principal amount of $70 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. We began making principal payments of $1.5 million per month on the Term Loan in November 2017. The balance of the term loan was $25,700,000 as of June 30, 2019.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018. On October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan, 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 of $26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, will be due on the maturity date of the Term Loan. In addition, the Term Loan originally provided 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. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal will be $100,000 per month, and the margins over the base rate or London Interbank Offered Rate, or LIBOR, rate will be 2.75% and 3.75%, respectively. 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.

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 Property and Fort Worth 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 Term Loan Agreement.

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 date 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.

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.

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.

Requirements associated with a mortgage loan to deposit and disburse operating receipts in a specified manner 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 June 30, 2019, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under the mortgage loans secured by our properties or the Term Loan.

Short Term Loan

On October 24, 2018, our operating partnership issued a promissory note in favor Green Bank, N.A. in the original principal amount of $16,000,000, or the Short Term Loan. The proceeds of the Short Term Loan were used to retire a portion of the Term Loan, resulting in a balance of $26.5 million for the Term Loan as of October 24, 2018. The Short Term Loan bore interest at an annual rate equal to the one-month LIBOR plus 2.5% and our company and the operating partnership were collectively required to make a monthly payment on the outstanding principal and interest of the Short Term Loan equal to the greater of $1,500,000 or 50% of our consolidated net cash flow. The entire principal balance of the Short Term Loan and all interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

Note Payable to Related Party

On the April 29, 2019, the acquisition date of the Residence Inn Houston Medical Center, our operating partnership issued a promissory note payable to the seller of the Residence Inn Houston Medical Center property in the original principal amount of $22,550,000, evidencing a note payable to related party. The note payable to related party bears interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 3%. Any amounts payable under the note payable to related party which are not paid by our operating partnership when due will bear interest at a past due rate equal to the lesser of the maximum rate permitted by applicable law and 18%. On the April 29, 2019, our operating partnership made a principal payment of $7,824,082, and beginning on May 15, 2019 and ending on October 15, 2019, our operating partnership will make a monthly principal and interest payment of $2,000,000. The entire outstanding principal balance of the note payable to related party, together with all accrued interest thereon and all other amounts payable under the note payable to related party, is due and payable in full on December 15, 2019. If our operating partnership fails to make when due any payment under the note payable to related party, our operating partnership will pay to the seller on demand a late fee equal to 5% of the amount of such payment. Upon at least five days prior written notice to the seller, our operating partnership may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in whole or in part, without penalty. The balance of the note payable to related party was $12,745,218 as of June 30, 2019.

The note payable to related party provides for customary events of default, including failure by our operating partnership to pay when due and payable any amounts payable under the terms of the note payable to related party. Upon any event of default by our operating partnership, seller may accelerate the maturity date of the note payable to related party and declare the entire unpaid principal balance of the note payable to related party and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

As of June 30, 2019, our outstanding indebtedness totaled $244,508,979, 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 Articles of Amendment and Restatement, or 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 June 30, 2019 and December 31, 2018, our debt levels did not exceed 300% of the value of our net assets.

For more information on our outstanding indebtedness, see Note 5, "Debt" to the consolidated financial statements included in this Quarterly Report.

Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of June 30, 2019 (in thousands):

	Payments Due By Period				
Contractual Obligations	**Total**	**2019**	**2020-2021**	**2022-2023**	**Thereafter**
Long-term debt obligations[1]	$ 244,509	$ 27,464	$ 8,313	$ 25,574	$ 183,158
Interest payments on outstanding debt obligations[2]	57,540	5,704	20,259	18,895	12,682
Total	$ 302,049	$ 33,168	$ 28,572	$ 44,469	$ 195,840

(1) Amounts include principal payments only.
(2) Projected interest payments are based on the outstanding principal amounts and weighted-average interest rates at June 30, 2019.

As discussed above, we extended the maturity date of and partially refinanced the Term Loan on October 24, 2018. We intend to retire the Term Loan with proceeds from long-term loans secured by the Marriott Courtyard Lyndhurst and Townplace Suites Forth Worth hotel properties and through our monthly principal reductions of approximately $100,000.

Organization and Offering Costs

Our organization and offering costs may be incurred directly by us or such costs may be incurred by our advisor on our behalf. Pursuant to the advisory agreement with our advisor, we are obligated to reimburse our advisor or its affiliates, as applicable, for organization and offering costs incurred by our advisor associated with our public offerings, provided that within 60 days of the last day of the month in which any public offering ends, our advisor is obligated to reimburse us to the extent that organization and offering costs we may have incurred in connection with such public offering exceed 15% of the gross offering proceeds from the sale of shares of our common stock in such 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 our advisor's employees and employees of our advisor's affiliates and others. Any reimbursement to our advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by our advisor. Our organization and offering costs incurred in connection with our initial public offering did not exceed 15% of the gross offering proceeds from the sale of our shares of common stock in such offering.

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 we have an obligation to reimburse our advisor.

As of June 30, 2019, total organization and offering costs for our initial public offering and follow-on offering were $20,055,275, comprised of $12,333,647 of organization and offering costs incurred directly by us and $7,721,627 in organization and offering costs incurred by and reimbursable to our advisor. As of June 30, 2019, total organization and offering costs for the initial public offering were $18,365,295, comprised of $12,333,647 of organization and offering costs incurred directly by us and $6,031,648 in organization and offering costs incurred by and reimbursable to our advisor. As of June 30, 2019, total organization and offering costs for the follow-on offering were $1,689,980, comprised of $0 of offering costs incurred directly by us and $1,689,980 in offering costs incurred by and reimbursable to our advisor. As of June 30, 2019, we had $327,800 due to our advisor for reimbursable organization and offering costs.

Operating Expenses

We will reimburse our advisor for all expenses paid or incurred by our advisor in connection with the services it provides to us, subject to the limitation that we will not reimburse our advisor for any amount by which our operating expenses (including the asset management fee we pay to our advisor) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of our average invested assets, or (2) 25% of our 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 our assets for that period, which we refer to as the

"2%/25% Limitation." Notwithstanding the above, we may reimburse our advisor for expenses in excess of the 2%/25% Limitation if a majority of our independent directors determine that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended June 30, 2019, our total operating expenses were $6,120,146, which included $4,811,745 in operating expenses incurred directly by us and $1,308,401 incurred by our advisor on our behalf. Of that $6,120,146 in total operating expenses incurred during four fiscal quarters ended June 30, 2019, $0 exceeded the 2%/25% Limitation. We reimbursed our advisor $1,308,000 during four fiscal quarters ended June 30, 2019. As of June 30, 2019, we had $612,000 due from our advisor for operating expense reimbursement.

Critical Accounting Policies

General

We consider the accounting policies described below to be critical because they involve significant judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management's judgment or interpretation of the facts and circumstances relating to various transactions is different, it is possible that different accounting policies will be applied or different amounts of assets, liabilities, revenues and expenses will be recorded, resulting in a different presentation of the consolidated financial statements or different amounts reported in the consolidated financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Income Taxes

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. We did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the year ended December 31, 2015 and for the period from July 25, 2014 (inception) to December 31, 2014, including not having the requisite number of shareholders for a sufficient number of days in those periods. Prior to qualifying to be taxed as a REIT we were subject to normal federal and state corporation income taxes.

Provided that we continue to qualify as a REIT, we generally will not be subject to federal corporate income tax to the extent we distribute our REIT taxable income to our stockholders, so long as we distribute at least 90% of our 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 we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and federal income and excise taxes on our undistributed income.

We lease the hotels that we acquire to a wholly owned TRS that is subject to federal, state and local income taxes.

We account for income taxes of our TRS 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. We record a valuation allowance for net deferred tax assets that are not expected to be realized.

We have 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. We had no material uncertain tax positions as of June 30, 2019.

The preparation of our 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 our estimates may change is not expected to be material. We will account for interest and penalties relating to uncertain tax provisions in the current period's results of operations, if necessary. We have tax years 2014 through 2017 remaining subject to examination by various federal and state tax jurisdictions.

Valuation and Allocation of Hotel Properties — Acquisitions

Upon acquisition, the purchase price of hotel properties are 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 building fair values are calculated as replacement cost less depreciation or our 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.

We determine 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 we believe we 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 our properties, we make assumptions and use 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, we are responsible for the source and use of these estimates. These estimates are based on judgment and subject to being imprecise; accordingly, if different estimates and assumptions were derived, the valuation of the various categories of our hotel properties or related intangibles could, in turn, result in a difference in the depreciation or amortization expense recorded in our consolidated financial statements. These variances could be material to our results of operations and financial condition.

Valuation and Allocation of Hotel Properties — Ownership

Depreciation expense is computed using the straight-line method 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

Impairment

We monitor events and changes in circumstances indicating that the carrying amounts of our hotel properties may not be recoverable. When such events or changes in circumstances are present, we assess 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, we recognize 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 three and six months ended June 30, 2019 and 2018.

In evaluating our hotel properties for impairment, we make 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 our 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 our hotel properties which could then result in different conclusions regarding impairment and material changes to our consolidated financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. We adopted this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on our consolidated financial statements and related disclosures, we believe the impact will be minimal to our ongoing consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities,” which improves the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. We adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on our ongoing consolidated financial statements.

Inflation

As of June 30, 2019, our investments consisted of interests in fifteen hotel properties and one note receivable from a related party. Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Competitive pressures may, however, limit the operators’ ability to raise room rates. The note receivable from a related party bears interest at a fixed rate of interest and inflation could, therefore, have an impact on their fair value. As of June 30, 2019, we were not experiencing any material impact from inflation.

REIT Compliance

We elected to be taxed as a REIT commencing with the taxable year ended December 31, 2016. To qualify as a REIT for tax purposes, we are required to distribute at least 90% of our REIT taxable income (determined for this purpose without regard to the dividends-paid deduction and excluding net capital gain) to our stockholders. We must also meet certain asset and income tests, as well as other requirements. We will monitor the business and transactions that may potentially impact our REIT status. If we fail to qualify as a REIT in any taxable year following the taxable year in which we initially elect to be taxed as a REIT, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which our REIT qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. We did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the year ended December 31, 2015 and the period from July 25, 2014 (inception) to December 31, 2014.

Distributions

Our board of directors authorized and declared a distribution to our stockholders for 2019 that will be (1) calculated daily and reduced for class-specific expenses; (2) 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) calculated at a rate of $1.7528 per share of our common stock per year, or approximately $0.00480 per share per day, before any class-specific expenses. We first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the six months ended June 30, 2019 and 2018 (in thousands):

Period	Cash Distribution	Distribution Paid Pursuant to DRP[(1)]	Total Amount of Distribution
First Quarter 2019	$ 3,517	$ 1,121	$ 4,638
Second Quarter 2019	3,858	1,228	5,086
Total	$ 7,375	$ 2,349	$ 9,724
First Quarter 2018	$ 3,218	$ 634	$ 3,852
Second Quarter 2018	3,039	963	4,002
Total	$ 6,257	$ 1,597	$ 7,854

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

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 GAAP. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, 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 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 will exclude 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 will also include, 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. Although organizational and acquisition expenses 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. Offering expenses do not affect net income. Our calculation of MFFO set forth in the table below reflects the exclusion of acquisition expenses.

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 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. However, 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 three months ended June 30, 2019 and 2018 and a reconciliation of such non-GAAP financial performance measures to our net income (in thousands).

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net loss	$ (3,223)	$ (680)	$ (6,013)	$ (3,754)
Adjustments:				
Depreciation of real estate	3,495	2,957	6,669	5,879
Gain on sale of marketable securities	(9)	—	(9)	—
Funds from Operations	263	2,277	647	2,125
Adjustments:				
Acquisition expenses	2,212	—	2,212	—
Unrealized (gain) loss on change in fair value of investment in marketable securities	(126)	—	33	—
Amortization of debt issuance costs	273	563	600	1,139
Modified Funds from Operations	$ 2,622	$ 2,840	$ 3,492	$ 3,264

Off-Balance Sheet Arrangements

As of June 30, 2019, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Related Party Transactions and Agreements

We have entered into agreements with our advisor and its affiliates whereby we have paid, and may continue to pay, certain fees to, or reimburse certain expenses of, our advisor or its affiliates in connection with the mergers and for acquisition and advisory fees and expenses, financing coordination fees, organization and offering costs, sales commissions, dealer manager fees, asset and property management fees and expenses, leasing fees and reimbursement of certain operating costs. See Note 1, “Organization-Merger with Moody I,” and Note 7, “Related Party Arrangements,” to the consolidated financial statements included in this Quarterly Report for a discussion of our related-party transactions, agreements and fees.

Subsequent Events

Distributions Declared

On June 30, 2019, we declared a distribution in the aggregate amount of $1,718,046, of which $1,302,682 was paid in cash on July 15, 2019, $415,364 was paid pursuant to the DRP in the form of additional shares of our common stock, and $4,568 was paid to reduce deferred distribution pending the return of letters of transmittal by former Moody I stockholders. On July 31, 2019, we declared a distribution in the aggregate amount of $1,761,445, which is scheduled to be paid in cash and pursuant to the DRP in the form of additional shares of our common stock on or about August 15, 2019.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market Risk

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity, fund capital expenditures and expand our real estate investment portfolio and operations. Market fluctuations in real estate financing may affect the availability and cost of funds needed to expand our investment portfolio. In addition, restrictions upon the availability of real estate financing or high interest rates for real estate loans could adversely affect our ability to dispose of real estate in the future. We will seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

With regard to variable rate financing, our advisor will assess our interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. Our advisor will maintain risk management control systems to monitor interest rate cash flow risk attributable to both our outstanding and forecasted debt obligations as well as our potential offsetting hedge positions. While this hedging strategy will be designed to minimize the impact on our net income and funds from operations from changes in interest rates, the overall returns on your investment may be reduced.

As of June 30, 2019, our indebtedness, as described below, was comprised of notes secured by our hotel properties. All such notes, except the Term Loan, accrue interest at a fixed rate and, therefore, an increase or decrease in interest rates would have no effect on our interest expense with respect such notes. Interest rate changes will affect the fair value of any fixed rate instruments that we hold. As we expect to hold our fixed rate instruments to maturity and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

As of June 30, 2019 and December 31, 2018, our notes payable consisted of the following (all $ amounts in thousands):

Loan	Principal as of June 30, 2019	Principal as of December 31, 2018	Interest Rate at June 30, 2019	Maturity Date
Residence Inn Austin[1]	$ 16,427	$ 16,554	4.580%	November 1, 2025
Springhill Suites Seattle[1]	44,526	44,884	4.380%	October 1, 2026
Homewood Suites Woodlands[1]	8,991	9,066	4.690%	April 11, 2025
Hyatt Place Germantown[1]	6,946	7,025	4.300%	May 6, 2023
Hyatt Place North Charleston[1]	7,088	7,158	5.193%	August 1, 2023
Hampton Inn Austin[1]	10,590	10,687	5.426%	January 6, 2024
Residence Inn Grapevine[1]	12,228	12,341	5.250%	April 6, 2024
Hilton Garden Inn Austin[1]	18,241	18,401	4.530%	December 11, 2024
Hampton Inn Great Valley[1]	7,928	7,994	4.700%	April 11, 2025
Embassy Suites Nashville[1]	41,626	41,998	4.2123%	July 11, 2025
Homewood Suites Austin[1]	10,690	10,778	4.650%	August 11, 2025
Hampton Inn Houston[1]	4,428	4,480	7.500%	April 28, 2023
Residence Inn Houston Medical Center[4]	29,100	—	5.000%	October 1, 2024
Term Loan[2]	25,700	26,300	30-day LIBOR plus 3.750%	September 27, 2019
Short Term Loan[3]	—	12,970	30-day LIBOR plus 2.50%	April 24, 2019
Total notes payable	244,509	230,636		
Less unamortized debt issuance costs	(3,167)	(3,462)		
Total notes payable, net of unamortized debt issuance costs	$ 241,342	$ 227,174		

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

(2) Monthly payments of principal and interest are due and payable until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019, as discussed below.

(3) Monthly payments of principal and interest were due and payable until the maturity date. All unpaid principal and interest thereon was repaid in full on April 24, 2019, the maturity date.

(4) Monthly payments of interest due and payable until October 2019. Monthly payments of principal and interest due and payable beginning in November 2019 until the maturity date.

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

Credit Risk

We will also be exposed to credit risk. Credit risk in our investments in debt and securities relates to each individual borrower's ability to make required interest and principal payments on scheduled due dates. We seek to manage credit risk through our advisor's comprehensive credit analysis prior to making an investment, actively monitoring our asset portfolio and the underlying credit quality of our holdings and subordination and diversification of our portfolio. Our analysis is based on a broad range of real estate, financial, economic and borrower-related factors which we believe are critical to the evaluation of credit risk inherent in a transaction.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based upon, and as of the date of, the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may be party to legal proceedings that arise in the ordinary course of our business. Management is not aware of any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition, nor are we aware of any such legal proceedings contemplated by government agencies.

ITEM 1A. RISK FACTORS.

Except as set forth below, there have been no material changes to the risk factors contained in Part I, Item 1A set forth in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on April 2, 2019.

We have paid, and may continue to pay, distributions from the proceeds of our offering. To the extent that we pay distributions from sources other than our cash flow from operations, we will have reduced funds available for investment and the overall return to our stockholders may be reduced.

Our organizational documents permit us to pay distributions from any source, including net proceeds from our public offerings, borrowings, advances from our sponsor or advisor and the deferral of fees and expense reimbursements by our advisor, in its sole discretion. Since our inception, our cash flow from operations has not been sufficient to fund all of our distributions. Of the $37,731,499 in total distributions we paid during the period from our inception through June 30, 2019, including shares issued pursuant to our DRP, $0, or 0%, were paid from cash provided by operating activities and $37,731,499, or 100%, were paid from offering proceeds. Until we make substantial investments, we may continue to fund distributions from the net proceeds from our offering or sources other than cash flow from operations. We have not established a limit on the amount of offering proceeds, or other sources other than cash flow from operations, which we may use to fund distributions.

If we are unable to consistently fund distributions to our stockholders entirely from our cash flow from operations, the value of the shares of our common stock may be reduced, including upon a listing of our common stock, the sale of our assets or any other liquidity event should such event occur. To the extent that we fund distributions from sources other than our cash flow from operations, our funds available for investment will be reduced relative to the funds available for investment if our distributions were funded solely from cash flow from operations, our ability to achieve our investment objectives will be negatively impacted and the overall return to our stockholders may be reduced. In addition, if we make a distribution in excess of our current and accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, which will reduce the stockholder's tax basis in its shares of common stock. The amount, if any, of each distribution in excess of a stockholder's tax basis in its shares of common stock will be taxable as gain realized from the sale or exchange of property.

Our bylaws contain provisions that may make it more difficult for a stockholder to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers, agents or employees, if any, and may discourage lawsuits against us and our directors, officers, agents or employees, if any.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that Court does not have jurisdiction, the U.S. District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of our company, (ii) any action asserting a claim of breach of any duty owed by any of our directors or officers or employees to us or to our stockholders, (iii) any action asserting a claim against us or any of our directors or officers or employees arising pursuant to any provision of the Maryland General Corporation Law, or the MGCL, or our charter or bylaws or (iv) any action asserting a claim against us or any of our directors or officers or employees that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in our shares shall be deemed to have notice of and to have consented to these provisions of our bylaws, as they may be amended from time to time. Our board of directors, without stockholder approval, adopted this provision of the bylaws so that we can respond to such litigation more efficiently, reduce the costs associated with our responses to such litigation, particularly litigation that might otherwise be brought in multiple forums, and make it less likely that plaintiffs' attorneys will be able to employ such litigation to coerce us into otherwise unjustified settlements. This exclusive forum provision may limit a stockholder's ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers, agents or employees, if any, and may discourage lawsuits against us and our directors, officers, agents or employees, if any. We believe the risk of a court declining to enforce this provision is remote, as the General Assembly of Maryland has specifically amended the MGCL to authorize the adoption of such provisions. However, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings notwithstanding that the MGCL expressly provides that the charter or bylaws of a Maryland corporation may require that any internal corporate claim be brought only in courts sitting in one or more specified jurisdictions, we may incur additional costs that we do not currently anticipate associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition and results of operations.

Operational risks, including the risk of cyberattacks, may disrupt our businesses, result in losses or limit our growth.

We rely heavily on our and our sponsor's financial, accounting, treasury, communications and other data processing systems. Such systems may fail to operate properly or become disabled as a result of tampering or a breach of the network security systems or otherwise. In addition, such systems are from time to time subject to cyberattacks which may continue to increase in sophistication and frequency in the future. Attacks on our sponsor and its affiliates or on third-party service providers' systems could result in, and in some instances have in the past resulted in, unauthorized access to our proprietary information or personal identifying information of our stockholders, or could destroy data or disable, degrade or sabotage our systems, including through the introduction of computer viruses and other malicious code.

Cyber security incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. Our sponsor and its affiliates and their portfolio entities' and third-party service providers' information and technology systems may be vulnerable to damage or interruption from cyber security breaches, computer viruses or other malicious code, network failures, computer and telecommunication failures, infiltration by unauthorized persons and other security breaches, usage errors by their respective professionals or service providers, power, communications or other service outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Cyberattacks and other security threats could originate from a wide variety of sources, including cyber criminals, nation state hackers, hacktivists and other outside parties. There has been an increase in the frequency and sophistication of the cyber and security threats our sponsor faces, with attacks ranging from those common to businesses generally to those that are more advanced and persistent. As a result, our sponsor may face a heightened risk of a security breach or disruption with respect to this information. If successful, these types of attacks on our sponsor's network or other systems could have a material adverse effect on our business and results of operations, due to, among other things, the loss of investor or proprietary data, interruptions or delays in the operation of our business and damage to our reputation. There can be no assurance that measures our sponsor takes to ensure the integrity of its systems will provide protection, especially because cyberattack techniques used change frequently or are not recognized until successful.

Although our sponsor has implemented various measures to manage risks relating to these types of events, such systems could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. Our sponsor does not control the cyber security of third-party service providers, and those service providers' systems have been attacked and may continue to be attacked in the future. Such third-party service providers may have limited or no indemnification obligations to our sponsor, us or our respective affiliates, each of whom could be negatively impacted as a result.

Breaches such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing them from being addressed appropriately. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in our, our sponsor's its affiliates' and/or a portfolio entities' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to shareholders, material nonpublic information and the intellectual property and trade secrets and other sensitive information in the possession of our sponsor and/or portfolio entities. We, our sponsor or our affiliates could be required to make a significant investment to remedy the effects of any such failures, harm to their reputations, legal claims that they and their respective affiliates may be subjected to, regulatory action or enforcement arising out of applicable privacy and other laws, adverse publicity and other events that may affect their business and financial performance.

In addition, our sponsor operates in businesses that are highly dependent on information systems and technology. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. In addition, cybersecurity and data privacy have become top priorities for regulators around the world. Many jurisdictions in which our sponsor operates have laws and regulations relating to data privacy, cybersecurity and protection of personal information. Some jurisdictions have also enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. Breaches in security could potentially jeopardize our sponsor, its employees' or our investors' or counterparties' confidential and other information processed and stored in, and transmitted through our sponsor's computer systems and networks, or otherwise cause interruptions or malfunctions in its, its employees', our investors', our counterparties' or third parties' operations, which could result in significant losses, increased costs, disruption of our sponsor's business, liability to our investors and other counterparties, regulatory intervention or reputational damage. Furthermore, if our sponsor fails to comply with the relevant laws and regulations, it could result in regulatory investigations and penalties, which could lead to negative publicity and may cause our investors to lose confidence in the effectiveness of our or our sponsor's security measures.

Finally, we depend on our sponsor's headquarters in Houston, Texas, where most of our sponsor's personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our sponsor's disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On January 20, 2015, our Registration Statement on Form S-11 (File No. 333-198305) registering our offering of up to $1,100,000,000 in shares of our common stock was declared effective and we commenced our initial public offering. In our initial public offering we offered up to $1,000,000,000 in shares of any class of our common stock to the public in our primary offering and up to $100,000,000 of shares of any class of our common stock pursuant to our DRP. The initial offering price of our common stock in our initial public offering was $25.00 per share, and thereafter was adjusted based upon our annually determined estimated NAV per share.

On January 18, 2018, we filed a Registration Statement on Form S-11 (Registration No. 333-222610) with the SEC registering $990,000,000 in any combination of our shares to be sold on a "best efforts" basis in our follow-on offering. Effective on July 19, 2018, the SEC declared the registration statement for our follow-on offering effective, we commenced our follow-on offering and we ceased selling shares pursuant to the registration statement for our initial public offering. Each class of our shares of common stock is currently offered (i) to the public in the primary offering at a purchase price of $23.32 per share, equal to the NAV per share of such class as of December 31, 2018, and (ii) to our stockholders pursuant to the DRP at a purchase price of $23.32 per share, equal to the NAV per share of such class as of December 31, 2018.

As of June 30, 2019, we had received and accepted investors' subscriptions for and issued 8,510,459 shares in our initial public offering and our follow-on offering, excluding shares issued in connection with the Mergers and including 393,191 shares pursuant to the DRP, resulting in gross offering proceeds of $198,665,114. As of June 30, 2019, we had received and accepted investors' subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with our Mergers and including 214,764 shares pursuant to the DRP, resulting in gross offering proceeds of $147,415,625 for the initial public offering. As of June 30, 2019, we had received and accepted investors' subscriptions for and issued 2,384,466 shares in the follow-on offering, including 178,427 shares pursuant to the DRP, resulting in gross offering proceeds of $51,249,489 for the follow-on offering.

As of June 30, 2019, we had incurred selling commissions, dealer manager fees and organization and other offering costs in our initial public offering in the amounts set forth in the table below (in thousands). Our dealer manager reallowed all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers (in thousands).

Type of Expense	Amount	Estimated/ Actual
Selling commissions, stockholder servicing fees and dealer manager fees	$ 11,522	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	6,843	Actual
Total expenses	$ 18,365	

As of June 30, 2019, we had incurred selling commissions, dealer manager fees, stockholder servicing fees and organization and other offering costs in our follow-on offering in the amounts set forth in the table below (in thousands). Our dealer manager reallowed all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers (in thousands).

Type of Expense	Amount	Estimated/ Actual
Selling commissions, stockholder servicing fees and dealer manager fees	$ —	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	1,690	Actual
Total expenses	$ 1,690	

As of June 30, 2019, the net offering proceeds to us from our initial public offering, after deducting the total expenses incurred as described above, were approximately $129,050,510, excluding $5,201,527 in offering proceeds from shares of our common stock issued pursuant to the DRP.

As of June 30, 2019, the net offering proceeds to us from our follow-on offering, after deducting the total expenses incurred as described above, were approximately $49,559,510, excluding $4,144,578 in offering proceeds from shares of our common stock issued pursuant to the DRP.

We intend to use the proceeds from our initial public offering and our follow-on offering to acquire additional hotel properties located in the East Coast, the West Coast and the Sunbelt regions of the United States. To a lesser extent, we may also invest in other hospitality properties located within other markets and regions as well as real estate securities and debt-related investments related to the hospitality sector.

As of June 30, 2019, we used approximately $153,679,308 of the net proceeds from our initial public and follow-on offerings to acquire the Residence Inn Austin, the Springhill Suites Seattle, and the Moody I portfolio (pursuant to the Mergers), to reduce the debt on Springhill Suites Seattle, to originate the MN TX II note, and to reduce Term Loan and Short Term Loan debt. As of June 30, 2019, we had paid a cumulative amount of $16,945,147 of acquisition expenses, including $12,978,997 related to the Mergers.

During the three months ended June 30, 2019, we fulfilled redemption requests and redeemed shares of our common stock pursuant to our share redemption program as follows:

	Total Number of Shares Requested to be Redeemed[1]	Average Price Paid per Share	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
April 2019	—	$ —	[2]
May 2019	15,648.28	$ 25.06	[2]
June 2019	—	$ —	[2]
	15,648.28		

(1) We generally redeem shares on the last business day of the month following the end of each fiscal quarter in which redemption requests were received. The 15,648.28 shares requested to be redeemed were redeemed during the quarter ended June 30, 2019 at an average price of $25.06 per share.

(2) The number of shares that may be redeemed pursuant to the share redemption program during any calendar year is limited to: (1) 5% of the weighted-average number of shares outstanding during the prior calendar year and (2) those that can be funded from the net proceeds we received from the sale of shares under the DRP during the prior calendar year plus such additional funds as may be reserved for that purpose by our board of directors. This volume limitation will not apply to redemptions requested within two years after the death of a stockholder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFTEY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

3.1 Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305) filed January 12, 2015)

3.2 Articles of Amendment to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on June 12, 2017)

3.3 Articles Supplementary to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on June 12, 2017)

3.4 Bylaws of Moody National REIT II, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 (No. 333-198305))

10.1 Assignment and Assumption of Agreement and Purchase of Sale, dated April 29, 2019, by and between Moody National REIT II, Inc. and Moody National Kirby-Houston Holding, LLC (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 3, 2019)

10.2 Hotel Lease Agreement, dated April 29, 2019 by and between Moody National Kirby-Houston Holding, LLC and Moody National Kirby-Houston MT, LLC (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 3, 2019)

10.3 Hotel Management Agreement, dated February 20, 2019, by and between RI II MC-HOU, LLC and Moody National Hospitality Management, LLC (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 3, 2019)

10.4 Assignment and Assumption of Hotel Management Agreement, dated April 29, 2019, by and between RI II MC-HOU, LLC and Moody National Kirby-Houston MT, LLC (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on May 3, 2019)

10.5 Assignment and Assumption Agreement, dated April 29, 2019, by and among RI II MC-HOU, LLC, Moody National Kirby-Houston Holding, LLC, Brett C. Moody, Moody National Kirby-Houston MT, LLC, and American National Insurance Company (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on May 3, 2019)

10.6 Promissory Note, dated September 13, 2017, by RI II MC-HOU, LLC in favor of American National Insurance Company (incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on May 3, 2019)

10.7 Construction Loan Agreement, dated September 13, 2017, by and between RI II MC-HOU, LLC and American National Insurance Company (incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed on May 3, 2019)

10.8 Deed of Trust, Security Agreement and Financing Statement, dated September 13, 2017, by RI II MC-HOU, LLC for the benefit of American National Insurance Company (incorporated by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed on May 3, 2019)

10.9 Promissory Note, dated April 29, 2019, by Moody National Operating Partnership II, LP in favor of RI IIMC-HOU, LLC (incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K filed on May 3, 2019)

31.1* Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2* Certification of Principal Financial and Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2* Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOODY NATIONAL REIT II, INC.

Date: August 14, 2019

By: /s/ Brett C. Moody
Brett C. Moody
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)

Date: August 14, 2019

By: /s/ Robert W. Engel
Robert W. Engel
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 5 DATED JULY 29, 2019
TO THE PROSPECTUS DATED APRIL 19, 2019

This document supplements, and should be read in conjunction with, our prospectus dated April 19, 2019, as supplemented by Supplement No. 1 dated April 26, 2019, Supplement No. 2 dated May 9, 2019, Supplement No. 3 dated May 16, 2019, and Supplement No. 4 dated June 3, 2019, relating to our offering of up to $990,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 5 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 5 is to disclose:

- the status of our public offering;
- an update to the "Suitability Standards" section of our prospectus;
- an update to the "Risk Factors" section of our prospectus;
- the estimated NAV per share of our common stock;
- our real estate portfolio;
- selected financial data;
- our funds from operations and modified funds from operations;
- our net tangible book value;
- information regarding our indebtedness;
- information regarding our distributions;
- information regarding repurchases 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

On July 19, 2018, we commenced this offering of up to $990,000,000 in any combination of our shares of Class A common stock, or Class A shares, Class I common stock, or Class I shares, and Class T common stock, or Class T shares. We are offering up to $895,000,000 in any combination of the classes of shares of our common stock to the public, which we refer to as the primary offering, and up to $95,000,000 in any combination of the classes of shares of our common stock to our stockholders pursuant to our distribution reinvestment plan. As of July 12, 2019, we had received and accepted investors' subscriptions for and issued 2,486,186 shares of our common stock in this offering (consisting of 2,251,532 Class A shares, 55,935 Class I shares and 178,717 class T shares), including 196,239 shares of our common stock issued pursuant to our distribution reinvestment plan, resulting in gross offering proceeds of $53,273,983. As of July 12, 2019, $932,166,076 in shares of our common stock remained to be sold in this offering.

We may continue to offer shares of our common stock in this offering until July 19, 2021 (three years from the date of the commencement of this offering). Under rules promulgated by the SEC, in some circumstances in which we are pursuing the registration of shares of our common stock in an additional follow-on public offering, we could continue this offering until as late as January 15, 2022. In many states, we will need to renew the registration statement or file a new registration statement to continue this offering beyond one year from the date of our prospectus. We reserve the right to terminate this offering at any time.

Update to Risk Factors

The following disclosure supersedes and replaces in its entirety the risk factor in our prospectus entitled "*Operational risks, including the risk of cyberattacks, may disrupt our businesses, result in losses or limit our growth*."

"Operational risks, including the risk of cyberattacks, may disrupt our businesses, result in losses or limit our growth.

We rely heavily on our and our sponsor's financial, accounting, treasury, communications and other data processing systems. Such systems may fail to operate properly or become disabled as a result of tampering or a breach of the network security systems or otherwise. In addition, such systems are from time to time subject to cyberattacks which may continue to increase in sophistication and frequency in the future. Attacks on our sponsor and its affiliates or on third-party service providers' systems could result in, and in some instances have in the past resulted in, unauthorized access to our proprietary information or personal identifying information of our stockholders, or could destroy data or disable, degrade or sabotage our systems, including through the introduction of computer viruses and other malicious code.

Cyber security incidents and cyber-attacks have been occurring globally at a more frequent and severe level and will likely continue to increase in frequency in the future. Our sponsor and its affiliates and their portfolio entities' and third-party service providers' information and technology systems may be vulnerable to damage or interruption from cyber security breaches, computer viruses or other malicious code, network failures, computer and telecommunication failures, infiltration by unauthorized persons and other security breaches, usage errors by their respective professionals or service providers, power, communications or other service outages and catastrophic events such as fires, tornadoes, floods, hurricanes and earthquakes. Cyberattacks and other security threats could originate from a wide variety of sources, including cyber criminals, nation state hackers, hacktivists and other outside parties. There has been an increase in the frequency and sophistication of the cyber and security threats our sponsor faces, with attacks ranging from those common to businesses generally to those that are more advanced and persistent. As a result, our sponsor may face a heightened risk of a security breach or disruption with respect to this information. If successful, these types of attacks on our sponsor's network or other systems could have a material adverse effect on our business and results of operations, due to, among other things, the loss of investor or proprietary data, interruptions or delays in the operation of our business and damage to our reputation. There can be no assurance that measures our sponsor takes to ensure the integrity of its systems will provide protection, especially because cyberattack techniques used change frequently or are not recognized until successful.

Although our sponsor has implemented various measures to manage risks relating to these types of events, such systems could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. Our sponsor does not control the cyber security of third-party service providers, and those service providers' systems have been attacked and may continue to be attacked in the future. Such third-party service providers may have limited or no indemnification obligations to our sponsor, us or our respective affiliates, each of whom could be negatively impacted as a result.

Breaches such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing them from being addressed appropriately. The failure of these systems and/or of disaster recovery plans for any reason could cause significant interruptions in our, our sponsor's its affiliates' and/or a portfolio entities' operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to shareholders, material nonpublic information and the intellectual property and trade secrets and other sensitive information in the possession of our sponsor and/or portfolio entities. We, our sponsor or our affiliates could be required to make a significant investment to remedy the effects of any such failures, harm to their reputations, legal claims that they and their respective affiliates may be subjected to, regulatory action or enforcement arising out of applicable privacy and other laws, adverse publicity and other events that may affect their business and financial performance.

In addition, our sponsor operates in businesses that are highly dependent on information systems and technology. The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. In addition, cybersecurity and data privacy have become top priorities for regulators around the world. Many jurisdictions in which our sponsor operates have laws and regulations relating to data privacy, cybersecurity and protection of personal information. Some jurisdictions have also enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. Breaches in security could potentially jeopardize our sponsor, its employees' or our investors' or counterparties' confidential and other information processed and stored in, and transmitted through our sponsor's computer systems and networks, or otherwise cause interruptions or malfunctions in its, its employees', our investors', our counterparties' or third parties' operations, which could result in significant losses, increased costs, disruption of our sponsor's business, liability to our investors and other counterparties, regulatory intervention or reputational damage. Furthermore, if our sponsor fails to comply with the relevant laws and regulations, it could result in regulatory investigations and penalties, which could lead to negative publicity and may cause our investors to lose confidence in the effectiveness of our or our sponsor's security measures.

Finally, we depend on our sponsor's headquarters in Houston, Texas, where most of our sponsor's personnel are located, for the continued operation of our business. A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our sponsor's disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all."

Suitability Standards with Respect to Investors in Maine and New Jersey

The following disclosure is hereby added to the "Suitability Standards" section of our prospectus and to our subscription agreement.

"***Maine*** — The Maine Office of Securities recommends that an investor's aggregate investment in this offering and similar direct participation investments not exceed 10% of the investor's liquid net worth. For this purpose, "liquid net worth" is defined as that portion of net worth that consists of cash, cash equivalents and readily marketable securities."

"***New Jersey*** — In addition to the suitability standards above, New Jersey investors must have either (a) a minimum liquid net worth of at least $100,000 and a minimum annual gross income of not less than $85,000, or (b) a minimum liquid net worth of $350,000. For these purposes, "liquid net worth" is defined as that portion of net worth (total assets exclusive of home, home furnishings, and automobiles, minus total liabilities) that consists of cash, cash equivalents and readily marketable securities. In addition, a New Jersey investor's investment in us, our affiliates, and other non-publicly traded direct investment programs (including real estate investment trusts, business development companies, oil and gas programs, equipment leasing programs and commodity pools, but excluding unregistered, federally and state exempt private offerings) may not exceed ten percent (10%) of his or her liquid net worth."

Estimated Net Asset Value Per Share of Our Common Stock

Background

On March 14, 2019, our board of directors, including all of our independent directors, determined an estimated NAV per share of our Class A Shares, Class I Shares and Class T Shares of $23.32 as of December 31, 2018. 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, 2018. We are providing 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 director's experience with, and knowledge of, our real property and other assets as of December 31, 2018. 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, which we refer to herein as the 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 Institute for Portfolio Alternatives (formerly 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, 2018. A summary of methodologies, assumptions and limitations follows the table (in thousands except per share amounts) (amounts in the table are unaudited).

Investment in hotel properties	$	463,900
Cash, cash equivalents and restricted cash		19,194
Notes receivable		6,750
Other assets		5,818
	$	495,662
Notes payable	$	230,636
Other liabilities		9,880
Special limited partnership interests		1
Noncontrolling interests in Operating Partnership		7,141
Total liabilities, special limited partnership interests and noncontrolling interests in Operating Partnership	$	247,658
Estimated value	$	248,004
Common stock outstanding		10,636
Estimated value per share	$	23.32

As of December 31, 2018, the estimated NAV was allocated on a per share basis as follows:

Investment in hotel properties	$	43.62
Notes payable		(21.68)
Other assets, liabilities, and special limited partnership interests		2.05
Noncontrolling interests in Operating Partnership		(0.67)
Estimated value per share	$	23.32

Investment in Hotel Properties

As of December 31, 2018, we owned 14 hotel properties. The appraiser appraised each 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, the appraiser 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, the appraiser (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, the appraiser 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, the appraiser 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. The appraiser 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 the appraiser deemed appropriate. The following summarizes the overall discount rates and capitalization rates used by the appraiser:

	Range		
	Low	**High**	**Weighted Average**
Capitalization Rate	7.00%	9.00%	7.57%
Discount Rate	9.50%	11.50%	9.87%

While we believe that the discount rates and capitalization rates used by the appraiser 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	$ 23.86	$ 22.80
Discount Rate	$ 24.01	$ 22.61

The appraisals are each addressed to our advisor to assist it in calculating an estimated NAV per share of our Class A 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, 2018, we held one note receivable from a related party. 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, 2018, 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, 2018 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 the 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

Hotel Properties

As of the date of this supplement, we owned 15 hotel properties located in six states with a total of 2,123 rooms. The chart below sets forth additional information regarding our hotel properties (all $ amounts in thousands).

Property Name	Date Acquired	Location	Ownership Interest	Original Purchase Price(1)	Rooms	Mortgage Debt Outstanding(2)
Residence Inn Austin	October 15, 2015	Austin, Texas	100%	$ 27,500	112	$ 16,427
Springhill Suites Seattle	May 24, 2016	Seattle, Washington	100%	74,100	234	44,526
Homewood Suites Woodlands	September 27, 2017(5)	The Woodlands, Texas	100%	17,356	91	8,991
Hyatt Place Germantown . . .	September 27, 2017(5)	Germantown, Tennessee	100%	16,074	127	6,946
Hyatt Place North Charleston.	September 27, 2017(5)	North Charleston, South Carolina	100%	13,806	113	7,088
Hampton Inn Austin	September 27, 2017(5)	Austin, Texas	100%	19,328	123	10,590
Residence Inn Grapevine	September 27, 2017(5)	Grapevine, Texas	100%	25,245	133	12,228
Marriott Courtyard Lyndhurst	September 27, 2017(5)	Lyndhurst, New Jersey	(3)	39,547	227	—

Property Name	Date Acquired	Location	Ownership Interest	Original Purchase Price[1]	Rooms	Mortgage Debt Outstanding[2]
Hilton Garden Inn Austin	September 27, 2017[5]	Austin, Texas	100%	29,288	138	18,241
Hampton Inn Great Valley . . .	September 27, 2017[5]	Frazer, Pennsylvania	100%	15,285	125	7,928
Embassy Suites Nashville.	September 27, 2017[5]	Nashville, Tennessee	100%	82,207	208	41,626
Homewood Suites Austin	September 27, 2017[5]	Austin, Texas	100%	18,835	96	10,690
Townplace Suites Fort Worth	September 27, 2017[5]	Fort Worth, Texas	[4]	11,242	95	—
Hampton Inn Houston	September 27, 2017[5]	Houston, Texas	100%	9,958	119	4,428
Residence Inn Houston Medical Center	April 29, 2019[6]	Houston, Texas	100%	52,000	182	41,845
Totals				$ 451,771	2,123	$ 231,554

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

(2) As of June 30, 2019.

(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 merger of Moody National REIT I, Inc., or Moody I, with and into our company and the merger of Moody I's operating partnership with and into our operating partnership, each effective as of September 27, 2017, which we collectively refer to as the "mergers."

(6) Includes balance of $29,100,000 for first mortgage loan and balance of $12,745,218 for promissory note payable to the seller of the Residence Inn Houston Medical Center property in the original principal amount of $22,550,000.

Each of our properties face competition from similarly situated properties in and around their respective submarkets. We believe that the each of our properties are suitable for their intended purposes and is adequately covered by insurance. We have no plans for significant renovation or improvement of any of our properties.

Note Receivable from Related Party

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. We acquired the Related Party Note in connection with the mergers.

The balance of the Related Party Note was $6,750,000 as of December 31, 2018 and 2017. Interest on the outstanding principal balance of the Related Party Note accrued at a fixed per annum rate equal to 12%. On August 15, 2016, the maturity date of the Related Party Note was extended from August 21, 2016 to August 21, 2017. On September 24, 2017, the maturity date of the Related Party Note was again extended to August 21, 2018. On August 30, 2018, the maturity date of the Related Party Note was again extended to April 30, 2019. The Related Party Note was paid in full on April 29, 2019.

Selected Financial Data

The following selected financial data 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, 2018 and our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2019, each of which is incorporated by reference herein. Our historical results are not necessarily indicative of results for any future period.

Selected Financial Data	As of March 31, 2019	(in thousands) As of December 31, 2018	2017	2016	2015	2014
BALANCE SHEET DATA:						
Total assets	$ 426,477	$ 424,902	$ 446,476	$ 135,759	$ 29,479	$ 199
Total liabilities	$ 229,116	$ 237,054	$ 274,962	$ 70,930	$ 17,218	$ —
Special limited partnership interests	$ 1	$ 1	$ 1	$ 1	$ 1	$ 1
Total equity	$ 197,360	$ 187,847	$ 171,513	$ 64,828	$ 12,260	$ 198

	Three Months Ended March 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017	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	$ 18,785	$ 80,841	$ 36,569	$ 14,859	$ 1,077	$ —
Total expenses	$ 21,525	$ 90,353	$ 50,948	$ 17,136	$ 1,598	$ 2
Gain on acquisition of hotel property	$ —	$ —	$ —	$ —	$ 2,000	$ —
Income tax expense (benefit)	$ 50	$ 158	$ 666	$ (4)	$ (6)	$ —
Net income (loss)	$ (2,790)	$ (9,670)	$ (15,045)	$ (2,273)	$ 1,485	$ (2)
STATEMENT OF CASH FLOWS DATA:						
Net cash provided by (used in) operating activities	$ (2,002)	$ 4,260	$ (10,609)	$ 921	$ (19)	$ (2)
Net cash provided by (used in) investing activities	$ (7,968)	$ 7,112	$ (77,713)	$ (88,666)	$ (25,684)	$ —
Net cash provided by (used in) financing activities	$ 5,788	$ (13,913)	$ 88,609	$ 105,741	$ 27,085	$ 201
OTHER DATA:						
Dividends declared	$ 4,691	$ 16,812	$ 9,562	$ 3,161	$ 217	$ —

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 accounting principles, or GAAP. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, 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 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 will exclude 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 will also include, 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. Although organizational and acquisition expenses 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. Offering expenses do not affect net income. Our calculation of MFFO set forth in the table below reflects the exclusion of acquisition expenses.

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 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. However, 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, 2018 and 2017 and the three months ended March 31, 2019 and a reconciliation of such non-GAAP financial performance measures to our net loss (in thousands).

	Three Months Ended March 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Net Loss	$ (2,790)	$ (9,670)	$ (15,045)
Adjustments:			
Depreciation and amortization	3,174	12,166	4,749
Funds from Operations	384	2,496	(10,296)
Adjustments:			
Acquisition expenses	—	—	11,830
Unrealized loss on change in fair value of debt	159	—	—
Amortization of debt issuance costs	327	1,973	794
Modified Funds from Operations	$ 870	$ 4,469	$ 2,328

Our Net Tangible Book Value Per Share

As of March 31, 2019, our net tangible book value per share was $16.82. Net tangible book value per share of our common stock is determined by dividing the net tangible book value based on the December 31, 2018 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 March 31, 2019. 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 June 30, 2019, our indebtedness, as described below, was comprised of notes secured by our hotel properties. All such notes, except as noted below, accrue interest at a fixed rate and, therefore, an increase or decrease in interest rates would have no effect on our interest expense with respect such notes.

As of June 30, 2019, our notes payable consisted of the following (all $ amounts in thousands):

Loan	Principal as of June 30, 2019	Interest Rate at March 31, 2019	Maturity Date
Residence Inn Austin[1]	$ 16,427	4.580%	November 1, 2025
Springhill Suites Seattle[1]	44,526	4.380%	October 1, 2026
Homewood Suites Woodlands[1]	8,991	4.690%	April 11, 2025
Hyatt Place Germantown[1]	6,946	4.300%	May 6, 2023
Hyatt Place North Charleston[1]	7,088	5.193%	August 1, 2023
Hampton Inn Austin[1]	10,590	5.426%	January 6, 2024
Residence Inn Grapevine[1]	12,228	5.250%	April 6, 2024
Hilton Garden Inn Austin[1]	18,241	4.530%	December 11, 2024
Hampton Inn Great Valley[1]	7,928	4.700%	April 11, 2025
Embassy Suites Nashville[1]	41,626	4.2123%	July 11, 2025
Homewood Suites Austin[1]	10,690	4.650%	August 11, 2025
Hampton Inn Houston[1]	4,428	7.500%	April 28, 2023
Residence Inn Houston Medical Center[3]	29,100	5.000%	October 1, 2024
Residence Inn Houston Medical Center[1]	12,745	3.000%	December 15, 2019
Term Loan[2]	25,700	30-day LIBOR plus 3.750%	September 27, 2019
Total notes payable	257,254		
Less unamortized debt issuance costs	(3,167)		
Total notes payable, net of unamortized debt issuance costs	$ 254,087		

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

(2) Monthly payments of principal and interest were due and payable beginning in November 2017 until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019. The Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth properties are pledged as security for the Term Loan.

(3) Monthly payments of interest only due and payable until October 2019. Monthly payments of principal and interest due and payable beginning in November 2019 until the maturity date.

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

As of June 30, 2019, our outstanding indebtedness totaled $257,254,196, 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. As of March 31, 2019, we were in compliance with all debt covenants and current on all loan payments.

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.

The following table summarizes the net distributions per share declared by our board of directors since our inception through March 31, 2019 (in thousands).

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	17	6	23	(5)	—[2]
Fourth Quarter 2015	87	40	127	241	(380)
First Quarter 2016	186	84	270	197	339
Second Quarter 2016	351	158	509	854	(899)
Third Quarter 2016	635	230	865	827	1,040
Fourth Quarter 2016	819	314	1,133	(870)	(1,042)
First Quarter 2017	1,017	410	1,427	(744)	(329)
Second Quarter 2017	1,325	590	1,915	(343)	479
Third Quarter 2017	1,478	627	2,105	(9,824)	(9,366)
Fourth Quarter 2017	2,161	820	2,981	302	(1,080)
First Quarter 2018	3,218	634	3,852	(1,585)	(152)
Second Quarter 2018	3,039	963	4,002	3,644	2,277
Third Quarter 2018	3,241	1,034	4,275	1,994	1,247
Fourth Quarter 2018	3,437	1,087	4,524	207	(876)
First Quarter 2019	3,517	1,121	4,638	(2,004)	384
Total	$ 24,528	$ 8,118	$ 32,646	$ (7,109)	$ (8,358)

(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.

From July 2, 2015 (the date our board of directors authorized and declared the payment of a distribution) through March 31, 2019, we paid aggregate distributions of $32,645,939, including $24,527,129 of distributions paid in cash and $8,118,810 in shares of our common stock issued pursuant to our distribution reinvestment plan. From inception through March 31, 2019, we had cash used in operating activities of $(7,109,069) and cumulative FFO of $(8,358,373). Of the $32,645,939 in total distributions we have paid during the period from our inception through March 31, 2019, including shares issued pursuant to our distribution reinvestment plan, 0% was funded from cash flow from operations and 100% was funded from offering proceeds.

We intend to accrue distributions quarterly and pay distributions on a quarterly basis. However, we reserve the right to adjust the periods during which distributions accrue and are paid. We cannot provide assurance with respect to the amount of distributions, if any, that we will pay in the future. 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 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. For a discussion of how we calculate FFO, see “Funds from Operations and Modified Funds from Operations” above.

Information Regarding Share Repurchases

During the year ended December 31, 2016, we redeemed 16,893 shares of our common stock pursuant to our share repurchase program. During the year ended December 31, 2017, we redeemed 36,718 shares of our common stock pursuant to our share repurchase program (consisting of 36,718 Class A shares, 0 Class I shares and 0 Class T shares). During the year ended December 31, 2018, we redeemed 110,225 shares of our common stock pursuant to our share repurchase program (consisting of 110,225 Class A shares, 0 Class I shares and 0 Class T shares).

During the three months ended March 31, 2019, we fulfilled redemption requests and redeemed shares of our common stock pursuant to our share redemption program as follows:

	Total Number of Shares Requested to be Redeemed(1)	Average Price Paid per Share	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2019	33,704.04	$ 25.08	(2)
February 2019	—	$ —	(2)
March 2019	81,355.97	$ 22.03	(2)
	115,060.01		

(1) We generally redeem shares on the last business day of the month following the end of each fiscal quarter in which redemption requests were received. The 115,060.01 shares requested to be redeemed were redeemed during the quarter ended March 31, 2019 at an average price of $22.92 per share.

(2) The number of shares that may be redeemed pursuant to the share redemption program during any calendar year is limited to: (1) 5% of the weighted-average number of shares outstanding during the prior calendar year and (2) those that can be funded from the net proceeds we received from the sale of shares under the DRP during the prior calendar year plus such additional funds as may be reserved for that purpose by our board of directors. This volume limitation will not apply to redemptions requested within two years after the death of a stockholder.

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, 2018, 2017 and 2016 and the quarterly period ended March 31, 2019.

Type of Fee or Reimbursement	Quarter Ended March 31, 2019	Years ended December 31, 2018	2017	2016
Offering Stage:				
Selling commissions[1]	$ —	$ —	$ 3,501,347	$ 4,982,034
Dealer manager fees[1]	—	—	788,759	1,080,374
Organization and offering expense reimbursement[2]	227,992	2,108,043	2,109,773	2,160,076
Operational Stage:				
Acquisition fee (base)	—	—	670,000	1,111,500
Acquisition fee (contingent)	—	—	—	—
Reimbursement of acquisition expenses to advisor	—	—	—	—
Financing coordination fee	—	—	1,720,000	562,500
Asset management fee	1,046,000	4,197,000	1,913,000	725,751
Property management fees	738,248	3,185,388	1,409,841	588,396
Property manager incentive fee	—	—	—	—
Operating expense reimbursement	439,000	1,642,000	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 March 31, 2019, total organization and offering costs for our initial public offering and our follow-on public offering were $19,572,671, comprised of $12,333,647 of costs incurred directly by us and $7,239,024 in costs incurred by and reimbursable to our advisor. As of March 31, 2019, we had $280,197 due to our advisor for reimbursable offering costs.

As noted in the table above, during 2017 we paid our advisor an acquisition fee of $670,000, which equaled 1.5% of the cash consideration paid to Moody I stockholders in the mergers, 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. We also paid Moody Securities a stockholder servicing fee of up to $2.125 per Class A share issued as stock consideration in the mergers, for an aggregate amount of approximately $7.0 million in stockholder servicing fees, all of which was reallowed 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, 2018 (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.

Kendall Realty Consulting Group, LLC an independent valuation services firm, provided individual appraisal reports with respect to each of our properties as of December 31, 2018 that our advisor used to calculate the number provided for “Investment in hotel properties” provided on page 2 of this Supplement No. 5 under the section “Estimated Net Asset Value Per Share of Our Common Stock,” which is included in this Supplement No. 5 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. 333-222610), 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 29, 2019;
- Quarterly Report on Form 10-Q filed with the SEC on May 15, 2019;
- Current Report on Form 8-K filed with the SEC on May 3, 2019;
- Current Report on Form 8-K filed with the SEC on May 10, 2019;
- 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
Phone:

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-222610

MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 4 DATED JUNE 3, 2019
TO THE PROSPECTUS DATED APRIL 26, 2019

This document supplements, and should be read in conjunction with, our prospectus dated April 26, 2019, as supplemented by Supplement No. 1 dated April 26, 2019, Supplement No. 2 dated May 9, 2019, and Supplement No. 3 dated May 16, 2019, relating to our offering of up to $990,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 4 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 4 is to disclose:

- an update to the "Suitability Standards" section of our prospectus; and

- an update to our subscription agreement.

Suitability Standards with Respect to Investors in Maine and New Jersey

The following disclosure is hereby added to the "Suitability Standards" section of our prospectus and to our subscription agreement.

"***Maine*** — The Maine Office of Securities recommends that an investor's aggregate investment in this offering and similar direct participation investments not exceed 10% of the investor's liquid net worth. For this purpose, "liquid net worth" is defined as that portion of net worth that consists of cash, cash equivalents and readily marketable securities."

"***New Jersey*** — In addition to the suitability standards above, New Jersey investors must have either (a) a minimum liquid net worth of at least $100,000 and a minimum annual gross income of not less than $85,000, or (b) a minimum liquid net worth of $350,000. For these purposes, "liquid net worth" is defined as that portion of net worth (total assets exclusive of home, home furnishings, and automobiles, minus total liabilities) that consists of cash, cash equivalents and readily marketable securities. In addition, a New Jersey investor's investment in us, our affiliates, and other non-publicly traded direct investment programs (including real estate investment trusts, business development companies, oil and gas programs, equipment leasing programs and commodity pools, but excluding unregistered, federally and state exempt private offerings) may not exceed ten percent (10%) of his or her liquid net worth."

Update to Subscription Agreement

A copy of our updated form of subscription agreement, which supersedes and replaces the form of subscription agreement filed as Appendix A to our prospectus, is attached to this supplement as Exhibit A.

EXHIBIT A

FORM OF SUBSCRIPTION AGREEMENT
SUBSCRIPTION AGREEMENT INSTRUCTIONS
FOR THE PROSPECTUS DATED APRIL 26, 2019

Please refer to the following instructions in completing the attached Signature Page. Failure to follow these instructions may result in the rejection of your subscription.

Individuals desiring to purchases shares of common stock (the "Shares") of any class in Moody National REIT II, Inc., a Maryland corporation (the "Company"), must sign and deliver a copy of the attached subscription agreement signature page ("Signature Page") along with the acknowledgement of receipt of the prospectus in Section 5 of this Subscription Agreement. If this subscription is accepted, it will be held, together with the accompanying payment, on the terms described in the Company's prospectus dated April 26, 2019 (the "Prospectus"). Subscriptions may be rejected in whole or in part by the Company in its sole and absolute discretion. Upon completion of this transaction, investors will receive a confirmation of purchase, subject to acceptance by the Company, within 30 days from the date the subscription is received. In no event may a subscription for Shares be accepted until at least five business days after the date the subscriber receives the final Prospectus.

1. **INVESTMENT:** A minimum investment of $2,500 is required for purchases of Class A, Class I and Class T Shares. A check for the full purchase price of the shares subscribed for should be made payable to "Moody National REIT II, Inc." Shares of any class may be purchased only by persons meeting the standards set forth under the Section of the Prospectus entitled "Suitability Standards." Please indicate the state in which the sale was made in Section 1 of this Subscription Agreement. If this is an initial investment, please check the box indicating it as such. Otherwise, please check the "Additional Investment" box. A completed Subscription Agreement is required for each initial and additional investment.

2. **NON CUSTODIAL OWNERSHIP:** Please check the appropriate box to indicate the type of entity or type of individuals subscribing.

3. **CUSTODIAL OWNERSHIP ACCOUNTS:** If applicable, please provide the information requested for Custodial Accounts in this Section. Please enter the exact name in which the Shares are to be held and the mailing address and telephone numbers of the registered owner of this investment. In the case of a qualified plan or trust, this will be the address of the trustee.

4. **REGISTRATION INFORMATION:** Please enter the exact name in which the Shares are to be held. For joint tenants with a right of survivorship or tenants-in-common, include the names of both investors. In the case of partnerships or corporations, include the name of an individual to whom correspondence will be addressed. Trusts should include the name of the trustee. All investors must complete the space provided for taxpayer identification number or social security number. By signing in Section 11, the investor(s) is/are certifying that the taxpayer or social security number(s) is/are correct. Enter the mailing address and telephone numbers of the registered owner of this investment. In the case of a qualified plan or trust, this will be the address of the trustee.

5. **INVESTOR ACKNOWLEDGMENT:** Please separately initial each representation made by the investor where indicated. Except in the case of fiduciary accounts, the investor may not grant any person a power of attorney to make such representations on such investor's behalf.

6. **STATE SPECIFIC SUITABILITY ACKNOWLEDGEMENTS:** Please complete this Section so that the Company and your broker-dealer can assess whether your subscription is suitable given your financial condition.

7. **DISTRIBUTION REINVESTMENT PLAN:** By electing the distribution reinvestment plan, the investor elects to reinvest 100% of cash distributions otherwise payable to such investor in common stock of the Company. If cash distributions are to be sent to an address other than that provided in Section 4 (such as a bank, brokerage firm or savings and loan, etc.), please provide the name, account number and address.

8. **FINANCIAL ADVISOR:** This Section is to be completed by the Registered Investment Advisor (RIA), or the registered representative and the broker-dealer.

9. **PAYMENT INSTRUCTIONS:** Please indicate the method of payment for your subscription in this Section.

10. **SUBSCRIBER SIGNATURES:** The subscription agreement Signature Page must be signed by an authorized representative. The subscription agreement Signature Page, which has been delivered with the Prospectus, together with a check for the full purchase price, should be delivered or mailed to your broker-dealer. Only original, completed copies of subscription agreements may be accepted. Photocopied or otherwise duplicated subscription agreements cannot be accepted by the Company.

MAILING INSTRUCTIONS

The completed subscription agreement, including the executed subscription agreement signature page and payment (if sent by mail), should be sent to:

Via Mail

Moody National REIT II, Inc.
c/o DST Services, Inc.
P.O. Box 219280
Kansas City, MO 64121-9280

Via Overnight Delivery

Moody National REIT II, Inc.
c/o DST Services, Inc.
430 West 7^{th} Street
Kansas City, MO 64105-1407

IF YOU NEED FURTHER ASSISTANCE IN COMPLETING THIS SUBSCRIPTION AGREEMENT SIGNATURE PAGE, PLEASE CALL (888) 457-2358.

Moody NATIONAL REIT II, INC.

SUBSCRIPTION AGREEMENT

Moody National REIT II, Inc.
P.O. Box 219280
Kansas City, MO 64121-9280
Telephone: (888) 457-2358
Website: www.moodynationalreit.com

1. INVESTMENT – See payment instructions in Section 9 below

Investment Amount $ (*Minimum initial investment is $2,500)*: ______________________

☐ Initial Investment
☐ Additional Investment – *Account number:*

SHARE CLASS SELECTION (Required)

☐ **A Share** ☐ **T Share** ☐ **I Share** – *Select this option for Fee Based or RIA purchases ONLY.*

2. NON-CUSTODIAL OWNERSHIP

☐ **Individual** ☐ **Joint Tenants with Right of Survivorship** ☐ **Tenants in Common**

☐ **Community Property** ☐ **Plan** – *A copy of the plan documents required* ☐ **Uniform Gift/Transfer to Minors** State of: _______

☐ **Trust –** *A copy of the trust documents required*

☐ **Corporation/Partnership/Other –** *A copy of the Corporate Resolution or Partnership Agreement required*

3. CUSTODIAL OWNERSHIP – *Custodian signature required in section 10*

Moody National REIT Sponsor, LLC does not provide custodial services; therefore, if this is a custodial account, a custodian must be indicated below. For custodial accounts, a completed copy of this Subscription Agreement should be sent directly to the custodian. The custodian will forward the subscription documents and wire the appropriate funds pursuant to the payment instructions in Section 9 below.

☐ **Traditional IRA** ☐ **Roth IRA**
☐ **Rollover IRA** ☐ **SEP IRA**
☐ **Simple IRA** ☐ **Individual**
☐ **Other Custodial Ownership Account (Specify):** ______________________

Required for all Custodial Ownership Accounts:

Custodian Account Number: ______________________

Name of Custodian: ______________________ Trustee: ______________ Other Administrator: ______________

Mailing Address: ______________________

City: ______________________ State: ______________ Zip Code: ______________

Custodian Telephone Number: ______________________

Custodian Tax Identification Number: ______________________

4. REGISTRATION INFORMATION – *Please complete the following applicable information*

Entity Name – *Trust/Corporation/Partnership/Other, if applicable:* ______________________

Entity Tax ID – *if different from investor SSN, if applicable:* ______________________

Investor Name – *Investor/Trustee/Authorized Signatory:* ______________________

Co-Investor Name – *co-investor/co-trustee/co-authorized signatory, if applicable:* ______________________

Investor SSN: ______________________ Co- Investor SSN: ______________________

Investor Date of Birth: ______________________ Co- Investor Date of Birth: ______________________

Residential Address *(may not be a P.O. Box):* ______________________

City: ______________________ State: ______________________ Zip Code: ______________________

Mailing Address *(If different from above. P.O. Box is acceptable):* ______________________

City: ______________________ State: ______________________ Zip Code: ______________________

Daytime Telephone Number: ______________________ Evening Telephone Number: ______________________

E-Mail Address: ______________________

Citizenship Status of Investor	☐ U.S. Citizen	☐ Resident Alien	☐ Non-Resident Alien
Citizenship Status of Co-Investor	☐ U.S. Citizen	☐ Resident Alien	☐ Non-Resident Alien

If Non-U.S. Citizen, specify country of Citizenship *(W-8BEN Form Required):* ______________________

5. INVESTOR ACKNOWLEDGEMENT

Please separately initial each of the representations below. In the case of joint investors, each investor must initial. Except in the case of fiduciary accounts, you may not grant any person power of attorney to make such representations on your behalf. For purposes of determining the suitability of an investor, net worth in all cases should be calculated excluding the value of an investor's home, home furnishings and automobiles. As used below, except as specifically noted, liquid net worth is defined as that portion of net worth that consists of cash, cash equivalents and readily marketable securities. In order to induce the Company to accept this subscription, I (we) hereby represent and warrant that:

	Investor	Co-Investor
(a) I (we) received a final Prospectus for the Company relating to the Shares, wherein the terms and conditions of the offering are described, five business days in advance of the date hereof.	Initials ________	Initials ________
(b) I (we) accept the terms and conditions of the Company's charter.	Initials ________	Initials ________
(c) I am (we are) purchasing Shares for my (our) own account and acknowledge that the investment is not liquid.	Initials ________	Initials ________
(d) I (we) acknowledge that the assignability and transferability of the Shares is restricted and will be governed by the Company's charter and bylaws and all applicable laws as described in the Prospectus.	Initials ________	Initials ________
(e) I (we) acknowledge that there is no public market for the Shares and, accordingly, it may not be possible to readily liquidate an investment in the Company.	Initials ________	Initials ________

		Investor		Co-Investor
(f) I (we) have a net worth (exclusive of home, home furnishings and automobiles) of $250,000 or more.	Initials	________	Initials	____________
(g) I (we) have a net worth (exclusive of home, home furnishings and automobiles) of at least $70,000 and a minimum annual gross income of $70,000.	Initials	________	Initials	____________

6. STATE SPECIFIC SUITABILITY ACKNOWLEDGEMENTS

Please separately initial <u>ALL</u> that apply:

		Investor		Co-Investor
● If an **Alabama** investor, my (our) investment in the Company and its affiliates does not exceed, in the aggregate, more than 10% of my (our) liquid net worth (cash, cash equivalents and readily marketable securities).	Initials	________	Initials	____________
● If an **Iowa** investor, I (we) have either (a) a minimum liquid net worth of at least $100,000 and a minimum annual gross income of not less than $100,000, or (b) a minimum liquid net worth of at least $350,000. In addition, if I (we) am (are) not an accredited investor, as defined in Regulation D promulgated under the Securities Act of 1933, as amended, my (our) aggregate investment in the Company, its affiliates and other non-exchange-traded direct participation programs does not exceed 10% of my (our) liquid net worth.	Initials	________	Initials	____________
● If a **Kansas** investor, I (we) acknowledge that the office of the Kansas Securities Commissioner recommends that I (we) limit my (our) aggregate investment in the Company and other non-listed real estate investment trusts to not more than 10% of my (our) liquid net worth.	Initials	________	Initials	____________
● If a **Kentucky** investor, my (our) investment in the Company and its affiliates' non-publicly traded real estate investment trusts does not exceed, in the aggregate, more than 10% of my (our) liquid net worth.	Initials	________	Initials	____________
● If I am a **Maine** investor, my (our) aggregate investment in this offering and similar direct participation investments does not exceed 10% of my (our) liquid net worth. For this purpose, "liquid net worth" is defined as that portion of net worth that consists of cash, cash equivalents and readily marketable securities.	Initials	________	Initials	____________
● If I am a **Massachusetts** investor, I (we) may not invest more than 10% of my (our) liquid net worth in the Company and in other illiquid direct participation programs.	Initials	________	Initials	____________
● If I am a **Missouri** investor, I (we) acknowledge that no more than ten percent (10%) of my (our) liquid net worth shall be invested in the securities of the Company.	Initials	________	Initials	____________
● If a **Nebraska** investor who is not an accredited investor, as defined in Regulation D promulgated under the Securities Act of 1933, as amended, my (our) investment in this offering and in the securities of other non-publicly traded real estate investment trusts does not exceed 10% of my (our) net worth.	Initials	________	Initials	____________

	Investor	Co-Investor
• If I am a **New Jersey** investor, I (we) have either (a) a minimum liquid net worth of at least $100,000 and a minimum annual gross income of not less than $85,000, or (b) a minimum liquid net worth of $350,000. For these purposes, “liquid net worth” is defined as that portion of net worth (total assets exclusive of home, home furnishings, and automobiles, minus total liabilities) that consists of cash, cash equivalents and readily marketable securities. In addition, my (our) investment in the Company, its affiliates, and other non-publicly traded direct investment programs (including real estate investment trusts, business development companies, oil and gas programs, equipment leasing programs and commodity pools, but excluding unregistered, federally and state exempt private offerings) does not exceed ten percent (10%) of my (our) liquid net worth. Class I Shares may be subject to additional ongoing fees from an investor’s adviser.	Initials ________	Initials ________
• If a **New Mexico** investor, my (our) investment in the Company, shares of its affiliates and in other real estate investment trusts may not exceed ten percent (10%) of my (our) liquid net worth. “Liquid net worth” shall be defined as that portion of net worth (total assets exclusive of primary residence, home furnishings and automobiles minus total liabilities) that is comprised of cash, cash equivalents, and readily marketable securities.	Initials ________	Initials ________
• If I am a **North Dakota** investor, I (we) have a net worth of at least ten times my (our) investment in the Company.	Initials ________	Initials ________
• If an **Ohio** investor, my (our) investment in the Company, its affiliates and in other non-traded real estate investment trusts does not exceed 10% of my (our) liquid net worth. “Liquid net worth” is defined as that portion of net worth (total assets exclusive of primary residence, home furnishings and automobiles, minus total liabilities) comprised of cash, cash equivalents, and readily marketable securities.	Initials ________	Initials ________
• If I am an **Oregon** investor, my (our) maximum investment in the Company cannot exceed 10% of my (our) liquid net worth.	Initials ________	Initials ________
• If I am a **Pennsylvania** investor, I (we) must limit my (our) investment in the Company to 10% of my (our) net worth, exclusive of home, furnishings and automobiles.	Initials ________	Initials ________
• If I am a **Puerto Rico** investor, I (we) may not invest more than 10% of my (our) liquid net worth in the Company, its affiliates, and in other non-traded REITs. “Liquid net worth” is defined as that portion of net worth (total assets exclusive of primary residence, home furnishings, and automobiles minus total liabilities) consisting of cash, cash equivalents, and readily marketable securities.	Initials ________	Initials ________
• If a non-accredited **Vermont** investor, I (we) may not purchase an amount in this offering that exceeds 10% of my (our) liquid net worth. For these purposes, “liquid net worth” is defined as an investor’s total assets (not including home, home furnishings, or automobiles) minus total liabilities. Accredited investors in Vermont, as defined in 17 C.F.R. § 230.501, may invest freely in this offering.	Initials ________	Initials ________

7. DISTRIBUTION REINVESTMENT PLAN – *Select only one option*

I hereby subscribe for Shares of Moody National REIT II, Inc. and elect the distribution option indicated below:

☐ **Distribution Reinvestment Plan (DRP)** – (*Custodial and Non-Custodial Accounts)*

☐ **Cash/Check sent to Custodial Account identified in Section 3 above** *(Custodial Accounts ONLY)*

☐ **Check Mailed to the address in Section 4 above** – *(Non-Custodial Accounts ONLY)*

☐ **Cash/Check deposited directly into the account listed as follows** *(Non-Custodial Accounts ONLY)*:

Name of Financial Institution: ______________________________

Street Address: ______________________________

City: ____________________ State: __________ Zip Code: __________

Name(s) on Account: ______________________________

☐ Checking/Savings Account ***(voided check is required)*** ☐ Brokerage Account

Account Number: ____________________ Bank Routing Number: ____________________

8. FINANCIAL ADVISOR – To be completed by the RIA or Registered Representative and the Broker-Dealer

The Financial Advisor and in the case of a Broker-Dealer, an authorized principal of the Broker-Dealer must sign below to complete the order. The Financial Advisor and/or Broker-Dealer hereby warrant that each is duly licensed and may lawfully conduct business in the state designated as the subscriber's legal residence or the state in which the sale was made, if different.

Name of Broker-Dealer or Registered Investment Advisory Firm: ______________________________

Name of Financial Advisor: ______________________________

Financial Advisor Rep Number: ____________________ Branch Code: ____________________

Financial Advisor Street Address: ______________________________

City: ____________________ State: __________ Zip Code: __________

Telephone Number: ____________________ Fax Number: ____________________

E-Mail Address: ______________________________

The undersigned confirm that they (i) have reasonable grounds to believe that the information and representations concerning the investors identified herein are true, correct and complete in all respects; (ii) have discussed such investor's prospective purchase of Shares with such investor; (iii) have advised such investor of all pertinent facts with regard to the lack of liquidity and marketability of the Shares; (iv) have delivered a current Prospectus and related supplements, if any, to such investor; (v) have reasonable grounds to believe that the investor is purchasing these Shares for its own account; and (vi) have reasonable grounds to believe that the purchase of Shares is a suitable investment for such investor, that such investor meets the suitability standards applicable to such investor set forth in the Prospectus and related supplements, if any, and that such investor is in a financial position to enable such investor to realize the benefits of such an investment and to suffer any loss that may occur with respect thereto. The undersigned attest that the Financial Advisor and the Broker-Dealer are subject to the USA PATRIOT Act. In accordance with Section 326 of the Act, the registered representative and the Broker-Dealer have performed a Know Your Customer review of each investor who has signed this Subscription Agreement in accordance with the requirements of the Customer Identification Program.

Financial Advisor Signature ***(Required):*** ______________________________ Date: __________

Broker-Dealer Authorized Principal *(if required by BD):* ______________________________ Date: __________

9. PAYMENT INSTRUCTIONS

☐ **By Mail** – Checks should be made payable to "Moody National REIT II, Inc." You should consult with your registered representative if you are unsure how to make your check payable. Forward the subscription agreement to the address set forth in the instructions to this Subscription Agreement.

Via Mail

Moody National REIT II, Inc.
c/o DST Services, Inc.
P.O. Box 219280
Kansas City, MO 64121-9280

Via Overnight Delivery

Moody National REIT II, Inc.
c/o DST Services, Inc.
430 West 7th Street
Kansas City, MO 64105-1407

☐ **By Wire Transfer –** If paying by wire transfer, please request that the wire reference the subscriber's name in order to assure that the wire is credited to the proper account. Wire transfers should be made to the Company. Below please find the wiring instructions:

Account Name: DST as Agent for Moody National REIT II, Inc.
Bank: UMB Bank, N.A.
Address: 1010 Grand Ave., Kansas City, MO 64106
ABA#: 1010-0069-5
DDA#: 987-173-7799

10. SUBSCRIBER SIGNATURES

I (we) declare that the information supplied is true and correct and may be relied upon by the Company.

TAXPAYER IDENTIFICATION NUMBER CERTIFICATION (required). Each invest signing below, under penalties of perjury, certifies that:

1. The number shown in the Investor Social Security Number/Taxpayer Identification Number field in Section 4 of this form is my correct Social Security Number/Taxpayer Identification Number (or I am waiting for a number to be issued to me);

2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding;

3. I am a U.S. person (including a non-resident alien).

NOTE: You must cross out item (2) above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return.

The IRS does not require your consent to any provision of this document other than the certifications required to avoid backup withholding.

The Company is required by law to obtain, verify and record certain personal information from you or persons on your behalf in order to establish the account. Required information includes name, date of birth, permanent residential address and social security/taxpayer identification number. We may also ask to see other identifying documents. If you do not provide the information, the Company may not be able to open your account. By signing the Subscription Agreement, you agree to provide this information and confirm that this information is true and correct. If we are unable to verify your identity, or that of another person(s) authorized to act on your behalf, or if we believe we have identified potentially criminal activity, we reserve the right to take action as we deem appropriate which may include closing your account.

Signature of Individual Owner: ______________________________ Date:____________

Print or Type Name: ______________________________

Signature of Joint Account Owner: ______________________________ Date:____________

Print or Type Name: ______________________________

Signature of Custodian Trustee, Officer, General Partner or other Authorized Person: ____________________ Date:__________

Print or Type Name: ______________________________________

Signature of Additional Person *(if required)*: ____________________ Date:__________

Print or Type Name: ______________________________________

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-222610

MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 3 DATED MAY 16, 2019
TO THE PROSPECTUS DATED APRIL 26, 2019

This document supplements, and should be read in conjunction with, our prospectus dated April 26, 2019, as supplemented by Supplement No. 1 dated April 26, 2019, and Supplement No. 2 dated May 9, 2019, relating to our offering of up to $990,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 3 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 3 is to disclose:

- the filing of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.

Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2019

On May 15, 2019, we filed our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 with the SEC. A copy of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 (without exhibits) is attached to this supplement as Appendix A.

APPENDIX A

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2019

OR

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

For the transition period from _________to ___________

Commission file number 000-55778

MOODY NATIONAL REIT II, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**47-1436295**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
6363 Woodway Drive, Suite 110 Houston, Texas	**77057**
(Address of Principal Executive Offices)	**(Zip Code)**

(713) 977-7500
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☑
		Emerging Growth Company	☑

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

As of May 8, 2019, there were 11,676,890 shares of the Registrant's common stock issued and outstanding, consisting of 11,182,483 shares of Class A common stock, 111,822 shares of Class I common stock, and 382,585 shares of Class T common stock.

MOODY NATIONAL REIT II, INC.
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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MOODY NATIONAL REIT II, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)
(unaudited)

	March 31, 2019	December 31, 2018
ASSETS		
Investment in hotel properties, net	$ 390,961	$ 393,140
Cash and cash equivalents	8,593	8,990
Restricted cash	6,419	10,204
Investment in marketable securities	6,835	—
Accounts receivable, net of allowance of $33 as of March 31, 2019 and December 31, 2018	1,152	711
Note receivable from related party	6,750	6,750
Prepaid expenses and other assets	3,693	3,014
Deferred franchise costs, net of accumulated amortization of $153 and $132 at March 31, 2019 and December 31, 2018, respectively	913	934
Due from related parties	1,161	1,159
Total Assets	$ 426,477	$ 424,902
LIABILITIES AND EQUITY		
Liabilities:		
Note payable, net of unamortized debt issuance costs of $3,136 and $3,463 as of March 31, 2019 and December 31, 2018	$ 220,771	$ 227,174
Accounts payable and accrued expenses	6,501	8,089
Dividends payable	1,797	1,744
Operating partnership distributions payable	47	47
Total Liabilities	229,116	237,054
Special Limited Partnership Interests	1	1
Equity:		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock, $0.01 par value per share; 1,000,000 shares authorized, 11,380 and 10,636 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	114	106
Additional paid-in capital	254,339	237,216
Accumulated deficit	(62,077)	(54,674)
Total stockholders' equity	192,376	182,648
Noncontrolling interests in Operating Partnership	4,984	5,199
Total Equity	197,360	187,847
Total Liabilities and Equity	$ 426,477	$ 424,902

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Revenue		
Room revenue	$ 17,315	$ 17,347
Other hotel revenue	1,141	1,200
Total hotel revenue	18,456	18,547
Interest and dividend income	329	419
Total revenue	18,785	18,966
Expenses		
Hotel operating expenses	12,115	11,767
Property taxes, insurance and other	1,369	1,296
Depreciation and amortization	3,174	2,922
Corporate general and administrative	1,622	2,041
Total expenses	18,280	18,026
Operating income	505	940
Other expenses		
Interest expense and amortization of debt issuance costs	3,086	4,335
Unrealized loss on change in fair value of investment in marketable securities	159	—
Total other expenses	3,245	4,335
Loss before income taxes	(2,740)	(3,395)
Income tax expense (benefit)	50	(321)
Net loss	(2,790)	(3,074)
Loss attributable to noncontrolling interests in Operating Partnership	78	107
Net loss attributable to common stockholders	$ (2,712)	$ (2,967)
Per-share information - basic and diluted:		
Net loss attributable to common stockholders	$ (0.25)	$ (0.34)
Dividends declared	$ 0.43	$ 0.43
Weighted average common shares outstanding	10,953	8,797

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENT OF EQUITY
Three months ended March 31, 2019
(in thousands)
(unaudited)

	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	Total Equity
Balance at December 31, 2018	—	$ —	10,636	$ 106	$ 237,216	$ (54,674)	316	$ 5,199	$187,847
Issuance of common stock, net of offering costs	—	—	811	8	18,575	—	—	—	18,583
Redemption of common stock	—	—	(115)	(1)	(2,637)	—	—	—	(2,638)
Issuance of common stock pursuant to dividend reinvestment plan	—	—	48	1	1,120	—	—	—	1,121
Stock-based compensation	—	—	—	—	65	—	—	—	65
Net loss	—	—	—	—	—	(2,712)	—	(78)	(2,790)
Dividends and distributions declared	—	—	—	—	—	(4,691)	—	(137)	(4,828)
Balance at March 31, 2019	—	$ —	11,380	$ 114	$ 254,339	$ (62,077)	316	$ 4,984	$197,360

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Cash flows from operating activities		
Net loss	$ (2,790)	$ (3,074)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,174	2,922
Amortization of debt issuance costs	327	576
Deferred income tax	—	(330)
Unrealized loss on change in fair value of investment in marketable securities	159	—
Stock-based compensation	65	128
Changes in operating assets and liabilities		
Accounts receivable	(441)	(104)
Prepaid expenses and other assets	(679)	(728)
Accounts payable and accrued expenses	(1,588)	(1,017)
Due from related parties	(229)	42
Net cash used in operating activities	(2,002)	(1,585)
Cash flows from investing activities		
Repayment of note receivable from related party	—	4,500
Investment in marketable securities	(6,994)	—
Improvements and additions to hotel properties	(974)	(2,146)
Net cash (used in) provided by investing activities	(7,968)	2,354
Cash flows from financing activities		
Proceeds from issuance of common stock	18,810	6,247
Redemptions of common stock	(2,638)	(51)
Offering costs paid	—	(1,160)
Dividends paid	(3,517)	(3,218)
Operating partnership distributions paid	(137)	(137)
Repayment of notes payable	(6,730)	(5,077)
Net cash provided by (used in) financing activities	5,788	(3,396)
Net change in cash and cash equivalents and restricted cash	(4,182)	(2,627)
Cash and cash equivalents and restricted cash at beginning of period	19,194	21,735
Cash and cash equivalents and restricted cash at end of period	$ 15,012	$ 19,108
Supplemental Disclosure of Cash Flow Activity		
Interest paid	$ 2,763	$ 3,833
Income tax paid	$ —	$ —
Supplemental Disclosure of Non-Cash Financing Activity		
Increase (decrease) in accrued offering costs due to related party	$ 227	$ (396)
Issuance of common stock from dividend reinvestment plan	$ 1,121	$ 634
Dividends payable	$ 1,797	$ 1,535
Operating partnership distributions payable	$ 47	$ 47

See accompanying notes to consolidated financial statements.

1. Organization

As discussed in Note 6, "Equity," Moody National REIT II, Inc. (the "Company") was initially capitalized by Moody National REIT Sponsor, LLC (the "Sponsor"). The Company's fiscal year end is December 31.

As of March 31, 2019, the Company owned (1) interests in fourteen hotel properties located in six states comprising a total of 1,941 rooms, (2) investment in marketable securities of approximately $6.8 million, and (3) a loan with a current principal amount of $6,750,000 originated to an affiliate of Sponsor used to acquire a commercial property located in Katy, Texas. For more information on the Company's real estate investments, see Note 3, "Investment in Hotel Properties" and Note 4, "Notes Receivable from Related Parties."

On January 20, 2015, the Securities and Exchange Commission (the "SEC") declared the Company's registration statement on Form S-11 effective, and the Company commenced its initial public offering of up to $1,100,000,000 in shares of common stock consisting of up to $1,000,000,000 in shares of the Company's common stock offered to the public, and up to $100,000,000 in shares offered to the Company's stockholders pursuant to its distribution reinvestment plan (the "DRP").

On June 26, 2017, the SEC declared effective the Company's post-effective amendment to its registration statement for the Company's initial public offering, which reallocated the Company's shares of common stock as Class A common stock, $0.01 par value per share ("Class A Shares"), Class D common stock, $0.01 par value per share ("Class D Shares"), Class I common stock, $0.01 par value per share ("Class I Shares"), and Class T common stock, $0.01 par value per share ("Class T Shares" and, together with the Class A Shares, the Class D Shares and the Class I Shares, the "Shares") to be sold on a "best efforts" basis. On January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company's public offering; provided, however that the Advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through an increased acquisition fee, or "Contingent Advisor Payment," as described in Note 7, "Related Party Arrangements."

On January 18, 2018, the Company filed 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 the Company's follow-on public offering. The SEC declared the registration statement effective on July 19, 2018. The Company will continue to offer Shares in the follow-on offering on a continuous basis until July 19, 2021, subject to extension for an additional year by our board of directors.

The Company is currently offering the Shares (i) to the public in the Company's primary offering at a purchase price of $23.32 per share, which is equal to the estimated net asset value ("NAV") per share for each class as of December 31, 2018, and (ii) to the Company's stockholders pursuant to the DRP at a purchase price of $23.32 per share, which is equal to the estimated NAV per share for each class as of December 31, 2018.

As of March 31, 2019, the Company had received and accepted investors' subscriptions for and issued 7,851,842 shares in the Company's initial public offering and follow-on offering, excluding shares issued in connection with the Company's merger with Moody National REIT I, Inc. and including 340,563 shares pursuant to the DRP, resulting in gross offering proceeds of $184,550,926. As of March 31, 2019, the Company had received and accepted investors' subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with the Company's merger with Moody National REIT I, Inc. and including 214,764 shares pursuant to the DRP in the initial public offering, resulting in gross offering proceeds of $147,415,625 for the initial public offering. As of March 31, 2019, the Company had received and accepted investors' subscriptions for and issued 1,725,849 shares in the follow-on offering, including 125,799 shares pursuant to the DRP in the follow-on offering, resulting in gross offering proceeds of $37,135,301 for the follow-on offering.

The Company's advisor is Moody National Advisor II, LLC (the "Advisor"), a Delaware limited liability company and an affiliate of the Sponsor. Pursuant to an advisory agreement among the Company, the OP (defined below) and the Advisor (the "Advisory Agreement"), and subject to certain restrictions and limitations therein, the 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.

Substantially all of the Company's business is conducted through Moody National Operating Partnership II, LP, a Delaware limited partnership (the "OP"). The Company is the sole general partner of the OP. The initial limited partners of the OP were Moody OP Holdings II, LLC, a Delaware limited liability company and a wholly owned subsidiary of the Company ("Moody Holdings II"), and Moody National LPOP II, LLC ("Moody LPOP II"), an affiliate of the Advisor. Moody Holdings II initially invested $1,000 in the OP in exchange for limited partnership interests, and Moody LPOP II has invested $1,000 in the OP in exchange for a separate class of limited partnership interests (the "Special Limited Partnership Interests"). As the Company accepts subscriptions for shares of common stock, it transfers substantially all of the net proceeds from such sales to the OP as a capital contribution. The limited partnership agreement of the OP 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 properties, the OP will pay all of the Company's administrative costs and expenses, and such expenses will be treated as expenses of the OP.

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.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during 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 incurred by the Advisor on behalf of the Company. Pursuant to the Advisory Agreement between the Company and the Advisor, the Company is obligated to reimburse the Advisor or its affiliates, as applicable, for organization and offering costs incurred by the 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, the Advisor is obligated to reimburse the Company to the extent aggregate 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 the Advisor's employees and employees of the Advisor's affiliates and others. Any reimbursement of the Advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by the Advisor. The Company's organization and offering costs incurred in connection with the Company's initial public offering did not exceed 15% of the gross offering proceeds from the sale of our shares of common stock in such offering.

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 the Advisor.

As of March 31, 2019, total offering costs for the initial public offering and the follow-on offering were $19,572,671, comprised of $12,333,647 of offering costs incurred directly by the Company and $7,239,024 in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2019, total offering costs for the initial public offering were $18,365,295, comprised of $12,333,647 of offering costs incurred directly by the Company and $6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2019, total offering costs for the follow-on offering were $1,207,376, comprised of $0 of offering costs incurred directly by the Company and $1,207,376 in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2019, the Company had $280,197 due to the Advisor for reimbursable offering costs.

Income Taxes

The Company elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. The Company did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the years ended December 31, 2015 and 2014, including not having 100 shareholders for a sufficient number of days in 2015. Prior to qualifying to be taxed as a REIT, the Company was subject to normal federal and state corporation income taxes.

Provided that the Company continues to qualify as a REIT, it 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 satisfies the other organizational and operational requirements for qualification as a REIT. 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 a wholly-owned taxable REIT subsidiary ("TRS") that is subject to federal, state and local income taxes.

The Company accounts for income taxes of its TRS 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. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period prior to when the new rates become effective. 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 March 31, 2019.

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 positions in the current period results of operations, if necessary. The Company has tax years 2014 through 2017 remaining subject to examination by various federal and state tax jurisdictions. For more information, see Note 11, "Income Taxes."

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 in 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 has elected the fair value option in recording its investment in marketable securities whereby unrealized holding gains and losses on available-for-sale securities are included in earnings. With the exception of the Company's fixed-rate notes receivable from related parties and notes payable, the carrying amounts of other financial instruments, which include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, notes payable, and accounts payable and accrued expenses, approximate their fair values due to their short-term nature. For the fair value of the Company's note receivable from related parties and notes payable, see Note 4, "Notes Receivable from Related Parties" and Note 5, "Debt." Additionally, for the fair value information related to purchase accounting for the Mergers, see Note 3, "Investment in Hotel Properties."

Concentration of Risk

As of March 31, 2019, 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 any 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 eight of its fourteen hotel properties are located in one state, Texas.

Valuation and Allocation of Hotel Properties — Acquisition

Upon acquisition, the purchase price of hotel properties 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 values are derived from appraisals and building values 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 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 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. The Company uses Level 3 inputs to value acquired properties. 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 require judgment and are subject to being imprecise; accordingly, if different estimates and assumptions were derived, 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 costs of ordinary repairs and maintenance are charged to expense when incurred.

Depreciation expense is computed using the straight-line method 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

Impairments

The Company monitors events and changes in circumstances indicating that the carrying amount of a hotel property 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 three months ended March 31, 2019 and 2018.

In evaluating a hotel property for impairment, the Company makes several estimates and assumptions, including, but not limited to, the projected date of disposition of the property, the estimated future cash flows of the property during the Company's ownership and the projected sales price of the property. 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 property which could then 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. Revenue is recorded net of any sales and other taxes collected from customers. Interest income is recognized when earned. Amounts received prior to guest arrival are recorded as advances from the customer and are recognized at the time of occupancy. Refer to "Recent Accounting Pronouncements" below for further discussion of revenue recognition.

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 property taxes, as well as reserves for property improvements, replacement of furniture, fixtures, and equipment and debt service, as required by certain management or mortgage and term debt agreements restrictions and provisions.

Investment in Marketable Securities

Investment in marketable securities of $6,834,730 at March 31, 2019 consists primarily of common stock investments in other REITs and which are classified as available-for-sale securities and recorded at fair value. The Company has elected the fair value option whereby unrealized holding gains and losses on available-for-sale securities are included in earnings. For the three months ended March 31, 2019 and 2018, unrealized loss on investment in marketable securities was $158,888 and $0, respectively.

Dividend income is recognized when earned. For the three months ended March 31, 2019 and 2018, dividend income of $128,370 and $0, respectively, was recognized and is included in interest and dividend income on the consolidated statements of operations.

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 from Related Parties

The Company reviews the notes receivable from related parties 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 three months ended March 31, 2019 or 2018.

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 $154,290 and $133,518 as of March 31, 2019 and December 31, 2018, respectively.

Expected future amortization of deferred franchise costs as of March 31, 2019 is as follows (all amounts in thousands):

Years Ending December 31,	
2019	$ 62
2020	83
2021	83
2022	83
2023	80
Thereafter	522
Total	$ 913

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. 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 interest method. Accumulated amortization of debt issuance costs was $3,329,775 and $3,003,186 as of March 31, 2019 and December 31, 2018, respectively. Expected future amortization of debt issuance costs as of March 31, 2019 is as follows (all amounts in thousands):

Years Ending December 31,	
2019	$ 630
2020	512
2021	511
2022	511
2023	466
Thereafter	506
Total	$ 3,136

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 common stock totaling 5,000 and 7,500 shares as of March 31, 2019 and December 31, 2018, 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.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. The Company adopted this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on the Company's consolidated financial statements and related disclosures, the Company believes the impact will be minimal to the Company's ongoing consolidated statements of operations.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities," which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. The Company adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on the Company's ongoing consolidated financial statements.

3. Investment in Hotel Properties

The following table sets forth summary information regarding the Company's investment in hotel properties as of March 31, 2019 (all $ amounts in thousands):

Property Name	Date Acquired	Location	Ownership Interest	Original Purchase Price(1)	Rooms	Mortgage Debt Outstanding(2)
Residence Inn Austin	October 15, 2015	Austin, Texas	100%	$ 27,500	112	$ 16,489
Springhill Suites Seattle	May 24, 2016	Seattle, Washington	100%	74,100	234	44,701
Homewood Suites Woodlands	September 27, 2017(5)	The Woodlands, Texas	100%	17,356	91	9,027
Hyatt Place Germantown	September 27, 2017(5)	Germantown, Tennessee	100%	16,074	127	6,985
Hyatt Place North Charleston	September 27, 2017(5)	North Charleston, South Carolina	100%	13,806	113	7,123
Hampton Inn Austin	September 27, 2017(5)	Austin, Texas	100%	19,328	123	10,637

Property Name	Date Acquired	Location	Ownership Interest	Original Purchase Price(1)	Rooms	Mortgage Debt Outstanding(2)
Residence Inn Grapevine	September 27, 2017(5)	Grapevine, Texas	100%	25,245	133	12,283
Marriott Courtyard Lyndhurst	September 27, 2017(5)	Lyndhurst, New Jersey	(3)	39,547	227	—
Hilton Garden Inn Austin	September 27, 2017(5)	Austin, Texas	100%	29,288	138	18,319
Hampton Inn Great Valley	September 27, 2017(5)	Frazer, Pennsylvania	100%	15,285	125	7,960
Embassy Suites Nashville	September 27, 2017(5)	Nashville, Tennessee	100%	82,207	208	41,808
Homewood Suites Austin	September 27, 2017(5)	Austin, Texas	100%	18,835	96	10,733
Townplace Suites Fort Worth	September 27, 2017(5)	Fort Worth, Texas	(4)	11,242	95	—
Hampton Inn Houston	September 27, 2017(5)	Houston, Texas	100%	9,958	119	4,454
Totals				$ 399,771	1,941	$ 190,519

(1) Excludes closing costs and includes gain on acquisition.
(2) As of March 31, 2019.
(3) The Marriott Courtyard Lyndhurst is owned by MN Lyndhurst Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Marriott Courtyard Lyndhurst is pledged as security for the Term Loan. See Note 5, "Debt."
(4) The Townplace Suites Fort Worth is owned by MN Fort Worth Venture, LLC, of which the OP is a member and holds 100% of the Class B membership interests therein. The Townplace Suites Fort Worth is pledged as security for the Term Loan. See Note 5, "Debt."
(5) Property acquired on September 27, 2017 as a result of the merger of Moody National REIT I, Inc. ("Moody I") with and into the Company (the "Merger") and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I ("Moody I OP"), with and into the OP (the "Partnership Merger," and together with the Merger, the "Mergers").

Investment in hotel properties consisted of the following at March 31, 2019 and December 31, 2018 (all amounts in thousands):

	March 31, 2019	December 31, 2018
Land	$ 70,456	$ 70,456
Buildings and improvements	297,680	297,680
Furniture, fixtures and equipment	44,606	43,632
Total cost	412,742	411,768
Accumulated depreciation	(21,781)	(18,628)
Investment in hotel properties, net	$ 390,961	$ 393,140

4. Note Receivable from Related Party

As of March 31, 2019 and December 31, 2018, the amount of the note receivable from related party was $6,750,000.

On August 21, 2015, Moody I 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 "Subject Property"). The balance of the Related Party Note was $6,750,000 as of December 31, 2018 and 2017. The Company acquired the Related Party Note in connection with the Mergers.

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. On August 30, 2018, the maturity date was extended to April 30, 2019. The Related Party Note was paid in full on April 29, 2019.

Interest income from note receivable from related parties was $199,700 and $262,900 for the three months ended March 31, 2019 and 2018, respectively. Interest receivable on notes receivable from related parties was $1,009,700 and $810,000 as of March 31, 2019 and December 31, 2018, respectively.

The estimated fair value of the note receivable from related party as of March 31, 2019 and December 31, 2018 was $6,750,000. The fair value of the note receivable from related party was estimated 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.

5. Debt

The Company's aggregate borrowings are reviewed by the Company's board of directors at least quarterly. Under the Company's 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 March 31, 2019, the Company's debt levels did not exceed 300% of the value of the Company's net assets, as defined above.

As of March 31, 2019 and December 31, 2018, the Company's mortgage notes payable secured by the respective assets, consisted of the following (all $ amounts in thousands):

Loan	Principal as of March 31, 2019	Principal as of December 31, 2018	Interest Rate at December 31, 2018	Maturity Date
Residence Inn Austin(1)	$ 16,489	$ 16,554	4.580%	November 1, 2025
Springhill Suites Seattle(1)	44,701	44,884	4.380%	October 1, 2026
Homewood Suites Woodlands(1)	9,027	9,066	4.690%	April 11, 2025
Hyatt Place Germantown(1)	6,985	7,025	4.300%	May 6, 2023
Hyatt Place North Charleston(1)	7,123	7,158	5.193%	August 1, 2023
Hampton Inn Austin(1)	10,637	10,687	5.426%	January 6, 2024
Residence Inn Grapevine(1)	12,283	12,341	5.250%	April 6, 2024
Hilton Garden Inn Austin(1)	18,319	18,401	4.530%	December 11, 2024
Hampton Inn Great Valley(1)	7,960	7,994	4.700%	April 11, 2025
Embassy Suites Nashville(1)	41,808	41,998	4.2123%	July 11, 2025
Homewood Suites Austin(1)	10,733	10,778	4.650%	August 11, 2025
Hampton Inn Houston(1)	4,454	4,480	7.500%	April 28, 2023
Term Loan(2)	26,000	26,300	30-day LIBOR plus 3.750%	September 27, 2019
Short Term Loan(3)	7,388	12,971	30-day LIBOR plus 2.50%	April 24, 2019
Total notes payable	223,907	230,637		
Less unamortized debt issuance costs	(3,136)	(3,463)		
Total notes payable, net of unamortized debt issuance costs	$ 220,771	$ 227,174		

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

(2) Monthly payments of principal and interest are due and payable until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019, as discussed below. The Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth properties are pledged as security for the Term Loan.

(3) Monthly payments of principal and interest were due and payable until the maturity date. All unpaid principal and interest thereon was repaid in full on April 24, 2019, the maturity date.

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

Scheduled maturities of the Company's notes payable as of March 31, 2019 are as follows (all amounts in thousands):

Years ending December 31,	
2019	$ 35,868
2020	3,463
2021	3,655
2022	3,832
2023	20,415
Thereafter	156,674
Total	$ 223,907

Term Loan Agreement

On September 27, 2017, the OP, as borrower, the Company and certain of the Company's subsidiaries, as guarantors, and KeyBank National Association ("KeyBank," and together with any other lender institutions that may become parties thereto, the "Lenders"), as agent and lender, entered into a term loan agreement (as amended, the "Term Loan Agreement"). Pursuant to the Term Loan Agreement, the Lenders have made a term loan to the OP in the principal amount of $70.0 million (the "Term Loan"). Capitalized terms used in this description of the Term Loan and not defined herein have the same meaning as in the Term Loan Agreement. The Company 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, payable monthly, 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 London Interbank Offered Rate ("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, the OP 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 Company began making principal payments of $1.5 million per month in November 2017.

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 the Company's obligation under the Term Loan Agreement to raise $10 million per quarter in gross offering proceeds to the calendar quarter June 30, 2018. The Company satisfied such obligation with respect to the calendar quarter ended March 31, 2019.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018. On October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan, 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 of $26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, will be due on the maturity date of the Term Loan. In addition, the Term Loan originally provided for monthly interest payments, for mandatory prepayments 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% the OP's Consolidated Net Cash Flow or (ii) $1,500,000. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal will be $100,000 per month, and the margins over the base rate or LIBOR rate will be 2.75% and 3.75%, respectively. 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.

The performance of the Company's obligations under the Term Loan Agreement is secured by, among other things, mortgages on the Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth, and by pledges of certain portions of the ownership interests in certain subsidiaries of the OP. Pursuant to a Guaranty Agreement in favor of KeyBank, the Company and certain of its 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 Term Loan Agreement.

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.

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

If the Company violates financial and other covenants contained in any of the mortgage loans or Term Loan described above, the Company 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, the Company can make no assurance that it 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 the Company. If a default under the mortgage loans or the Term Loan were to occur, the Company would possibly have to refinance the debt through additional debt financing, private or public offering of debt securities, or additional equity financings. If the company is unable to refinance its debt on acceptable terms, including at maturity of the mortgage loans or the Term Loan, it may be forced to dispose of the 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, increase interest expense would lower the Company's cash flow, and, consequently, cash available for distribution to stockholders.

Requirements associated with a mortgage loan to deposit and disburse operating receipts in a specified manner may limit the overall liquidity for the Company as cash from the hotel securing such mortgage would not be available for the Company to use. If the Company is 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 the Company.

As of March 31, 2019, the Company was in compliance with all debt covenants, current on all loan payments and not otherwise in default under the mortgage loans secured by the Company's properties or the Term Loan.

Short Term Loan

On October 24, 2018, the Company and the OP issued a promissory note in favor of Green Bank, N.A. in the original principal amount of $16,000,000 (the "Short Term Loan"). The proceeds of the promissory note were used to retire a portion of the Term Loan, resulting in a balance of $26.5 million for the Term Loan as of October 24, 2018. The note bore interest at an annual rate equal to the one-month LIBOR plus 2.5% and the Company and the OP were collectively required to make a monthly payment on the outstanding principal and interest of the promissory note equal to the greater of $1,500,000 and 50% of our consolidated net cash flow. The entire outstanding principle amount of the Short Term Loan and all accrued interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

The estimated fair value of the Company's notes payable as of March 31, 2019 and December 31, 2018 was $224,000,000 and $231,000,000, respectively. The fair value of the notes payable 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.

6. Equity

Capitalization

Under its Charter, the Company has the authority to issue 1,000,000,000 shares of common stock and 100,000,000 shares of preferred stock. All shares of such stock have a par value of $0.01 per share. On August 15, 2014, the Company sold 8,000 shares of common stock to the Sponsor at a purchase price of $25.00 per share for an aggregate purchase price of $200,000, which was paid in cash. As of March 31, 2019, there were a total of 11,380,141 shares of the Company's common stock issued and outstanding, including 7,851,842 shares, net of redemptions, issued in the Company's public offerings, 3,475,299 shares, net of redemptions, issued in connection with the Merger, the 8,000 shares sold to Sponsor and 45,000 shares of restricted stock issued to the Company's directors, as discussed in Note 8, "Incentive Award Plan," as follows:

Class	**Shares Outstanding as of December 31, 2018**
Class A Shares	10,917,857
Class T Shares	355,299
Class I Shares	106,985
Total	11,380,141

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 for 2019 and 2018 that will be (1) calculated daily and reduced for class-specific expenses; (2) 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) calculated at a rate of $1.7528 per share of the Company's common stock per year, or approximately $0.00480 per share per day, before any class-specific expenses. The Company first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the three months ended March 31, 2019 and 2018 (all amounts in in thousands):

Period	Cash Distribution	Distribution Paid Pursuant to DRP(1)	Total Amount of Distribution
First Quarter 2019	$ 3,517	$ 1,121	$ 4,638
First Quarter 2018	$ 3,218	$ 634	$ 3,852

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

Noncontrolling Interest in Operating Partnership

Noncontrolling interest in the OP at March 31, 2019 and December 31, 2018 was $4,984,482 and $5,199,310, respectively, which represented 316,037 common units in the OP issued in connection with the acquisition of the Springhill Suites Seattle and the Partnership Merger, and is reported in equity in the consolidated balance sheets. Loss from the OP attributable to these noncontrolling interests was $78,238 and $106,593 for the three months ended March 31, 2019 and 2018, respectively.

7. Related Party Arrangements

Pursuant to the Advisory Agreement, the Advisor and certain affiliates of Advisor receive fees and compensation in connection with the Company's public offering and the acquisition, management and sale of the Company's real estate investments. In addition, in exchange for $1,000 and in consideration of services to be provided by the Advisor, the OP has issued an affiliate of the Advisor, Moody LPOP II, a separate, special limited partnership interest, in the form of Special Limited Partnership Interests. For further detail, please see Note 9, "Subordinated Participation Interest."

Sales Commissions and Dealer Manager Fees

From January 1, 2017 through June 12, 2017, the Company paid Moody Securities an up-front selling commission of up to 7.0% of the gross proceeds of what are now the Class A Shares sold in the primary offering and a dealer manager fee of up to 3.0% of the gross proceeds of what are now the Class A Shares sold in the primary offering. Beginning on June 12, 2017, the Company reallocated its common shares into four separate share classes with the following fees: (A) up-front selling commissions of up to (i) 7.0% of the gross proceeds of the Class A Shares sold in the primary offering and (ii) 3.0% of the gross proceeds of the Class T Shares sold in the primary offering; (B) up-front dealer manager fees of up to (i) 3.0% of the gross proceeds of the Class A Shares sold in the primary offering and (ii) 2.5% of the gross proceeds of the Class T Shares sold in the primary offering (the Sponsor may also pay Moody Securities (i) up-front dealer manager fees of up to 1.0% of the total amount of Class I Shares purchased in the primary offering and (ii) up-front selling commissions of up to 3.0% on purchases of $5,000,000 or more of Class D Shares purchased in the primary offering, which will not be reimbursed by the Company); and (C) a trailing stockholder servicing fee of (i) 1.0% per annum of the NAV of Class T Shares sold in the primary Offering and (ii) 0.5% per annum of the NAV of Class D Shares sold in the primary offering. Shares sold pursuant to the DRP are not subject to selling commissions, dealer manager fees or stockholder servicing fees. Moody Securities may reallow all or a portion of the foregoing selling commissions, dealer manager fees or stockholder servicing fees to participating broker-dealers.

Beginning January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with the Company's public offering; provided, however, that the Advisor intends to recoup the funding of such amounts through the Contingent Advisor Payment (described below). In connection with the implementation of the Contingent Advisor Payment, the Company reduced the up-front selling commission paid with respect to the Class A Shares from up to 7.0% to up to 6.0% of the gross proceeds of the Class A Shares sold in the primary offering and reduced the dealer manager fee paid with respect to the Class A Shares from up to 3.0% to up to 2.5% of the gross proceeds of the Class A Shares sold in the primary offering. As of March 31, 2019, the Company and the Advisor had paid Moody Securities $9,423,133 in selling commissions and trailing stockholder servicing fees related to the offering and $2,099,018 in dealer manager fees related to the offering, which amounts have been recorded as a reduction to additional paid-in capital in the consolidated balance sheets and $5,272,521 of which could potentially be recouped by the Advisor at a later date through the Contingent Advisor Payment.

Organization and Offering Expenses

The Advisor will receive reimbursement for organizational and offering expenses incurred on the Company's behalf, but only to the extent that such reimbursements do not exceed actual expenses incurred by Advisor and do not cause the cumulative selling commissions, dealer manager fees, stockholder servicing fees and other organization and offering expenses borne by the Company to exceed 15.0% of gross offering proceeds from the sale of shares in the Company's follow-on offering as of the date of reimbursement.

As of March 31, 2019, total offering costs for the initial public offering and the follow-on offering were $19,572,671, comprised of $12,333,647 of offering costs incurred directly by the Company and $7,239,024 in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2019, total offering costs for the initial public offering were $18,365,295, comprised of $12,333,647 of offering costs incurred directly by the Company and $6,031,648 in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2019, total offering costs for the follow-on offering were $1,207,376, comprised of $0 of offering costs incurred directly by the Company and $1,207,376 in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2019, the Company had $280,197 due to the Advisor for reimbursable offering costs.

Acquisition Fees

As of January 16, 2018, the Advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees in connection with the Company's public offering. In connection therewith, as of January 16, 2018, the acquisition fee payable to the Advisor was increased from 1.5% to up to a maximum of 3.85% of (1) the cost of all investments the Company acquires (including the Company's pro rata share of any indebtedness assumed or incurred in respect of the investment and exclusive of acquisition and financing coordination fees), (2) the Company's allocable cost of investments acquired in a joint venture (including the Company's pro rata share of the purchase price and the Company's pro rata share of any indebtedness assumed or incurred in respect of that investment and exclusive of acquisition fees and financing coordination fees) or (3) the amount funded by the Company to acquire or originate a loan or other investment, including mortgage, mezzanine or bridge loans (including any third-party expenses related to such investment and exclusive of acquisition fees and financing coordination fees). The up to 3.85% acquisition fee consists of (i) a 1.5% base acquisition fee and (ii) up to an additional 2.35% contingent acquisition fee (the "Contingent Advisor Payment"). The 1.5% base acquisition fee will always be payable upon the acquisition of an investment by the Company, unless the receipt thereof is waived by the Advisor. The amount of the Contingent Advisor Payment to be paid in connection with the closing of an acquisition will be reviewed on an acquisition-by-acquisition basis and such payment shall not exceed the then-outstanding amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees at the time of such closing. For purposes of determining the amount of Contingent Advisor Payment payable, the amounts paid by the Advisor for dealer manager fees, sales commissions or stockholder servicing fees and considered "outstanding" will be reduced by the amount of the Contingent Advisor Payment previously paid and taking into account the amount of the Contingent Advisor Holdback. The Advisor may waive or defer all or a portion of the acquisition fee at any time and from time to time, in the Advisor's sole discretion. The Company did not incur any acquisition fees to Advisor during the three months ended March 31, 2019 and 2018.

Reimbursement of Acquisition Expenses

The Advisor may also be reimbursed by the Company for actual expenses related to the evaluation, selection and acquisition of real estate investments, regardless of whether the Company actually acquires the related assets. The Company did not reimburse the Advisor for any acquisition expenses during the three months ended March 31, 2019 and 2018.

Financing Coordination Fee

The Advisor also receives financing coordination fees of 1% of the amount available under any loan or line of credit made available to the Company and 0.75% of the amount available or outstanding under any refinanced loan or line of credit. The Advisor will pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for the Company. The Company did not incur any financing coordination fees payable to the Advisor during the three months ended March 31, 2019 and 2018.

Property Management Fee

The Company pays Moody National Hospitality Management, LLC ("Property Manager") a monthly hotel management fee equal to 4.0% of the monthly gross operating revenues from the properties managed by Property Manager for services it provides in connection with operating and managing properties. The hotel management agreements between the Company and the Property Manager generally have initial terms of ten years. Property Manager may pay some or all of the compensation it receives from the Company to a third-party property manager for management or leasing services. In the event that the Company contracts directly with a non-affiliated third-party property manager, the Company will pay Property Manager a market-based oversight fee. The Company will reimburse the costs and expenses incurred by Property Manager on the Company's behalf, including legal, travel and other out-of-pocket expenses that are directly related to the management of specific properties, but the Company will not reimburse Property Manager for general overhead costs or personnel costs other than employees or subcontractors who are engaged in the on-site operation, management, maintenance or access control of the properties. For the three months ended March 31, 2019 and 2018, the Company incurred property management fees to Property Manager of $738,248 and $741,909, respectively, and accounting fees of $105,000 and $105,000, respectively, pursuant to the terms of a hotel management agreement, and which are included in hotel operating expenses in the accompanying consolidated statements of operations.

The Company pays an annual incentive fee to Property Manager. Such annual incentive fee is equal to 15% of the amount by which the operating profit from the properties managed by Property Manager for such fiscal year (or partial fiscal year) exceeds 8.5% of the total investment of such properties. Property Manager may pay some or all of this annual incentive fee to third-party sub-property managers for management services. For purposes of this annual incentive fee, “total investment” means the sum of (i) the price paid to acquire a property, including closing costs, conversion costs, and transaction costs; (ii) additional invested capital and (iii) any other costs paid in connection with the acquisition of the property, whether incurred pre- or post-acquisition. As of March 31, 2019, the Company had not paid any annual incentive fees to Property Manager.

Asset Management Fee

The Company pays the Advisor a monthly asset management fee of one-twelfth of 1.0% of the cost of investment of all real estate investments the Company acquires. For the three months ended March 31, 2019 and 2018, the Company incurred asset management fees of $1,046,000 and $1,064,000 payable to the Advisor, respectively, and which are recorded in corporate general and administrative expenses in the accompanying consolidated statements of operations.

Disposition Fee

The Company also pays the Advisor or its affiliates a disposition fee (subject to a limitation if the property was previously owned by Moody I discussed below) in an amount of up to one-half of the brokerage commission paid on the sale of an asset, but in no event greater than 3% of the contract sales price of each property or other investment sold; provided, however, in no event may the aggregate disposition fees paid to the Advisor and any real estate commissions paid to unaffiliated third parties exceed 6% of the contract sales price. As of March 31, 2019, the Company had not incurred any disposition fees payable to the Advisor.

Operating Expense Reimbursement

The Company will reimburse the Advisor for all expenses paid or incurred by the Advisor in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse the Advisor for any amount by which the Company’s aggregate operating expenses (including the asset management fee payable to the Advisor) 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 the Advisor for expenses in excess of the 2%/25% Limitation if a majority of the Company’s independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended March 31, 2019, total operating expenses of the Company were $6,192,645, which included $4,786,099 in operating expenses incurred directly by the Company and $1,406,546 incurred by the Advisor on behalf of the Company. Of the $6,192,645 in total operating expenses incurred during the four fiscal quarters ended March 31, 2019, $0 exceeded the 2%/25% Limitation. The Company reimbursed the Advisor $1,406,000 during the four fiscal quarters ended March 31, 2019. As of March 31, 2019, the Company had $452,000 due from the Advisor for operating expense reimbursement.

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 independent directors was entitled, subject to the Independent Directors Compensation Plan’s conditions and restrictions, to receive an initial grant of 5,000 shares of restricted stock when the Company raised the minimum offering amount of $2,000,000 in the Company’s initial public offering. Each new independent director who subsequently joins the Company’s board of directors will receive a grant of 5,000 shares of restricted stock upon his or her election to 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 will receive an additional grant of 2,500 shares of restricted stock. 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 March 31, 2019, there were 1,955,000 common shares remaining available for future issuance under the Incentive Award Plan and the Independent Directors Compensation Plan.

The Company recorded compensation expense related to shares of restricted stock issued pursuant to the Independent Directors Compensation Plan of $64,616 and $128,467 for the three months ended March 31, 2019 and 2018, respectively. As of March 31, 2019, there were 5,000 non-vested shares of restricted common stock granted pursuant to the Independent Directors Compensation Plan. The remaining unrecognized compensation expense associated with the 5,000 non-vested shares of $66,052 will be recognized during the second and third quarters of 2019.

The following is a summary of activity under the Independent Directors Compensation Plan for the three months ended March 31, 2019 and year ended December 31, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance of non-vested shares as of December 31, 2017	11,250	$ 27.82
Shares granted on August 13, 2018	10,000	$ 23.19
Shares vested	(13,750)	$ 26.98
Balance of non-vested shares as of December 31, 2018	7,500	$ 23.19
Shares vested	(2,500)	$ 23.19
Balance of non-vested shares as of March 31, 2019	5,000	$ 23.19

9. Subordinated Participation Interest

Pursuant to the limited partnership agreement for the OP, Moody LPOP II, the holder of the Special Limited Partnership Interests, is entitled to receive distributions equal to 15.0% of the OP's net cash flows, whether from continuing operations, the repayment of loans, the disposition of assets or otherwise, but only after the Company's stockholders (and current and future limited partnership interest holders of the OP other than the former limited partners of Moody I OP) have received, in the aggregate, cumulative distributions equal to their total invested capital plus a 6.0% cumulative, non-compounded annual pre-tax return on such aggregated invested capital. Former limited partners of Moody I OP must have received a cumulative annual return of 8.0%, which is equal to the same return to which such holders were entitled before distributions to the special limited partner of Moody I OP could have been paid under the limited partnership agreement of Moody I OP. In addition, Moody LPOP II is entitled to a separate payment if it redeems its Special Limited Partnership Interests. The Special Limited Partnership Interests may be redeemed upon: (1) the listing of the Company's common stock on a national securities exchange or (2) the occurrence of certain events that result in the termination or non-renewal of the Advisory Agreement, in each case for an amount that Moody LPOP II would have been entitled to receive had the OP disposed of all of its assets at the enterprise valuation as of the date of the event triggering the redemption.

10. Commitments and Contingencies

Restricted Cash

Under certain management and debt agreements existing at March 31, 2019, the Company escrows payments required for property improvement plans, real estate taxes, replacement of hotel furniture and fixtures, debt service and rent holdback. The composition of the Company's restricted cash as of March 31, 2019 and December 31, 2018 are as follows (all amounts in in thousands):

	March 31, 2019	December 31, 2018
Property improvement plan	$ 279	$ 1,239
Real estate taxes	542	2,894
Insurance	58	231
Hotel furniture and fixtures	4,189	4,168
Debt service	784	764
Seasonality	542	883
Expense deposit	10	10
Rent holdback	15	15
Total restricted cash	$ 6,419	$ 10,204

Franchise Agreements

As of December 31, 2018, all of the Company's hotel properties, including those acquired as part of the Moody I Portfolio in the Mergers, are operated under franchise agreements with initial terms ranging from 10 to 20 years. The franchise agreements allow the properties to operate under the franchisor's brand. 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. The Company incurred franchise fee expense of approximately $1,581,000 and $1,565,000 for the three months ended March 31, 2019 and 2018, respectively, which amounts are included in hotel operating expenses in the accompanying consolidated statements of operations.

11. Income Taxes

The Company has formed a TRS that is treated as a C-corporation for federal income tax purposes and uses the 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.

As of March 31, 2019, the Company had operating loss carry-forwards of $281,051.

The Company had deferred tax assets of $2,303,000 as of March 31, 2019 and December 31, 2018, net of a valuation allowance of $1,662,000 and $1,194,000 as of March 31, 2019 and December 31, 2018, respectively, related to net operating loss carry forwards of the TRS which are included in prepaid expenses and other assets on the consolidated balance sheets. As of March 31, 2019, the TRS had a net operating loss carry-forward of $15,776,091, of which $7,292,853 was transferred from Moody I's taxable REIT subsidiaries when they were merged into the Company's TRS on the date of the closing of the Mergers.

The income tax expense (benefit) for the three months ended March 31, 2019 and 2018 consisted of the following (all amounts in thousands):

	Three months ended March 31, 2019	Three months ended March 31, 2018
Current expense	$ 50	$ 9
Deferred benefit	(468)	(330)
Valuation provision for deferred benefit	468	—
Total expense (benefit)	$ 50	$ (321)
Federal	$ (468)	$ (330)
Valuation provision for federal taxes	468	—
State	50	9
Total tax expense (benefit)	$ 50	$ (321)

On March 31, 2019, the Company had net deferred tax assets of $2,303,000 primarily due to past years' federal and state tax operating losses of the TRS. These loss carryforwards will generally expire in 2033 through 2038 if not utilized by then. The Company analyzes state loss carryforwards on a state by state basis and records a valuation allowance when management deems it more likely than not that future results will not generate sufficient taxable income in the respective state to realize the deferred tax asset prior to the expiration of the loss carryforwards. Management believes that it is more likely than not that the results of future operations of the TRS will generate sufficient taxable income to realize the deferred tax assets related to federal and state loss carryforwards prior to the expiration of the loss carryforwards and has determined that no valuation allowance is necessary. From time to time, the Company may be subjected to federal, state or local tax audits in the normal course of business.

The recently enacted tax reform bill, informally known as the Tax Cuts and Jobs Act, made significant changes to the U.S. federal income tax laws. For example, the top corporate income tax rate was reduced to 21%, and the corporate alternative minimum tax was repealed. Additionally, for taxable years beginning after December 31, 2017, the Tax Cuts and Jobs Act limits interest deductions for businesses, whether in corporate or pass-through form, to the sum of the taxpayer's business interest income for the tax year and 30% of the taxpayer's adjusted taxable income for the tax year, but the tax rules do permit a real estate business, such as a REIT, to elect out of the interest limitation rules in exchange for depreciating its real estate assets using alternative depreciation system principles. Technical corrections or other amendments to, or administrative guidance interpreting, the Tax Cuts and Job Act may be forthcoming at any time. The Company cannot predict the long-term effect of the Tax Cuts and Jobs Act or any future changes on REITs and their stockholders. For the Company, the reduction in the federal corporate tax rate resulted in a reduction to the net deferred tax assets of the TRS of approximately $1.6 million.

12. Subsequent Events

Distributions Declared

On March 31, 2019, the Company declared a distribution in the aggregate amount of $1,669,101, of which $1,282,175 was paid in cash on April 15, 2019, $397,860 was paid pursuant to the DRP in the form of additional shares of the Company's common stock, and $10,934 was paid to reduce deferred distributions pending the return of letters of transmittal by former Moody I stockholders. On April 30, 2019, the Company declared a distribution in the aggregate amount of $1,656,926, which is scheduled to be paid in cash and pursuant to the DRP in the form of additional shares of the Company's common stock on or about May 15, 2019.

Short Term Loan

The entire outstanding principle amount of the Short Term Loan and all accrued interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

Acquisition of Residence Inn Houston Medical Center

On April 29, 2019, the Company acquired a 182-unit Residence Inn by Marriott hotel property located in Houston, Texas (the "Residence Inn Houston Medical Center") from an affiliate of Sponsor for an aggregate purchase price, exclusive of closing costs, of approximately $52.0 million, inclusive of (i) the Company's assumption of an existing loan in the amount of $28.2 million secured by a lien and security interest in the Residence Inn Houston Medical Center, and (ii) seller financing in the amount of $22.6 million from the seller of the Residence Inn Houston Medical Center.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with the accompanying consolidated financial statements of Moody National REIT II, Inc. and the notes thereto. As used herein, the terms "we," "our," "us" and "our company" refer to Moody National REIT II, Inc. and, as required by context, Moody National Operating Partnership II, LP, a Delaware limited partnership, which we refer to as our "operating partnership," and to their respective subsidiaries. References to "shares" and "our common stock" refer to the shares of our common stock.

Forward-Looking Statements

Certain statements included in this quarterly report on Form 10-Q, or this Quarterly Report, that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terms.

The forward-looking statements included herein are based upon our current expectations, plans, estimates, assumptions and beliefs, which involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to:

- our ability to raise capital in our ongoing public offering;
- our ability to effectively deploy the proceeds raised in our public offering;
- our ability to obtain financing on acceptable terms;
- our levels of debt and the terms and limitations imposed on us by our debt agreements;
- our ability to identify and acquire real estate and real estate-related assets on selling terms that are favorable to us;
- our ability to effectively integrate and manage our expanded operations following the consummation of our merger with Moody National REIT I, Inc.;
- risks inherent in the real estate business, including the lack of liquidity for real estate and real estate-related assets on terms that are favorable to us;
- changes in demand for rooms at our hotel properties;
- our ability to compete in the hotel industry;
- adverse developments affecting our sponsor and its affiliates;
- the availability of cash flow from operating activities for distributions;
- changes in economic conditions generally and the real estate and debt markets specifically;
- conflicts of interest arising out of our relationship with our advisor and its affiliates;
- legislative or regulatory changes, including changes to the laws governing the taxation of REITs (as defined below);
- the availability of capital; and
- changes in interest rates.

Any of the assumptions underlying the forward-looking statements included herein could be inaccurate, and undue reliance should not be placed upon any forward-looking statements included herein. All forward-looking statements are made as of the date of this Quarterly Report and the risk that actual results will differ materially from the expectations expressed herein will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements made after the date of this Quarterly Report, whether as a result of new information, future events, changed circumstances or any other reason. In light of the significant uncertainties inherent in the forward-looking statements included in this Quarterly Report, including, without limitation, the risks described under "Risk Factors," the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this Quarterly Report will be achieved.

Overview

We are a Maryland corporation formed on July 25, 2014 to invest in a portfolio of hospitality properties focusing primarily on the select-service segment of the hospitality sector with premier brands including, but not limited to, Marriott, Hilton and Hyatt. We have elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, beginning with our taxable year ended December 31, 2016. We own, and in the future intend to own, substantially all of our assets and conduct our operations through our operating partnership. We are the sole general partner of our operating partnership, and the initial limited partners of our operating partnership were our subsidiary, Moody OP Holdings II, LLC, or Moody Holdings II, and Moody National LPOP II, LLC, or Moody LPOP II, an affiliate of our advisor (as defined below). Moody Holdings II invested $1,000 in our operating partnership in exchange for limited partnership interests, and Moody LPOP II invested $1,000 in our operating partnership in exchange for special limited partnership interests. As we accept subscriptions for sales of shares of our common stock, we transfer substantially all of the net proceeds from such sales to our operating partnership in exchange for limited partnership interests and our percentage ownership in our operating partnership increases proportionally.

We are externally managed by Moody National Advisor II, LLC, a related party, which we refer to as our "advisor," pursuant to an advisory agreement among us, our operating partnership and our advisor, or the advisory agreement. Our advisor was formed in July 2014. Moody National REIT Sponsor, LLC, which we refer to as our "sponsor," is owned and managed by Brett C. Moody, who also serves as our Chief Executive Officer and President and the Chief Executive Officer and President of our advisor.

On January 20, 2015, we commenced our initial public offering of up to $1,100,000,000 in shares of common stock, consisting of up to $1,000,000,000 in shares of our common stock offered to the public and up to $100,000,000 in shares offered to our stockholders pursuant to our distribution reinvestment plan, or the DRP. On June 26, 2017, the Securities and Exchange Commission, or SEC, declared effective a post-effective amendment to our registration statement which reallocated the shares of our common stock being sold in our initial public offering as Class A common stock, $0.01 par value per share, or the Class A Shares, Class I common stock, $0.01 par value per share, or the Class I Shares, and Class T common stock, $0.01 par value per share, or the Class T Shares. We collectively refer to the Class A Shares, Class I Shares and Class T Shares as our "shares." Effective July 19, 2018, the SEC declared effective our registration statement (Registration No. 333-222610) and we commenced our follow-on public offering of up to $990,000,000 in any combination of the three classes of our shares, consisting of up to $895,000,000 in shares of our common stock offered to the public, which we refer to as the "primary offering," and up to $95,000,000 in shares of our common stock offered to our stockholders pursuant to the DRP. We will continue to offer shares in our follow-on offering on a continuous basis until July 19, 2020, subject to extension for an additional year (to July 29, 2021) by our board of directors.

Effective January 16, 2018, our advisor assumed responsibility for the payment of all selling commissions, dealer manager fees and stockholder servicing fees paid in connection with our ongoing public offering; provided, however, that our advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funds through receipt of an increased acquisition fee (as discussed in Note 7, "Related Party Agreements-Acquisition Fees," in the accompanying consolidated financial statements).

On March 14, 2019, our board of directors determined an estimated net asset value, or NAV, per share of all classes of our common stock as of December 31, 2018 of $23.32. We are currently offering our shares (i) to the public in our primary offering at a purchase price of $23.32 per share, which is equal to the estimated NAV per share for each class of our common stock as of December 31, 2018, and (ii) to our stockholders pursuant to the DRP at a purchase price of $23.32 per share, which is equal to the NAV per share for each class of our common stock as of December 31, 2018.

As of March 31, 2019, we had received and accepted investors' subscriptions for and issued 7,851,842 shares in our initial public offering and our follow-on offering, excluding shares issued in connection with the Mergers (discussed below) and including 340,563 shares pursuant to the DRP, resulting in gross offering proceeds of $184,550,926. As of March 31, 2019, we had received and accepted investors' subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with the Mergers and including 214,764 shares pursuant to the DRP in the initial public offering, resulting in gross offering proceeds of $147,415,625 for the initial public offering. As of March 31, 2019, we had received and accepted investors' subscriptions for and issued 1,725,849 shares in the follow-on offering, including 125,799 shares pursuant to the DRP in the follow-on offering, resulting in gross offering proceeds of $37,135,301 for the follow-on offering. As of May 8, 2019, we had received and accepted investors' subscriptions for and issued 2,022,598 shares in our follow-on offering, including 142,860 shares issued pursuant to our DRP, resulting in gross offering proceeds of $43,631,950. As of March 12, 2019, $943,052,905 of stock remained to be sold in our follow-on offering. We reserve the right to terminate our follow-on offering at any time.

Moody Securities, LLC, an affiliate of our advisor, which we refer to as the "dealer manager" or "Moody Securities," is our dealer manager and is responsible for the distribution of our common stock in our ongoing follow-on offering.

We intend to continue to use the net proceeds from our public offerings to acquire hotel properties located in the East Coast, the West Coast and the Sunbelt regions of the United States. To a lesser extent, we may also invest in other hospitality properties located within other markets and regions, as well as real estate securities and debt-related investments related to the hospitality sector.

As of March 31, 2019, our portfolio consisted of (1) ownership interests in fourteen hotel properties located in six states, comprising a total of 1,941 rooms, (2) investment in marketable securities of approximately $6.8 million, and (3) a loan with a current principal amount of $6,750,000 originated to an affiliate of our sponsor used to acquire a commercial property located in Katy, Texas.

Our principle executive offices are located at 6363 Woodway Drive, Suite 110, Houston, Texas 77057, and our main telephone number is (713) 977-7500.

Merger with Moody National REIT I, Inc.

On September 27, 2017, the merger of Moody National REIT I, Inc., or Moody I, with and into our company, or the Merger, and the merger of Moody National Operating Partnership I, L.P., the operating partnership of Moody I, or Moody I OP, with and into our operating partnership, or the Partnership Merger, were completed. We refer to the Merger and the Partnership Merger herein as the "Mergers." For additional discussion of the Mergers, see Part I., Item 1. "Business—Merger with Moody National REIT I, Inc." of our Annual Report on Form 10-K, as filed with the SEC on March 29, 2019, and the notes to the consolidated financial statements included in this Quarterly Report.

Factors Which May Influence Results of Operations

Economic Conditions Affecting Our Target Portfolio

Adverse economic conditions affecting the hospitality sector, the geographic regions in which we plan to invest or the real estate market generally may have a material impact on our capital resources and the revenue or income to be derived from the operation of our hospitality investments.

Offering Proceeds

Our ability to make investments depends upon the net proceeds raised in our offering and our ability to finance the acquisition of our investments. If we raise substantially less than the maximum offering amount of $990,000,000 in our offering, we will make fewer investments resulting in less diversification in terms of the number of investments owned and fewer sources of income. In such event, the likelihood of our profitability being affected by the performance of any one of our investments will increase. In addition, if we are unable to raise substantial funds, our fixed operating expenses as a percentage of gross income would be higher, which could affect our net income and results of operations.

Results of Operations

The discussion that follows is based on our consolidated results of operations for the three months ended March 31, 2019 and 2018. We were formed on July 25, 2014. As of March 31, 2018, we owned (1) interests in fourteen hotel properties located in six states, comprising a total of 1,941 rooms, (2) a loan with a current principal amount of $6,750,000 originated to an affiliate of our sponsor used to acquire a commercial property located in Katy, Texas and (3) a mortgage note receivable with a current principal amount of $11,200,000 from a related party. As of March 31, 2019, we owned (1) interests in fourteen hotel properties located in six states, comprising a total of 1,941 rooms, (2) investment in marketable securities of approximately $6.8 million, and (3) a loan with a current principal amount of $6,750,000 originated to an affiliate of our sponsor used to acquire a commercial property located in Katy, Texas. Primarily because we owned only one note receivable as of March 31, 2019, our interest and dividend income for the three months ended March 31, 2019 are not directly comparable to those for the three months ended March 31, 2018. In general, we expect that our income and expenses related to our investment portfolio will increase in future periods as a result of anticipated future acquisitions of real estate and real estate-related investments. In addition, we expect that our income and expenses related to our investment portfolio will differ significantly if the mergers are consummated.

Comparison of the three months ended March 31, 2019 versus the three months ended March 31, 2018

Revenue

Total revenue decreased to $18,784,859 for the three months ended March 31, 2019 from $18,966,205 for the three months ended March 31, 2018. Hotel revenue decreased to $18,456,062 for the three months ended March 31, 2019 from $18,547,166 for the three months ended March 31, 2018. Interest and dividend income from our notes receivable and investment in marketable securities decreased to $328,797 for the three months ended March 31, 2019 from $419,039 for three months ended March 31, 2018 due to the repayment of the related party mezzanine note. We expect that room revenue, other hotel revenue and total revenue will each increase in future periods as a result of future acquisitions of real estate assets.

A comparison of hotel revenues for the hotels owned continuously for the three months ended March 31, 2019 and 2018 follows (all amounts in thousands):

	Three months ended March,		Increase
	2019	**2018**	**(Decrease)**
Residence Inn Austin	$ 1,282	$ 1,316	$ (34)
Springhill Suites Seattle	2,169	2,646	(477)
Homewood Suites Woodlands	754	811	(57)
Hyatt Place Germantown	825	891	(66)
Hyatt Place North Charleston	845	951	(106)
Hampton Inn Austin	1,219	1,123	96
Residence Inn Grapevine	1,708	1,769	(61)
Marriott Courtyard Lyndhurst	1,848	2,003	(155)
Hilton Garden Inn Austin	1,420	1,391	29
Hampton Inn Great Valley	772	765	7
Embassy Suites Nashville	3,189	2,424	765
Homewood Suites Austin	1,102	1,106	(4)
Townplace Suites Fort Worth	745	628	117
Hampton Inn Houston	578	723	(145)
	$ 18,456	$ 18,547	$ (91)

Revenues declined at Springhill Suites Seattle and Hampton Inn Houston for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 due to ongoing renovations to the hotels.

Hotel Operating Expenses

Hotel operating expenses increased to $12,115,344 for the three months ended March 31, 2019 from $11,767,605 for the three months ended March 31, 2018.

Property Taxes, Insurance and Other

Property taxes, insurance and other expenses increased to $1,368,789 for the three months ended March 31, 2019 from $1,295,996 for the three months ended March 31, 2018 due to an increase in property assessed valuations for the three months ended March 31, 2019.

Depreciation and Amortization

Depreciation and amortization increased to $3,173,996 for the three months ended March 31, 2019 from $2,922,015 for the three months ended March 31, 2018.

Corporate General and Administrative Expenses

Corporate general and administrative expenses decreased to $1,621,942 for the three months ended March 31, 2019 from $2,040,743 for the three months ended March 31, 2018 due primarily to a decrease in professional fees and directors fees for the three months ended March 31, 2019. These general and administrative expenses consisted primarily of asset management fees, professional fees, restricted stock compensation and directors' fees. We expect corporate general and administrative expenses to increase in future periods as a result of anticipated future acquisitions, but to decrease as a percentage of total revenue.

Interest Expense and Amortization of Debt Issuance Costs

Interest expense and amortization of debt issuance costs decreased to $3,085,963 for the three months ended March 31, 2019 from $4,334,558 for the three months ended March 31, 2018. In future periods our interest expense will vary based on the amount of our borrowings, which will depend on the availability and cost of borrowings and our ability to identify and acquire real estate and real estate-related assets that meet our investment objectives.

Unrealized Loss on Change in Fair Value of Investment in Marketable Securities

Unrealized loss on change in fair value of investment in marketable securities increased to $158,888 for the three months ended March 31, 2019 from $0 for the three months ended March 31, 2018 because the initial investment in marketable securities was made during the three months ended March 31, 2019.

Income Tax Expense (Benefit)

Our income tax expense (benefit) was $49,817 and $(321,000) for the three months ended March 31, 2019 and 2018, respectively, because we recorded a tax benefit related to the federal taxable loss of our taxable REIT subsidiary, or TRS, during the three months ended March 31, 2018.

Liquidity and Capital Resources

Our principal demand for funds is for the acquisition of real estate assets, the payment of operating expenses, principal and interest payments on our outstanding indebtedness and the payment of distributions to our stockholders. Proceeds from our public offering currently supply a significant portion of our cash. Over time, however, we anticipate that cash from operations will generally fund our cash needs for items other than asset acquisitions.

There may be a delay between the sale of shares of our common stock during our public offering and our purchase of assets, which could result in a delay in the benefits to our stockholders, if any, of returns generated from our investment operations. Our advisor, subject to the oversight of our board, will evaluate potential acquisitions and will engage in negotiations with sellers and lenders on our behalf. If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures.

We may, but are not required to, establish working capital reserves out of cash flow generated by our real estate assets or out of proceeds from the sale of our real estate assets. We do not anticipate establishing a general working capital reserve; however, we may establish working capital reserves with respect to particular investments. We also may, but are not required to, establish reserves out of cash flow generated by our real estate assets or out of net sale proceeds in non-liquidating sale transactions. Working capital reserves are typically used to fund tenant improvements, leasing commissions and major capital expenditures. We also escrow funds for hotel property improvements. Our lenders also may require working capital reserves. The Term Loan Agreement (described below) 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.

To the extent that any working capital reserve we establish is insufficient to satisfy our cash requirements, additional funds may be provided from cash generated from operations, short-term borrowing, equity capital from joint venture partners, or the proceeds of public or private offerings of our shares or interests in our operating partnership. In addition, subject to certain limitations, we may incur indebtedness in connection with the acquisition of any real estate assets, refinance the debt thereon, arrange for the leveraging of any previously unfinanced property or reinvest the proceeds of financing or refinancing in additional properties. There can be no assurance that we will be able to obtain such capital or financing on favorable terms, if at all.

Net Cash Used in Operating Activities

As of March 31, 2019, we owned interests in fourteen hotel properties and one note receivable from related party. Net cash used in operating activities for the three months ended March 31, 2019 and 2018 was $2,003,571 and $1,585,031, respectively. The increase in cash used in operating activities for the three months ended March 31, 2019 was primarily due to the fact that the reduction in accounts payable and accrued expenses during the three months ended March 31, 2019 was more than the decrease in accounts payable and accrued expenses for the three months ended March 31, 2018.

Net Cash (Used in) Provided by Investing Activities

Our cash (used in) provided by investing activities will vary based on how quickly we invest the net offering proceeds from our public offering towards acquisitions of real estate and real-estate related investments. Net cash (used in) provided by investing activities for the three months ended March 31, 2019 and 2018 was $(7,967,433) and $2,354,057, respectively. The increase in cash used in investing activities for the three months ended March 31, 2019 was due to the fact that we made an investment in marketable securities during the three months ended March 31, 2019 and the related party mezzanine note receivable was paid in full during the three months ended March 31, 2018.

Net Cash Provided by (Used in) Financing Activities

For the three months ended March 31, 2019, our cash flows from financing activities consisted primarily of proceeds from our public offering, net of offering costs, distributions paid to our stockholders and repayment of notes payable. Net cash provided by (used in) financing activities for the three months ended March 31, 2019 and 2018 was $5,788,992 and $(3,395,834), respectively. The increase in cash provided by financing activities for the three months ended March 31, 2019, was primarily due to gross offering proceeds of $18,809,722 for the three months ended March 31, 2019 compared to $6,246,558 for the three months ended March 31, 2018.

Cash and Cash Equivalents and Restricted Cash

As of March 31, 2019, we had cash on hand, cash equivalents and restricted cash of $15,012,976.

Debt

We use, and intend to use in the future, secured and unsecured debt as a means of providing additional funds for the acquisition of real property, and potentially securities and debt-related investments. By operating on a leveraged basis, we expect that we will have more funds available for investments. This will generally allow us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, our use of leverage increases the risk of default on loan payments and the resulting foreclosure on a particular asset. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness. When debt financing is unattractive due to high interest rates or other reasons, or when financing is otherwise unavailable on a timely basis, we may purchase certain assets for cash with the intention of obtaining debt financing at a later time.

Term Loan Agreement

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 (KeyBank, in its capacity as lender, together with any other lender institutions that may become parties to the term loan agreement are referred to herein as the Lenders), entered into a term loan agreement, or, as amended, the Term Loan Agreement. Pursuant to the Term Loan Agreement, the Lenders have made a term loan to our operating partnership in the original principal amount of $70 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. We began making principal payments of $1.5 million per month on the Term Loan in November 2017. The balance of the term loan was $26,000,000 as of March 31, 2019.

The Term Loan originally matured on September 27, 2018. The maturity date of the Term Loan was originally extended to October 26, 2018. On October 24, 2018, the maturity date of the Term Loan was extended again to September 27, 2019 in connection with the partial refinancing of the Term Loan, 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 of $26.5 million as of October 24, 2018, together with any and all accrued and unpaid interest thereon, and all other Obligations, will be due on the maturity date of the Term Loan. In addition, the Term Loan originally provided 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. In connection with the extension of the Term Loan on October 24, 2018, monthly payments of principal will be $100,000 per month, and the margins over the base rate or London Interbank Offered Rate, or LIBOR, rate will be 2.75% and 3.75%, respectively. 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.

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 Property and Fort Worth 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 Term Loan Agreement.

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 date of our obligation under the Term Loan Agreement to raise $10 million per quarter in gross offering proceeds to the calendar quarter ending December 31, 2018.

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.

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.

Requirements associated with a mortgage loan to deposit and disburse operating receipts in a specified manner 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 March 31, 2019, we were in compliance with all debt covenants, current on all loan payments and not otherwise in default under the mortgage loans secured by our properties or the Term Loan.

Short Term Loan

On October 24, 2018, our operating partnership issued a promissory note in favor Green Bank, N.A. in the original principal amount of $16,000,000, or the Short Term Loan. The proceeds of the Short Term Loan were used to retire a portion of the Term Loan, resulting in a balance of $26.5 million for the Term Loan as of October 24, 2018. The Short Term Loan bore interest at an annual rate equal to the one-month LIBOR plus 2.5% and our company and the operating partnership were collectively required to make a monthly payment on the outstanding principal and interest of the Short Term Loan equal to the greater of $1,500,000 or 50% of our consolidated net cash flow. The entire principal balance of the Short Term Loan and all interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

As of March 31, 2019, our outstanding indebtedness totaled $223,906,426, 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 Articles of Amendment and Restatement, or 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 March 31, 2019 and December 31, 2018, our debt levels did not exceed 300% of the value of our net assets.

For more information on our outstanding indebtedness, see Note 5, “Debt” to the consolidated financial statements included in this Quarterly Report.

Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of March 31, 2019 (all amounts in thousands):

	Payments Due By Period				
Contractual Obligations	**Total**	**2019**	**2020-2021**	**2022-2023**	**Thereafter**
Long-term debt obligations(1)	$ 223,907	$ 35,868	$ 7,118	$ 24,247	$ 156,674
Interest payments on outstanding debt obligations(2)	52,760	7,679	17,371	16,139	11,571
Total	$ 276,667	$ 43,547	$ 24,489	$ 40,386	$ 168,245

(1) Amounts include principal payments only.
(2) Projected interest payments are based on the outstanding principal amounts and weighted-average interest rates at March 31, 2019.

As discussed above, we extended the maturity date of and partially refinanced the Term Loan on October 24, 2018. We intend to retire the Term Loan with proceeds from long-term loans secured by the Marriott Courtyard Lyndhurst and Townplace Suites Forth Worth hotel properties and through our monthly principal reductions of approximately $100,000.

Organization and Offering Costs

Our organization and offering costs may be incurred directly by us or such costs may be incurred by our advisor on our behalf. Pursuant to the advisory agreement with our advisor, we are obligated to reimburse our advisor or its affiliates, as applicable, for organization and offering costs incurred by our advisor associated with our public offerings, provided that within 60 days of the last day of the month in which any public offering ends, our advisor is obligated to reimburse us to the extent that organization and offering costs we may have incurred in connection with such public offering exceed 15% of the gross offering proceeds from the sale of shares of our common stock in such 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 our advisor's employees and employees of our advisor's affiliates and others. Any reimbursement to our advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by our advisor. Our organization and offering costs incurred in connection with our initial public offering did not exceed 15% of the gross offering proceeds from the sale of our shares of common stock in such offering.

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 we have an obligation to reimburse our advisor.

As of March 31, 2019, total organization and offering costs for our initial public offering and follow-on offering were $19,572,671, comprised of $12,333,647 of organization and offering costs incurred directly by us and $7,239,024 in organization and offering costs incurred by and reimbursable to our advisor. As of March 31, 2019, total organization and offering costs for the initial public offering were $18,365,295, comprised of $12,333,647 of organization and offering costs incurred directly by us and $6,031,648 in organization and offering costs incurred by and reimbursable to our advisor. As of March 31, 2019, total organization and offering costs for the follow-on offering were $1,207,376, comprised of $0 of offering costs incurred directly by us and $1,207,376 in offering costs incurred by and reimbursable to our advisor. As of March 31, 2019, we had $280,197 due to our advisor for reimbursable organization and offering costs.

Operating Expenses

We will reimburse our advisor for all expenses paid or incurred by our advisor in connection with the services it provides to us, subject to the limitation that we will not reimburse our advisor for any amount by which our operating expenses (including the asset management fee we pay to our advisor) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of our average invested assets, or (2) 25% of our 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 our assets for that period, which we refer to as the "2%/25% Limitation." Notwithstanding the above, we may reimburse our advisor for expenses in excess of the 2%/25% Limitation if a majority of our independent directors determine that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended March 31, 2019, our total operating expenses were $6,192,645, which included $4,786,099 in operating expenses incurred directly by us and $1,406,546 incurred by our advisor on our behalf. Of that $6,192,645 in total operating expenses incurred during four fiscal quarters ended March 31, 2019, $0 exceeded the 2%/25% Limitation. We reimbursed our advisor $1,406,000 during four fiscal quarters ended March 31, 2019. As of March 31, 2019, we had $452,000 due from our advisor for operating expense reimbursement.

Critical Accounting Policies

General

We consider the accounting policies described below to be critical because they involve significant judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If management's judgment or interpretation of the facts and circumstances relating to various transactions is different, it is possible that different accounting policies will be applied or different amounts of assets, liabilities, revenues and expenses will be recorded, resulting in a different presentation of the consolidated financial statements or different amounts reported in the consolidated financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses.

Income Taxes

We elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2016. We did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the year ended December 31, 2015 and for the period from July 25, 2014 (inception) to December 31, 2014, including not having the requisite number of shareholders for a sufficient number of days in those periods. Prior to qualifying to be taxed as a REIT we were subject to normal federal and state corporation income taxes.

Provided that we continue to qualify as a REIT, we generally will not be subject to federal corporate income tax to the extent we distribute our REIT taxable income to our stockholders, so long as we distribute at least 90% of our 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 we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and federal income and excise taxes on our undistributed income.

We lease the hotels that we acquire to a wholly owned TRS that is subject to federal, state and local income taxes.

We account for income taxes of our TRS 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. We record a valuation allowance for net deferred tax assets that are not expected to be realized.

We have 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. We had no material uncertain tax positions as of March 31, 2019.

The preparation of our 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 our estimates may change is not expected to be material. We will account for interest and penalties relating to uncertain tax provisions in the current period's results of operations, if necessary. We have tax years 2014 through 2017 remaining subject to examination by various federal and state tax jurisdictions.

Valuation and Allocation of Hotel Properties — Acquisitions

Upon acquisition, the purchase price of hotel properties are 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 building fair values are calculated as replacement cost less depreciation or our 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.

We determine 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 we believe we 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 our properties, we make assumptions and use 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, we are responsible for the source and use of these estimates. These estimates are based on judgment and subject to being imprecise; accordingly, if different estimates and assumptions were derived, the valuation of the various categories of our hotel properties or related intangibles could, in turn, result in a difference in the depreciation or amortization expense recorded in our consolidated financial statements. These variances could be material to our results of operations and financial condition.

Valuation and Allocation of Hotel Properties — Ownership

Depreciation expense is computed using the straight-line method 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

Impairment

We monitor events and changes in circumstances indicating that the carrying amounts of our hotel properties may not be recoverable. When such events or changes in circumstances are present, we assess 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, we recognize 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 three months ended March 31, 2019 and 2018.

In evaluating our hotel properties for impairment, we make 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 our 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 our hotel properties which could then result in different conclusions regarding impairment and material changes to our consolidated financial statements.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which changes lessee accounting to reflect the financial liability and right-of-use assets that are inherent to leasing an asset on the balance sheet. The standard requires a modified retrospective approach, with restatement of the prior periods presented in the year of adoption, subject to any FASB modifications. This standard will be effective for the first annual reporting period beginning after December 15, 2018. We adopted this standard on January 1, 2019. In evaluating the effect that ASU No. 2016-02 will have on our consolidated financial statements and related disclosures, we believe the impact will be minimal to our ongoing consolidated statements of operations.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities," which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and simplifies the application of hedge accounting. This standard will be effective for the first annual period beginning after December 15, 2018, including interim periods within those periods. Early adoption is permitted. We adopted this standard on January 1, 2018 and aside from minor presentation changes in its disclosure on derivative and hedging activities, it will not have a material effect on our ongoing consolidated financial statements.

Inflation

As of March 31, 2019, our investments consisted of interests in fourteen hotel properties and one note receivable from a related party. Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Competitive pressures may, however, limit the operators' ability to raise room rates. The note receivable from a related party bears interest at a fixed rate of interest and inflation could, therefore, have an impact on their fair value. As of December 31, 2018, we were not experiencing any material impact from inflation.

REIT Compliance

We elected to be taxed as a REIT commencing with the taxable year ended December 31, 2016. To qualify as a REIT for tax purposes, we are required to distribute at least 90% of our REIT taxable income (determined for this purpose without regard to the dividends-paid deduction and excluding net capital gain) to our stockholders. We must also meet certain asset and income tests, as well as other requirements. We will monitor the business and transactions that may potentially impact our REIT status. If we fail to qualify as a REIT in any taxable year following the taxable year in which we initially elect to be taxed as a REIT, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which our REIT qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. We did not meet all of the qualifications to be a REIT under the Internal Revenue Code for the year ended December 31, 2015 and the period from July 25, 2014 (inception) to December 31, 2014.

Distributions

Our board of directors authorized and declared a distribution to our stockholders for 2019 and 2018 that will be (1) calculated daily and reduced for class-specific expenses; (2) 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) calculated at a rate of $1.7528 per share of our common stock per year, or approximately $0.00480 per share per day, before any class-specific expenses. We first paid distributions on September 15, 2015.

The following table summarizes distributions paid in cash and pursuant to the DRP for the three months ended March 31, 2019 and 2018.

Period	Cash Distribution	Distribution Paid Pursuant to DRP[(1)]	Total Amount of Distribution
First Quarter 2019	$ 3,517	$ 1,121	$ 4,638
First Quarter 2018	$ 3,218	$ 634	$ 3,852

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

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 GAAP. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, 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 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 will exclude 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 will also include, 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. Although organizational and acquisition expenses 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. Offering expenses do not affect net income. Our calculation of MFFO set forth in the table below reflects the exclusion of acquisition expenses.

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 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. However, 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 three months ended March 31, 2019 and 2018 and a reconciliation of such non-GAAP financial performance measures to our net income.

	Three months ended March 31,	
	2019	2018
Net Loss	$ (2,790)	$ (3,074)
Adjustments:		
Depreciation and amortization	3,174	2,922
Funds from Operations	384	(152)
Adjustments:		
Unrealized loss on change in fair value of investment in marketable securities	159	—
Amortization of debt issuance costs	327	576
Modified Funds from Operations	$ 870	$ 424

Off-Balance Sheet Arrangements

As of March 31, 2019, we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Related Party Transactions and Agreements

We have entered into agreements with our advisor and its affiliates whereby we have paid, and may continue to pay, certain fees to, or reimburse certain expenses of, our advisor or its affiliates in connection with the mergers and for acquisition and advisory fees and expenses, financing coordination fees, organization and offering costs, sales commissions, dealer manager fees, asset and property management fees and expenses, leasing fees and reimbursement of certain operating costs. See Note 7, “Related Party Arrangements,” to the consolidated financial statements included in this Quarterly Report for a discussion of our related-party transactions, agreements and fees.

Subsequent Events

Distributions Declared

On March 31, 2019, we declared a distribution in the aggregate amount of $1,669,101, of which $1,282,175 was paid in cash on April 15, 2019, $397,860 was paid pursuant to the DRP in the form of additional shares of our common stock, and $10,934 was paid to reduce deferred distributions pending the return of letters of transmittal by former Moody I stockholders. On April 30, 2019, we declared a distribution in the aggregate amount of $1,656,926, which is scheduled to be paid in cash and pursuant to the DRP in the form of additional shares of our common stock on or about May 15, 2019.

Short Term Loan

The entire outstanding principle amount of the Short Term Loan and all accrued interest thereon were repaid in full on April 24, 2019, the maturity date of the Short Term Loan.

Acquisition of Residence Inn Houston Medical Center

On April 29, 2019, we acquired a 182-unit Residence Inn by Marriott hotel property located in Houston, Texas, or the Residence Inn Houston Medical Center, from an affiliate of our sponsor for an aggregate purchase price, exclusive of closing costs, of approximately $52.0 million, inclusive of (i) our assumption of an existing loan in the amount of $28.2 million secured by a lien and security interest in the Residence Inn Houston Medical Center and (ii) seller financing in the amount of $22.6 million from the seller of the Residence Inn Houston Medical Center.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Market Risk

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity, fund capital expenditures and expand our real estate investment portfolio and operations. Market fluctuations in real estate financing may affect the availability and cost of funds needed to expand our investment portfolio. In addition, restrictions upon the availability of real estate financing or high interest rates for real estate loans could adversely affect our ability to dispose of real estate in the future. We will seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

With regard to variable rate financing, our advisor will assess our interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. Our advisor will maintain risk management control systems to monitor interest rate cash flow risk attributable to both our outstanding and forecasted debt obligations as well as our potential offsetting hedge positions. While this hedging strategy will be designed to minimize the impact on our net income and funds from operations from changes in interest rates, the overall returns on your investment may be reduced.

As of March 31, 2019, our indebtedness, as described below, was comprised of notes secured by our hotel properties. All such notes, except the Term Loan, accrue interest at a fixed rate and, therefore, an increase or decrease in interest rates would have no effect on our interest expense with respect such notes. Interest rate changes will affect the fair value of any fixed rate instruments that we hold. As we expect to hold our fixed rate instruments to maturity and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

As of March 31, 2019 and December 31, 2018, our notes payable consisted of the following ($ amounts in thousands):

Loan	Principal as of March 31, 2019	Principal as of December 31, 2018	Interest Rate at December 31, 2018	Maturity Date
Residence Inn Austin[1]	$ 16,489	$ 16,554	4.580%	November 1, 2025
Springhill Suites Seattle[1]	44,701	44,884	4.380%	October 1, 2026
Homewood Suites Woodlands[1]	9,027	9,066	4.690%	April 11, 2025
Hyatt Place Germantown[1]	6,985	7,025	4.300%	May 6, 2023
Hyatt Place North Charleston[1]	7,123	7,158	5.193%	August 1, 2023
Hampton Inn Austin[1]	10,637	10,687	5.426%	January 6, 2024
Residence Inn Grapevine[1]	12,283	12,341	5.250%	April 6, 2024
Hilton Garden Inn Austin[1]	18,319	18,401	4.530%	December 11, 2024
Hampton Inn Great Valley[1]	7,960	7,994	4.700%	April 11, 2025
Embassy Suites Nashville[1]	41,808	41,998	4.2123%	July 11, 2025
Homewood Suites Austin[1]	10,733	10,778	4.650%	August 11, 2025
Hampton Inn Houston[1]	4,454	4,480	7.500%	April 28, 2023
Term Loan[2]	26,000	26,300	30-day LIBOR plus 3.750%	September 27, 2019

Loan	Principal as of March 31, 2019	Principal as of December 31, 2018	Interest Rate at December 31, 2018	Maturity Date
Short Term Loan[3]	7,388	12,971	30-day LIBOR plus 2.50%	April 24, 2019
Total notes payable	223,907	230,637		
Less unamortized debt issuance costs	(3,136)	(3,463)		
Total notes payable, net of unamortized debt issuance costs	$ 220,771	$ 227,174		

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

(2) Monthly payments of principal and interest are due and payable until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019, as discussed above. The Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth properties are pledged as security for the Term Loan.

(3) Monthly payments of principal and interest are due and payable until the maturity date. All unpaid principal and interest thereon were repaid in full at maturity on April 24, 2019.

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

Credit Risk

We will also be exposed to credit risk. Credit risk in our investments in debt and securities relates to each individual borrower's ability to make required interest and principal payments on scheduled due dates. We seek to manage credit risk through our advisor's comprehensive credit analysis prior to making an investment, actively monitoring our asset portfolio and the underlying credit quality of our holdings and subordination and diversification of our portfolio. Our analysis is based on a broad range of real estate, financial, economic and borrower-related factors which we believe are critical to the evaluation of credit risk inherent in a transaction.

In addition, we have one unsecured loan in the aggregate principal amount of $6,750,000, or the Related Party Note, that we acquired as a result of the Mergers. The proceeds from the Related Party Note was used to acquire a property in Katy, Texas. While the Related Party Note is not secured, we believe that the borrower for the loan is creditworthy.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act). Based upon, and as of the date of, the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may be party to legal proceedings that arise in the ordinary course of our business. Management is not aware of any legal proceedings of which the outcome is reasonably likely to have a material adverse effect on our results of operations or financial condition, nor are we aware of any such legal proceedings contemplated by government agencies.

ITEM 1A. RISK FACTORS.

Except as set forth below, there have been no material changes to the risk factors contained in Part I, Item 1A set forth in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on March 31, 2019.

We have paid, and may continue to pay, distributions from the proceeds of our offering. To the extent that we pay distributions from sources other than our cash flow from operations, we will have reduced funds available for investment and the overall return to our stockholders may be reduced.

Our organizational documents permit us to pay distributions from any source, including net proceeds from our public offerings, borrowings, advances from our sponsor or advisor and the deferral of fees and expense reimbursements by our advisor, in its sole discretion. Since our inception, our cash flow from operations has not been sufficient to fund all of our distributions. Of the $32,645,939 in total distributions we paid during the period from our inception through March 31, 2019, including shares issued pursuant to our DRP, $0, or 0%, were paid from cash provided by operating activities and $32,645,939, or 100%, were paid from offering proceeds. Until we make substantial investments, we may continue to fund distributions from the net proceeds from our offering or sources other than cash flow from operations. We have not established a limit on the amount of offering proceeds, or other sources other than cash flow from operations, which we may use to fund distributions.

If we are unable to consistently fund distributions to our stockholders entirely from our cash flow from operations, the value of the shares of our common stock may be reduced, including upon a listing of our common stock, the sale of our assets or any other liquidity event should such event occur. To the extent that we fund distributions from sources other than our cash flow from operations, our funds available for investment will be reduced relative to the funds available for investment if our distributions were funded solely from cash flow from operations, our ability to achieve our investment objectives will be negatively impacted and the overall return to our stockholders may be reduced. In addition, if we make a distribution in excess of our current and accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, which will reduce the stockholder’s tax basis in its shares of common stock. The amount, if any, of each distribution in excess of a stockholder’s tax basis in its shares of common stock will be taxable as gain realized from the sale or exchange of property.

Our bylaws contain provisions that may make it more difficult for a stockholder to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers, agents or employees, if any, and may discourage lawsuits against us and our directors, officers, agents or employees, if any.

Our bylaws provide that, unless we consent in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that Court does not have jurisdiction, the U.S. District Court for the District of Maryland, Baltimore Division, will be the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of our company, (ii) any action asserting a claim of breach of any duty owed by any of our directors or officers or employees to us or to our stockholders, (iii) any action asserting a claim against us or any of our directors or officers or employees arising pursuant to any provision of the Maryland General Corporation Law, or the MGCL, or our charter or bylaws or (iv) any action asserting a claim against us or any of our directors or officers or employees that is governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring or holding any interest in our shares shall be deemed to have notice of and to have consented to these provisions of our bylaws, as they may be amended from time to time. Our board of directors, without stockholder approval, adopted this provision of the bylaws so that we can respond to such litigation more efficiently, reduce the costs associated with our responses to such litigation, particularly litigation that might otherwise be brought in multiple forums, and make it less likely that plaintiffs’ attorneys will be able to employ such litigation to coerce us into otherwise unjustified settlements. This exclusive forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that the stockholder believes is favorable for disputes with us or our directors, officers, agents or employees, if any, and may discourage lawsuits against us and our directors, officers, agents or employees, if any. We believe the risk of a court declining to enforce this provision is remote, as the General Assembly of Maryland has specifically amended the MGCL to authorize the adoption of such provisions. However, if a court were to find this provision of our bylaws inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings notwithstanding that the MGCL expressly provides that the charter or bylaws of a Maryland corporation may require that any internal corporate claim be brought only in courts sitting in one or more specified jurisdictions, we may incur additional costs that we do not currently anticipate associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On January 20, 2015, our Registration Statement on Form S-11 (File No. 333-198305) registering our offering of up to $1,100,000,000 in shares of our common stock was declared effective and we commenced our initial public offering. In our initial public offering we offered up to $1,000,000,000 in shares of any class of our common stock to the public in our primary offering and up to $100,000,000 of shares of any class of our common stock pursuant to our DRP. The initial offering price of our common stock in our initial public offering was $25.00 per share, and thereafter was adjusted based upon our annually determined estimated NAV per share.

On January 18, 2018, we filed a Registration Statement on Form S-11 (Registration No. 333-222610) with the SEC registering $990,000,000 in any combination of our shares to be sold on a "best efforts" basis in our follow-on offering. Effective on July 19, 2018, the SEC declared the registration statement for our follow-on offering effective, we commenced our follow-on offering and we ceased selling shares pursuant to the registration statement for our initial public offering. Each class of our shares of common stock is currently offered (i) to the public in the primary offering at a purchase price of $23.32 per share, equal to the NAV per share of such class as of December 31, 2018, and (ii) to our stockholders pursuant to the DRP at a purchase price of $23.32 per share, equal to the NAV per share of such class as of December 31, 2018.

As of March 31, 2019, we had received and accepted investors' subscriptions for and issued 7,851,842 shares in our initial public offering and our follow-on offering, excluding shares issued in connection with the Mergers and including 340,563 shares pursuant to the DRP, resulting in gross offering proceeds of $184,550,926. As of March 31, 2019, we had received and accepted investors' subscriptions for and issued 6,125,993 shares in the initial public offering, excluding shares issued in connection with our Mergers and including 214,764 shares pursuant to the DRP, resulting in gross offering proceeds of $147,415,625 for the initial public offering. As of March 31, 2019, we had received and accepted investors' subscriptions for and issued 1,725,849 shares in the follow-on offering, including 125,799 shares pursuant to the DRP, resulting in gross offering proceeds of $37,135,301 for the follow-on offering.

As of March 31, 2019, we had incurred selling commissions, dealer manager fees and organization and other offering costs in our initial public offering in the amounts set forth in the table below (in thousands). Our dealer manager reallowed all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers (in thousands).

Type of Expense	Amount	Estimated/ Actual
Selling commissions, stockholder servicing fees and dealer manager fees	$ 11,522	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	6,843	Actual
Total expenses	$ 18,365	

As of March 31, 2019, we had incurred selling commissions, dealer manager fees, stockholder servicing fees and organization and other offering costs in our follow-on offering in the amounts set forth in the table below (in thousands). Our dealer manager reallowed all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers (in thousands).

Type of Expense	Amount	Estimated/ Actual
Selling commissions, stockholder servicing fees and dealer manager fees	$ —	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	1,207	Actual
Total expenses	$ 1,207	

As of March 31, 2019, the net offering proceeds to us from our initial public offering, after deducting the total expenses incurred as described above, were approximately $129,050,330, excluding $5,201,527 in offering proceeds from shares of our common stock issued pursuant to the DRP.

As of March 31, 2019, the net offering proceeds to us from our follow-on offering, after deducting the total expenses incurred as described above, were approximately $35,927,925, excluding $2,917,285 in offering proceeds from shares of our common stock issued pursuant to the DRP.

We intend to use the proceeds from our initial public offering and our follow-on offering to acquire additional hotel properties located in the East Coast, the West Coast and the Sunbelt regions of the United States. To a lesser extent, we may also invest in other hospitality properties located within other markets and regions as well as real estate securities and debt-related investments related to the hospitality sector.

As of March 31, 2019, we used approximately $135,691,009 of the net proceeds from our initial public and follow-on offerings to acquire the Residence Inn Austin, the Springhill Suites Seattle and the Moody I portfolio (pursuant to the Mergers), to reduce the debt on Springhill Suites Seattle, to originate the MN TX II note, and to reduce Term Loan and Short Term Loan debt. As of March 31, 2019, we had paid a cumulative amount of $14,733,484 of acquisition expenses, including $12,978,997 related to the Mergers.

During the three months ended March 31, 2019, we fulfilled redemption requests and redeemed shares of our common stock pursuant to our share redemption program as follows:

	Total Number of Shares Requested to be Redeemed(1)	Average Price Paid per Share	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
January 2019	33,704.04	$ 25.08	(2)
February 2019	—	$ —	(2)
March 2019	81,355.97	$ 22.03	(2)
	115,060.01		

(1) We generally redeem shares on the last business day of the month following the end of each fiscal quarter in which redemption requests were received. The 115,060.01 shares requested to be redeemed were redeemed during the quarter ended March 31, 2019 at an average price of $22.92 per share.

(2) The number of shares that may be redeemed pursuant to the share redemption program during any calendar year is limited to: (1) 5% of the weighted-average number of shares outstanding during the prior calendar year and (2) those that can be funded from the net proceeds we received from the sale of shares under the DRP during the prior calendar year plus such additional funds as may be reserved for that purpose by our board of directors. This volume limitation will not apply to redemptions requested within two years after the death of a stockholder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFTEY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit No.	Description
3.1	Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement (File No. 333-198305) filed January 12, 2015)
3.2	Articles of Amendment to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on June 13, 2017)
3.3	Articles Supplementary to the Articles of Amendment and Restatement of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on June 13, 2017)
3.4	Bylaws of Moody National REIT II, Inc. (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-11 (File No. 333-198305) filed on August 22, 2014)
4.1	Form of Subscription Agreement (included as Appendix B to prospectus, incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (File No. 333-198305))
4.2	Second Amended and Restated Distribution Reinvestment Plan of Moody National REIT II, Inc. (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on June 13, 2017)
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOODY NATIONAL REIT II, INC.

Date: May 15, 2019	By: /s/ Brett C. Moody Brett C. Moody Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)
Date: May 15, 2019	By: /s/ Robert W. Engel Robert W. Engel Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-222610

MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 2 DATED MAY 9, 2019
TO THE PROSPECTUS DATED APRIL 26, 2019

This document supplements, and should be read in conjunction with, our prospectus dated April 26, 2019, as supplemented by Supplement No. 1 dated April 26, 2019, relating to our offering of up to $990,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 2 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 2 is to disclose:

- our acquisition of a hotel property located in Houston, Texas.

Acquisition of a Hotel Property in Houston, Texas

Property Acquisition

On April 29, 2019, or the Closing Date, we assigned to Moody National Kirby-Houston Holding, LLC, a wholly-owned subsidiary of our operating partnership, or Houston Holding, all of our rights to and interests in an Agreement of Purchase and Sale, or the Purchase Agreement, by and between us and RI II MC-HOU, LLC, our affiliate, or Seller, for the acquisition of a hotel property located in Houston, Texas commonly known as the Residence Inn by Marriott Houston Medical Center / NRG Park, or the Medical Center Property.

On the Closing Date, Houston Holding acquired fee simple title to the Medical Center Property from the Seller for an aggregate purchase price, excluding acquisition costs, of $52,000,000, inclusive of (i) Houston Holding's assumption as of the Closing Date of an existing mortgage loan from American National Insurance Company, or the Lender, secured by the Medical Center Property, with an outstanding balance as of the Closing date of $28,180,000, or the Existing Loan, and (ii) financing from the Seller in the amount of $22,900,000, or the Seller Loan. See below for an additional discussion of the Existing Loan and the Seller Loan. In connection with the acquisition of the Medical Center Property, our advisor earned an aggregate acquisition fee of $2,002,000 (inclusive of a $1,222,000 contingent acquisition fee paid to reimburse our advisor for upfront selling commissions and dealer manager fees paid by our advisor) and a financing coordination fee of $290,000.

Description of the Property

The Medical Center Property is a 16-story select-service hotel consisting of 182 guest rooms located in Houston, Texas. The Medical Center Property is located in the Texas Medical Center, the world's largest medical center, and is located adjacent to NRG Park area. The Medical Center Property includes a four and a half story structured parking garage. Property amenities includes an indoor pool, breakfast area, 4,028 square feet of meeting space, business center, fitness center, guest laundry, wireless high-speed internet and a full kitchenette in each guest suite.

The Medical Center Property faces competition from similarly situated properties in and around its submarket. We believe that the Medical Center Property is suitable for its intended purpose and is adequately covered by insurance. The Medical Center Property is newly constructed and we have no plans for significant renovation or improvement of the Medical Center Property.

Leasing and Management of the Property

Houston Holding leases the Medical Center Property to Moody National Kirby-Houston MT, LLC, or the Master Tenant, an indirect, wholly-owned subsidiary of our operating partnership, pursuant to a Hotel Lease Agreement between Houston Holding and the Master Tenant, or the Hotel Lease. The Hotel Lease provides for a ten-year lease term; provided, however, that Houston Holding may terminate the Hotel Lease upon 45 days prior written notice to the Master Tenant in the event that Houston Holding contracts to sell the Medical Center Property to a non-affiliated entity, effective upon the consummation of such a sale of the Medical Center Property. Pursuant to the Hotel Lease, the Master Tenant will pay an annual base rent of $4,400,000 per year for the first five years of the term of the Hotel Lease. The annual base rent paid by the Master Tenant will be adjusted as set forth in the Hotel Lease beginning in year six of the lease term. In addition, the Master Tenant will pay an annual percentage rent, to the extent that such percentage rent is greater than the base rent due for such period, in an amount equal to (1) a percentage of the Medical Center Property's gross revenues for the previous year (as set forth in the Hotel Lease), minus (2) the amount of the annual base rent paid for the previous year. The annual percentage rent will be adjusted as set forth in the Hotel Lease beginning in year six of the lease term.

Moody National Hospitality Management, LLC, our affiliate, or the Property Manager, manages the Medical Center Property pursuant to a Hotel Management Agreement between the Property Manager and the Master Tenant, or the Management Agreement, which Management Agreement was assigned to Master Tenant by Seller on the Closing Date. Pursuant to the Management Agreement, the Master Tenant pays the Property Manager a monthly base management fee in an amount equal to 4.0% of the Medical Center

Property's gross operating revenues (as defined in the Management Agreement) for the previous month. Each month during the term of the Management Agreement and for one month following the termination of the Management Agreement, the Property Manager will also receive a $2,500 fee for providing centralized accounting services, which accounting services fee will be subject to annual increases based upon increases in the consumer price index. In addition, the Property Manager will receive a monthly revenue management services fee of $1,200. The Property Manager will also be eligible to receive additional fees for technical, procurement or other services provided by the Property Manager at the request of the Master Tenant. The Management Agreement has an initial ten-year term, and thereafter will automatically renew for four consecutive five-year terms unless the Property Manager or the Master Tenant provides written notice of termination at least 180 days prior to the end of the then-current term.

Property Financing

Existing Loan

On the Closing Date, pursuant to an Assignment and Assumption Agreement, Houston Holding assumed all of the Seller's rights, duties and obligations under and with respect to the Existing Loan and all loan documents associated therewith, including, without limitation, (i) a Promissory Note, dated September 13, 2017, in the original principal amount of $29,100,000, evidencing the Existing Loan and payable to the Lender, or the Note, (ii) the Construction Loan Agreement, dated September 13, 2017, between the Seller and the Lender, or the Loan Agreement, and (iii) the Deed of Trust, Security Agreement and Financing Statement, dated September 13, 2017, for the benefit of Lender, securing payment of the Note, or the Deed of Trust.

The Existing Loan bears interest at a rate of 5% per annum. Payments of interest only will be due on the Existing Loan on a monthly basis through October 1, 2019, and thereafter equal monthly payments of principal and interest in the amount of $170,115.70 will be due. Upon and during any event of default by Houston Holdings under the Note, the Loan Agreement or any other loan document relating to the Existing Loan, the Existing Loan will bear interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 17%. The entire outstanding principal balance of the Existing Loan and all accrued interest thereon and all other amounts payable under the Note is due and payable in full on October 1, 2024. Houston Holding may not prepay the Existing Loan, in whole or in part, prior to November 1, 2021. Thereafter, upon at least 30 but not more than 90 days prior written notice to the Lender, Houston Holding may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in full (but not in part), provided that such prepayment will be subject to certain additional prepayment fees as set forth in the Note.

The Note provides for customary events of default, including failure by Houston Holding to pay when due and payable any amounts payable under the terms of the Note. Upon any event of default by Houston Holding, Lender may accelerate the maturity date of the Loan and declare the entire unpaid principal balance of the Loan and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

The performance of the obligations of Houston Holding under the Existing Loan is secured by, among other things, a security interest in the Medical Center Property and other collateral granted to the Lender pursuant to the Deed of Trust. Pursuant to payment and completion guaranties in favor of the Lender, Brett C. Moody has agreed to irrevocably and unconditionally guarantee the prompt and unconditional payment to the Lender and its successors and assigns of all obligations and liabilities of Houston Holding for which Houston Holding may be personally liable with respect to the Existing Loan.

Seller Loan

On the Closing Date, our operating partnership issued a promissory note payable to Seller in the original principal amount of $22,550,000, evidencing the Seller Loan, or the Seller Note. The Seller Loan bears interest at a rate per annum equal to the lesser of the maximum rate permitted by applicable law and 3%. Any amounts payable under the Seller Note which are not paid by our operating partnership when due will bear interest at a past due rate equal to the lesser of the maximum rate permitted by applicable law and 18%. On the Closing Date, our operating partnership made a principal payment of $7,824,082, and beginning on May 15, 2019 and ending on October 15, 2019, our operating partnership will make a monthly principal payment of $2,000,000. The entire outstanding principal balance of the Seller Loan, together with all accrued interest thereon and all other amounts payable under the Seller Note, is due and payable in full on December 15, 2019. If our operating partnership fails to make when due any payment under the Seller Note, our operating partnership will pay to Seller on demand a late fee equal to 5% of the amount of such payment. Upon at least five days prior written notice to the Seller, our operating partnership may prepay the outstanding principle balance, plus all accrued interest and other amounts due, in whole or in part, without penalty.

The Seller Note provides for customary events of default, including failure by our operating partnership to pay when due and payable any amounts payable under the terms of the Seller Note. Upon any event of default by our operating partnership, Seller may accelerate the maturity date of the Seller Loan and declare the entire unpaid principal balance of the Seller Loan and all accrued and unpaid interest thereon due and payable in full immediately, and exercise any other rights available to it under law or equity.

MOODY NATIONAL REIT II, INC.
SUPPLEMENT NO. 1 DATED APRIL 26, 2019
TO THE PROSPECTUS DATED APRIL 26, 2019

This document supplements, and should be read in conjunction with, our prospectus dated April 26, 2019 relating to our offering of up to $990,000,000 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 funds from operations and modified funds from operations;
- our net tangible book value;
- information regarding our indebtedness;
- information regarding our distributions;
- information regarding repurchases 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

On July 19, 2018, we commenced this offering of up to $990,000,000 in any combination of our shares of Class A common stock, or Class A shares, Class I common stock, or Class I shares, and Class T common stock, or Class T shares. We are offering up to $895,000,000 in shares of our common stock to the public, which we refer to as the primary offering, and up to $95,000,000 in any combination of shares of our common stock to our stockholders pursuant to our distribution reinvestment plan. As of April 4, 2019, we had received and accepted investors' subscriptions for and issued 1,772,905 shares of our common stock in this offering (consisting of 1,597,944 Class A shares, 45,959 Class I shares and 129,002 class T shares), including 125,799 shares of our common stock issued pursuant to our distribution reinvestment plan, resulting in gross offering proceeds of $38,227,732. As of April 4, 2019, $946,046,698 in shares of our common stock remained to be sold in this offering.

We may continue to offer shares of our common stock in this offering until July 19, 2021 (three years from the date of the commencement of this offering). Under rules promulgated by the SEC, in some circumstances in which we are pursuing the registration of shares of our common stock in an additional follow-on public offering, we could continue this offering until as late as January 15, 2022. In many states, we will need to renew the registration statement or file a new registration statement to continue this offering beyond one year from the date of our prospectus. We reserve the right to terminate this offering at any time.

Estimated Net Asset Value Per Share of Our Common Stock

Background

On March 14, 2019, our board of directors, including all of our independent directors, determined an estimated NAV per share of our Class A Shares, Class I Shares and Class T Shares of $23.32 as of December 31, 2018. 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, 2018. We are providing 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 director's experience with, and knowledge of, our real property and other assets as of December 31, 2018. 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, which we refer to herein as the 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 Institute for Portfolio Alternatives (formerly 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, 2018. A summary of methodologies, assumptions and limitations follows the table (in thousands except per share amounts) (amounts in the table are unaudited).

Investment in hotel properties	$	463,900
Cash, cash equivalents and restricted cash		19,194
Notes receivable		6,750
Other assets		5,818
	$	495,662
Notes payable	$	230,636
Other liabilities		9,880
Special limited partnership interests		1
Noncontrolling interests in Operating Partnership		7,141
Total liabilities, special limited partnership interests and noncontrolling interests in Operating Partnership	$	247,658
Estimated value	$	248,004
Common stock outstanding		10,636
Estimated value per share	$	23.32

As of December 31, 2018, the estimated NAV was allocated on a per share basis as follows:

Investment in hotel properties	$	43.62
Notes payable		(21.68)
Other assets, liabilities, and special limited partnership interests		2.05
Noncontrolling interests in Operating Partnership		(0.67)
Estimated value per share	$	23.32

Investment in Hotel Properties

As of December 31, 2018, we owned 14 hotel properties. The appraiser appraised each 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, the appraiser 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, the appraiser (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, the appraiser 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, the appraiser 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. The appraiser 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 the appraiser deemed appropriate. The following summarizes the overall discount rates and capitalization rates used by the appraiser:

	Range		
	Low	**High**	**Weighted Average**
Capitalization Rate	7.00%	9.00%	7.57%
Discount Rate	9.50%	11.50%	9.87%

While we believe that the discount rates and capitalization rates used by the appraiser 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	$ 23.86	$ 22.80
Discount Rate	$ 24.01	$ 22.61

The appraisals are each addressed to our advisor to assist it in calculating an estimated NAV per share of our Class A 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, 2018, we held one note receivable from a related party. 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, 2018, 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, 2018 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 the 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

Hotel Properties

As of December 31, 2018, we owned fourteen hotel properties located in six states with a total of 1,941 rooms. The chart below sets forth additional information regarding our hotel properties (all $ amounts in thousands).

Property Name	Date Acquired	Location	Ownership Interest	Original Purchase Price[1]	Rooms	Mortgage Debt Outstanding[2]
Residence Inn Austin	October 15, 2015	Austin, Texas	100%	$ 27,500	112	$ 16,554
Springhill Suites Seattle	May 24, 2016	Seattle, Washington	100%	74,100	234	44,884
Homewood Suites Woodlands	September 27, 2017[5]	The Woodlands, Texas	100%	17,356	91	9,066
Hyatt Place Germantown	September 27, 2017[5]	Germantown, Tennessee	100%	16,074	127	7,025
Hyatt Place North Charleston	September 27, 2017[5]	North Charleston, South Carolina	100%	13,806	113	7,158
Hampton Inn Austin	September 27, 2017[5]	Austin, Texas	100%	19,328	123	10,687
Residence Inn Grapevine	September 27, 2017[5]	Grapevine, Texas	100%	25,245	133	12,341
Marriott Courtyard Lyndhurst	September 27, 2017[5]	Lyndhurst, New Jersey	[3]	39,547	227	—
Hilton Garden Inn Austin	September 27, 2017[5]	Austin, Texas	100%	29,288	138	18,401
Hampton Inn Great Valley	September 27, 2017[5]	Frazer, Pennsylvania	100%	15,285	125	7,994
Embassy Suites Nashville	September 27, 2017[5]	Nashville, Tennessee	100%	82,207	208	41,998
Homewood Suites Austin	September 27, 2017[5]	Austin, Texas	100%	18,835	96	10,778
Townplace Suites Fort Worth	September 27, 2017[5]	Fort Worth, Texas	[4]	11,242	95	—
Hampton Inn Houston	September 27, 2017[5]	Houston, Texas	100%	9,958	119	4,480
Totals				$ 399,771	1,941	$ 191,366

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

(2) As of December 31, 2018.

(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 merger of Moody I with and into our company and the merger of Moody I's operating partnership with and into our operating partnership, each effective as of September 27, 2017.

Each of our properties face competition from similarly situated properties in and around their respective submarkets. We believe that the each of our properties are suitable for their intended purposes and is adequately covered by insurance. We have no plans for significant renovation or improvement of any of our properties.

Note Receivable from Related Party

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. We acquired the Related Party Note in connection with the mergers.

The balance of the Related Party Note was $6,750,000 as of December 31, 2018 and 2017. 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. On August 15, 2016, the maturity date of the Related Party Note was extended from August 21, 2016 to August 21, 2017. On September 24, 2017, the maturity date of the Related Party Note was again extended to August 21, 2018. On August 30, 2018, the maturity date of the Related Party Note was again extended to April 30, 2019.

Selected Financial Data

The following selected financial data as of December 31, 2018, 2017, 2016, 2015 and 2014, and for the years ended December31, 2018, 2017, 2016, 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, 2018, which is incorporated by reference herein. Our historical results are not necessarily indicative of results for any future period.

	(in thousands) As of December 31,				
Selected Financial Data	**2018**	**2017**	**2016**	**2015**	**2014**
BALANCE SHEET DATA:					
Total assets	$ 424,902	$ 446,476	$ 135,759	$ 29,479	$ 199
Total liabilities	$ 237,054	$ 274,962	$ 70,930	$ 17,218	$ —
Special limited partnership interests	$ 1	$ 1	$ 1	$ 1	$ 1
Total equity	$ 187,847	$ 171,513	$ 64,828	$ 12,260	$ 198

	Year ended December 31, 2018	Year ended December 31, 2017	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	$ 80,841	$ 36,569	$ 14,859	$ 1,077	$ —
Total expenses	$ 90,353	$ 50,948	$ 17,136	$ 1,598	$ 2
Gain on acquisition of hotel property	$ —	$ —	$ —	$ 2,000	$ —
Income tax expense (benefit)	$ 158	$ 666	$ (4)	$ (6)	$ —
Net income (loss)	$ (9,670)	$ (15,045)	$ (2,273)	$ 1,485	$ (2)
STATEMENT OF CASH FLOWS DATA:					
Net cash provided by (used in) operating activities	$ 4,260	$ (10,609)	$ 921	$ (19)	$ (2)
Net cash provided by (used in) investing activities	$ 7,112	$ (77,713)	$ (88,666)	$ (25,684)	$ —
Net cash provided by (used in) financing activities	$ (13,913)	$ 88,609	$ 105,741	$ 27,085	$ 201
OTHER DATA:					
Dividends declared	$ 16,812	$ 9,562	$ 3,161	$ 217	$ —

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 accounting principles, or GAAP. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, 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 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 will exclude 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 will also include, 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. Although organizational and acquisition expenses 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. Offering expenses do not affect net income. Our calculation of MFFO set forth in the table below reflects the exclusion of acquisition expenses.

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 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. However, 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, 2018 and 2017 and a reconciliation of such non-GAAP financial performance measures to our net loss (in thousands).

	Year ended December 31, 2018	Year ended December 31, 2017
Net Loss	$ (9,670)	$ (15,045)
Adjustments:		
Depreciation and amortization	12,166	4,749
Funds from Operations	2,496	(10,296)
Adjustments:		
Acquisition expenses	—	11,830
Modified Funds from Operations	$ 2,496	$ 1,534

Our Net Tangible Book Value Per Share

As of December 31, 2018, our net tangible book value per share was $17.08. Net tangible book value per share of our common stock is determined by dividing the net tangible book value based on the December 31, 2018 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, 2018. 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, 2018, our indebtedness, as described below, was comprised of notes secured by our hotel properties. All such notes, except as noted below, accrue interest at a fixed rate and, therefore, an increase or decrease in interest rates would have no effect on our interest expense with respect such notes.

As of December 31, 2018, our notes payable consisted of the following (all $ amounts in thousands):

Loan	Principal as of December 31, 2018	Interest Rate at December 31, 2018	Maturity Date
Residence Inn Austin[1]	$ 16,554	4.580%	November 1, 2025
Springhill Suites Seattle[2]	44,884	4.380%	October 1, 2026
Homewood Suites Woodlands[3]	9,066	4.690%	April 11, 2025
Hyatt Place Germantown[3]	7,025	4.300%	May 6, 2023
Hyatt Place North Charleston[3]	7,158	5.193%	August 1, 2023
Hampton Inn Austin[3]	10,687	5.426%	January 6, 2024
Residence Inn Grapevine[3]	12,341	5.250%	April 6, 2024
Hilton Garden Inn Austin[3]	18,401	4.530%	December 11, 2024
Hampton Inn Great Valley[3]	7,994	4.700%	April 11, 2025
Embassy Suites Nashville[3]	41,998	4.2123%	July 11, 2025
Homewood Suites Austin[3]	10,778	4.650%	August 11, 2025
Hampton Inn Houston[3]	4,480	7.250%	April 28, 2023
Term Loan[4]	26,300	30-day LIBOR plus 3.750%	September 27, 2019
Short Term Loan[5]	12,970	30-day LIBOR plus 2.50%	April 24, 2019
Total notes payable	230,636		
Less unamortized debt issuance costs	(3,462)		
Total notes payable, net of unamortized debt issuance costs	$ 227,174		

(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 and continue to be due and payable until the maturity date.

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

(3) Monthly payments of principal and interest are due and payable until the maturity date.

(4) Monthly payments of interest were due and payable until October 2017. Monthly payments of principal and interest were due and payable beginning in November 2017 until the maturity date. On October 24, 2018, the maturity date of the Term Loan was extended to September 27, 2019. The Marriott Courtyard Lyndhurst and Townplace Suites Fort Worth properties are pledged as security for the Term Loan.

(5) Monthly payments of interest only were due until the maturity date. The entire principal balance and all interest thereon will be repaid in full prior to April 24, 2019.

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

As of December 31, 2018, our outstanding indebtedness totaled $230,636,232, 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. As of December 31, 2018, we were in compliance with all debt covenants and current on all loan payments.

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.

The following table summarizes the net distributions per share declared by our board of directors since our inception through December 31, 2018 (in thousands).

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	17	6	23	(5)	—[2]
Fourth Quarter 2015	87	40	127	241	(380)
First Quarter 2016	186	84	270	197	339
Second Quarter 2016	351	158	509	854	(899)
Third Quarter 2016	635	230	865	827	1,040
Fourth Quarter 2016	819	314	1,133	(870)	(1,042)
First Quarter 2017	1,017	410	1,427	(744)	(329)
Second Quarter 2017	1,325	590	1,915	(343)	479
Third Quarter 2017	1,478	627	2,105	(9,824)	(9,366)
Fourth Quarter 2017	2,161	820	2,981	302	(1,080)
First Quarter 2018	3,218	634	3,852	(1,585)	(152)
Second Quarter 2018	3,039	963	4,002	3,644	2,277
Third Quarter 2018	3,241	1,034	4,275	1,994	1,247
Fourth Quarter 2018	3,437	1,087	4,524	207	(876)
Total	$ 21,011	$ 6,997	$ 28,008	$ (5,105)	$ (8,742)

(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.

From July 2, 2015 (the date our board of directors authorized and declared the payment of a distribution) through December 31, 2018, we paid aggregate distributions of $28,007,814, including $21,010,451 of distributions paid in cash and $6,997,363 in shares of our common stock issued pursuant to our distribution reinvestment plan. From inception through December 31, 2018, we had cash used in operating activities of $(5,105,498) and cumulative FFO of $(8,742,489). Of the $28,007,814 in total distributions we have paid during the period from our inception through December 31, 2018, including shares issued pursuant to our distribution reinvestment plan, 0% was funded from cash flow from operations and 100% was funded from offering proceeds.

We intend to accrue distributions quarterly and pay distributions on a quarterly basis. However, we reserve the right to adjust the periods during which distributions accrue and are paid. We cannot provide assurance with respect to the amount of distributions, if any, that we will pay in the future. 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 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. For a discussion of how we calculate FFO, see "Funds from Operations and Modified Funds from Operations" above.

Information Regarding Share Repurchases

During the year ended December 31, 2016, we redeemed 16,893 shares of our common stock pursuant to our share repurchase program.

During the year ended December 31, 2017, we redeemed 36,718 shares of our common stock pursuant to our share repurchase program (consisting of 36,718 Class A shares, 0 Class I shares and 0 Class T shares). On March 14, 2017, in connection with the mergers, we suspended our share repurchase program, effective March 24, 2017. On September 27, 2017, the closing date of the mergers, our board of directors reinstated our share repurchase program.

During the year ended December 31, 2018, we redeemed 110,225 shares of our common stock pursuant to our share repurchase program (consisting of 110,225 Class A shares, 0 Class I shares and 0 Class T shares).

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, 2018, 2017 and 2016.

	Years ended December 31,		
Type of Fee or Reimbursement	**2018**	**2017**	**2016**
Offering Stage:			
Selling commissions[1]	$ —	$ 3,501,347	$ 4,982,034
Dealer manager fees[1]	—	788,759	1,080,374
Organization and offering expense reimbursement[2]	2,108,043	2,109,773	2,160,076
Operational Stage:			
Acquisition fee (base)	—	670,000	1,111,500
Acquisition fee (contingent)	—	—	—
Reimbursement of acquisition expenses to advisor	—	—	—
Financing coordination fee	—	1,720,000	562,500
Asset management fee	4,197,000	1,913,000	725,751
Property management fees	3,185,388	1,409,841	588,396
Property manager incentive fee	—	—	—
Operating expense reimbursement	1,642,000	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, 2018, total offering costs were $19,344,749, comprised of $12,333,647 of offering costs incurred directly by us and $7,011,102 in offering costs incurred by and reimbursable to our advisor. As of December 31, 2018, we had $52,275 due to our advisor for reimbursable offering costs.

As noted in the table above, during 2017 we paid our advisor an acquisition fee of $670,000, which equaled 1.5% of the cash consideration paid to Moody I stockholders in the mergers, 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. We also paid Moody Securities a stockholder servicing fee of up to $2.125 per Class A share issued as stock consideration in the mergers, for an aggregate amount of approximately $7.0 million in stockholder servicing fees, all of which was reallowed 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, 2018 (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.

Kendall Realty Consulting Group, LLC an independent valuation services firm, provided individual appraisal reports with respect to each of our properties as of December 31, 2018 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 Net Asset Value 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. 333-222610), 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 29, 2019;
- 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
Phone: