

**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, 2021

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)

9655 Katy Freeway, Suite 600
Houston, Texas
(Address of Principal Executive Offices)

47-1436295
(I.R.S. Employer
Identification No.)

77024
(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
None

Trading Symbol(s)
None

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input checked="" type="checkbox"/>

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

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

As of May 8, 2021, there were 13,635,429 shares of the registrant's common stock issued and outstanding, consisting of 12,995,645 shares of Class A common stock, 159,092 shares of Class I common stock, and 480,692 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, 2021	December 31, 2020
	<u> </u>	<u> </u>
ASSETS		
Investment in hotel properties, net	\$ 423,990	\$ 427,801
Cash and cash equivalents	4,897	4,642
Restricted cash	4,686	5,860
Investment in marketable securities	—	2,037
Accounts receivable, net of allowance of \$35 as of March 31, 2021 and December 31, 2020	1,014	568
Prepaid expenses and other assets	2,886	3,024
Deferred franchise costs, net of accumulated amortization of \$320 and \$300 at March 31, 2021 and December 31, 2020, respectively	747	767
Total Assets	<u>\$ 438,220</u>	<u>\$ 444,699</u>
LIABILITIES AND EQUITY		
Liabilities:		
Note payable, net of unamortized debt issuance costs of \$2,446 and \$2,614 as of March 31, 2021 and December 31, 2020	\$ 236,783	\$ 237,516
Note payable to related party	8,000	—
Accounts payable and accrued expenses	15,668	17,360
Due to related parties, net	5,406	8,461
Dividends payable	70	70
Total Liabilities	<u>265,927</u>	<u>263,407</u>
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, 13,635 and 13,630 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	136	136
Additional paid-in capital	305,478	305,446
Accumulated deficit	(136,512)	(127,686)
Total stockholders' equity	<u>169,102</u>	<u>177,896</u>
Noncontrolling interests in Operating Partnership	3,190	3,395
Total Equity	<u>172,292</u>	<u>181,291</u>
Total Liabilities and Equity	<u>\$ 438,220</u>	<u>\$ 444,699</u>

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,	
	2021	2020
Revenue		
Room revenue	\$ 8,987	\$ 14,180
Other hotel revenue	683	1,063
Total hotel revenue	9,670	15,243
Interest and dividend income	1	4
Total revenue	9,671	15,247
Expenses		
Hotel operating expenses	8,251	11,200
Property taxes, insurance and other	1,896	1,761
Depreciation and amortization	3,865	3,839
Corporate general and administrative	1,989	1,806
Total expenses	16,001	18,606
Operating loss	(6,330)	(3,359)
Other expenses		
Interest expense and amortization of debt issuance costs	2,934	3,035
Loss on sale of marketable securities	245	37
Unrealized (gain) loss on change in fair value of investment in marketable securities	(397)	3,811
Total other expenses	2,782	6,883
Loss before income taxes	(9,112)	(10,242)
Income tax (credit) expense	(81)	13
Net loss	(9,031)	(10,255)
Loss attributable to noncontrolling interests in Operating Partnership	205	236
Net loss attributable to common stockholders.	\$ (8,826)	\$ (10,019)
Per-share information - basic and diluted:		
Net loss attributable to common stockholders.	\$ (0.65)	\$ (0.75)
Dividends declared	\$ —	\$ 0.29
Weighted average common shares outstanding	13,635	13,427

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
CONSOLIDATED STATEMENT OF EQUITY
Three months ended March 31, 2021
(in thousands)
(unaudited)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Noncontrolling Interests in Operating Partnership</u>		<u>Total Equity</u>
	<u>Number of Shares</u>	<u>Par Value</u>	<u>Number of Shares</u>	<u>Par Value</u>			<u>Number of Units</u>	<u>Value</u>	
Balance at December 31, 2020. . .	—	\$ —	13,630	\$ 136	\$ 305,446	\$ (127,686)	316	\$ 3,395	\$ 181,291
Stock-based compensation	—	—	5	—	32	—	—	—	32
Net loss	—	—	—	—	—	(8,826)	—	(205)	(9,031)
Balance at March 31, 2021.	—	\$ —	13,635	\$ 136	\$ 305,478	\$ (136,512)	316	\$ 3,190	\$ 172,292

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,	
	2021	2020
Cash flows from operating activities		
Net loss	\$ (9,031)	\$ (10,255)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,865	3,839
Amortization of debt issuance costs	168	169
Loss on sale of securities	245	37
Unrealized (gain) loss on change in fair value of investment in marketable securities	(397)	3,811
Stock-based compensation	32	64
Changes in operating assets and liabilities		
Accounts receivable	(446)	115
Prepaid expenses and other assets	137	(757)
Accounts payable and accrued expenses	(1,694)	(1,873)
Due from related parties	(3,055)	1,091
Net cash used in operating activities	(10,176)	(3,759)
Cash flows from investing activities		
Proceeds of sales of marketable securities	2,188	—
Investment in marketable securities	—	(958)
Improvements and additions to hotel properties	(30)	(1,507)
Net cash provided by (used in) investing activities	2,158	(2,465)
Cash flows from financing activities		
Proceeds from issuance of common stock	—	10,259
Redemptions of common stock	—	(2,748)
Dividends paid	—	(4,404)
Operating partnership distributions paid	—	(138)
Repayment of notes payable	(901)	(1,093)
Proceeds of note payable to related party	8,000	—
Repayment of note payable to related party	—	(2,708)
Net cash provided by (used in) financing activities	7,099	(832)
Net change in cash and cash equivalents and restricted cash	(919)	(7,056)
Cash and cash equivalents and restricted cash at beginning of period	10,502	15,948
Cash and cash equivalents and restricted cash at end of period	\$ 9,583	\$ 8,892
Supplemental Disclosure of Cash Flow Activity		
Interest paid	\$ 3,166	\$ 2,872
Supplemental Disclosure of Non-Cash Financing Activity		
Increase in accrued offering costs due to related party	\$ —	\$ 314
Issuance of common stock from dividend reinvestment plan	\$ —	\$ 1,393
Dividends payable	\$ 70	\$ 70

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT II, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021
(unaudited)

1. Organization

As discussed in Note 5, “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, 2021, the Company owned interests in fifteen hotel properties located in six states comprising a total of 2,123 rooms. 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 Company 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”). On January 16, 2018, the Advisor (as defined below) 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 6, “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 registration statement provided for the Company to 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 the Company’s board of directors (“Board”).

The Company’s follow-on public offering was terminated (including pursuant to the DRP) effective as of March 25, 2020 due to the impact that the COVID-19 pandemic is having and is expected to continue to have in the Company’s hotel properties. The Company accepted investors’ subscriptions for and issued an aggregate of 10.2 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 567,000 shares pursuant to the DRP, resulting in gross offering proceeds of \$234.6 million. The Company accepted investors’ subscriptions for and issued 4.1 million shares in the follow-on offering, including 352,000 shares pursuant to the DRP, resulting in gross offering proceeds of \$87.2 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 invested \$1,000 in the OP in exchange for a separate class of limited partnership interests (the “Special Limited Partnership Interests”). As the Company accepted subscriptions for shares of common stock, it transferred 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 pays all of the Company’s administrative costs and expenses, and such expenses are treated as expenses of the OP.

COVID-19 Pandemic

The global COVID-19 pandemic has had, and is expected to continue to have, a significant adverse effect on the Company's financial condition and operating results. Since its discovery in December 2019, COVID-19 has spread globally, including to every state in the United States. The spread of COVID-19 has been declared a pandemic by the World Health Organization and in the United States the Health and Human Services Secretary has declared a public health emergency with respect to COVID-19. Many governments, included at the federal, state and local level in the United States, have instituted a wide variety of measures intended to control the spread of COVID-19, including states of emergency, mandatory quarantines, "stay at home" orders, business closures, border closings, and restrictions on travel and large gatherings. These measures may be in place for a considerable period of time, and additional, more restrictive measures may be implemented in the future. Although vaccines for COVID-19 are being made available to the general public in the United States and around the world, it will take time for the distribution of vaccines to materially affect the spread of the virus and the outbreak could have a continued adverse impact on economic and market conditions despite the distribution of vaccines. The COVID-19 pandemic has adversely impacted numerous industries, including transportation and hospitality, and triggered a material global economic slowdown. The National Bureau of Economic Research declared that the United States has been in a recession since February 2020.

COVID-19 has dramatically reduced travel, which has had an unprecedented adverse impact on the hotel industry. As a result, the COVID-19 pandemic has had, and is expected to continue to have, a significant adverse effect on the operating results of the Company's hotel properties, which depend primarily upon revenues driven by business and leisure travel, and on the Company's business, financial performance and operating results. Since March 2020, the Company has experienced a significant decline in bookings, occupancy and revenues across the Company's hotel properties, which the Company expects to continue for an indefinite period of time. The Company's hotel properties have operated at a property net operating loss since the outbreak of COVID-19, which has had an adverse impact on the Company's results of operations and cash flow from operations. In addition, the Company has reduced certain services and amenities at the Company's hotel properties. Although all of the Company's hotel properties are currently open and operational, the Company may be required, or elect, to temporarily suspend operations at one or more of the Company's hotel properties in the future depending on the length and severity of the COVID-19 pandemic and its related effects. If operations at any of the Company's hotel properties are suspended, the Company cannot give any assurance as to when operations at such hotel properties will resume at a full or reduced level.

Each of the Company's hotel properties is subject to a mortgage loan secured by the Company's ownership interest in the property. If the Company is unable to service the mortgage loan secured by a hotel property due to decreased revenues generated by such property, the lender with respect to such mortgage loan may initiate foreclosure procedures with respect to the property or initiate other available remedies. As of the date of this Quarterly Report, the Company is not current with respect to the payments due under the mortgage loans secured by the Company's hotel properties and are engaged in discussions regarding modification of the terms of such mortgage loans with the lenders. As discussed in Note 4, "Debt," certain of the Company's lenders have already agreed to limited loan modifications, including temporary deferrals of interest and principal payments. As of the date of this Quarterly Report, no lenders have accelerated the maturity of any of the loans secured by the Company's properties or initiated foreclosure procedures with respect to any of the Company's properties.

In accordance with local government recommendations and guidance, many of the employees of the Advisor have been working remotely since March 2020. Although the Advisor has implemented protocols for remote work and is leveraging technology to ensure that its employees remain connected and productive, there can be no guarantee that such work conditions will not have an adverse impact on the ability of the Advisor to effectively perform its duties.

In response to the COVID-19 pandemic, the Company terminated its public offering of common stock (including pursuant to the DRP), effective as of March 2020. The Company is not currently raising capital through the sale of its securities and the Company does not intend to begin to do so in the near term. The Company has also indefinitely suspended the payment of distributions to stockholders effective as of March 2020 and the operation of the Company's share repurchase program effective as of April 2020. The Board and the Company's management continue to evaluate the Company's financial condition and the overall economic environment to determine if and when the Company will seek to resume raising capital, resume the payment of distributions and reinstate the Company's share repurchase program. Specifically, the Board, in consultation with management, will continue to monitor the Company's operations and intends to resume distributions at a time and level determined to be prudent in relation to the Company's other cash requirements or in order to maintain the Company's REIT status for federal income tax purposes. However, it is impossible to predict if or when the Company will be able to resume the payment of distributions or return to normal operations.

The COVID-19 pandemic is a continually evolving situation that presents material uncertainty and risk. The extent and duration of the impacts of COVID-19 on the Company's business, financial condition, results of operations and cash flows is dependent on future developments that are highly uncertain and cannot be accurately predicted at this time, including without limitation the scope, severity and duration of the pandemic, the extent and effectiveness of the actions taken to contain the pandemic or mitigate its impact, the speed of the development and distribution of vaccines for COVID-19 and the efficacy and availability of such vaccines, the extent to which the general population is willing to be vaccinated, the effectiveness of currently available vaccines against emerging variants of COVID-19, the potential for hotel closures that may be mandated or advisable, whether based on

increased COVID-19 cases, new variants or other factors, the reduction or reversal of previously implemented containment measures in certain states and cities, and the direct and indirect economic effects of the pandemic. As a result, the Company cannot provide an estimate of the overall impact of COVID-19 on the Company's business, financial condition, results of operations and cash flows or when, if at all, the Company will be able to resume pre-COVID-19 levels of operations.

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 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, 2021, total offering costs for the initial public offering and the follow-on offering were \$21.1 million, comprised of \$12.3 million of offering costs incurred directly by the Company and \$8.8 million in offering costs incurred by and reimbursable to the Advisor. Total offering costs for the initial public offering were \$18.4 million, comprised of \$12.3 million of offering costs incurred directly by the Company and \$6.1 million in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2021, total offering costs for the follow-on offering were \$2.7 million, comprised of \$0 of offering costs incurred directly by the Company and \$2.7 million in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2021, the Company had \$0 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, 2021.

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 2015 through 2019 remaining subject to examination by various federal and state tax jurisdictions. For more information, see Note 10, "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 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 notes payable, see Note 4, "Debt."

Concentration of Risk

As of March 31, 2021, 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 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 a component of 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, 2021 and 2020.

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 years 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 \$0 and \$2.0 million at March 31, 2021 and December 31, 2020, respectively, consisted 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. All of the Company's investment in marketable securities was sold during the three months ended March 31, 2021. For the three months ended March 31, 2021 and 2020, unrealized gain (loss) change in fair value of investment in marketable securities was \$397,000 and \$(3.8) million, respectively. For the three months ended March 31, 2021 and 2020, realized loss on sale of marketable securities was \$245,000 and \$37,000, respectively.

Dividend income is recognized when earned. For the three months ended March 31, 2021 and 2020, dividend income of \$1,000 and \$4,000, 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.

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 \$320,000 and \$300,000 as of March 31, 2021 and December 31, 2020, respectively.

Expected future amortization of deferred franchise costs as of March 31, 2021 is as follows (in thousands):

<u>Years Ending December 31,</u>	
2021	\$ 62
2022	82
2023	77
2024	77
2025	77
Thereafter	372
Total	<u>\$ 747</u>

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 \$4.9 million and \$4.7 million as of March 31, 2021 and December 31, 2020, respectively. Expected future amortization of debt issuance costs as of March 31, 2021 is as follows (in thousands):

<u>Years Ending December 31,</u>	
2021	\$ 509
2022	677
2023	632
2024	440
2025	152
Thereafter	36
Total	<u>\$ 2,446</u>

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 3,750 and 5,000 shares as of March 31, 2021 and December 31, 2020, 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.

3. Investment in Hotel Properties

The following table sets forth summary information regarding the Company’s investment in hotel properties as of March 31, 2021 (all \$ amounts in thousands):

<u>Property Name</u>	<u>Date Acquired</u>	<u>Location</u>	<u>Ownership Interest</u>	<u>Original Purchase Price⁽¹⁾</u>	<u>Rooms</u>	<u>Mortgage Debt Outstanding⁽²⁾</u>
Residence Inn Austin	October 15, 2015	Austin, Texas	100%	\$ 27,500	112	\$ 16,169
Springhill Suites Seattle	May 24, 2016	Seattle, Washington	100%	74,100	234	43,717
Homewood Suites Woodlands	September 27, 2017 ⁽⁵⁾	The Woodlands, Texas	100%	17,356	91	8,717
Hyatt Place Germantown	September 27, 2017 ⁽⁵⁾	Germantown, Tennessee	100%	16,074	127	6,755
Hyatt Place North Charleston	September 27, 2017 ⁽⁵⁾	North Charleston, South Carolina	100%	13,806	113	6,845
Hampton Inn Austin	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	19,328	123	10,358
Residence Inn Grapevine	September 27, 2017 ⁽⁵⁾	Grapevine, Texas	100%	25,245	133	12,016
Marriott Courtyard Lyndhurst	September 27, 2017 ⁽⁵⁾	Lyndhurst, New Jersey	⁽³⁾	39,547	227	18,729
Hilton Garden Inn Austin	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	29,288	138	17,997
Hampton Inn Great Valley	September 27, 2017 ⁽⁵⁾	Frazer, Pennsylvania	100%	15,285	125	7,804
Embassy Suites Nashville	September 27, 2017 ⁽⁵⁾	Nashville, Tennessee	100%	82,207	208	40,502
Homewood Suites Austin	September 27, 2017 ⁽⁵⁾	Austin, Texas	100%	18,835	96	10,541
Townplace Suites Fort Worth	September 27, 2017 ⁽⁵⁾	Fort Worth, Texas	⁽⁴⁾	11,242	95	5,882
Hampton Inn Houston	September 27, 2017 ⁽⁵⁾	Houston, Texas	100%	9,958	119	4,343
Residence Inn Houston Medical Center	April 29, 2019 ⁽⁶⁾	Houston, Texas	100%	52,000	182	28,854
Totals				<u>\$ 451,771</u>	<u>2,123</u>	<u>\$ 239,229</u>

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

(2) As of March 31, 2021.

(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. See Note 4, “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. See Note 4, “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, 2021 and December 31, 2020 (all amounts in thousands):

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
Land	\$ 76,936	\$ 76,936
Buildings and improvements	338,729	338,729
Furniture, fixtures and equipment	60,189	60,155
Total cost	475,854	475,820
Accumulated depreciation	(51,864)	(48,019)
Investment in hotel properties, net	<u>\$ 423,990</u>	<u>\$ 427,801</u>

4. Debt

The Company's aggregate borrowings are reviewed by the Board 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, 2021, 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, 2021 and December 31, 2020, the Company's mortgage notes payable secured by the respective assets, consisted of the following (\$ amounts in thousands):

<u>Loan</u>	<u>Principal as of March 31, 2021</u>	<u>Principal as of December 31, 2020</u>	<u>Interest Rate at March 31, 2021</u>	<u>Maturity Date</u>	<u>Loan Modifications</u>
Residence Inn Austin ⁽¹⁾	\$ 16,169	\$ 16,169	4.580%	November 1, 2025	
Springhill Suites Seattle ⁽¹⁾	43,717	43,856	4.380%	October 1, 2026	Three months deferral of interest and principal payments from June to August, 2020. Four months interest only payments from September to December, 2020.
Homewood Suites Woodlands ⁽¹⁾	8,717	8,759	4.690%	April 11, 2025	
Hyatt Place Germantown ⁽¹⁾	6,755	6,755	4.300%	May 6, 2023	
Hyatt Place North Charleston ⁽¹⁾	6,845	6,873	5.193%	August 1, 2023	Payment of \$100,000 cash deposit and may make interest and principal payments from restricted cash for six months from April to September, 2020.
Hampton Inn Austin ⁽¹⁾	10,358	10,359	5.426%	January 6, 2024	Four-month deferral of principal and interest payments for August to November, 2020.
Residence Inn Grapevine ⁽¹⁾	12,016	12,016	5.250%	April 6, 2024	
Marriott Courtyard Lyndhurst ⁽¹⁾	18,729	18,833	4.700%	September 27, 2024	Six months payment of interest only from April to September, 2020.
Hilton Garden Inn Austin ⁽¹⁾	17,997	17,997	4.530%	December 11, 2024	
Hampton Inn Great Valley ⁽¹⁾	7,804	7,804	4.700%	April 11, 2025	
Embassy Suites Nashville ⁽¹⁾	40,502	41,057	4.2123%	July 11, 2025	April 2020 payment of principal and interest deferred. August 2020 to December 2020 interest only. Special servicer fee of \$205,285 to be paid on or before April 30, 2021.
Homewood Suites Austin ⁽¹⁾	10,541	10,541	4.650%	August 11, 2025	

<u>Loan</u>	<u>Principal as of March 31, 2021</u>	<u>Principal as of December 31, 2020</u>	<u>Interest Rate at March 31, 2021</u>	<u>Maturity Date</u>	<u>Loan Modifications</u>
Townplace Suites Fort Worth ⁽¹⁾ . . .	\$ 5,882	\$ 5,915	4.700%	September 27, 2024	April 2020 payment was interest only. Six-month deferral of principal from April to September 2020. Two months deferral of interest payments for May and June, 2020. Three months interest only payments from July to September, 2020.
Hampton Inn Houston ⁽¹⁾	4,343	4,342	5.250%	April 28, 2023	Seven-month deferral of principal and interest payments for payments due March 28, 2020 through September 28, 2020. Six months interest only for payments due October 28, 2020 through March 28, 2021.
Residence Inn Houston Medical Center ⁽²⁾	28,854	28,854	5.000 %	October 1, 2024	Deferral of principal and interest payments for six months from April to September, 2020. Interest only payments for an additional twelve months from October 2020 to September 2021.
Total notes payable	<u>239,229</u>	<u>240,130</u>			
Less unamortized debt issuance costs	<u>(2,446)</u>	<u>(2,614)</u>			
Total notes payable, net of unamortized debt issuance costs	<u>\$ 236,783</u>	<u>\$ 237,516</u>			

- (1) Monthly payments of principal and interest are due and payable until the maturity date.
(2) Monthly payments of interest were due and payable until October 2019. Monthly payments of principal and interest are due and payable beginning in November 2019 until the maturity date.

Hotel properties secure their respective loans.

Scheduled maturities of the Company’s notes payable as of March 31, 2021 are as follows (all amounts in thousands):

<u>Years ending December 31,</u>	
2021	\$ 3,519
2022	5,009
2023	21,629
2024	91,251
2025	78,083
Thereafter	<u>39,738</u>
Total	<u>\$ 239,229</u>

Note Payable to Related Party

On March 30, 2021, Moody National Capital, LLC (“Moody Capital”), an affiliate of the Company, loaned the Company \$8 million pursuant to a promissory note (the “Related Party Note”). Pursuant to the terms of the Related Party Note, the Company may borrow up to an additional \$2.0 million from Moody Capital, for a maximum aggregate loan amount of \$10 million. All amounts borrowed under the Related Party Note plus all accrued interest thereon, will be due and payable in full on March 29, 2024, provided

that the Company may extend such maturity date for up to two years at the Company’s discretion. The principal amount of the loans under the Related Party Note will bear interest at a rate per annum equal LIBOR plus 4.75%; provided, however, that such interest rate will be increased to a rate per annum equal to LIBOR plus 6.75% if the Related Party Note is subordinated to another lender. Interest will be paid as permitted by available cash flow of the Company, after the payment of expenses and amounts due to any senior lender, if applicable, and will be compounded semiannually. The Company expects to enter into a mutually agreeable subordination agreement with any such senior lender. The Company may prepay the amounts due under the Related Party Note without any prepayment penalty.

The estimated fair value of the Company’s notes payable as of March 31, 2021 and December 31, 2020, was \$239 million and \$240 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.

5. Equity

Capitalization

Under its Charter, the Company has the authority to issue one billion shares of common stock and 100 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 March 31, 2021, there were a total of 13.6 million shares of the Company’s common stock issued and outstanding, including 10.2 million shares, net of redemptions, issued in the Company’s public offerings, 3.3 million shares, net of redemptions, issued in connection with the Mergers, the 8,000 shares sold to Sponsor and 60,000 shares of restricted stock issued to the Company’s directors, as discussed in Note 8, “Incentive Award Plan,” as follows (in thousands):

<u>Class</u>	<u>Shares Outstanding as of March 31, 2021</u>
Class A Shares	12,995
Class T Shares	481
Class I Shares	159
Total	<u>13,635</u>

The Board 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 first paid distributions on September 15, 2015. On March 24, 2020, the Board unanimously approved the suspension of (i) the payment of distributions to the Company’s stockholders, effective immediately, and (ii) the operation of the DRP, effective as of April 6, 2020, due to the impact that the COVID-19 pandemic is having and is expected to continue to have in the Company’s hotel properties. The payment of distributions and the operation of the DRP will remain suspended until such time as the Board approves their resumption.

The following table summarizes distributions paid in cash and pursuant to the DRP for the three months ended March 31, 2021 and 2020 (all amounts in in thousands):

<u>Period</u>	<u>Cash Distribution</u>	<u>Distribution Paid Pursuant to DRP⁽¹⁾</u>	<u>Total Amount of Distribution</u>
First Quarter 2021	\$ —	\$ —	\$ —
First Quarter 2020	\$ 4,404	\$ 1,393	\$ 5,797

(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, 2021 and December 31, 2020 was \$3.2 million and \$3.4 million, 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 \$205,000 and \$236,000 for the three months ended March 31, 2021 and 2020, respectively.

6. Related Party Arrangements

Pursuant to the Advisory Agreement, the Advisor and certain affiliates of Advisor receive fees and compensation in connection with 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 8, "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 March 31, 2021, Advisor had paid Moody Securities \$9.7 million in selling commissions, trailing stockholder servicing fees, and dealer manager fees related to the Company's public offering, of which \$8.5 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 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, 2021, total offering costs for the initial public offering and the follow-on offering were \$21.1 million, comprised of \$12.3 million of offering costs incurred directly by the Company and \$8.8 million in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2021, total offering costs for the initial public offering were \$18.4 million, comprised of \$12.3 million of offering costs incurred directly by the Company and \$6.1 million in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2021, total offering costs for the follow-on offering were \$2.7 million, comprised of \$0 of offering costs incurred directly by the Company and \$2.7 million in offering costs incurred by and reimbursable to the Advisor. As of March 31, 2021, the Company had \$0 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, selling 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, selling 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, 2021 and 2020.

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, 2021 and 2020.

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, 2021 and 2020.

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, 2021 and 2020, the Company incurred property management fees to Property Manager of \$861,000 and \$610,000, respectively, and accounting fees of \$112,000 and \$112,000, 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, 2021, 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, 2021 and 2020, the Company incurred asset management fees of \$1.2 million 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 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, 2021, 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, 2021, total operating expenses of the Company were \$6.7 million, which included \$5.1 million in operating expenses

incurred directly by the Company and \$1.6 million incurred by the Advisor on behalf of the Company. Of the \$6.7 million in total operating expenses incurred during the four fiscal quarters ended March 31, 2021, \$0 exceeded the 2%/25% Limitation. The Company reimbursed the Advisor \$1.6 million during the four fiscal quarters ended March 31, 2021. As of March 31, 2021, the Company had \$382,000 due to the Advisor for operating expense reimbursement.

7. 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 Board will receive a grant of 5,000 shares of restricted stock upon his or her election to the Board. 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 Board, 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, 2021, there were 1,940,000 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 \$32,000 and \$64,000 for the three months ended March 31, 2021 and 2020, respectively. As of March 31, 2021, there were 3,750 non-vested shares of restricted common stock granted pursuant to the Independent Directors Compensation Plan. The remaining unrecognized compensation expense associated with the 3,750 non-vested shares of \$66,000 will be recognized during the second and third quarters of 2021.

The following is a summary of activity under the Independent Directors Compensation Plan for the three months ended March 31, 2021 and year ended December 31, 2020:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance of non-vested shares as of December 31, 2019	7,500	\$ 23.32
Shares granted on November 12, 2020	5,000	\$ 23.50
Shares vested	<u>(7,500)</u>	<u>\$ 23.22</u>
Balance of non-vested shares as of December 31, 2020	5,000	\$ 23.50
Shares vested	<u>(1,250)</u>	<u>\$ 23.50</u>
Balance of non-vested shares as of March 31, 2021	<u><u>3,750</u></u>	<u><u>\$ 23.50</u></u>

8. 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.

9. Commitments and Contingencies

Restricted Cash

Under certain management and debt agreements existing at March 31, 2021, 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, 2021 and December 31, 2020 are as follows (all amounts in in thousands):

	<u>March 31,</u> <u>2021</u>	<u>December 31,</u> <u>2020</u>
Real estate taxes	\$ 67	\$ 2,235
Insurance	—	148
Hotel furniture and fixtures	2,997	1,762
Debt service	1,394	1,557
Property improvement plan	228	158
Total restricted cash	<u>\$ 4,686</u>	<u>\$ 5,860</u>

Franchise Agreements

As March 31, 2021, 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 \$856,000 and \$1.3 million for the three months ended March 31, 2021 and 2020, respectively, which amounts are included in hotel operating expenses in the accompanying consolidated statements of operations.

10. 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, 2021, the Company had operating loss carry-forwards of \$6.0 million.

The Company had deferred tax assets of \$2.3 million as of March 31, 2021 and December 31, 2020, net of a valuation allowance of \$11.5 million and \$10.0 million as of March 31, 2021 and December 31, 2020, 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, 2021, the TRS had a net operating loss carry-forward of \$26.7 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 for the three months ended March 31, 2021 and 2020 consisted of the following (in thousands):

	Three months ended March 31,	
	<u>2021</u>	<u>2020</u>
Current (benefit) expense	\$ (81)	\$ 13
Deferred benefit	(1,582)	(1,097)
Valuation provision for deferred benefit	1,582	1,097
Total (benefit) expense	<u>\$ (81)</u>	<u>\$ 13</u>
Federal	\$ (1,582)	\$ (1,097)
Valuation provision for federal taxes	1,582	1,097
State	(81)	13
Total tax expense (benefit)	<u>\$ (81)</u>	<u>\$ 13</u>

On March 31, 2021, 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.

11. Subsequent Events

The COVID-19 pandemic has had, and is expected to continue to have, a significant adverse effect on the operating results of the Company's hotel properties and overall financial condition. See Note 1, "Organization."

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, or the Exchange Act. 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.

The most significant factor that could cause actual outcomes to differ materially from those expressed or implied in our forward-looking statements continues to be the adverse effect of the pandemic of a novel strain of coronavirus which causes the disease known as COVID-19 ("COVID-19"), including new variants thereof, on our business, financial performance and condition, operating results and cash flows, the real estate market and the hospitality industry specifically, and the global economy and financial markets generally. The significance, extent and duration of the continued impacts caused by the COVID-19 pandemic on our company will depend on future developments, which are highly uncertain and cannot be predicted with confidence at this time, including without limitation the scope, severity and duration of the pandemic, the extent and effectiveness of the actions taken to contain the pandemic or mitigate its impact, the speed of the development and distribution of vaccines for COVID-19 and variants thereof and the efficacy and availability of such vaccines, the willingness of the general population to be vaccinated, the duration of associated immunity and efficacy of the currently available vaccines against emerging variants of COVID-19, the potential for hotel closures that may be mandated or advisable, whether based on increased COVID-19 cases, new variants or other factors, the reduction or reversal of containment measures in certain states and cities, and the direct and indirect economic effects of the pandemic.

In addition to COVID-19, other factors that could have a material adverse effect on our operations and prospects include, but are not limited to:

- whether we will be able to resume raising capital pursuant to public or private offerings of our securities;
- our ability to obtain financing on acceptable terms, satisfy our existing debt service obligations and negotiate modifications to the terms of our existing financing arrangements to the extent necessary;
- our ability to identify and acquire real estate and real estate-related assets on 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;
- 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 real estate investment trusts;

- 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 select-service hospitality properties 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 Moody National Operating Partnership II, LP, or 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 in our operating partnership, and Moody LPOP II invested \$1,000 in our operating partnership in exchange for special limited partnership interests in our operating partnership.

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 million in shares offered to our stockholders pursuant to our distribution reinvestment plan, or the DRP. On June 26, 2017, we 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.” On July 19, 2018, we commenced our follow-on public offering of up to \$990 million in any combination of the three classes of our shares, consisting of up to \$895 million in shares of our common stock offered to the public and up to \$95 million in shares of our common stock offered to our stockholders pursuant to the DRP.

Our follow-on public offering was terminated (including pursuant to the DRP) effective as of March 25, 2020. We accepted investors’ subscriptions for and issued an aggregate of 10.2 million shares in our initial public offering and our follow-on public offering, excluding shares issued in connection with the Mergers (as defined below) and including 567,000 shares pursuant to the DRP, resulting in aggregate gross offering proceeds of \$234.6 million. We accepted investors’ subscriptions for and issued 4.1 million shares in the follow-on offering, including 352,000 shares pursuant to the DRP, resulting in gross offering proceeds of \$87.2 million for the follow-on public offering.

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 public offering; *provided, however*, that our advisor intends to recoup the selling commissions, dealer manager fees and stockholder servicing fees that it funded through receipt of an increased acquisition fee (as discussed in Note 6, “Related Party Agreements-Acquisition Fees,” in the accompanying consolidated financial statements).

Moody Securities, LLC, an affiliate of our advisor, which we refer to as the “dealer manager” or “Moody Securities,” is our dealer manager and was responsible for the distribution of our common stock in our public offerings.

As of March 31, 2021, our portfolio consisted of ownership interests in fifteen hotel properties located in six states, comprising a total of 2,123 rooms.

Our principle executive offices are located at 9655 Katy Freeway, Houston, Texas 77024, and our main telephone number is (713) 977-7500.

COVID-19 Pandemic

The global COVID-19 pandemic has had, and is expected to continue to have, a significant adverse effect on our financial condition and operating results.

Since its discovery in December 2019, COVID-19 has spread globally, including to every state in the United States. The spread of COVID-19 has been declared a pandemic by the World Health Organization and in the United States the Health and Human Services Secretary has declared a public health emergency with respect to COVID-19. Many governments, including at the federal, state and local level in the United States, have instituted a wide variety of unprecedented measures intended to control the spread of COVID-19, including states of emergency, mandatory quarantines, “stay at home” orders, business closures, border closings, and restrictions on travel and large gatherings. These measures may be in place for a considerable period of time, and additional, more restrictive measures may be implemented in the future. Although vaccines for COVID-19 are being made available to the general public in the United States and around the world, it will take time for the distribution of vaccines to materially affect the spread of the virus and the outbreak could have a continued adverse impact on economic and market conditions despite the distribution of vaccines. The COVID-19 pandemic has adversely impacted numerous industries, including transportation and hospitality, and triggered a global economic slowdown. The National Bureau of Economic Research declared that the United States has been in a recession since February 2020.

COVID-19 has dramatically reduced travel, which has had an unprecedented adverse impact on the hotel industry. As a result, the COVID-19 pandemic has had, and is expected to continue to have, a significant adverse effect on the operating results of our hotel properties, which depend primarily upon revenues driven by business and leisure travel, and on our business, financial performance and operating results. Since March 2020, we have experienced a significant decline in bookings, occupancy and revenues across our hotel properties, which we expect to continue for an indefinite period of time. Our hotel properties have operated at a property net operating loss since the outbreak of COVID-19, which has had an adverse impact on our results of operations and cash flow from operations. In addition, we have reduced certain services and amenities at our hotel properties. Although all of our hotel properties are currently open and operational, we may be required, or elect, to temporarily suspend operations at one or more of our hotel properties in the future depending on the length and severity of the COVID-19 pandemic and its related effects. If operations at any of our hotel properties are suspended, we cannot give any assurance as to when operations at such hotel properties will resume at a full or reduced level.

Each of our hotel properties is subject to a mortgage loan secured by our ownership interest in the property. If we are unable to service the mortgage loan secured by a hotel property due to decreased revenues generated by such property, the lender with respect to such mortgage loan may initiate foreclosure procedures with respect to the property or initiate other available remedies. As of the date of this Quarterly Report, we are not current with respect to the payments due under the mortgage loans secured by our hotel properties and are engaged in discussions regarding modification of the terms of such mortgage loans with the lenders. As discussed in Note 4, “Debt,” to the consolidated financial statements included in this Quarterly Report, certain of our lenders have agreed to limited loan modifications, including temporary deferrals of interest and principal payments. As of the date of this Quarterly Report, no lenders have accelerated the maturity of any of the loans secured by our properties or initiated foreclosure procedures with respect to any of our properties.

In accordance with local government recommendations and guidance, many of the employees of our advisor have been working remotely since March 2020. Although our advisor has implemented protocols for remote work and is leveraging technology to ensure that its employees remain connected and productive, there can be no guarantee that such work conditions will not have an adverse impact on the ability of our advisor to effectively perform its duties.

In response to the COVID-19 pandemic, we terminated our public offering of common stock (including pursuant to the DRP), effective as of March 2020. We are not currently raising capital through the sale of our securities and we do not intend to begin to do so in the near term. We also indefinitely suspended the payment of distributions to our stockholders effective as of March 2020 and the operation of our share repurchase program effective as of April 2020. Our board of directors and our management continue to evaluate our financial condition and the overall economic environment to determine if and when we will seek to resume raising capital, resume the payment of distributions and reinstate our share repurchase program. Specifically, our board of directors, in consultation with management, will continue to monitor our operations and intends to resume distributions at a time and level determined to be prudent in relation to our other cash requirements or in order to maintain our REIT status for federal income tax purposes. However, it is impossible to predict if or when we will be able to resume the payment of distributions or return to normal operations.

The COVID-19 pandemic is a continually evolving situation that presents material uncertainty and risk. The extent and duration of the impacts of COVID-19 on our business, financial condition, results of operations and cash flows is dependent on future developments that are highly uncertain and cannot be accurately predicted at this time, including without limitation the scope, severity and duration of the pandemic, the extent and effectiveness of the actions taken to contain the pandemic or mitigate its impact, the speed of the development and distribution of vaccines for COVID-19 and the efficacy and availability of such vaccines, the extent to which the general population is willing to be vaccinated, the effectiveness of currently available vaccines against emerging variants of COVID-19, the potential for hotel closures that may be mandated or advisable, whether based on increased COVID-19 cases, new

variants or other factors, the reduction or reversal of previously implemented containment measures in certain states and cities, and the direct and indirect economic effects of the pandemic. As a result, we cannot provide an estimate of the overall impact of COVID-19 on our business, financial condition, results of operations and cash flows or when, if at all, we will be able to resume pre-COVID-19 levels of operations.

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 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. As discussed above, the COVID-19 pandemic has had, and is expected to continue to have, a significant adverse effect on our hotel properties.

Offering Proceeds

Our ability to make investments depends in significant part upon the net proceeds raised from the sale of our securities and our ability to finance the acquisition of our investments. As discussed above, we terminated our public offering of common stock (including pursuant to the DRP), effective as of March 2020. Our ability to continue to acquire additional assets, satisfy our debt service obligations and pay other operating expenses will be adversely impacted until such time as we resume raising capital. If we are not able to resume raising capital, we will make fewer investments resulting in relatively less portfolio diversification and sources of income, and 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 resume raising capital, our fixed operating expenses as a percentage of gross income will be relatively higher than if we do not resume raising capital, which could affect our net income and results of operations. We cannot predict if or when we will be able to resume raising capital in a public offering or that we will identify other means of raising significant additional capital.

Results of Operations

We were formed on July 25, 2014. As of March 31, 2021, we owned interests in fifteen hotel properties located in six states, comprising a total of 2,123 rooms. As of March 31, 2020, we owned (1) interests in fifteen hotel properties located in six states, comprising a total of 2,123 rooms and (2) investments in marketable securities valued at \$3.0 million.

Beginning in March 2020, COVID-19 caused widespread cancellations of both business and leisure travel throughout the United States, resulting in significant decreases in bookings, occupancy and revenues throughout our hotel portfolio and the hospitality industry as a whole. Due to the overall uncertainty surrounding the COVID-19 pandemic in the United States, it is difficult to project the duration of revenue declines for the industry and our company; however, we currently expect the decline in revenue and operating results as compared to 2019 to continue throughout 2021 and potentially into subsequent years. We expect a gradual recovery in revenues as the percentage of the population which has been fully vaccinated increases and restrictions on travel and public gatherings are lifted. However, our future revenues and operating results could be negatively impacted if, among other things, COVID-19 cases increase, state and local governments and businesses reinstate restrictions on travel and public gatherings or consumer sentiment towards travel further deteriorates. It is impossible to predict if or when we will be able to resume pre-COVID-19 levels of operations.

Comparison of the three months ended March 31, 2021 versus the three months ended March 31, 2020

Revenue

Total revenue decreased to \$9.7 million for the three months ended March 31, 2021 from \$15.2 million for the three months ended March 31, 2020. Hotel revenue decreased to \$9.7 million for the three months ended March 31, 2021 from \$15.2 million for the three months ended March 31, 2020 due to decreased hotel occupancies primarily resulting from a reduction in travel in response to the COVID-19 pandemic. Interest and dividend income from our investment in marketable securities decreased to \$1,000 for the three months ended March 31, 2021 from \$4,000 for three months ended March 31, 2020 due to the sale of the marketable securities. We expect that room revenue, other hotel revenue and total revenue will each increase in future periods as a result of improvements in travel as the U.S. economy recovers from the COVID-19 pandemic.

A comparison of hotel revenues for the hotels owned continuously for the three months ended March 31, 2021 and 2020 (all amounts in thousands) is set forth below. Hotel revenues for such properties for the three months ended March 31, 2021 decreased by 37% as compared to the three months ended March 31, 2020.

	Three months ended		Increase (Decrease)
	March,		
	2021	2020	
Residence Inn Austin	\$ 732	\$ 899	\$ (167)
Springhill Suites Seattle	927	1,253	(326)
Homewood Suites Woodlands	420	579	(159)
Hyatt Place Germantown	555	637	(82)
Hyatt Place North Charleston	302	541	(239)
Hampton Inn Austin	360	877	(517)
Residence Inn Grapevine	938	1,471	(533)
Marriott Courtyard Lyndhurst	614	1,393	(779)
Hilton Garden Inn Austin	675	973	(298)
Hampton Inn Great Valley	219	642	(423)
Embassy Suites Nashville	845	2,338	(1,493)
Homewood Suites Austin	627	852	(225)
Townplace Suites Fort Worth	457	689	(232)
Hampton Inn Houston	302	546	(244)
Residence Inn Houston Medical Center	1,697	1,553	144
	<u>\$ 9,670</u>	<u>\$ 15,243</u>	<u>\$ (5,573)</u>

Revenues for all hotel properties except for Residence Inn Houston Medical Center decreased for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 primarily due to decreased hotel occupancies primarily resulting from a reduction in travel in response to the COVID-19 pandemic.

Hotel Operating Expenses

Hotel operating expenses decreased to \$8.3 million for the three months ended March 31, 2021 from \$11.2 million for the three months ended March 31, 2020. Such decrease was primarily due to decreased occupancies for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 primarily resulting from a reduction in travel in response to the COVID-19 pandemic.

Property Taxes, Insurance and Other

Property taxes, insurance and other expenses increased to \$1.9 million for the three months ended March 31, 2021 from \$1.8 million for the three months ended March 31, 2020.

Depreciation and amortization

Depreciation and amortization increased to \$3.9 million for the three months ended March 31, 2021 from \$3.8 million for the three months ended March 31, 2020. Such increase was primarily due to the fact that depreciation of our improvements and additions to hotel properties since March 31, 2020 was recognized during the three months ended March 31, 2021.

Corporate General and Administrative Expenses

Corporate general and administrative expenses increased to \$2.0 million for the three months ended March 31, 2021 from \$1.8 million for the three months ended March 31, 2020 due to an increase in the allocation of our transfer agent’s fees to operating expenses from offering costs. These general and administrative expenses consisted primarily of asset management 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 \$2.9 million for the three months ended March 31, 2021 from \$3.0 million for the three months ended March 31, 2020. 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 advisor’s ability to identify and acquire assets that meet our investment objectives.

Loss on Sale of Marketable Securities

Loss on sale of marketable securities was \$245,000 for the three months ended March 31, 2021 compared to \$37,000 for the three months ended March 31, 2020.

Unrealized Gain (Loss) on Change in Fair Value of Investment in Marketable Securities

Unrealized gain on change in fair value of investment in marketable securities was \$397,000 for the three months ended March 31, 2021 as compared to an unrealized loss on change in fair value of investment in marketable securities of \$3.8 million for the three months ended March 31, 2020. Such increase was due to an increase in the value of our marketable securities.

Income Tax Expense (Benefit)

Our income tax credit was \$81,000 for the three months ended March 31, 2021 compared to an income tax expense of \$13,000 for the three months ended March 31, 2020. Such decrease was due to a decrease in state taxable income of our taxable REIT subsidiary, or TRS, for the three months ended March 31, 2021.

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, to the extent we elect to resume the payment of distributions, the payment of distributions to our stockholders. To the extent that our operating results continue to be adversely impacted by the effects of the COVID-19 pandemic, our liquidity and capital resources will be adversely impacted.

Our principal short-term source of liquidity is the operating cash flows generated from our hotel properties. Historically, proceeds from our public offering supplied a significant portion of our available cash. However, our public offering has been terminated and we cannot predict if or when we will be able to resume raising capital pursuant to the sale of our securities. If we are able to resume raising capital pursuant to an offering of our securities, there may be a delay between the sale of our securities 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. As a result of declines in occupancy caused by COVID-19, we anticipate significantly reduced cash from operations until travel increases in the United States. In 2020, we took measures to preserve capital and increase liquidity, including suspending our monthly distribution and postponing non-essential capital improvements. In addition, as a result of the effects of COVID-19 on the economic environment, the lenders for certain of the mortgage loans secured by our properties granted us temporary deferrals of principal and interest payments. We anticipate funding our near-term cash needs with operating cash flows generated from our properties.

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 property improvements. Our lenders also may require working capital reserves. Financing agreements that we enter into may also contain various customary covenants, including but not limited to financial covenants, covenants requiring monthly deposits in respect of certain property costs, covenants imposing restrictions on indebtedness and liens, and restrictions on investments and participation in other asset disposition, merger or business combination or dissolution transactions.

Although there can be no assurances, we anticipate that available cash will be adequate to meet our near-term potential operating cash flow deficits that may result from the effects of the COVID-19 pandemic, debt service and capital expenditures. If we are unable to satisfy our near-term anticipated cash requirements as currently planned, we may raise capital through the disposition of assets, the sale of our equity or debt securities or short-term borrowing, all of which may be more costly to us in the current economic environment.

Net Cash Used in Operating Activities

As of March 31, 2021, we owned interests in fifteen hotel properties. As of March 31, 2020, we owned interests in fifteen hotel properties and investments in marketable securities valued at \$3.0 million. Net cash used in operating activities for the three months ended March 31, 2021 and 2020 was \$10.2 million and \$3.8 million, respectively. The increase in cash used in operating activities for the three months ended March 31, 2021 was primarily due to the fact that amounts due from related parties decreased by \$3.1 million for the three months ended March 31, 2021 compared to an increase in amounts due from related parties of \$1.5 million for the three months ended March 31, 2020.

Net Cash Provided by (Used in) Investing Activities

For the three months ended March 31, 2021 and 2020, net cash provided by (used in) investing activities was \$2.2 million and \$(2.5) million, respectively. The increase in cash provided by investing activities for the three months ended March 31, 2021 was due to the fact that we had proceeds of sales of marketable securities of \$2.2 million during the three months ended March 31, 2021 compared to investment in marketable securities of \$1.0 million and improvements and additions to hotel properties of \$1.5 million during the three months ended March 31, 2020.

Net Cash Provided by (Used in) Financing Activities

For the three months ended March 31, 2021, our cash flows from financing activities consisted primarily of proceeds a note payable to related party, net of repayments of notes payable. Net cash provided by (used in) financing activities for the three months ended March 31, 2021 and 2020 was \$7.1 million and \$(832,000), respectively. The increase in cash provided by financing activities for the three months ended March 31, 2021 was primarily due to the fact that we had proceeds of a note payable to related party of \$8.0 million for the three months ended March 31, 2021 compared to gross offering proceeds of \$10.3 million less dividends paid of \$4.4 million and redemptions of common stock of \$2.7 million for the three months ended March 31, 2020.

Cash and Cash Equivalents and Restricted Cash

As of March 31, 2021, we had cash on hand, cash equivalents and restricted cash of \$9.6 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 for the acquisition of real estate-related securities. By operating on a leveraged basis, we expect that we will have more funds available for investments and will be able to make more investments than would otherwise be possible, which will potentially result 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.

Each of our hotel properties is subject to a mortgage loan secured by our ownership interest in the property. The COVID-19 pandemic has resulted in a significant decline in the revenues generated by our hotel properties. If we are unable to service the mortgage loan secured by a hotel property due to such decreased revenues, the lender may initiate foreclosure procedures with respect to the property or initiate other available remedies. As of March 31, 2021, we were current in all payments under the mortgage loans secured by our hotel properties and not otherwise in default under the terms of any of such mortgage loans. However, as of the date of this Quarterly Report, we are not current with respect to the payments due under the mortgage loans secured by our hotel properties and are engaged in discussions regarding modification of the terms of such mortgage loans with the lenders. As of the date of this Quarterly Report, no lenders have initiated foreclosure procedures with respect to any of our properties.

Note Payable to Related Party

On March 30, 2021, Moody National Capital, LLC (“Moody Capital”), an affiliate of our sponsor, loaned us \$8 million pursuant to a promissory note (the “Related Party Note”). Pursuant to the terms of the Promissory Note, we may borrow up to an additional \$2.0 million from Moody Capital, for a maximum aggregate loan amount of \$10 million. All amounts borrowed under the Related Party Note, plus all accrued interest thereon, will be due and payable in full on March 29, 2024, provided that we may extend such maturity date for up to two years at our discretion. The principal amount of the loans under the Related Party Note will bear interest at a rate per annum equal to LIBOR plus 4.75%; *provided, however*, that such interest rate will be increased to a rate per annum equal to LIBOR plus 6.75% if the Related Party Note is subordinated to another lender. Interest will be paid as permitted by our available cash flow, after the payment of expenses and amounts due to any senior lender, if applicable, and will be compounded semiannually. We expect to enter into a mutually agreeable subordination agreement with any such senior lender. We may prepay the amounts due under the Related Party Note without any prepayment penalty.

Aggregate Indebtedness

As of March 31, 2021, our outstanding indebtedness totaled \$247.2 million, which amount includes the outstanding balance of the Related Party Note and the mortgage loans secured by each of our hotel properties (including debt associated with properties acquired in the Mergers). Our aggregate borrowings are reviewed by our board of directors at least quarterly. Under our charter, we are prohibited from borrowing in excess of 300% of the value of our net assets. “Net assets” for purposes of this calculation is defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75% of the aggregate cost of our assets before non-cash reserves and depreciation. However, we may temporarily borrow in excess of these amounts if such excess is

approved by a majority of our independent directors and disclosed to our stockholders in our next quarterly report, along with an explanation for such excess. As of March 31, 2021 and December 31, 2020, our debt levels did not exceed 300% of the value of our net assets.

For more information on our outstanding indebtedness, see Note 4, “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, 2021 (in thousands):

Contractual Obligations	Payments Due By Period				
	Total	2021	2022-2023	2024-2025	Thereafter
Long-term debt obligations ⁽¹⁾	\$ 239,229	\$ 3,519	\$ 26,638	\$ 169,334	\$ 39,738
Interest payments on outstanding debt obligations ⁽²⁾	43,729	8,664	21,299	12,309	1,457
Total	<u>\$ 282,958</u>	<u>\$ 12,183</u>	<u>\$ 47,937</u>	<u>\$ 181,643</u>	<u>\$ 41,195</u>

(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, 2021.

Organization and Offering Costs

Our organization and offering expenses may be incurred directly by us or may be incurred by our advisor on our behalf. Pursuant to the advisory agreement, we will reimburse our advisor for organizational and offering expenses associated with our public offerings incurred by our advisor on our behalf, 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 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. We terminated our follow-on public offering effective March 2020. The total organization and offering costs incurred in connection with our follow-on public offering did not exceed 15% of the gross offering proceeds from the sale of shares of our common stock in our follow-on public offering. As of 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 public offering. We will not reimburse our advisor for the selling commissions and fees it pays on our behalf, however our advisor intends to recoup all or a portion of such amounts over time through receipt of the contingent advisor payment, as discussed in Note 6, “Related Party Arrangements” to the consolidated financial statements included in this Quarterly Report.

As of March 31, 2021, total organization and offering expenses for our initial public offering and follow-on offering were \$20.9 million, comprised of \$12.3 million of expenses incurred directly by us and \$8.6 million in expenses incurred by and reimbursable to our advisor (excluding the selling commissions, dealer manager fees and stockholder servicing fees paid on our behalf by our advisor effective as of January 16, 2018). Total organization and offering expenses for the initial public offering were \$18.4 million, comprised of \$12.3 million of expenses incurred directly by us and \$6.1 million in expenses incurred by and reimbursable to our advisor (excluding the selling commissions, dealer manager fees and stockholder servicing fees paid on our behalf by our advisor). As of March 31, 2021, total organization and offering expenses for the follow-on offering were \$2.5 million, comprised of \$0 of expenses incurred directly by us and \$2.5 million in expenses incurred by and reimbursable to our advisor (excluding the selling commissions, dealer manager fees and stockholder servicing fees paid on our behalf by our advisor). As of March 31, 2021, we had \$0 due to our advisor for reimbursable offering costs.

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.

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, 2021, our total operating expenses were \$6.7 million, which included \$5.1 million in operating expenses incurred directly by us and \$1.6 million in operating expenses incurred by our advisor on our behalf. Of that \$6.7 million in total

operating expenses incurred during four fiscal quarters ended March 31, 2021, \$0 exceeded the 2%/25% Limitation. We reimbursed our advisor for \$1.6 million in operating expenses during four fiscal quarters ended March 31, 2021. As of March 31, 2021, we had \$382,000 due to our advisor for operating expense reimbursements.

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, 2021.

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)
	<hr/>
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, 2021 and 2020.

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.

Inflation

As of March 31, 2021, our investments consisted of ownership interests in fifteen hotel properties. 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. As of March 31, 2021, 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

We first paid distributions on September 15, 2015. On March 24, 2020, our board unanimously approved the indefinite suspension of the payment of distributions to our stockholders, effective immediately, and the operation of the DRP, effective as of April 6, 2020. Our board of directors, in consultation with management, will continue to monitor our operations and intends to resume distributions at a time and level determined to be prudent in relation to our other cash requirements or in order to maintain our REIT status for federal income tax purposes. However, it is impossible to predict if or when we will be able to resume the payment of distributions.

The following table summarizes distributions paid in cash and pursuant to the DRP for the three months ended March 31, 2021 and 2020.

Period	Cash Distribution	Distribution Paid Pursuant to DRP⁽¹⁾	Total Amount of Distribution
First Quarter 2021	\$ —	\$ —	\$ —
First Quarter 2020	\$ 4,404	\$ 1,393	\$ 5,797

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

performance of our real estate investments on a comparative basis. We have not recognized any such impairment charges and thus our calculation of MFFO set forth in the table below does not reflect any such exclusion.

- Our calculation of MFFO will exclude organizational and offering expenses and acquisition expenses. 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, 2021 and 2020 and a reconciliation of such non-GAAP financial performance measures to our net income.

	Three months ended	
	March 31,	
	2021	2020
Net Loss	\$ (9,031)	\$ (10,255)
Adjustments:		
Depreciation and amortization	3,865	3,839
Loss on sale of marketable securities	245	37
Funds from Operations	(4,921)	(6,379)
Adjustments:		
Unrealized loss on change in fair value of investment in marketable securities	(397)	3,811
Amortization of debt issuance costs	168	169
Modified Funds from Operations	<u>\$ (5,150)</u>	<u>\$ (2,399)</u>

Off-Balance Sheet Arrangements

As of March 31, 2021 and December 31, 2020, 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, and reimburse certain expenses of, our advisor or its affiliates in connection with the services our advisor and its affiliates provide to us. See Note 6, "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

COVID-19 Pandemic

As discussed elsewhere in this Quarterly Report, the COVID-19 pandemic has had, and is expected to continue to have, a significant adverse effect on the operating results of our hotel properties and overall financial condition.

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 maintains 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, 2021, 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, 2021 and December 31, 2020, our mortgage notes payable secured by the respective assets, consisted of the following (\$ amounts in thousands):

<u>Loan</u>	<u>Principal as of March 31, 2021</u>	<u>Principal as of December 31, 2020</u>	<u>Interest Rate at March 31, 2021</u>	<u>Maturity Date</u>	<u>Loan Modifications</u>
Residence Inn Austin ⁽¹⁾	\$ 16,169	\$ 16,169	4.580%	November 1, 2025	
Springhill Suites Seattle ⁽¹⁾	43,717	43,856	4.380%	October 1, 2026	Three months deferral of interest and principal payments from June to August, 2020. Four months interest only payments from September to December, 2020.
Homewood Suites Woodlands ⁽¹⁾	8,717	8,759	4.690%	April 11, 2025	
Hyatt Place Germantown ⁽¹⁾	6,755	6,755	4.300%	May 6, 2023	
Hyatt Place North Charleston ⁽¹⁾	6,845	6,873	5.193%	August 1, 2023	Payment of \$100,000 cash deposit and may make interest and principal payments from restricted cash for six months from April to September, 2020.
Hampton Inn Austin ⁽¹⁾	10,358	10,359	5.426%	January 6, 2024	Four-month deferral of principal and interest payments for August to November, 2020.
Residence Inn Grapevine ⁽¹⁾	12,016	12,016	5.250%	April 6, 2024	
Marriott Courtyard Lyndhurst ⁽¹⁾	18,729	18,833	4.700%	September 27, 2024	Six months payment of interest only from April to September, 2020.
Hilton Garden Inn Austin ⁽¹⁾	17,997	17,997	4.530%	December 11, 2024	
Hampton Inn Great Valley ⁽¹⁾	7,804	7,804	4.700%	April 11, 2025	
Embassy Suites Nashville ⁽¹⁾	40,502	41,057	4.2123%	July 11, 2025	April 2020 payment of principal and interest deferred. August 2020 to December 2020 interest only. Special servicer fee of \$205,285 to be paid on or before April 30, 2021.

<u>Loan</u>	<u>Principal as of March 31, 2021</u>	<u>Principal as of December 31, 2020</u>	<u>Interest Rate at March 31, 2021</u>	<u>Maturity Date</u>	<u>Loan Modifications</u>
Homewood Suites Austin ⁽¹⁾	\$ 10,541	\$ 10,541	4.650%	August 11, 2025	April 2020 payment was interest only. Six-month deferral of principal from April to September 2020. Two months deferral of interest payments for May and June, 2020. Three months interest only payments from July to September, 2020.
Townplace Suites Fort Worth ⁽¹⁾ . . .	5,882	5,915	4.700%	September 27, 2024	
Hampton Inn Houston ⁽¹⁾	4,343	4,342	5.250%	April 28, 2023	Seven-month deferral of principal and interest payments for payments due March 28, 2020 through September 28, 2020. Six months interest only for payments due October 28, 2020 through March 28, 2021.
Residence Inn Houston Medical Center ⁽²⁾	28,854	28,854	5.000%	October 1, 2024	Deferral of principal and interest payments for six months from April to September, 2020. Interest only payments for an additional twelve months form October 2020 to September 2021.
Total notes payable	<u>239,229</u>	<u>240,130</u>			
Less unamortized debt issuance costs	<u>(2,446)</u>	<u>(2,614)</u>			
Total notes payable, net of unamortized debt issuance costs .	<u>\$ 236,783</u>	<u>\$ 237,516</u>			

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

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

Credit Risk

We are also 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 March 31, 2021 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, 2020 filed with the SEC on March 31, 2021.

The COVID-19 pandemic has, and is expected to continue to, adversely affect our financial condition and operating results.

Since its discovery in December 2019, COVID-19 has spread globally, including to every state in the United States. The spread of COVID-19 has been declared a pandemic by the World Health Organization and in the United States the Health and Human Services Secretary has declared a public health emergency in response to COVID-19. Many governments, including at the federal, state and local level in the United States, have instituted a wide variety of unprecedented measures intended to control the spread of COVID-19, including states of emergency, mandatory quarantines, “stay at home” orders, business closures, border closings, and restrictions on travel and large gatherings. These measures may be in place for a considerable period of time, and additional, more restrictive measures may be implemented in the future. The COVID-19 pandemic has adversely impacted numerous industries, including transportation and hospitality, and triggered a global economic slowdown. The National Bureau of Economic Research declared that the United States has been in a recession since February 2020.

Although a number of vaccines for COVID-19 are currently being made available to the general public in the United States and in countries around the world, it will take time for the distribution of vaccines to materially affect the spread of COVID-19 and the ultimate effectiveness of the vaccination effort is subject to significant uncertainty. The length and severity of the pandemic will be worsened to the extent that a significant portion of the population, in the United States and globally, is reluctant to be vaccinated, fails to complete required multi-step vaccination protocol or is unable to become vaccinated due to shortages in vaccine supply or suspensions in the distribution of vaccines due to safety concerns. Further, new and worsening outbreaks of COVID-19 in other countries may impact global vaccine supplies and lead to the emergence of new variants of the virus against which currently available vaccines are less effective. As a result of the foregoing factors, the COVID-19 pandemic is expected to have a continued adverse impact on economic and market conditions despite the ongoing distribution of vaccines.

COVID-19 has dramatically reduced travel, which has had an unprecedented adverse impact on the hotel industry. As a result, the COVID-19 pandemic has had, and is expected to continue to have, a significant adverse effect on the operating results of our hotel properties, which depend primarily upon revenues driven by business and leisure travel, and on our business, financial performance and operating results. Since March 2020, we have experienced a significant decline in occupancy and revenues across our hotel properties, which we expect to continue for an indefinite period of time. Our hotel properties have operated at a property net operating loss since the outbreak of COVID-19, which has had an adverse impact on our results of operations and cash flow from operations. In addition, we have reduced certain services and amenities at our hotel properties. Although all of our hotel properties are currently open and operational, we may be required, or elect, to temporarily suspend operations at one or more of our hotel properties in the future depending on the length and severity of the COVID-19 pandemic and its related effects. If we suspend operations at a hotel property, we cannot give any assurance as to when operations at the property will be resumed at a full or reduced level.

In accordance with local government recommendations and guidance, many of the employees of our advisor have been working remotely since March 2020. Although our advisor has implemented protocols for remote work and is leveraging technology to ensure that its employees remain connected and productive, there can be no guarantee that such work conditions will not have an adverse impact on the ability of our advisor to effectively perform its duties.

In response to the COVID-19 pandemic, we terminated our public offering of common stock (including pursuant to the DRP) effective as of March 2020. We are not currently raising capital through the sale of our securities and we do not intend to begin to do so in the near term. We have also indefinitely suspended the payment of distributions to our stockholders effective as of March 2020 and the operation of our share repurchase program effective as of April 2020. Our board of directors and our management continue to evaluate our financial condition and the overall economic environment to determine if and when we will seek to resume raising capital, resume the payment of distributions and reinstate our share repurchase program. However, it is impossible to predict if or when we will be able to take any or all of such actions or return to normal operations.

Although all facets of our business have been or could in the future be impacted by COVID-19, we currently believe the following impacts to be among the most important to us:

- continued decreased demand for rooms at our hotel properties, resulting in properties not generating revenue sufficient to meet operating expenses, which may adversely affect the value of our hotel properties;

- the further scaling back and delay of our planned capital expenditures, including planned renovation projects, which could adversely affect the value of our properties;
- a material adverse effect on our advisor’s ability to consummate acquisitions and dispositions of hotel properties;
- continued suspension of the payment of distributions or a change in the amount or frequency of distributions if and when we resume paying distributions;
- increased indebtedness and sustained or further decreases in operating results, which could increase our risk of default under our loan agreements or other long-term contracts;
- our inability to maintain compliance with certain covenants in our loan agreements and the need to seek amendments to such agreements in the future, which could require us to make concessions, such as increased interest rates;
- disruptions in our supply chains, which may increase costs for essential capital improvements;
- declines in regional and local economies, reducing travel to and from the localities;
- increased risk relating to the continued service and availability of personnel, including our senior leadership team, and our advisor’s ability to recruit, attract and retain skilled personnel to the extent its management or personnel are impacted by the pandemic and are not available or allowed to conduct work;
- disruptions as a result of employees working remotely, including risk of cybersecurity incidents and disruptions to internal control procedures; and
- difficulty accessing debt and equity capital on attractive terms, or at all, to fund business operations or address maturing liabilities.

Moreover, many of the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on March 31, 2021, should be interpreted as heightened risks as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic.

The COVID-19 pandemic is a continually evolving situation that presents material uncertainty and risk. The extent and duration of the impacts of COVID-19 on our business, financial condition, results of operations and cash flows is dependent on future developments that are highly uncertain and cannot be accurately predicted at this time, including without limitation the scope, severity and duration of the pandemic, the extent and effectiveness of the actions taken to contain the pandemic or mitigate its impact, the speed of the development and distribution of vaccines for COVID-19 and the efficacy and availability of such vaccines, the extent to which the general population is willing to be vaccinated, the efficacy of currently available vaccines against emerging variants of COVID-19, the potential for hotel closures that may be mandated or advisable, whether based on increased COVID-19 cases, new variants or other factors, the reduction or reversal of previously implemented containment measures in certain states and cities, and the direct and indirect economic effects of the pandemic. As a result, we cannot provide an estimate of the overall impact of COVID-19 on our business, financial condition, results of operations and cash flows or when, if at all, we will be able to resume pre-COVID-19 levels of operations.

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 \$54.5 million in total distributions we paid during the period from our inception through March 31, 2021, including shares issued pursuant to our DRP, \$0, or 0%, were paid from cash provided by operating activities and \$54.5 million, 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.

On March 24, 2020, our board of directors unanimously approved the suspension of the payment of distributions to our stockholders, effective immediately, due to the impact that the COVID-19 pandemic is having and is expected to continue to have on our hotel properties. There can be no assurance when the payment of distributions will resume, 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 \$1.1 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 million of shares of any class of our common stock to our stockholders pursuant to the DRP. Our initial public offering terminated on July 19, 2018.

On July 19, 2018, our Registration Statement on Form S-11 (File No. 333-222610) registering our follow-on public offering of up to \$990 million in any combination of the three classes of our common stock was declared effective and we commenced our follow-on public offering. In our follow-on public offering we offered up \$895 million in shares of any class of our common stock to the public and up to \$95 million in shares of any class of our common stock to our stockholders pursuant to the DRP. Our follow-on public offering (including pursuant to the DRP) was terminated effective as of March 25, 2020.

We accepted investors' subscriptions for and issued an aggregate of 10.2 million shares in our initial public offering and our follow-on public offering, excluding shares issued in connection with the Mergers and including 567,000 shares pursuant to the DRP, resulting in aggregate gross offering proceeds of \$234.6 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. We accepted investors' subscriptions for and issued 4.1 million shares in the follow-on public offering, including 352,000 shares pursuant to the DRP, resulting in gross offering proceeds of \$87.2 million for the follow-on public offering.

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

<u>Type of Expense</u>	<u>Amount</u>	<u>Estimated/Actual</u>
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	<u>\$ 18,365</u>	

As of March 31, 2021, we had incurred selling commissions, dealer manager fees, stockholder servicing fees and other organization and offering costs in our follow-on public 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 public offering.

<u>Type of Expense</u>	<u>Amount</u>	<u>Estimated/Actual</u>
Selling commissions, dealer manager fees and stockholder servicing fees	\$ —	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	2,720	Actual
Total expenses	<u>\$ 2,720</u>	

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 March 31, 2021, the net offering proceeds to us from our follow-on public offering, after deducting the total expenses incurred as described above, were \$84.5 million, excluding \$8.2 million in offering proceeds from shares of our common stock issued pursuant to the DRP.

We intend to use the proceeds from the sale and refinancing of our hotel properties 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, 2021, we used \$166.4 million of the net proceeds from our initial public offering and follow-on public offering 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, to reduce the debt on Springhill Suites Seattle, to originate notes, and to reduce our borrowings. As of March 31, 2021, we had paid a cumulative amount of \$16.9 million of acquisition expenses, including \$13.0 million related to the Mergers.

Share Repurchase Program

In response to the COVID-19 pandemic, our board of directors indefinitely suspended our share repurchase program effective as of April 6, 2020. The ongoing effects of the COVID-19 pandemic may materially delay or prevent our ability to resume the operation of our share repurchase program. There is no way to predict when, if at all, our board of directors will determine to resume the repurchase of shares of our common stock pursuant to our share repurchase program.

During the three months ended March 31, 2021, we did not repurchase any shares of our common stock pursuant to our share repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

<u>Exhibit No.</u>	<u>Description</u>
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)
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 14, 2021

By: /s/ Brett C. Moody

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

Date: May 14, 2021

By: /s/ Robert W. Engel

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

**Certification of Chief 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2021

/s/ Brett C. Moody

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

**Certification of Chief Financial 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2021

/s/ Robert W. Engel

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

**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 March 31, 2021, 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: May 14, 2021

/s/ Brett C. Moody

Brett C. Moody

Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)

**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 March 31, 2021, 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: May 14, 2021

/s/ Robert W. Engel

Robert W. Engel

Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)