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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _________ to _________

Commission File Number 333-186090

BRE SELECT HOTELS CORP
(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**35-2464254** **(I.R.S. Employer Identification No.)**
c/o Blackstone Real Estate Partners VII L.P. **345 Park Avenue** **New York, New York** **(Address of principal executive offices)**	**10154** **(Zip Code)**

(212) 583-5000
(Registrant's telephone number, including area code)

Not Applicable
(Former Name, former address and former fiscal year, if changed since last report)

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 ☒

(Note: As a voluntary filer, the registrant has not been subject to the filing requirements of Section 13 or 15(d) of the Exchange Act for the past 90 days. The registrant has filed all reports required under Section 13 or 15(d) of the Exchange Act during the preceding 12 months.)

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

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

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

Emerging growth company ☐

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

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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Common Stock, $0.01 par value per share	100
(Class)	*Outstanding at August 14, 2018*

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This Form 10-Q includes references to certain trademarks or service marks. The SpringHill Suites® by Marriott, TownePlace Suites® by Marriott, Fairfield Inn® by Marriott, Courtyard® by Marriott, Residence Inn® by Marriott and Marriott Suites® trademarks are the property of Marriott International, Inc. or one of its affiliates. The Homewood Suites® by Hilton, Hilton Garden Inn®, Hampton Inn® and Hampton Inn & Suites® trademarks are the property of Hilton Worldwide Holdings Inc. or one or more of its affiliates. For convenience, the applicable trademark or service mark symbol has been omitted for uses other than in this paragraph but will be deemed to be included wherever the above referenced terms are used.

BRE SELECT HOTELS CORP
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(in thousands, except share data)

	June 30, 2018	December 31, 2017
ASSETS		
Investment in real estate, net of accumulated depreciation of $125,621 and $116,180, respectively	$735,075	$ 758,259
Hotels held for sale	—	65,534
Cash and cash equivalents	16,062	22,491
Restricted cash	11,208	9,111
Due from third-party managers, net	7,058	4,284
Prepaid expenses and other assets	3,932	3,383
Goodwill	98,682	108,466
Deferred tax assets	6,251	2,984
TOTAL ASSETS	$878,268	$ 974,512
LIABILITIES		
Accounts payable and accrued expenses	$ 7,616	$ 9,233
Due to third-party managers, net, and other liabilities	1,274	638
Mortgages payable	734,466	738,148
Mortgages payable related to assets of hotels held for sale	—	69,905
TOTAL LIABILITIES	743,356	817,924
Commitments and contingencies (Note 8)		
7% Series A Cumulative Redeemable Preferred Stock, $1.90 initial liquidation preference, 120,000,000 shares authorized; 43,821,901 shares issued and outstanding at June 30, 2018 and December 31, 2017	82,904	83,040
STOCKHOLDER'S EQUITY		
Preferred stock, $0.0001 par value, 30,000,000 shares authorized; none issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock, $0.01 par value, 100,000 shares authorized; 100 shares issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Additional paid-in capital	52,008	73,548
TOTAL STOCKHOLDER'S EQUITY	52,008	73,548
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$878,268	$ 974,512

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BRE SELECT HOTELS CORP
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUE				
Room revenue	$ 61,821	$ 65,966	$ 114,361	$122,384
Other revenue	2,977	3,957	6,214	8,859
Total revenue	64,798	69,923	120,575	131,243
EXPENSES				
Operating expense	14,306	15,489	27,945	29,990
Hotel administrative expense	5,404	5,951	10,726	11,681
Sales and marketing	5,279	5,669	10,075	10,655
Utilities	1,769	2,006	3,638	4,096
Repair and maintenance	2,720	2,328	5,422	4,718
Franchise fees	3,157	3,229	5,745	5,992
Management fees	2,012	2,220	3,708	4,071
Taxes, insurance and other	3,148	3,655	7,154	7,447
General and administrative	2,103	1,730	3,501	3,557
Depreciation expense	8,416	9,250	17,165	18,173
Total expenses	48,314	51,527	95,079	100,380
Impairment of investment in real estate	(18,307)	(2,988)	(18,307)	(2,988)
Gain on sale of hotel properties	—	—	—	3,628
Interest expense, net	(8,821)	(7,198)	(18,245)	(14,121)
(Loss) gain on derivatives	(58)	—	2	—
(Loss) income before income tax benefit (expense)	(10,702)	8,210	(11,054)	17,382
Income tax benefit (expense)	2,150	(1,305)	2,848	(1,267)
Net (loss) income	(8,552)	6,905	(8,206)	16,115
Series A Preferred Stock dividends declared	(2,011)	(2,411)	(3,470)	(4,821)
Net (loss) income available for common stockholder	$ (10,563)	$ 4,494	$ (11,676)	$ 11,294
Basic and diluted net (loss) income per common share				
Basic and diluted net (loss) income per common share available to common stockholder	$(105,630)	$ 44,940	$(116,760)	$112,940
Dividends declared per common share	$ 60,000	$142,500	$ 100,000	$242,500
Weighted average common shares outstanding - basic and diluted	100	100	100	100

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BRE SELECT HOTELS CORP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(in thousands)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash flows from operating activities:		
Net (loss) income	$ (8,206)	$ 16,115
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	17,165	18,173
Impairment of investment in real estate	18,307	2,988
Gain on sale of hotel properties	—	(3,628)
Fair value adjustment of interest rate cap	(2)	—
Amortization of deferred financing costs	3,156	—
Deferred income taxes	(3,267)	611
Changes in operating assets and liabilities:		
Increase in due to/from third-party managers, net, and other liabilities	(2,138)	(1,715)
Increase in prepaid expenses and other assets	(547)	(1,566)
Decrease in accounts payable and accrued expenses	(458)	(652)
Net cash provided by operating activities	24,010	30,326
Cash flows from investing activities:		
Capital improvements	(14,741)	(17,508)
Proceeds from sale of hotel properties	75,340	59,437
Property insurance proceeds	719	727
Net cash provided by investing activities	61,318	42,656
Cash flows from financing activities:		
Payments of mortgage debt	(76,742)	(44,145)
Dividends paid to Series A Preferred stockholders	(2,918)	(4,821)
Dividends paid to common stockholder	(10,000)	(24,250)
Net cash used in financing activities	(89,660)	(73,216)
Net decrease in cash and cash equivalents and restricted cash	(4,332)	(234)
Cash and cash equivalents and restricted cash, beginning of period	31,602	31,166
Cash and cash equivalents and restricted cash, end of period	$ 27,270	$ 30,932
Supplemental Cash Flow Information, including Non-Cash Activities:		
Interest paid	$ 15,164	$ 14,335
Taxes paid	$ 77	$ 1,857
Accrued capital improvements	$ 1,274	$ 1,916
Accrued 7% Series A Preferred Stock dividends	$ 2,011	$ 2,411

The accompanying notes are an integral part of these condensed consolidated financial statements.

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BRE SELECT HOTELS CORP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, unless otherwise indicated)
(Unaudited)

1. Organization

BRE Select Hotels Corp, together with its wholly-owned subsidiaries (the "Company"), is a Delaware corporation that qualifies as a real estate investment trust, or REIT, for federal income tax purposes commencing in the year ended December 31, 2012. The Company was formed on November 28, 2012 to invest in income-producing real estate in the United States through the acquisition of Apple REIT Six, Inc. ("Apple Six") on behalf of BRE Select Hotels Holdings LP ("BRE Holdings"), a Delaware limited partnership and an affiliate of the Company. All of the common stock of the Company is owned by BRE Holdings, which is an affiliate of Blackstone Real Estate Partners VII L.P. (the "Sponsor"). The acquisition of Apple Six (the "Merger") was completed on May 14, 2013 (the "Acquisition Date"). As of June 30, 2018, the Company owned 50 hotels located in 17 states with an aggregate of 5,963 rooms.

2. Summary of Significant Accounting Policies

Principles of Consolidation – The unaudited condensed consolidated financial statements include all of the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation – The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted in accordance with standards for the preparation of interim financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in these condensed consolidated financial statements. Operating results for the interim periods herein are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Certain prior year amounts have been reclassified for consistency with the current year presentation.

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

Cash and Cash Equivalents – Cash and cash equivalents primarily consist of cash in banks. The Company has deposits in excess of $250,000 within single financial institutions that are not insured by the Federal Deposit Insurance Corporation. The Company believes it mitigates this risk by depositing with major financial institutions.

Restricted Cash – Restricted cash consists of deposits held in escrow for the payment of certain required repairs, capital improvements and property taxes pursuant to the terms of the Company's mortgages payable, as well as a repairs and improvements reserve required by Marriott International Inc.'s or its affiliates' ("Marriott") management agreements.

The following table provides detail regarding cash and cash equivalents and restricted cash that sums to the total of such amounts presented in the accompanying condensed consolidated statements of cash flows.

	June 30, 2018	December 31, 2017	June 30, 2017	December 31, 2016
Cash and cash equivalents	$16,062	$ 22,491	$19,737	$ 25,170
Restricted cash	11,208	9,111	11,195	5,996
Total cash and cash equivalents and restricted cash	$27,270	$ 31,602	$30,932	$ 31,166

Due from Third-Party Managers, net – Due from third-party managers, net, represents the net working capital advanced to and held by the hotel management companies for operation of the hotels.

Due to Third-Party Managers, net – Due to third-party managers, net, represents management fees due in excess of the net working capital advanced to and held by the hotel management companies for operation of the hotels.

Investment in Real Estate and Related Depreciation – Real estate is stated at cost, net of accumulated depreciation. Repair and maintenance costs are expensed as incurred while significant improvements, renovations, and replacements that extend the useful life of the real estate asset are capitalized and depreciated over the estimated useful life of the real estate asset. Depreciation is computed using the straight-line method over the average estimated useful lives of the assets, which are 39 years for buildings, 10 to 15 years for land and building improvements, and three to seven years for furniture and equipment.

Impairment of Investment in Real Estate – The Company periodically assesses whether there are any indicators that the value of real estate assets may be impaired. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The Company monitors its properties on an ongoing basis by reviewing financial performance and considers each property individually for purposes of reviewing for indicators of impairment. As many indicators of impairment are subjective, such as general economic and market declines, the Company also prepares a quarterly quantitative analysis for each of its properties to assist with its evaluation of impairment indicators. The analysis compares each property's current period actual and forecasted occupancy and revenue per available room ("RevPAR") to the prior period.

If events or circumstances change, such as the operating performance of a property declines substantially for an extended period of time or there is a change in anticipated hold periods, the Company's carrying value for a particular property may not be recoverable, and in such instances, an impairment loss may be recorded. Recoverability of assets to be held and used is determined by a comparison of the carrying amount of the assets to the future undiscounted net cash flows expected to be generated by the asset. If the carrying value of such assets exceeds such cash flows, the assets are considered impaired. Impairment losses are measured as the difference between the asset's fair value and its carrying value. Fair value is determined by using management's best estimate of the discounted net cash flows over the remaining useful life of the asset, or other indicators of fair value.

During the second quarter of 2018, the Company obtained a broker's opinion of value for the Residence Inn – Pittsburgh, Pennsylvania property and the Hilton Garden Inn – McAllen, Texas property. As a result, a test for impairment of the properties was performed with fair value determined based on the estimated sales proceeds for the properties. The Company estimated the sales proceeds based on the broker's opinion of value. The test resulted in a non-cash impairment of investment in real estate of $13.6 million and $4.7 million, respectively, for the Residence Inn – Pittsburgh, Pennsylvania property and the Hilton Garden Inn – McAllen, Texas property for the three and six months ended June 30, 2018. No other triggering events have occurred to indicate that the asset carrying values are not recoverable as of June 30, 2018.

Goodwill – Goodwill represents the excess of purchase price over fair value of assets acquired and liabilities assumed in business combinations, and is characterized by intangible assets that do not qualify for separate recognition. In accordance with accounting guidance related to goodwill and other intangible assets, goodwill is not amortized, but instead reviewed for impairment at least annually. The Company performs its annual testing for impairment of goodwill during the fourth quarter of each year and in certain situations between those annual dates if indicators of impairment are present. The impairment analysis for goodwill is performed at the reporting unit level using a two-step approach. The first step is a comparison of the fair value of the reporting unit, determined using an income approach and validated by a market approach, to its carrying amount. If the carrying amount exceeds the fair value, the second step quantifies any impairment loss by comparing the current implied value of goodwill to the recorded goodwill balance. There was no impairment of goodwill for any of the periods presented.

The following table details the carrying amount of the Company's goodwill at June 30, 2018 and December 31, 2017. The goodwill allocated to the sale of hotel properties represents the goodwill amounts allocated at the Acquisition Date to the Residence Inn – Huntsville, Alabama and Marriott – Redmond, Washington hotel properties which were previously classified as held for sale as of December 31, 2017 (see Note 5) and sold during the six months ended June 30, 2018, and was included within the determination of gain on sale of hotel properties presented in the accompanying condensed consolidated statements of operations and condensed consolidated statements of cash flows.

Balance as of December 31, 2017	$108,466
Allocated to sale of hotel properties	(9,784)
Balance as of June 30, 2018	$ 98,682

Revenue Recognition – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The Company has adopted ASU No. 2014-09 effective January 1, 2018, electing to utilize the modified retrospective transition method. The Company evaluated all of its revenue streams under the new model and determined that the standard did not materially impact the amount and timing of revenue recognition in the Company's condensed consolidated financial statements.

Room revenue is generated through contracts with customers whereby the customers agree to pay a daily rate for right to use a hotel room. The Company's contract performance obligations are fulfilled at the end of the day that the customer is provided the room and revenue is recognized daily at the contract rate. Payment from the customer is secured at the end of the contract upon check-out by the customer from our hotel. The Company believes there are no significant judgments made in the recognition of room revenue.

Food and beverage revenue is generated through contracts with customers whereby the customer agrees to pay a contract rate for restaurant dining services or banquet services. The Company's contract performance obligations are fulfilled at the time that the meal is provided to the customer or when the banquet facilities and related dining amenities are provided to the customer. The Company believes there are no significant judgments made in the recognition of food and beverage revenue. The Company recognized $1.9 million and $2.9 million of food and beverage revenue during the three months ended June 30, 2018 and 2017, respectively. The Company recognized $4.0 million and $5.5 million of food and beverage revenue during the six months ended June 30, 2018 and 2017, respectively. Food and beverage revenue is included in other revenue in the Company's condensed consolidated statements of operations.

Sales and Marketing Costs – Sales and marketing costs are expensed when incurred. These costs represent the expense for franchise advertising under the terms of the hotel management and franchise agreements and general and administrative expenses that are directly attributable to advertising and promotion.

Income Taxes – The Company qualifies as a REIT under the Internal Revenue Code of 1986, as amended, beginning with the Company's short taxable year ended December 31, 2012. In order to qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement that it distribute at least 90% of its adjusted taxable income to its stockholder, subject to certain adjustments and excluding any net capital gain. The Company's taxable REIT income and dividend requirements to maintain REIT status are determined on an annual basis. The Company intends to adhere to these requirements to qualify for REIT status, and assuming it does qualify for taxation as a REIT, it will generally not be subject to federal income taxes to the extent it distributes substantially all of its taxable income to the Company's stockholder. Dividends paid in excess of REIT taxable income for the year will generally not be taxable to the common stockholder. However, the Company's taxable REIT subsidiaries ("TRS") will generally be subject to federal, state and local income taxes and the consolidated income tax provision includes those taxes.

Valuation of Deferred Tax Assets – A valuation allowance for deferred tax assets is provided when it is "more likely than not" that some portion or all of the deferred tax assets will not be realized. Realization is dependent upon the generation of future taxable income or the reversal of deferred tax liabilities during the periods in which those temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in performing this assessment.

(Loss) Income per Common Share – Basic (loss) income per common share is computed based upon the weighted average number of shares outstanding during the period, after giving effect to the 7% Series A Cumulative Redeemable Preferred Stock ("Series A Preferred Stock") dividends declared during the period. There were no potential dilutive shares during the applicable periods, and as a result, basic and dilutive outstanding shares were the same.

Segment Information – The Company derives revenues and cash flows from its hotel portfolio. Hotel portfolio financial information is analyzed for purposes of assessing performance and allocating resources. Therefore, the Company has one operating segment consisting of its hotel portfolio.

Recent Accounting Pronouncements **–** In February 2016, the FASB issued ASU 2016-02, *Leases.* The new standard, as amended, introduces a new lease model which requires that substantially all leases be recorded on the balance sheet. The Company will be required to apply the provisions of ASU 2016-02 for accounting periods beginning after December 15, 2018 and for interim periods within those fiscal years. Earlier application is permitted. The Company is currently assessing the impact this new guidance may have on the Company's condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in Accounting Standards Codification ("ASC") 230, *Statement of Cash Flows*, including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. The adoption of this new guidance as of January 1, 2018 under the retrospective transition method did not impact the Company's condensed consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. ASU 2016-16 requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, as opposed to waiting until the asset is sold to an outside party. The adoption of this new guidance on January 1, 2018 on a modified retrospective basis did not impact the Company's condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* ASU 2017-04 simplifies the accounting for goodwill impairment by eliminating the process of measuring the implied value of goodwill, known as step two, from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The Company will be required to apply the provisions of ASU 2017-04 for accounting periods beginning after December 15, 2019, including interim reporting periods within those fiscal years. Earlier application is permitted. The Company does not expect the new standard to impact its condensed consolidated financial statements unless an impairment loss is determined to exist in a future period.

In February 2017, the FASB issued ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets,* which clarifies the scope of ASC Subtopic 610-20 and adds guidance for the derecognition of nonfinancial assets. The standard was effective with ASU 2014-09, presented above. The adoption of this new guidance on January 1, 2018 on a modified retrospective approach did not impact the Company's condensed consolidated financial statements.

3. Investment in Real Estate, net

Investment in real estate, net, as of June 30, 2018 and December 31, 2017 consisted of the following:

	June 30, 2018	December 31, 2017
Land and site improvements	$ 114,749	$ 117,418
Building and building improvements	682,999	693,132
Furniture, fixtures and equipment	59,904	57,422
Construction in progress	3,044	6,467
	860,696	874,439
Less: Accumulated depreciation	(125,621)	(116,180)
Investment in real estate, net	$ 735,075	$ 758,259

4. Sale of Hotel Properties

During the six months ended June 30, 2018, the Company sold two hotels as summarized below.

Hotel	Date of Sale	Proceeds	Gain	Mortgage Payable Repaid
Residence Inn—Huntsville, Alabama	January 2018	$ 7,587	$—	$ 7,587
Marriott—Redmond, Washington	February 2018	67,753	—	68,917
Total		$75,340	$—	$ 76,504

The Company received proceeds of $75.3 million from the sales of these hotels, which are net of $2.5 million in selling costs. Due to the sale of these hotels, the Company made an additional principal payment of $6.6 million in order to comply with the debt yield as required under the terms of the Company's mortgage loan agreement. During the year ended December 31, 2017, the Company recorded a $10.9 million impairment associated with classifying these hotel properties as held for sale (see Note 5). Therefore, no gain or loss was recorded during the six months ended June 30, 2018.

During the six months ended June 30, 2017, the Company sold seven hotels as summarized below.

Hotel	Date of Sale	Proceeds	Gain	Mortgage Payable Repaid
Fairfield Inn—Huntsville, Alabama	January 2017	$ 4,575	$ —	$ 4,444
TownePlace Suites—Arlington, Texas	January 2017	8,001	—	3,606
Springhill Suites—Clearwater, Florida	January 2017	5,767	—	4,971
TownePlace Suites—Las Colinas, Texas	January 2017	16,867	3,072	8,248
Courtyard—Albany, Georgia	February 2017	8,628	—	6,242
Springhill Suites—Arlington, Texas	March 2017	9,015	556	8,360
Courtyard – Valdosta, Georgia	June 2017	6,584	—	5,423
Total		$59,437	$3,628	$ 41,294

The Company received proceeds of $59.4 million from the sales of these hotels, which are net of selling costs of $2.0 million. Due to the sale of the hotels, the Company made an additional principal payment of $2.6 million in order to comply with the debt yield as required under the terms of the Company's previous mortgage loan agreement.

During the second quarter of 2017, the Company executed a letter of intent to sell the Courtyard – Valdosta, Georgia property. As a result, a test for impairment of the property was performed with fair value determined based on the estimated sales proceeds for the property. The Company estimated the sales proceeds based on the agreement of purchase and sale (subject to certain terms) entered into for the property in May 2017. The test resulted in a non-cash impairment of investment in real estate of $2.6 million for the six months ended June 30, 2017. The Courtyard – Valdosta, Georgia property was sold in June 2017.

During the second quarter of 2017, the Company executed a letter of intent to sell the Fairfield Inn – Pensacola, Florida property. As a result, a test for impairment of the property was performed with fair value determined based on the estimated sales proceeds for the property. The Company estimated the sales proceeds based on the agreement of purchase and sale (subject to certain terms) entered into for the property in May 2017. The test resulted in a non-cash impairment of investment in real estate of $0.4 million for the six months ended June 30, 2017. The Fairfield Inn – Pensacola, Florida property was sold in July 2017.

5. Hotels Held for Sale

During the fourth quarter of 2017, the Company committed to a plan to sell two hotels and accordingly the hotels were classified as hotels held for sale as of December 31, 2017. Hotels held for sale presented in the December 31, 2017 condensed consolidated balance sheet consisted of the investment in real estate of each hotel, which was measured at December 31, 2017 at the lower of carrying value or fair value, less costs to sell. Mortgages payable related to assets of hotels held for sale presented in the December 31, 2017 condensed consolidated balance sheet represents the principal of the mortgage payable that the Company was contractually required to repay in connection with the sale of the hotels. There were no other major captions of assets or liabilities related to the hotels held for sale. The following is a summary of hotels held for sale as of December 31, 2017.

Hotel	Assets of Hotels Held for Sale
Residence Inn—Huntsville, Alabama	$ 6,341
Marriott—Redmond, Washington	59,193
Total	$ 65,534

The Company sold both hotels in the first quarter of 2018 as described in Note 4.

6. Mortgages Payable

Mortgages payable as of June 30, 2018 and December 31, 2017 consisted of the following:

	June 30, 2018	December 31, 2017
Mortgages payable before unamortized deferred financing costs	$739,385	$ 746,223
Unamortized deferred financing costs	(4,919)	(8,075)
Mortgages payable related to assets held and used	$734,466	$ 738,148
Mortgages payable related to assets of hotels held for sale	—	69,905
Total mortgages payable	$734,466	$ 808,053

On July 7, 2017, certain wholly-owned subsidiaries (the "Borrowers") of the Company entered into a loan agreement (the "Loan Agreement") with Morgan Stanley Bank, N.A., Bank of America, N.A., Citigroup Global Markets Realty Corp., and JPMorgan Chase Bank, National Association (collectively, the "Lenders"), pursuant to which the Borrowers obtained an $800 million mortgage loan from the Lenders (the "Loan"). The Loan is secured by first-priority, cross-collateralized mortgage liens on 49 of the 50 properties owned or ground-leased by certain subsidiaries of the Company, all related personal property, reserves, a pledge of all income received by the Borrowers with respect to the properties, a pledge of the ownership interests in the operating lessee, BRE Select Hotels Operating LLC, a subsidiary of the Company (the "Operating Lessee"), and a security interest in deposit accounts.

The initial interest rate of the Loan is equal to the one-month London interbank offered rate for deposits, or LIBOR, plus a margin rate of 2.15%. In connection with the Loan, the Borrowers entered into an interest rate cap agreement, which caps the base interest rate before applying the applicable margins on the Loan, for an aggregate notional amount of $800 million, a termination date of July 9, 2019 and a cap rate of 4.25%. The Loan is scheduled to mature on July 9, 2019, with an option for the Borrowers to extend the initial term for five one-year extension terms, subject to certain conditions. The Company anticipates that it will exercise the extension options as it is probable that the Company will be in compliance with all of the requirements of the Loan, and thereby have the ability to extend. The Loan is not subject to any mandatory principal amortization. Any prepayment made after June 9, 2018 may be made without any prepayment penalty or fee. The Loan contains various representations and warranties, as well as certain financial, operating and other covenants. The Company believes it was in compliance with all applicable covenants as of June 30, 2018 and December 31, 2017.

In connection with entering into the Loan Agreement, on July 7, 2017, each Borrower and Operating Lessee also entered into a mortgage or deed of trust securing each Borrower's fee or leasehold interest in the properties and Operating Lessee's leasehold interest in the properties.

In connection with the Loan, the Company capitalized deferred financing costs of $10.8 million, which consists of amounts paid for direct and indirect costs associated with the origination of the Loan. The Company additionally incurred $1.8 million of professional fees and other costs associated with the Loan that did not meet the criteria for capitalization as deferred financing costs, and were included in general and administrative expense in the condensed consolidated statement of operations during the year ended December 31, 2017. Deferred financing costs were $4.9 million and $8.1 million as of June 30, 2018 and December 31, 2017, respectively, and are presented as a reduction of mortgages payable on the condensed consolidated balance sheets. Such costs are amortized on a straight-line basis (which approximates the effective interest method) over the term of the related debt.

As part of the Merger, the Company assumed an existing loan with a commercial lender secured by the Company's Fort Worth, Texas Residence Inn property. The loan matures on October 6, 2022 and carries a fixed interest rate of 4.73%. The outstanding principal balance was $15.9 million and $16.1 million as of June 30, 2018 and December 31, 2017, respectively, and is included in mortgages payable in the condensed consolidated balance sheets.

Components of interest expense for the three and six months ended June 30, 2018 and 2017 were as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Mortgage debt	$ 7,644	$ 7,307	$ 15,146	$ 14,339
Amortization of deferred financing costs	1,197	—	3,156	—
Capitalized interest	(20)	(109)	(57)	(218)
Total interest expense, net	$ 8,821	$ 7,198	$ 18,245	$ 14,121

Future scheduled principal payments of debt obligations as of June 30, 2018 are as follows:

2018 (remaining months)	$ 245
2019	724,009
2020	533
2021	562
2022	14,036
Thereafter	—
Total	$739,385

7. Fair Value of Financial Instruments

In accordance with the authoritative guidance on fair value measurements and disclosures, the Company measures nonfinancial assets and liabilities subject to nonrecurring measurement and financial assets and liabilities subject to recurring measurement based on a hierarchy that prioritizes inputs to valuation techniques used to measure the fair value. Inputs used in determining fair value should be from the highest level available in the following hierarchy:

Level 1 — Inputs based on quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access.

Level 2 — Inputs based on quoted prices for similar assets or liabilities, quoted market prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.

Level 3 — Inputs are unobservable for the asset or liability and typically based on an entity's own assumptions as there is little, if any, related market activity.

Determining estimated fair values of the Company's financial instruments such as mortgages payable, mortgages payable related to assets of hotels held for sale and interest rate caps requires considerable judgment to interpret market data. The market assumptions and/or estimation methodologies used may have a material effect on estimated fair value amounts. Accordingly, the estimates presented are not necessarily indicative of the amounts by which these instruments could be purchased, sold, or settled.

The table excludes cash, restricted cash, due from third-party managers, net, prepaid expenses and other assets, accounts payable and accrued expenses, due to third-party managers, net, and other liabilities, all of which had fair values approximating their carrying amounts due to the short maturities and liquidity of these instruments. Carrying amounts and estimated fair values of financial instruments, for periods indicated, were as follows:

	June 30, 2018		December 31, 2017	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial assets measured at fair value on a recurring basis:				
Interest rate caps	$ 2	$ 2	$ —	$ —
Financial liabilities not measured at fair value:				
Mortgages payable and mortgages payable related to assets of hotels held for sale	$739,385	$738,784	$816,128	$815,677

Interest rate caps – In July 2017, the Company acquired one interest rate cap agreement, as required by the terms of its Loan, considered to be a derivative financial instrument. The agreement caps the interest rate on the Loan. The Company did not designate the derivative as a hedge for accounting purposes, and accordingly, accounts for the interest rate cap at fair value in the accompanying condensed consolidated balance sheets in prepaid expenses and other assets with adjustments to fair value recorded in (loss) gain on derivatives in the condensed consolidated statements of operations. The interest rate cap was acquired at a cost of $0.2 million. Previously, upon exercise of the first one-year extension of the 2014 Loan, the Company acquired an interest rate cap agreement at a cost of $0.1 million, which was terminated in July 2017 upon execution of the Loan. Fair value is determined by using prevailing market data and incorporating proprietary models based on well recognized financial principles and reasonable estimates where applicable from a third-party source. This is considered a Level 2 valuation technique. Fair value changes on the interest rate cap are classified as a component of cash flows from operations on the condensed consolidated statement of cash flows.

Mortgages payable and mortgages payable related to assets of hotels held for sale – For the fixed rate mortgage payable, fair value is calculated by discounting the future cash flows of each instrument at estimated market rates of debt obligations with similar maturities and credit profiles or quality. This is considered a Level 3 valuation technique. The estimated fair value of the mortgages payable and mortgages payable related to assets of hotels held for sale in the table above includes the estimated fair value of the mortgage loan secured by the Company’s Fort Worth, Texas Residence Inn property, and the Company’s carrying value of the Loan at June 30, 2018 and December 31, 2017, including carrying amounts related to assets of hotels held for sale, if applicable. The fair value of the Loan at June 30, 2018 and December 31, 2017 cannot be reasonably estimated because it is not readily determinable without undue cost.

Impairment of investment in real estate – The impairment determinations during the periods ended June 30, 2018 and December 31, 2017 were based on Level 2 fair value measurements.

8. Commitments and Contingencies

Insurance – The Company carries comprehensive insurance, including general liability, property, rental loss and umbrella liability coverage on all of its hotels. In addition, the Company carries flood coverage on certain hotels when available on commercially reasonable terms for hotels where the Company believes such coverage is warranted or required under the terms of the Loan. On June 5, 2015, the Company evacuated and temporarily closed the Homewood Suites in Fort Worth, Texas due to damage incurred from extensive flooding in the area during late May 2015. Remediation work was started immediately, and the hotel reopened on October 27, 2015. The Company collected $0 and $0.1 million of the insurance receivable during the six months ended June 30, 2018 and the year ended December 31, 2017, respectively. The Company believes that it is owed in excess of $5.0 million for its outstanding insurance claims related to the 2015 flooding. However, after negotiations with its insurance providers, and a failed attempt to resolve the dispute via mediation in November 2017, the Company filed a lawsuit in November 2017 in order to collect the remaining amounts due from the Company’s insurance providers. Accordingly, since the matter is now subject to litigation and the collectability of the insurance receivable is no longer deemed probable and reasonably assured due to the uncertainty involved with the outcome of the litigation, during the fourth quarter of 2017, the Company recorded an allowance of $5.0 million against the previously recorded $5.0 million insurance receivable and a corresponding loss on disposals of investment in real estate of $5.0 million for the year ended December 31, 2017.

Litigation – The Company is subject to various legal proceedings, claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters using the latest information available. Based on current expectations, such matters, both individually and in the aggregate, are not expected to have a material impact on the liquidity, results of operations, business or financial condition of the Company.

The Company, as the successor to Apple Six, is subject to claims for alleged acts of Apple Six that occurred prior to the Merger. On February 24, 2017, a putative class action, captioned *Wilchfort v. Knight, et al.*, Civil Action No. 17-cv-01046 (E.D.N.Y.), was filed in the United States District Court for the Eastern District of New York against BRE Select Hotels Corp, as successor-in-interest to Apple REIT Six, Inc., Apple Hospitality REIT, Inc., Apple REIT Seven, Inc., Apple REIT Eight, Inc. (together with Apple REIT Six, Inc. and Apple REIT Seven, Inc., the "Apple REITs"), certain of the Apple REITs' directors, officers and advisors, and Apple Fund Management, LLC. Plaintiff seeks to represent a class of all persons and entities who elected to participate in Apple REITs' Dividend Reinvestment Plans ("DRIPs") between July 17, 2007 and the later of the termination and/or suspension of the respective DRIPs or February 12, 2014. The complaint alleges, among other things, that the prices at which plaintiff and the purported class members purchased additional shares through the DRIPs were artificially inflated and not indicative of the true value of units in the Apple REITs. Plaintiff asserts claims for breach of contract, tortious interference with contract and tortious interference with business expectancy and breach of implied duty of good faith and fair dealing and seeks, among other things, damages and other costs and expenses. On March 30, 2018, the court granted in part and denied in part the Company's motion to dismiss and, on April 13, 2018, plaintiffs filed an amended complaint, captioned Wilchfort et al. v. BRE Select Hotels Corp., Civil Action No. 17-cv-1046 (E.D.N.Y.). On May 31, 2018, plaintiff filed a Second Amended Class Action Complaint, captioned Battaglia v. BRE Select Hotels Corp., Civil Action No. 17-cv-01046 (E.D.N.Y.), which, among other things, narrowed the putative class period to February 24, 2011 through November 29, 2012. On June 4, 2018, plaintiff filed a motion for class certification. On June 27, 2018, the Company filed an Answer to the Second Amended Class Action Complaint. The Company believes that any claims against it are without merit, and it intends to defend against them vigorously. At this time, the Company cannot reasonably predict the outcome of this proceeding or provide a reasonable estimate of the possible loss or range of loss due to this proceeding.

Franchise Agreements – As of June 30, 2018, the Company's hotel properties, other than the Courtyard in Myrtle Beach, South Carolina, the SpringHill Suites in Fort Worth, Texas and the Marriott in Redmond, Washington, which was sold in February 2018, (the "Marriott Managed Properties") were operated under franchise agreements between the Company's TRS and Marriott or Hilton Worldwide Holdings Inc. or its affiliates ("Hilton"). The franchise agreements for these hotels allow the properties to operate under the brand identified in the applicable franchise agreements. The management agreements for each of the Marriott Managed Properties allow the Marriott Managed Properties to operate under the brand identified therein. Pursuant to the franchise agreements, the Company pays a royalty fee, generally between 4.5% and 6.0% of room revenue, which is included in franchise fees in the condensed consolidated statements of operations. Program fees, which include additional fees for marketing, are included in sales and marketing expense, and central reservation system and other franchisor costs are included in operating expense in the condensed consolidated statements of operations.

Management Agreements – As of June 30, 2018, each of the Company's 50 hotels were operated and managed under separate management agreements, by affiliates of the following companies: Marriott, Texas Western International ("Western"), Larry Blumberg & Associates ("LBA"), White Lodging Services Corporation ("White"), Inn Ventures, Inc. ("Inn Ventures"), Interstate Hotels & Resorts, Inc. ("Interstate"), OTO Development, LLC ("OTO"), or Sage Hospitality ("Sage"). The management agreements require the Company to pay a monthly fee calculated as a percentage of revenues, generally between 2.0% and 7.0%, as well as annual incentive fees, if applicable, and are included in management fees in the condensed consolidated statements of operations. The agreements have remaining terms generally ranging from less than one year to 16 years. The agreements with less than one year remaining in their term generally automatically renew on annual or month-to-month terms unless either party to the agreement gives prior notice of the termination thereof. If the Company terminates a management agreement prior to its expiration, it may be liable for estimated management fees through the remaining term and liquidated damages. Additionally, the Company, from time to time, may enter into management agreements to manage retail premises ancillary to its hotels.

TRS Lease Agreements – The Company's lease agreements are intercompany agreements between the TRS lessees and the Company's property-owning subsidiaries. These agreements generally contain terms which are customary for third-party lease agreements, including terms for rent payments and other expenses. All related rental income and expense related to the TRS lease agreements eliminate on a consolidated basis, and therefore have no impact on the condensed consolidated financial statements.

Ground Leases – As of June 30, 2018, two of the Company's hotel properties had ground leases with remaining terms of two years, which may be extended at the Company's election. Ground lease expenses were de minimis for each of the three and six months ended June 30, 2018 and 2017, and are included in taxes, insurance and other in the condensed consolidated statements of operations. The aggregate amounts of minimum lease payments under these lease agreements for the five years subsequent to June 30, 2018 and thereafter are as follows:

2018 (remaining months)	$ 53
2019	107
2020	45
2021	—
2022	—
Thereafter	—
Total	$205

9. 7% Series A Cumulative Redeemable Preferred Stock

In connection with the Merger, the Company issued 97,032,848 shares of Series A Preferred Stock. The terms of these shares provide the Company with the right to redeem such shares at any time for an amount equal to the liquidation preference, plus any accumulated and unpaid dividends. In addition, the terms of these shares include an option for a holder of such shares to require the Company to redeem all or a portion of such holder's shares on or after November 14, 2020 for an amount equal to the liquidation preference, plus any accumulated and unpaid dividends. The initial dividend rate on these shares was 7% per annum. The dividend rate increased from 7% per annum to 11% per annum on May 14, 2018. Due to the put option provided to the holders of these shares, such shares have been classified outside permanent stockholder's equity.

The initial liquidation preference of $1.90 per share will be subject to downward adjustment should net costs and payments relating to litigation and regulatory matters for alleged legacy acts exceed $3.5 million from the date of the Merger described in Note 1. The Company recognizes changes in the redemption value immediately as they occur and adjusts the carrying amount of the Series A Preferred Stock to equal the redemption value at the end of each reporting period. As of June 30, 2018, the initial liquidation preference has not been adjusted.

On August 6, 2017 (the "Redemption Date"), the Company used proceeds from the Loan (see Note 6) in the amount of approximately $54.5 million to redeem 28,560,947 shares of Series A Preferred Stock, representing approximately 39.458% of the total shares of Series A Preferred Stock outstanding on the Redemption Date. The shares of Series A Preferred Stock were redeemed on a pro rata basis from each stockholder at a redemption price of $1.9082 per share, which was comprised of the $1.90 liquidation preference per share and $0.082 in accumulated and unpaid dividends per share earned through the Redemption Date.

As of June 30, 2018 and December 31, 2017, BRE Holdings owned approximately 0.9 million shares of the Series A Preferred Stock.

On March 26, 2018, the Board of Directors of the Company declared a dividend on the Series A Preferred Stock of $0.0333 per share, which was paid on April 16, 2018 to stockholders of record on April 1, 2018. On June 29, 2018, the Board of Directors of the Company declared a dividend on the Series A Preferred Stock of $0.0459 per share, which was paid on July 16, 2018 to stockholders of record on July 1, 2018. The Company accrued dividends of $2.0 million and $1.5 million at June 30, 2018 and December 31, 2017, respectively, which are included in accounts payable and accrued expenses in the condensed consolidated balance sheets.

10. Stockholder's Equity

The Company is authorized to issue 150,100,000 shares of capital stock pursuant to its Amended and Restated Certificate of Incorporation, consisting of (i) 100,000 shares of common stock, par value $0.01 per share, and (ii) 150,000,000 shares of preferred stock, par value $0.0001 per share.

Holders of the Company's common stock are entitled to one vote for each share of common stock held. At June 30, 2018 and December 31, 2017, there were 100 shares of common stock issued and outstanding.

On February 8, 2018, the Board of Directors of the Company declared a dividend on its common stock of $40,000 per share, which was paid on February 9, 2018. On May 11, 2018, the Board of Directors of the Company declared a dividend on its common stock of $60,000 per share, which was paid on May 11, 2018.

11. Income Taxes

The Company accounts for TRS income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The analysis utilized by the Company in determining the deferred tax valuation allowance involves considerable management judgment and assumptions. The deferred tax valuation allowance was $4.1 million and $4.3 million as of June 30, 2018 and December 31, 2017, respectively. For the three months ended June 30, 2018 and 2017, the Company recorded $2.2 million and ($1.3) million of income tax benefit (expense), respectively. For the six months ended June 30, 2018 and 2017, the Company recorded $2.8 million and ($1.3) million of income tax benefit (expense), respectively. The income tax benefit (expense) for the three and six months ended June 30, 2018 and 2017 is comprised of federal and state income taxes.

12. Related Party Transactions

The Sponsor and its affiliates are in the business of making investments in companies and real estate assets and currently own, and may, from time to time acquire and hold, in each case, interests in businesses or assets that compete directly or indirectly with the Company. In addition, certain affiliates of the Sponsor have significant influence over Hilton, which indirectly owns the entities that serve as franchisors and receive franchise fees for 26 of the hotels owned by the Company. As of the end of May 2018, the Sponsor no longer has an equity investment in Hilton, however, an executive of the Sponsor is the Chairman of the Board of Directors of Hilton. In accordance with the Company's certificate of incorporation, the Sponsor has no obligation to present any corporate opportunities to the Company or to conduct its other business and investment affairs in the best interests of the Company, common stockholder, or holders of Series A Preferred Shares. In connection with the Sponsor's and its affiliates' business activities, the Sponsor, BRE Holdings or any of their affiliates, including, without limitation, Hilton or its subsidiaries, may from time to time enter into arrangements with the Company or its subsidiaries. These arrangements may be subject to restrictions on affiliate transactions contained in agreements entered into in connection with the Loan. The Company incurred $5.2 million and $5.0 million of franchise fees, marketing fees and other expenses during the three months ended June 30, 2018 and 2017, respectively, under agreements with Hilton or its subsidiaries. The Company incurred $9.0 million and $8.8 million of franchise fees, marketing fees and other expenses during the six months ended June 30, 2018 and 2017, respectively, under agreements with Hilton or its subsidiaries. No amounts were payable to Hilton as of June 30, 2018 or December 31, 2017.

A management company provides services to the Company including financial, accounting, administrative and other services that may be requested from time to time pursuant to a corporate services agreement. Affiliates of the Sponsor hold a management interest in this management company. The Company paid $0.7 million and $0.6 million to this management company during the three months ended June 30, 2018 and 2017, respectively. The Company paid $1.9 million and $1.2 million to this management company during the six months ended June 30, 2018 and 2017, respectively. No amounts were outstanding to this management company as of June 30, 2018 or December 31, 2017. Prepayments of $0.3 million and $0 related to the corporate services agreement are included in prepaid expenses and other assets on the condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q ("Quarterly Report") and with our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

In this Quarterly Report, the terms "the Company," "we" or "our" refer to BRE Select Hotels Corp, together with its wholly-owned subsidiaries. Except where the context suggests otherwise, as used in this Quarterly Report, "occupancy" represents the total number of hotel rooms sold in a given period divided by the number of hotel rooms available; "Average Daily Rate," or ADR, represents the average room price at a hotel or group of hotels and is computed by dividing total hotel room revenues by the total number of rooms sold in a given period; and "Revenue Per Available Room," or RevPAR, is the product of occupancy and ADR.

Forward-Looking Statements

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are typically identified by use of terms such as "may," "believe," "expect," "anticipate," "intend," "estimate," "project," "target," "goal," "plan," "should," "will," "predict," "potential," "forecast" and similar expressions that convey the uncertainty of future events or outcomes. Such statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements.

Such factors include, but are not limited to, risks inherent in the hospitality industry; adverse national and regional economic conditions; industry competition; the Company's dependence on third-party management companies; segment concentration; limitations in the Company's operating agreements; the Company's dependence on other hospitality brands; risks associated with the Company's indebtedness; financing risks; risks related to litigation, regulatory proceedings or inquiries; changes in or interpretations of laws or regulations that impact the Company; risk related to the Company's status as a real estate investment trust ("REIT"); and the factors discussed in the sections entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the "Form 10-K") and in this Quarterly Report. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore there can be no assurance that such statements included in the quarterly report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the results or conditions described in such statements or the objectives and plans of the Company will be achieved. In addition, the Company's qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code. Readers should carefully review the Company's financial statements and the notes thereto, as well as the risk factors described in the Company's filings with the SEC. Any forward-looking statement that the Company makes speaks only as of the date made. The Company undertakes no obligation to publicly update or revise any forward-looking statements or cautionary factors as a result of new information, future events or otherwise, except as required by law.

Overview

We are a REIT focused on the ownership of upscale, extended-stay and select-service hotels. Our hotels operate under the Homewood Suites by Hilton, Hilton Garden Inn, Hampton Inn, Hampton Inn & Suites, Courtyard by Marriott, Fairfield Inn by Marriott, Residence Inn by Marriott, SpringHill Suites by Marriott and TownePlace Suites by Marriott. Our focus is on the ownership of high-quality real estate that generates attractive returns for our investors. As of June 30, 2018, our portfolio consisted of 50 hotels, containing a total of 5,963 rooms diversified among markets in 17 states.

We were formed to invest in income-producing real estate in the United States through the acquisition of Apple REIT Six, Inc. ("Apple Six"). On May 14, 2013, we completed the acquisition of Apple Six pursuant to the merger agreement, by and between us, BRE Select Hotels Holdings LP ("BRE Holdings") and Apple Six, pursuant to which Apple Six merged with and into us.

Our strategy is to own primarily premium branded select service hotels, concentrated in markets that offer multiple demand generators and high barriers to entry. We believe that premium branded select service hotels offer attractive returns in their ability to generate high RevPAR levels, combined with an efficient operating model to control costs and generate positive cash flows. All 50 of our hotel properties are Hilton or Marriott branded properties.

We actively monitor the profitability of our properties and aim to maximize stockholder value by evaluating opportunities to acquire or dispose of properties. As such, the composition and size of our hotel portfolio may change materially over time.

Our hotel portfolio experienced a decline in room revenue for the three and six months ended June 30, 2018 compared to the prior year periods primarily due to the sale of two properties during the six months ended June 30, 2018 and the sale of eight properties during the year ended December 31, 2017. Excluding the properties sold, for the three months ended June 30, 2018, ADR and occupancy increased slightly compared to the 2017 comparable period. Net income decreased for the three and six months ended June 30, 2018 compared to the 2017 comparable period due to the sale of 10 properties since January 1, 2017 and the $18.3 million impairment of investment in real estate during the three months ended June 30, 2018. In addition, net income during the six months ended June 30, 2018 decreased due to the $3.6 million gain on sale of hotel properties during the six months ended June 30, 2017. Although our hotel performance can be influenced by many factors including local competition, local and general economic conditions in the United States and the performance of individual managers assigned to each hotel, the performance of our hotels as compared to other hotels within their respective local markets, in general, continues to meet our expectations.

We expect revenues for our portfolio, excluding the impact of hotels sold in 2018 and 2017, to rise by approximately 1% for the rest of 2018, which is consistent with the RevPAR growth forecasted for the industry in 2018. We have renovated substantially all of our hotel portfolio since 2014, and these improvements have helped us to continue to perform well as we continue to face increased competition in most of our markets.

We have elected to be taxed as a REIT for federal income tax purposes. In order to qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our adjusted taxable income to our stockholders, subject to certain adjustments and excluding any net capital gain. In addition, as a REIT we are not permitted to operate or manage our hotels. Accordingly, all of our hotels are leased to our property-owning subsidiaries and are operated pursuant to hotel management agreements between our taxable REIT subsidiaries lessees and unaffiliated third-party hotel management companies as follows:

Management Company	Number of Hotels	Number of Rooms
Inn Ventures, Inc.	10	1,493
Interstate Hotels & Resorts, Inc.	9	1,055
White Lodging Services Corporation	8	1,002
Larry Blumberg & Associates	9	719
Texas Western Hospitality	5	615
OTO Development, LLC	5	496
Sage Hospitality	2	303
Marriott International, Inc.	2	280
Total	50	5,963

We currently intend to adhere to these requirements to qualify for REIT status. There can be no assurance that we will qualify as a REIT for any particular year, however. If we fail to qualify as a REIT for any taxable year, we would be subject to federal income tax at corporate rates and distributions to our stockholders would not qualify for the dividends paid deduction. This tax liability would reduce net earnings available for distribution to our stockholders. In addition, we would generally be disqualified from treatment as a REIT for the year in which we lose our REIT status and for the four taxable years following such year.

Recent Events

In January 2018, we sold the Residence Inn – Huntsville, Alabama. In February 2018, we sold the Marriott – Redmond, Washington. The ten hotels sold in 2017 and the first six months of 2018 are collectively referred to as the “Sold Properties.”

On June 5, 2015, the Company evacuated and temporarily closed the Homewood Suites in Fort Worth, Texas due to damage incurred from extensive flooding in the area during late May 2015. Remediation work was started immediately, and the hotel reopened on October 27, 2015. The Company collected $0 and $0.1 million of the insurance receivable during the six months ended June 30, 2018 and the year ended December 31, 2017, respectively. The Company believes that it is owed in excess of $5.0 million for its outstanding insurance claims related to the 2015 flooding. However, after negotiations with its insurance providers, and a failed attempt to resolve the dispute via mediation in November 2017, the Company filed a lawsuit in November 2017 in order to collect the remaining amounts due from the Company’s insurance providers. Accordingly, since the matter is now subject to litigation and the collectability of the insurance receivable is no longer deemed probable and reasonably assured due to the uncertainty involved with the outcome of the litigation, during the fourth quarter of 2017, the Company recorded an allowance of $5.0 million against the previously recorded $5.0 million insurance receivable and a corresponding loss on disposals of investment in real estate of $5.0 million during the year ended December 31, 2017.

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Our Hotel Portfolio

As of June 30, 2018, we owned 50 hotels with an aggregate of 5,963 rooms located in 17 states. The following tables summarize the hotels and rooms by brand and by state:

Number of Hotels and Guest Rooms by Brand

Brand Affiliation	Number of Hotels	Number of Rooms
Marriott		
Residence Inn	9	1,169
Courtyard	8	822
TownePlace Suites	3	416
SpringHill Suites	3	379
Fairfield Inn	1	63
Subtotal	24	2,849
Hilton		
Hilton Garden Inn	13	1,645
Hampton Inn / Hampton Inn & Suites	7	757
Homewood Suites	6	712
Subtotal	26	3,114
Total	50	5,963

Number of Hotels and Guest Rooms by State

State	Number of Hotels	Number of Rooms
California	9	1,078
Texas	7	897
Washington	3	430
Oregon	4	671
Florida	6	519
Alaska	3	348
Connecticut	3	319
Alabama	4	304
Colorado	2	303
New Jersey	2	246
Pennsylvania	1	156
North Carolina	1	147
South Carolina	1	135
Tennessee	1	121
New York	1	112
Arizona	1	99
Georgia	1	78
Total	50	5,963

Key Indicators of Operating Performance

We use a variety of operating information and metrics to evaluate the operating performance of our hotels. These key indicators include financial information that is prepared in accordance with GAAP, along with other non- GAAP financial measures. In addition, we use industry standard statistical information and comparative data, some of which may not be financial in nature. In evaluating financial condition and operating performance, the most important indicators that we focus on are:

- ***Occupancy*** – Occupancy represents the total number of hotel rooms sold in a given period divided by the total number of hotel rooms available, and is a key measure of the utilization of our hotels' available capacity. Occupancy is a major driver of room revenue, as well as other revenue categories including food and beverage revenues. We use occupancy as a primary measure of demand at each of our hotels during a given period of time. Occupancy also guides us in determining achievable levels of ADR. Fluctuations in occupancy are accompanied by fluctuations in most categories of variable operating costs, such as utility cost and certain labor costs such as housekeeping, resulting in varying levels of hotel profitability.
- ***Average Daily Rate (ADR)*** – ADR represents the average room price at a hotel or group of hotels and is computed by dividing total hotel room revenues by the total number of rooms sold in a given period. ADR trends provide information concerning the customer base and pricing environment at our hotels. Increases in ADR typically result in higher operating margins and overall profitability, since variable hotel expenses do not increase correspondingly. As a result, ADR trends are carefully monitored to manage pricing levels.
- ***Revenue per Available Room (RevPAR)*** – RevPAR is the product of occupancy and ADR. It does not include non-room revenues such as food and beverage revenue or other ancillary revenues for guest services provided by the hotel. We use RevPAR to identify trend information for comparable properties and regions.

RevPAR Index is another commonly used metric in the lodging industry, and measures each hotel's market share in relation to its competitive set with 100 being the average (the index excludes hotels under renovation) and is provided by Smith Travel Research, Inc.®, an independent company that tracks historical hotel performance in most markets throughout the world. The RevPAR Index for a particular hotel is calculated as the quotient of (1) the subject hotel's RevPAR divided by (2) the average RevPAR of the hotels in the subject's competitive set, multiplied by 100.

One critical component of this calculation is the determination of a hotel's competitive set, which consists of a small group of hotels within its relevant market. We work with each hotel's management company to assess and agree on each hotel's competitive set. Many factors are involved in determining each hotel's competitive set, including geographic location, brand affiliation, and comparable service levels provided.

Results of Operations

Results of Operations for the Three and Six Months Ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018	Percent of Revenue	Three Months Ended June 30, 2017	Percent of Revenue
Total hotel revenue	$ 64,798	100%	$ 69,923	100%
Hotel operating expenses	34,647	54%	36,892	53%
Taxes, insurance and other expense	3,148	5%	3,655	5%
General and administrative expense	2,103	3%	1,730	2%
Depreciation	8,416		9,250	
Impairment of investment in real estate	18,307		2,988	
Interest expense, net	8,821		7,198	
Loss on derivatives	58		—	
Income tax (benefit) expense	(2,150)		1,305	

	Six Months Ended June 30, 2018	Percent of Revenue	Six Months Ended June 30, 2017	Percent of Revenue
Total hotel revenue	$ 120,575	100%	$ 131,243	100%
Hotel operating expenses	67,259	56%	71,203	54%
Taxes, insurance and other expense	7,154	6%	7,447	6%
General and administrative expense	3,501	3%	3,557	3%
Depreciation	17,165		18,173	
Impairment of investment in real estate	18,307		2,988	
Gain on sale of hotel properties	—		(3,628)	
Interest expense, net	18,245		14,121	
Gain on derivatives	2		—	
Income tax (benefit) expense	(2,848)		1,267	

Comparable Operating Metrics

The follow table reflects key operating metrics for our 50 hotels owned as of June 30, 2018 ("Comparable Properties"). We define Comparable Properties as the results generated by the 50 hotels owned as of the end of the reporting period.

Statistical Data	For the three months ended June 30, 2018	For the three months ended June 30, 2017	For the six months ended June 30, 2018	For the six months ended June 30, 2017
Occupancy	81.0%	80.2%	76.2%	76.2%
ADR	$ 140.68	$ 139.08	$ 136.47	$ 135.18
RevPAR	$ 113.93	$ 111.56	$ 103.96	$ 102.99
RevPAR Index	117	116	117	118

Revenues

Our principal source of revenue is hotel revenue, consisting of room and other related revenue. For the three months ended June 30, 2018 and 2017, we had total hotel revenue of $64.8 million and $69.9 million, respectively. For the six months ended June 30, 2018 and 2017, we had total hotel revenue of $120.6 million and $131.2 million, respectively. The decline in hotel revenue was largely due to $4.3 million and $10.6 million in revenue attributable to the Sold Properties in the three and six months ended June 30, 2017, respectively, but not earned in 2018 due to the disposition of the Sold Properties. In addition, there was a $1.4 million decrease during the six months ended June 30, 2018 due to proceeds received during the six months ended June 30, 2017 from the Deepwater Horizon Economic and Property Damages Settlement Program related to damages suffered by four properties prior to the Merger. The decreases were partially offset by an increase in revenues at the Comparable Properties during the three and six months ended June 30, 2018.

Expenses

Hotel operating expenses consist of direct room expense, hotel administrative expense, sales and marketing expense, utilities expense, repair and maintenance expense, franchise fees and management fees. For the three months ended June 30, 2018 and 2017, hotel operating expenses totaled $34.6 million and $36.9 million, respectively, representing 54% and 53% of total hotel revenue, respectively. For the six months ended June 30, 2018 and 2017, hotel operating expenses totaled $67.3 million and $71.2 million, respectively, representing 56% and 54% of total hotel revenue, respectively. The decline in hotel operating expenses was largely due to $3.6 million and $6.1 million in expenses attributable to the Sold Properties that were incurred during the three and six months ended June 30, 2017, but not incurred in 2018 due to the disposition of the Sold Properties. These decreases were partially offset by higher payroll and benefits costs and repair and maintenance expense at the Comparable Properties during the three and six months ended June 30, 2018.

Excluding the impact of the Sold Properties, our results for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 reflect our efforts to control costs. Certain operating costs, such as management costs, certain utility costs and minimum supply and maintenance costs, are relatively fixed in nature. Although operating expenses generally increase as occupancy and revenue increase, we have and expect to continue to work with our management companies to reduce costs as a percentage of revenue where possible while maintaining quality service levels at each property.

Taxes, insurance, and other expenses for the three months ended June 30, 2018 and 2017 were $3.1 million and $3.7 million, respectively, or 5% of total hotel revenue. Taxes, insurance, and other expenses for the six months ended June 30, 2018 and 2017 were $7.2 million and $7.4 million, respectively, or 6% of total hotel revenue. The decrease was largely due to expenses attributable to the Sold Properties that were incurred during the three and six months ended June 30, 2017, but not incurred in 2018 due to the disposition of the Sold Properties.

General and administrative expense for the three months ended June 30, 2018 and 2017 was $2.1 million and $1.7 million, respectively, or 3% and 2% of total hotel revenue, respectively. General and administrative expense for the six months ended June 30, 2018 and 2017 was $3.5 million and $3.6 million, respectively, or 3% of total hotel revenue. The principal components of general and administrative expense are advisory fees and expenses, legal fees, accounting fees and reporting expenses.

Depreciation expense for the three months ended June 30, 2018 and 2017 was $8.4 million and $9.3 million, respectively. Depreciation expense for the six months ended June 30, 2018 and 2017 was $17.2 million and $18.2 million, respectively. The decrease in 2018 compared to 2017 was largely due to $1.2 million and $1.9 million in depreciation expense attributable to the Sold Properties that was incurred during the three and months ended June 30, 2017, but not incurred in 2018 due to the disposition of the Sold Properties. This decrease was partially offset by increases in 2018 depreciation expense related to fixed assets placed in service at the Comparable Properties since June 30, 2017.

During the second quarter of 2018, the Company obtained a broker's opinion of value for the Residence Inn – Pittsburgh, Pennsylvania property and the Hilton Garden Inn – McAllen, Texas property. As a result, a test for impairment of the properties was performed with fair value determined based on the estimated sales proceeds for the properties. The Company estimated the sales proceeds based on the broker's opinion of value. The test resulted in a non-cash impairment of investment in real estate of $13.6 million and $4.7 million, respectively, for the Residence Inn – Pittsburgh, Pennsylvania property and the Hilton Garden Inn – McAllen, Texas property for the three and six months ended June 30, 2018. During the three months ended June 30, 2017, a non-cash impairment of investment in real estate of $2.6 million and $0.4 million, respectively, was recorded for the Courtyard – Valdosta, Georgia property and the Fairfield Inn – Pensacola, Florida property. We tested the properties for impairment and subsequently recorded the impairment charges as a result of changes in the expected useful lives for these investments in real estate due to our execution of letters of intent to sell the properties during 2017.

Gain on sale of hotel properties for the six months ended June 30, 2018 and 2017 was $0 and $3.6 million, respectively. We sold two hotels during the first quarter of 2018 for which a $10.9 million impairment associated with classifying these hotel properties as held for sale (see Note 5) was recorded during the year ended December 31, 2017. We sold six hotels during the first quarter of 2017 that resulted in a $3.6 million gain on sale of hotel properties.

Interest expense, net, for the three months ended June 30, 2018 and 2017 was $8.8 million and $7.2 million, respectively. Interest expense, net, for the six months ended June 30, 2018 and 2017 was $18.2 million and $14.1 million, respectively. The increase was primarily due to the amortization of deferred financing costs related to the new loan obtained in July 2017, as the deferred financing costs related to the previous loan were fully amortized in December 2016. In addition, there was an increase in LIBOR in the first six months of 2018 compared to the prior year comparable period, which resulted in an increase in interest expense, partially offset by savings from a lower debt balance due to the sale of the Sold Properties.

Income tax (benefit) expense for the three months ended June 30, 2018 and 2017 was ($2.2) million and $1.3 million, respectively. Income tax (benefit) expense for the six months ended June 30, 2018 and 2017 was ($2.8) million and $1.3 million, respectively. The decrease in income tax expense for the three and six months ended June 30, 2018 as compared to the 2017 comparable period was primarily due to the decline in operational income resulting from the sale of the Sold Properties and the $13.6 million impairment on investment in real estate for the Residence Inn - Pittsburgh during the three and six months ended June 30, 2018. Our effective tax rate was lower period over period due to the U.S. enactment of the Tax Cuts and Jobs Act which significantly reduced the federal income tax rate.

Non-GAAP Financial Measures

The two key non-GAAP financial measures that we use to evaluate our performance are EBITDA and Adjusted EBITDA.

EBITDA – EBITDA is defined as net income or loss excluding interest, income taxes, and depreciation and amortization. We believe EBITDA is a useful measure to evaluate operating performance between periods, as it removes the impact of our capital structure (interest expense) and asset base (depreciation and amortization) from our operating results.

Adjusted EBITDA – We further adjust EBITDA for certain additional items, including impairment of investment in real estate, extinguishment of mortgages payable and mezzanine loans, gain or loss on sale of hotel properties, loss on disposals of investments in real estate, derivatives and merger transaction costs.

We believe that EBITDA and Adjusted EBITDA provide additional useful supplemental information about our ongoing operating performance. Specifically, these measures are among the measures used by our management team to evaluate our operating performance and make day-to-day operating decisions, and these measures are frequently used by investors and other interested parties as a common performance measure to compare results or estimate valuations across companies in our industry. Additionally, these measures exclude certain items that can vary widely across different industries and among competitors within our industry.

EBITDA and Adjusted EBITDA are not recognized terms under GAAP and should not be considered as alternatives to net income (loss) or other measures of financial performance or liquidity derived in accordance with GAAP. EBITDA and Adjusted EBITDA have limitations as analytical tools and should not be considered as alternatives, either in isolation or as a substitute, for net income (loss), cash flow or other methods of analyzing our results as reported under GAAP.

The following table is a reconciliation of GAAP net income to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2018 and 2017:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Net (loss) income	$(8,552)	$6,905	$(8,206)	$16,115
Depreciation and amortization	8,416	9,250	17,165	18,173
Interest expense, net	8,821	7,198	18,245	14,121
Income tax (benefit) expense	(2,150)	1,305	(2,848)	1,267
EBITDA	$6,535	$24,658	$24,356	$49,676
Impairment of investment in real estate	18,307	2,988	18,307	2,988
Gain on sale of hotel properties	—	—	—	(3,628)
Loss (gain) on derivatives	58	—	(2)	—
Adjusted EBITDA	$24,900	$27,646	$42,661	$49,036

Liquidity and Capital Resources

Operating cash flow from our hotel properties is our principal source of liquidity. We anticipate that our cash flows from operations will provide adequate capital for the next 12 months for all anticipated uses, including all scheduled principal and interest payments on our outstanding indebtedness, ongoing capital commitments to fund capital improvements, dividends on the Series A Preferred Stock, distributions necessary to maintain our qualification as a REIT and other capital obligations associated with conducting our business.

Net cash flows provided by operating activities for the six months ended June 30, 2018 decreased by $6.3 million compared to the six months ended June 30, 2017, primarily due to the impact of ten fewer hotels for the full six-month period in 2018 compared to 2017, due to the sale of the Sold Properties. Net cash flows provided by investing activities for the six months ended June 30, 2018 increased by $18.7 million compared to the six months ended June 30, 2017, due primarily to the increase of $15.9 million in proceeds from the sale of hotel properties in 2018 compared to 2017, partially offset by $2.8 million less in capital improvements. Net cash used in financing activities for the six months ended June 30, 2018 increased by $16.4 million compared to the six months ended June 30, 2017 due to a $32.6 million increase in debt repaid, which resulted primarily from an increase in debt repaid for the Sold Properties in 2018 compared to 2017. This increase was partially offset by $14.3 million less in dividends paid to our common stockholder.

Mortgage Loans

On July 7, 2017, certain of our indirect wholly-owned subsidiaries (the “Borrowers”) and Morgan Stanley Bank, N.A., Bank of America, N.A., Citigroup Global Markets Realty Corp., and JPMorgan Chase Bank, National Association (collectively, the “Lenders”) entered into a loan agreement, pursuant to which the Borrowers obtained a $800 million mortgage loan from the Lenders (the “Loan”). The Loan is secured by first-priority, cross-collateralized mortgage liens on 49 of the 50 properties owned or ground-leased by certain subsidiaries of the Company as of the date of the Loan, all related personal property, reserves, a pledge of all income received by the Borrowers with respect to the properties, a pledge of the ownership interests in the operating lessee, BRE Select Hotels Operating LLC, a subsidiary of the Company, and a security interest in deposit accounts. The Loan is scheduled to mature on July 9, 2019, with an option for the Borrowers to extend the initial term for five one-year extension terms, subject to certain conditions. The initial interest rate of the Loan is equal to the one-month London interbank offered rate for deposits, or LIBOR, plus a margin rate of 2.15%. In connection with the Loan, the Borrowers entered into an interest rate cap agreement, which caps the base interest rate before applying the applicable margins on the Loan, for an aggregate notional amount of $800 million, a termination date of July 9, 2019 and a cap rate of 4.25%. The Loan is not subject to any mandatory principal amortization. A portion of the proceeds from the Loan was used to repay the $732.6 million principal amount outstanding under the previous mortgage loan, and the Borrowers repaid in full, cancelled and terminated the mortgage loan agreements outstanding relating to the previous mortgage loan without any penalties incurred. Additionally, a portion of the proceeds was used to redeem shares of the Company’s Series A Preferred Stock.

As of June 30, 2018 we had $739.4 million in mortgages payable, comprised of $723.5 million under the Loan, and $15.9 million secured by the Fort Worth, Texas Residence Inn property. In connection with the sales of the Residence Inn – Huntsville, Alabama and Marriott – Redmond, Washington, we repaid $76.5 million of the Loan.

Capital Expenditures

We have ongoing capital commitments to fund capital improvements. We are required, under all of the hotel franchise agreements and under our loan agreements, to make a percentage of the gross revenues from each hotel available for the repair, replacement and refurbishing of furniture, fixtures, and equipment at such hotel, provided that under the loan agreements such amounts may be used for certain capital expenditures with respect to the hotels. Pursuant to the Loan, we must deposit monthly in a lender escrow an amount equal to the sum of 4-5% of total revenue, excluding revenue from the Marriott managed hotels, in accordance with the terms of our franchise and management agreements. These funds can then be used for capital enhancements to the properties. We spent $14.7 million in capital improvements in the first six months of this year, and expect to spend an additional $11.9 million on capital improvements during the remainder of this year.

Distributions

To qualify as a REIT, we are required to distribute at least 90% of our ordinary income to our stockholders. We intend to adhere to these distribution and other requirements to qualify for REIT status.

BRE Holdings owns 100% of our issued and outstanding common stock. In 2017, dividends on our common stock were paid in February, May, July, August and November. On February 9, 2018, we paid a dividend on our common stock of $40,000 per share. On May 11, 2018, we paid a dividend on our common stock of $60,000 per share. Any decision to declare and pay dividends on our common stock in the future will be made at the sole discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our Board of Directors may deem relevant.

In 2017, dividends on the Series A Preferred Stock were paid in January, April, July, and October. On January 16, 2018, we paid a dividend on our Series A Preferred Stock of $0.0333 per share to stockholders of record on January 1, 2018. On March 26, 2018, our Board of Directors declared a dividend on the Series A Preferred Stock of $0.0333 per share, which was paid on April 16, 2018 to stockholders of record on April 1, 2017. On May 14, 2018, the applicable rate of the dividend increased from 7% to 11%. Accordingly, the dividend increased from $0.0333 per share to $0.0459 per share. On June 29, 2018, the Board of Directors of the Company declared a dividend on the Series A Preferred Stock of $0.0459 per share, which was paid on July 16, 2018 to stockholders of record on July 1, 2018. Dividends for the Series A Preferred Stock are anticipated to be paid quarterly in January, April, July and October each year.

Repurchases

We and our affiliates and/or our stockholder and its respective affiliates, may from time to time repurchase our outstanding Series A Preferred Stock or debt through open market purchases, privately negotiated transactions or otherwise. Purchases or retirement of our Series A Preferred Stock or debt, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions, and other factors. The amounts involved may be material.

In August 2017, we used proceeds from the Loan to redeem 28,560,947 shares of Series A Preferred Stock, representing approximately 39.458% of the total Series A Preferred Stock outstanding, with an aggregate redemption price of approximately $54.5 million, which included accrued and unpaid dividends on such redeemed shares.

Contractual Obligations

Our contractual obligations have not changed significantly from those disclosed in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Impact of Inflation

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. Currently, the Company is not experiencing any material impact from inflation.

Insurance

We carry comprehensive insurance, including general liability, property, rental loss and umbrella liability coverage on all of our hotels. In addition, we carry flood coverage on certain hotels when available on commercially reasonable terms for hotels where we believe such coverage is warranted or required under the terms of our debt agreements. We have selected policy specifications and insured limits which we believe to be appropriate given the relative risk of loss, the cost of the coverage and industry practice, and as such believe our hotels are adequately insured.

Seasonality

Demand in the lodging industry is impacted by recurring seasonal patterns. For properties located in non-resort markets, demand is generally lower in the winter months due to decreased travel and higher in the spring and summer months during peak travel season. Accordingly, we expect that we will have lower revenue, operating income and cash flow in the first and fourth quarters, and higher revenue, operating income and cash flow in the second and third quarters. To the extent that cash flow from operations is insufficient during any quarter, due to temporary or seasonal fluctuations in revenue, we expect to utilize cash on hand or, if necessary, any available other financing sources to make distributions to stockholders.

Critical Accounting Policies

There have been no significant changes in our critical accounting policies or estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For the Company’s disclosures about market risk, please see “Quantitative and Qualitative Disclosures About Market Risk” in Part II, Item 7A of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes to the Company’s disclosures about market risk in Part II, Item 7A of the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company’s reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. The Company’s management, with the participation of the Company’s Chief Executive Officer and the Company’s Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based upon that evaluation, the Company’s Chief Executive Officer and the Company’s Chief Financial Officer concluded that, as of June 30, 2018, the Company’s disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company, as the successor to Apple Six, is subject to claims for alleged acts of Apple Six that occurred prior to the Merger. On February 24, 2017, a putative class action, captioned *Wilchfort v. Knight, et al.*, Civil Action No. 17-cv-01046 (E.D.N.Y.), was filed in the United States District Court for the Eastern District of New York against BRE Select Hotels Corp, as successor-in-interest to Apple REIT Six, Inc., Apple Hospitality REIT, Inc., Apple REIT Seven, Inc., Apple REIT Eight, Inc. (together with Apple REIT Six, Inc. and Apple REIT Seven, Inc., the “Apple REITs”), certain of the Apple REITs’ directors, officers and advisors, and Apple Fund Management, LLC. Plaintiff seeks to represent a class of all persons and entities who elected to participate in Apple REITs’ Dividend Reinvestment Plans (“DRIPs”) between July 17, 2007 and the later of the termination and/or suspension of the respective DRIPs or February 12, 2014. The complaint alleges, among other things, that the prices at which plaintiff and the purported class members purchased additional shares through the DRIPs were artificially inflated and not indicative of the true value of units in the Apple REITs. Plaintiff asserts claims for breach of contract, tortious interference with contract and tortious interference with business expectancy and breach of implied duty of good faith and fair dealing and seeks, among other things, damages and other costs and expenses. On March 30, 2018, the court granted in part and denied in part the Company’s motion to dismiss and, on April 13, 2018, plaintiffs filed an amended complaint, captioned Wilchfort et al. v. BRE Select Hotels Corp., Civil Action No. 17-cv-1046 (E.D.N.Y.). On May 31, 2018, plaintiff filed a Second Amended Class Action Complaint, captioned Battaglia v. BRE Select Hotels Corp., Civil Action No. 17-cv-01046 (E.D.N.Y.), which, among other things, narrowed the putative class period to February 24, 2011 through November 29, 2012. On June 4, 2018, plaintiff filed a motion for class certification. On June 27, 2018, the Company filed an Answer to the Second Amended Class Action Complaint. The Company believes that any claims against it are without merit, and it intends to defend against them vigorously. At this time, the Company cannot reasonably predict the outcome of this proceeding or provide a reasonable estimate of the possible loss or range of loss due to this proceeding.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in the section entitled “Risk Factors” in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017, which could materially adversely affect the Company’s business, financial condition, results of operations (including revenues and profitability), operating cash flow and value. The risks described in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also could materially adversely affect its business, financial condition, results of operations (including revenues and profitability), operating cash flow and value. There have been no material changes from the risk factors previously disclosed in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description of Documents
31.1*	Certification of the Company’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of the Company’s Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from BRE Select Hotels Corp’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) related notes to these financial statements, tagged as blocks of text and in detail.

* 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.

BRE SELECT HOTELS CORP

Date: August 14, 2018	By: /s/ WILLIAM J. STEIN William J. Stein Chief Executive Officer and Senior Managing Director (Principal Executive Officer)
Date: August 14, 2018	By: /s/ BRIAN KIM Brian Kim Chief Financial Officer, Vice President and Managing Director (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, William J. Stein, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BRE Select Hotels Corp;

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: August 14, 2018

/s/ WILLIAM J. STEIN

William J. Stein
Chief Executive Officer and Senior Managing Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Brian Kim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BRE Select Hotels Corp;
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: August 14, 2018

/s/ BRIAN KIM

Brian Kim
Chief Financial Officer, Vice President
and Managing Director
(Principal Financial Officer and Principal
Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of BRE Select Hotels Corp (the "Company") on Form 10-Q for the quarterly period ended June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2018

/s/ WILLIAM J. STEIN
William J. Stein
Chief Executive Officer and Senior Managing Director (Principal Executive Officer)

Date: August 14, 2018

/s/ BRIAN KIM
Brian Kim
Chief Financial Officer, Vice President
and Managing Director
(Principal Financial Officer and Principal Accounting Officer)