

RLJ Lodging Trust
Form 10-K
February 25, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2015

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 001-35169

RLJ LODGING TRUST

(Exact Name of Registrant as Specified in Its Charter)

Maryland

27-4706509

(State or Other Jurisdiction of Incorporation or
Organization)

(I.R.S. Employer Identification No.)

3 Bethesda Metro Center, Suite 1000

Bethesda, Maryland

20814

(Address of Principal Executive Offices)

(Zip Code)

(301) 280-7777

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class

Common Shares, \$0.01 par value

Name of Each Exchange on Which Registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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The aggregate market value of the 126,754,540 common shares of beneficial interest held by non-affiliates of the Registrant was approximately \$3,774,750,201 based on the closing price of \$29.78 as reported on the New York Stock Exchange for such common shares of beneficial interest on June 30, 2015.

As of February 17, 2016, 124,627,008 common shares of beneficial interest of the Registrant, \$0.01 par value per share, were outstanding.

Documents Incorporated by Reference

Portions of the Definitive Proxy Statement for our 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this report. We expect to file our proxy statement within 120 days after December 31, 2015.

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SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 10-K, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements generally are identified by the use of the words "believe," "project," "expect," "anticipate," "estimate," "plan," "may," "will," "will continue," "intend," "should," "may" or similar expressions. Although we believe that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, beliefs and expectations, such forward-looking statements are not predictions of future events or guarantees of future performance and our actual results could differ materially from those set forth in the forward-looking statements. Some factors that might cause such a difference include the following: the current global economic uncertainty, increased direct competition, changes in government regulations or accounting rules, changes in local, national and global real estate conditions, declines in the lodging industry, seasonality of the lodging industry, risks related to natural disasters, such as earthquakes and hurricanes, hostilities, including future terrorist attacks or fear of hostilities that affect travel, our ability to obtain lines of credit or permanent financing on satisfactory terms, changes in interest rates, access to capital through offerings of our common and preferred shares of beneficial interest, or debt, our ability to identify suitable acquisitions, our ability to close on identified acquisitions and integrate those businesses and inaccuracies of our accounting estimates. A discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K. Given these uncertainties, undue reliance should not be placed on such statements. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Except where the context suggests otherwise, we define certain terms in this Annual Report on Form 10-K as follows: "our company," "we," "us" and "our" refer to RLJ Lodging Trust, a Maryland real estate investment trust, together with its consolidated subsidiaries, including RLJ Lodging Trust, L.P., a Delaware limited partnership, which we refer to as "our operating partnership";

"our predecessor" collectively refers to RLJ Development, LLC ("RLJ Development"), and two lodging-focused private equity funds that were sponsored and managed by RLJ Development, RLJ Lodging Fund II, L.P. (and its parallel fund), (collectively, "Fund II"), and RLJ Real Estate Fund III, L.P. (and its parallel fund), (collectively, "Fund III"), all of which were entities under the common control of Robert L. Johnson, our Executive Chairman;

"our hotels" refers to the 126 hotels owned by us as of December 31, 2015;

a "compact full-service hotel" typically refers to any hotel with (1) less than 300 guestrooms and less than 12,000 square feet of meeting space or (2) more than 300 guestrooms where, unlike traditional full-service hotels, the operations focus primarily on the rental of guestrooms such that a significant majority of its total revenue is generated from room rentals rather than other sources, such as food and beverage;

a "focused-service hotel" typically refers to any hotel where the operations focus primarily on the rental of guestrooms and that offers services and amenities to a lesser extent than a typical full-service or compact full-service hotel. For example, a focused-service hotel may have a restaurant, but, unlike a restaurant in a typical full-service or compact full-service hotel, it may not offer three meals per day and may not offer room service. In addition, a focused-service hotel differs from a compact full-service hotel in that it typically has less than 2,000 square feet of meeting space, if any at all;

"TRS" refers to each of our taxable REIT subsidiaries that are wholly-owned, directly or indirectly, by our operating partnership and any disregarded subsidiaries of our TRSs;

"Average Daily Rate" ("ADR") represents total hotel room revenues divided by total number of rooms sold in a given period;

"Occupancy" represents the total number of hotel rooms sold in a given period divided by the total number of rooms available;

"Revenue Per Available Room" ("RevPAR") is the product of ADR and Occupancy; and

"RevPAR penetration index" of our hotels is the measure of each hotel's RevPAR in relation to the average RevPAR of that hotel's competitive set. Each hotel's competitive set consists of a small group of hotels in the relevant market that

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we and the third-party hotel management company that manages the hotel believe are comparable for purposes of benchmarking the performance of such hotel.

For a more in depth discussion of Occupancy, ADR, RevPAR, and the RevPAR penetration index, please see "Key Indicators of Operating Performance."

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PART I

Item 1. Business

Our Company

We are a self-advised and self-administered Maryland real estate investment trust ("REIT") that acquires primarily premium-branded, focused-service and compact full-service hotels. We are one of the largest U.S. publicly-traded lodging REITs in terms of both number of hotels and number of rooms. Our hotels are concentrated in markets that we believe exhibit multiple demand generators and high barriers to entry. We believe premium-branded, focused-service and compact full-service hotels with these characteristics generate high levels of RevPAR, strong operating margins and attractive returns.

As of December 31, 2015, we, through wholly-owned subsidiaries, owned 126 hotels with approximately 20,900 rooms, located in 21 states and the District of Columbia and an interest in one mortgage loan secured by a hotel. We own, through wholly-owned subsidiaries, 100% of the interests in all properties, with the exception of one property in which we own a 98.3% controlling interest in a joint venture.

For U.S. federal income tax purposes, we elected to be taxed as a REIT commencing with our taxable year ended December 31, 2011. Substantially all of our assets are held by, and all of our operations are conducted through, our operating partnership. We are the sole general partner of our operating partnership. As of December 31, 2015, we owned, through a combination of direct and indirect interests, 99.3% of the OP units in our operating partnership.

The Lodging Industry

The lodging industry in the United States consists of private and public entities that operate in an extremely diversified market under a variety of brand names. The lodging industry has several key participants as follows: Owners — own the hotel and typically enter into a management agreement for an independent third party to manage the hotel. The hotel properties may be branded and operated under the manager's brand or branded under a separate franchise agreement.

Franchisors — own a brand or brands and provide their hotels with brand recognition, marketing support and worldwide reservation systems for the franchised hotels.

Managers — responsible for the day-to-day operation of the hotel, including the employment of the hotel staff, the determination of room rates, the development of sales and marketing plans, the preparation of operating and capital expenditures budgets and the preparation of financial reports for the owner.

Our Investment and Growth Strategies

Our objective is to generate strong returns for our shareholders by acquiring primarily premium-branded, focused-service hotels and compact full-service hotels at prices where we believe we can generate attractive returns on investment and long-term value appreciation through proactive asset management. We intend to pursue acquisitions of these hotels and selectively dispose of properties when we believe returns have been maximized in order to redeploy capital into more accretive acquisitions and other opportunities. We intend to pursue this objective through the following investment and growth strategies:

Investment Strategies

Targeted ownership of premium-branded, focused-service and compact full-service hotels. We believe that premium-branded, focused-service hotels have the potential to generate attractive returns relative to other types of hotels due to their ability to achieve RevPAR levels at or close to those generated by traditional full-service hotels, while achieving higher profit margins due to their more efficient operating model and less volatile cash flows. We also may acquire compact full-service hotels which have operating characteristics that resemble those of focused-service hotels.

Use of premium hotel brands. We believe in affiliating our hotels with premium brands owned by leading international franchisors such as Marriott, Hilton and Hyatt. We target hotels affiliated with premium brands such as Courtyard by Marriott, Residence Inn by Marriott, Hilton Garden Inn and Hyatt House. We believe that utilizing premium brands provides significant advantages because of their guest loyalty programs, worldwide reservation systems, effective product segmentation, global distribution and strong customer awareness.

Focus on high-growth markets. We focus on owning and acquiring hotels in markets that we believe have multiple demand generators and high barriers to entry. As a result, we believe that these hotels generate higher returns on investment.

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Growth Strategies

Maximize returns from our hotels. We believe that our hotels have the potential to generate significant improvements in RevPAR and earnings before interest, taxes, depreciation and amortization ("EBITDA") as a result of our proactive asset management and the anticipated economic growth in the United States. We actively monitor and advise our third-party hotel management companies on most aspects of our hotels' operations, including property positioning, physical design, capital planning and investment, guest experience and overall strategic direction. We regularly review opportunities to further invest in our hotels in an effort to enhance the quality and attractiveness of our hotels, increase their long-term value and generate attractive returns on investment.

Pursue a disciplined hotel acquisition strategy. We seek to acquire additional hotels at prices below replacement cost where we believe we can generate attractive returns on investment. We intend to target acquisition opportunities where we can enhance value by pursuing proactive investment strategies such as renovation, repositioning or rebranding.

Pursue a disciplined capital recycling program. We intend to continue to pursue a disciplined capital allocation strategy designed to maximize the value of our investments by selectively selling hotels that are no longer consistent with our investment strategy or whose returns appear to have been maximized. To the extent that we sell hotels, we intend to redeploy the capital into higher yielding investments including acquisition and investment opportunities that we believe will achieve higher returns as well as repurchasing our shares on an opportunistic basis.

Our Hotels

Overview

As of December 31, 2015, we owned a high-quality portfolio of 126 hotels located in 21 states and the District of Columbia comprised of approximately 20,900 rooms. No single hotel accounted for more than 6.2% of our total revenue for the year ended December 31, 2015. We believe that the quality of our portfolio is evidenced by the RevPAR penetration index of 110.7 for our hotels for the year ended December 31, 2015.

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Brand Affiliations

Our hotels operate under strong, premium brands, with nearly 97% of our hotels operating under existing relationships with Marriott, Hilton or Hyatt. The following table sets forth the brand affiliations of our hotels as of December 31, 2015:

Brand Affiliations	Number of hotels	Percentage of total	Number of rooms	Percentage of total	
Marriott					
Residence Inn	29	23.0	% 3,376	16.2	%
Courtyard	24	19.0	% 4,038	19.3	%
SpringHill Suites	9	7.1	% 1,159	5.5	%
Fairfield Inn & Suites	7	5.6	% 819	3.9	%
Marriott	5	4.0	% 1,544	7.4	%
Renaissance	3	2.4	% 782	3.7	%
Subtotal	77	61.1	% 11,718	56.0	%
Hilton					
Hilton Garden Inn	9	7.1	% 1,843	8.8	%
Hampton Inn/Hampton Inn & Suites	7	5.6	% 945	4.5	%
Embassy Suites	6	4.8	% 1,492	7.1	%
DoubleTree	3	2.4	% 1,132	5.4	%
Hilton	2	1.6	% 511	2.4	%
Homewood Suites	2	1.6	% 345	1.7	%
Subtotal	29	23.1	% 6,268	29.9	%
Hyatt					