Analysis of the Pebblebrook Hotel Trust acquisition of LaSalle Hotel Properties: Understanding the REIT market and whether or not PEB was late to the game.

Honors Thesis – Finance – Fall 2019

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Abstract

On March 28th, 2018, Pebblebrook Hotel Trust officially announced that it had made an unsolicited offer to acquire LaSalle Hotel Properties. The deal valued LaSalle to be worth nearly $3.4 billion dollars, well above the $2.8 billion market cap calculated from the firm's share price at the close of the prior trading day. Five and a half months later, on September 6th, 2018, Pebblebrook reached a final agreement with LaSalle to purchase the real estate investment trust for a staggering $5.2 billion. This acquisition came at a time when M&A activity in the real estate industry had reached its greatest peak in history at $524.7 billion. This figure represents a nearly 25% increase from the previous record set in 2007 (Bockmann, 2018).

In 2007, and just before the financial crisis of 2008, real estate was hot and the overall market had maintained sensational momentum behind packs of new investors who were eager to get in the game and achieve higher returns. No one, including and especially the real estate firms involved in the scramble for new assets, could have predicted the financial cataclysm that was about to result in the greatest economic crisis that the world had seen since the Great Depression. With this in mind, as investors look at the LaSalle acquisition made by Pebblebrook, heretofore referred to as the Transaction, the premium paid as well as the characteristics of the market in which the deal was made certainly raises questions about the future prospects of the combination. This paper will attempt to answer these questions by analyzing the Transaction using the top-down analysis approach.

This paper will provide details on key macro-economic and industry specific market indicators in order to create an understanding of the market environment in which the Transaction occurred, and develop a hypothesis on the future market environment in which the newly combined company will operate. A ratio analysis will be conducted to evaluate the financial health of the acquired entity, and several valuation methodologies will be used to calculate an intrinsic per share value of LaSalle Hotel Properties. This intrinsic value will be applied to calculate the implied premium paid by Pebblebrook Hotel Trust. A summary and analysis on whether or not the premium paid is justified will be discussed in the conclusion of this report.

Macroeconomic Analysis

The macroeconomic environment will be surveyed and analyzed at three different time periods: The period leading up to the acquisition announcement, the period spanning from the announcement to the present, and the forward looking projection period moving through and beyond 2019. This will help identify the landscape at the time of the agreement, how it has changed in the past year, and what environment the company can expect to be operating in as a single entity moving forward.

Pre-Announcement Analysis

Available data suggests that at the time of the acquisition announcement in September of 2018, the market was entering the late stage of the business cycle. For the United States economy, the last decade has been defined by the longest bull market in history, a period seeing 10 straight years of positive economic growth, record high corporate profits, and the lowest unemployment rate in fifty years.

US Gross Domestic Product grew 2.5% for Q1 2018 and 3.5% for Q2 2018 (US Bureau of Economic Data). GDP was expected to continue its positive growth albeit at a slowing rate. Growth projections for 2018 and 2019 GDP were 3.1% and 2.4% respectively (CBO, 2018). This growth was largely based on several key factors including increased government spending, low interest rates, and low unemployment, while also facing headwinds from geopolitical turbulence and increasingly anxious market sentiment. According to the Federal Reserve Economic Data, in September of 2018, the real federal funds rate sat at 1.95%. While this was the highest Fed Rate since August of 2008, it was still relatively low, pushing the Federal Reserve's stated agenda of promoting economic expansion. Speculation that the Fed might soon raise interest rates put upward pressure on short term treasury yields, while concerns over trade tension and the government shutdown put downward pressures on long term yields. As a result, the spread between 10-year to 1-year treasury yields dropped to a mere 0.46% by September of 2018. This represented the thinnest spread since before the recession in October of 2007 (GuruFocus, 2019). A thinning spread or flattening yield curve generally predicts increasingly less than ideal economic conditions. If economic activity is slow, people are not borrowing as much. Therefore, loan originators will have to increase the incentives to borrow by lowering interest rates in order to increase the demand for borrowing. A flattening yield curve indicates that conditions will be worse in the future and therefore long term interest rates should be lower. Low interest rates are stimulating economic activity right now, but a flattening yield curve could suggest trouble in the future. Despite these concerns, unemployment for 2017 averaged 4.4%, dropping down to 4.13% for Q1 2018 and 3.99% for Q2 2018 (FRED, 2018). Unemployment was expected to drop to 3.8% for 2018 and then the lowest rate since 1969 at 3.4% in 2019 (CBO, 2018). These projections were a result of the Tax Cuts and Jobs Act from late December of 2017 and other pro-expansion government policies that would increase corporate profits and stimulate greater business investment. Furthermore, low unemployment also created greater disposable income and an improved environment for consumer confidence and consumer spending. Consumer spending is responsible for 2/3rds of economic output which means it poses serious ramifications for GDP growth. According to the US Bureau of Economic Analytics, personal consumption expenditure increased 2.8% in 2017, and 1.1% and .09% in Q1 and Q2 of 2018 respectively. These increases are largely a result of income gains and an increase in consumer confidence. At the time of the acquisition announcement, the CCI[1] was just beginning to come down from its 20-year peak in early March (OECD, 2019). This decrease was negligible relative to the gains made since the recovery from the recession. Consumer spending was projected to grow 2.1% for 2018 overall, and then 2.9% for 2019 (CBO, 2018).

Post-Announcement Analysis

Since the announcement of the merger, the economy has maintained positive performance, a period defined by promising underlying economic fundamentals, but also an increasing fear of a recession due to heightened tensions among major sovereign powers and an inverting yield curve, a market phenomenon that hasn't occurred since 2007. GDP growth for 2018 finished at 2.9%, slightly below estimates provided by the CBO[2]. Q1 and Q2 2019 GDP grew at an annualized rate 3.1% and 2.0% respectively. Q2 growth was below advanced estimates of 2.0% (US Bureau of Economic Analysis). The somewhat underwhelming growth was due to a myriad of factors, and further the hypothesis that we are inching farther into the late stage of the business cycle.

In late September of 2018, not long after the announcement, the US, Canada, and Mexico announced they had reached a new trade deal to replace NAFTA. This helped ease a substantial period of market anxiety and created greater optimism in investors and although it has yet to be ratified by Congress, bipartisan support for the deal is growing. Congressional approval for the

[1]CCI is an abbreviation for Consumer Confidence Index.
[2]CBO is an abbreviation for the Congressional Budget Office which distributes economic reports and growth projections.

deal could have a further positive impact on the market. Conversely, a new trade dispute that has weighed down on the economy is the trade war between the United States and China. It began in March of 2017 when US President Donald Trump signed an executive order calling for tighter tariff enforcement and called out China for alleged intellectual property theft. In the following months, a series of failed negotiations and retaliatory action between the two nations resulted in over $700 billion in applied tariffs placed on one another. In early October, President Trump announced he and Chinese President Xi Jinping had reached an agreement and were planning to sign "phase one" of the agreement soon.

The slowing economy has caused the Federal Reserve to lower interest rates on three separate occasions since the announced merger. In July, September, and October the federal funds rate has been cut by 25 basis points. These cuts have done little to significant influence the increasingly grim outlook for the US economy. In August, the yield curve inverted for the first time since before the recession in 2008. Inverted yield curves have preceded every economic recession since 1955. Stocks experienced widespread decreases on the news (Washington Post, 2019). Corporate earnings decreased 1.5% in both Q4 2018 and Q1 2019 before recovering with a 4.8% gain in Q2 2019. However, this recovery was largely due to decreases in corporate investment. Despite strong unemployment reports, and consumer spending beating estimates at a growth rate of 4.7%, in Q2 2019, consumer confidence fell to 89.8, missing estimates. This illustrates the growing anxiety in the market as fears of a recession begin to take hold.

Forward Looking Projections and Growth Expectations

Forward looking projections continue to fit the original hypothesis that we are in the later part of the business cycle and will continue to face slowing economic growth moving forward. GDP is expected to grow at 2.20%, 2.0% and 1.9% in 2019, 2020, and 2021 respectively (Kuiper, 2019). While positive outcomes regarding the trade war and the US presidential elections could provide another push in economic growth, the stimulation from rate cuts made by the Fed have become diluted and will likely have a negligible impact moving forward. Unemployment has likely reached its bottom and could begin to experience adverse effects from greater economic forces, which will in turn decrease consumer confidence and spending, albeit likely not at a significant rate in the short term. It can be concluded that the Transaction was made near the end of one of the greatest bull markets in history and will likely be facing a slowing macro-economic market moving forward. This will certainly be taken into account in the analysis of the Transaction.

Industry Analysis

By examining the real estate industry as a whole we can identify the current state of property values, sales activities, investable capital, and other key metrics that provide insight into industry specific trends and outlooks. This will lead to a better understanding of the sector specific market conditions in which the Transaction was completed and provide insight into possible factors driving recent M&A transaction premiums. Important measures to look at include property cap rates, transaction volumes, vacancy rates, and rent rates among others, all of which will be examined in this report. The real estate industry can be broken into three main business segments: Property ownership and development, real estate services, and Real Estate Investment Trusts or 'REITs'. This analysis will of course be focusing on the latter.

Annualized Returns of Relevent Indices	10 Yr	3 Yr	LTM
S&P 500	13.56%	13.14%	3.93%
S&P 500 Real Estate	15.23%	12.31%	28.09%
S&P 500 REITs	15.17%	12.15%	28.27%
S&P 500 RE Services	17.89%	22.74%	19.85%
S&P 500 RE Management and Development	-	10.67%	14.44%

Figure 1 *- Data source: Bloomberg, as of September 31, 2019*

An in depth analysis of the real estate industry reveals that the sector has benefited tremendously from the recent economic boom. Despite a slowing overall market, returns in the real estate industry have continued to gain momentum, especially in the last year *(See Figure 1)*. To understand what is driving the massive gains made in these real estate equity segments over the past decade, it is important to observe major factors effecting the industry as whole and also conduct a sector specific analysis.

Since January of 2010, Federal Reserve Economic Data has shown that commercial real estate prices in the United States have grown at a CAGR of 7.25%[3]. This has lifted prices to historical highs according to the CPPI[4]. After hitting its 15-year low of 63.3 towards the end of the recession in mid-2009, the index has recovered and currently sits at 134.1, its highest value ever (Green Street Advisors). Cap Rates[5] have been trending downward for the last 10 years and now sit at their lowest levels since even before the recession *(See Figure 2)*. However, cap rates

[3]CAGR is an abbreviation of the term Constant Annual Growth Rate.
[4]CPPI is an abbreviation for the Commercial Properties Price Index, a widely recognized CRE index distributed by Green Street advisors, utilizing commercial property appraisal reports from across the United States.
[5]Cap Rates or Capitalization rates are a common property valuation metric that takes a properties Net Operating Income and divides it by the total properties estimated value.

were relatively unchanged through the first half of 2019. As the market nears its peak and the end of a historic bull run, property prices will face new headwinds and flat, if not decreasing, price changes.

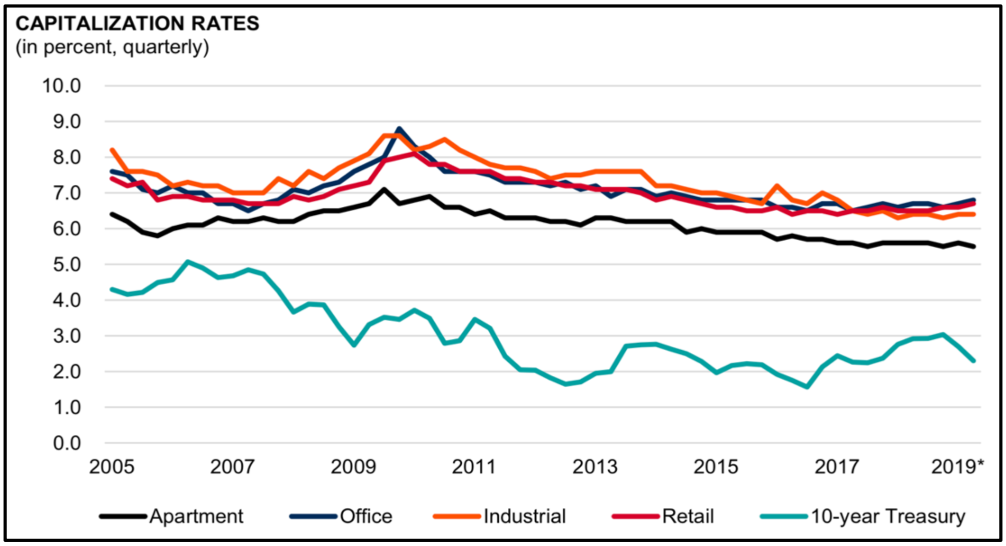

Figure 2 - *CFRA REIT Industry Surveys, historic real estate cap rates*

There are multiple factors that drove the explosion in real estate over the last 10 years. After the great recession, real estate was selling at rock bottom prices. Combined with low interest rates and record low dividend yields in other equity stocks, real estate offered superior yielding returns with consistent cash payouts *(See Figure 3).* As a result, the amount of investment available for real estate has grown drastically *(See Figure 4).* The narrative on funds available for investment in real estate is changing, however. For the first time since 2013, in the second quarter of 2019, foreign investors sold more US commercial real estate than they bought (Fung, 2019). Driven by flattening appreciation in property prices, and fears of US economic uncertainty, investors are beginning to cash out on real estate, indicating that real estate is nearing the end of its rise.

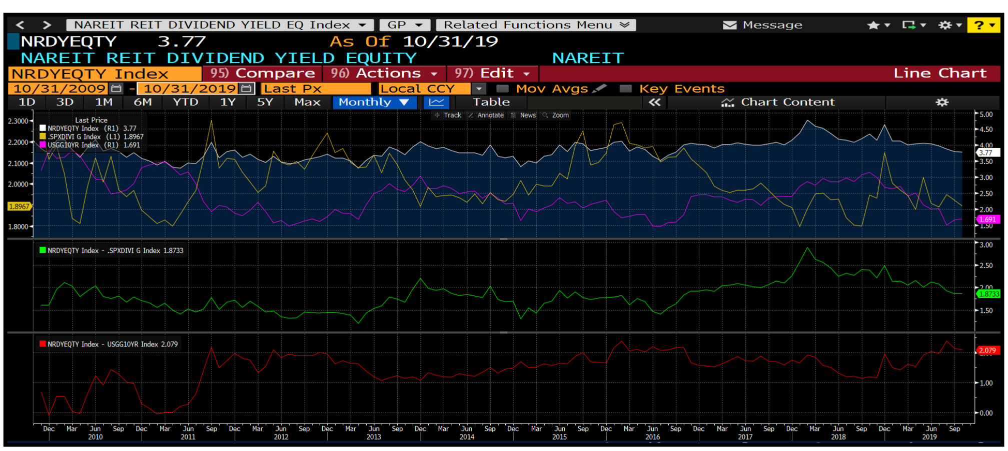

Figure 3 *– Data Source: Bloomberg, historic dividend yield spread (S&P500, NAREIT, 10-year US Treasury)*

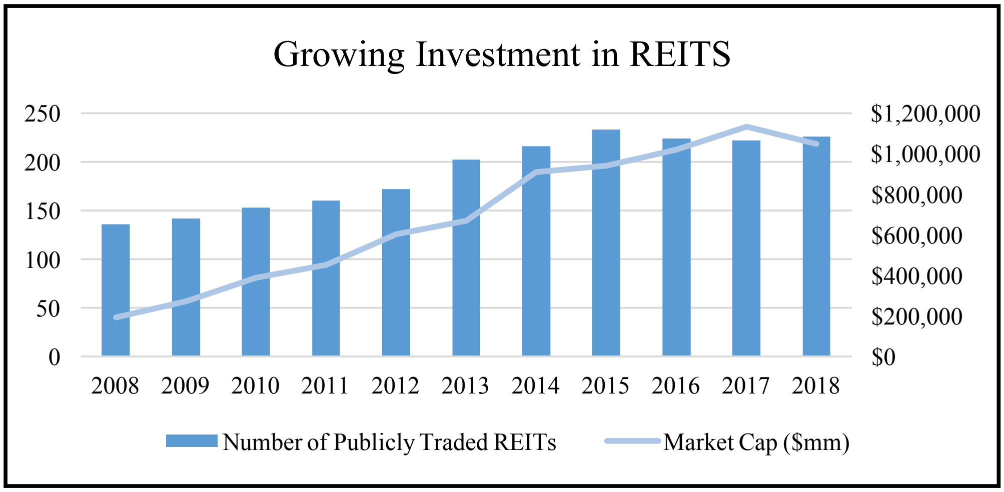

Figure 4 *– Data Source: REIT.com, investment levels in real estate*

Moving more in depth, the real estate industry can be broken into four main asset classes: Land, Residential, Industrial, and Commercial. Land is just raw land that has yet to be developed. Residential includes single-family homes, apartments, and townhouses. Industrial includes land and buildings that are used for factories, mechanical production, research and development, logistics, and warehousing. Commercial includes a wide array of property types including shopping malls, free-standing retail businesses, office buildings, medical centers, and hotels. Improving fundamentals in the real estate industry over the last decade have raised property prices and are generally measured and reported based on these four asset classes and their sub-sectors.

Vacancy rates are a major determinant in driving down cap rates and pushing property prices upward. Vacancy rates have remained relatively low, however as the economy begins to slow, corporate spending declines, and unemployment sees marginal increases, these rates are projected to increase *(See Figure 5).* According to the National Association of Realtors, vacancy is projected to increase in the retail and multifamily real estate sectors in 2019 and through 2020. Retail will continue to suffer as brick and mortars stores are replaced with online shopping, while multifamily will continue to hurt from oversupply, especially among luxury residential in highly populated urban centers. The office sector is expected to remain relatively flat with slight increases in mid-2020, and the industrial sectors is expected to decline as it continues to benefit from the growth of e-commerce and the demand for “next day” shipping (Brooks, 2019).

Overall, the outlook for the real estate industry is relatively neutral as a whole moving past 2019. At a first glance, it would appear that the Transaction occurred at the height of the real estate market. This will be an important consideration moving forward. Supplementary data for the industry analysis can be found in the appendix of this report.

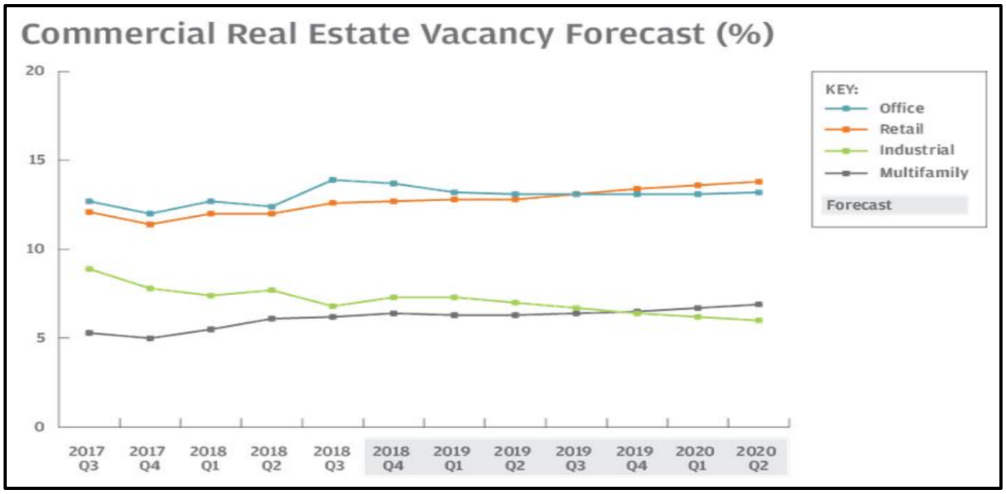

Figure 5 *– Data Source: National Association of Realtors, vacancy forecasts*

Discussion on REITs

Real Estate Investment Trusts (REITs) are private or publicly traded companies that invest in different classes of real estate. They were created in 1960 when President Dwight D. Eisenhower signed the Real Estate Investment Trust Act in order to make it easier for individuals to invest in large-scale, income producing commercial real estate. In order to qualify as a REIT, a firm must meet several financial and operational requirements. First, the firm must pay at lease of 90% of its taxable income out as dividends to investors. The firm must be governed by a board of directors or trustees. It must have a minimum of 100 shareholders and no group of any five shareholders may own more than a 50% stake in the company. Furthermore, a REIT must derive at least 75% of its total gross income from rents from real property. At least 75% of the REITs assets must be invested in real estate, mortgage loans, cash, and government securities (Krewson-Kelly, 2016). There are several other requirements, but none that are material for the purpose of this report.

There are many advantages to investing in REITs. Liquidity is a main advantage. Publicly traded REITs have common shares that trade on major stock exchanges. Being able to invest in these common shares on a public platform provides liquidity and simple entry and exit opportunities in an otherwise very illiquid asset class. REITs also have no minimum requirement, which provides greater access to real estate investments. Unlike private real estate investment firms, REITs also provide greater transparency to investors; they face tremendous regulation and reporting requirements from the SEC. One last main advantage from company perspective is that

REITs do not face taxation at a corporate level. Rather, taxes are passed through to investors who have to pay smaller income taxes on dividend payouts.

There are two main types of REITs, equity REITs, which directly or indirectly invest in real estate via ownership interest in the physical properties, and mortgage REITs, which invest in real estate by providing financing to different real estate developments and acquisitions through origination of mortgage lease agreements and also investments in mortgage backed securities. Mortgage REITs predominantly earn revenue from interest payments made on the mortgages and other investment vehicles they own. The transaction analyzed in this report involves two equity REITs, LaSalle Hotel Trust and Pebblebrook Hotel Properties.

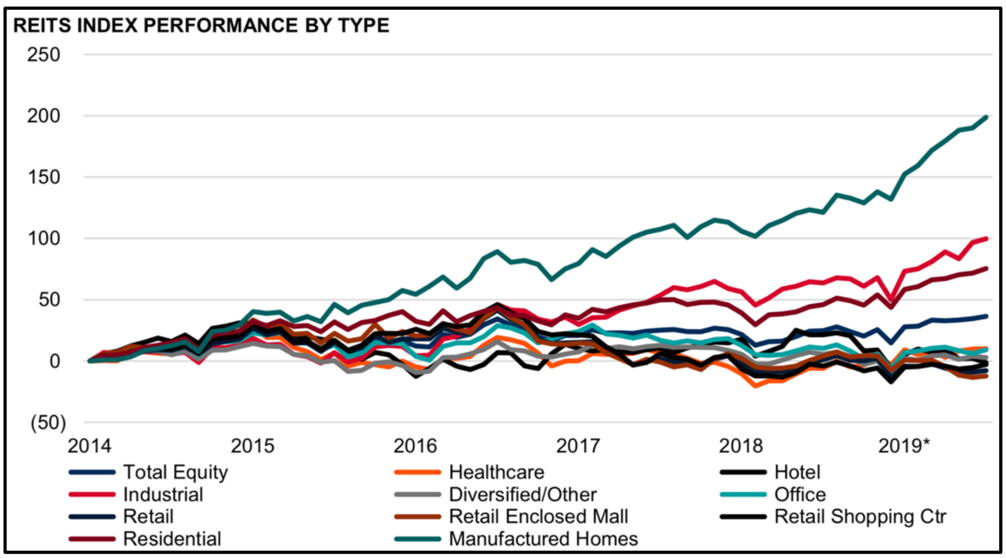

Figure 6 *– Data Source: CFRA REIT Industry Surveys, October 2019*

Generally, equity REITs are categorized based on the types of properties that their portfolio is predominantly weighted towards. Types of REITs include office REITs, industrial REITs, retail REITs, lodging REITs, residential REITs, timberland REITs, healthcare REITs, self-storage REITs, infrastructure REITs, data center REITs, and specialty REITs. Over the last 5 years certain REITs have performed better than others *(See Figure 6),* however all have benefited from the recent bull market and several regulatory changes that have improved the standing of REITs among investors. Beyond just the positive performance in various underlying real estate fundamentals previously discussed in the industry analysis, specific events that have directly changed the investing landscape for REITs are the first REIT being added to the S&P 500 in 2001 and the creation of a Real Estate sector in the Global Industry Classification Standard in 2016. Both events drastically increased the exposure of REITs to the investment community. Also, the

Protecting Americans from Tax Hikes Act of 2015 also had major implications for REITs in that by reducing the tax burden faced by foreign investors, it significantly increased the amount of available foreign capital for investment in Real Estate (Krewson-Kelly, 2016).

The transaction analyzed in this report involves two lodging REITs. Lodging REITs own and manage hotels and resorts and earn daily "rent" by charging room fees to hotel and resort guests. Lodging REITs can own different classes of hotels and resorts based on location, amenities offered, and quality of service. Unlike the rest of the real estate industry, which tends to lag economic growth or contraction, lodging REITs are more immediately impacted by macro-economic shifts. The main reason is that unlike any other REIT sector, lodging REITs own hotels and resorts, whose "rent" comes from nightly fees charged to guests. Hotel and resort rent revenue is not backed by long term leases. As a result, when the economy slows or contracts, traveling and leisure spending tends to decrease and hotels immediately suffer that loss in revenue. Conversely, when the economy picks up, hotels are able to immediately raise guest fees and quickly capture those profits. The main point to takeaway here is that while lodging REITs tend to outperform during the recovery and early stages of the business cycle, they also tend to underperform in the late and contracting parts of the business cycle.

Overview of the Acquisition

In order to understand the context and dynamic of the Transaction, this section of the report will focus on the description and structure of the two companies involved in the Transaction. It is important to note the pricing information for both companies on March 27, 2018. This date represents the day before the first announced bid for LaSalle Hotel Properties by Pebblebrook Hotel Trust, and therefore reflects the stock prices for each company unaffected by various press releases of acquisition offers *(See Figure 7)*.

	Acquired Entity	Purchasing Entity
	LaSalle Hotel Properties	**Pebblebrook Hotel Trust**
NYSE: Ticker	LHO	PEB
Stock Price	$24.84	$33.53
Market Cap	$2.81 billion	$2.31 billion
LTM Return	-11.57%	20.87%
3 Yr Return	-35.50%	-26.61%
5 Yr Return	-2.20%	30.11%

***Figure** 7 – Data Source: Bloomberg, as of March 27, 2018*

LaSalle Hotel Properties

LaSalle Hotel Properties represents the acquired entity in the Transaction. LaSalle Hotel Properties is a Lodging REIT that buys, owns, redevelops, and leases upscale and luxury full service hotels located in convention, resort and major urban business markets. LaSalle claims that its objective is to provide income to its shareholders through increases in distributable cash flow and to increase long-term total returns to shareholders through appreciation in the value of its common shares. The rent revenue that qualifies them to exist as a REIT comes from renting hotel rooms to guests. This is quite different than other typical REITs where rent revenue is earned via long term leases to corporate tenants, retail businesses, or single or multifamily resident tenants.

As of December 31, 2017, according to LaSalle's last annual report before the acquisition, the REIT's portfolio consisted of 41 hotel properties located in 9 major markets. These major markets include Boston, Chicago, Los Angeles, New York, San Diego, San Francisco, Seattle, and Washington D.C. *(See Figure 8)*.

LaSalle enters into management agreements with various hotel operators to run the hotels at its various locations. The fee structure in each agreement is defined by either a base management fee payable to the hotel operator in the sum of 1% to 4% of the applicable hotel's total revenue, or a fixed amount agreed upon at the contract's conception. These management agreements also include various incentive fees based on improved efficiency and surpassing certain thresholds in net operating income or operating cash flow. Incentive opportunities may fall anywhere in the range of 10% to 20% of gross operating income. The remaining terms on the current agreements held by LaSalle range anywhere from 1 to 14 years in principal and 2 to 44 years when including renewal options. LaSalle is currently involved in 40 management agreements, 37 of which were terminable at the discretion of LaSalle. Termination fees for these contracts are anywhere from 0 to 8 times the base management fee. Notable hotel operators currently utilized by LaSalle include Hilton Hotels Corporation, Marriott International, Hyatt Hotels, and Viceroy Hotel group among others. LaSalle believes having agreements with multiple hotel operators creates a network of strategic relationships that generate business opportunities for acquisition and expansion.

Hotel Properties	Number of Guest Rooms	Location
1. Hotel Amarano Burbank	132	Burbank, CA
2. L'Auberge Del Mar	121	Del Mar, CA
3. Hilton San Diego Gaslamp Quarter	286	San Diego, CA
4. Hotel Solamar (1)	235	San Diego, CA
5. San Diego Paradise Point Resort and Spa (1)	462	San Diego, CA
6. The Hilton San Diego Resort and Spa (1)	357	San Diego, CA
7. Harbor Court Hotel (1)	131	San Francisco, CA
8. Hotel Vitale (1)	200	San Francisco, CA
9. Park Central San Francisco	681	San Francisco, CA
10. Serrano Hotel	236	San Francisco, CA
11. The Marker San Francisco	208	San Francisco, CA
12. Villa Florence	189	San Francisco, CA
13. Chaminade Resort and Conference Center	156	Santa Cruz, CA
14. Viceroy Santa Monica (1)	162	Santa Monica, CA
15. Chamberlain West Hollywood	115	West Hollywood, CA
16. Le Montrose Suite Hotel	133	West Hollywood, CA
17. Le Parc Suite Hotel	154	West Hollywood, CA
18. The Grafton on Sunset	108	West Hollywood, CA
19. Hotel George	139	Washington, DC
20. Hotel Madera	82	Washington, DC
21. Hotel Palomar, Washington, DC	335	Washington, DC
22. Hotel Rouge	137	Washington, DC
23. Mason & Rook Hotel	178	Washington, DC
24. Sofitel Washington, DC Lafayette Square	237	Washington, DC
25. The Donovan	193	Washington, DC
26. The Liaison Capitol Hill	343	Washington, DC
27. Topaz Hotel	99	Washington, DC
28. Southernmost Beach Resort Key West (4)	262	Key West, FL
29. The Marker Waterfront Resort	96	Key West, FL
30. Hotel Chicago	354	Chicago, IL
31. Westin Michigan Avenue	752	Chicago, IL
32. Hyatt Regency Boston Harbor (1)(2)	270	Boston, MA
33. Onyx Hotel	112	Boston, MA
34. The Liberty Hotel (1)	298	Boston, MA
35. Westin Copley Place (2)(3)	803	Boston, MA
36. Gild Hall	130	New York, NY
37. The Roger (1)	194	New York, NY
38. Park Central Hotel New York	761	New York, NY
39. WestHouse Hotel New York	172	New York, NY
40. The Heathman Hotel	150	Portland, OR
41. Embassy Suites Philadelphia – Center City	288	Philadelphia, PA
Total number of guest rooms	10,451	

Figure 8 *– Data Source: 2017 LaSalle Hotel Properties 10K filing, hotel properties portfolio*

Pebblebrook Hotel Trust

Pebblebrook Hotel Trust represents the purchasing entity in the Transaction. Similar to LaSalle Hotel Properties, Pebblebrook Hotel Trust is a Lodging REIT that invests in "upper upscale" hotel properties located in major gateway markets with high barriers-to-entry, high room-night demand, and high ADR[6]. Just as with LaSalle, Pebblebrook earns its rental revenue to meet REIT criteria from fees charged towards hotel guests.

As of December 31, 2017, according to Pebblebrook's last annual report before the acquisition, the trust owned 28 hotel properties located in 14 major markets. These major markets include Atlanta, Boston, Los Angeles, Miami, Minneapolis, Nashville, Naples, Philadelphia, Portland, Santa Monica, San Diego, San Francisco, Seattle, and Washington DC *(See Figure 9).*

Pebblebrook enters into management agreements for its hotel properties. The fee structures of these agreements are very much like the fee structures entered into by LaSalle. They include base management fees payable to the operator of 2% to 4% of the applicable hotel's total revenue, as well as incentive fees representing 10% to 20% of gross operating income. The terms of Pebblebrook's management agreements still have anywhere from 5 to 21 years remaining under contract, as well as 5 to 52 years remaining when accounting for renewal options. Pebblebrook's management agreements are terminable at will or with cause. Termination fees range anywhere from 0 to 5 times the annual base management and incentive fees. Notable hotel operators currently utilized by Pebblebrook include Destination Hotels and Resorts, InterContinental Hotel Group, Marriott International, and Viceroy Hotel Group among others.

[6]ADR is an abbreviation for average daily rate. ADR measures the average realized room rental per day and is a key performance indicator in the hospitality industry.

	Property		Date Acquired	Location	Number of Guest Rooms
1.	Sir Francis Drake		June 22, 2010	San Francisco, CA	416
2.	InterContinental Buckhead Atlanta		July 1, 2010	Buckhead, GA	422
3.	Hotel Monaco Washington DC	(1)	September 9, 2010	Washington, D.C.	183
4.	The Grand Hotel Minneapolis		September 29,	Minneapolis, MN	140
5.	Skamania Lodge		November 3, 2010	Stevenson, WA	258
6.	Le Meridien Delfina Santa Monica		November 19,	Santa Monica, CA	310
7.	Sofitel Philadelphia		December 3, 2010	Philadelphia, PA	306
8.	Argonaut Hotel	(1)	February 16, 2011	San Francisco, CA	252
9.	The Westin San Diego Gaslamp Quarter	(2)	April 6, 2011	San Diego, CA	450
10.	Hotel Monaco Seattle		April 7, 2011	Seattle, WA	189
11.	Mondrian Los Angeles		May 3, 2011	West Hollywood, CA	236
12.	W Boston		June 8, 2011	Boston, MA	238
13.	Hotel Zetta San Francisco		April 4, 2012	San Francisco, CA	116
14.	Hotel Vintage Seattle		July 9, 2012	Seattle, WA	125
15.	Hotel Vintage Portland		July 9, 2012	Portland, OR	117
16.	W Los Angeles - West Beverly Hills		August 23, 2012	Los Angeles, CA	297
17.	Hotel Zelos San Francisco	(3)	October 25, 2012	San Francisco, CA	202
18.	Embassy Suites San Diego Bay - Downtown		January 29, 2013	San Diego, CA	341
19.	Hotel Modera		August 28, 2013	Portland, OR	174
20.	Hotel Zephyr Fisherman's Wharf	(1)	December 9, 2013	San Francisco, CA	361
21.	Hotel Zeppelin San Francisco (formerly Prescott Hotel)	(3)	May 22, 2014	San Francisco, CA	196
22.	The Nines, a Luxury Collection Hotel, Portland		July 17, 2014	Portland, OR	331
23.	Hotel Colonnade Coral Gables, a Tribute Portfolio Hotel (formerly The Westin Colonnade Coral Gables)		November 12, 2014	Miami, FL	157
24.	Hotel Palomar Los Angeles Beverly Hills	(1)	November 20, 2014	Los Angeles, CA	264
25.	Union Station Hotel Nashville, Autograph Collection	(1)	December 10, 2014	Nashville, TN	125
26.	Revere Hotel Boston Common		December 18, 2014	Boston, MA	356
27.	LaPlaya Beach Resort and LaPlaya Beach Club		May 21, 2015	Naples, FL	189
28.	Hotel Zoe San Francisco (formerly The Tuscan Fisherman's Wharf)		June 11, 2015	San Francisco, CA	221
	Total number of guest rooms				6,972

Figure 9 *– Data Source: 2017 Pebblebrook Hotel Trust 10K filing, hotel properties portfolio*

Timeline and Brief Discussion of the Acquisition

The final agreement between Pebblebrook Hotel Trust and LaSalle Hotel Properties came on September 6th, 2018, and was the result of a six-month long bidding war between Pebblebrook and the New York City based Blackstone Group. Blackstone is the largest investment firm in the world with $472 billion assets under management. The bidding war was defined by fierce competition between the two firms and played a major role in defining the final terms agreed upon in the Transaction.

The initial offer for LaSalle was made on March 28th, 2018. Pebblebrook, which already owned a 4.5% public interest in LaSalle, offered a tax-free, 100% equity exchange. The share-for-share merger would make each share of LaSalle common stock convertible to .8655 shares of Pebblebrook common stock. This exchange ratio put the value of LaSalle common stock at $30.00 per share and gave the firm a total valuation of over $3 billion. This represented a 17.64% purchase premium based on the 10-day VWAP[7] for LaSalle common stock (Pebblebrook PR, 2018). The offer was unanimously rejected by LaSalle's Board of Trustees.

On April 16th, 2018, Pebblebrook made a revised offer for LaSalle. In the new offer, Pebblebrook increased the share exchange ratio to .8944 giving LaSalle an implied share price of $31.75. This figure represented a 27.8% purchase premium over LaSalle's unaffected share price[8]. The deal also allowed for LaSalle common shareholders to receive cash for up to 15% of the total purchase price (Pebblebrook PR, 2018).

On April 24th, after minimal response from LaSalle, Pebblebrook made another revised final offer. The share exchange ratio was increased once again to .9085, giving LaSalle an implied share price of $32.49. This represented a now 30.8% purchase premium above LaSalle's unaffected share price. The revised deal also raised the amount of cash receivable by LaSalle shareholders to 20% of the aggregate purchase price (Pebblebrook PR, 2018).

On May 21st, 2018, LaSalle entered into a definitive agreement to be acquired by the Blackstone Group. The all-cash transaction offered by Blackstone involved the firm acquiring all outstanding commons shares of LaSalle for $33.50 per share. This values the firm at $4.8 billion dollars. This valuation represents a 34.9% premium over LaSalle's unaffected share price. The offer was unanimously approved by LaSalle's Board of Trustees (LaSalle PR, 2018).

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[7]VWAP is an acronym for Volume Weight Average Price

[8]Unaffected share price refers to LaSalle Hotel Properties' common stock price per share on March 27, 2018. This date-price relationship is significant because it represents the stock price *before* various entities announced acquisition offers that positively affected the price of LaSalle common stock.

On June 11th, 2018, LaSalle confirmed it received a new proposal from Pebblebrook with stock exchange ratio of .9200, while also maintaining the 20% aggregate stock option. This now represented a 44.48% purchase premium over LaSalle's unaffected stock price (LaSalle PR, 2018). Despite a purchase price above Blackstone's offer amount, on June 18th, LaSalle's board of trustees reaffirmed support for the agreement with Blackstone, despite having a higher price tag with the Pebblebrook offer.

On August 22nd, 2018, Pebblebrook made its final offer to LaSalle. While maintaining the .9200 exchange ratio and purchase premium, the new offer increased shareholder cash considerations to 30% of the total purchase price. On September 6th, LaSalle Hotel Properties accepted this offer and entered into definitive merger agreement with Pebblebrook Hotel Trust. The deal valued LaSalle at $37.80 per share and at a market cap of $5.2 billion, a more than $2 billion total increase in purchase price from the original offer made just six months earlier, and a 44.48% premium over LaSalle's unaffected share price (LaSalle PR, 2018). This is clearly a massive jump in valuation by Pebblebrook's management and carries significant ramifications for the company's future as they more than doubled the amount of hotels in their portfolio and significantly increased the amount of Pebblebrook outstanding stock, severely putting its shareholders at risk of diluted ownership and distribution rights. Pebblebrook would need to capture significant revenue growth and operational efficiencies from the combination in order to defend the LaSalle price tag.

The acquisition was finalized in December of 2018. It made Pebblebrook a top 5 lodging REIT based on market cap. The magnitude of the Transaction and the circumstances surrounding its development certainly warrants a degree of skepticism from shareholders and investments analysts who observed the bidding war from the beginning. The remainder of this report will focus on the performance and overall health of LaSalle leading up to the acquisition as well as several valuations that calculate the implied share price for LaSalle at the time of the acquisition. This will lead to an analysis and conclusion regarding the premium paid by Pebblebrook.

Ratio Analysis

To develop a better analysis on the premium paid in the Transaction, this report will attempt to evaluate the financial health of LaSalle Hotel Properties. In this ratio analysis the pricing, leverage, performance, and dividend safety metrics of LaSalle will be compared to its comp group over the five years prior to the initial acquisition offer made by Pebblebrook. By understanding the state of LaSalle's capital structure, performance margins, and payout ratios, it can be better understood as to what value the company presents and its ability to grow and continue to maintain positive performance under the ownership of Pebblebrook.

Figure 10 *– Data Source: Bloomberg, equity stock screen*

Discussion of chosen Comparable Group

An initial stock screen was performed to develop a list of 18 comparable companies. *(See Figure 10)*. From there, companies were individually screened and filtered based on specific portfolio characteristics. In order to create the final set of comparable companies that most accurately resembled the acquired entity involved in the Transaction, only REITs with a portfolio of hotels located predominantly in the United States and whose property class classified from upscale to luxury would be used in the ratio analysis. The final comp set is listed below.[9]

Braemar Hotels and Resorts Inc.:

-*Market Cap:* $307.0 million

-*Company Description:* Invests in high revenue per available room luxury hotels and resorts. Currently owns 13 hotel properties with a total of 3,494 guest rooms under ownership.

-*Major Markets Served*[10]*:* Beaver Creek, Chicago, Key West, Northern and Southern California, Philadelphia, San Francisco, Seattle, Washington DC

DiamondRock Hospitality Co:

-*Market Cap:* $2.01 billion

-*Company Description:* Invests in upper upscale hotels and resorts in North American markets with superior growth prospects and high barriers-to-entry. Currently owns over 31 hotel properties with a total of 10,091 guest rooms located across 13 states.

-*Major Markets Served:* Atlanta, Boston, Chicago, Denver, New York City, Phoenix, Salt Lake City, San Diego, San Francisco, South Florida, Washington DC

Hersha Hospitality Trust:

-*Market Cap:* $552.9 million

-*Company Description:* Invests in institutional grade hotels in major urban gateway markets. Seeks to own high quality luxury, upscale, upper midscale, and extended-stay hotels in metro areas with high barriers-to-entry and independent boutique hotels in markets with similar characteristics. Currently owns 38 hotel properties with a total of 6,104 guest rooms, and also owns part interest in 10 other hotel properties with a total of 1,540 guest rooms. All properties are located across 9 states.

-*Major Markets Served:* Boston, Los Angeles, New York City, Philadelphia, San Diego, Seattle, South Florida, Washington DC

Park Hotels and Resorts Inc.:

-*Market Cap:* $5.71 billion

-*Company Description:* A real estate investment company with a diverse portfolio of market-leading hotel and resorts located in prime, high barriers-to-entry US markets. Currently owns 52 hotel properties and resorts with a total of over 30,000 guest rooms located across 18 states.

-*Major Markers Served*[11]*:* Atlanta, Chicago, Hawaiian Islands, Las Vegas, Phoenix, New York City, Salt Lake City, San Diego, San Francisco, Seattle, South Florida, Washington DC

Xenia Hotels and Resorts Inc.:

-Market Cap: $2.35 billion

-Company Description: Invests in uniquely positions luxury and upper upscale hotels and resorts. Currently owns 40 hotel properties with a total of 11,167 guest rooms located across 17 states.

-Major markets served: Atlanta, Boston, Chicago, Dallas, Denver, Los Angeles, Orlando, Houston, Philadelphia, Phoenix, San Francisco, Washington DC

[9]All comparable data taken from Bloomberg and the companies' latest annual 10K filing.
[10]Major markets served are not limited to those listed in this report.
[11]Park Hotels maintains ownership in 4 international locations, however these locations make up a very small percent of total rooms under ownership.

Pricing Ratios

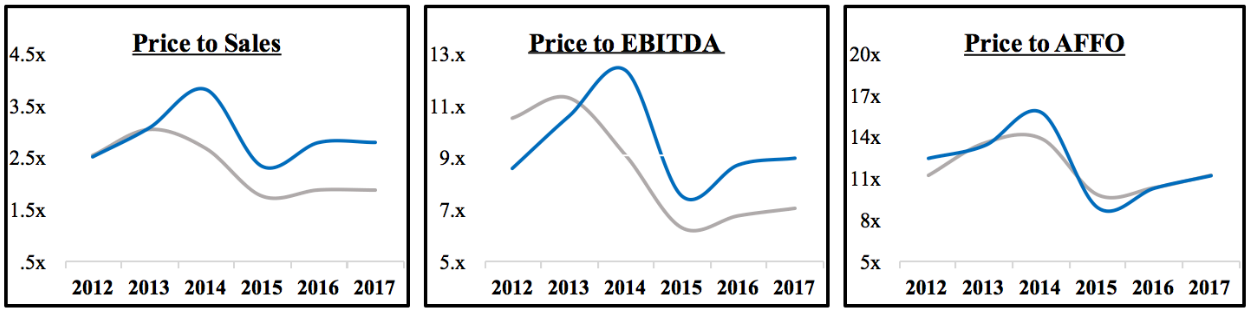

Figure 11 *– Data Source: Bloomberg, 5-year historical pricing data*
(LaSalle represented by the blue line, Comparable group average represented by the grey line)

The pricing ratios in Figure 11 provide a better understanding of how expensive LaSalle's stock is trading for relative to its competitors. In the 4 years prior to the initial acquisition offer, LaSalle was trading at a higher price to sales multiple than the average of its comp group. LaSalle, as well as the entire sector, saw its P/S multiple trend downward during 2014 and 2015 as revenue showed strong growth and share prices lagged. By January of 2018, the NAREIT Lodging/Resort Index was down nearly 20% from its peak in January of 2015, while sales were up for the sector by approximately 6%. During that period, LaSalle followed the overall trend while also maintaining its pricing premium.

EBITDA and AFFO are both profit line items that more accurately reflect the profit and earnings of REITs. REITs carry a much higher depreciable basis than most normal companies due to their extensive ownership of real estate assets. Therefore, EBITDA better reflects earnings by adding back depreciation and amortization expense recorded from ownership of those assets. AFFO stands for adjusted funds from operations. AFFO takes a firm's net income and adds back depreciation and amortization as well as other irregular expense or sale items like gain or loss on sale of properties, tax benefits or expenses, and transitioning and management restructuring costs. As a result, both the price to EBITDA and price to AFFO serve as more accurate P/E ratios for REITs.

The price to EBITDA ratio chart is very similar to the price to sales chart, where LaSalle and the overall sector have trended downward in 2014 and 2015, with LaSalle maintaining its pricing premium. The price to AFFO ratio chart tells the same story, with LaSalle trading much more in line with its comp group.

At first glance, it would appear the entire sector is trading below its five-year average, relative to its sales and earnings. However, LaSalle appears to be trading at a more expensive relative stock price compared to the comp group.

Leverage Ratios

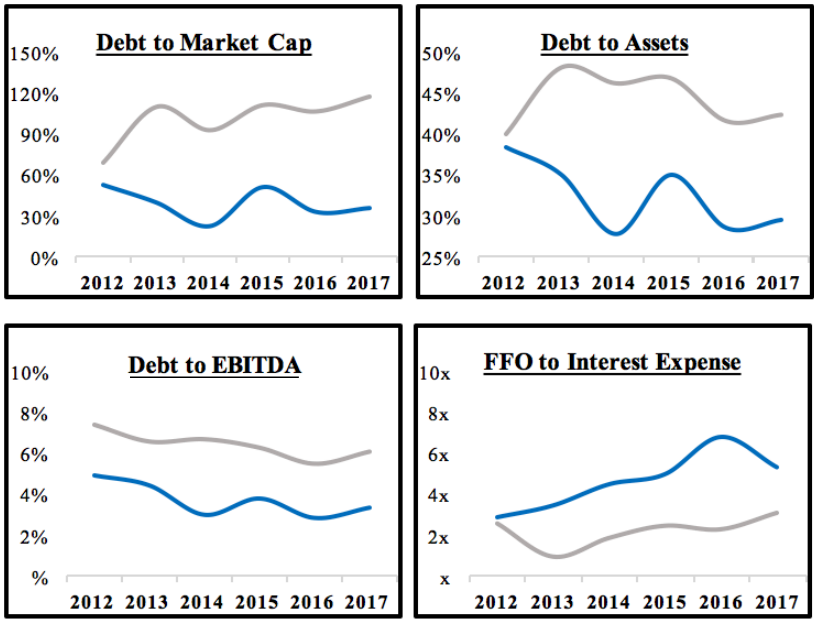

Figure 12 *– Data Source: Bloomberg, 5-year historical leverage data*

The leverage ratios in Figure 12 help explain how much debt LaSalle carries on its balance sheet relative to its comp group. The best way for a REIT to grow sales is to acquire new properties on which it can earn new revenues. Given the cash payout requirements that they must follow, REITs must finance new acquisitions by issuing new debt or taking out loans. When able, REITs generally choose to used debt. This is largely due ton the fact that REITs own high amounts of real estate they can post as collateral which helps them negotiate lower interest rates and favorable terms. It is therefore important to understand a REIT's debt situation, and what their capacity is to take on new debt in the future.

Based on several key leverage ratios, LaSalle appears to be significantly less levered than its comp group. After taking on new debt in 2015, LaSalle has focused on deleveraging its capital structure, reducing long term debt by almost half to approximately $850 million in 2017. This has resulted in a debt to market cap ratio that is nearly a third of the comp average. Furthermore, LaSalle boasts favorable debt coverage metrics relative to its comp group. The debt to EBITDA ratio indicates how many years it would take to pay off the firm's debt based on its EBITDA. As seen in Figure 12, LaSalle's debt repayment period has maintained a nearly 2 year lead on its comp group. Also, LaSalle's FFO to interest expense ratio is more than double the comp average. This means that the interest expense paid annually is much smaller relative to the funds from operations that the firm generates.

LaSalle's low leverage factor provides the opportunity to take on more debt in order to acquire new properties in the near future. With extremely low interest rates, it is an opportune time to take acquire new debt and finance new fundamentally attractive projects and acquisitions. The financial flexibility maintained by LaSalle is key to the success of the REIT and positions the firm well to grow their asset base and revenue streams moving forward.

Profitability Ratios

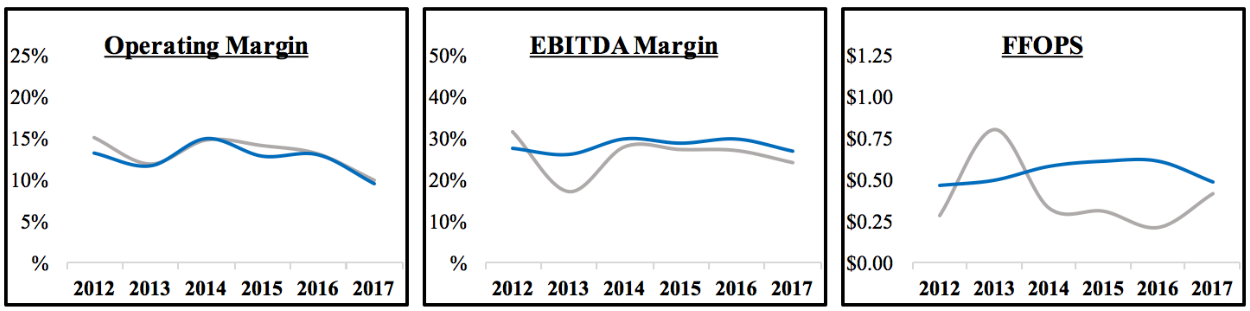

Figure 13 *– Data Source: Bloomberg, 5-year historical performance margin data*

As is evident in Figure 13, LaSalle's profitability ratios are relatively in line with its competitors. Lodging REITs face very similar hotel operating costs which make up the largest percentage of their expenses. Expenses like energy costs, labor costs, and food and beverage costs run at very similar rates across the comp group. Lodging REITs are also uniquely positioned to maintain their margins by immediately raising guest fees in inflationary periods. However, there is also intense pricing competition among luxury hotels as they all offer very similar amenities in very similar or identical locations. They therefore must differentiate themselves on customer service and quality of the overall guest experience rather than pricing. As a result of all these factors, margins are very uniform and consistent across the comp group over time.

LaSalle has maintained more consistency in its FFO per share, with a slight decrease in 2017 due to lower FFO. This consistency is a combination of small growth in FFO and no new issuances of stock by LaSalle's management. Since 2014, LaSalle's shares outstanding have grown by an extremely modest 4 million shares as a result of different stock compensation plans. As previously mentioned, due to REITs' strict cash payout requirements, the only two ways a firm can increase its asset base by acquiring new properties is by issuing new debt and/or raising cash via stock offerings. From an investor's stand point, new stock issuances can have negative effects as they dilute the value and ownership of existing stock. Not only has LaSalle avoided issuing new stock, but it also has $569.8 million remaining in its stock repurchase program. Therefore, LaSalle's stock seems to be at a smaller risk of dilution moving forward, since LaSalle's lower leverage position gives it the capacity to issue debt in the future. LaSalle's FFO per share will maintain its lead over its comp group as a result, and will also protect its ability to grow its dividend payouts per share. Dividends are discussed in greater detail later in this report.

Dividend Coverage Ratios

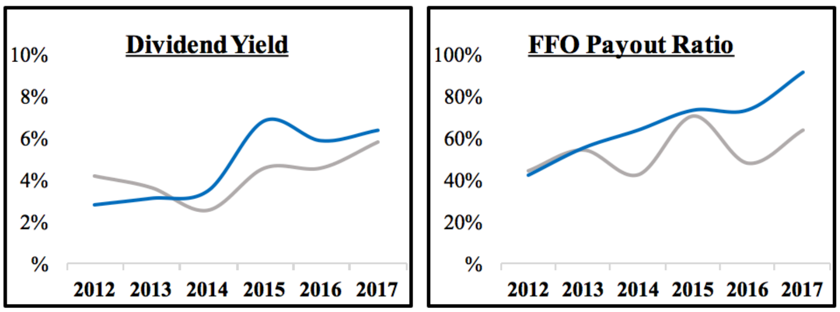

Figure 14 *– Data Source: Bloomberg, 5-year historical dividend data*

One of the main reasons investors are attracted to REITs is high dividend yields that they offer. Therefore, growing dividends is integral to a REITs long term success. Immediately following the recession of 2008, there were widespread dividend cuts across the REIT sector. Yields have been recovering ever since. Over the last four years, LaSalle has maintained positive dividend growth and its dividend yield has consistently remained above the comp average. LaSalle has increased its dividend distributions per share at a CAGR of 17.0% during that period. However, it is important to understand the safety of the dividend payouts. If management is simply increasing dividend payments at an unsustainable rate, they will have to cut them in the future.

The FFO payout ratio illustrates how much of a firm's FFO is being paid out via dividend payments. Any ratio below 1 is considered sustainable. LaSalle's FFO payout ratio has remained below 1. However, rising dividend payments and relatively flat FFO growth has kept LaSalle above the comp average and moved its payout ratio closer to 1.

Conclusions Drawn from the Ratio Analysis

Based on the ratio analysis conducted in this report, it can be concluded that LaSalle Hotel Properties is in a healthy financial position and maintains flexibility in its capital structure that will allow it to take advantage of several growth opportunities in the future. From 2012 to 2016, revenue grew at a CAGR of just over 9% before falling 10% in 2017 due to adverse market conditions, Hurricane Irma, and lower hotel operating revenues from the disposition of several key hotels. AFFO increased at an approximate CAGR of 9.5% over the last five years. This bottom line growth has been achieved without any substantial acquisitions made by LaSalle over the last three years. As a result, per share cash flows have benefited from no new issuances of stock, and a decreased interest expense burden resulting from a significant deleveraging by LaSalle. LaSalle has greater capacity than its competitors to take on new debt to finance new projects and grow its revenue generating asset base moving forward. LaSalle has emphasized returning capital to its investors, growing its dividends per share by a total of 87.5% over the last five years, and doing so at a sustainable level.

Valuation

Projecting the Income Statement *(See Figure 15)*

In order to build a basis model for our valuations and project the income statement, several assumptions were made. Line items that were deemed to be directly positively correlated with sales were modeled using a 5-year percent of sales average. Furthermore, the model assumes there will be no divestitures or acquisitions of additional property, as Pebblebrook is acquiring LaSalle in its entirety with its property portfolio as currently constructed. D&A expense, ground rent expense, and number of rooms under ownership will remain constant as a result. Items like interest income and interest expense remained constant with the 2017 annual report.

The two key inputs for the model that drive projected revenue, cash flow, and other profit line items are the occupancy rate and the ADR. A low case, median case, and high case were created based on occupancy rates. The average minimum, median, and maximum occupancy over the last five years between LaSalle and Pebblebrook was used for the low case, median case, and high case respectively. A -3.4% ADR growth rate was applied for 2018 based on management guidance taken from provided supplementary data. A 2.4% ADR growth rate was applied for 2019 based on a forecast report published by STR and Tourism Economics. The growth rate was reduced by 50 basis points each year thereafter in reference to the initial hypothesis that the lodging REIT sector, like the overall market, is facing significant headwinds as it moves into the later part of the business cycle.

Discounted Cash Flow Model *(See Figure 16, 17, 18, 19)*

In the DCF analysis, the cash available for distribution (CAD) was projected over the next five years using a low, median, and high case scenario shows in the projected income statement. A final terminal growth rate was applied to the CAD using the final fiscal year growth rate in CAD *(See the highlighted number in Figure 16)*. The cost of equity was used using reported figures from Bloomberg. However, the 10-year US treasury rate from March 27, 2018 was used as the risk free rate. Share count information was taken from LaSalle's 2017 annual filing.

The low case resulted in an implied share price of $26.56 and an implied 42.32% premium paid by Pebblebrook in the acquisition of LaSalle Hotel Properties. The median case resulted in an implied share price of $27.60 and an implied premium paid of 36.95%. The high case resulted in an implied share price of $28.07 and an implied premium paid of 34.65%.

Financial Statement Model

INCOME STATEMENT

Fiscal Year	2013A	2014A	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Fiscal Year End Date	*12/31/13*	*12/31/14*	*12/31/15*	*12/31/16*	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
Hotel Operating Revenue	$ 969,356	$ 1,101,457	$ 1,208,573	$ 1,220,612	$ 1,092,882	$ 1,039,954	$ 1,064,913	$ 1,085,146	$ 1,100,338	$ 1,110,241
Other Income	7,937	8,321	7,993	7,007	11,933	8,115	8,310	8,467	8,586	8,663
OI as a % of HOR	*0.82%*	*0.76%*	*0.66%*	*0.57%*	*1.09%*	0.78%	0.78%	0.78%	0.78%	0.78%
Total Revenues	**$ 977,293**	**$ 1,109,778**	**$ 1,216,566**	**$ 1,227,619**	**$ 1,104,815**	**$ 1,048,069**	**$ 1,073,222**	**$ 1,093,614**	**$ 1,108,924**	**$ 1,118,904**
Hotel Operating Expenses	596,241	668,790	724,531	728,229	659,210	628,457	643,540	655,768	664,948	670,933
HOE as a % of HOR	*61.51%*	*60.72%*	*59.95%*	*59.66%*	*60.32%*	*60.43%*	*60.43%*	*60.43%*	*60.43%*	*60.43%*
Deperciation and Amortization	143,991	155,035	180,855	192,322	178,374	178,374	178,374	178,374	178,374	178,374
RE taxes, PP taxes, and Ins.	53,374	57,805	65,438	63,406	62,238	63,642	63,642	63,642	63,642	63,642
RE, PP, Ins as a % of D&A	*37.07%*	*37.29%*	*36.18%*	*32.97%*	*34.89%*	*35.68%*	*35.68%*	*35.68%*	*35.68%*	*35.68%*
Ground Rent	11,117	14,667	16,076	16,187	15,718	15,718	15,718	15,718	15,718	15,718
G&A Expense	22,001	23,832	25,197	26,529	26,751	23,167	23,723	24,174	24,512	24,733
G&A as a % of Revenue	*2.25%*	*2.15%*	*2.07%*	*2.16%*	*2.42%*	*2.21%*	*2.21%*	*2.21%*	*2.21%*	*2.21%*
Acqusition Transaction Costs	2,646	2,379	499	-	-	-	-	-	-	-
Other Expenses	9,361	7,369	17,225	6,283	12,550	9,821	10,057	10,248	10,392	10,485
Other Expense as a % of Revenue	*0.96%*	*0.66%*	*1.42%*	*0.51%*	*1.14%*	*0.94%*	*0.94%*	*0.94%*	*0.94%*	*0.94%*
Total Operaing Expenses	838,732	929,878	1,029,822	1,032,957	954,842	919,181	935,056	947,925	957,587	963,886
Operating Income	**$ 138,561**	**$ 179,900**	**$ 186,744**	**$ 194,662**	**$ 149,973**	**$ 128,888**	**$ 138,167**	**$ 145,689**	**$ 151,337**	**$ 155,018**
Interest Income	9,679	1,812	2,938	3,553	2,568	2,568	2,568	2,568	2,568	2,568
Interest Expense	- 57,516	- 56,628	- 54,333	- 43,775	- 39,366	- 39,366	- 39,366	- 39,366	- 39,366	- 39,366
Loss from Ext. Debt	-	- 2,487	- 831	-	- 1,706	-	-	-	-	-
Income Before Tax Benefit	**$ 90,724**	**$ 122,597**	**$ 134,518**	**$ 154,440**	**$ 111,469**	**$ 92,090**	**$ 101,369**	**$ 108,891**	**$ 114,539**	**$ 118,220**
Tax Benefit	- 470	- 2,306	- 1,292	- 5,784	- 1,699	- 1,699	- 1,699	- 1,699	- 1,699	- 1,699
Income Before one time gains	**$ 90,254**	**$ 120,291**	**$ 135,810**	**$ 148,656**	**$ 109,770**	**$ 90,391**	**$ 99,670**	**$ 107,192**	**$ 112,840**	**$ 116,521**
Net gain on sale of Propety and A/R	-	93,205	-	104,478	85,545	-	-	-	-	-
Net Income	**$90,254**	**$213,496**	**$135,810**	**$253,134**	**$195,315**	**$90,391**	**$99,670**	**$107,192**	**$112,840**	**$116,521**
Net Income % Growth		*136.55%*	*-36.39%*	*86.39%*	*-22.84%*	*-53.72%*	*10.27%*	*7.55%*	*5.27%*	*3.26%*

REVENUE GROWTH PROJECTIONS Case Low

Fiscal Year	2013A	2014A	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Fiscal Year End Date	*12/31/13*	*12/31/14*	*12/31/15*	*12/31/16*	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
Room	$ 667,444	$ 773,801	$ 849,523	$ 867,882	$ 791,287	$ 733,809	$ 751,420	$ 765,697	$ 776,417	$ 783,405
Food and Beverage	238,682	253,656	274,268	259,658	214,280	231,626	237,185	241,692	245,075	247,281
Other Operating Department	63,230	74,000	84,782	93,072	87,315	74,519	76,307	77,757	78,845	79,555
Hotel Operating Revenue	**$969,356**	**$1,101,457**	**$1,208,573**	**$1,220,612**	**$1,092,882**	**$1,039,954**	**$1,064,913**	**$1,085,146**	**$1,100,338**	**$1,110,241**
Occupancy	81.9%	81.7%	83.9%	84.5%	83.8%	82.0%	82.0%	82.0%	82.0%	82.0%
Bps change in occupancy		*-0.20%*	*2.20%*	*0.60%*	*-0.70%*	*-1.85%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
Pebblebrook Occupancy	82.2%	84.30%	83.30%	85.50%	84.40%	[redacted]				
ADR	$ 233.60	$ 243.69	$ 243.12	$ 245.53	$ 243.00	$ 234.74	$ 240.37	$ 244.94	$ 248.37	$ 250.60
ADR Growth		*4.32%*	*-0.23%*	*0.99%*	*-1.03%*	***-3.4%***	***2.4%***	***1.9%***	***1.4%***	***0.9%***
RevPAR	$ 191.32	$ 199.09	$ 203.98	$ 207.47	$ 203.63	$ 192.37	$ 196.98	$ 200.73	$ 203.54	$ 205.37
Number of Rooms Owned	11,384	11,280	12,000	11,450	10,451	10,451	10,451	10,451	10,451	10,451
Food and Beverage as a % of RR	*35.76%*	*32.78%*	*32.28%*	*29.92%*	*27.08%*	*31.56%*	*31.56%*	*31.56%*	*31.56%*	*31.56%*
OOD as a % of RR	*9.5%*	*9.6%*	*10.0%*	*10.7%*	*11.0%*	*10.2%*	*10.2%*	*10.2%*	*10.2%*	*10.2%*

Scenario	High	Median	Low
Occupancy	85.00%	84.05%	81.95%

Figure 15 - *Projected Income Statement*

CAD RECONCILIATION										
Fiscal Year	**2013A**	**2014A**	**2015A**	**2016A**	**2017A**	**2018P**	**2019P**	**2020P**	**2021P**	**2022P**
Fiscal Year End Date	*12/31/13*	*12/31/14*	*12/31/15*	*12/31/16*	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
Net Income	**$ 90,254**	**$ 213,496**	**$ 135,810**	**$ 253,134**	**$ 195,315**	**$ 104,780**	**$ 114,404**	**$ 122,206**	**$ 128,064**	**$ 131,883**
+D&A	143,991	155,035	180,855	192,322	178,374	178,374	178,374	178,374	178,374	178,374
-Gain(Loss) on Sale	-	93,205	-	104,478	85,545	-	-	-	-	-
-Impairment Write Offs	-	-	-	-	-	-	-	-	-	-
FFO	**$ 234,245**	**$ 275,326**	**$ 316,665**	**$ 340,978**	**$ 288,144**	**$ 283,154**	**$ 292,778**	**$ 300,580**	**$ 306,438**	**$ 310,257**
FFO % Growth		*17.54%*	*15.01%*	*7.68%*	*-15.49%*	*-1.73%*	*3.40%*	*2.66%*	*1.95%*	*1.25%*
Capital Expenditures	$ 33,741	$ 37,169	$ 39,521	$ 39,309	$ 36,795	*$ 37,307*	*$ 37,307*	*$ 37,307*	*$ 37,307*	*$ 37,307*
Cash Available for Distribution	**$200,504**	**$238,157**	**$277,144**	**$301,669**	**$251,349**	**$245,847**	**$255,471**	**$263,273**	**$269,131**	**$272,950**
CAD % Growth		*18.78%*	*16.37%*	*8.85%*	*-16.68%*	*-2.19%*	*3.91%*	*3.05%*	*2.23%*	*1.42%*

***Figure 16** – Cash available for distribution reconciliation*

DCF Model - Cash Available for Distribution										
Fiscal Year	**2013A**	**2014A**	**2015A**	**2016A**	**2017A**	**2018P**	**2019P**	**2020P**	**2021P**	**2022P**
Fiscal Year End Date	*12/31/13*	*12/31/14*	*12/31/15*	*12/31/16*	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
CAD	$ 200,504	$ 238,157	$ 277,144	$ 301,669	$ 251,349	$ 245,847	$ 255,471	$ 263,273	$ 269,131	$ 272,950
					Discount period	*1*	*2*	*3*	*4*	*5*
					PV of CAD	**$224,579**	**$213,183**	**$200,688**	**$187,406**	**$173,623**

Terminal Value	
CAD in last forecast period	$ 272,950
CAD(t+1)	276,823
Long term growth rate	1.42%
Terminal value	3,438,320
PV of terminal value	2,187,110
Equity value	$ 3,186,590
Shares outstanding	113,509
Equity value/share	**$28.07**

Share Count Information	
Basic share count	113,121
Diluted share count	113,509
Acqusition share price	$ 37.80
DCF equity value/share	$ 28.07
Implied premium (discount) paid	**34.65%**

Cost of Capital Assumptions	
Risk free rate	2.78%
Beta	1
Market risk premium	6.69%
Cost of Equity	9.5%

***Figure 17** – High case discounted cash flow model*

DCF Model - Cash Available for Distribution										
Fiscal Year	**2013A**	**2014A**	**2015A**	**2016A**	**2017A**	**2018P**	**2019P**	**2020P**	**2021P**	**2022P**
Fiscal Year End Date	*12/31/13*	*12/31/14*	*12/31/15*	*12/31/16*	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
CAD	$ 200,504	$ 238,157	$ 277,144	$ 301,669	$ 251,349	$ 241,365	$ 250,882	$ 258,597	$ 264,389	$ 268,165
					Discount period	*1*	*2*	*3*	*4*	*5*
					PV of CAD	**$220,485**	**$209,353**	**$197,123**	**$184,104**	**$170,580**

Terminal Value	
CAD in last forecast period	$ 268,165
CAD(t+1)	271,995
Long term growth rate	1.43%
Terminal value	3,382,266
PV of terminal value	2,151,454
Equity value	$ 3,133,099
Shares outstanding	113,509
Equity value/share	**$27.60**

Share Count Information	
Basic share count	113,121
Diluted share count	113,509
Acqusition share price	$ 37.80
DCF equity value/share	$ 27.60
Implied premium (discount) paid	**36.95%**

Cost of Capital Assumptions	
Risk free rate	2.78%
Beta	1
Market risk premium	6.69%
Cost of Equity	9.5%

***Figure 18** – Median case discounted cash flow model*

DCF Model - Cash Available for Distribution										
Fiscal Year	**2013A**	**2014A**	**2015A**	**2016A**	**2017A**	**2018P**	**2019P**	**2020P**	**2021P**	**2022P**
Fiscal Year End Date	*12/31/13*	*12/31/14*	*12/31/15*	*12/31/16*	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
CAD	$ 200,504	$ 238,157	$ 277,144	$ 301,669	$ 251,349	$ 231,458	$ 240,737	$ 248,259	$ 253,907	$ 257,588
					Discount period	*1*	*2*	*3*	*4*	*5*
					PV of CAD	**$211,435**	**$200,887**	**$189,243**	**$176,805**	**$163,852**

Terminal Value	
CAD in last forecast period	$ 257,588
CAD(t+1)	261,323
Long term growth rate	1.45%
Terminal value	3,258,397
PV of terminal value	2,072,661
Equity value	$ 3,014,882
Shares outstanding	113,509
Equity value/share	**$26.56**

Share Count Information	
Basic share count	113,121
Diluted share count	113,509
Acqusition share price	$ 37.80
DCF equity value/share	$ 26.56
Implied premium (discount) paid	**42.32%**

Cost of Capital Assumptions	
Risk free rate	2.78%
Beta	1
Market risk premium	6.69%
Cost of Equity	9.5%

***Figure 19** – Low case discounted cash flow model*

Net Asset Value (NAV) Model *(See Figure 21, 22)*

Net Asset Value is a commonly used valuation method used for REITs. NAV calculates the estimated value of a REIT's properties, net of other non-real estate assets and liabilities. NAV per share thus acts as a more accurate measure of book value per share. A stock that is trading below its NAV per share is considered to be trading at a discount, while a stock trading above NAV per share is said to be trading at a premium.

The market cap rates used in the NAV model were taken from the *First Half 2019 CBRE North American Cap Rate Survey* research publication. This more recent report will provide sufficient market data, as hotel cap rates have remained relatively unchanged since the beginning of 2018 *(See Figure 20)*. Only cap rates for luxury class properties were used, with either the central business district rate or suburban rate applied based on property location. A historic hotel REIT market discount to NAV of 26.4% was applied to create a more accurate measure of what is an expected trading price relative to LaSalle's NAV per share[12].

All property and room information was taken directly from the 2017 annual filing. RevPAR[13] for each property was taken from the 2017 annual filing and was used to calculate a percent of total revenue and share of NOI. All line items used to refine the REIT Asset Value to the NAV were taken directly from the 2017 annual filing.

Based on the $37.80 per share purchase price agreed upon in the Transaction, Pebblebrook paid a 33.53% premium for the stock in the low case scenario, a 14.4% premium in the base case scenario, and a 4.57% discount in the high case scenario.

Low		Base		High	
Total market value of real estate assets	$5,408,326	Total market value of real estate assets	$6,136,037	Total market value of real estate assets	$7,146,297
Weighted average cap rate	6.84%	Weighted average cap rate	6.03%	Weighted average cap rate	5.18%
REIT Asset Value	$5,408,326	REIT Asset Value	$6,136,037	REIT Asset Value	$7,146,297
+Non-real astate related assets	$494,457	+Non-real astate related assets	$494,457	+Non-real astate related assets	$494,457
+Property under development	$49,459	+Property under development	$49,459	+Property under development	$49,459
+Properties held for sale	$0	+Properties held for sale	$0	+Properties held for sale	$0
-Total Liabilties	$1,338,479	-Total Liabilties	$1,338,479	-Total Liabilties	$1,338,479
-Preferred stock	$260,000	-Preferred stock	$260,000	-Preferred stock	$260,000
Net Asset Value	**$4,353,763**	**Net Asset Value**	**$5,081,474**	**Net Asset Value**	**$6,091,734**
Outstanding Shares	113,193	Outstanding Shares	113,193	Outstanding Shares	113,193
NAV/share	**$38.46**	**NAV/share**	**$44.89**	**NAV/share**	**$53.82**
Acquisition Share Price	$ 37.80	Acquisition Share Price	$ 37.80	Acquisition Share Price	$ 37.80
Implied Premium (Discount) Paid	**-1.72%**	**Implied Premium (Discount) Paid**	**-15.80%**	**Implied Premium (Discount) Paid**	**-29.76%**
Historic Industry Discount to NAV	26.40%	Historic Industry Discount to NAV	26.40%	Historic Industry Discount to NAV	26.40%
Adjusted Implied Premium (Discount) Paid	**33.53%**	**Adjusted Implied Premium (Discount) Paid**	**14.40%**	**Adjusted Implied Premium (Discount) Paid**	**-4.57%**

Figure 21 *- Low, Base, High case NAV model*

[12] 26.4% discount derived from an analysis conducted by S&P Market Intelligence on average premium (Discount) to NAV at the year end of 2015. The average trading discount to NAV was 2.7% for all REITs. The large discount for lodging REITs is due to perceived higher risk of hotel revenues. Rental "leases" run on a day-to-day basis, resulting in greater exposure to short-term industry fluctuations.

[13] RevPAR is an abbreviation for revenue per available room. RevPAR takes a certain hotels total revenue and adjusts it to a reportable amount per all rooms available to hotel guests, both vacant and occupied.

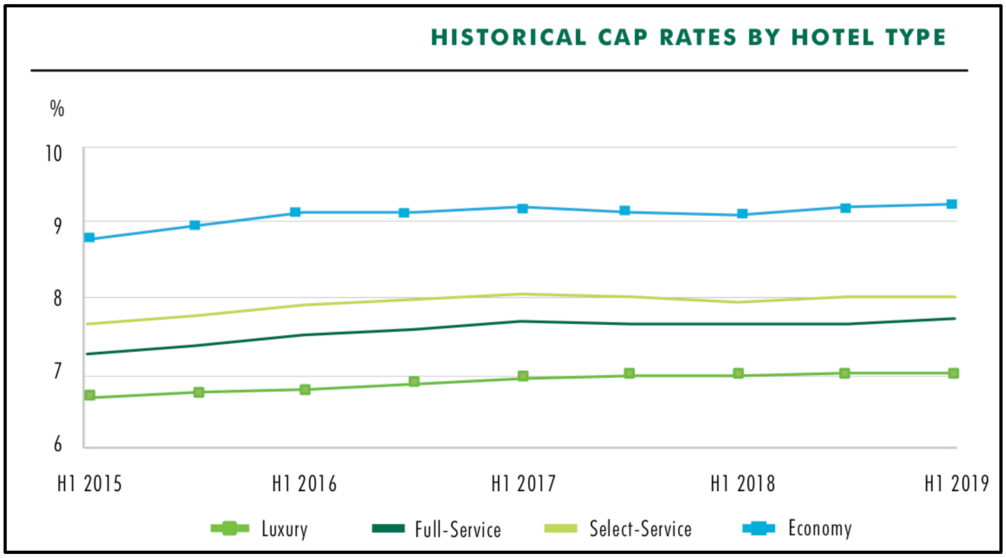

Figure 20 *– Data Source: H1 2019 CBRE North American Cap Rate Survey, historic cap rates*

NAV MODEL INPUTS

Fiscal Year	2013A	2014A	2015A	2016A	2017A	2018P	2019P	2020P	2021P	2022P
Fiscal Year End Date	*12/31/13*	*12/31/14*	*12/31/15*	*12/31/16*	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
Hotel Operating Revenue	$ 969,356	$ 1,101,457	$ 1,208,573	$ 1,220,612	$ 1,092,882	$ 1,078,659	$ 1,104,546	$ 1,125,533	$ 1,141,290	$ 1,151,562
Hotel Operating Expense	$ 596,241	$ 668,790	$ 724,531	$ 728,229	$ 659,210	$ 651,847	$ 667,492	$ 680,174	$ 689,696	$ 695,904
G&A Expense	$ 22,001	$ 23,832	$ 25,197	$ 26,529	$ 26,751	$ 24,029	$ 24,606	$ 25,073	$ 25,424	$ 25,653
Capital Expenditures	$ 33,741	$ 37,169	$ 39,521	$ 39,309	$ 36,795	$ 37,307	$ 37,307	$ 37,307	$ 37,307	$ 37,307
Net Operating Income (NOI)	**$317,373**	**$371,666**	**$419,324**	**$426,545**	**$370,126**	**$365,475**	**$375,142**	**$382,979**	**$388,863**	**$392,698**
NOI margin %	*32.74%*	*33.74%*	*34.70%*	*34.95%*	*33.87%*	*33.88%*	*33.96%*	*34.03%*	*34.07%*	*34.10%*

Net Asset Value Model - Scenario Analysis

CASE: High

City	Hotel	Rooms	2017 RevPar	% of Total RevPAR	Share of Total Rev.	Share of NOI	Mrkt. Cap Rate	Market Value
Burbank, CA	Hotel Amarano Burbank	132	$206.88	2.45%	$26,799	$9,076	6.00%	$151,266
Del Mar, CA	L'Auberge Del Mar	121	$307.94	3.65%	$39,890	$13,510	6.00%	$225,159
San Diego, CA	Hilton San Diego Gaslamp Quarter	286	$194.52	2.31%	$25,198	$8,534	5.50%	$155,159
	Hotel Solamar	235	$174.95	2.07%	$22,663	$7,675	5.50%	$139,549
	San Diego Paradise Point Resort and Spa	462	$155.28	1.84%	$20,115	$6,812	5.50%	$123,859
	The Hilton San Diego Resort and Spa	357	$172.77	2.05%	$22,380	$7,580	5.50%	$137,810
San Francisco, CA	Harbor Court Hotel	131	$202.07	2.40%	$26,176	$8,865	6.00%	$147,749
	Hotel Vitale	200	$331.10	3.92%	$42,890	$14,526	6.00%	$242,093
	Park Central San Francisco	681	$231.94	2.75%	$30,045	$10,175	6.00%	$169,589
	Serrano Hotel	236	$155.54	1.84%	$20,148	$6,824	6.00%	$113,727
	The Marker San Francisco	208	$207.42	2.46%	$26,869	$9,100	6.00%	$151,661
	Villa Florence	189	$156.89	1.86%	$20,323	$6,883	6.00%	$114,715
Santa Cruz, CA	Chaminade Resort and Conference Center	156	$149.63	1.77%	$19,383	$6,564	7.50%	$87,525
Santa Monica, CA	Viceroy Santa Monica	162	$331.91	3.93%	$42,995	$14,561	5.50%	$264,748
West Hollywood, CA	Chamberlain West Hollywood	115	$220.25	2.61%	$28,531	$9,663	5.50%	$175,682
	Le Montrose Suite Hotel	133	$206.26	2.44%	$26,719	$9,049	5.50%	$164,523
	Le Parc Suite Hotel	154	$210.02	2.49%	$27,206	$9,214	5.50%	$167,522
	The Grafton on Sunset	108	$183.02	2.17%	$23,708	$8,029	5.50%	$145,986
Washington, DC	Hotel George	139	$229.83	2.72%	$29,772	$10,083	4.50%	$224,062
	Hotel Madera	82	$181.55	2.15%	$23,518	$7,965	4.50%	$176,994
	Hotel Palomar, Washington, DC	335	$183.78	2.18%	$23,807	$8,063	4.50%	$179,168
	Hotel Rouge	137	$159.17	1.89%	$20,619	$6,983	4.50%	$155,175
	Mason & Rook Hotel	178	$192.10	2.28%	$24,884	$8,428	4.50%	$187,279
	Sofitel Washington, DC Lafayette Square	237	$277.51	3.29%	$35,948	$12,175	4.50%	$270,546
	The Donovan	193	$185.31	2.20%	$24,005	$8,130	4.50%	$180,659
	The Liaison Capitol Hill	343	$160.38	1.90%	$20,775	$7,036	4.50%	$156,355
	Topaz Hotel	99	$170.43	2.02%	$22,077	$7,477	4.50%	$166,153
Key West, FL	Southernmost Beach Resort Key West	262	$279.47	3.31%	$36,202	$12,261	7.00%	$175,151
	The Marker Waterfront Resort	96	$226.79	2.69%	$29,378	$9,949	7.00%	$142,135
Chicago, IL	Hotel Chicago	354	$158.37	1.88%	$20,515	$6,948	6.75%	$102,930
	Westin Michigan Avenue	752	$140.41	1.66%	$18,188	$6,160	6.75%	$91,258
Boston, MA	Hyatt Regency Boston Harbor	270	$184.76	2.19%	$23,933	$8,106	4.00%	$202,639
	Onyx Hotel	112	$207.81	2.46%	$26,919	$9,117	4.00%	$227,919
	The Liberty Hotel	298	$293.99	3.48%	$38,083	$12,898	4.00%	$322,439
	Westin Copley Place	803	$242.03	2.87%	$31,352	$10,618	4.00%	$265,451
New York, NY	Gild Hall	130	$205.17	2.43%	$26,577	$9,001	4.50%	$200,021
	The Roger	194	$227.70	2.70%	$29,496	$9,989	4.50%	$221,986
	Park Central Hotel New York	761	$214.56	2.54%	$27,794	$9,413	4.50%	$209,175
	WestHouse Hotel New York	172	$214.56	2.54%	$27,794	$9,413	4.50%	$209,175
Portland, OR	The Heathman Hotel	150	$158.70	1.88%	$20,558	$6,962	7.25%	$96,031
Philadelphia, PA	Embassy Suites Philadelphia – Center City	288	$143.98	1.71%	$18,651	$6,317	6.00%	$105,275
	Total:	10,451	$8,436.75	100%	$1,092,882	$370,126		$7,146,297

Market Cap Rate	Average	Low	High
Burbank, CA	7.00%	8.00%	6.00%
Del Mar, CA	7.00%	8.00%	6.00%
San Diego, CA	6.75%	8.00%	5.50%
San Francisco, CA	6.50%	7.00%	6.00%
Santa Cruz, CA	8.00%	8.50%	7.50%
Santa Monica, CA	6.75%	8.00%	5.50%
West Hollywood, CA	6.75%	8.00%	5.50%
Washington, DC	5.25%	6.00%	4.50%
Key West, FL	7.38%	7.75%	7.00%
Chicago, IL	7.13%	7.50%	6.75%
Boston, MA	5.25%	6.50%	4.00%
New York, NY	5.00%	5.50%	4.50%
Portland, OR	7.75%	8.25%	7.25%
Philadelphia, PA	6.25%	6.50%	6.00%

Total market value of real estate assets	$7,146,297
Weighted average cap rate	5.18%
REIT Asset Value	$7,146,297
+Non-real estate related assets	$494,457
+Property under development	$49,459
+Properties held for sale	$0
-Total liabilities	$1,338,479
-Preferred stock	$260,000
Net Asset Value	$6,091,734
Outstanding Shares	113,193
NAV/share	$53.82
Acquisition Share Price	$37.80
Implied Premium (Discount) Paid	-29.76%
Historic Industry Discount to NAV	26.40%
Adjusted Implied Premium (Discount) Paid	-4.57%

***Figure 22** – Net Operating Income reconciliation and Net Asset Value model*

Comparable Companies Model *(Figure 23)*

The comparable companies valuation method is a type of relative valuation that will allow us to value the implied stock price for LaSalle Hotel Properties at the time of the initial offer on March 28, 2019, based on what level or multiple similar REITs were trading for in the market. This is a widely used valuation tool, used in over half of all acquisition valuations. The same comp set used in the ratio analysis will be used in this relative valuation. All line items used in calculating different trading multiples were derived from the respective companies' 2017 annual filing.

The multiples used in this relative valuation will be P/FFO, P/AFFO, and EV/EBITDA. These REIT pricing multiples are very similar to a normal corporation's P/E ratio. A REIT's earnings are highly effected by non-recurring or noncash items such as depreciation/amortization expense and gain or loss on sale of properties which distort the companies observed profitability. FFO, AFFO, and EBITDA account for these irregular or non-recurring expenses to provide a better interpretation of a REIT's growth.

Comparitive Valuation - Pricing Multiples

Comparables	BHR	DRH	HT	PK	XHR	LHQ
Share Price *(03/27/18)*	$ 9.39	$ 10.16	$ 17.36	$ 31.28	$ 21.66	$ 22.92
Net Income	**$ 28,324**	**$ 91,877**	**$ 104,940**	**$ 2,631,000**	**$ 100,816**	**$ 174,890**
-Distributions to Preffered Shareholders	6,795	-	24,169	-	-	20,425
+Dep. & Amort.	49,361	99,090	78,680	279,000	152,544	178,374
+Income from non-controlling interest in operating parternships	- 3,262	-	- 1,009	12,000	- 803	-
-Gain (Loss) on sale	23,797	- 458	90,350	1,000	50,747	85,545
-Impairment write offs	- 1,068	- 3,209	- 5,926	- 10,000	- 950	-
FFO	**$ 44,899**	**$ 194,634**	**$ 74,018**	**$ 585,000**	**$ 202,760**	**$ 247,294**
Shares Outstanding	32,120	200,537	39,824	215,131	106,828	113,193
FFO/Share	**$ 1.40**	**$ 0.97**	**$ 1.86**	**$ 2.72**	**$ 1.90**	**$ 2.18**
P/FFO Multiple	**6.72x**	**10.47x**	**9.34x**	**11.50x**	**11.41x**	**10.49x**
FFO	**$ 44,899**	**$ 194,634**	**$ 74,018**	**$ 585,000**	**$ 202,760**	**$ 247,294**
+Non-cash ground rent	-	6,290	-	-	734	1,842
+Non-cash amortization of contracts	-	- 1,912	230	-	-	-
+Hurricane related costs	3,821	3,280	2,424	4,000	-	3,166
+Loss on early extinguishment of debt	-	274	-	14,000	274	1,706
+Gain on repayment of notes recievable	-	-	-	16,000	-	-
+Hotel acquisiton costs	3,387	2,028	2,203	2,000	1,578	-
+Hotel manager transition items	3,387	- 3,637	- 268	9,000	-	289
+Severence costs	-	-	-	1,000	-	289
+Lease preperation costs	-	-	-	-	-	-
+Fair value adjustments to debt inst.	3,874	-	590	-	-	-
+Other Items	6,810	-	17,729	- 35,000	14,632	5,310
Total further adjustments	$ 21,279	$ 6,323	$ 22,908	$ 11,000	$ 17,218	$ 12,601
Adjusted FFO	**$ 66,178**	**$ 200,957**	**$ 96,926**	**$ 596,000**	**$ 219,978**	**$ 259,895**
Shares Outstanding	32,120	200,537	39,824	215,131	106,828	113,193
AFFO/Share	**$ 2.06**	**$ 1.00**	**$ 2.43**	**$ 2.77**	**$ 2.06**	**$ 2.30**
P/AFFO Multiple	**4.56x**	**10.14x**	**7.13x**	**11.29x**	**10.52x**	**9.98x**
Net Income	**$ 28,324**	**$ 91,877**	**$ 104,940**	**$ 2,631,000**	**$ 100,816**	**$ 174,890**
Income from non-controlling interest in operating parternships	- 5,302	-	- 1,009	24,000	- 1,224	-
Interest Income	- 683	-	271	- 2,000	-	-
Interest Expense and amortization of loan costs	37,029	38,481	42,662	124,000	46,294	39,366
Depreciation and Amortization	49,361	99,090	83,752	288,000	152,544	178,374
Income tax expense (benefit)	- 389	10,207	5,262	- 2,346,000	7,833	1,699
Net Income loss atributable to redeemable noncontrolling int.	2,038	-		-	-	-
EBITDA	**$ 110,378**	**$ 239,655**	**$ 235,878**	**$ 719,000**	**$ 306,263**	**$ 394,329**
Cash and Cash Equivalents	137,522	183,569	17,945	364,000	71,884	400,667
Interest Bearing Debt	826,200	937,792	1,093,013	2,961,000	1,322,593	1,120,121
Market Cap	301,609	2,037,461	691,346	6,729,312	2,313,892	2,594,388
Enterprise Value	**$ 990,287**	**$ 2,791,684**	**$ 1,766,414**	**$ 9,326,312**	**$ 3,564,601**	**$ 3,313,842**
EBITDA Multiple	**8.97x**	**11.65x**	**7.49x**	**12.97x**	**11.64x**	**8.40x**

FFO Multiple

Level	Multiple	Implied Share Price	Implied Premium Paid
High	11.50x	$ 25.13	50.4%
Median	10.47x	$ 22.87	65.3%
Low	6.72x	$ 14.68	157.6%
Mean	9.89x	$ 21.60	75.0%

AFFO Valuation

Level	Multiple	Implied Share Price	Implied Premium Paid
High	11.29x	$ 25.92	45.8%
Median	10.14x	$ 23.28	62.4%
Low	4.56x	$ 10.46	261.2%
Mean	8.73x	$ 20.04	88.6%

EV/EBITDA Valuation

Level	Multiple	Implied Share Price	Implied Premium Paid
High	12.97x	$ 38.83	-2.7%
Median	11.64x	$ 34.19	10.6%
Low	7.49x	$ 19.73	91.6%
Mean	10.54x	$ 30.38	24.4%

Figure 23 *– Comparable companies valuation model, pricing multiple method*

Summary and Conclusion

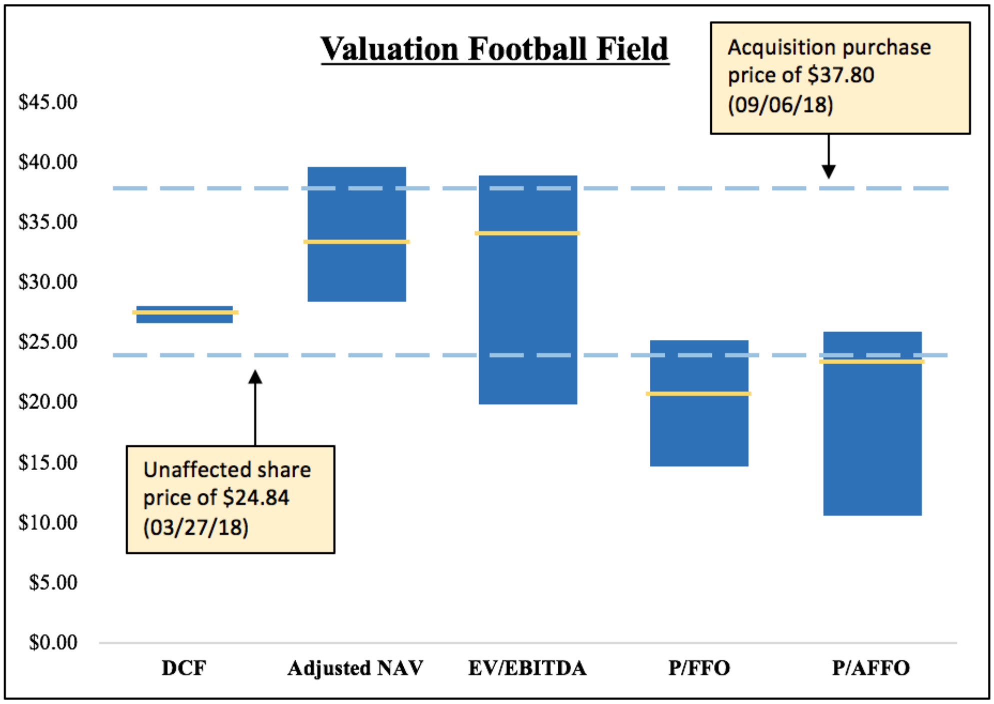

***Figure 24** – Valuation Football Field*

In Figure 24, a valuation football field shows the implied share price of LaSalle Hotel Properties at the time of initial acquisition offering in March of 2018. The valuation methodologies can essentially be broken into two categories. The discounted cash flow and NAV valuations and the relative valuations. The discounted cash flow and net asset value valuations represent the fundamental analysis valuations that focus on the projected cash flows and asset values of LaSalle Hotel Properties. By averaging the median implied share price of the DCF and NAV valuations, the implied share price of LaSalle common stock is approximately $29.98. This results in an implied premium paid by Pebblebrook Hotel Trust of 26.01%. The pricing ratios (EV/EBITDA, P/FFO, P/AFFO) represent the relative valuations. When averaging the median implied share price of each of these relative valuations, the implied share price of LaSalle common stock is approximately $26.78. This results in an implied premium paid by Pebblebrook Hotel Trust of 41.15%. While both these premium figures are high, they are well below the 54.41% premium paid over LaSalle's unaffected share price. Furthermore, there are certain flaws and anomalies that I believe are decreasing the implied share prices calculated in the valuations, and thus increasing the implied premium paid. As a result, when considering the context of the Transaction, the operational objectives, and the asset growth objectives laid out by Pebblebrook, the premium paid is justified.

As discussed in the pricing ratios section of this report, at the time of the initial acquisition offering, the NAREIT Lodging/Resort index was down 20% since its peak in 2015. Clearly, any valuations using pricing multiples from the sector will result in a depressed valuation based on market sentiment rather than the fundamental analysis and performance of the specific company. As a result, greater weight should be placed on the DCF and NAV valuations, specifically the NAV valuation.

In order to understand why the premium paid was justified based on the NAV valuation, it is key to understand the business model of Pebblebrook and REITs in general. Equity REITs can only increase their top line by earning greater rental revenue. Greater rental revenue can be achieved in one of three main ways: 1) increasing occupancy in properties under ownership, 2) increasing rental fees charged to property tenants/occupants, 3) acquiring or developing new properties on which you can earn new rental revenue. The data suggests that occupancy rates and rental fees, which make up ADR, will be facing adverse market conditions moving forward. This suggests that Lodging REITs must focus their efforts on acquiring new properties to increase revenue. Therefore, Pebblebrook's end goal of the LaSalle acquisition was not to immediately increase its share price, but to use a stock-for-stock acquisition exchange as a means to increase its property ownership at a discounted price, thereby achieving topline growth, and increasing its per share cash flows and distributions to shareholders.

When ignoring the 26.4% NAV per share trading discount for Lodging REIT stock, and exclusively look at the calculated unadjusted net asset value of the properties acquired in the Transaction, it can be observed that on a dollar for dollar basis, Pebblebrook actually paid a discount for the new properties. In the NAV low case, where property prices are trading in a more bearish environment of higher cap rates, the unadjusted NAV per share is $38.46. This means that Pebblebrook was able to increase its revenue generating asset base by $4.3 billion and at a discount 1.72%. In the high case that discount jumps up to an astounding 29.76%. It is my belief that by acquiring LaSalle and all its assets in a stock-for-stock exchange rather that purchasing individual new properties on the open market, Pebblebrook was able to more than double its number of rooms available for rent, decrease its leverage factor and remain financially flexible in order to finance future projects, and avoid diluting its per share cash flows to its shareholders. The Transaction was beneficial for shareholders, with Pebblebrook actually paying a slight discount rather than a premium.

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