



REITs

Analyst: Carol L. Kemple
502.588.1839 / CKemple@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 / GMoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
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COMPANY UPDATE / ESTIMATE CHANGES

SOHO - NASDAQ (as of 8/7/2017)	\$6.48
Price Target	\$8.50
52-Week Range	\$4.65 - \$7.66
Shares & Units Outstanding (mm)	15.6
Market Cap. (\$mm)	\$101
3-Mo. Average Daily Volume (000)	41
Institutional Ownership	29%
Debt/Total Market Capital (6/17)	69%
Dividend	\$0.44
Dividend Yield	6.8%

Adjusted FFO Per Share & Unit FY 12/31

	Prior 2016	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.23	\$0.32 A	\$0.21	\$0.21
2Q	\$0.39	\$0.32 A	\$0.44	\$0.45
3Q	\$0.16	\$0.18	\$0.23	\$0.23
4Q	\$0.12	\$0.19	\$0.29	\$0.28
Year	\$0.90	\$1.04	\$1.18	\$1.17
P/FFO	7.2x	6.2x		5.5x

Adjusted FFO excludes the impact of hedging, unrealized gains/losses on warrant derivatives, any increase/decrease in deferred income taxes, losses or gains on the early extinguishment of debt.

Quarterly FFO per share amounts may not add up to annual amounts due to rounding.

Previous numbers have not been restated.

Revenue (\$mm)

	Prior 2016	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$38	\$39 A	\$42	\$42
2Q	\$42	\$41 A	\$44	\$44
3Q	\$37	\$38	\$40	\$40
4Q	\$36	\$38	\$40	\$40
Year	\$153	\$155	\$166	\$166

Quarterly revenue amounts may not add up to annual amounts due to rounding.

Company Description: SoTHERLY Hotels Inc., headquartered in Williamsburg, Virginia, is a real estate investment trust (REIT) that owns eleven hotel properties and an interest in a luxury-condo hotel in the mid-Atlantic and Southeastern United States.

SoTHERLY Hotels Inc.

SOHO - NASDAQ - Long-term Buy - 4

Second Quarter Results

- **Second quarter FFO were \$0.29 versus \$0.35 per share and unit last year.** Adjusted FFO per share and unit were \$0.32 compared to \$0.39 last year. Adjusted FFO excludes unrealized gains/losses on warrants and hedging activities, loss on early extinguishment of debt, impairment of notes receivable, franchise termination fees, aborted offering costs, acquisition costs, increases/decreases in deferred income taxes, and several other one time items. Adjusted FFO per share and unit was below ours and the consensus estimate.
- **Consolidated occupancy increased 0.7% for the second quarter of 2017 and ADR (average daily rate) increased 1.9%, resulting in a rise in RevPAR (revenue per available room) of 2.5%.**
- **Dividend Increase.** On July 25, SOHO announced a 4.8% increase in its quarterly dividend to \$0.11 per common share.
- **Management maintained 2017 adjusted FFO per share and unit guidance of \$1.02 to \$1.10.** We are lowering our 2017 adjusted FFO per share and unit estimate by three cents to \$1.04 due mostly to the 2Q miss.
- **We rate SOHO Long-term Buy with a two-year target price of \$8.50.**

Note Important Disclosures on Pages 6 and 7.
Note Analyst Certification on Page 6.

Additional Discussion

Total hotel revenue was \$40.6 million in the quarter, down 2.8% from the year ago period. Room revenue made up 71.1% of total revenue, compared to 71.5% last year. Room revenue was down 3.4%. Food and beverage sales declined 10.4% in the quarter.

Table 1 Consolidated Occupancy

	Quarter ended 6/30/2017	Quarter ended 6/30/2016	Year-over-Year % change
Occupancy	76.5%	76.0%	0.7%
ADR	\$146.32	\$143.65	1.9%
RevPAR	\$111.93	\$109.16	2.5%

Source: Company reports & Hilliard Lyons' calculations

Table 2 Consolidated Occupancy

	First Six Months 2017	First Six Months 2016	Year-over-Year % change
Occupancy	73.3%	72.3%	1.4%
ADR	\$147.65	\$144.47	2.2%
RevPAR	\$108.20	\$104.44	3.6%

Source: Company reports & Hilliard Lyons' calculations

Funds from operations (FFO) were \$4.6 million versus \$5.9 million in last year's second quarter. FFO per share and unit were \$0.29 versus \$0.35. Adjusted funds from operations (FFO) were \$5.0 million versus \$6.5 million in last year's second quarter. Adjusted FFO per share and unit were \$0.32 compared to \$0.39 in the year ago period.

Outlook

Current Environment - Second quarter results were negatively impacted by the Easter calendar shift and rooms being offline at three hotels under renovations.

Acquisitions & Dispositions - In June, SOHO entered into an agreement to purchase the commercial unit of the planned Hyde Beach House Resort & Residences under development in Hollywood, Florida for a price of \$5.10 million. The agreement includes the purchase of the hotel commercial unit. SOHO will also lease the parking garage and poolside cabanas and will manage the condo association. There is a pre-opening service agreement included where the sellers had agreed to pay SOHO \$0.75 million in connection with certain pre-opening activities. This property is expected to open 2Q19.

Management wrote offers on several hotels during the quarter. The market is very competitive, with a lot of private equity money chasing deals. We believe any future acquisitions will be funded by future dispositions, preferred shares sales, or debt. We believe management will remain disciplined regarding pricing and will not over pay for an acquisition or complete an acquisition just for the sake of growth.

Share Buyback - In December, SOHO announced a stock repurchase program for up to \$10 million of its outstanding common shares. SOHO did not purchase any shares in 2Q. The company was under an extensive black out period in 2Q.

Estimate - Management maintained 2017 adjusted FFO per share and unit guidance of \$1.02 - \$1.10. We are lowering our 2017 adjusted FFO per share and unit estimate by three cents to \$1.04 due mostly to the 2Q miss.

Quarterly Income Statement

	2Q17	2Q16	% Change
Rooms Department	\$28,906,872	\$29,909,287	-3.4%
Food and Beverage Department	8,583,358	9,578,410	-10.4%
Other Operating Departments	3,152,402	2,337,257	34.9%
Total Hotel Revenue	40,642,632	41,824,954	-2.8%
Rooms Department	6,743,788	7,599,209	-11.3%
Food and Beverage Department	6,151,495	6,490,681	-5.2%
Other Operating Departments	623,530	644,430	-3.2%
Indirect	15,605,262	14,613,064	6.8%
Total Hotel Operating Expenses	29,124,075	29,347,384	-0.8%
Real Estate NOI	11,518,557	12,477,570	-7.7%
Depreciation and Amortization	4,219,712	3,801,478	11.0%
Impairment of Investment in Hotel Properties, net			
Loss on Disposal of Assets			
Corporate General and Administrative	1,834,930	1,356,754	35.2%
Other Operating Expenses	6,054,642	5,158,232	17.4%
Operating Income (Loss)	5,463,915	7,319,338	-25.3%
Interest Expense	(3,874,076)	(4,613,165)	
Interest Income	13,294	10,207	
Equity in Earnings of Joint Venture			
Unrealized Gain (Loss) on Hedging Activities	(11,261)	(15,517)	
Impairment of Note Receivable			
Gain on Early Debt Extinguishment	(228,087)	(70,293)	
Gain on Change in Control			
Gain on Involuntary Conversion of Asset	(51,507)	(140,193)	
Gain (Loss) on Disposal of Assets			
Net Income Before Taxes	1,312,278	2,490,377	
Income Tax Benefit (Provision)	(196,483)	(512,827)	
Net Income	1,115,795	1,977,550	
Net Loss (Income) Attributable to the Noncontrolling Interest	(33,869)	(216,444)	
Net Income Attributable to the Company	1,081,926	1,761,106	
Distributions to Preferred Shareholders	(805,000)		
Net Income Attributable to Common Shareholders	\$276,926	\$1,761,106	
Net Income Per Share (diluted)	\$0.02	\$0.12	
Weighted Average Shares Outstanding (diluted)	13,815,035	14,949,651	-7.6%
Funds From Operations	2Q17	2Q16	% Change
Net Income (Loss)	\$276,926	\$1,761,106	
Depreciation and Amortization	4,219,712	3,801,478	
Other Adjustments	85,376	356,637	
Funds From Operations (FFO)	\$4,582,014	\$5,919,221	-22.6%
Unrealized (Gain)/Loss on Hedging Activities	11,261	15,517	
Unrealized Loss on Warrant Derivative			
Decrease in Deferred Income Taxes	139,946	479,854	
Impairment of Note Receivable			
Acquisition Costs			
Loss on Starwood Settlement			
Over-assessed real estate taxes under appeal			
Loan modification fee		30,235	
Franchise Termination Fee			
Aborted Offering Costs			
Loss on Early Extinguishment of Debt	228,087	70,293	
Adjusted FFO	\$4,961,308	\$6,515,120	-23.8%
FFO Per Share and Unit	\$0.29	\$0.35	-17.1%
Adjusted FFO Per Share and Unit	\$0.32	\$0.39	-17.9%

Previous results have been restated.

Source: Company report

Condensed Balance Sheet

	12/31/2015	12/31/2016	6/30/2017
Assets			
Investment in Hotel Properties (net)	\$354,963,242	\$348,593,912	\$357,466,632
Property Under Development			
Investment in Joint Venture			
Assets Held for Sale		5,333,000	
Cash and Cash Equivalents	11,493,914	31,766,775	34,438,950
Restricted Cash	5,793,840	4,596,145	4,617,495
Accounts Receivable	4,256,247	4,127,748	3,287,118
Accounts Receivable - Affiliate	226,552	4,175	563,905
Loan Proceeds Receivable	2,600,711		
Prepaid Expenses, Inventory, and Other Assets	4,247,359	4,648,469	5,927,753
Notes Receivable			
Shell Island Lease Purchase (net)			
Deferred Income Taxes	5,390,374	6,949,340	6,691,344
Deferred Financing Costs (net)	4,086,114		
Total Assets	\$393,058,353	\$406,019,564	\$412,993,197
Liabilities			
Line of Credit			
Mortgage Loans	271,977,944	282,708,289	294,437,781
Bridge Loan			
Loans Payable			
Unsecured notes	52,900,000	24,308,713	24,476,728
Series A Cumulative Redeemable Preferred Stock			
Accounts Payable and Accrued Expenses	12,334,878	12,970,960	13,468,659
Accounts Payable - Affiliates			
Dividends and Distribution Payable	1,651,840	2,315,787	2,270,227
Advance Deposits	1,335,323	2,376,527	2,442,283
Warrant Derivative Liability			
Total Liabilities	\$340,199,985	\$324,680,276	\$337,095,678
Equity			
Preferred Stock		16,100	16,100
Common Stock	144,907	144,685	138,150
Additional Paid in Capital	82,771,911	118,395,082	118,497,398
Unearned ESOP Shares			(4,753,453)
Accumulated Deficit	(33,890,834)	(39,545,754)	(40,229,144)
Total SOHO Stockholders' Equity	\$49,025,984	\$79,010,113	\$73,669,051
Noncontrolling Interest	3,832,384	2,329,175	2,228,468
Total Equity	\$52,858,368	\$81,339,288	\$75,897,519
Total Liabilities and Equity	\$393,058,353	\$406,019,564	\$412,993,197

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	6/30/2017
Total R/E Investments / Total Debt	109.3%	115.3%	112.1%
Debt to Total Equity	614.6%	377.5%	420.2%
Debt as % of Total Assets	82.7%	75.6%	77.2%
Total Liabilities as % of Total Assets	86.6%	80.0%	81.6%
Shareholders' Equity as % of Total Assets	12.5%	19.5%	17.8%

Previous numbers have not been restated.

Source: Company reports

Valuation

At 5.5x our 2018 adjusted FFO per share and unit forecast, SOHO's stock is trading significantly below its peer group. We believe the company deserves to trade at a multiple of 6.5x, which is slightly above the company's median 5 year historic forward multiple of 6.1x (to reflect the company's improving portfolio quality), but is still a discount to the peer group. By using a multiple of 6.5x applied to our 2019 adjusted FFO per share and unit estimate of \$1.28, we derive our two year target price of \$8.50.

Lodging/Resorts REITs	Symbol	Closing Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year Exp.	18/17E	Price/FFO	
		8/7/2017	Dividend			2016	2017E	2018E	Avg. Growth	Growth Rate	2017E	2018E
Host Hotels & Resorts	HST	\$18.74	\$0.80	4.3%	48.2%	\$1.68	\$1.66	\$1.66	-0.6%	0.0%	11.3x	11.3x
Hospitality Properties Trust	HPT	\$28.83	\$2.08	7.2%	57.8%	\$3.62	\$3.60	\$3.81	2.6%	5.8%	8.0x	7.6x
LaSalle Hotel Properties	LHO	\$28.90	\$1.80	6.2%	70.3%	\$2.36	\$2.56	\$2.50	3.0%	-2.3%	11.3x	11.6x
Hersha Hospitality Trust	HT	\$18.59	\$1.12	6.0%	48.5%	\$2.41	\$2.31	\$2.39	-0.4%	3.5%	8.0x	7.8x
Ashford Hospitality	AHT	\$6.31	\$0.48	7.6%	33.8%	\$1.52	\$1.42	\$1.48	-1.3%	4.2%	4.4x	4.3x
Peer Average		\$20.27	\$1.26	6.3%	51.7%	\$2.32	\$2.31	\$2.37	0.7%	2.2%	8.6x	8.5x
S&P 500	.SPX	2,480.91	\$49.25	2.0%	37.7%	\$117.75	\$130.74	\$139.52	9.2%	6.7%	19.0x	17.8x
SoTHERLY Hotels Inc.	SOHO	\$6.48	\$0.44	6.8%	42.3%	\$0.90	\$1.04	\$1.17	15.0%	12.5%	6.2x	5.5x

FFO for SOHO is adjusted FFO.

SPX figures are EPS, not FFO per share.

Source: NAREIT, HL Estimates, and Thomson Eikon.

Dividend

On July 25, SOHO announced a 4.8% dividend increase. The quarterly dividend was raised from \$0.105 per share to \$0.11 per share.

Suitability

We assign shares of SoTHERLY Hotels a suitability rating of 4 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's small market cap, low relative trading volume and day to day leasing. We believe these shares are only suited for risk tolerant investors seeking long-term capital appreciation and an attractive dividend yield.

Risks and Considerations

SoTHERLY Hotels Inc. may not achieve our target price or within the time frame specified due to external factors beyond the company's control or due to internal factors. These risk factors include:

Economic Risk - In tough economic environments consumers may spend less on travel. A decline in hotel visits and spending could negatively impact SOHO's results.

Interest Rate/Leverage Risk - Like all REITs, SOHO is interest rate sensitive. We are somewhat concerned about SOHO's ability to weather an increase in interest expense in a rising rate environment.

Asset Size Risk - SOHO has only \$357.5 million in wholly-owned real estate assets (net of depreciation) and \$413.0 million in total assets. The company is one of the smallest of the publicly traded Lodging/Resorts REITs tracked by NAREIT. Thus, one small acquisition or even the timing of one property purchase can have a material impact on the company's financial statements.

Stock Liquidity Risk - With 13.8 million common shares outstanding (15.6 million including operating units), SOHO is very thinly traded on a daily basis. Thus its "micro-cap" size makes it too small for some

institutional investors. Even retail investors with relatively small positions could experience limited liquidity if forced to sell.

Ownership Concentration Risk - Management and insiders own a significant amount of common shares and operating units. We view this as a positive in that insiders' interests are in line with shareholders' interests.

Hotel Management Risk - REITs are not allowed to manage hotels. MHI Hotel Services manages the hotels for SOHO. Officers and directors of SOHO also own an interest in and are on the board of directors of MHI Hotel Services. We believe SOHO's outside directors, which make up the majority of the board, will make sure no conflict or even the appearance of a conflict exists.

Annual yield is calculated by dividing the distribution amount by the current market price of the security. For US income tax purposes, the Company may classify all or a portion of its distributions as dividends or other non-dividend distributions. Note that for some investors, for US income tax purposes all or a portion of the Company's 2016 dividend or distribution was treated as return of capital and not as "dividend income" as reflected on the IRS Form 1099-Div for the 2016 tax year. The Company generally makes a final determination regarding the proper tax treatment of distributions after calendar year end. We urge each shareholder to consult with his or her own tax advisor to determine the tax consequences of the distributions received, including any state, local or foreign tax considerations.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Sotherly Hotels in the past 12 months.

Hilliard Lyons has received investment banking compensation from Sotherly Hotels within the past 12 months.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

- 1 - A large cap, core holding with a solid history
- 2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Our price target reflects a two year time frame.

Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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