



COMPANY UPDATE / ESTIMATE CHANGES

Key Metrics

SOHO - NASDAQ (as of 5/8/2017)	\$6.18
Price Target	\$8.50
52-Week Range	\$4.65 - \$7.66
Shares & Units Outstanding (mm)	15.8
Market Cap. (\$mm)	\$98
3-Mo. Average Daily Volume (000)	58.7
Institutional Ownership	32%
Debt/Total Market Capital (3/17)	68%
Dividend	\$0.42
Dividend Yield	6.8%

Adjusted FFO Per Share & Unit FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.23		\$0.32 A		\$0.21
2Q	\$0.39	\$0.43	\$0.37		\$0.44
3Q	\$0.16	\$0.24	\$0.18		\$0.23
4Q	\$0.12	\$0.22	\$0.19		\$0.29
Year	\$0.90	\$1.08	\$1.07		\$1.18
P/FFO	6.9x		5.8x		5.2x

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)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$38		\$39 A		\$42
2Q	\$42	\$42	\$42		\$44
3Q	\$37	\$38	\$38		\$10
4Q	\$36	\$39	\$38		\$40
Year	\$153	\$157	\$157		\$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.

REITs

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SoTHERLY Hotels Inc.

SOHO - NASDAQ - Long-term Buy - 4

First Quarter Results

- **First quarter FFO were \$0.32 versus \$0.25 per share last year.** Adjusted FFO per share were \$0.32 compared to \$0.23 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 was above ours and the consensus estimate.
- **Consolidated occupancy increased 2.2% for the first quarter of 2017 and ADR (average daily rate) increased 2.6%, resulting in a rise in RevPAR (revenue per available room) of 4.8%.**
- **Dividend Increase.** On April 25, SOHO announced a 5% increase in its quarterly dividend to \$0.105 per common share.
- **Management maintained 2017 adjusted FFO per share guidance of \$1.02 to \$1.10.** We are lowering our 2017 adjusted FFO per share estimate by a penny to \$1.07.
- **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 \$38.7 million in the quarter, up 2.3% from the year ago period. Room revenue made up 70.7% of total revenue, compared to 72.3% last year. Room revenue was up 0.2%. Food and beverage sales increased 0.9% in the quarter.

Table 1 Consolidated Occupancy

	Quarter ended 3/31/2017	Quarter ended 3/31/2016	Year-over-Year % change
Occupancy	70.1%	68.6%	2.2%
ADR	\$149.08	\$145.37	2.6%
RevPAR	\$104.46	\$99.72	4.8%

Source: Company reports & Hilliard Lyons' calculations

Funds from operations (FFO) were \$5.0 million versus \$4.2 million in last year's first quarter. FFO per share and unit were \$0.32 versus \$0.25. Adjusted funds from operations (FFO) were \$5.1 million versus \$3.8 million in last year's first quarter. Adjusted FFO per share and unit were \$0.32 compared to \$0.23 in the year ago period.

Outlook

Current Environment - First quarter results were positively impacted by the Super Bowl being held in Houston. SOHO saw improved performance at several of its other hotels. Group bookings positively impacted the quarter. The pace of group bookings for the balance of the year continues to be up.

Acquisitions & Dispositions - During the quarter, SOHO purchased the hotel commercial unit of the Hyde Resort & Residences in Hollywood, Florida. The purchase price was \$4.8 million. The hotel commercial unit includes the lobby and front desk areas, offices and other spaces. SOHO also entered into a lease agreement for the meeting rooms of the hotel and 400 space parking garage, as well as an agreement to operate and manage the condo association. This property is close to SOHO's Crowne Plaza Hollywood Beach Resort (IHG - \$54.07).

In February, SOHO completed the sale of the Crowne Plaza Hampton Marina for \$5.6 million. Management is analyzing several hotels to see if it makes sense to purchase them. 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 had very little activity on its repurchase authorization in the quarter as it was restricted heavily due to having a proxy out.

Estimate - Management maintained 2017 adjusted FFO per share guidance of \$1.02 - \$1.10. We are lowering our 2017 adjusted FFO per share estimate by a penny to \$1.07.

Quarterly Income Statement

	1Q17	1Q16	% Change
Rooms Department	\$27,366,634	\$27,322,413	0.2%
Food and Beverage Department	8,323,759	8,249,679	0.9%
Other Operating Departments	3,004,493	2,238,052	34.2%
Total Hotel Revenue	38,694,886	37,810,144	2.3%
Rooms Department	6,682,279	7,080,633	-5.6%
Food and Beverage Department	5,728,473	5,939,861	-3.6%
Other Operating Departments	600,020	593,969	1.0%
Indirect	14,205,231	14,135,595	0.5%
Total Hotel Operating Expenses	27,216,003	27,750,058	-1.9%
Real Estate NOI	11,478,883	10,060,086	14.1%
Depreciation and Amortization	4,061,097	3,668,638	10.7%
Impairment of Investment in Hotel Properties, net			
Loss on Disposal of Assets			
Corporate General and Administrative	1,712,082	1,607,294	6.5%
Other Operating Expenses	5,773,179	5,275,932	9.4%
Operating Income (Loss)	5,705,704	4,784,154	19.3%
Interest Expense	(3,813,717)	(4,632,632)	
Interest Income	39,705	8,830	
Equity in Earnings of Joint Venture			
Unrealized Loss on Hedging Activities	(15,945)	(50,557)	
Impairment of Note Receivable			
Gain on Early Debt Extinguishment			
Gain on Change in Control			
Gain on Involuntary Conversion of Asset	1,041,815		
Gain (Loss) on Disposal of Assets	100,407		
Net Income Before Taxes	3,057,969	109,795	
Income Tax Benefit (Provision)	(171,937)	436,079	
Net Income	2,886,032	545,874	
Net Loss (Income) Attributable to the Noncontrolling Interest	(229,942)	(62,779)	
Net Income Attributable to the Company	2,656,090	483,095	
Distributions to Preferred Shareholders	(805,000)		
Net Income Attributable to Common Shareholders	\$1,851,090	\$483,095	
Net Income Per Share (diluted)	\$0.13	\$0.03	
Weighted Average Shares Outstanding (diluted)	14,025,489	14,792,911	-5.2%
Funds From Operations	1Q17	1Q16	% Change
Net Income (Loss)	\$1,851,090	\$483,095	
Depreciation and Amortization	4,061,097	3,668,638	
Other Adjustments	(912,280)	62,779	
Funds From Operations (FFO)	\$4,999,907	\$4,214,512	18.6%
Unrealized (Gain)/Loss on Hedging Activities	15,945	50,557	
Unrealized Loss on Warrant Derivative			
Decrease in Deferred Income Taxes	118,050	(487,469)	
Impairment of Note Receivable			
Acquisition Costs			
Loss on Starwood Settlement			
Over-assessed real estate taxes under appeal			
Loan modification fee			
Franchise Termination Fee			
Aborted Offering Costs			
Loss on Early Extinguishment of Debt			
Adjusted FFO	\$5,133,902	\$3,777,600	35.9%
FFO Per Share and Unit	\$0.32	\$0.25	28.0%
Adjusted FFO Per Share and Unit	\$0.32	\$0.23	39.1%

Previous results have been restated.

Source: Company report

Condensed Balance Sheet

	12/31/2015	12/31/2016	3/31/2017
Assets			
Investment in Hotel Properties (net)	\$354,963,242	\$348,593,912	\$355,997,751
Property Under Development			
Investment in Joint Venture			
Assets Held for Sale		5,333,000	
Cash and Cash Equivalents	11,493,914	31,766,775	21,743,744
Restricted Cash	5,793,840	4,596,145	4,644,532
Accounts Receivable	4,256,247	4,127,748	5,601,922
Accounts Receivable - Affiliate	226,552	4,175	475,537
Loan Proceeds Receivable	2,600,711		
Prepaid Expenses, Inventory, and Other Assets	4,247,359	4,648,469	5,662,512
Notes Receivable			
Shell Island Lease Purchase (net)			
Deferred Income Taxes	5,390,374	6,949,340	6,831,290
Deferred Financing Costs (net)	4,086,114		
Total Assets	\$393,058,353	\$406,019,564	\$400,957,288
Liabilities			
Line of Credit			
Mortgage Loans	271,977,944	282,708,289	279,269,154
Bridge Loan			
Loans Payable			
Unsecured notes	52,900,000	24,308,713	24,392,721
Series A Cumulative Redeemable Preferred Stock			
Accounts Payable and Accrued Expenses	12,334,878	12,970,960	14,445,106
Accounts Payable - Affiliates			
Dividends and Distribution Payable	1,651,840	2,315,787	3,405,606
Advance Deposits	1,335,323	2,376,527	2,362,619
Warrant Derivative Liability			
Total Liabilities	\$340,199,985	\$324,680,276	\$323,875,206
Equity			
Preferred Stock		16,100	16,100
Common Stock	144,907	144,685	137,980
Additional Paid in Capital	82,771,911	118,395,082	118,564,177
Unearned ESOP Shares			(4,874,758)
Accumulated Deficit	(33,890,834)	(39,545,754)	(39,142,720)
Total SOHO Stockholders' Equity	\$49,025,984	\$79,010,113	\$74,700,779
Noncontrolling Interest	3,832,384	2,329,175	2,381,303
Total Equity	\$52,858,368	\$81,339,288	\$77,082,082
Total Liabilities and Equity	\$393,058,353	\$406,019,564	\$400,957,288

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	3/31/2017
Total R/E Investments / Total Debt	109.3%	115.3%	117.2%
Debt to Total Equity	614.6%	377.5%	393.9%
Debt as % of Total Assets	82.7%	75.6%	75.7%
Total Liabilities as % of Total Assets	86.6%	80.0%	80.8%
Shareholders' Equity as % of Total Assets	12.5%	19.5%	18.6%

Previous numbers have not been restated.

Source: Company reports

Valuation

At 5.2x our 2018 adjusted FFO 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 5.5x (to reflect the company's improving balance sheet), but is still a discount to the peer group. By using a multiple of 6.5x our 2019 adjusted FFO per share estimate of \$1.29, 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	
		5/8/2017	Dividend			2016	2017E	2018E	Avg. Growth	Growth Rate	2017E	2018E
Host Hotels & Resorts	HST	\$17.80	\$0.80	4.5%	48.2%	\$1.68	\$1.66	\$1.67	-0.3%	0.6%	10.7x	10.7x
Hospitality Properties Trust	HPT	\$31.59	\$2.08	6.6%	56.5%	\$3.62	\$3.68	\$3.82	2.8%	3.8%	8.6x	8.3x
LaSalle Hotel Properties	LHO	\$28.56	\$1.80	6.3%	68.7%	\$2.36	\$2.62	\$2.61	5.3%	-0.4%	10.9x	10.9x
Hersha Hospitality Trust	HT	\$18.41	\$1.12	6.1%	49.8%	\$2.41	\$2.25	\$2.28	-2.7%	1.3%	8.2x	8.1x
Ashford Hospitality	AHT	\$6.08	\$0.48	7.9%	32.0%	\$1.52	\$1.50	\$1.56	1.3%	4.0%	4.1x	3.9x
Peer Average		\$20.49	\$1.26	6.3%	51.0%	\$2.32	\$2.34	\$2.39	1.3%	1.9%	8.5x	8.4x
S&P 500	SPX	2,399.38	\$48.08	-	-	\$117.75	\$130.61	\$140.05	9.5%	7.2%	18.4x	17.1x
SoTHERLY Hotels Inc.	SOHO	\$6.18	\$0.42	6.8%	39.3%	\$0.90	\$1.07	\$1.18	15.6%	10.3%	5.8x	5.2x

FFO for SOHO is adjusted FFO.

SPX figures are EPS, not FFO per share.

Source: NAREIT, Baseline, and Hilliard Lyons' estimates

Dividend

On April 25, SOHO announced a 5% dividend increase. The quarterly dividend was raised from \$0.10 per share to \$0.105 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 \$356.0 million in wholly-owned real estate assets (net of depreciation) and \$401.0 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 14.0 million common shares outstanding (15.8 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.

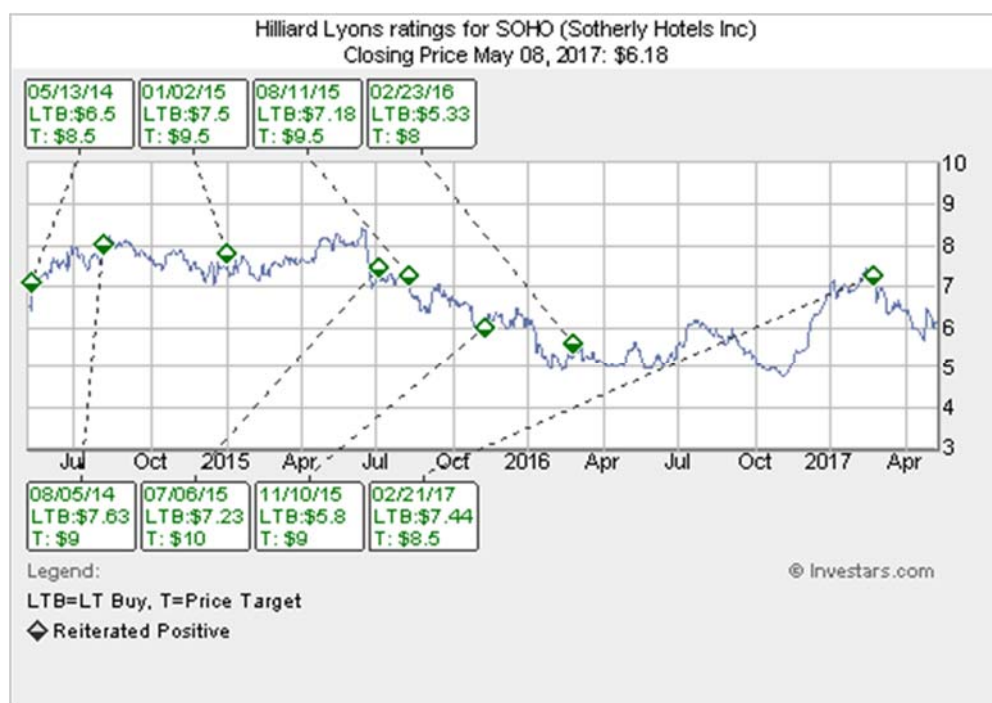
Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

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	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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