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

FORM 10-K

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

For the fiscal year ended December 31, 2016

or

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

For the Transition Period from __________ to __________.

Commission file number 000-55200

MOODY NATIONAL REIT I, INC.

(Exact name of registrant as specified in its charter)

Maryland	**26-1812865**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
6363 Woodway Drive, Suite 110	
Houston, Texas	**77057**
(Address of principal executive offices)	**(Zip Code)**

(713) 977-7500
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

Common Stock, par value $0.01 per share

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

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

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

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

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

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

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

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

There is no established trading market for the registrant's common stock and therefore the aggregate market value of the registrant's common stock held by non-affiliates cannot be determined. There were approximately 13,148,347 shares of common stock held by non-affiliates at June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter.

As of March 7, 2017, there were 13,303,908 shares of the common stock of the registrant outstanding.

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Special Note Regarding Forward-Looking Statements

Certain statements included in this annual report on Form 10-K (this "Annual Report") that are not historical facts (including any statements concerning investment objectives, other plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto) are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are only predictions. We caution that forward-looking statements are not guarantees. Actual events or our investments and results of operations could differ materially from those expressed or implied in any forward-looking statements. Forward-looking statements are typically identified by the use of terms such as "may," "should," "expect," "could," "intend," "plan," "anticipate," "estimate," "believe," "continue," "predict," "potential" or the negative of such terms and other comparable terms.

The forward-looking statements included herein are based upon our current expectations, plans, estimates, assumptions and beliefs all of which involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- the risk that the mergers (as defined below) will not be consummated within the expected time period or at all;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement (as defined below);
- the failure to satisfy the conditions to completion of the mergers;
- risks related to disruption of management's attention from the ongoing business operations due to the pending mergers;
- the effect of the announcement of the mergers on our operating results and business generally;
- the outcome of any legal proceedings that could arise relating to the mergers;
- our ability to continue to obtain financing on acceptable terms;
- our levels of debt and the terms and limitations imposed on us by our debt agreements;
- our ability to continue to identify and acquire real estate and real estate-related assets on terms that are favorable to us;
- risks inherent in the real estate business, including the lack of liquidity of real estate investments and potential liability relating to environmental matters;
- changes in demand for rooms at our hotel properties;
- our ability to continue to compete in the hotel industry;
- adverse developments affecting our sponsor and its affiliates;
- the availability of cash flow from operating activities for distributions;
- changes in economic conditions generally and the real estate and debt markets specifically;
- conflicts of interest arising out of our relationship with our advisor and its affiliates;
- legislative or regulatory changes (including changes to the laws governing the taxation of real estate investment trusts, or REITs);
- the availability of capital;
- changes in interest rates; and
- changes to generally accepted accounting principles, or "GAAP."

Any of the assumptions underlying the forward-looking statements included herein could be inaccurate, and undue reliance should not be placed upon any forward-looking statements included herein. All forward-looking statements are made as of the date of this Annual Report, and the risk that actual results will differ materially from the expectations expressed herein will increase with the passage of time. Except as otherwise required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements made after the date of this Annual Report, whether as a result of new information, future events, changed circumstances or any other reason. In light of the significant uncertainties inherent in the forward-looking statements included in this Annual Report, including, without limitation, the risks described under "Risk Factors," the inclusion of such forward-looking statements should not be regarded as a representation by us or any other person that the objectives and plans set forth in this Annual Report will be achieved.

PART I

ITEM 1. *Business*

Overview

Moody National REIT I, Inc. was formed as a Maryland corporation on January 15, 2008 to invest in a diversified portfolio of real estate investments. We elected to qualify as a real estate investment trust, or REIT, commencing with the taxable year ended December 31, 2011. As used herein, the terms "we," "our," "us" and "our company" refer to Moody National REIT I, Inc. and, as required by context, Moody National Operating Partnership I, LP, a Delaware limited partnership, which we refer to as our "operating partnership," and to their respective subsidiaries. References to "shares" and "our common stock" refer to the shares of our common stock. We own, and subject to the mergers described herein, in the future intend to continue to own, substantially all of our assets and conduct our operations through our operating partnership, of which we are the sole general partner. Subject to certain restrictions and limitations, our business is externally managed by Moody National Advisor I, LLC, or our advisor, pursuant to an advisory agreement between us and our advisor, or the advisory agreement. Our advisor conducts our operations and manages our portfolio of real estate investments. Our sponsor, Moody National REIT Sponsor, LLC, a Delaware limited liability company, is owned and managed by Brett C. Moody, who also serves as our Chief Executive Officer and President and the Chief Executive Officer and President of our advisor. We refer to Moody National REIT Sponsor, LLC as our "sponsor."

As of December 31, 2016, our portfolio consisted of fourteen investments: (1) the Woodlands Hotel, a 91-suite hotel property in The Woodlands, Texas, (2) the Germantown Hotel, a 127-guestroom hotel property located in Germantown, Tennessee, (3) the Charleston Hotel, a 113-guestroom hotel property located in North Charleston, South Carolina, (4) the Austin Hotel, a 123-suite hotel property located in Austin, Texas, (5) the Grapevine Hotel, a 133-suite hotel property located in Grapevine, Texas, (6) our joint venture interest in the Lyndhurst Hotel, a 227-guestroom hotel property located in, Lyndhurst, New Jersey, (7) the Austin Arboretum Hotel, a 138-guestroom hotel property located in Austin, Texas, (8) the Great Valley Hotel, a 125-guestroom hotel property located in Frazer, Pennsylvania, (9) the Nashville Hotel, a 208-guestroom hotel property located in Nashville, Tennessee, (10) the Homewood Suites Austin Hotel, a 96-guestroom hotel property located in Austin, Texas, (11) our joint venture interest in the Fort Worth Hotel, a 95-guestroom hotel property located in Fort Worth, Texas, (12) the Houston Hotel, a 119-guestroom hotel property located in Houston, Texas, (13) a note receivable from a related party with an initial principal amount of $9,000,000, and (14) a note receivable from a related party with an initial principal amount of $4,500,000.

On April 15, 2009, we commenced our initial public offering, or our initial public offering, of up to $1,000,000,000 in shares of our common stock to the public in our primary offering at $10.00 per share and up to $100,000,000 in shares of our common stock to our stockholders pursuant to our distribution reinvestment plan, or our DRIP, at $9.50 per share. As of the termination of our initial public offering, we had accepted subscriptions for, and issued, 1,126,253 shares of our common stock in our initial public offering, including 29,582 shares of our common stock pursuant to our DRIP, resulting in offering proceeds of $10,966,713. On October 12, 2012, we terminated our initial public offering.

On October 12, 2012, we commenced our follow-on public offering, or our follow-on offering, of up to $1,000,000,000 in shares of our common stock, comprised of up to $900,000,000 in shares offered to the public at $10.00 per share and up to $100,000,000 in shares offered to our stockholders pursuant to our DRIP at $9.50 per share. Effective February 20, 2015, we terminated the offer and sale of shares to the public in our follow-on offering, but continued to issue shares pursuant to our DRIP. On November 4, 2015, we filed a new registration statement on Form S-3 with the Securities and Exchange Commission, or the SEC, to register the sale of up to $25,000,000 in shares of our common stock pursuant to our DRIP, which we refer to as our "DRIP offering." On October 13, 2016, our board of directors suspended our DRIP, which suspension became effective beginning with distributions made in November 2016 and will remain in effect unless and until our DRIP resumes, as determined by our board of directors. If we resume our DRIP, our board of directors may, in its sole discretion and from time to time, change the price at which we are offering shares pursuant to our DRIP to reflect changes in our estimated value per share and other factors that the board of directors deems relevant.

As of the termination of our follow-on offering, we had accepted investors' subscriptions for, and issued, 11,719,636 shares of our common stock in our follow-on offering, including 510,457 shares of our common stock issued pursuant to our DRIP, resulting in aggregate gross offering proceeds of $112,091,790. As of December 31, 2016, we had accepted subscriptions for, and issued, an aggregate of 12,845,889 shares of common stock in our initial public offering and follow-on offering, including 540,039 shares of common stock issued pursuant to our DRIP, resulting in aggregate gross offering proceeds of $123,058,503. As of December 31, 2016, we had sold 388,033 shares in our DRIP offering, and 2,111,967 shares of our common stock registered in our DRIP offering remained available for sale.

Subject to the mergers described herein, we intend to use substantially all of the proceeds from any offering of our securities that we may conduct in the future to continue to invest in a diversified portfolio of real properties, real estate securities and debt-related investments. To date, substantially all of our investments have been in hotel properties, loans secured by hotel properties or loans to related parties, and we anticipate that our portfolio will continue to consist primarily of hotel properties located in the United States and Canada that we own exclusively or in joint ventures or other co-ownership arrangements with other persons. Subject to the availability of sufficient funds or financing on acceptable terms, we may also invest in other property types consisting of multifamily, office, retail and industrial assets located in the United States and Canada as well as securities of real estate companies and debt-related investments, as well as opportunistic investments in properties that may be under-developed or newly constructed and in properties that we believe are undervalued.

We believe that we have sufficient capital to meet our existing debt service and other operating obligations for the current year and that we have adequate resources to fund our cash needs until we reach sustainable profitable operations. However, our operations are subject to a variety of risks, including, but not limited to, our ability to raise additional funds in any future offerings of our securities, changes in national economic conditions, the restricted availability of financing, changes in demographic trends and interest rates, declining real estate valuations and downward pressure on room rates for hotels and risks associated with the pending mergers described herein. As a result of these uncertainties, there can be no assurance that we will meet our investment objectives or that the risks described above will not have an adverse effect on our properties or results of operations.

As a REIT, we generally are not subject to federal income tax on income that we distribute to our stockholders. If we fail to qualify as a REIT in any taxable year after the taxable year in which we initially elect to be taxed as a REIT, we will be subject to federal income tax on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied. Failing to qualify as a REIT could materially and adversely affect our net income.

Moody Securities, LLC, an affiliate of our advisor, previously served as our dealer manager for our public offerings. We refer to Moody Securities, LLC as our "dealer manager" or "Moody Securities."

Our principal executive offices are located at 6363 Woodway Drive, Suite 110, Houston, Texas and our telephone number is (713) 977-7500.

Pending Merger with Moody National REIT II, Inc.

On September 27, 2016, we jointly announced with Moody National REIT II, Inc., a Maryland corporation and a related party, or Moody II, that we had entered into a non-binding Letter of Intent that set forth the terms and conditions upon which Moody II would acquire us and our subsidiaries. Moody II is a public, non-listed REIT formed in July 2014. Our sponsor serves as the sponsor of Moody II, and Brett C. Moody serves as the Chairman of the Board and Chief Executive Officer of Moody II.

On November 16, 2016, we, along with our operating partnership, our advisor, Moody II, Moody National Operating Partnership II, LP, the operating partnership of Moody II, or Moody II OP, Moody National Advisor II, LLC, Moody II's advisor, or Moody II advisor, and Moody Merger Sub, LLC, a wholly owned subsidiary of Moody II, or merger sub, entered into an agreement and plan of merger, or the merger agreement. Pursuant to the merger agreement, we will merge with and into merger sub, with merger sub continuing as the "surviving entity" and a wholly-owned subsidiary of Moody II. We refer to the foregoing transaction as the "merger." In addition, pursuant to the merger agreement, Moody II OP will merge with and into our operating partnership, with our operating partnership continuing as the "surviving partnership," and which transaction we refer to as the "partnership merger." Unless context suggests otherwise, we refer to the merger and the partnership merger together as the "mergers." The merger agreement was the product of a negotiation between a special committee of our board of directors and a special committee of the board of directors of Moody II (both consisting solely of independent directors), each of which was represented by its own counsel and financial advisor. Entry into the merger agreement was unanimously approved by our board of directors upon the recommendation of the special committee of our board of directors.

Subject to the terms and conditions of the merger agreement, Moody II agreed to pay gross consideration of $11.00 per share of our common stock, which amount will be reduced by all fees and expenses that we incur as a result of or in connection with the mergers and other transactions contemplated by the merger agreement (including certain disposition fees and profit sharing amounts to our sponsor and parties related thereto, financial advisory and legal fees payable by us, and other transaction and closing costs incurred by us), which fees and expenses we refer to as the "Moody I transaction fees and expenses," to arrive at the net merger consideration payable to the holders of our common stock, which we refer to as the "net per share price;" *provided*, that in no event will the net per share price be less than $10.25. Pursuant to the terms of the merger agreement, the parties thereto have determined the final amount of the Moody I transaction fees and expenses and have calculated the net per share price. Based on such determination, the net per share price was determined to be $10.25.

At the effective time of the merger, each outstanding share of our common stock will be automatically cancelled and retired, and converted into the right to receive, at the election of each holder of such share of our common stock, but subject to the limitations discussed below, either:

(i) an amount in cash equal to the net per share price, which we refer to as the "cash consideration;" or

(ii) a number of shares of common stock of Moody II, which we refer to as the "stock consideration," equal to the net per share price divided by $25.00, which quotient, as adjusted pursuant to the merger agreement, is referred to as the "exchange ratio."

We refer to the "stock consideration" together with the "cash consideration," as the "merger consideration."

Notwithstanding the above, the maximum number of shares of our common stock that may be converted into the right to receive the cash consideration may not exceed 50% of the aggregate number of shares of our common stock entitled to receive merger consideration in connection with the merger. If the elections of our stockholders would cause more than 50% of the aggregate number of shares of our common stock to be converted into the right to receive the cash consideration, then the shares of our common stock that would be converted into the right to receive the cash consideration will be reduced proportionally so that the number of shares of our common stock that will be converted into the right to receive the cash consideration will not exceed 50%, and the remaining shares of our common stock will be converted into the right to receive the stock consideration.

Subject to the terms and conditions of the merger agreement, at the effective time of the partnership merger, each outstanding unit of limited partnership interest in our operating partnership will be automatically cancelled and retired, and converted into the right to receive a number of units of limited partnership interests in the surviving partnership equal to the exchange ratio. Each unit of limited partnership interest in our operating partnership designated as a special partnership unit pursuant to our operating partnership's limited partnership agreement will be automatically cancelled and retired and shall cease to exist, and no consideration shall be paid, nor, except as expressly provided in the termination agreement (described below), shall any other payment or right inure or be made with respect thereto in connection with or as a consequence of the partnership merger. Each outstanding unit of limited partnership interest in Moody II OP will be converted into one unit of equity ownership in the surviving partnership, and each unit designated as a special partnership unit pursuant to the limited partnership agreement of Moody II OP will be converted into one special unit in the surviving partnership.

The merger agreement contains customary covenants, including covenants prohibiting us and our subsidiaries and representatives from soliciting, providing information with respect to or entering into discussions concerning proposals relating to alternative business combination transactions, subject to certain limited exceptions. However, under the terms of the merger agreement, during the period beginning on November 16, 2016 and continuing until 11:59 p.m. New York City time on December 31, 2016, or the go shop period end time, we had the right to initiate, solicit, provide information and enter into discussions concerning proposals relating to alternative business combination transactions. Additionally, for up to five business days after the go shop period end time, we had the right to continue to participate in such discussions with certain other parties, each referred to as a "go shop bidder," and could have, subject to certain conditions set forth in the merger agreement regarding the proposal made by such go shop bidder, terminated the merger agreement and entered into an agreement with a go shop bidder with respect to the proposal made by such go shop bidder.

In the go shop process described in the preceding paragraph, 99 prospective buyers, including 77 prospective financial buyers and 22 prospective strategic buyers, were contacted regarding each such party's potential interest in exploring a transaction with us. During the go shop period (*i.e.*, between November 16, 2016 and December 31, 2016), seven parties (two of which were financial buyers and five of which were strategic buyers) negotiated and entered into confidentiality agreements with us and were provided with non-public information about us. None of the parties contacted during the go shop process, including the seven parties that entered into confidentiality agreements with us, submitted a proposal to us that was deemed an "acquisition proposal" under the merger agreement prior to the go shop period end time.

In connection with the mergers, we will also seek the approval of our stockholders of an amendment to our Second Articles of Amendment and Restatement, as amended, or our charter, to delete certain provisions regarding roll-up transactions, or the charter amendment. Pursuant to the merger agreement, approval by our stockholders of the charter amendment is a condition to completing the mergers.

Concurrently with the entry into the merger agreement, we, our operating partnership, our advisor, Moody II, Moody National Realty Company, LP, or Moody National, and Moody OP Holdings I, LLC, or OP Holdings, the holder of all of the outstanding special partnership units in our operating partnership, entered into a termination agreement, or the termination agreement. Pursuant to the termination agreement, at the effective time of the mergers, the advisory agreement among us, our operating partnership, our advisor and Moody National will be terminated and we will pay our advisor a payment of $5,580,685, or the Moody I advisor payment. The Moody I advisor payment was a negotiated amount that represents a reduction in the disposition fee to which our advisor could have been entitled and a waiver of any other contractual termination fee that our advisor would have been due under the advisory agreement in connection with the merger. In addition, the termination agreement provides that at the effective time of the partnership merger and in accordance with the terms of the limited partnership agreement of our operating partnership, our operating partnership will pay to OP Holdings an amount not to exceed $613,751, or the promote payment. In the event that the merger agreement is terminated prior to the consummation of the mergers, the termination agreement will automatically terminate and be of no further effect and no Moody I advisor payment or promote payment will be owed and payable.

Also concurrently with the entry into the merger agreement, Moody II, Moody II OP and Moody II advisor entered into an amended and restated advisory agreement, pursuant to which Moody II will be obligated to pay Moody II advisor an acquisition fee of 1.5% of the aggregate cash consideration paid in the merger. However, during the first year following the consummation of the mergers, if Moody II sells a property that was previously owned by us, then any disposition fee to which Moody II advisor would otherwise be entitled under the amended and restated advisory agreement will be reduced by an amount equal to the portion of the Moody I advisor payment attributable to such property.

The merger agreement may be terminated under certain circumstances by both Moody II and us. If such termination occurs under certain circumstances, then we would be obligated to pay Moody II a termination fee of $2,000,000 (or $1,000,000 if the merger agreement had been terminated pursuant to the go stop provisions therein), plus an expense reimbursement fee of up to $500,000. The merger agreement also provides that one party may be required to reimburse the other party's expenses, up to $500,000, if the merger agreement is terminated under certain circumstances.

The obligation of each party to consummate the mergers is subject to a number of conditions, including the approval of our stockholders of the merger and the charter amendment, receipt of any regulatory approvals, delivery of certain documents and consents, the truth and correctness of the representations and warranties of the parties, subject to the materiality standards contained in the merger agreement, the effectiveness of the registration statement on Form S-4 (File No. 333-215362) filed by Moody II to register the shares of its common stock to be issued as stock consideration, and the absence of a material adverse effect with respect to either us or Moody II. There is no guarantee that the mergers will close. Our management has, and will continue to, expend time and resources to consummate the mergers, which time and resources may otherwise have been allocated to our other operational needs.

In connection with the mergers, on February 2, 2017, Moody II entered into a stockholder servicing coordination agreement, or the stockholder servicing coordination agreement, with Moody Securities. Pursuant to the stockholder servicing coordination agreement, Moody II will pay to Moody Securities certain stockholder servicing fees, or the stockholder servicing fees, of up to $2.125 per share of Moody II's common stock issued as stock consideration. All stockholder servicing fees will be re-allowed to broker-dealers that provide ongoing financial advisory services to our stockholders and that enter into participating broker-dealer agreements with Moody Securities. The aggregate amount of stockholder servicing fees will depend on the number of shares of Moody II's common stock issued as stock consideration, and could range from approximately $5,797,034 to $11,594,068, assuming that the maximum stockholder servicing fee of $2.125 per share is paid for all shares issued as stock consideration. No stockholder servicing fees will be paid with respect to any cash paid by Moody II as cash consideration in the merger.

The foregoing descriptions of the mergers, the merger agreement, the termination agreement and related transactions are not complete and are subject to and qualified in their entirety by reference to the terms of the complete merger agreement and termination agreement, which were filed as exhibits to our current report on Form 8-K filed on November 17, 2016.

2016 Highlights:

- During the year ended December 31, 2016, we entered into the merger agreement.

Investment Objectives

Currently, our primary business goal is to complete the pending mergers. The following is a description of our investment objectives notwithstanding the pending mergers:

- preserve, protect and return stockholders' capital contributions;
- pay regular cash distributions to stockholders; and
- realize capital appreciation upon the ultimate sale of the real estate assets we currently own or acquire in the future.

Investment Strategy

Pursuant to the merger agreement, we are not currently actively seeking additional investments. To the extent that the mergers are not consummated and we seek additional investments in the future, we intend to continue to rely upon our "Moody Core Plus Plus" investment strategy. "Core" refers to a stable, Class A asset in a major metropolitan market, which can provide net operating income stability. However, we believe that a core buying strategy, without a supply-demand imbalance, offers minimal growth potential along with an increased risk of asset devaluation. "Core Plus" builds upon a foundation of targeting core markets, which are major metropolitan areas with stable population growth, high barriers to entry and multiple demand generators, by seeking to capitalize upon potential supply-demand imbalances that we believe will create a technical pressure on a particular asset or asset class. We intend to identify these technical pressures created by demographic, business and industry changes, which lead to supply and demand imbalances in a particular market. By utilizing this Core Plus strategy of purchasing undervalued assets with underlying intrinsic value, we believe a core asset will create greater value at disposition. Our "Core Plus Plus" strategy builds further upon the acquisition philosophy of Core Plus to combine our real property investments with real estate securities and debt-related investments, including (1) mortgage and mezzanine loans, (2) debt and derivative securities related to real estate, including mortgage-backed securities and (3) the equity securities of other REITs and real estate companies. We are not specifically limited in the number or size of our real estate securities and debt-related investments. The number and mix of properties we acquire and other investments we make will depend upon real estate and market conditions and other circumstances existing at the time we are acquiring our properties and making our investments.

Investment Portfolio

As of December 31, 2016, our portfolio was comprised of fourteen total investments: (1) ten hotel properties located in Texas, Tennessee, South Carolina and Pennsylvania comprising 1,273 rooms; (2) a joint venture interest in the Lyndhurst Hotel and a joint venture interest in the Fort Worth Hotel; (3) a note receivable from a related party with an initial principal amount of $9,000,000 and (4) a note receivable from a related party with an initial principal amount of $4,500,000.

Our Hotel Properties

As of December 31, 2016, our portfolio included ten hotel properties and two joint venture interests in hotel properties as described below.

Property Name	Date Acquired	Location	Ownership Interest	Purchase Price(1)	Rooms	Mortgage Debt Outstanding(2)
Woodlands Hotel (Homewood Suites by Hilton)(3)	November 8, 2012	The Woodlands, Texas	100%	$ 12,000,000	91	$ 9,300,000
Germantown Hotel (Hyatt Place)(4)	April 9, 2013	Germantown, Tennessee	100%	11,300,000	127	7,325,393
Charleston Hotel (Hyatt Place)(5)	July 2, 2013	North Charleston, South Carolina	100%	11,800,000	113	7,417,921
Austin Hotel (Hampton Inn)(6)	December 30, 2013	Austin, Texas	100%	15,350,000	123	11,044,471
Grapevine Hotel (Residence Inn)(7)	March 31, 2014	Grapevine, Texas	100%	20,500,000	133	12,759,654
Lyndhurst Hotel (Marriott Courtyard)(8)	September 30, 2014	Lyndhurst, New Jersey	(9)	33,322,000	227	30,839,847
Austin Arboretum Hotel (Hilton Garden Inn)(10)	November 20, 2014	Austin, Texas	100%	29,250,000	138	19,000,000
Great Valley Hotel (Hampton Inn)(11)	March 27, 2015	Frazer, Pennsylvania	100%	11,000,000	125	8,200,000
Nashville Hotel (Embassy Suites)(12)	June 16, 2015	Nashville, Tennessee	100%	66,300,000	208	43,000,000
Homewood Suites Austin Hotel (Homewood Suites)(13)	August 3, 2015	Austin, Texas	100%	14,250,000	96	11,000,000
Fort Worth Hotel (TownPlace Suites)(14)	December 18, 2015	Fort Worth, Texas	(15)	7,301,887	95	7,038,313
Houston Hotel (Hampton Inn)(16)	April 21, 2016	Houston, Texas	100%	8,000,000	119	4,711,651
Totals				$ 240,373,887	1,595	$ 171,637,250

(1) Excludes acquisition costs.
(2) As of December 31, 2016.
(3) The Woodlands Hotel was developed in 2001. All suites at the Woodlands Hotel have fully equipped kitchens, separate eating and sitting areas and high speed internet access. Property amenities include a business center, meeting rooms, fitness center and courtyard pool and spa.
(4) The Germantown Hotel opened in August 2009. Guestrooms feature a refrigerator, 42" flat-panel HDTV, Hyatt Grand Bed, and flexible workspace with task lighting. Property amenities include Wi-Fi internet access throughout the hotel, 24-hour StayFit@Hyatt fitness center, heated outdoor pool, 24/7 guest kitchen and bakery café, 1,125 square feet of flexible meeting space and all-inclusive meeting packages.
(5) The Charleston Hotel opened in June 2010. The guestrooms feature a refrigerator, 42" flat-panel HDTV, Hyatt Grand Bed, and flexible workspace. Property amenities include Wi-Fi internet access throughout the hotel, heated indoor pool, and 24/7 guest kitchen and bakery café.
(6) The Austin Hotel was built in 1997 and extensively renovated in 2012. Property amenities include an outdoor swimming pool, business center, fitness room, breakfast buffet and meeting space.
(7) The Grapevine Hotel was built in 2007 and is located in close proximity to Dallas/Fort Worth International Airport, from which it receives business travel demand.
(8) The Lyndhurst Hotel was constructed in 1990. Amenities at the Lyndhurst Hotel include a restaurant and lounge, 2,910 square feet of meeting space, lobby grab-and-go, indoor pool, outdoor terrace, fitness center and business center.

(9) The Lyndhurst Hotel is owned by MN Lyndhurst Venture, LLC, or the Lyndhurst joint venture. Our operating partnership contributed $100 to the Lyndhurst joint venture in exchange for 100% of the Class B membership interests, or the Class B Interests, of the Lyndhurst joint venture. Pursuant to the operating agreement of the Lyndhurst joint venture, our operating partnership has also paid approximately $5.37 million in costs and fees and capital reserve requirements associated with the transfer of the Lyndhurst Hotel to the Lyndhurst joint venture, all of which amounts were deemed to be additional capital contributions by our operating partnership to the Lyndhurst joint venture in exchange for additional Class B Interests. The prior tenant-in-common owners of the Lyndhurst Hotel contributed their tenant-in-common ownership interests in the Lyndhurst Hotel (valued at $1,000 in the aggregate) to the Lyndhurst joint venture in exchange for non-voting class A membership interests, or the Class A Interests, of the Lyndhurst joint venture. Our operating partnership serves as the sole manager of the Lyndhurst Joint Venture and manages the business and affairs of the Lyndhurst Joint Venture. Cash available for distribution to the members of the Lyndhurst joint venture will be distributed as follows: (1) first, 100% to our operating partnership until it has received cash distributions equal to a 12% annual, cumulative, non-compounded return on its capital contributions to the Lyndhurst Joint Venture and a return of 100% of its unreturned capital contributions to the Lyndhurst joint venture, (2) next, 100% to the holders of the Class A Interests until they have received a return of 100% of their capital contributions to the Lyndhurst joint venture (valued at $1,000 in the aggregate) and (3) next, 60% to our operating partnership and 40% to the holders of the Class A Interests.

(10) The Austin Arboretum Hotel is a five-story, 138-room hotel located in Austin's Northwest/Arboretum corridor. Built in 2002, the Austin Arboretum Hotel has been recently enhanced by a comprehensive multi-year capital program renovation.

(11) The Great Valley Hotel is a five-story limited service hotel facility built in 1998 and renovated in 2004. The Great Valley Hotel features 125 rooms, including 115 standard guestrooms and 10 suites, and includes 630 square feet of meeting space, a business center, a fitness center, an outdoor pool, and appropriate back-of-the-house facilities.

(12) The Nashville Hotel is a 208 room, select-service all suites hotel facility built in 2001. Located just three blocks away from the Vanderbilt University campus and Medical Center, the Embassy Suites Nashville is well-positioned in the West End-Midtown district, less than two miles from downtown Nashville.

(13) The Homewood Suites Austin Hotel is a 96 room select-service hotel constructed in 1998. The Homewood Suites Austin is located approximately six miles from Austin-Bergstrom International Airport and is just minutes from downtown Austin.

(14) The Fort Worth Hotel is a 95-unit hotel constructed in 1998. Room amenities include a fully equipped kitchen, luxury bedding, free internet access and a workspace area. The Ft. Worth Hotel also features an outdoor pool, a fitness center and on-site guest laundry room.

(15) The Fort Worth Hotel is owned by MN Fort Worth Venture, LLC, or the Fort Worth joint venture. Our operating partnership contributed $100 to the Fort Worth joint venture in exchange for 100% of the Class B membership interests, or the Fort Worth Class B Interests, of the Fort Worth joint venture. Pursuant to the operating agreement of the Fort Worth joint venture, our operating partnership has paid approximately $3.28 million in costs and fees and capital reserve requirements associated with the transfer of the Fort Worth Hotel to the Fort Worth joint venture, all of which amounts were deemed to be additional capital contributions by our operating partnership to the Fort Worth joint venture in exchange for additional Fort Worth Class B Interests. The prior tenant-in-common owners of the Fort Worth Hotel contributed their ownership interests in the Fort Worth Hotel (valued at $1,000 in the aggregate) to the Fort Worth joint venture in exchange for non-voting class A membership interests, or the Fort Worth Class A Interests, of the Fort Worth joint venture. Our operating partnership serves as the sole manager of the Fort Worth joint venture and manages the business and affairs of the Fort Worth joint venture. Cash available for distribution to the members of the Fort Worth joint venture will be distributed as follows: (1) first, 100% to our operating partnership until it has received cash distributions equal to a 12% annual, cumulative, non-compounded return on its capital contributions to the Fort Worth joint venture and a return of 100% of its unreturned capital contributions to the Fort Worth joint venture, (2) next, 100% to the holders of the Fort Worth Class A Interests until they have received a return of 100% of their capital contributions to the Fort Worth joint venture (valued at $1,000 in the aggregate), and (3) next, 50% to our operating partnership and 50% to the holders of the Fort Worth Class A Interests.

(16) The Houston Hotel is a 119-unit hotel constructed in 1995. The Houston Hotel features an outdoor pool, a fitness center and a business center.

Each of our properties is owned by wholly owned subsidiaries of our operating partnership, which we refer to as "property owners." In connection with the acquisition of each of our hotels, we formed a taxable REIT subsidiary, or a TRS. The property owners and wholly owned subsidiaries of the TRSs, which we refer to as "master tenants," are party to hotel lease agreements pursuant to which each property owner leases its hotel to a master tenant. The leases provide for ten-year lease terms, provided that a property owner may terminate its lease upon 45 days prior written notice to the master tenant in the event that we contract to sell the hotel to a non-affiliate. Moody National Hospitality Management, LLC, or MNHM, our affiliate, manages each of our hotel properties pursuant to a hotel management agreement between MNHM and each master tenant.

We believe that all of our hotel properties are adequately covered by insurance and are suitable for their intended purposes. Each of our hotel properties faces competition from other hotel properties in and around their respective submarkets. We are undertaking renovations at the Austin Hotel, the Grapevine Hotel, the Lyndhurst Hotel, the Austin Arboretum Hotel, the Great Valley Hotel, and the Nashville Hotel.

Seven of our twelve hotel properties are located in a single state, Texas. The downturn in the energy industry in Texas has affected our portfolio to a greater degree than if our hotel portfolio were less geographically concentrated.

Our Notes Receivable from Related Parties

On August 21, 2015, we originated an unsecured loan in the aggregate principal amount of $9,000,000, or the related party note, to Moody National DST Sponsor, LLC, a Texas limited liability company and an affiliate of our sponsor, or DST Sponsor. Proceeds from the related party note were used by DST Sponsor solely to acquire a commercial real property located in Katy, Texas.

Interest on the outstanding principal balance of the related party note accrues at a fixed per annum rate equal to 12%, provided that in no event will the interest rate exceed the maximum rate permitted by applicable law. DST Sponsor will pay us an origination fee in the amount of $90,000 and an exit fee in the amount of $90,000 upon the maturity date of the related party note, including any earlier prepayment date or accelerated maturity date of the related party note. The related party note may be prepaid in whole or part by DST Sponsor without penalty at any time upon prior written notice to us.

The entire unpaid principal balance of the related party note and all accrued and unpaid interest thereon and all other amounts due under the related party note were due and payable in full on the earlier of (1) August 21, 2016 or (2) ten days following the sale of 100% of the equity ownership interests that are to be syndicated in the subject property. However, on August 15, 2016, the maturity date of the related party note was extended from August 21, 2016 to August 21, 2017 and the origination fee in the amount of $90,000 and an extension fee in the amount of $45,000 were paid to us by DST Sponsor.

On April 29, 2016, we originated a loan in the aggregate principal amount of $4,500,000, or the related party mezzanine note, to Moody National, an affiliate of our sponsor. Proceeds from the related party mezzanine note were used by Moody National solely to acquire a multifamily real property located in Houston, Texas.

The entire unpaid principal balance of the related party mezzanine note and all accrued and unpaid interest thereon and all other amounts due under the related party mezzanine note are due and payable in full on the earlier of (1) April 30, 2018, or (2) upon 90 days' written notice of acceleration of the maturity date by us to Moody National. Interest on the outstanding principal balance of the related party mezzanine note accrues at a fixed per annum rate equal to 10%, provided that in no event will the interest rate exceed the maximum rate permitted by applicable law. Moody National will pay us an origination fee in the amount of $45,000 and an exit fee in the amount of $45,000 upon the maturity date of the related party mezzanine note, including any earlier prepayment date or accelerated maturity date. The related party mezzanine note may be prepaid in whole or part by Moody National without penalty at any time upon prior written notice to us.

Partial payments of interest have been made on the notes receivable from related parties.

Borrowing Policies

We have used, and intend to use in the future (to the extent that the mergers are not consummated and we acquire additional assets), secured and unsecured debt as a means of providing additional funds for the acquisition of real property, securities and debt-related investments. By operating on a leveraged basis, we expect that we will have more funds available for investments. This will generally allow us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, our use of leverage increases the risk of default on loan payments and the resulting foreclosure on a particular asset. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness. When debt financing is unattractive due to high interest rates or other reasons, or when financing is otherwise unavailable on a timely basis, we may purchase certain assets for cash with the intention of obtaining debt financing at a later time.

Our advisor seeks to obtain financing on the most favorable terms available to us. We expect we will refinance assets during the term of a loan only in limited circumstances, such as when a decline in interest rates makes it beneficial to prepay an existing loan, when an existing loan matures or if an attractive investment becomes available and the proceeds from the refinancing can be used to purchase such investment. The benefits of any such refinancing may include increased cash flow resulting from reduced debt service requirements, an increase in distributions from proceeds of the refinancing and an increase in diversification and assets owned if all or a portion of the refinancing proceeds are reinvested.

Our charter restricts us from obtaining loans from any of our directors, our advisor and any of our affiliates unless such loan is approved by a majority of the directors (including a majority of the independent directors) not otherwise interested in the transaction as fair, competitive and commercially reasonable and no less favorable to us than comparable loans between unaffiliated parties.

As of December 31, 2016, our outstanding indebtedness totaled $171,637,250. Our aggregate borrowings, secured and unsecured, are reviewed by our board of directors at least quarterly. Under our charter, we are prohibited from borrowing in excess of 300% of the value of our net assets. "Net assets" for purposes of this calculation is defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75% of the aggregate cost of our assets before non-cash reserves and depreciation. However, we may temporarily borrow in excess of these amounts if such excess is approved by a majority of our independent directors and disclosed to stockholders in our next quarterly report, along with an explanation for such excess. As of December 31, 2016 and 2015, our debt levels did not exceed 300% of the value of our net assets.

Economic Dependency

We are dependent on our advisor for certain services that are essential to us, including the identification, evaluation, negotiation, purchase and disposition of properties and other investments, management of the daily operations of our real estate portfolio, and other general and administrative responsibilities. In the event that our advisor is unable to provide these services to us, we will be required to obtain such services from other sources, and our failure to identify such other sources could have an adverse impact on our financial condition and results of operations.

Competitive Market Factors

The United States commercial real estate market is highly competitive. In the event that the mergers are not consummated and we seek to acquire additional properties, we will face competition from various entities for investment opportunities in our targeted assets, including other REITs, pension funds, insurance companies, investment funds, real estate companies and developers. Many of these entities will have substantially greater financial resources than we do and may be able to accept more risk than we can prudently manage, including risks with respect to the geographic location of investments or the creditworthiness of tenants. Competition from these entities may reduce the number of suitable investment opportunities offered to us or increase the bargaining power of property owners seeking to sell real estate assets. In particular, the hotel industry is highly competitive. Each of our hotel properties is located in developed areas that include other hotels and compete for guests primarily with other hotels in the immediate vicinity and secondarily with other hotels in the geographic market. An increase in the number of competitive hotels in a particular area could have a material adverse effect on the occupancy, average daily rate, or ADR, and revenue per available room, or RevPAR, of our hotels in that area. We believe that brand recognition, location, price and quality (of both the hotel and the services provided) are the principal competitive factors affecting our hotel properties. Additionally, general economic conditions in a particular market and nationally impact the performance of the hotel industry.

In the event that the mergers are not consummated and we seek to acquire additional debt-related investments, disruptions in the credit markets may materially impact the cost and availability of debt to finance such acquisitions, which is a key component of our acquisition strategy. Although credit markets have stabilized since the recession from 2007 to 2009, future limited availability of financing could result in a further reduction of suitable investment opportunities and create a competitive advantage for other entities that have greater financial resources than we do. As a result, our financial condition, results of operations, cash flow, ability to satisfy our debt service obligations and ability to pay distributions to our stockholders may be adversely affected.

The success of our portfolio of debt-related investments depends, in part, on our ability to acquire and originate investments with spreads over our borrowing cost. In the event that the mergers are not consummated and we seek to acquire additional debt-related investments, we will compete with other REITs, specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities, many of which have greater financial resources and lower costs of capital available to them than we do. In addition, there are numerous REITs and real estate funds with asset acquisition objectives similar to ours, and others may be organized in the future, which may increase competition for the investments suitable for us. Competitive variables include market presence and visibility, size of loans offered and underwriting standards. To the extent that a competitor is willing to risk larger amounts of capital in a particular transaction or to employ more liberal underwriting standards when evaluating potential loans than we are, our acquisition and origination volume and profit margins for our investment portfolio could be impacted. Our competitors may also be willing to accept lower returns on their investments and may succeed in buying the assets that we have targeted for acquisition. Although we believe that we are well positioned to compete effectively in each facet of our business, there is enormous competition in our market sector and there can be no assurance that we will compete effectively or that we will not encounter increased competition in the future that could limit our ability to conduct our business effectively.

Tax Status

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code, commencing with the taxable year ended December 31, 2011. Prior to qualifying to be taxed as a REIT, we were subject to normal federal and state corporation income taxes.

To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our REIT taxable income (determined without regard to the dividends-paid deduction and excluding net capital gain) to our stockholders. As a REIT, we generally are not subject to federal income tax on income that we distribute to our stockholders. We believe we are organized and operate in such a manner as to qualify for taxation as a REIT under the Internal Revenue Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will operate in a manner so as to qualify or remain qualified as a REIT. If we fail to qualify as a REIT in any taxable year after the taxable year in which we initially elect to be taxed as a REIT, we will be subject to federal income tax on our taxable income at regular corporate rates and will not be permitted to qualify for treatment as a REIT for federal income tax purposes for four years following the year in which our qualification is denied. Failing to qualify as a REIT could materially and adversely affect our net income.

Regulations

All real property investments and the operations conducted in connection with such investments are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on customers, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on a real property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may adversely affect our ability to sell, rent or pledge such real property as collateral for future borrowings. Environmental laws also may impose restrictions on the manner in which real property may be used or businesses may be operated. Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require us to incur material expenditures or may impose material environmental liability. Additionally, tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our real properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our real properties. There are also various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply and which may subject us to liability in the form of fines or damages for noncompliance. In connection with the acquisition and ownership of real properties, we may be exposed to such costs in connection with such regulations. The cost of defending against environmental claims, of any damages or fines we must pay, of compliance with environmental regulatory requirements or of remediating any contaminated real property could materially and adversely affect our business and results of operations or lower the value of our assets and, consequently, lower the amounts available for distribution to our stockholders.

We do not believe that compliance with existing environmental laws will have a material adverse effect on our financial condition or results of operations. However, we cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on properties in which we hold an interest, or on properties that may be acquired directly or indirectly in the future.

Seasonality

The hotel industry historically has been seasonal in nature. Seasonal variations in occupancy at our hotel properties and other hotel properties we may acquire may cause quarterly fluctuations in our revenues. Specifically, business class hotels tend to draw lower occupancy rates during holidays as there is less business travel. To the extent that cash flow from operations is insufficient during any quarter due to temporary or seasonal fluctuations in revenue we expect to utilize cash on hand or if necessary any other available financing sources to make distributions.

Employees

We have no paid employees. The employees of our advisor or its affiliates provide management, acquisition, advisory and certain administrative services for us.

Financial Information about Industry Segments

Our current business consists of owning, managing, operating, leasing, acquiring, developing, investing in, and disposing of real estate assets. We internally evaluate all of our real estate assets as one industry segment, and, accordingly, we do not report segment information.

Available Information

We are subject to the reporting and information requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and, as a result, we file periodic reports and other information with the SEC. Access to copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other filings that we make with the SEC, including amendments to such filings, may be obtained free of charge from the following website, http://www.moodynationalreit.com. These filings are available promptly after we file them with, or furnish them to, the SEC. We are not incorporating our website or any information from the website into this Annual Report. The SEC also maintains a website, https://www.sec.gov, where our filings are available free of charge.

ITEM 1A. *Risk Factors*

The following are some of the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business. Our stockholders or potential investors may be referred to as "you" or "your" in this Item 1A.

Investment Risks

Since the commencement of our initial public offering in 2009, we have raised a relatively limited amount of offering proceeds.

Based upon our operating history to date and our limited portfolio of investments, there can be no assurance that we will be able to successfully operate our business or achieve our investment objectives. As of December 31, 2016, we have raised $128,188,874 in gross offering proceeds in our initial public offering and our follow-on offering, including through shares issued pursuant to our DRIP.

We have experienced losses in the past and may experience similar losses in the future.

We incurred a net operating loss for the years ended December 31, 2010, 2011, 2012, 2013 and 2014. Our losses can be attributed, in part, to the initial start-up costs and operating expenses incurred prior to making investments in properties. In addition, depreciation and amortization and acquisition expenses substantially reduced our income. We cannot assure you that we will be profitable in the future or that we will realize growth in the value of our assets.

Unknown to us at the time, our auditor was not independent from November 2010 through February 2012, and as a result, we may face liability under Section 5 of the Securities Act in relation to purchases of our common stock made from March 31, 2011 through February 8, 2012.

Pannell Kerr Forster of Texas, P.C., or “PKF,” served as our independent auditor beginning in November 10, 2010 through February 8, 2012. On February 7, 2012, PKF informed our board of directors that it could not be considered independent in accordance with Rule 201 of SEC Regulation S-X for the 2011 fiscal year. On February 10, 2012, PKF informed our board that it could not be considered independent for the 2009 and 2010 fiscal years. Consequently, from March 31, 2011 (the date PKF first issued a report on our financial statements) to February 8, 2012, the offer and sale of securities in our initial public offering may have failed to comply fully with Section 5 of the Securities Act which may trigger a right of rescission under the Securities Act for investors that purchased shares of our common stock during this period. Such stockholders may have the right to rescind their purchase of shares of our common stock and require us to reacquire their shares at a price equal to the price originally paid for such shares with interest, less the amount of any income received with respect to such shares. An investor who acquired shares of our common stock during this period who no longer owns the shares they acquired may have the right to collect damages from us in lieu of the rescission rights described above. If stockholders were successful in seeking rescission or damages, we would face financial demands that could adversely affect our business and operations. Additionally, we may become subject to penalties imposed by the SEC and state securities agencies. As of the date of this Annual Report, we have not received a claim for rescission. If stockholders seek rescission or damages or we conduct a rescission offer, we may or may not have the resources to fund the repurchase of the securities.

There is no public trading market for shares of our common stock and we are not required to effectuate a liquidity event by a certain date. As a result, it will be difficult for you to sell your shares of common stock and, if you are able to sell your shares, you are likely to sell them at a substantial discount.

There is no current public market for the shares of our common stock and we have no obligation to list our shares on any public securities market or provide any other type of liquidity to our stockholders. It will therefore be difficult for you to sell your shares of our common stock promptly or at all. Even if you are able to sell your shares of our common stock, the absence of a public market may cause the price received for any shares of our common stock sold to be less than what you paid or less than your proportionate value of the assets we own. We have adopted a share redemption program but it is limited in terms of the amount of shares that may be purchased by us each quarter; however, the share redemption program was suspended (except in cases of a stockholder’s death or qualifying disability) effective May 6, 2016 in connection with the formation of a special committee of our board of directors. Additionally, our charter does not require that we consummate a transaction to provide liquidity to our stockholders on any date certain or at all. As a result, you should purchase shares of our common stock only as a long-term investment, and you must be prepared to hold your shares for an indefinite length of time.

We commenced operations on May 27, 2010 and therefore we have a limited operating history and there is no assurance that we will be able to successfully achieve our investment objectives.

We commenced operations on May 27, 2010 with the acquisition of our first investment, have a limited operating history and currently have only fourteen investments. On February 20, 2015, we terminated the offer and sale of shares of our common stock to the public in our follow-on offering. As a result, we may not be able to successfully operate our business or achieve our investment objectives. An investment in shares of our common stock may entail more risk than an investment in the shares of common stock of a real estate investment trust with a substantial operating history. In addition, you should not rely on the past performance of real property, real estate securities or debt-related investments owned by other Moody National affiliates to predict our future results. Our investment strategy and key employees differ from the investment strategies and key employees of our affiliates in the past and present and may continue to do so in the future.

The consummation of the mergers is subject to many conditions, and there is no guarantee these conditions will be met.

Consummation of the mergers is subject to a number of conditions, and the merger agreement may be terminated under certain circumstances as described above in Item 1, "Business—Pending Merger with Moody National REIT II, Inc." Both our management and the management of Moody II will expend time and resources of their respective companies in the fulfillment of the conditions and obligations contained in the merger agreement. Such time and resources may otherwise have been allocated to other operational needs of us and Moody II, respectively. If any purported stockholders file lawsuits challenging the mergers, there can be no assurance as to the outcome of such lawsuits, including the costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation or settlement of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the mergers on the agreed-upon terms, such an injunction may prevent the completion of the mergers in the expected time frame, or may prevent it from being completed altogether. Even though we have entered into the merger agreement, there can be no assurance as to whether or when the conditions to the closing of the mergers will be satisfied or waived, or as to whether or when the mergers will be consummated.

Failure to consummate the mergers could negatively affect us.

Failure to consummate the mergers may adversely affect our results of operations and business prospects. First, we will have incurred substantial costs related to the mergers and the related transactions, such as legal, accounting and financial advisor fees, which may be payable by us even if the mergers are not completed. Additionally, our stockholders will not have had the opportunity to achieve liquidity, and our board of directors will review other alternatives for liquidity, which may not occur in the near term or on terms as attractive as the terms of the pending mergers set forth in the merger agreement. The merger agreement may also be terminated under certain circumstances by both us and Moody II. If such termination occurs under certain circumstances, then we would be obligated to pay Moody II a termination fee of $2,000,000, plus an expense reimbursement fee of up to $500,000. The merger agreement also provides that one party may be required to reimburse the other party's expenses, up to $500,000, if the merger agreement is terminated under certain circumstances.

The pendency of the mergers could adversely affect our business and operations.

Due to operating covenants in the merger agreement, we may be unable, during the pendency of the mergers, to take certain actions, even if we believe such actions could otherwise prove to be beneficial to our stockholders.

The terms of the Mergers may not be as favorable to our stockholders as if only independent representatives were involved in analyzing the transactions.

While our board of directors formed a separate special committee and retained separate legal counsel and financial advisors to assist it in evaluating the mergers, representatives of our company and Moody II performed an initial review of potential alternatives for our company and Moody II and proposed the initial terms and conditions of the mergers, including the exchange ratio. If only independent representatives of our company and Moody II were involved in considering liquidity alternatives for our company and Moody II and analyzing the transactions, the terms of the mergers might have been different.

Our stockholders will be diluted by the mergers.

The merger will dilute the ownership position of the current Moody II stockholders and result in our stockholders having an ownership stake in Moody II that is smaller than their current stake in our company. Consequently, Moody II stockholders and our stockholders, as a general matter, will have less influence over the management and policies of Moody II after the mergers than each exercise over the management and policies of Moody II and our company, as applicable, immediately prior to the mergers. In addition, after the consummation of the mergers, our stockholders who receive shares of Moody II common stock will have certain different rights than they currently have as our stockholders.

Payment of fees to our advisor and its affiliates reduces cash available for investment, which may result in stockholders not receiving a full return of their invested capital.

Because a portion of the offering price from the sale of our shares was used to pay expenses and fees, the full offering price paid by our stockholders was not invested in real estate assets. As a result, stockholders will only receive a full return of their invested capital if we either (1) sell our assets or our company for a sufficient amount in excess of the original purchase price of our assets or (2) the market value of our company after we list our shares of common stock on a national securities exchange is substantially in excess of the original purchase price of our assets.

If we internalize our management functions, your interest in us could be diluted and we could incur other significant costs associated with being self-managed.

In the event that we do not consummate the mergers, our board of directors may decide in the future to internalize our management functions. If we do so, we may elect to negotiate to acquire our advisor's assets and personnel. At this time, we cannot anticipate the form or amount of consideration or other terms relating to any such acquisition. Such consideration could take many forms, including cash payments, promissory notes and shares of our common stock. The payment of such consideration could result in dilution of your interests as a stockholder and could reduce the earnings per share and funds from operations per share attributable to your investment.

Additionally, if we internalize our management functions, our direct expenses would include general and administrative costs, including legal, accounting and other expenses related to corporate governance, SEC reporting and compliance. We would also be required to employ personnel and would be subject to potential liabilities commonly faced by employers, such as workers disability and compensation claims, potential labor disputes and other employee-related liabilities and grievances as well as incur the compensation and benefits costs of our officers and other employees and consultants that we now expect to be paid by our advisor or its affiliates. We may issue equity awards to officers, employees and consultants, which awards would decrease net income and funds from operations and may further dilute your investment. We cannot reasonably estimate the amount of fees to our advisor we would save or the costs we would incur if we became self-managed. If the expenses we assume as a result of an internalization are higher than the expenses we avoid paying to our advisor, our earnings per share and funds from operations per share would be lower as a result of the internalization than it otherwise would have been, potentially decreasing the amount of funds available to distribute to our stockholders and the value of our shares.

If we internalize our management functions, we could have difficulty integrating these functions as a stand-alone entity. Currently, our advisor and its affiliates perform asset management and general and administrative functions, including accounting and financial reporting, for multiple entities. These personnel have a great deal of know-how and experience which provides us with economies of scale. We may fail to properly identify the appropriate mix of personnel and capital needs to operate as a stand-alone entity. An inability to manage an internalization transaction effectively could thus result in our incurring excess costs and suffering deficiencies in our disclosure controls and procedures or our internal control over financial reporting. Such deficiencies could cause us to incur additional costs, and our management's attention could be diverted from most effectively managing our real estate assets.

If we were to internalize our management or if another investment program, whether sponsored by our sponsor or otherwise, hires the employees of our advisor in connection with its own internalization transaction or otherwise, our ability to conduct our business may be adversely affected.

We rely on persons employed by our advisor and its affiliates to manage our day-to-day operations. If we were to effectuate an internalization of our advisor, we may not be able to retain all of the employees of our advisor and its affiliates or to maintain a relationship with our sponsor. In addition, some of the employees of our advisor and its affiliates may provide services to one or more other investment programs. These programs or third parties may decide to retain some or all of our advisor's key employees in the future. If this occurs, these programs could hire certain of the persons currently employed by our advisor and its affiliates who are most familiar with our business and operations, thereby potentially adversely impacting our business.

You are limited in your ability to sell your shares of common stock pursuant to our share redemption program. You may not be able to sell any of your shares of our common stock back to us, and if you do sell your shares, you may not receive the price you paid.

In connection with the formation of a special committee of our board of directors, our share redemption program was, and remains, suspended. If our share redemption program is reinstated, then pursuant to its terms, shares of common stock will be redeemed pursuant to the share redemption program, subject to certain restrictions and limitations, at a price equal to, or at a discount from, a price based upon the net asset value per share of our company and other factors our board of directors deems relevant, including the then-current reinvestment price under our DRIP and general market conditions. Shares of our common stock are redeemed on a quarterly basis. However, our share redemption program contains certain restrictions and limitations, including those relating to the number of shares of our common stock that we can redeem at any given time and limiting the redemption price. Specifically, if the share redemption program is reinstated, we will limit the number of shares to be redeemed during any calendar year to no more than (1) 5.0% of the weighted average of the shares of our common stock outstanding during the prior calendar year and (2) those that could be funded from the net proceeds from the sale of shares under our DRIP in the prior calendar year (assuming our DRIP was active) plus such additional funds as may be reserved for that purpose by our board of directors; provided, however, that the above limitation would not apply to redemptions requested within two years after the death of a stockholder. As described above, our DRIP has been suspended beginning with distributions made in November 2016. In addition, our board of directors will reserve the right to reject any redemption request for any reason or no reason or to amend, suspend or terminate the share redemption program at any time upon 30 days' prior written notice. Therefore, if the share redemption program was reinstated, you may not have the opportunity to make a redemption request prior to a further suspension or termination of the share redemption program and you may not be able to sell any of your shares of common stock back to us pursuant to our share redemption program. Moreover, if you do sell your shares of common stock back to us pursuant to the share redemption program, you may not receive the same price you paid for any shares of our common stock being redeemed.

Our cash distributions are not guaranteed, may fluctuate and may constitute a return of capital or taxable gain from the sale or exchange of property.

We began paying a distribution in July 2010 at a rate which, if paid each day over a 365-day period, is equivalent to an 8.0% annualized distribution rate based on a purchase price of $10.00 per share of our common stock. The actual amount and timing of distributions will be determined by our board of directors and typically will depend upon the amount of funds available for distribution, which will depend on items such as current and projected cash requirements and tax considerations. As a result, our distribution rate and payment frequency may vary from time to time. To the extent we do not have sufficient funds, or sources of funds to pay distributions, we may be forced to reduce the rate at which we pay distributions or stop paying distributions entirely. Distributions payable to our stockholders may also include a return of capital, rather than a return on capital.

We have and may continue to pay distributions from sources other than our cash flow from operations. To the extent that we pay distributions from sources other than our cash flow from operations, we will have reduced funds available for investment and the overall return to our stockholders may be reduced.

Our organizational documents permit us to pay distributions from any source, including net proceeds from our public offerings, borrowings, advances from our sponsor or advisor and the deferral of fees and expense reimbursements by our advisor, in its sole discretion. Since our inception, our cash flow from operations has not been sufficient to fund all of our distributions, and as a consequence we have funded a significant portion of our distributions with the net proceeds of our public offerings. Of the $27,946,328 in total distributions we paid during the period from our inception through December 31, 2016, including shares issued pursuant to our DRIP, approximately 39% was funded from cash flow from operations and approximately 61% was funded from offering proceeds or proceeds from the sale of hotel property. If the mergers are not consummated, in the future our cash flow from operations may not be sufficient to fund our distributions and we may continue to fund all or a portion of our distributions from sources other than cash flow from operations. We have not established a limit on the amount of offering proceeds, or other sources other than cash flow from operations, which we may use to fund distributions.

If the mergers are not consummated and we are unable to consistently fund distributions to our stockholders entirely from our cash flow from operations, the value of your shares upon a listing of our common stock, the sale of our assets or any other liquidity event may be reduced. To the extent that we fund distributions from sources other than our cash flow from operations, our funds available for investment will be reduced relative to the funds available for investment if our distributions were funded solely from cash flow from operations, our ability to achieve our investment objectives will be negatively impacted and the overall return to our stockholders may be reduced. In addition, if we make a distribution in excess of our current and accumulated earnings and profits, the distribution will be treated first as a tax-free return of capital, which will reduce the stockholder’s tax basis in its shares of common stock. The amount, if any, of each distribution in excess of a stockholder’s tax basis in its shares of common stock will be taxable as gain realized from the sale or exchange of property.

Payments to the holder of the special units of our operating partnership may reduce cash available for distribution to our stockholders and the value of our shares of common stock upon consummation of a liquidity event.

OP Holdings is the holder of the special units of our operating partnership. OP Holdings’ ownership interest of the special partnership units entitles it to a subordinated participation in which it will receive (1) 15% of specified distributions made upon the disposition of our operating partnership’s assets and (2) a one-time payment, in the form of shares of our common stock or a promissory note, in conjunction with the redemption of the special partnership units upon the occurrence of certain liquidity events or upon the occurrence of certain events that result in a termination or non-renewal of the advisory agreement, but in each case only after the other holders of our operating partnership’s partnership units, including us, have received (or have been deemed to have received), in the aggregate, cumulative distributions equal to their capital contributions plus an 8.0% cumulative non-compounded annual pre-tax return on their net contributions.

Concurrently with the entry into the merger agreement, we, our operating partnership, our advisor, Moody National and OP Holdings entered into the termination agreement. The termination agreement provides, among other matters, that at the effective time of the partnership merger (in connection with which the special partnership units of our operating partnership will be cancelled and retired) and in accordance with the terms of the limited partnership agreement of our operating partnership, our operating partnership will pay to OP Holdings the promote payment in an amount not to exceed $613,751.

In the event that the mergers are not consummated and OP Holdings continues to hold the special partnership units of our operating partnership, payments to the holder of the special partnership units upon dispositions of our operating partnership’s assets and redemptions of the special partnership units may reduce cash available for distribution to our stockholders and the value of shares of our common stock upon consummation of a liquidity event.

Recently enacted and potential further financial regulatory reforms could have a significant impact on our business, financial condition and results of operations.

On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the “Dodd-Frank Act,” into law. The Dodd-Frank Act represents a significant change in the American financial regulatory environment and impacts nearly every aspect of the U.S. financial services industry. The Dodd-Frank Act requires various federal agencies to adopt hundreds of new rules to implement the Dodd-Frank Act and to deliver to Congress numerous studies and reports that may influence future legislation. The Dodd-Frank Act leaves significant discretion to federal agencies as to exactly how to implement the broad provisions of the Dodd-Frank Act. As a result, many of the details and much of the impact of the Dodd-Frank Act may not be known for some time and the full extent of the impact of the Dodd-Frank Act on our operations is currently unclear. The changes resulting from the Dodd-Frank Act may impact the profitability of business activities, require changes to certain business practices, impose more stringent capital, liquidity and leverage requirements or otherwise adversely affect our business.

Further, we may be required to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements under the Dodd-Frank Act, which may negatively impact results of operations and financial condition.

Risks Related To Our Business

We, our sponsor and our advisor have limited experience in operating a public company or a REIT, and our failure to operate successfully or profitably could have a material adverse effect on our ability to generate cash flow.

We and our advisor were formed in connection with our initial public offering. You should not rely upon the past performance of other real estate investment programs of our affiliates to predict our future results. As of the date of this Annual Report, our portfolio includes only fourteen investments. You should consider our prospects in light of the risks, uncertainties and difficulties frequently encountered by companies that are, like us, in their development stage. If the mergers are not consummated, then, to be successful, we and our advisor must, among other things:

- continue to identify and acquire investments that align with our investment strategies;
- attract, integrate, motivate and retain qualified personnel to manage our day-to-day operations;
- respond to competition for our targeted investments as well as for potential investors in our shares; and
- continue to build and expand our operations structure to support our business.

Our failure, or our advisor's or sponsor's failure, to operate successfully or profitably could have a material adverse effect on our ability to generate cash flow to make distributions to our stockholders and could cause you to lose all or a portion of your investment in our shares.

Our success is dependent on the performance of our sponsor and Moody National affiliates.

If the mergers are not consummated, our ability to achieve our investment objectives and to pay distributions will be dependent upon the performance of our advisor, our sponsor and other affiliates of our sponsor. Our sponsor and its other affiliates are sensitive to trends in the general economy, as well as the commercial real estate and credit markets.

The recent market downturn that occurred several years ago adversely impacted certain prior real estate programs of our sponsor's affiliates, resulting in a decrease or deferral of distributions with respect to such programs. Moody National Management, L.P. continues to seek approval to amend its master lease agreements for certain prior real estate programs to provide for either a deferral or a waiver of a portion of lease payments to program investors, and may continue to seek further amendments in the future depending upon the then-current economic conditions. Certain prior real estate programs have also requested additional cash infusions from investors to fund outstanding debt service payments. Further such requests may be necessary in the future depending upon the then-current economic conditions. These adverse developments have resulted in a reduction in payments to investors for certain prior real estate programs.

Moody National Management, L.P. has commenced negotiations with lenders to restructure loan terms with respect to certain prior real estate programs in default under existing franchise or loan agreements and may continue to do so in the future. With respect to some of these loans, the lender is pursuing various alternatives simultaneously, including initiation of foreclosure and legal proceedings and loan modifications, and the borrowers are actively working toward loan modifications. However, there is no assurance that final loan modifications will be achieved.

With respect to two tenant-in-common programs sponsored by Moody National, the initial lender sold the loans, and the purchaser of the loans initiated foreclosure proceedings resulting in the filing for protection from these proceedings in the United States Bankruptcy Court by an affiliate of Moody National owning an original equity investment in one property of approximately $10,000 and $10,039 in the other property. These affiliates received court approval of a confirmation plan under which an agreement was reached with the lender and the loans were reinstated. With respect to one of these properties, the 28 tenant-in-common owners of the Residence Inn Atlanta Midtown, which originally acquired the project with a $7.475 million equity investment, recently allowed the lender to foreclose on the hotel which secured the loan.

An affiliate of Moody National and tenant-in-common owners in eight tenant-in-common programs collectively initiated legal proceedings against a lender. Currently, seven of these tenant-in-common programs have been restructured into a limited liability company owned by the former tenant-in-common owners and a lender affiliate, and the legal proceedings have been dismissed with respect to such programs. The lender and borrowers on one of the tenant-in-common programs entered into a settlement and reinstatement of the loan, and the legal proceedings have been dismissed with respect to such program.

The 19 tenant-in-common owners of the Westchase Technology Center property, which originally acquired the property with a $4 million equity investment, declined to proceed with a lender's loan modification proposal and allowed the lender to foreclose on an office building which secured the loan. The 28 tenant-in-common owners of a two-hotel project (consisting of the Springhill Suites Altamonte and the Holiday Inn Express Orlando) which originally acquired the project with a $10.2 million equity investment declined to proceed with a lender's loan modification proposal and allowed the lender to foreclose on the two hotels which secured the loan. The 14 tenant-in-common owners of a two-hotel project (consisting of the TownePlace Suite Miami Airport and TownePlace Suites Miami Lakes) which originally acquired the project with a $5.9 million equity investment declined to proceed with a lender's loan modification proposal and allowed the lender to foreclose on the two hotels which secured the loan. The 16 tenant-in-common owners of the TownePlace Suites Mount Laurel, which originally acquired the property with a $5.6 million equity investment, declined to proceed with a lender's loan modification proposal and allowed the lender to foreclose on the hotel which secured the loan. Additionally, the 35 tenant-in-common owners of the Courtyard Columbus Airport, which originally acquired the property with an $11.1 million equity investment, entered into a deed in lieu of foreclosure agreement with the lender. Further, the lender for the Residence Inn Memphis filed foreclosure proceedings and one unaffiliated tenant-in-common owner of the Residence Inn Memphis filed for bankruptcy protection, which resulted in a court-ordered auction sale of the property and a loss of the original $6.93 million equity investment for the 17 tenant-in-common owners. In addition, the 31 tenant-in-common owners of the Northbelt II Office Building, which originally acquired the property with a $9.3 million equity investment, allowed the lender to acquire the property in an uncontested foreclosure. Further, the 21 tenant-in-common owners of the Newtown Hampton Inn & Suites, which originally acquired the property with a $6.725 million equity investment, allowed the lender to acquire the property in an uncontested foreclosure.

To the extent that any decline in revenues and operating results impacts our sponsor's ability to provide our advisor with sufficient resources to perform its obligations to us pursuant to the advisory agreement, our results of operations, financial condition and ability to pay distributions to our stockholders could also suffer. Additionally, such adverse conditions could require a substantial amount of time on the part of the management of our advisor and its affiliates, particularly with regard to other real estate programs, thereby decreasing the amount of time they spend actively managing our investments.

If we are delayed or unable to find suitable investments, we may not be able to achieve our investment objectives.

If the mergers are not consummated and we seek to acquire additional properties, delays in selecting, acquiring and developing real estate assets could adversely affect investor returns. If we are unable to access sufficient capital, we may suffer from delays in deploying the capital into real estate assets.

We are uncertain of our sources for funding our future capital needs. If we cannot obtain debt or equity financing on acceptable terms, our ability to acquire real estate assets and to expand our operations will be adversely affected.

If the mergers are not consummated, the net proceeds from any sales of our securities that we may conduct in the future will be used for investments in real properties, real estate securities and debt-related investments, for payment of operating expenses and for payment of various fees and expenses such as acquisition fees, origination fees, asset management fees and property management fees. We terminated the offer and sale of our shares to the public in our follow-on offering on February 20, 2015, and we did not establish a general working capital reserve out of the proceeds from our follow-on offerings. Accordingly, in the event that the mergers are not consummated and we develop a need for additional capital in the future for investments, the improvement of our real properties or for any other reason, sources of funding may not be available to us. If the mergers are not consummated and we cannot establish reserves out of cash flow generated by our real estate assets or out of net sale proceeds in non-liquidating sale transactions, or obtain debt or equity financing on acceptable terms, our ability to acquire real estate assets and to expand our operations will be adversely affected. As a result, we would be less likely to achieve portfolio diversification and our investment objectives, which may negatively impact our results of operations and reduce our ability to make distributions to our stockholders.

Risks Related to Our Organizational Structure

Maryland law and our organizational documents limit your right to bring claims against our officers and directors.

Maryland law provides that a director will not have any liability as a director so long as he or she performs his or her duties in accordance with the applicable standard of conduct. In addition, our charter provides that, subject to the applicable limitations set forth therein or under Maryland law, no director or officer will be liable to us or our stockholders for monetary damages. Our charter also provides that we will generally indemnify and advance expenses to our directors, our officers, our advisor and its affiliates for losses they may incur by reason of their service in those capacities subject to any limitations under Maryland law or in our charter. Moreover, we have entered into separate indemnification agreements with each of our directors and executive officers. As a result, we and our stockholders may have more limited rights against these persons than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by these persons in some cases. However, our charter provides that we may not indemnify our directors, our advisor and its affiliates for loss or liability suffered by them or hold our directors or our advisor and its affiliates harmless for loss or liability suffered by us unless they have determined that the course of conduct that caused the loss or liability was in our best interests, they were acting on our behalf or performing services for us, the liability was not the result of negligence or misconduct by our non-independent directors, our advisor and its affiliates or gross negligence or willful misconduct by our independent directors, and the indemnification or obligation to hold harmless is recoverable only out of our net assets, including the proceeds of insurance, and not from the stockholders.

The limit on the percentage of shares of our common stock that any person may own may discourage a takeover or business combination that may benefit our stockholders.

Our charter restricts the direct or indirect ownership by one person or entity to no more than 9.8% of the value of our then outstanding shares of capital stock (which includes common stock and any preferred stock we may issue) and no more than 9.8% of the value or number of shares, whichever is more restrictive, of our then outstanding common stock unless exempted by our board of directors. This restriction may discourage a change of control of us and may deter individuals or entities from making tender offers for shares of our common stock on terms that might be financially attractive to stockholders or which may cause a change in our management. In addition to deterring potential transactions that may be favorable to our stockholders, these provisions may also decrease your ability to sell your shares of our common stock.

We may issue preferred stock or other classes of common stock, which issuance could adversely affect the holders of our common stock issued pursuant to our continuous public offering.

Investors in our public offerings do not have preemptive rights to any shares issued by us in the future. We may issue, without stockholder approval, preferred stock or other classes of common stock with rights that could dilute the value of your shares of common stock. However, the issuance of preferred stock must be approved by a majority of our independent directors not otherwise interested in the transaction, who will have access, at our expense, to our legal counsel or to independent legal counsel. The issuance of preferred stock or other classes of common stock could increase the number of stockholders entitled to distributions without simultaneously increasing the size of our asset base.

Our charter authorizes us to issue 450,000,000 shares of capital stock, of which 400,000,000 shares of capital stock are designated as common stock and 50,000,000 shares of capital stock are classified as preferred stock. Our board of directors may amend our charter from time to time to increase or decrease the aggregate number of authorized shares of capital stock or the number of authorized shares of capital stock of any class or series without stockholder approval. If we ever created and issued preferred stock with a distribution preference over common stock, payment of any distribution preferences of outstanding preferred stock would reduce the amount of funds available for the payment of distributions on our common stock. Further, holders of preferred stock are normally entitled to receive a preference payment in the event we liquidate, dissolve or wind up before any payment is made to our common stockholders, likely reducing the amount common stockholders would otherwise receive upon such an occurrence. In addition, under certain circumstances, the issuance of preferred stock or a separate class or series of common stock may render more difficult or tend to discourage:

- a merger, tender offer or proxy contest;
- the assumption of control by a holder of a large block of our securities; and
- the removal of incumbent management.

We do not currently have a compensation committee, and presently do not intend to form such a committee.

We do not have a compensation committee and have no plans to form one. Our board of directors may form a compensation committee in the future, which we expect will occur only when we hire our own employees. We currently do not have any employees nor do we have plans to hire any employees. The role of any compensation committee would be to make recommendations to our board of directors on the compensation of our employees and to administer the granting of awards pursuant to our long-term incentive plan and to set the terms and conditions of such awards. Until our board of directors deems it in our best interest to form a compensation committee, our board of directors will directly administer our long-term incentive plan and perform such other related duties. Should our board of directors decide in the future to form a compensation committee, such committee will be comprised of a majority of independent directors.

Our UPREIT structure may result in potential conflicts of interest with limited partners in our operating partnership whose interests may not be aligned with those of our stockholders.

We are structured as an "UPREIT," which stands for "umbrella partnership real estate investment trust." We use the UPREIT structure because a contribution of property directly to us is generally a taxable transaction to the contributing property owner. In the UPREIT structure, a contributor of a property who desires to defer taxable gain on the transfer of a property may transfer the property to our operating partnership in exchange for limited partnership units and defer taxation of gain until the contributor later exchanges his or her limited partnership units, typically on a one-for-one basis, for shares of our common stock. We believe that using an UPREIT structure gives us an advantage in acquiring desired properties from persons who may not otherwise sell their properties because of unfavorable tax results.

We may issue limited partner interests of our operating partnership in connection with certain transactions. Limited partners in our operating partnership have the right to vote on certain amendments to the operating partnership agreement, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of our stockholders. As general partner of our operating partnership, we are obligated to act in a manner that is in the best interest of all partners of our operating partnership. Circumstances may arise in the future when the interests of limited partners in our operating partnership may conflict with the interests of our stockholders. These conflicts may be resolved in a manner stockholders do not believe are in their best interest.

In addition, OP Holdings, the holder of special partnership units in our operating partnership, may be entitled to (1) certain cash payments upon the disposition of certain of our operating partnership's assets or (2) a one-time payment in the form of cash, a promissory note or shares of our common stock in conjunction with the redemption of the special units upon the occurrence of a listing of our shares on a national stock exchange or certain events that result in the termination or non-renewal of the advisory agreement. This potential obligation to make substantial payments to the holder of the special units may reduce our cash available for distribution to stockholders and limit the amount that stockholders will receive upon the consummation of a liquidity event.

Your investment return may be reduced if we are required to register as an investment company under the Investment Company Act; if we are subject to registration under the Investment Company Act, we will not be able to continue our business.

Neither we, our operating partnership nor any of our subsidiaries intend to register as an investment company under the Investment Company Act of 1940, as amended. Our operating partnership's and subsidiaries' intended investments in real estate will represent the substantial majority of our total asset mix. In order for us not to be subject to regulation under the Investment Company Act, we intend to engage, through our operating partnership and our wholly and majority owned subsidiaries, primarily in the business of buying real estate. These investments must be made within a year after our public offering ends.

We expect that most of our assets will be held through wholly-owned or majority-owned subsidiaries of our operating partnership. We expect that most of these subsidiaries will be outside the definition of an "investment company" under Section 3(a)(1) of the Investment Company Act as they are generally expected to hold at least 60% of their assets in real property. Section 3(a)(1)(A) of the Investment Company Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the Investment Company Act defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis, which we refer to as the "40% test." Excluded from the term "investment securities," among other things, are U.S. government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exception from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the Investment Company Act.

We believe that we, our operating partnership and most of the subsidiaries of our operating partnership will not fall within either definition of investment company under Section 3(a)(1) of the Investment Company Act as we intend to invest primarily in real property, through our wholly or majority-owned subsidiaries, the majority of which we expect to have at least 60% of their assets in real property. As these subsidiaries would be investing either solely or primarily in real property, they would be outside of the definition of "investment company" under Section 3(a)(1) of the Investment Company Act. We are organized as a holding company that conducts its businesses primarily through our operating partnership, which in turn is a holding company conducting its business through its subsidiaries. Both we and our operating partnership intend to conduct our operations so that we comply with the 40% test. We will monitor our holdings to ensure continuing and ongoing compliance with this test. In addition, we believe that neither we nor our operating partnership will be considered an investment company under Section 3(a)(1)(A) of the Investment Company Act because neither we nor our operating partnership will engage primarily or hold itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Rather, through our operating partnership's wholly owned or majority owned subsidiaries, we and our operating partnership will be primarily engaged in the non-investment company businesses of these subsidiaries.

In the event that the value of investment securities held by a subsidiary of our operating partnership were to exceed 40% of the value of its total assets, we expect that subsidiary to be able to rely on the exclusion from the definition of "investment company" provided by Section 3(c)(5)(C) of the Investment Company Act. Section 3(c)(5)(C), as interpreted by the staff of the SEC, requires each of our subsidiaries relying on this exception to invest at least 55% of its portfolio in "mortgage and other liens on and interests in real estate," which we refer to as "qualifying real estate assets," and maintain at least 80% of its assets in qualifying real estate assets or other real estate-related assets. The remaining 20% of the portfolio can consist of miscellaneous assets. What we buy and sell is therefore limited by these criteria. How we determine to classify our assets for purposes of the Investment Company Act will be based in large measure upon no-action letters issued by the SEC staff in the past and other SEC interpretive guidance and, in the absence of SEC guidance, on our view of what constitutes a qualifying real estate asset and a real estate-related asset. These no-action positions were issued in accordance with factual situations that may be substantially different from the factual situations we may face, and a number of these no-action positions were issued more than ten years ago. Pursuant to this guidance, and depending on the characteristics of the specific investments, certain mortgage loans, participations in mortgage loans, mortgage-backed securities, mezzanine loans, joint venture investments and the equity securities of other entities may not constitute qualifying real estate assets and therefore investments in these types of assets may be limited. No assurance can be given that the SEC staff will concur with our classification of our assets. Future revisions to the Investment Company Act or further guidance from the SEC staff may cause us to lose our exclusion from registration or force us to re-evaluate our portfolio and our investment strategy. Such changes may prevent us from operating our business successfully.

In the event that we, or our operating partnership, were to acquire assets that could make either entity fall within one of the definitions of an investment company under Section 3(a)(1) of the Investment Company Act, we believe that we would still qualify for an exclusion from registration pursuant to Section 3(c)(6) of the Investment Company Act. Although the SEC staff has issued little interpretive guidance with respect to Section 3(c)(6), we believe that we and our operating partnership may rely on Section 3(c)(6) if 55% of the assets of our operating partnership consist of, and at least 55% of the income of our operating partnership is derived from, qualifying real estate assets owned by wholly owned or majority-owned subsidiaries of our operating partnership.

To ensure that neither we, our operating partnership nor any of our subsidiaries are required to register as an investment company, each entity may be unable to sell assets that it would otherwise want to sell and may need to sell assets that it would otherwise wish to retain. In addition, we, our operating partnership or our subsidiaries may be required to acquire additional income- or loss-generating assets that we might not otherwise acquire or forego opportunities to acquire interests in companies that we would otherwise want to acquire. Although we, our operating partnership and our subsidiaries intend to monitor our portfolio periodically and prior to each acquisition and disposition, any of these entities may not be able to maintain an exclusion from registration as an investment company. If we, our operating partnership or our subsidiaries are required to register as an investment company but fail to do so, the unregistered entity would be prohibited from engaging in our business, and criminal and civil actions could be brought against such entity. In addition, the contracts of such entity would be unenforceable unless a court required enforcement, and a court could appoint a receiver to take control of the entity and liquidate its business.

Risks Related To Conflicts of Interest

We depend on our advisor and its key personnel and if any of such key personnel were to cease to be affiliated with our advisor, our business could suffer.

Our ability to make distributions and achieve our investment objectives is dependent upon the performance of our advisor in the acquisition, disposition and management of real estate assets, the selection of tenants for our real properties and the determination of any financing arrangements. In addition, our success depends to a significant degree upon the continued contributions of certain of the key personnel of our sponsor, including Brett C. Moody and Robert W. Engel, each of whom would be difficult to replace. We currently do not have key man life insurance on any of these key personnel. If our advisor were to lose the benefit of the experience, efforts and abilities of one or more of these individuals, our operating results could suffer.

We may compete with other Moody National affiliates for opportunities to acquire or sell investments, which may have an adverse impact on our operations.

We may compete with certain of our affiliates for opportunities to acquire or sell certain types of real estate assets. We may also buy or sell real estate assets at the same time as our affiliates are considering buying or selling similar assets. In this regard, there is a risk that our advisor will select for us a real estate asset that provides lower returns to us than real estate assets purchased by our affiliate. Certain of our affiliates own or manage real properties in geographical areas in which we expect to own real properties. Therefore, our real properties may compete with other real properties owned or managed by affiliates. Our advisor may face conflicts of interest when evaluating leasing opportunities for our real properties and other real properties owned or managed by affiliates, and these conflicts of interest may have a negative impact on our ability to attract and retain tenants. As a result of our potential competition with our affiliates, certain investment opportunities that would otherwise be available to us may not in fact be available. This competition may also result in conflicts of interest that are not resolved in our favor.

The time and resources that Moody National affiliates devote to us may be diverted to other investment activities, and we may face additional competition, due to the fact that Moody National affiliates are not prohibited from raising money for, or managing, another entity that makes the same types of investments that we target.

Moody National affiliates are not prohibited from raising money for, or managing, another investment entity, including those that make the same types of investments as those we target. As a result, the time and resources our sponsor and its affiliates could devote to us may be diverted to other investment activities. For example, on January 20, 2015, Moody II commenced its initial public offering of up to $1,100,000,000 in shares of its common stock. In addition, our advisor's management manages privately offered real estate programs sponsored by affiliates of our sponsor which have investment objectives generally similar to our company. We may compete with any such investment entity for the same investors and investment opportunities. We may also co-invest with any such investment entity. Even though all such co-investments will be subject to approval by our independent directors, they could be on terms not as favorable to us as those we could achieve co-investing with a third party.

Our advisor and its affiliates, including our officers and some of our directors, face conflicts of interest caused by compensation arrangements with us and other Moody National affiliates, which could result in actions that are not in the best interests of our stockholders.

Our advisor and its affiliates will receive substantial fees from us in return for their services and these fees could influence the advice provided to us. Among other matters, the compensation arrangements could affect their judgment with respect to:

- public offerings of equity by us, which allow our dealer manager to earn additional dealer manager fees and our advisor to earn increased acquisition fees and asset management fees;
- real estate acquisitions, which allow our advisor to earn acquisition fees upon purchases of assets and increased asset management fees;
- real estate asset sales, since the asset management fees payable to our advisor will decrease and since our advisor will be entitled to disposition fees upon sales; and

- the purchase of real estate assets from other Moody National affiliates, which may allow our advisor or its affiliates to earn additional asset management fees, property management fees and disposition fees.

Further, our advisor may recommend that we invest in a particular asset or pay a higher purchase price for the asset than it would otherwise recommend if it did not receive an acquisition fee or origination fee. Certain potential acquisition fees, origination fees and asset management fees payable to our advisor and property management and leasing fees payable to the property manager would be paid irrespective of the quality of the underlying real estate or property management services during the term of the related agreement. These fees may incentivize our advisor to recommend transactions with respect to the sale of a property or properties that may not be in our best interest at the time. Investments with higher net operating income growth potential are generally riskier or more speculative. In addition, the premature sale of an asset may add concentration risk to the portfolio or may be at a price lower than if we held on to the asset. Moreover, our advisor has considerable discretion with respect to the terms and timing of acquisition, disposition and leasing transactions. In evaluating investments and other management strategies, the opportunity to earn these fees may lead our advisor to place undue emphasis on criteria relating to its compensation at the expense of other criteria, such as the preservation of capital, to achieve higher short-term compensation. Considerations relating to our affiliates' compensation from us and other Moody National affiliates could result in decisions that are not in the best interests of our stockholders, which could impair our ability to pay you distributions or result in a decline in the value of your investment.

Our advisor may have conflicting fiduciary obligations if we acquire real estate assets from its affiliates or in joint ventures with its affiliates. As a result, in any such transaction we may not have the benefit of arm's-length negotiations of the type normally conducted between unrelated parties.

Our advisor may cause us to invest in a property owned by, or make an equity or debt-related investment in, one of its affiliates or through a joint venture with its affiliates. For example, we owned our interest in a note secured by a Hyatt Place hotel property in Grapevine, Texas, or the "Hyatt Place note," through a joint venture between a wholly owned subsidiary of our operating partnership and an affiliated entity controlled by Brett C. Moody, our Chairman of the Board and Chief Executive Officer. In these circumstances, our advisor will have a conflict of interest when fulfilling its fiduciary obligation to us. In any such transaction, we would not have the benefit of arm's-length negotiations of the type normally conducted between unrelated parties.

We may dispose of assets to our advisor, sponsor or their affiliates, which could cause us to enter into transactions on less favorable terms than we would receive from a third party.

We may dispose of assets to our advisor, sponsor or their affiliates. Our advisor, sponsor or their affiliates may make substantial profits in connection with such transactions. Because our independent directors would rely on our advisor in identifying and evaluating any such transaction, these conflicts could result in transactions based on terms that are less favorable to us than we would receive from a third party.

The fees we pay to affiliates were not determined on an arm's-length basis; therefore, we do not have the benefit of arm's-length negotiations of the type normally conducted between unrelated parties.

The fees to be paid to our advisor, our property manager, our dealer manager and other affiliates for services they provide for us were not determined on an arm's-length basis. As a result, the fees have been determined without the benefit of arm's-length negotiations of the type normally conducted between unrelated parties and could be in excess of amounts that we would otherwise pay to third parties for such services.

We may purchase real estate assets from third parties who have existing or previous business relationships with affiliates of our advisor, and, as a result, in any such transaction, we may not have the benefit of arm's-length negotiations of the type normally conducted between unrelated parties.

We may purchase assets from third parties that have existing or previous business relationships with affiliates of our advisor. The officers, directors or employees of our advisor and its affiliates and the principals of our advisor who also perform services for our affiliates may have a conflict in representing our interests in these transactions on the one hand and the interests of such affiliates in preserving or furthering their respective relationships on the other hand. In any such transaction, we will not have the benefit of arm's-length negotiations of the type normally conducted between unrelated parties, and the purchase price or fees paid by us may be in excess of amounts that we would otherwise pay to third parties.

Risks Related To Investments in Real Estate

Disruptions in the financial markets and deteriorating economic conditions could have a material adverse impact on our business.

We believe the risks associated with our business are more severe during market downturns. For example, a prolonged market downturn could negatively impact our real estate investments as a result of decreased demand for hotel rooms, increased tenant delinquencies or defaults under our leases. In addition, lower demand for rentable space and oversupply of rentable space could lead to increased rent concessions, higher tenant improvement expenditures or reduced rental rates in order to maintain occupancies. Because we expect that some of our debt-related investments could consist of loans secured by real property, these same factors could also negatively affect the underlying borrowers and collateral of our investments. Our operations could be negatively affected to a greater extent if a market downturn is prolonged or becomes more severe, which would significantly harm our business, results of operations, cash flows and financial condition, our ability to make distributions to you and the value of your investment.

Changes in national, regional or local economic, demographic or real estate market conditions may adversely affect our results of operations and returns to our stockholders.

We are subject to risks generally attributable to the ownership of real estate assets, including: changes in national, regional or local economic, demographic or real estate market conditions; changes in supply of or demand for similar properties in an area; increased competition for real estate assets targeted by our investment strategy; bankruptcies, financial difficulties or lease defaults by our tenants; changes in interest rates and availability of financing; and changes in government rules, regulations and fiscal policies, including changes in tax, real estate, environmental and zoning laws.

Changes in supply of, or demand for, similar real properties in a particular area may increase the price of real properties we seek to purchase and decrease the price of real properties when we seek to sell them.

The real estate industry is subject to market forces. We are unable to predict certain market changes including changes in supply of, or demand for, similar real properties in a particular area. Any potential purchase of an overpriced asset could decrease our rate of return on these investments and result in lower operating results and overall returns to our stockholders.

Delays in the acquisition, development and construction of real properties may have adverse effects on our results of operations and returns to our stockholders.

Delays we encounter in the selection, acquisition and development of real properties could adversely affect your returns. Where properties are acquired prior to the start of construction or during the early stages of construction, it will typically take several months to complete construction and rent available space. Therefore, you could suffer delays in receiving cash distributions attributable to those particular real properties. Delays in completion of construction could give tenants the right to terminate preconstruction leases for space at a newly developed project. We may incur additional risks when we make periodic progress payments or other advances to builders prior to completion of construction. Each of those factors could result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects. Furthermore, the price we agree to pay for a real property will be based on our projections of rental income and expenses and estimates of the fair market value of real property upon completion of construction. If our projections are inaccurate, we may pay too much for a property.

Real properties are illiquid investments, and we may be unable to adjust our portfolio in response to changes in economic or other conditions or sell a property if or when we decide to do so.

Real properties are illiquid investments. We may be unable to adjust our portfolio in response to changes in economic or other conditions. In addition, the real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any real property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a real property. Additionally, we may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct such defects or to make such improvements.

In acquiring a real property, we may agree to restrictions that prohibit the sale of that real property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that real property. All these provisions would restrict our ability to sell a property, which could reduce the amount of cash available for distribution to our stockholders.

Our operating expenses may increase in the future and, to the extent such increases cannot be passed on to tenants, our cash flow and our operating results would decrease.

Operating expenses, such as expenses for fuel, utilities, labor and insurance, are not fixed and may increase in the future. There is no guarantee that we will be able to pass such increases on to our tenants. To the extent such increases cannot be passed on to tenants, any such increase would cause our cash flow and our operating results to decrease.

A market downturn or rise in interest rates could adversely impact occupancy, rental rates and our ability to collect rent from our tenants.

A market downturn may significantly affect occupancy, rental rates and our ability to collect rent from our tenants. For example, a market downturn or rise in interest rates could make it more difficult for us to lease real properties, may require us to lease the real properties we acquire at lower rental rates and may lead to an increase in tenant defaults. In addition, these conditions may also make it more difficult for us to dispose of these properties. Each of these events could have a material adverse impact on our cash flows, operating results and carrying value of investment property.

Our real properties will be subject to property taxes that may increase in the future, which could adversely affect our cash flow.

Our real properties are subject to real and personal property taxes that may increase as tax rates change and as the real properties are assessed or reassessed by taxing authorities. We anticipate that certain of our leases will generally provide that the property taxes, or increases therein, are charged to the lessees as an expense related to the real properties that they occupy, while other leases will generally provide that we are responsible for such taxes. In any case, as the owner of the properties, we are ultimately responsible for payment of the taxes to the applicable government authorities. If real property taxes increase, our tenants may be unable to make the required tax payments, ultimately requiring us to pay the taxes even if otherwise stated under the terms of the lease. If we fail to pay any such taxes, the applicable taxing authority may place a lien on the real property and the real property may be subject to a tax sale. We will also generally be responsible for real property taxes related to any vacant space. Additionally, some states may impose an entity level tax directly on us. For example, we could be subject to an entity level tax under amendments to the margins tax in the state of Texas. Such an entity level tax could adversely affect our cash flow.

Uninsured losses or premiums for insurance coverage relating to real property may adversely affect your returns.

There are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, floods, hurricanes, pollution or environmental matters that are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Risks associated with potential acts of terrorism could sharply increase the premiums we pay for coverage against property and casualty claims. Additionally, mortgage lenders sometimes require commercial property owners to purchase specific coverage against terrorism as a condition for providing mortgage loans. These policies may not be available at a reasonable cost, if at all, which could inhibit our ability to finance or refinance our real properties. In such instances, we may be required to provide other financial support, either through financial assurances or self-insurance, to cover potential losses. Changes in the cost or availability of insurance could expose us to uninsured casualty losses. In the event that any of our real properties incurs a casualty loss which is not fully covered by insurance, the value of our assets will be reduced by any such uninsured loss. In addition, we cannot assure you that funding will be available to us for repair or reconstruction of damaged real property in the future.

We compete with numerous other parties or entities for real estate assets and may not compete successfully.

We will compete with numerous other persons or entities seeking to buy real estate assets or to attract tenants to real properties we acquire. These persons or entities may have greater experience and financial strength than us. There is no assurance that we will be able to acquire real estate assets or attract tenants on favorable terms, if at all. For example, our competitors may be willing to offer space at rental rates below our rates, causing us to lose existing or potential tenants and pressuring us to reduce our rental rates to retain existing tenants or convince new tenants to lease space at our properties. Each of these factors could adversely affect our results of operations, financial condition, value of our investments and ability to pay distributions to you.

Our ability to make distributions to our stockholders will depend upon the ability of hotel managers to operate our hotels effectively.

We currently own interests in twelve hotel properties and two notes receivable from related parties. To qualify as a REIT, we cannot operate any hotel or directly participate in the decisions affecting the daily operations of any hotel. Our unaffiliated third-party hotel managers for our current hotel properties and for any other hotel properties we acquire will have direct control of the daily operations of our hotels. We will not have the authority to directly control any particular aspect of the daily operations (*e.g.*, setting room rates) of any hotel that we acquire an interest in. Thus, even if we believe that a hotel is being operated in an inefficient or less than optimal manner, we will not be able to require a change to the method of its operation. Our only alternative for changing the operation of a hotel will be to replace the third-party manager in the situation where the applicable hotel management agreement permits us to do so.

Our ability to make distributions to stockholders will be impacted by the performance of our third-party hotel managers in generating sufficient revenues from our hotels in excess of operating expenses. The hotel managers will be affected by factors beyond their control, such as changes in the level of demand for rooms and related services of the hotels, their ability to maintain and increase gross revenues and operating margins at the hotels and other factors. Therefore, any operating difficulties or other factors affecting the hotel managers' ability to maintain and increase gross revenues and operating margins at our hotels could significantly adversely affect our financial condition and results of operations.

Competition in the hospitality industry and with third parties in acquiring properties may reduce our profitability and the return on your investment.

The hospitality industry is generally characterized as being intensely competitive. Our current hotel properties and any additional hotels in which we invest will compete with existing and new hotels in their geographic markets, including with independent hotels, hotels which are part of local or regional chains and hotels in other well-known national chains, including those offering different types of accommodations and services. The principal competitive factors that will affect the hotel properties in which we seek to invest include, but are not limited to, brand recognition, location, range of services and guest amenities and the quality and price of the hotel rooms and services provided. Any one of the foregoing could impact our profitability and ability to pay distributions.

If we decide to invest in additional hotel properties, we expect to face significant competition for attractive hotel investment opportunities from other major real estate investors with significant capital, including both publicly traded REITs and private institutional investment funds. Because of competition from other well-capitalized real estate investors, we can provide no assurance that we will be able to acquire desired hotel properties. Where it is possible to acquire desired hotel properties, we can provide no assurance that we will be able to do so on favorable terms or that such properties will meet our return expectations or conform to our investment criteria. The competition to acquire attractive hotel investment opportunities could have an adverse effect on our financial condition and ability to pay distributions.

If we do not successfully attract and retain franchise flagships for hotel properties, our business will suffer, and this result will reduce the value of your investment.

We must continue to attract and retain well-known hospitality franchises for our current hotel properties and any additional hotels in which we invest to make such investments profitable. Certain hospitality franchises, including limited-service hotels, impose radius restrictions that limit the number of their hotels allowed within a certain distance of one another. Hospitality franchises also generally require that design and quality standards be met for guest room and common areas before a hospitality franchise will agree to provide the franchise agreement to operate a property. Compliance with these brand standards may impose significant costs upon us. If we are not able to attract and retain franchise flagships for our hotel properties because of location restrictions, the high cost of complying with design and quality standards, or any other reason, our business will suffer, and this result will reduce the value of your investment.

The hospitality industry is subject to unique, unforeseeable risks that may negatively impact our business and the value of your investment.

The hospitality industry is subject to unique, unforeseeable risks, such as natural disasters, pandemics and threats of pandemics, acts of terror and other catastrophes. We have no control over events of this type and they could have a substantial impact on the hospitality industry and our business. Because we are unable to control the timing, duration or magnitude of these unforeseen events, the negative impact upon our business could be great.

In cases in which one of our tenants is required to pay rent based on a percentage of the tenant's income from its operations at the real property, the actual rental income we receive under such a lease may be inadequate to cover the operating expenses associated with the real property.

Lease payments due under leases for any retail properties we acquire may be based in part on the income of the retail tenant. In such cases where the tenant is required to pay rent based on a percentage of the tenant's income from its operations at the real property, the actual rental income we receive under such a lease may be inadequate to cover the operating expenses associated with the real property if a tenant's income is substantially lower than projected. In such case, we may not have access to funds required in the future to pay the operating expenses associated with the real property.

Real property that incurs a vacancy could be difficult to sell or re-lease.

We may invest in retail, office or industrial properties, which may incur a vacancy either by the continued default of a tenant under its lease or the expiration of one of our leases. In addition, certain of the real properties we acquire may have some level of vacancy at the time of closing. Certain other real properties may be specifically suited to the particular needs of a tenant and may become vacant. Therefore, we may have difficulty obtaining a new tenant for any vacant space we have in our real properties. If the vacancy continues for a long period of time, we may suffer reduced revenues resulting in lower cash distributions to stockholders. In addition, the resale value of the real property could be diminished because the market value may depend principally upon the value of the leases of such real property.

We are dependent on tenants for revenue and our inability to lease our properties or to collect rent from our tenants may adversely affect our results of operations and returns to our stockholders.

We may invest in retail, office or industrial properties, which may be occupied by a single tenant. As a result, the success of such properties will depend on the financial stability of a single tenant. Lease payment defaults by such tenants could cause us to reduce the amount of distributions to stockholders and could force us to find an alternative source of revenue to pay any mortgage loan on the property. In the event of such a tenant default, we may also experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-letting our property. If a lease is terminated, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss.

We may not have funding for future tenant improvements, which may adversely affect the value of our properties, our results of operations and returns to our stockholders.

We may invest in retail, office or industrial properties with one or more tenants. When a tenant at such a property does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, to attract one or more new tenants, we will be required to expend substantial funds to construct new tenant improvements in the vacated space. We did not establish a general working capital reserve out of the proceeds from our public offerings. We do not currently have an identified funding source to provide funds which may be required in the future for tenant improvements and tenant refurbishments to attract new tenants. If we do not establish sufficient reserves for working capital or obtain adequate secured financing to supply necessary funds for capital improvements or similar expenses, we may be required to defer necessary or desirable improvements to our real properties. If we defer such improvements, the applicable real properties may decline in value, and it may be more difficult for us to attract or retain tenants to such real properties or the amount of rent we can charge at such real properties may decrease. We cannot assure you that we will have any sources of funding available to us for repair or reconstruction of damaged real property in the future.

Long-term leases may not result in fair market lease rates over time; therefore, our income and our distributions to our stockholders could be lower than if we did not enter into long-term leases.

We may enter into long-term leases with tenants of certain of our properties. Our long-term leases would likely provide for rent to increase over time. However, if we do not accurately judge the potential for increases in market rental rates, we may set the terms of these long-term leases at levels such that even after contractual rental increases the rent under our long-term leases is less than then-current market rental rates. Further, we may have no ability to terminate those leases or to adjust the rent to then-prevailing market rates. As a result, our income and distributions to our stockholders could be lower than if we did not enter into long-term leases.

Actions of joint venture partners could negatively impact our performance.

We may enter into joint ventures with third parties, including with entities that are affiliated with our advisor. For example, we owned our interest in the Hyatt Place note through a joint venture between a wholly owned subsidiary of our operating partnership and an affiliated entity controlled by Brett C. Moody, our Chairman of the Board and Chief Executive Officer. We may also purchase and develop properties in joint ventures or in partnerships, co-tenancies or other co-ownership arrangements with the sellers of the properties, affiliates of the sellers, developers or other persons. Such investments may involve risks not otherwise present with a direct investment in real estate, including, for example:

- the possibility that our venture partner or co-tenant in an investment might become bankrupt;
- that the venture partner or co-tenant may at any time have economic or business interests or goals which are, or which become, inconsistent with our business interests or goals;
- that such venture partner or co-tenant may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives;
- the possibility that we may incur liabilities as a result of an action taken by such venture partner;
- that disputes between us and a venture partner may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business;
- the possibility that if we have a right of first refusal or buy/sell right to buy out a co-venturer, co-owner or partner, we may be unable to finance such a buy-out if it becomes exercisable or we may be required to purchase such interest at a time when it would not otherwise be in our best interest to do so; or
- the possibility that we may not be able to sell our interest in the joint venture if we desire to exit the joint venture.

Under certain joint venture arrangements neither venture partner may have the power to control the venture, and an impasse could be reached, which might have a negative influence on the joint venture and decrease potential returns to you. In addition, to the extent that our venture partner or co-tenant is an affiliate of our advisor, certain conflicts of interest will exist.

Costs of complying with governmental laws and regulations related to environmental protection and human health and safety may be high.

All real property investments and the operations conducted in connection with such investments are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on customers, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal.

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such real property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may adversely affect our ability to sell, rent or pledge such real property as collateral for future borrowings. Environmental laws also may impose restrictions on the manner in which real property may be used or businesses may be operated. Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. Additionally, our tenants' operations, the existing condition of land when we buy it, operations in the vicinity of our real properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our real properties. There are also various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply and which may subject us to liability in the form of fines or damages for noncompliance. In connection with the acquisition and ownership of our real properties, we may be exposed to such costs in connection with such regulations. The cost of defending against environmental claims, of any damages or fines we must pay, of compliance with environmental regulatory requirements or of remediating any contaminated real property could materially and adversely affect our business, lower the value of our assets or results of operations and, consequently, lower the amounts available for distribution to you.

The costs associated with complying with the Americans with Disabilities Act may reduce the amount of cash available for distribution to our stockholders.

Investment in real properties may also be subject to the Americans with Disabilities Act of 1990, as amended, or the ADA. Under the ADA, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The ADA has separate compliance requirements for "public accommodations" and "commercial facilities" that generally require that buildings and services be made accessible and available to people with disabilities. With respect to the properties we acquire, the ADA's requirements could require us to remove access barriers and could result in the imposition of injunctive relief, monetary penalties or, in some cases, an award of damages. We cannot assure you that we will be able to acquire properties which comply with the ADA or allocate the responsibility for compliance with the ADA to another third party, such as the seller or the tenant of the property. Any monies we use to comply with the ADA will reduce the amount of cash available for distribution to our stockholders.

Real property investments made outside of the United States will be subject to currency rate exposure and risks associated with the uncertainty of foreign laws and markets.

We may acquire properties in Canada to the extent that opportunities exist that may help us meet our investment objectives. International investments and operations generally are subject to various political and other risks that are different from and in addition to those for U.S. investments and operations. To the extent that we invest in real property located outside of the United States, in addition to risks inherent in the investment in real estate generally discussed in this Annual Report, we will also be subject to fluctuations in foreign currency exchange rates and the uncertainty of foreign laws and markets including, but not limited to, unexpected changes in regulatory requirements such as the enactment of laws prohibiting or restricting the foreign ownership of property, political and economic instability in certain geographic locations, difficulties in managing international operations, potentially adverse tax consequences, laws restricting us from removing profits earned from activities within the country to the United States, including the payment of distributions, additional accounting and control expenses and the administrative burden associated with complying with a wide variety of foreign laws. Changes in foreign currency exchange rates may adversely impact the fair values and earnings streams of our international holdings and thus the returns on our non-dollar denominated investments. Although we may hedge our foreign currency risk subject to the REIT income qualification tests, we may not be able to do so successfully and may incur losses on these investments as a result of exchange rate fluctuations.

Risks Associated with Real Estate Securities and Debt-Related Investments

Disruptions in the financial markets and deteriorating economic conditions could adversely impact the commercial mortgage market as well as the market for debt-related investments generally, which could hinder our ability to implement our business strategy and generate returns for our stockholders.

As part of our investment strategy, we may acquire real estate-related loans, real estate-related debt securities and other real estate-related investments. The returns available to investors on these investments are determined by: (1) the supply and demand for such investments and (2) the existence of a market for such investments, which includes the ability to sell or finance such investments. During periods of volatility, the number of investors participating in the market may change at an accelerated pace. As liquidity or "demand" increases, the returns available to investors will decrease. Conversely, a lack of liquidity will cause the returns available to investors to increase.

A borrower's failure to pay principal and interest payments on mortgage loans that we own could adversely affect our business.

Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect both our net interest income from loans in our portfolio as well as our ability to sell loans, which would significantly harm our revenues, results of operations, financial condition, business prospects and our ability to make distributions to you.

Our mortgage loans may be affected by unfavorable real estate market conditions, which could decrease the value of those loans and the return on your investment.

We are at risk of defaults by the borrowers on our mortgage loans. These defaults may be caused by many conditions beyond our control, including interest rate levels and local and other economic conditions affecting real estate values. We will not know whether the values of the properties securing our mortgage loans will remain at the levels existing on the dates of origination of those mortgage loans. If the values of the underlying properties drop, our risk will increase because of the lower value of the security associated with such loans.

To the extent we make or invest in mortgage loans, our mortgage loans will be subject to interest rate fluctuations that could reduce our returns as compared to market interest rates and reduce the value of the mortgage loans in the event we sell them; accordingly, the value of your investment would be subject to fluctuations in interest rates.

To the extent we invest in fixed-rate, long-term mortgage loans and market interest rates rise, the mortgage loans could yield a return that is lower than then-current market rates, which would lower the proceeds we would receive in the event we sell such assets. If market interest rates decrease, we will be adversely affected to the extent that mortgage loans are prepaid because we may not be able to make new loans at the higher interest rate. To the extent we invest in variable-rate loans and interest rates decrease, our revenues will also decrease. Finally, to the extent we invest in variable-rate loans and interest rates increase, the value of the loans we own at such time would decrease, which would lower the proceeds we would receive in the event we sell such assets. For these reasons, if we invest in mortgage loans, our returns on those loans and the value of your investment will be subject to fluctuations in market interest rates. Our previous mortgage loan investment, the Hyatt Place note, accrued interest at a variable rate.

The CMBS and CDOs in which we may invest are subject to several types of risks.

Commercial mortgage-backed securities, or CMBS, are bonds which evidence interests in, or are secured by, a single commercial mortgage loan or a pool of commercial mortgage loans. Collateralized debt obligations, or CDOs, are a type of debt obligation that are backed by commercial real estate assets, such as CMBS, commercial mortgage loans, B-notes, or mezzanine paper. Accordingly, the mortgage backed securities we may invest in are subject to all the risks of the underlying mortgage loans.

In a rising interest rate environment, the value of CMBS and CDOs may be adversely affected when payments on underlying mortgages do not occur as anticipated, resulting in the extension of the security's effective maturity and the related increase in interest rate sensitivity of a longer-term instrument. The value of CMBS and CDOs may also change due to shifts in the market's perception of issuers and regulatory or tax changes adversely affecting the mortgage securities markets as a whole. In addition, CMBS and CDOs are subject to the credit risk associated with the performance of the underlying mortgage properties. In certain instances, third party guarantees or other forms of credit support can reduce the credit risk.

CMBS and CDOs are also subject to several risks created through the securitization process. Subordinate CMBS and CDOs are paid interest only to the extent that there are funds available to make payments. To the extent the collateral pool includes a large percentage of delinquent loans, there is a risk that interest payment on subordinate CMBS and CDOs will not be fully paid. Subordinate securities of CMBS and CDOs are also subject to greater credit risk than those CMBS and CDOs that are more highly rated.

The mezzanine loans in which we may invest would involve greater risks of loss than senior loans secured by income-producing real properties.

We may invest in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying real property or loans secured by a pledge of the ownership interests of the entity owning the real property, the entity that owns the interest in the entity owning the real property or other assets. These types of investments involve a higher degree of risk than long-term senior mortgage lending secured by income-producing real property because the investment may become unsecured as a result of foreclosure by the senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to satisfy our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan-to-value ratios than conventional mortgage loans, resulting in less equity in the real property and increasing the risk of loss of principal.

We may make investments in non-U.S. dollar denominated securities, which will be subject to currency rate exposure and risks associated with the uncertainty of foreign laws and markets.

Some of our real estate securities investments may be denominated in foreign currencies and, therefore, we expect to have currency risk exposure to any such foreign currencies. A change in foreign currency exchange rates may have an adverse impact on returns on our non-U.S. dollar denominated investments. Although we may hedge our foreign currency risk subject to the REIT income qualification tests, we may not be able to do so successfully and may incur losses on these investments as a result of exchange rate fluctuations. To the extent that we invest in non-U.S. dollar denominated securities, in addition to risks inherent in the investment in securities generally discussed in this Annual Report, we will also be subject to risks associated with the uncertainty of foreign laws and markets including, but not limited to, unexpected changes in regulatory requirements, political and economic instability in certain geographic locations, difficulties in managing international operations, potentially adverse tax consequences, additional accounting and control expenses and the administrative burden of complying with a wide variety of foreign laws.

Risks Associated With Debt Financing

We have incurred, and plan to incur in the future, mortgage indebtedness and other borrowings, which may increase our business risks, could hinder our ability to make distributions and could decrease the value of your investment.

We have incurred, and plan to incur in the future, financing that is secured by our real estate assets. Under our charter, we have a limitation on borrowing which precludes us from borrowing in excess of 300% of the value of our net assets. "Net assets" for purposes of this calculation is defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation or other non-cash reserves, less total liabilities. Generally speaking, the preceding calculation is expected to approximate 75% of the aggregate cost of our real estate assets before non-cash reserves and depreciation. We may temporarily borrow in excess of these amounts if such excess is approved by a majority of the independent directors and is disclosed to stockholders in our next quarterly report, along with a justification for such excess. As of December 31, 2016, our debt-to-net-asset ratio did not exceed 300%. In addition, we may incur mortgage debt and pledge some or all of our real estate assets as security for that debt to obtain funds to acquire additional real estate assets or for working capital. We may also borrow funds as necessary or advisable to ensure we maintain our REIT tax qualification, including the requirement that we distribute at least 90% of our annual REIT taxable income to our stockholders (computed without regard to the distribution paid deduction and excluding net capital gains). Furthermore, we may borrow if we otherwise deem it necessary or advisable to ensure that we maintain our qualification as a REIT for federal income tax purposes.

High debt levels will cause us to incur higher interest charges, which would result in higher debt service payments and could be accompanied by restrictive covenants. If there is a shortfall between the cash flow from a property and the cash flow needed to service mortgage debt on that property, then the amount available for distributions to stockholders may be reduced. In addition, incurring mortgage debt increases the risk of loss since defaults on indebtedness secured by a property may result in lenders initiating foreclosure actions. In that case, we could lose the property securing the loan that is in default, thus reducing the value of your investment. For tax purposes, a foreclosure on any of our properties will be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we will recognize taxable income on foreclosure, but we would not receive any cash proceeds. If any mortgage contains cross collateralization or cross default provisions, a default on a single property could affect multiple properties. If any of our properties are foreclosed upon due to a default, our ability to pay cash distributions to our stockholders will be adversely affected.

Disruptions in the financial markets and deteriorating economic conditions could also adversely affect our ability to secure debt financing on attractive terms and the values of investments we make.

We have, and expect in the future to continue to, finance our investments in part with debt. We may not be able to obtain debt financing on attractive terms or at all. If we are unable to obtain debt financing on attractive terms, we may be forced to use a greater proportion of our offering proceeds to finance our acquisitions and originations, which may reduce the number of investments we would otherwise make. If we are unable to obtain debt financing on attractive terms, we may modify our investment strategy in order to optimize our portfolio performance. Our options would include limiting or eliminating the use of debt and focusing on those investments that do not require the use of leverage to meet our portfolio goals.

Instability in the debt markets may make it more difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make to our stockholders.

If mortgage debt is unavailable on reasonable terms as a result of increased interest rates or other factors, we may not be able to finance the initial purchase of properties. In addition, if we place mortgage debt on properties, we run the risk of being unable to refinance such debt when the loans come due, or of being unable to refinance on favorable terms. If interest rates are higher when we refinance debt, our income could be reduced. We may be unable to refinance debt at appropriate times, which may require us to sell properties on terms that are not advantageous to us, or could result in the foreclosure of such properties. If any of these events occur, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to you and may hinder our ability to raise more capital by issuing securities or by borrowing more money.

Increases in interest rates could increase the amount of our debt payments and negatively impact our operating results.

Interest we pay on our debt obligations will reduce cash available for distributions. If we incur variable rate debt, increases in interest rates would increase our interest costs, which would reduce our cash flows and our ability to make distributions to you. If we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments at times which may not permit realization of the maximum return on such investments.

Lenders may require us to enter into restrictive covenants relating to our operations, which could limit our ability to make distributions to our stockholders.

When providing financing, a lender may impose restrictions on us that affect our distribution and operating policies and our ability to incur additional debt. Loan documents we enter into may contain covenants that limit our ability to further mortgage a property, discontinue insurance coverage, or replace Moody National Advisor I, LLC as our advisor. In addition, loan documents may limit our ability to replace a property's property manager or terminate certain operating or lease agreements related to a property. These or other limitations may adversely affect our flexibility and our ability to achieve our investment objectives.

Our derivative financial instruments that we may use to hedge against interest rate fluctuations may not be successful in mitigating our risks associated with interest rates and could reduce the overall returns on your investment.

We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our real estate assets, but no hedging strategy can protect us completely. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses. In addition, the use of such instruments may reduce the overall return on our investments. These instruments may also generate income that may not be treated as qualifying REIT income for purposes of the 75% or 95% REIT income test.

Federal Income Tax Risks

Failure to qualify as a REIT could adversely affect our operations and our ability to make distributions.

We made an election to be taxed as a REIT for federal income tax purposes commencing with the taxable year ended December 31, 2011. Our qualification as a REIT depends on our satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex provisions of the Internal Revenue Code for which there are only limited judicial or administrative interpretations and involve the determination of various factual matters and circumstances not entirely within our control. The complexity of these provisions and of the applicable income tax regulations that have been promulgated under the Internal Revenue Code is greater in the case of a REIT that holds its assets through a partnership, as we do. Moreover, no assurance can be given that legislation, new regulations, administrative interpretations or court decisions will not change the tax laws with respect to qualification as a REIT or the federal income tax consequences of that qualification.

If we were to fail to qualify as a REIT for any taxable year, we would be subject to federal income tax on our taxable income at corporate rates. In addition, if we lose our REIT status we would generally be disqualified from treatment as a REIT for the four taxable years following the year in which we lose our REIT status. Losing our REIT status would reduce our net earnings available for investment or distribution to stockholders because of the additional tax liability. In addition, distributions to stockholders would no longer be deductible in computing our taxable income and we would no longer be required to make distributions. To the extent that distributions had been made in anticipation of our qualifying as a REIT, we might be required to borrow funds or liquidate some investments to pay the applicable corporate income tax. In addition, although we intend to operate in a manner intended to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our board of directors to recommend that we revoke our REIT election.

We believe that our operating partnership will be treated for federal income tax purposes as a partnership and not as an association or as a publicly traded partnership taxable as a corporation. If the Internal Revenue Service were successfully to determine that our operating partnership should properly be treated as a corporation, our operating partnership would be required to pay federal income tax at corporate rates on its net income. In addition, we would fail to qualify as a REIT, with the resulting consequences described above.

Legislative, regulatory or administrative changes could adversely affect us of our customers.

Legislative, regulatory or administrative changes could be enacted or promulgated at any time, either prospectively or with retroactive effect, and may adversely affect us and/or our customers.

President Trump, the House leadership and the Senate leadership all have expressed interest in passing comprehensive tax reform this year. While certain aspects of tax reform proposals have been described, proposed legislation has not yet been introduced by the leaders of the House Ways and Means Committee or the Senate Finance Committee. None of the descriptions of tax reform proposals have specifically addressed the treatment of REITs. Moreover, there is not yet agreement between the President, the House leadership and the Senate leadership about the specifics of tax reform. To date, the focus of the House plan differs significantly from the Senate plan. Accordingly, there is no assurance that comprehensive tax reform will be enacted, when any such legislation might be enacted, what specific measures will be included in any enacted tax reform language, or whether tax reform would adversely affect us, our shareholders or our customers.

All of the tax reform proposals share a desire to reduce maximum corporate income tax rates and reform U.S. taxation of income earned outside the United States. Lower corporate rates would be at least partially paid for by reducing or eliminating various tax benefits. Given that the same tax benefits generally apply to businesses conducted through non-corporate structures, there is also pressure on reducing the tax rates applicable to non-corporate businesses. Some of the tax benefits identified as possibly being eliminated or reduced include various tax benefits that have been important to the real estate industry, including REITs, such as eliminating the like-kind exchange rules or the deduction of net interest expense. Loss of a deduction for net interest expense would substantially increase our REIT taxable income and, absent amendments to the REIT rules, our distribution obligations. In addition, it is possible that substantially reduced corporate tax rates or Senate interest in integrating taxation of shareholders and corporations could reduce or eliminate the relative attractiveness of REITs as a vehicle for owning real estate.

We urge you to consult with your own tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in shares of our common stock.

To qualify as a REIT we must meet annual distribution requirements, which may result in us distributing amounts that may otherwise be used for our operations.

To obtain the favorable tax treatment accorded to REITs, we will be required each year to distribute to our stockholders at least 90% of our real estate investment trust taxable income, determined without regard to the dividends-paid deduction and by excluding net capital gains. We will be subject to federal income tax on our undistributed taxable income and net capital gain and to a 4% nondeductible excise tax on any amount by which distributions we pay with respect to any calendar year are less than the sum of (1) 85% of our ordinary income, (2) 95% of our capital gain net income and (3) 100% of our undistributed income from prior years. These requirements could cause us to distribute amounts that otherwise would be spent on investments in real estate assets and it is possible that we might be required to borrow funds or sell assets to fund these distributions. If we fund distributions through borrowings, then we will have to repay debt using money we could have otherwise used to acquire properties resulting in our ownership of fewer real estate assets. If we sell assets or use offering proceeds to pay distributions, we also will have fewer investments. Fewer investments may impact our ability to generate future cash flows from operations and, therefore, reduce your overall return. Although we intend to make distributions sufficient to meet the annual distribution requirements and to avoid corporate income taxation on the earnings that we distribute, it is possible that we might not always be able to do so.

Our ownership of our TRSs will be subject to limitations and our transactions with our TRSs will cause us to be subject to a 100% penalty tax on certain income or deductions if those transactions are not conducted on arm's-length terms.

Overall, no more than 25% (20% after 2017) of the value of a REIT's assets may consist of stock or securities of one or more TRSs. In addition, the Internal Revenue Code limits the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The Internal Revenue Code also imposes a 100% excise tax on certain transactions between a TRS and its parent REIT that are not conducted on an arm's-length basis. The 100% tax would apply, for example, to the extent that we were found to have charged our TRS lessees rent in excess of an arm's-length rent. We will monitor the value of our respective investments in our TRSs for the purpose of ensuring compliance with TRS ownership limitations and will structure our transactions with our TRSs on terms that we believe are arm's-length to avoid incurring the 100% excise tax described above. There can be no assurance, however, that we will be able to comply with the TRS asset test limitation or to avoid application of the 100% excise tax.

If the leases of our hotels to the TRS lessees are not respected as true leases for U.S. federal income tax purposes, we will fail to qualify as a REIT.

To qualify as a REIT, we must annually satisfy two gross income tests, under which specified percentages of our gross income must be derived from certain sources, such as "rents from real property." Rents paid to our operating partnership by TRS lessees pursuant to the leases of our hotels will constitute substantially all of our gross income. In order for such rent to qualify as "rents from real property" for purposes of the gross income tests, the leases must be respected as true leases for U.S. federal income tax purposes and not be treated as service contracts, financing arrangements, joint ventures or some other type of arrangement. If our leases are not respected as true leases for U.S. federal income tax purposes, we will fail to qualify as a REIT.

If any hotel managers that we may engage do not qualify as "eligible independent contractors," or if our hotels are not "qualified lodging facilities," we will fail to qualify as a REIT.

Rent paid by a lessee that is a "related party tenant" of ours will not be qualifying income for purposes of the two gross income tests applicable to REITs. An exception is provided, however, for leases of "qualified lodging facilities" to a TRS so long as the hotels are managed by an "eligible independent contractor" and certain other requirements are satisfied. We expect to lease all or substantially all of our hotels to TRS lessees, which are disregarded subsidiaries of corporations that are intended to qualify as TRSs, and to engage hotel managers that are intended to qualify as "eligible independent contractors." Among other requirements, in order to qualify as an eligible independent contractor, the hotel manager must not own, directly or through its stockholders, more than 35% of our outstanding stock, and no person or group of persons can own more than 35% of our outstanding stock and the stock (or ownership interest) of the hotel manager, taking into account certain ownership attribution rules. The ownership attribution rules that apply for purposes of these 35% thresholds are complex, and monitoring actual and constructive ownership of our stock by our hotel managers and their owners may not be practical. Accordingly, there can be no assurance that these ownership levels will not be exceeded.

In addition, for a hotel management company to qualify as an eligible independent contractor, such company or a related person must be actively engaged in the trade or business of operating "qualified lodging facilities" (as defined below) for one or more persons not related to the REIT or its TRSs at each time that such company enters into a hotel management contract with a TRS or its TRS lessee. No assurances can be provided that any hotel managers that we may engage will in fact comply with this requirement in the future. Failure to comply with this requirement would require us to find other managers for future contracts, and, if we hired a management company without knowledge of the failure, it could jeopardize our status as a REIT.

Finally, each property with respect to which our TRS lessees pay rent must be a "qualified lodging facility." A "qualified lodging facility" is a hotel, motel, or other establishment more than one-half of the dwelling units in which are used on a transient basis, including customary amenities and facilities, provided that no wagering activities are conducted at or in connection with such facility by any person who is engaged in the business of accepting wagers and who is legally authorized to engage in such business at or in connection with such facility. The REIT provisions of the Internal Revenue Code provide only limited guidance for making determinations under the requirements for qualified lodging facilities, and there can be no assurance that these requirements will be satisfied.

Recharacterization of sale-leaseback transactions may cause us to lose our REIT status.

We may purchase real properties and lease them back to the sellers of such properties. We cannot guarantee that the Internal Revenue Service will not challenge our characterization of any sale-leaseback transactions. In the event that any such sale-leaseback transaction is challenged and recharacterized as a financing transaction or loan for federal income tax purposes, deductions for depreciation and cost recovery relating to such property would be disallowed. If a sale-leaseback transaction were so recharacterized, we might fail to satisfy the REIT qualification “asset tests” or the “gross income tests” and, consequently, lose our REIT status effective with the year of recharacterization. Alternatively, the amount of our REIT taxable income could be recalculated which might also cause us to fail to meet the distribution requirement for a taxable year.

You may have current tax liability on distributions if you elect to reinvest in shares of our common stock.

If you participate in our distribution reinvestment plan, you will be deemed to have received a cash distribution equal to the fair market value of the stock received pursuant to the plan. For Federal income tax purposes, you will be taxed on this amount in the same manner as if you have received cash; namely, to the extent that we have current or accumulated earnings and profits, you will have ordinary income. As a result, unless you are a tax-exempt entity, you may have to use funds from other sources to pay your tax liability on the value of the common stock received.

Sales of our properties at gains are potentially subject to the prohibited transaction tax, which could reduce the return on your investment.

Under applicable provisions of the Internal Revenue Code regarding prohibited transactions by REITs, we will be subject to a 100% tax on any gain realized on the sale or other disposition of any property (other than foreclosure property) we own, directly or through any subsidiary entity, including our operating partnership, but excluding our taxable REIT subsidiaries, that is deemed to be inventory or property held primarily for sale to customers in the ordinary course of trade or business unless a safe harbor applies under the Internal Revenue Code. Whether property is inventory or otherwise held primarily for sale to customers in the ordinary course of a trade or business depends on the particular facts and circumstances surrounding each property. We intend to avoid the 100% prohibited transaction tax by (1) conducting activities that may otherwise be considered prohibited transactions through a taxable REIT subsidiary, (2) conducting our operations in such a manner so that no sale or other disposition of an asset we own, directly or through any subsidiary other than a taxable REIT subsidiary, will be treated as a prohibited transaction, or (3) structuring certain dispositions of our properties to comply with certain safe harbors available under the Internal Revenue Code. However, no assurance can be given that any particular property will not be treated as inventory or property held primarily for sale to customers in the ordinary course of a trade or business or that a safe harbor will apply.

In certain circumstances, we may be subject to federal and state taxes as a REIT, which would reduce our cash available for distribution to you.

Even if we maintain our status as a REIT, we may be subject to federal and state taxes. For example, net income from a “prohibited transaction” will be subject to a 100% tax. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain income we earn from the sale or other disposition of our real estate assets and pay income tax directly on such income. We may also be subject to state and local taxes on our income or property, either directly or at the level of the companies through which we indirectly own our assets. In addition, our TRSs will be subject to federal income tax and applicable state and local taxes on their net income. Any federal or state taxes we pay will reduce our cash available for distribution to you.

Distributions to tax-exempt investors may be classified as unrelated business taxable income.

Neither ordinary nor capital gain distributions with respect to our common stock nor gain from the sale of common stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule. In particular:

- part of the income and gain recognized by certain qualified employee pension trusts with respect to our common stock may be treated as unrelated business taxable income if we are a “pension-held REIT,” which should not be the case;
- part of the income and gain recognized by a tax-exempt investor with respect to our common stock would constitute unrelated business taxable income if the investor incurs debt to acquire the common stock; and
- part or all of the income or gain recognized with respect to our common stock by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from federal income taxation under Sections 501(c)(7), (9), (17), or (20) of the Internal Revenue Code may be treated as unrelated business taxable income.

Complying with the REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of shares of our common stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may hinder our ability to operate solely on the basis of maximizing profits.

Complying with the REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets, including shares of stock in other REITs, certain mortgage loans and mortgage backed securities. The remainder of our investment in securities (other than governmental securities and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities and qualified real estate assets) can consist of the securities of any one issuer. No more than 20% (25% after 2017) of the value of our total securities can be represented by securities of one or more taxable REIT subsidiaries. Finally, no more than 25% of our assets may consist of "nonqualified publicly offered REIT debt instruments." If we fail to comply with these requirements at the end of any calendar quarter, we must correct such failure within 30 days after the end of the calendar quarter to avoid losing our REIT status and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments.

Liquidation of assets may jeopardize our REIT status.

To qualify as a REIT, we must comply with requirements regarding our assets and our sources of income. If we are compelled to liquidate our investments to satisfy our obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our status as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

The failure of a mezzanine loan to qualify as a real estate asset could adversely affect our ability to qualify as a REIT.

We may acquire mezzanine loans. If a mezzanine loan satisfies an Internal Revenue Service safe harbor in Revenue Procedure 2013-65, it will be treated as a real estate asset for purposes of the REIT asset tests and interest derived from the mezzanine loan will be treated as qualifying mortgage interest for purposes of the REIT 75% gross income test. Although the Revenue Procedure provides a safe harbor on which taxpayers may rely, it does not prescribe rules of substantive tax law. We intend to make investments in loans that comply with the various requirements applicable to our qualification as a REIT. We may, however, acquire mezzanine loans that do not meet all of the requirements of this safe harbor. In the event we own a mezzanine loan that does not meet the safe harbor, the Internal Revenue Service could challenge such loan's treatment as a real estate asset for purposes of the REIT asset tests and could challenge treatment of interest on such loan as qualifying income for purposes of the 75% gross income test, and, if such a challenge were sustained, we could fail to qualify as a REIT.

The use of TRS lessees will increase our overall tax liability.

Our TRS lessees and any other of our domestic taxable REIT subsidiaries will be subject to federal and state income tax on their taxable income, which in the case of our TRS lessees may consist of revenues from hotel properties leased by our TRS lessees net of the operating expenses for such properties and rent payments to us. Accordingly, although our ownership of TRS lessees allows us to participate in the operating income from any hotel properties that may be acquired in addition to receiving rent, that operating income is fully subject to income tax. Such taxes could be substantial. The after-tax net income of our TRS lessees or other taxable REIT subsidiaries would be available for distribution to us.

Non-U.S. investors may be subject to U.S. federal income taxes on the sale of shares of our common stock if we are unable to qualify as a "domestically controlled" REIT.

A non-U.S. person disposing of a U.S. real property interest, including shares of a U.S. corporation whose assets consist principally of U.S. real property interests, is generally subject to U.S. federal income tax on the gain recognized on such disposition. A non-U.S. stockholder generally would not be subject to U.S. federal income tax however, on gain from the disposition of stock in a REIT if the REIT is a "domestically controlled REIT." A domestically controlled REIT is a REIT in which, at all times during a specified testing period, less than 50% in value of its shares is held directly or indirectly by non-U.S. holders. We cannot assure you that we will qualify as a domestically controlled REIT. If we were to fail to so qualify, gain realized by a non-U.S. investor on a sale of our common stock would be subject to U.S. federal income tax unless our common stock was traded on an established securities market, which is not currently the case, and the non-U.S. investor did not at any time during a specified testing period directly or indirectly own more than 10% of the value of our outstanding common stock.

Retirement Plan Risks

There are special considerations for pension or profit-sharing or 401(k) plans, health or welfare plans or individual retirement accounts whose assets are being invested in our common stock due to requirements under the Employee Retirement Income Security Act of 1974, as amended, or "ERISA," and the Internal Revenue Code. Furthermore, a person acting on behalf of a plan not subject to ERISA may be subject to similar penalties under applicable federal, state, local, or non-U.S. law by reason of purchasing our stock.

If you are investing the assets of a pension, profit sharing or 401(k) plan, health or welfare plan, or an IRA, or other plan or arrangement subject to ERISA or Section 4975 of the Internal Revenue Code in us, you should consider:

- whether your investment is consistent with the applicable provisions of ERISA and the Internal Revenue Code;
- whether your investment is made in accordance with the documents and instruments governing your plan, IRA, or other arrangement, including the investment policy;
- whether your investment satisfies the prudence, diversification, and other applicable fiduciary requirements in Section 404(a) of ERISA;
- whether your investment will impair the liquidity of the plan, IRA, or other arrangement;
- whether your investment will produce unrelated business taxable income, referred to as UBTI and as defined in Sections 511 through 514 of the Internal Revenue Code, to the plan; and
- whether you need to value the assets of the plan annually.

You should consider whether your investment in us will cause some or all of our assets to be considered assets of an employee benefit plan, IRA, or other arrangement. We do not believe that under ERISA and U.S. Department of Labor regulations currently in effect that our assets would be treated as "plan assets" for purposes of ERISA. However, if our assets were considered to be plan assets, transactions involving our assets would be subject to ERISA and Section 4975 of the Internal Revenue Code and some of the transactions we have entered into with our advisor and its affiliates could be considered "prohibited transactions," under ERISA or the Internal Revenue Code. If such transactions were considered "prohibited transactions," our advisor and its affiliates could be subject to liabilities and excise taxes or penalties. In addition, our officers and directors, Moody National Advisors I, LLC and its affiliates could be deemed to be fiduciaries under ERISA, subject to other conditions, restrictions and prohibitions under Part 4 of Title I of ERISA and those serving as fiduciaries of plans investing in us may be considered to have improperly delegated fiduciary duties to us. Additionally, other transactions with "parties-in-interest" or "disqualified persons" with respect to an investing plan might be prohibited under ERISA, the Internal Revenue Code or other governing authority in the case of a government plan. Therefore, we would be operating under a burdensome regulatory regime that could limit or restrict investments we can make or our management of our real estate assets. Even if our assets are not considered to be plan assets, a prohibited transaction could occur if we or any of our affiliates is a fiduciary (within the meaning of ERISA) with respect to an employee benefit plan purchasing shares and, therefore, in the event any such persons are fiduciaries (within the meaning of ERISA) of your plan or IRA, you should not purchase shares unless an administrative or statutory exemption applies to your purchase.

Failure to satisfy the fiduciary standards of conduct and other requirements of ERISA, the Internal Revenue Code, or other applicable statutory or common law may result in the imposition of civil (and criminal, if the violation was willful) penalties, and can subject the fiduciary to equitable remedies. In addition, if an investment in our common stock constitutes a prohibited transaction under ERISA or the Internal Revenue Code, the fiduciary that authorized or directed the investment may be subject to the imposition of excise taxes with respect to the amount invested. Furthermore, to the extent that the assets of a plan or arrangement not subject to the fiduciary provisions of ERISA (for example, governmental plans, non-electing church plans, and foreign plans) will be used to purchase our stock, such plans should consider the impact of applicable federal, state, local, or non-U.S. law on the decision to make such purchase.

ITEM 1B. ***Unresolved Staff Comments***

We have no unresolved staff comments.

ITEM 2. ***Properties***

As of December 31, 2016, we owned interests in twelve hotel properties located in five states with an aggregate of 1,595 rooms. For more information on our hotel properties, see Item 1, "Business—Investment Portfolio."

Our principal executive offices are located at 6363 Woodway Drive, Suite 110, Houston, Texas, 77057. Our telephone number, general facsimile number and website address are (713) 977-7500, (713) 977-7505 and *http://www.moodynationalreit.com*, respectively.

ITEM 3. ***Legal Proceedings***

From time to time, we are party to legal proceedings that arise in the ordinary course of our business. Management is not aware of any pending or contemplated legal proceedings the outcome of which is or would be reasonably likely to have a material adverse effect on our results of operations or financial condition.

ITEM 4. ***Mine Safety Disclosures***

Not applicable.

PART II

ITEM 5. *Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities*

Stockholder Information

As of March 7, 2017, we had 13,303,908 shares of our common stock outstanding held by a total of approximately 3,221 stockholders. The number of stockholders is based on the records of DST Systems, Inc., which serves as our transfer agent.

Market Information

Our shares of common stock are not currently listed on a national securities exchange or any over-the-counter market. We do not expect our shares to become listed in the near future, and they may not become listed at all. Consequently, there is the risk that our stockholders may not be able to sell their shares at a time or price acceptable to them. While our charter does not require our board of directors to pursue a liquidity event at any particular time, or at all, as described above in Item 1, "Business—Pending Merger with Moody National REIT II, Inc.," we entered into the merger agreement on November 16, 2016.

In order to assist broker-dealers that participated in our public offerings in meeting certain obligations under FINRA rules, we estimate that the value per share of our common stock is $10.25. As described above in Item 1, "Business—Pending Merger with Moody National REIT II, Inc.," this is the net per share price that our stockholders will receive (either in cash or shares of Moody II common stock pursuant to the exchange ratio) for each share of our common stock pursuant to the merger agreement, and is calculated as the difference between (i) a gross per share price of $11.00, minus (ii) the per share Moody I transaction fees and expenses. The merger agreement was the product of a negotiation between a special committee of our board of directors and a special committee of the board of directors of Moody II, each of which was represented by its own counsel and financial advisor. Entry into the merger agreement was unanimously approved by our board of directors upon the recommendation of the special committee. As also described above in Item 1, "Business—Pending Merger with Moody National REIT II, Inc.," the merger agreement includes go shop provisions, pursuant to which 99 prospective buyers, including 77 prospective financial buyers and 22 prospective strategic buyers, were contacted regarding each such party's potential interest in exploring a transaction with us. During the go shop period (*i.e.*, between November 16, 2016 and December 31, 2016), seven parties (two of which were financial buyers and five of which were strategic buyers) negotiated and entered into confidentiality agreements with us and were provided with non-public information about us. None of the parties contacted during the go shop process described above, including the seven parties that entered into confidentiality agreements with us, submitted to us a proposal that was deemed an "acquisition proposal" under the merger agreement prior to the go shop period end time.

Recent Sales of Unregistered Securities; Use of Offering Proceeds from Registered Securities

On April 15, 2009, our Registration Statement on Form S-11 (File No. 333-150612), registering a public offering of up to $1,100,000,000 in shares of our common stock, was declared effective by the SEC and we commenced our initial public offering. In our initial public offering we offered up to $1,000,000,000 in shares of our common stock to the public at $10.00 per share and up to $100,000,000 in shares of our common stock to our stockholders pursuant to our DRIP at $9.50 per share. On October 12, 2012, our Registration Statement on Form S-11 (File No. 333-179521) registering our follow-on public offering was declared effective by the SEC and our initial public offering automatically terminated. In our follow-on offering, we offered up to $900,000,000 in shares of our common stock to the public at $10.00 per share and up to $100,000,000 in shares of our common stock to our stockholders pursuant to our DRIP at $9.50 per share.

Effective February 20, 2015, we terminated the offer and sale of shares of our common stock to the public in our follow-on offering, and continued to issue shares pursuant to our DRIP. On November 4, 2015, we filed a new Registration Statement on Form S-3 with the SEC to register the sale of up to $25,000,000 in shares of our common stock pursuant to our DRIP. Our DRIP was suspended by our board of directors on October 13, 2016 and remains suspended.

Upon the termination of our follow-on offering, we had accepted investors' subscriptions for, and issued 11,719,636 shares of our common stock in that offering, including 510,457 shares of our common stock issued pursuant to our DRIP, resulting in aggregate gross offering proceeds of $112,091,790. As of December 31, 2016, we have raised $128,188,874 in gross offering proceeds in our initial public offering and our follow-on offering, including through shares issued pursuant to our DRIP.

As of December 31, 2016, we had incurred selling commissions, dealer manager fees and organization and other offering costs in our initial public offering and our follow-on offering, including shares issued pursuant to our DRIP in those offerings, in the amounts set forth in the tables below. Moody Securities, LLC, our dealer manager, reallowed all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers.

Initial Public Offering:

Type of Expense	Amount	Estimated/ Actual
Selling commissions and dealer manager fees	$ 936,994	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	780,167	Actual
Total expenses	$ 1,717,161	

Follow-On Offering:

Type of Expense	Amount	Estimated/ Actual
Selling commissions and dealer manager fees	$ 11,102,398	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	3,020,190	Actual
Total expenses	$ 14,122,588	

DRIP Offering:

We did not pay any selling commissions or dealer manager fees in connection with the offering of shares pursuant to our DRIP offering. As of December 31, 2016, we had incurred $124,000 of offering costs in connection with our DRIP offering.

As of December 31, 2016, the net offering proceeds to us from our initial public offering and our follow-on offering, after deducting the total expenses incurred as described above, were $107,218,755 excluding $5,130,370 in offering proceeds from shares of our common stock issued pursuant to our DRIP. As of December 31, 2016, the ratio of the cost of raising capital to capital raised was approximately 12%.

As of December 31, 2016, we had used $109,263,585 of the net proceeds from our public offerings, plus debt financing, to purchase (1) our fourteen investments in hotel properties (including our investments in an interest in a Residence Inn property, which was subsequently sold on August 23, 2012, and a hotel property in Newark, California, which was sold on September 9, 2015), (2) the Hyatt Place note (which was paid in full on June 10, 2016) and (3) the two notes receivable from related parties. As of December 31, 2016, we had paid $11,224,270 of acquisition expenses to third parties.

Under our independent directors compensation plan, each of our then current independent directors received an initial stock grant of 5,000 shares of restricted common stock when we raised the minimum offering amount of $2,000,000 in our initial public offering. Each new independent director that subsequently joins the board of directors receives the initial restricted stock grant on the date he or she joins the board of directors. In addition, on the date of each of the first four annual meetings of our stockholders at which an independent director is re-elected to the board of directors, he or she will receive 2,500 shares of restricted stock.

As of December 31, 2016, a total of 51,250 shares of restricted stock have been issued by us to our independent directors pursuant to the independent directors compensation plan. The shares of restricted stock issued pursuant to our independent directors compensation plan were issued in transactions exempt from registration pursuant to Section 4(a)(2) of the Securities Act. For more information on our independent directors compensation plan, see Item 11, "Executive Compensation—Compensation of our Directors."

Share Redemption Program

Our share redemption program may provide a limited opportunity for our stockholders to have their shares of common stock redeemed, subject to certain restrictions and limitations. In connection with the formation of the special committee of our board of directors, our share redemption program was suspended effective May 6, 2016, except in cases of a stockholder's death or qualifying disability, and remains suspended. If our share redemption program is reinstated by our board of directors, shares of our common stock will be redeemed, subject to certain restrictions and limitations, at a price equal to or at a discount from the estimated per share value of our common stock.

Unless the shares are being redeemed in connection with a stockholder's death or qualifying disability, we may not redeem shares unless the redeeming stockholder has held the shares for one year. Redemption requests made within two years of death or "qualifying disability" of a stockholder will be redeemed at the most recent estimated per share value determined by our board of directors. Our board of directors, in its sole discretion, will make the determination of whether a stockholder has a qualifying disability after receiving written notice from the stockholder. Generally, our board of directors will consider a stockholder to have a qualifying disability if it is (1) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (2) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the stockholder's employees. We must receive written notice within 180 days after such stockholder's qualifying disability.

We are not obligated to redeem shares of our common stock under the share redemption program. Our board of directors may, in its sole discretion, accept or reject any share redemption request made by any stockholder at any time. If our board of directors accepts share redemptions, the number of shares to be redeemed during any calendar year is limited to (1) 5.0% of the weighted average number of shares of our common stock outstanding during the prior calendar year and (2) those that could be funded from the net proceeds from the sale of shares under our DRIP in the prior calendar year (assuming our DRIP is active) plus such additional funds as may be reserved for that purpose by our board of directors; provided, however, that the above volume limitations shall not apply to redemptions requested within two years after the death of stockholder. As noted above, our DRIP was suspended by our board of directors in October 2016 and remains suspended.

To the extent we determine to accept share redemption requests from our stockholders, redemption of shares of our common stock will be made quarterly upon written request to us at least 15 days prior to the end of the applicable quarter. Redemption requests will be honored approximately 30 days following the end of the applicable quarter, which we refer to as the "redemption date." Stockholders may withdraw their redemption request at any time up to three business days prior to the redemption date.

Our board of directors may, in its sole discretion, amend, suspend, or terminate our share redemption program at any time if it determines that the funds available to fund the share redemption program are needed for other business or operational purposes or that amendment, suspension or termination of our share redemption program is in the best interest of our stockholders. If our board of directors decides to amend, suspend or terminate our share redemption program, we will provide stockholders with no less than 30 days' prior written notice. Therefore, our stockholders may not have the opportunity to make a redemption request prior to any potential termination of our share redemption program.

During the year ended December 31, 2016, we redeemed a total of 107,061 shares of our common stock pursuant to terms of our share redemption program at an average price of $10.14 per share, for an aggregate redemption price of $1,085,351.

During the quarter ending December 31, 2016, we fulfilled redemption requests and redeemed shares of our common stock pursuant to our share redemption program as follows:

	Total Number of Shares Requested to be Redeemed[(1)]	Average Price Paid per Share	Approximate Dollar Value of Shares Available That May Yet Be Redeemed Under the Program
October 2016	1,320.00	$ 10.75	[(2)]
November 2016	—	$ —	[(2)]
December 2016	—	$ —	[(2)]
	1,320.00	$ 10.75	

(1) We generally redeem shares on the last business day of the month following the end of each fiscal quarter in which redemption requests were received. The 1,320.00 shares requested to be redeemed were redeemed during the quarter ended December 31, 2016 at an average price of $10.75 per share.

(2) The number of shares that may be redeemed pursuant to the share redemption program during any calendar year is limited to: (1) 5% of the weighted-average number of shares outstanding during the prior calendar year and (2) those that can be funded from the net proceeds we received from the sale of shares under our DRIP during the prior calendar year plus such additional funds as may be reserved for that purpose by our board of directors. This volume limitation will not apply to redemptions requested within two years after the death of a stockholder.

Distribution Information

On May 20, 2010, our board of directors authorized and declared a cash distribution to our stockholders contingent upon the closing of our first investment in a hotel property, which occurred on May 27, 2010. The distribution (1) accrues daily to our stockholders of record as of the close of business on each day; (2) is payable in cumulative amounts on or before the 15th day of each calendar month; and (3) is calculated at a rate of $0.002192 per share of our common stock per day, which, if paid each day over a 365-day period, is equivalent to an 8.0% annualized distribution rate based on a purchase price of $10.00 per share of our common stock.

The following table summarizes distributions paid in cash and pursuant to our DRIP for the years ended December 31, 2016 and 2015.

Period	Cash Distribution	Distribution Paid Pursuant to DRIP [1]	Total Amount of Distribution [1]
First Quarter 2016	$ 1,643,571	$ 965,287	$ 2,608,858
Second Quarter 2016	1,683,097	967,084	2,650,181
Third Quarter 2016	1,703,955	954,614	2,658,569
Fourth Quarter 2016	2,332,101	310,855	2,642,956
Total	$ 7,362,724	$ 3,197,840	$ 10,560,564
First Quarter 2015	$ 1,348,289	$ 746,826	$ 2,095,115
Second Quarter 2015	1,623,871	964,050	2,587,921
Third Quarter 2015[2]	1,980,101	978,008	2,958,109
Fourth Quarter 2015	1,653,259	943,606	2,596,865
Total	$ 6,605,520	$ 3,632,490	$ 10,238,010

(1) Amount of distributions paid in shares of common stock pursuant to our DRIP.
(2) Special distribution of $350,000 paid in the third quarter of 2015.

We paid $10,560,564 in aggregate distributions for the year ended December 31, 2016, which was comprised of $7,362,724 in cash distributions and $3,197,840 in shares issued pursuant to our DRIP. We paid $10,238,010 in aggregate distributions for the year ended December 31, 2015, which was comprised of $6,605,520 in cash distributions and $3,632,490 in shares issued pursuant to our DRIP. For the years ended December 31, 2016 and 2015, we had cash provided by operating activities of $5,876,097 and $4,206,687, respectively, and our funds from operations were $7,157,395 and $3,494,703, respectively. For the year ended December 31, 2016, approximately 56% of distributions were paid from cash provided by operating activities and approximately 44% were paid from offering proceeds. For the year ended December 31, 2015, approximately 41% of distributions were paid from cash provided by operating activities and approximately 59% were paid from offering proceeds. Since inception, 39% of distributions have been funded from cash from operations and 61% have been funded from offering proceeds. For more information on how we calculate funds from operations and a reconciliation of funds from operations to net income (loss), see “Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations—Funds from Operations and Modified Funds from Operations.”

The tax composition of our distributions declared for the years ended December 31, 2016 and 2015 was as follows:

	2016	2015
Ordinary Income	31.9%	17.5%
Capital Gain	3.4%	82.5%
Return of Capital	64.7%	—%
Total	100.0%	100.0%

ITEM 6. *Selected Financial Data*

Selected Financial Data

The following selected financial data as of December 31, 2016, 2015, 2014, 2013 and 2012, and for the years then ended, should be read in conjunction with the accompanying consolidated financial statements and related notes thereto and "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations." Our historical results are not necessarily indicative of results for any future period.

	As of December 31,				
Selected Financial Data	**2016**	**2015**	**2014**	**2013**	**2012**
BALANCE SHEET DATA:					
Total assets	$ 267,249,966	$ 287,100,849	$ 190,758,473	$ 70,917,596	$ 29,086,245
Total liabilities	$ 176,673,041	$ 182,771,053	$ 117,231,765	$ 46,281,943	$ 18,383,618
Special partnership units	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Total equity	$ 90,575,925	$ 104,328,796	$ 73,525,708	$ 24,634,653	$ 10,701,627

	Year Ended December 31,				
	2016	**2015**	**2014**	**2013**	**2012**
STATEMENT OF OPERATIONS DATA:					
Total revenue	$ 61,930,033	$ 52,167,132	$ 23,987,274	$ 8,245,685	$ 1,094,920
Total expenses	$ 67,371,906	$ 58,567,606	$ 29,801,751	$ 9,597,142	$ 1,280,740
Gain on sale of hotel property	$ —	$ 10,145,221	$ —	$ —	$ —
Gain on acquisition of hotel property	$ —	$ 2,698,113	$ —	$ —	$ —
Income tax expense (benefit)	$ (1,054,423)	$ (492,000)	$ (495,200)	$ 16,200	$ —
Total income (loss) from discontinued operations	$ —	$ —	$ —	$ —	$ 1,179,933
Net income (loss)	$ (4,387,450)	$ 6,934,860	$ (5,319,277)	$ (1,367,657)	$ 994,113
STATEMENT OF CASH FLOWS DATA:					
Net cash provided by (used in) operating activities	$ 5,876,097	$ 4,206,687	$ (1,017,179)	$ 1,367,849	$ 387,070
Net cash used in investing activities	$ 1,306,899	$ 87,313,323	$ 64,973,115	$ 40,107,494	$ 2,595,923
Net cash provided by (used in) financing activities	$ (16,221,043)	$ 73,333,792	$ 84,510,051	$ 41,353,859	$ 3,852,064
OTHER DATA:					
Distributions to common stockholders declared	$ 10,573,832	$ 10,484,008	$ 4,762,787	$ 1,773,715	$ 761,640

ITEM 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion and analysis should be read in conjunction with the "Selected Financial Data" above and our accompanying consolidated financial statements and the notes thereto included in this Annual Report. Also see "Forward Looking Statements" preceding Part I.

Overview

We were formed as a Maryland corporation on January 15, 2008 to invest in a diversified portfolio of real estate investments. We elected to qualify as a REIT commencing with the taxable year ended December 31, 2011.

As of December 31, 2016, our portfolio consisted of fourteen investments: (1) the Woodlands Hotel, a 91-suite hotel property in The Woodlands, Texas, (2) the Germantown Hotel, a 127-guestroom hotel property located in Germantown, Tennessee, (3) the Charleston Hotel, a 113-guestroom hotel property located in North Charleston, South Carolina, (4) the Austin Hotel, a 123-suite hotel property located in Austin, Texas, (5) the Grapevine Hotel, a 133-suite hotel property located in Grapevine, Texas, (6) our joint venture interest in the Lyndhurst Hotel, a 227-guestroom hotel property located in Lyndhurst, New Jersey, (7) the Austin Arboretum Hotel, a 138-guestroom hotel property located in Austin, Texas, (8) the Great Valley Hotel, a 125-guestroom hotel property located in Frazer, Pennsylvania, (9) the Nashville Hotel, a 208-room hotel property located in Nashville, Tennessee, (10) the Homewood Suites Austin Hotel, a 96-room hotel property located in Austin, Texas, (11) our joint venture interest in the Fort Worth Hotel, a 95-unit hotel property located in Fort Worth, Texas, (12) the Houston Hotel, a 119-room hotel property located in Houston, Texas, (13) a note receivable from a related party with an initial principal amount of $9,000,000 and (14) a note receivable from a related party with an initial principal amount of $4,500,000.

On April 15, 2009, we commenced our initial public offering of up to $1,000,000,000 in shares of our common stock to the public in our primary offering at $10.00 per share and up to $100,000,000 in shares of our common stock to our stockholders pursuant to our DRIP at $9.50 per share. As of the termination of our initial public offering, we had accepted subscriptions for, and issued, 1,126,253 shares of our common stock in our initial public offering, including 29,582 shares of our common stock pursuant to our DRIP, resulting in offering proceeds of $10,966,713. On October 12, 2012, we terminated our initial public offering.

On October 12, 2012, we commenced our follow-on offering of up to $1,000,000,000 in shares of our common stock, comprised of up to $900,000,000 in shares offered to the public at $10.00 per share and up to $100,000,000 in shares offered to our stockholders pursuant to our DRIP at $9.50 per share. Effective February 20, 2015, we terminated the offer and sale of shares to the public in our follow-on offering, but continued to issue shares pursuant to our DRIP. On November 4, 2015, we filed a new Registration Statement on Form S-3 with the SEC to register the sale of up to $25,000,000 in shares of our common stock pursuant to our DRIP in our DRIP offering. On October 13, 2016, our board of directors determined to suspend our DRIP. The suspension of our DRIP became effective beginning with distributions made in November 2016 and will remain in effect unless and until our DRIP resumes, as determined by our board of directors. If we resume our DRIP, in the future our board of directors may from time to time, in its sole discretion, change the price at which we offer shares pursuant to our DRIP to reflect changes in our estimated value per share and other factors that the board of directors deems relevant.

As of the termination of our follow-on offering, we had accepted investors' subscriptions for, and issued, 11,719,636 shares of our common stock in that offering, including 510,457 shares of our common stock issued pursuant to our DRIP, resulting in aggregate gross offering proceeds of $112,091,790. As of December 31, 2016, we had accepted subscriptions for, and issued, an aggregate of 12,845,889 shares of common stock in our initial public offering and follow-on offering, including 540,039 shares of common stock issued pursuant to our DRIP, resulting in aggregate gross offering proceeds of $123,058,503. As of December 31, 2016, we had sold 388,033 shares pursuant to our DRIP offering, and 2,111,967 shares of our common stock registered in our DRIP offering remained available for sale.

Subject to the mergers, we intend to use substantially all of the proceeds from any offering of our securities that we may conduct in the future to continue to invest in a diversified portfolio of real properties, real estate securities and debt-related investments. To date, substantially all of our investments have been in hotel properties, loans secured by hotel properties or loans to related parties, and we anticipate that our portfolio will continue to consist primarily of hotel properties, located in the United States and Canada that we own exclusively or in joint ventures or other co-ownership arrangements with other persons. We may also invest in other property types consisting of multifamily, office, retail and industrial assets located in the United States and Canada as well as securities of real estate companies and debt-related investments, as well as opportunistic investments in properties that may be under-developed or newly constructed and in properties that we believe are undervalued.

We believe that we have sufficient capital to meet our existing debt service and other operating obligations for the current year and that we have adequate resources to fund our cash needs until we reach sustainable profitable operations. However, our operations are subject to a variety of risks, including, but not limited to, our ability to raise additional funds in future offerings of securities (if any), changes in national economic conditions, the restricted availability of financing, changes in demographic trends and interest rates, declining real estate valuations and downward pressure on room rates for hotels. As a result of these uncertainties, there can be no assurance that we will meet our investment objectives or that the risks described above will not have an adverse effect on our properties or results of operations.

Pending Merger with Moody National REIT II, Inc.

On September 27, 2016, we jointly announced with Moody National REIT II, Inc., a Maryland corporation and a related party, or Moody II, that we had entered into a non-binding Letter of Intent that set forth the terms and conditions upon which Moody II would acquire us and our subsidiaries. Moody II is a public, non-listed REIT formed in July 2014. Our sponsor serves as the sponsor of Moody II, and Brett C. Moody serves as the Chairman of the Board and Chief Executive Officer of Moody II.

On November 16, 2016, we, along with our operating partnership, our advisor, Moody II, Moody National Operating Partnership II, LP, the operating partnership of Moody II, or Moody II OP, Moody National Advisor II, LLC, Moody II's advisor, or Moody II advisor, and Moody Merger Sub, LLC, a wholly owned subsidiary of Moody II, or merger sub, entered into an agreement and plan of merger, or the merger agreement. Pursuant to the merger agreement, we will merge with and into merger sub, with merger sub continuing as the "surviving entity" and a wholly-owned subsidiary of Moody II. We refer to the foregoing transaction as the "merger." In addition, pursuant to the merger agreement, Moody II OP will merge with and into our operating partnership, with our operating partnership continuing as the "surviving partnership," and which transaction we refer to as the "partnership merger." Unless context suggests otherwise, we refer to the merger and the partnership merger together as the "mergers." The merger agreement was the product of a negotiation between a special committee of our board of directors and a special committee of the board of directors of Moody II (both consisting solely of independent directors), each of which was represented by its own counsel and financial advisor. Entry into the merger agreement was unanimously approved by our board of directors upon the recommendation of the special committee of our board of directors.

Subject to the terms and conditions of the merger agreement, Moody II agreed to pay gross consideration of $11.00 per share of our common stock, which amount will be reduced by all fees and expenses that we incur as a result of or in connection with the mergers and other transactions contemplated by the merger agreement (including certain disposition fees and profit sharing amounts to our sponsor and parties related thereto, financial advisory and legal fees payable by us, and other transaction and closing costs incurred by us), which fees and expenses we refer to as the "Moody I transaction fees and expenses," to arrive at the net merger consideration payable to the holders of our common stock, which we refer to as the "net per share price;" *provided*, that in no event will the net per share price be less than $10.25. Pursuant to the terms of the merger agreement, the parties thereto have determined the final amount of the Moody I transaction fees and expenses and have calculated the net per share price. Based on such determination, the net per share price was determined to be $10.25.

At the effective time of the merger, each outstanding share of our common stock will be automatically cancelled and retired, and converted into the right to receive, at the election of each holder of such share of our common stock, but subject to the limitations discussed below, either:

(i) an amount in cash equal to the net per share price, which we refer to as the "cash consideration;" or

(ii) a number of shares of common stock of Moody II, which we refer to as the "stock consideration," equal to the net per share price divided by $25.00, which quotient, as adjusted pursuant to the merger agreement, is referred to as the "exchange ratio."

We refer to the "stock consideration" together with the "cash consideration," as the "merger consideration."

Notwithstanding the above, the maximum number of shares of our common stock that may be converted into the right to receive the cash consideration may not exceed 50% of the aggregate number of shares of our common stock entitled to receive merger consideration in connection with the merger. If the elections of our stockholders would cause more than 50% of the aggregate number of shares of our common stock to be converted into the right to receive the cash consideration, then the shares of our common stock that would be converted into the right to receive the cash consideration will be reduced proportionally so that the number of shares of our common stock that will be converted into the right to receive the cash consideration will not exceed 50%, and the remaining shares of our common stock will be converted into the right to receive the stock consideration.

Subject to the terms and conditions of the merger agreement, at the effective time of the partnership merger, each outstanding unit of limited partnership interest in our operating partnership will be automatically cancelled and retired, and converted into the right to receive a number of units of limited partnership interests in the surviving partnership equal to the exchange ratio. Each unit of limited partnership interest in our operating partnership designated as a special partnership unit pursuant to our operating partnership's limited partnership agreement will be automatically cancelled and retired and shall cease to exist, and no consideration shall be paid, nor, except as expressly provided in the termination agreement (described below), shall any other payment or right inure or be made with respect thereto in connection with or as a consequence of the partnership merger. Each outstanding unit of limited partnership interest in Moody II OP will be converted into one unit of equity ownership in the surviving partnership, and each unit designated as a special partnership unit pursuant to the limited partnership agreement of Moody II OP will be converted into one special unit in the surviving partnership.

The merger agreement contains customary covenants, including covenants prohibiting us and our subsidiaries and representatives from soliciting, providing information with respect to or entering into discussions concerning proposals relating to alternative business combination transactions, subject to certain limited exceptions. However, under the terms of the merger agreement, during the period beginning on November 16, 2016 and continuing until 11:59 p.m. New York City time on December 31, 2016, or the go shop period end time, we had the right to initiate, solicit, provide information and enter into discussions concerning proposals relating to alternative business combination transactions. Additionally, for up to five business days after the go shop period end time, we had the right to continue to participate in such discussions with certain other parties, each referred to as a "go shop bidder," and could have, subject to certain conditions set forth in the merger agreement regarding the proposal made by such go shop bidder, terminated the merger agreement and entered into an agreement with a go shop bidder with respect to the proposal made by such go shop bidder.

In the go shop process described in the preceding paragraph, 99 prospective buyers, including 77 prospective financial buyers and 22 prospective strategic buyers, were contacted regarding each such party's potential interest in exploring a transaction with us. During the go shop period (*i.e.*, between November 16, 2016 and December 31, 2016), seven parties (two of which were financial buyers and five of which were strategic buyers) negotiated and entered into confidentiality agreements with us and were provided with non-public information about us. None of the parties contacted during the go shop process, including the seven parties that entered into confidentiality agreements with us, submitted a proposal to us that was deemed an "acquisition proposal" under the merger agreement prior to the go shop period end time.

In connection with the mergers, we will also seek the approval of our stockholders of an amendment to our Second Articles of Amendment and Restatement, as amended, or our charter, to delete certain provisions regarding roll-up transactions, or the charter amendment. Pursuant to the merger agreement, approval by our stockholders of the charter amendment is a condition to completing the mergers.

Concurrently with the entry into the merger agreement, we, our operating partnership, our advisor, Moody II, Moody National Realty Company, LP, or Moody National, and Moody OP Holdings I, LLC, or OP Holdings, the holder of all of the outstanding special partnership units in our operating partnership, entered into a termination agreement, or the termination agreement. Pursuant to the termination agreement, at the effective time of the mergers, the advisory agreement among us, our operating partnership, our advisor and Moody National will be terminated and we will pay our advisor a payment of $5,580,685, or the Moody I advisor payment. The Moody I advisor payment was a negotiated amount that represents a reduction in the disposition fee to which our advisor could have been entitled and a waiver of any other contractual termination fee that our advisor would have been due under the advisory agreement in connection with the merger. In addition, the termination agreement provides that at the effective time of the partnership merger and in accordance with the terms of the limited partnership agreement of our operating partnership, our operating partnership will pay to OP Holdings an amount not to exceed $613,751, or the promote payment. In the event that the merger agreement is terminated prior to the consummation of the mergers, the termination agreement will automatically terminate and be of no further effect and no Moody I advisor payment or promote payment will be owed and payable.

Also concurrently with the entry into the merger agreement, Moody II, Moody II OP and Moody II advisor entered into an amended and restated advisory agreement, pursuant to which Moody II will be obligated to pay Moody II advisor an acquisition fee of 1.5% of the aggregate cash consideration paid in the merger. However, during the first year following the consummation of the mergers, if Moody II sells a property that was previously owned by us, then any disposition fee to which Moody II advisor would otherwise be entitled under the amended and restated advisory agreement will be reduced by an amount equal to the portion of the Moody I advisor payment attributable to such property.

The merger agreement may be terminated under certain circumstances by both Moody II and us. If such termination occurs under certain circumstances, then we would be obligated to pay Moody II a termination fee of $2,000,000 (or $1,000,000 if the merger agreement had been terminated pursuant to the go shop provisions therein), plus an expense reimbursement fee of up to $500,000. The merger agreement also provides that one party may be required to reimburse the other party's expenses, up to $500,000, if the merger agreement is terminated under certain circumstances.

The obligation of each party to consummate the mergers is subject to a number of conditions, including the approval of our stockholders of the merger and the charter amendment, receipt of any regulatory approvals, delivery of certain documents and consents, the truth and correctness of the representations and warranties of the parties, subject to the materiality standards contained in the merger agreement, the effectiveness of the registration statement on Form S-4 (File No. 333-215362) filed by Moody II to register the shares of its common stock to be issued as stock consideration, and the absence of a material adverse effect with respect to either us or Moody II. There is no guarantee that the mergers will close. Our management has, and will continue to, expend time and resources to consummate the mergers, which time and resources may otherwise have been allocated to our other operational needs.

In connection with the mergers, on February 2, 2017, Moody II entered into a stockholder servicing coordination agreement, or the stockholder servicing coordination agreement, with Moody Securities. Pursuant to the stockholder servicing coordination agreement, Moody II will pay to Moody Securities certain stockholder servicing fees, or the stockholder servicing fees, of up to $2.125 per share of Moody II's common stock issued as stock consideration. All stockholder servicing fees will be re-allowed to broker-dealers that provide ongoing financial advisory services to our stockholders and that enter into participating broker-dealer agreements with Moody Securities. The aggregate amount of stockholder servicing fees will depend on the number of shares of Moody II's common stock issued as stock consideration, and could range from approximately $5,797,034 to $11,594,068, assuming that the maximum stockholder servicing fee of $2.125 per share is paid for all shares issued as stock consideration. No stockholder servicing fees will be paid with respect to any cash paid by Moody II as cash consideration in the merger.

Review of our Investment Policies

Our board of directors, including our independent directors, has reviewed our investment policies as described in this Annual Report and determined that such policies are in the best interests of our stockholders based on the following factors: (1) such policies increase the likelihood that we will be able to acquire a diversified portfolio of income producing properties, thereby reducing risk in our portfolio; (2) our executive officers and directors and the affiliates of our advisor have expertise with the type of real estate investments we seek; (3) there are sufficient property acquisition opportunities with the attributes that we seek; and (4) borrowings should enable us to purchase assets and earn income more quickly, thereby increasing the likelihood of generating income for our stockholders and preserving stockholder capital.

Liquidity and Capital Resources

Subject to the pending mergers, our principal demand for funds is for the acquisition of real estate assets, the payment of operating expenses, principal and interest payments on our outstanding indebtedness and the payment of distributions to our stockholders. Subject to the pending mergers, over time we intend to generally fund our cash needs for items other than asset acquisitions from operations. Our cash needs for acquisitions and investments will be funded primarily from the sale of shares pursuant to our DRIP (in the event that we reactivate our DRIP), the proceeds of any offerings of our securities we conduct in the future and the assumption and origination of debt.

Our advisor, subject to the oversight of our investment committee and board of directors, will evaluate potential acquisitions and will engage in negotiations with sellers and lenders on our behalf. If necessary, we may use financings or other sources of capital in the event of unforeseen significant capital expenditures.

We may, but are not required to, establish working capital reserves out of cash flow generated by our real estate assets or out of proceeds from the sale of our real estate assets. We do not anticipate establishing a general working capital reserve; however, we may establish working capital reserves with respect to particular investments. We also may, but are not required to, establish reserves out of cash flow generated by our real estate assets or out of net sale proceeds in non-liquidating sale transactions. Working capital reserves are typically utilized to fund tenant improvements, leasing commissions and major capital expenditures. Our lenders also may require working capital reserves.

To the extent that any working capital reserve we establish is insufficient to satisfy our cash requirements, additional funds may be provided from cash generated from operations, short-term borrowing, equity capital from joint venture partners, or the proceeds of additional public or private offerings of our shares or interests in our operating partnership. In addition, subject to certain limitations, we may incur indebtedness in connection with the acquisition of any real estate asset, refinance the debt thereon, arrange for the leveraging of any previously unfinanced property or reinvest the proceeds of financing or refinancing in additional properties. There can be no assurance that we will be able to obtain such capital or financing on favorable terms, if at all.

Net Cash Provided by Operating Activities

As of December 31, 2016, we owned interests in twelve hotel properties, including our joint venture interests. Net cash provided by operating activities for the years ended December 31, 2016 and 2015 was $5,876,097 and $4,206,687, respectively. The increase in cash provided by operating activities was primarily due to an increase in net operating income related to additional hotel acquisitions and owning properties acquired during 2015 for an entire year.

Net Cash Used in Investing Activities

Our cash used in investing activities has depended on how quickly we invested the net offering proceeds from our follow-on offering towards acquisitions of real estate and real-estate related investments. Net cash used in investing activities for the years ended December 31, 2016 and 2015 was $1,306,899 and $87,313,323, respectively. The decrease in cash used in investing activities for the year ended December 31, 2016 was due to acquiring only one hotel property during the year with a purchase price of $8,000,000 compared to four hotel properties with an aggregate purchase price of $84,416,539 for the year ended December 31, 2015.

Net Cash Provided by (Used in) Financing Activities

Our cash flows from financing activities consisted primarily of proceeds from our follow-on offering and proceeds from newly originated notes payable, net of distributions paid to our stockholders. Net cash provided by (used in) financing activities for the years ended December 31, 2016 and 2015 was $(16,221,043) and $73,333,792, respectively. The decrease in cash provided by financing activities for the year ended December 31, 2016 was primarily due to the termination of the follow-on offering in 2015 and the reduction in acquisitions partially financed with the proceeds of notes payable from four acquisitions for the year ended December 31, 2015 to one acquisitions for the year ended December 31, 2016.

Cash and Cash Equivalents

As of December 31, 2016, we had cash and cash equivalents of $2,419,383.

Debt

Subject to the pending mergers, we use, and intend to use in the future, secured and unsecured debt as a means of providing additional funds for the acquisition of real property, securities and debt-related investments. By operating on a leveraged basis, we expect that we will have more funds available for investments. This will generally allow us to make more investments than would otherwise be possible, potentially resulting in enhanced investment returns and a more diversified portfolio. However, our use of leverage increases the risk of default on loan payments and the resulting foreclosure on a particular asset. In addition, lenders may have recourse to assets other than those specifically securing the repayment of the indebtedness. When debt financing is unattractive due to high interest rates or other reasons, or when financing is otherwise unavailable on a timely basis, we may purchase certain assets for cash with the intention of obtaining debt financing at a later time.

As of December 31, 2016, our outstanding indebtedness totaled $171,637,250. Our aggregate borrowings are reviewed by our board of directors at least quarterly. Under our charter, we are prohibited from borrowing in excess of 300% of the value of our net assets. "Net assets" for purposes of this calculation is defined to be our total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. The preceding calculation is generally expected to approximate 75% of the aggregate cost of our assets before non-cash reserves and depreciation. However, we may temporarily borrow in excess of these amounts if such excess is approved by a majority of our independent directors and disclosed to our stockholders in our next quarterly report, along with an explanation for such excess. As of December 31, 2016 and 2015, our debt levels did not exceed 300% of the value of our net assets.

Three of our loans secured by hotel properties will mature in 2017. If the mergers are consummated, these loans may be extended or re-financed with financing obtained by Moody II. In the event the mergers are not consummated, we intend to extend one such loan and refinance the other two with proceeds from new loans. We may not be able to extend or refinance the foregoing loans at all, or be able to extend or refinance such loans on favorable terms.

For more information on our outstanding indebtedness, see Note 5 (Debt) to the consolidated financial statements included in this Annual Report.

Contractual Commitments and Contingencies

The following is a summary of our contractual obligations as of December 31, 2016, other than the merger agreement (see "Pending Merger with Moody National REIT II, Inc." for more information about the obligations and commitments arising under the merger agreement):

	Payments Due By Period				
Contractual Obligations	**Total**	**2017**	**2018-2019**	**2020-2021**	**Thereafter**
Long-term debt obligations[1]	$ 171,637,250	$ 44,043,280	$ 4,394,418	$ 4,808,940	$ 118,390,612
Interest payments on outstanding debt obligations[2]	46,717,627	7,750,549	11,780,274	11,365,751	15,821,053
Total	$ 218,354,877	$ 51,793,829	$ 16,174,692	$ 16,174,691	$ 134,211,665

(1) Amounts include principal payments only.

(2) Projected interest payments are based on the outstanding principal amounts and weighted-average interest rates at December 31, 2016.

Organization and Offering Costs

Pursuant to the advisory agreement with our advisor, we are obligated to reimburse our advisor and its affiliates, as applicable, for organization and offering costs incurred on our behalf associated with each of our public offerings, but only to the extent that such reimbursements do not exceed actual expenses incurred by our advisor and would not cause sales commissions, the dealer manager fee and other organization and offering costs borne by us in a public offering to exceed 15.0% of gross offering proceeds from the sale of our shares in such public offering as of the date of reimbursement. Our advisor was obligated to reimburse us to the extent organization and offering costs (including sales commissions and dealer manager fees) incurred by us in a public offering exceeded 15.0% of the gross offering proceeds from the sale of our shares of common stock in such public offering.

Total offering costs for our initial public offering, which terminated on October 12, 2012, were $4,132,374. We directly incurred offering costs of $946,944 for our initial public offering and reimbursed our advisor for $742,134 in offering costs for our initial public offering. The remaining $2,443,296 in offering costs related to our initial public offering is not our liability because such costs exceeded 15.0% of the gross offering proceeds from the sale of our shares of common stock in our completed initial public offering. We reimbursed our advisor for $28,083 in organization costs for our initial public offering.

Total offering costs for our follow-on offering, which terminated on February 20, 2015, were $14,122,588. We directly incurred $11,397,725 of offering costs for our follow-on offering, and $2,724,863 in offering costs were reimbursable to our advisor. The total offering costs related to our follow-on offering did not exceed 15.0% of the gross offering proceeds from the sale of our shares of common stock in our follow-on offering. As of December 31, 2016, total offering costs for the DRIP offering were $124,000. We directly incurred $0 of offering costs for the DRIP offering and $124,000 in offering costs were reimbursed to our advisor. As of December 31, 2016, we had $0 payable to our advisor for offering costs related to our follow-on offering and the DRIP offering. We have not reimbursed our advisor any funds for organization costs for our follow-on offering.

Operating Expenses

Pursuant to our charter, we will reimburse our advisor for all operating expenses paid or incurred by our advisor in connection with the services provided to us, subject to the limitation that we will not reimburse our advisor for any amount by which its operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of our average invested assets or (2) 25% of our net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of our assets for that period, which we refer to as the “2%/25% Limitation.” Notwithstanding the above, we may reimburse our advisor for expenses in excess of this limitation if a majority of the independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended December 31, 2016, our total operating expenses were $4,031,112, which included $2,799,289 in operating expenses incurred directly by us and $1,231,823 incurred by our advisor on our behalf. Of the $4,031,112 in total operating expenses incurred during the four fiscal quarters ended December 31, 2016, $0 exceeded the 2%/25% Limitation. We reimbursed our advisor approximately $1,231,000 in operating expenses during the four fiscal quarters ended December 31, 2016. Additionally, our advisor has incurred $5,293,044 in operating expenses on our behalf prior to the four fiscal quarters ended December 31, 2016. This amount is not reimbursable to our advisor and is not our obligation. However, while our board of directors has not yet approved reimbursement of such amount to our advisor, it reserves the right to do so in the future.

Our advisor has waived all operating expenses reimbursable to our advisor for each of the 12 prior fiscal quarters ended March 31, 2014, which we refer to as the “waiver period,” to the extent such expenses had not been previously reimbursed to our advisor. Our advisor further agreed that all expenses incurred directly by us during the waiver period would be paid by our advisor on our behalf. Total reimbursable expenses so waived or assumed by our advisor were $1,967,721 as of December 31, 2016.

Results of Operations

As of December 31, 2015, we owned the Woodlands Hotel, the Germantown Hotel, the Charleston Hotel, the Austin Hotel, the Grapevine Hotel, the joint venture interest in the Lyndhurst Hotel, the Austin Arboretum Hotel, the Great Valley Hotel, the Nashville Hotel, the Homewood Suites Austin Hotel, the joint venture interest in the Fort Worth Hotel, the joint venture interest in the Hyatt Place note, and one note receivable from a related party. As of December 31, 2016, we owned the Woodlands Hotel, the Germantown Hotel, the Charleston Hotel, the Austin Hotel, the Grapevine Hotel, the joint venture interest in the Lyndhurst Hotel, the Austin Arboretum Hotel, the Great Valley Hotel, the Nashville Hotel, the Homewood Suites Austin Hotel, the joint venture interest in the Fort Worth Hotel, the Houston Hotel, and two notes receivable from related parties. Because we owned eleven hotel properties at December 31, 2015 compared to twelve hotel properties at December 31, 2016 and due to the fact that we did not own four of the hotels for the entire year ended December 31, 2015, our results of operations for the year ended December 31, 2015 are not directly comparable to those for the year ended December 31, 2016. In general, subject to the pending mergers, we expect that our income and expenses related to our investment portfolio will increase in future periods as a result of anticipated future acquisitions of real estate and real estate-related investments.

Comparison of the year ended December 31, 2016 versus the year ended December 31, 2015

Revenue

Total revenue increased to $61,930,033 for the year ended December 31, 2016 from $52,167,132 for the year ended December 31, 2015. Total hotel revenue increased to $60,100,650 for the year ended December 31, 2016 compared to $51,064,000 for the year ended December 31, 2015. The increase in hotel revenue was primarily due to the fact that we owned interests in twelve hotel properties at December 31, 2016 compared to eleven hotel properties at December 31, 2015 and the fact that we owned four hotel properties acquired in 2015 for a full year for the year ended December 31, 2016. Interest income from notes receivable related to the Hyatt Place note and the notes receivable from related parties increased to $1,829,383 for the year ended December 31, 2016 from $1,103,132 for the year ended December 31, 2015 due to the addition of a note receivable from related party during the year ended December 31, 2016. Subject to the pending mergers, we expect that room revenue, other hotel revenue and total revenue will each increase in future periods as a result of anticipated growth in revenues and owning the Houston Hotel for a full year reporting period.

A comparison of hotel revenues for those hotels owned continuously for the years ended December 31, 2016 and 2015 is set forth below:

	Year ended December 31,		
	2016	2015	Increase (Decrease)
Woodlands Hotel	$ 3,027,430	$ 3,885,163	$ (857,733)
Germantown Hotel	4,074,560	3,921,696	152,864
Charleston Hotel	3,933,133	3,583,813	349,320
Austin Hotel	4,066,322	4,867,863	(801,541)
Grapevine Hotel	6,381,991	5,997,232	384,759
Lyndhurst Hotel	8,794,268	8,349,531	444,737
Austin Arboretum Hotel	5,221,843	5,661,747	(439,904)
Totals	$ 35,499,547	$ 36,267,045	$ (767,498)

Revenues at three of our hotels located in Texas decreased for the year ended December 31, 2016 compared to the year ended December 31, 2015, due primarily to the downturn in the energy industry in Texas and to property improvements made during the year, both of which disrupted occupancy.

Hotel Operating Expenses

Hotel operating expenses increased to $37,025,559 for the year ended December 31, 2016 from $30,895,349 for the year ended December 31, 2015. The increase in hotel operating expenses was primarily due to the facts that we owned interests in twelve hotel properties at December 31, 2016 compared to eleven hotel properties at December 31, 2015 and that we owned four hotel properties acquired in 2015 for a full year for the year ended December 31, 2016.

Property Taxes, Insurance and Other

Property taxes, insurance and other increased to $3,999,649 for the year ended December 31, 2016 from $3,251,501 for the year ended December 31, 2015. This increase was primarily due to the facts that we owned interests in twelve hotel properties at December 31, 2016 compared to eleven hotel properties at December 31, 2015 and that we owned four hotel properties acquired in 2015 for a full year for the year ended December 31, 2016.

Depreciation and Amortization

Depreciation and amortization expense increased to $11,576,178 for the year ended December 31, 2016 from $9,481,115 for the year ended December 31, 2015. The increase in depreciation and amortization expense was primarily due to the facts that we owned interests in twelve hotel properties at December 31, 2016 compared to eleven hotel properties at December 31, 2015 and that we owned four hotel properties acquired in 2015 for a full year for the year ended December 31, 2016.

Acquisition Expenses

Property acquisition expense decreased to $1,321,263 for the year ended December 31, 2016 from $3,946,882 for the year ended December 31, 2015. We acquired one and four properties during the years ended December 31, 2016 and 2015, respectively, with aggregate purchase prices of $8,000,000 and $101,550,000 the years ended December 31, 2016 and 2015, respectively. Also, expenses related to the pending mergers were charged to property acquisition expenses for the year ended December 31, 2016.

Corporate General and Administrative Expenses

Corporate general and administrative expenses increased to $4,030,289 for the year ended December 31, 2016 from $3,196,995 for the year ended December 31, 2015. These general and administrative expenses consisted primarily of asset management fees, restricted stock compensation, directors' fees and professional fees. Asset management fees increased primarily due to the facts that we owned interests in twelve hotel properties at December 31, 2016 compared to eleven hotel properties at December 31, 2015 and that we owned four hotel properties acquired in 2015 for a full year for the year ended December 31, 2016. Subject to the pending mergers, we expect corporate general and administrative expenses to increase in future periods as a result of owning the Houston Hotel for a full year reporting period, but to decrease as a percentage of total revenue.

Gain on sale of hotel property

The gain on sale of hotel property for the year ended December 31, 2015 of $10,145,221 was related to the sale of one hotel property. There were no sales of hotel properties for the year ended December 31, 2016.

Gain on acquisition of hotel property

Gain on acquisition of hotel property for the year ended December 31, 2016 of $2,698,113 results from the difference between the fair value of the Fort Worth Hotel of $10,000,000 at the date of acquisition and the purchase price of $7,301,887.

Interest Expense and Amortization of Deferred Debt issuance costs

Interest expense and amortization of deferred debt issuance costs increased to $9,418,968 for the year ended December 31, 2016 from $7,795,764 for the year ended December 31, 2015. This increase in interest expense and amortization of deferred debt issuance costs was due to the fact that we incurred additional indebtedness related to our hotel property acquisition since December 31, 2015. In future periods our interest expense will vary based on the amount of our borrowings, which will depend on the availability and cost of borrowings and our ability to identify and acquire real estate and real estate-related assets that meet our investment objectives.

Income Tax Benefit

Income tax benefit for the year ended December 31, 2016 was $1,054,423 compared to $492,000 for the year ended December 31, 2015. The income tax benefit results from net operating losses of our TRSs.

Critical Accounting Policies

General

Our accounting policies have been established to conform with GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. If management's judgment or interpretation of the facts and circumstances relating to various transactions is different, it is possible that different accounting policies will be applied or different amounts of assets, liabilities, revenues and expenses will be recorded, resulting in a different presentation of the financial statements or different amounts reported in the consolidated financial statements. Additionally, other companies may utilize different estimates that may impact the comparability of our results of operations to those of companies in similar businesses. These policies require complex judgment in their application or estimates about matters that are inherently uncertain.

Income Taxes

We have made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2011. Prior to qualifying to be taxed as a REIT, we were subject to normal federal and state corporation income taxes.

As a REIT, we generally will not be subject to federal corporate income tax to the extent we distribute our REIT taxable income to our stockholders, so long as we distribute at least 90% of our REIT taxable income (which is computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP) and satisfy the other organizational and operational requirements for REIT qualification. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property, and federal income and excise taxes on our undistributed income. We lease the hotels we acquire to wholly-owned taxable REIT subsidiaries that are subject to federal, state and local income taxes.

Related to our TRS entities, we account for income taxes using the asset and liability method under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is recorded for net deferred tax assets that are not expected to be realized.

We have reviewed tax positions under GAAP guidance that clarifies the relevant criteria and approach for the recognition and measurement of uncertain tax positions. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the consolidated financial statements if it is more likely than not that the tax position will be sustained upon examination. We had no material uncertain tax positions as of December 31, 2016.

The preparation of our various tax returns requires the use of estimates for federal and state income tax purposes. These estimates may be subjected to review by the respective taxing authorities. A revision to an estimate may result in an assessment of additional taxes, penalties and interest. At this time, a range in which our estimates may change is not expected to be material. We will account for interest and penalties relating to uncertain tax provisions in the current period income statement, if necessary. We have tax years 2011 through 2015 remaining subject to examination by various federal and state tax jurisdictions.

Valuation and Allocation of Hotel Properties — Acquisitions

Upon acquisition, the purchase price of hotel properties is allocated to the tangible assets acquired, consisting of land, buildings and furniture, fixtures and equipment, any assumed debt, identified intangible assets and asset retirement obligations based on their fair values. Acquisition costs are charged to expense as incurred. Initial valuations are subject to change during the measurement period, but the measurement period ends as soon as the information is available. The measurement period shall not exceed one year from the acquisition date.

The fair value of the tangible assets acquired consists of land, buildings, furniture, fixtures and equipment. Land values are derived from appraisals, and building values are calculated as replacement cost less depreciation or our estimates of the relative fair value of these assets using discounted cash flow analyses or similar methods. The value of furniture, fixtures and equipment is based on their fair value using replacement costs less depreciation.

We determine the fair value of assumed debt by calculating the net present value of the scheduled mortgage payments using interest rates for debt with similar terms and remaining maturities that we believe we could obtain. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan as interest expense.

In allocating the purchase price of each of our properties, our advisor makes assumptions and uses various estimates, including, but not limited to, the estimated useful lives of the assets, the cost of replacing certain assets, discount rates used to determine present values and market rental rates. Many of these estimates are obtained from independent third party appraisals. However, we are responsible for the source and use of these estimates. These estimates are judgmental and subject to being imprecise; accordingly, if different estimates and assumptions were derived, the valuation of the various categories of our real estate assets or related intangibles could in turn result in a difference in the depreciation or amortization expense recorded in our consolidated financial statements. These variances could be material to our results of operations and financial condition.

Valuation and Allocation of Hotel Properties — Ownership

Depreciation expense is computed using the straight-line and accelerated methods based upon the following estimated useful lives:

	Estimated Useful Lives
Buildings and improvements	39-40 years
Exterior improvements	10-20
Furniture, fixtures and equipment	5-10

Impairments

We monitor events and changes in circumstances indicating that the carrying amounts of our hotel properties may not be recoverable. When such events or changes in circumstances are present, we assess potential impairment by comparing estimated future undiscounted cash flows expected to be generated over the life of the asset from operating activities and from its eventual disposition, to the carrying amount of the asset. In the event that the carrying amount exceeds the estimated future undiscounted cash flows, we recognize an impairment loss to adjust the carrying amount of the asset to estimated fair value for assets held for use and fair value less costs to sell for assets held for sale. There were no such impairment losses for the years ended December 31, 2016 and 2015.

In evaluating our hotel properties for impairment, we make several estimates and assumptions, including, but not limited to, the projected date of disposition of the properties, the estimated future cash flows of the properties during our ownership and the projected sales price of each of the properties. A change in these estimates and assumptions could result in a change in the estimated undiscounted cash flows or fair value of our hotel properties which could then result in different conclusions regarding impairment and material changes to our consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board, or “FASB,” issued Accounting Standards Update, or ASU, No. 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In July 2015, the FASB voted to defer the effective date to January 1, 2018 with early adoption beginning January 1, 2017. We have begun to evaluate each of our revenue streams under the new model. Based on preliminary assessments, we do not expect the adoption of ASU No. 2014-09 to have a material effect on our consolidated financial position or our consolidated results of operations.

In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Liabilities,” which enhances the reporting requirements surrounding the measurement of financial instruments and requires equity securities to be measured at fair value with changes in the fair value recognized through net income for the period. ASU No. 2016-01 is effective for our fiscal year commencing on January 1, 2018. We do not anticipate that the adoption of ASU No. 2016-01 will have a material effect on our consolidated financial position or our consolidated results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which changes lessee accounting to reflect the financial liability and right-of-use asset that are inherent to leasing an asset on the balance sheet. ASU No. 2016-02 is effective for our fiscal year commencing on January 1, 2019, but early adoption is permitted. The effect that the adoption of ASU No. 2016-02 will have on our consolidated financial position or our consolidated results of operations is not currently reasonably estimable.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies the accounting for income taxes for certain equity-based awards to employees. ASU No. 2016-09 is effective for our fiscal year commencing on January 1, 2017. We do not anticipate that the adoption of ASU No. 2016-09 will have a material effect on our consolidated financial position or our consolidated results of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addresses the Statement of Cash Flow classification and presentation of certain cash transactions. ASU No. 2016-15 is effective for our fiscal year commencing on January 1, 2018. The effect of this amendment is to be applied retrospectively where practical and early adoption is permitted. Subject to the pending mergers, we expect to adopt ASU No. 2016-15 for our fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-15 will not have a material effect on our consolidated financial position or our consolidated results of operations.

In October 2016, the FASB issued ASU No. 2016-17, "Interest Held Through Related Parties That Are Under Common Control," which amends the accounting guidance when determining the treatment of certain VIE's to include the interest of related parties under common control in a VIE when considering whether or not the reporting entity is the primary beneficiary of the VIE when considering consolidation. ASU No. 2016-17 is effective for our fiscal year commencing on January 1, 2017. The adoption of ASU No. 2016-17 will not have a material effect on our consolidated financial position or our consolidated results of operations.

In November 2016, the FASB issued ASU No. 2016-18, "Classification of Restricted Cash," which addresses the Statement of Cash Flow classification and presentation of restricted cash transactions. ASU No. 2016-18 is effective for our fiscal year commencing on January 1, 2018. The effect of this amendment is to be applied retrospectively and early adoption is permitted. Subject to the pending mergers, we expect to adopt ASU No. 2016-18 for our fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-18 will not have a material effect on our consolidated financial position or our consolidated results of operations.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business," with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as an acquisition of assets or a business. ASU No. 2017-01 is effective for our fiscal year commencing on January 1, 2018. The effect of this guidance is to be applied prospectively and early adoption is permitted. The adoption of ASU No. 2017-01 will not have a material effect on our financial position or our results of operations.

Inflation

As of December 31, 2016, our investments consisted of ownership interests in twelve hotel properties and our two notes receivable from related parties. Operators of hotels, in general, possess the ability to adjust room rates daily to reflect the effects of inflation. Competitive pressures may, however, limit the operators' ability to raise room rates. We are currently not experiencing any material impact from inflation.

REIT Compliance

To qualify as a REIT for tax purposes, we are required to distribute at least 90% of our REIT taxable income (determined without regard to the dividends-paid deduction and excluding capital gains) to our stockholders each year. We must also meet certain asset and income tests, as well as other requirements. We will monitor the business and transactions that may potentially impact our REIT status. If we fail to qualify as a REIT in any taxable year following the taxable year in which we initially elect to be taxed as a REIT, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and generally will not be permitted to qualify for treatment as a REIT for federal income tax purposes for the four taxable years following the year during which our REIT qualification is lost unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders.

On December 18, 2015, President Obama signed into law the Consolidated Appropriations Act, 2016, an omnibus spending bill, with a division referred to as the Protecting Americans From Tax Hikes Act of 2015, which changes certain of the rules affecting REIT qualification and taxation of REITs and REIT stockholders. These changes are briefly summarized as follows:

- For taxable years beginning after 2017, the percentage of a REIT's total assets that may be represented by securities of one or more TRSs is reduced from 25% to 20%.
- For distributions in taxable years beginning after 2014, the preferential dividend rules no longer apply to "publicly offered REITs," as defined in new Internal Revenue Code Section 562(c)(2), such as or company.

- For taxable years beginning after 2015, debt instruments issued by publicly offered REITs are treated as real estate assets for purposes of the 75% asset test, but interest on debt of a publicly offered REIT will not be qualifying income under the 75% gross income test unless the debt is secured by real property. Under a new asset test, not more than 25% of the value of a REIT's assets may consist of debt instruments that are issued by publicly offered REITs and would not otherwise be treated as qualifying real estate assets.
- For taxable years beginning after 2015, to the extent rent attributable to personal property is treated as rents from real property (because rent attributable to the personal property for the taxable year does not exceed 15% of the total rent for the taxable year for such real and personal property), the personal property will be treated as a real estate asset for purposes of the 75% asset test. Similarly, a debt obligation secured by a mortgage on both real and personal property will be treated as a real estate asset for purposes of the 75% asset test, and interest thereon will be treated as interest on an obligation secured by real property, if the fair market value of the personal property does not exceed 15% of the fair market value of all property securing the debt.
- For taxable years beginning after 2015, a 100% excise tax will apply to "redetermined services income" (i.e., non-arm's-length income of a REIT's TRS attributable to services provided to, or on behalf of, the REIT) other than services provided to REIT tenants, which are potentially taxed as redetermined rents.
- For taxable years beginning after 2014, the period during which dispositions of properties with net built-in gains acquired from C corporations in carry-over basis transactions will trigger the built-in gains tax is reduced from ten years to five years.
- REITs are subject to a 100% tax on net income from "prohibited transactions" (i.e., sales of dealer property, other than "foreclosure property"). These rules also contain safe harbors under which certain sales of real estate assets will not be treated as prohibited transactions. One of the requirements for the current safe harbors is that (I) the REIT does not make more than seven sales of property (subject to specified exceptions) during the taxable year at issue, or (II) the aggregate adjusted bases (as determined for purposes of computing earnings and profits) of property (other than excepted property) sold during the taxable year does not exceed 10% of the aggregate bases in the REIT's assets as of the beginning of the taxable year, or (III) the fair market value of property (other than excepted property) sold during the taxable year does not exceed 10% of the fair market value of the REIT's total assets as of the beginning of the taxable year. If a REIT relies on clause (II) or (III), substantially all of the marketing and certain development expenditures with respect to the properties sold must be made through an independent contractor. For taxable years beginning after December 18, 2015, clauses (II) and (III) are liberalized to permit the REIT to sell properties with an aggregate adjusted basis (or fair market value) of up to 20% of the aggregate bases in (or fair market value of) the REIT's assets as long as the 10% standard is satisfied on average over the three-year period comprised of the taxable year at issue and the two immediately preceding taxable years. In addition, for taxable years beginning after 2015, for REITs that rely on clauses (II) or (III), a TRS may make the marketing and development expenditures that previously had to be made by independent contractors.
- A number of changes applicable to REITs are made to the FIRPTA rules for taxing non-US persons on gains from sales of US real property interests, or USRPIs:
    - For dispositions and distributions on or after December 18, 2015, the stock ownership thresholds for exemption from FIRPTA taxation on sale of stock of a publicly traded REIT and for recharacterizing capital gain dividends as ordinary dividends is increased from not more than 5% to not more than 10%.
    - Effective December 18, 2015, new rules will simplify the determination of whether REITs such as our company are a "domestically controlled qualified investment entity."
    - For dispositions and distributions after December 18, 2015, "qualified foreign pension funds" as defined in new Internal Revenue Code Section 897(l)(2) and entities that are wholly owned by a qualified foreign pension fund are exempted from FIRPTA and FIRPTA withholding. New FIRPTA rules also apply to "qualified shareholders" as defined in new Internal Revenue Code Section 897(k)(3).
    - For sales of USRPIs occurring after February 16, 2016, the FIRPTA withholding rate for sales of USRPIs and certain distributions generally increases from 10% to 15%.

Distributions

Our board of directors has authorized distributions to our stockholders that (1) accrue daily to our stockholders of record on each day; (2) are payable in cumulative amounts on or before the 15th day of each calendar month; and (3) are calculated at a rate of $0.002192 per share of the our common stock per day, which, if paid each day over a 365-day period, is equivalent to an 8.0% annualized distribution rate based on a purchase price of $10.00 per share of our common stock.

The following table summarizes distributions paid in cash and pursuant to our DRIP for the years ended December 31, 2016 and 2015.

Period	Cash Distribution	Distribution Paid Pursuant to DRIP[(1)]	Total Amount of Distribution[(1)]
First Quarter 2016	$ 1,643,571	$ 965,287	$ 2,608,858
Second Quarter 2016	1,683,097	967,084	2,650,181
Third Quarter 2016	1,703,955	954,614	2,658,569
Fourth Quarter 2016	2,332,101	310,855	2,642,956
Total	$ 7,362,724	$ 3,197,840	$ 10,560,564
First Quarter 2015	$ 1,348,289	$ 746,826	$ 2,095,115
Second Quarter 2015	1,623,871	964,050	2,587,921
Third Quarter 2015[(2)]	1,980,101	978,008	2,958,109
Fourth Quarter 2015	1,653,259	943,606	2,596,865
Total	$ 6,605,520	$ 3,632,490	$ 10,238,010

(1) Amount of distributions paid in shares of common stock pursuant to our DRIP.
(2) Includes special distribution of $350,000 during the third quarter of 2015.

We paid $10,560,564 in aggregate distributions for the year ended December 31, 2016, which was comprised of $7,362,724 in cash distributions and $3,197,840 in shares issued pursuant to our DRIP. We paid $10,238,010 in aggregate distributions for the year ended December 31, 2015, which was comprised of $6,605,520 in cash distributions and $3,632,490 in shares issued pursuant to our DRIP. For the years ended December 31, 2016 and 2015, we had cash provided by operating activities of $5,876,097 and $4,206,687, respectively, and our funds from operations were $7,157,395 and $3,494,703, respectively. For information on how we calculate funds from operations, see "—Funds from Operations and Modified Funds from Operations" below. For the year ended December 31, 2016, approximately 56% of distributions were paid from cash provided by operating activities and approximately 44% were paid from offering proceeds. For the year ended December 31, 2015, approximately 41% of distributions were paid from cash provided by operating activities and approximately 59% were paid from offering proceeds. Of the $27,946,328 in total distributions we paid during the period from our inception through December 31, 2016, including shares issued pursuant to our DRIP, approximately 39% was funded from cash flow from operations and approximately 61% was funded from offering proceeds or proceeds from the sale of hotel property.

Funds from Operations and Modified Funds from Operations

One of our objectives is to provide cash distributions to our stockholders from cash generated by our operations. Cash generated from operations is not equivalent to net income as determined under GAAP. Due to certain unique operating characteristics of real estate companies, the National Association of Real Estate Investment Trusts, or NAREIT, an industry trade group, has promulgated a standard known as Funds from Operations, or FFO, which it believes more accurately reflects the operating performance of a REIT. As defined by NAREIT, FFO means net income computed in accordance with GAAP, excluding gains (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures in which the REIT holds an interest. We have adopted the NAREIT definition for computing FFO because, in our view, FFO is a meaningful supplemental performance measure in conjunction with net income.

Changes in the accounting and reporting rules under GAAP that have been put into effect since the establishment of NAREIT's definition of FFO have prompted a significant increase in the magnitude of non-cash and non-operating items included in FFO, as defined. As a result, in addition to FFO, we also calculate modified funds from operations, or MFFO, a non-GAAP supplemental financial performance measure that our management uses in evaluating our operating performance. Similar to FFO, MFFO excludes items such as depreciation and amortization. However, MFFO excludes non-cash and non-operating items included in FFO, such as amortization of certain in-place lease intangible assets and liabilities and the amortization of certain tenant incentives. Our calculation of MFFO will exclude these items, as well as the effects of straight-line rent revenue recognition, fair value adjustments to derivative instruments that do not qualify for hedge accounting treatment, non-cash impairment charges and certain other items, when applicable. Our calculation of MFFO will also include, when applicable, items such as master lease rental receipts, which are excluded from net income (loss) and FFO, but which we consider in the evaluation of the operating performance of our real estate investments.

We believe that MFFO reflects the overall impact on the performance of our real estate investments of occupancy rates, rental rates, property operating costs and development activities, as well as general and administrative expenses and interest costs, which is not immediately apparent from net income (loss). As such, we believe MFFO, in addition to net income (loss) as defined by GAAP, is a meaningful supplemental performance measure which is used by our management to evaluate our operating performance and determine our operating, financing and dividend policies.

Please see the limitations listed below associated with the use of MFFO as compared to net income (loss):

- Our calculation of MFFO will exclude any gains (losses) related to changes in estimated values of derivative instruments related to any interest rate swaps which we hold. Although we expect to hold these instruments to maturity, if we were to settle these instruments prior to maturity, it would have an impact on our operations. We do not currently hold any such derivate instruments and thus our calculation of MFFO set forth in the table below does not reflect any such exclusion.

- Our calculation of MFFO will exclude any impairment charges related to long-lived assets that have been written down to current market valuations. Although these losses will be included in the calculation of net income (loss), we will exclude them from MFFO because we believe doing so will more appropriately present the operating performance of our real estate investments on a comparative basis. We have not recognized any such impairment charges and thus our calculation of MFFO set forth in the table below does not reflect any such exclusion.
- Our calculation of MFFO will exclude organizational and acquisition expenses. Although these amounts reduce net income, we fund such costs with proceeds from our offering and acquisition-related indebtedness and do not consider these expenses in the evaluation of our operating performance and determining MFFO. Our calculation of MFFO set forth in the table below reflects such exclusions.

We believe MFFO is useful to investors in evaluating how our portfolio might perform since our offering stage has been completed and, as a result, may provide an indication of the sustainability of our distributions in the future. However, as described in greater detail below, MFFO should not be considered as an alternative to net income (loss) or as an indication of our liquidity. Many of the adjustments to MFFO are similar to adjustments required by SEC rules for the presentation of pro forma business combination disclosures, particularly acquisition expenses, gains or losses recognized in business combinations and other activity not representative of future activities. MFFO is also more comparable in evaluating our performance over time and as compared to other real estate companies, which may not be as involved in acquisition activities or as affected by impairments and other non-operating charges.

MFFO has limitations as a performance measure. However, it is useful in assisting management and investors in assessing the sustainability of operating performance in future operating periods, and in particular, after the offering and acquisition stages are complete and net asset value is disclosed. MFFO is not a useful measure in evaluating net asset value because impairments are taken into account in determining net asset value but not in determining MFFO. Investors are cautioned that due to the fact that impairments are based on estimated future undiscounted cash flows and given the relatively limited term of our operations, it could be difficult to recover any impairment charges.

The calculation of FFO and MFFO may vary from entity to entity because capitalization and expense policies tend to vary from entity to entity. Consequently, our presentation of FFO and MFFO may not be comparable to other similarly titled measures presented by other REITs. In addition, FFO and MFFO should not be considered as an alternative to net income (loss) or to cash flows from operating activities and are not intended to be used as a liquidity measure indicative of cash flow available to fund our cash needs. Acquisition costs and other adjustments increased our MFFO which were significant uses of cash when we were in the acquisition phase of our life cycle. MFFO also excludes impairment charges, rental revenue adjustments and unrealized gains and losses related to certain other fair value adjustments. Accordingly, both FFO and MFFO should be reviewed in connection with other GAAP measurements.

The table below summarizes our calculation of FFO and MFFO for the years ended December 31, 2016 and 2015 and a reconciliation of such non-GAAP financial performance measures to our net income (loss).

	Year ended December 31,	
	2016	**2015**
Net Income (Loss)	$ (4,387,450)	$ 6,934,860
Adjustments:		
Depreciation and amortization	11,576,178	9,481,115
Gain on sale of hotel property	—	(10,145,221)
Gain on acquisition of hotel property	—	(2,698,113)
Adjustments for noncontrolling interests	(31,333)	(77,938)
Funds from Operations	7,157,395	3,494,703
Adjustments:		
Stock/unit-based compensation	14,077	52,923
Amortization of debt issuance costs	701,626	522,682
Acquisition expenses	1,321,263	3,946,882
Adjustments for noncontrolling interests	(5,746)	(2,749)
Modified Funds from Operations	$ 9,188,615	$ 8,014,441

Off-Balance Sheet Arrangements

As of December 31, 2016 and 2015 we had no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Related-Party Transactions and Agreements

We have entered into agreements with our advisor and its affiliates whereby we have paid, and, subject to the pending mergers, will continue to pay, certain fees to, or reimburse certain expenses of, our advisor or its affiliates for acquisition and advisory fees and expenses, financing coordination fees, organization and offering costs, asset and property management fees and expenses, leasing fees and reimbursement of certain operating costs. Additionally, we have entered into a joint venture arrangement with affiliates of our advisor in connection with the acquisition of the Hyatt Place note and have made loans to related parties. See Item 1, "Business—Pending Merger with Moody National REIT II, Inc.," Item 13, "Certain Relationships and Related Transactions and Director Independence" and Note 7 (Related Party Arrangements) to the consolidated financial statements included in this Annual Report for a discussion of the various related-party transactions, agreements and fees.

Subsequent Events

Distributions Declared

On December 31, 2016, we declared a distribution in the aggregate amount of $901,702 which was paid in cash on January 15, 2017. On January 31, 2017, we declared a distribution in the aggregate amount of $904,192 which was paid in cash on February 15, 2017. On February 28, 2017, we declared a distribution in the aggregate amount of $816,682 which was paid in cash on March 15, 2017.

Extension of Term of Advisory Agreement

On March 22, 2017, we entered into an amendment to the advisory agreement with our advisor, which extended the term of the advisory agreement until the earlier of (i) the termination of the advisory agreement pursuant to the termination agreement or (ii) April 15, 2018.

ITEM 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Market Risk

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. We may be exposed to interest rate changes primarily as a result of long-term debt used to maintain liquidity, fund capital expenditures and expand our real estate investment portfolio and operations. Market fluctuations in real estate financing may affect the availability and cost of funds needed to expand our investment portfolio. In addition, restrictions upon the availability of real estate financing or high interest rates for real estate loans could adversely affect our ability to dispose of real estate in the future. We will seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

With regard to variable rate financing, our advisor will assess our interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities. Our advisor will maintain risk management control systems to monitor interest rate cash flow risk attributable to both our outstanding and forecasted debt obligations as well as our potential offsetting hedge positions. While this hedging strategy will be designed to minimize the impact on our net income and funds from operations from changes in interest rates, the overall returns on your investment may be reduced.

As of December 31, 2016, all of our outstanding indebtedness accrued interest at a fixed rate and therefore an increase or decrease in interest rates would have no effect on our interest expense. Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. As we expect to hold our fixed rate instruments to maturity and the amounts due under such instruments would be limited to the outstanding principal balance and any accrued and unpaid interest, we do not expect that fluctuations in interest rates, and the resulting change in fair value of our fixed rate instruments, would have a significant impact on our operations.

The estimated fair value of our debt as of December 31, 2016 was $172,000,000 based on discounted cash flow analyses.

We are also exposed to interest rate risk with respect to our notes receivable from related parties. While those notes bear interest at fixed rates for their respective terms, changes in interest rates may affect the fair value of both notes. As of December 31, 2016, the carrying value of both notes approximated their fair value.

The table below summarizes our notes payable as of December 31, 2016 based on their maturity dates:

	Maturity Date						
	2017	2018	2019	2020	2021	Thereafter	Carrying Value[1]
Notes Payable							
Fixed Rate	$ 44,043,280	$ 2,145,768	$ 2,248,650	$ 2,340,140	$ 2,468,800	$ 118,390,612	$ 171,637,250
Adjustable Rate	—	—	—	—	—	—	—
Interest rate[2]	5.2%	4.7%	4.7%	4.7%	4.7%	4.7%	—

(1) The fair value estimate of our fixed rate debt was estimated to be $172,000,000 as of December 31, 2016 using a discounted cash flow analysis utilizing rates we would expect to pay for debt of a similar type and remaining maturity if the loans were originated at December 31, 2016.

(2) The weighted-average interest rate of our fixed rate debt was 4.95% at December 31, 2016. The weighted-average interest rate represents the actual interest rate in effect at December 31, 2016.

We plan to refinance three loans maturing in 2017. If the mergers are not consummated, we plan to extend one loan and refinance the other two.

We may be also exposed to the effects of changes in interest rates as a result of our acquisition and origination of mortgage and other loans.

Credit Risk

We will also be exposed to credit risk. Credit risk in our investments in debt and securities relates to each individual borrower's ability to make required interest and principal payments on scheduled due dates. We seek to manage credit risk through our advisor's comprehensive credit analysis prior to making an investment, actively monitoring our asset portfolio and the underlying credit quality of our holdings and subordination and diversification of our portfolio. Our analysis is based on a broad range of real estate, financial, economic and borrower-related factors which we believe are critical to the evaluation of credit risk inherent in a transaction. As of December 31, 2016, we were exposed to credit risk with respect to our investment in our notes receivable from related parties.

We will also be exposed to credit risk with respect to any derivative contracts we enter into. Credit risk is the risk of failure by the counterparty to perform its obligations under the terms of a derivative contract. If the fair value of a derivative contract is positive, the counterparty will owe us, which creates credit risk for us. If the fair value of a derivative contract is negative, we will owe the counterparty and, therefore, do not have credit risk. We will seek to minimize the credit risk in derivative instruments by entering into transactions with high-quality counterparties. We did not hold any derivative contracts during the years ended December 31, 2016 and 2015.

ITEM 8. *Financial Statements and Supplementary Data*

Our Consolidated Financial Statements and supplementary data can be found beginning on Page F-1 of this Annual Report.

ITEM 9. *Changes In and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

ITEM 9A. *Controls and Procedures*

Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon, and as of the date of, the evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of the end of the period covered by this Annual Report to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file and submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act. In connection with the preparation of this Annual Report, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making that assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on its assessment, our management believes that, as of December 31, 2016, our internal control over financial reporting was effective based on those criteria.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. ***Other Information***

On March 22, 2017, we entered into an amendment to the advisory agreement with our advisor, which extended the term of the advisory agreement until the earlier of (i) the termination of the advisory agreement pursuant to the termination agreement or (ii) April 15, 2018.

PART III

ITEM 10. *Directors, Executive Officers and Corporate Governance*

Our current directors and executive officers and their respective ages and positions are listed below:

Name	Age	Position
Brett C. Moody	53	Chairman of the Board, Chief Executive Officer and President
Robert W. Engel	62	Chief Financial Officer, Treasurer and Secretary
William H. Armstrong, III	52	Independent Director
John P. Thompson	53	Independent Director
Charles L. Horn	56	Independent Director

Brett C. Moody has served as our Chairman of the Board, Chief Executive Officer and President since January 2008, the month in which our company was formed. He also serves as Chief Executive Officer and President of our advisor. Mr. Moody founded Moody Mortgage Corporation in 1996 and has served as its Chairman and Chief Executive Officer since its formation. Mr. Moody, who has over 20 years of commercial real estate experience, has since guided the growth of his company from a mortgage company to a full service real estate firm, which includes affiliates Moody National Mortgage Corporation, Moody National Realty Company, Moody National Management and, Moody National Development Company and their respective subsidiaries, collectively referred to as the "Moody National Companies." His primary responsibilities include overseeing real estate acquisitions and management as well as building, coaching and leading the Moody National Companies' team of professionals. As Chairman of the Board and Chief Executive Officer of Moody National Mortgage Corporation, Mr. Moody has closed over 200 transactions totaling over $2 billion. Prior to founding Moody National Mortgage Corporation, Mr. Moody was a financial analyst for the Dunkum Mortgage Group, now Live Oak Capital. Mr. Moody also serves on the Board of Directors of Foundation for the Future, the Yellowstone Academy for At Risk Children, and the Palmer Drug Abuse Program.

Our board of directors, excluding Mr. Moody, has determined that the leadership positions previously and currently held by Mr. Moody, and the extensive experience Mr. Moody has accumulated from acquiring and managing investments in commercial real estate and debt, have provided Mr. Moody with the experiences, attributes and skills necessary to effectively carry out the duties and responsibilities of a director. Consequently, our board of directors has determined that Mr. Moody is a highly qualified candidate to serve as one of our directors.

Robert W. Engel has served as our Chief Financial Officer and Treasurer since January 2008, the month in which our company was formed, and as our Secretary since May 2010. In addition, Mr. Engel also serves as the Chief Financial Officer — Real Estate Development and Management of the Moody National Companies, a position he has held since September 2006. Prior to working at the Moody National Companies, Mr. Engel served as the Division Controller, Real Estate Development and Management, of BMS Management, Inc., an owner and manager of commercial and multifamily properties primarily in Houston, Texas from May 2005 to September 2006. From November 1999 to May 2005, Mr. Engel served as Controller and Chief Financial Officer, Real Estate Development and Management for Hartman Management, Inc., advisor to Hartman Commercial Properties REIT, which provides commercial real estate services. Mr. Engel is a CPA and holds memberships in the American Institute of Certified Public Accountants, and the Texas Society of Certified Public Accountants. Mr. Engel is also a CPM, with membership in the Institute of Real Estate Management, and a CCIM as a member of the CCIM Institute. He is a licensed real estate broker in the State of Texas. Mr. Engel holds Series 7, 22, 24, 27, 62 and 63 licenses with FINRA. Mr. Engel has a Bachelor of Business Administration with Highest Honors with a major in Accounting from the University of Texas at Austin.

William H. Armstrong III has served as one of our independent directors since September 2008, the month in which our company was formed. Mr. Armstrong serves as Chairman of the Board, Chief Executive Officer and President of Stratus Properties Inc. (NASDAQ: STRS), a company engaged in the acquisition, development, management, operation and sale of commercial, hotel, entertainment, multifamily and single-family residential real estate properties located primarily in the Austin, Texas area. Mr. Armstrong has been employed by Stratus Properties since its inception in 1992, served as Chief Financial Officer and Chief Operating Officer of Stratus Properties from 1996 to 1998, and has served as Chairman of the Board, Chief Executive Officer and President of Stratus Properties since 1998. Prior to joining Stratus Properties, Mr. Armstrong was Vice President of Sonnenblick Goldman, a national real estate investment banking and advisory firm. Mr. Armstrong serves on the Finance Committee of the U.S. Green Building Council, a Washington, D.C. based non-profit organization, and he has been active in NAREIT, the Urban Land Institute and the Real Estate Council of Austin. Mr. Armstrong received his B.A. in Economics from the University of Colorado Denver.

Our board of directors, excluding Mr. Armstrong, has determined that Mr. Armstrong's previous leadership positions, including directorships, with other organizations primarily engaged in investing in commercial real estate have provided Mr. Armstrong with the experiences, attributes and skills necessary to effectively carry out the duties and responsibilities of a director. Consequently, our board of directors has determined that Mr. Armstrong is a highly qualified candidate to serve as one of our directors.

John P. Thompson has served as one of our independent directors since September 2008, the month in which our company was formed. Mr. Thompson is the founder of PinPoint Commercial, which provides real estate services focusing on industrial, senior housing and medical related projects primarily in Texas. As CEO of Pinpoint Commercial, Mr. Thompson leads all investment and development activities for the firm as well as overseeing the company's financial and management operations. Prior to founding PinPoint Commercial in 1998, Mr. Thompson served as an industrial broker with CB Richard Ellis, Inc. Mr. Thompson received his Bachelor of Business Administration in Finance from the University of Texas at Austin.

Our board of directors, excluding Mr. Thompson, has determined that Mr. Thompson's experience managing investments in industrial and retail properties and brokering industrial properties has provided Mr. Thompson with the experiences, attributes and skills necessary to effectively carry out the duties and responsibilities of a director. Consequently, our board of directors has determined that Mr. Thompson is a highly qualified candidate to serve as one of our directors.

Charles L. Horn has served as one of our independent directors since May 2012. Mr. Horn joined Alliance Data in 2009 as Executive Vice President and Chief Financial Officer, after having served as Senior Vice President and Chief Financial officer at Builders Firstsource, Inc. since 1999. Prior to that, Mr. Horn was VP of finance and treasury for the retail operations of Pier 1 Imports, Inc. As CFO, one of Mr. Horn's primary responsibilities is to ensure that Alliance Data maintains transparency and consistency in financial reporting and accounting practices across the enterprise. Mr. Horn also drives the company's investor relations strategy, heading up communications with the investment community. Mr. Horn earned a Bachelor's degree in Business Administration from Abilene Christian University and an MBA from the University of Texas at Austin. Mr. Horn is also a Certified Public Accountant in the state of Texas, is a member of the Texas Society of CPAs, and a member of the American Institute of CPAs.

Our board of directors, excluding Mr. Horn, has determined that Mr. Horn's experience as a certified public accountant and an officer of a publicly traded company has provided Mr. Horn with the experiences, attributes and skills necessary to effectively carry out the duties and responsibilities of a director. Consequently, our board of directors has determined that Mr. Horn is a highly qualified candidate to serve as one of our directors.

Audit Committee

Our board of directors has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The audit committee meets on a regular basis, at least quarterly and more frequently as necessary. The audit committee's primary functions are to evaluate and approve the services and fees of our independent registered public accounting firm, to periodically review the auditors' independence and to assist the board of directors in fulfilling its oversight responsibilities by reviewing the financial information to be provided to the stockholders and others, the system of internal controls which management has established and the audit and financial reporting process. The current members of the audit committee are Messrs. William H. Armstrong, III, Charles L. Horn and John P. Thompson, all of whom are independent directors. Mr. Horn currently serves as the chairman of the audit committee and has been designated by the board of directors as the "audit committee financial expert" pursuant to the requirements of Item 407(d)(5) of Regulation S-K promulgated by the SEC under the Exchange Act.

Investment Committee

Our board of directors has a separately designated investment committee. Our board of directors has delegated to the investment committee (1) certain responsibilities with respect to investment in specific real estate assets proposed by our advisor and (2) the authority to review our investment policies and procedures on an ongoing basis and recommend any changes to our board of directors. Our investment committee must at all times be comprised of a majority of independent directors. The investment committee is comprised of three directors, two of whom are independent directors. The current members of the investment committee are Messrs. Brett C. Moody, John P. Thompson and William H. Armstrong, III, with Mr. Moody serving as the chairman of the investment committee.

With respect to real estate assets, the board of directors has delegated to the investment committee the authority to approve all real property acquisitions, developments and dispositions, including real property portfolio acquisitions, developments and dispositions, for a purchase price, total project cost or sales price of up to $30,000,000, including the financing of such acquisitions and developments. The board of directors, including a majority of the independent directors, must approve all real property acquisitions, developments and dispositions, including real property portfolio acquisitions, developments and dispositions, for a purchase price, total project cost or sales price greater than $30,000,000, including the financing of such acquisitions and developments.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires each director, officer and individual beneficially owning more than 10% of our common stock to file with the SEC, within specified time frames, initial statements of beneficial ownership (Form 3) of our common stock and statements of changes in beneficial ownership (Forms 4 and 5) of our common stock. These specified time frames require the reporting of changes in ownership within two business days of the transaction giving rise to the reporting obligation. Reporting persons are required to furnish us with copies of all Section 16(a) forms filed with the SEC. Based solely on a review of the copies of such forms furnished to us during and with respect to the fiscal year ended December 31, 2016, or written representations that no additional forms were required, we believe that all required Section 16(a) filings were timely and correctly made by reporting persons during 2016.

Code of Conduct and Ethics

We have adopted a Code of Ethics which contains general guidelines for conducting our business and is designed to help directors, employees and independent consultants resolve ethical issues in an increasingly complex business environment. The Code of Ethics applies to all of our officers, including our principal executive officer, principal financial officer and principal accounting officer and persons performing similar functions and all members of our board of directors. The Code of Ethics covers topics including, but not limited to, conflicts of interest, record keeping and reporting, payments to foreign and U.S. government personnel and compliance with laws, rules and regulations. We will provide to any person without charge a copy of our Code of Ethics, including any amendments or waivers, upon written request delivered to our principal executive office at the address listed on the cover page of this Annual Report.

ITEM 11. *Executive Compensation*

Compensation of our Executive Officers

Our executive officers do not receive compensation directly from us for services rendered to us and we do not intend to pay any compensation to our executive officers. We do not reimburse our advisor directly or indirectly for the salary or other compensation paid to any of our executive officers. As a result, we do not have nor has our board of directors considered a compensation policy for our executive officers and we have not included a Compensation and Discussion Analysis in this Annual Report.

Each of our executive officers, including each executive officer who serves as a director, is an officer or employee of our advisor or its affiliates and receives compensation for his or her services, including services performed on our behalf, from such entities. See "Item 13, Certain Relationships and Related Transactions and Director Independence" below for a discussion of fees paid to our advisor and its affiliates.

Compensation of our Directors

If a director is also one of our executive officers or an affiliate of our advisor, we do not pay any compensation to that person for services rendered as a director. The amount and form of compensation payable to our independent directors for their service to us is determined by our board of directors, based upon recommendations from our advisor. The following table sets forth certain information regarding compensation earned by or paid to our directors during the year ended December 31, 2016.

Name	Fees Earned or Paid in Cash(1)	Restricted Stock Grants(2)	All Other Compensation	Total
Brett C. Moody	$ —	$ —	$ —	$ —
William H. Armstrong, III(3)	54,000	—	—	54,000
John P. Thompson(3)	56,000	—	—	56,000
Charles L. Horn(3)	64,000	—	—	64,000
Total	$ 174,000	$ —	$ —	$ 174,000

(1) The amounts shown in this column include fees earned for attendance at board of director and committee meetings and annual retainers, as described below under "—Cash Compensation."

(2) As described below under "—Independent Directors Compensation Plan," amounts shown reflect the aggregate fair value of the shares of restricted stock as of the date of grant computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718.

(3) Independent director.

Cash Compensation

We pay each of our independent directors an annual retainer of $50,000, plus $2,000 per in-person board meeting attended, $1,500 per in-person committee meeting attended and $1,000 for each telephonic meeting attended; *provided*, *however*, we do not pay an additional fee to our directors for attending a committee meeting when the committee meeting is held on the same day as a board meeting. We also pay the audit committee chairperson an additional annual retainer of $10,000 and reimburse all directors for reasonable out-of-pocket expenses incurred in connection with attending board meetings.

Independent Directors Compensation Plan

We have approved and adopted an independent directors compensation plan which operates as a sub-plan of our long-term incentive plan. Under our independent directors compensation plan, each of our then current independent directors received 5,000 shares of restricted common stock when we raised the minimum offering amount of $2,000,000 in our initial public offering. Each new independent director that subsequently joins our board of directors receives 5,000 shares of restricted stock on the date he or she joins the board of directors. In addition, on the date of each of the first four annual meetings of stockholders at which an independent director is re-elected to the board of directors, he or she receives 2,500 restricted shares. Subject to certain conditions, the restricted stock granted pursuant to the independent directors compensation plan will vest and become non-forfeitable in equal quarterly installments beginning on the first day of the first quarter following the date of grant. As of December 31, 2016, 52,500 shares of restricted common stock have been granted to our independent directors and 1,250 shares of restricted common stock have been forfeited by a resigning independent director.

Compensation Committee Interlocks and Insider Participation

We currently do not have a compensation committee of our board of directors because we do not pay, or plan to pay, any compensation to our officers. There are no interlocks or insider participation as to compensation decisions required to be disclosed pursuant to SEC regulations.

ITEM 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Equity Compensation Plan Information

The following table provides information about our common stock that may be issued upon the exercise of options, warrants and rights under our long-term incentive plan, as of December 31, 2016.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders	—	—	1,948,750
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	1,948,750

Security Ownership of Beneficial Owners

The following table sets forth the beneficial ownership of our common stock as of March 7, 2017, for each person or group that holds more than 5.0% of our outstanding shares of common stock, for each director and executive officer and for our directors and executive officers as a group. To our knowledge, each person that beneficially owns our shares of our common stock has sole voting and disposition power with regard to such shares.

Name and Address of Beneficial Owner(1)	Number of Shares Beneficially Owned(2)	Percent of All Shares
Brett C. Moody(3)	37,381	0.3%
Robert W. Engel	—	—
William H. Armstrong, III	21,874	0.2%
John P. Thompson	21,874	0.2%
Charles L. Horn	15,000	0.1%
All Directors and Executive Officers as a group	96,129	0.8%

(1) The address of each named beneficial owner is c/o Moody National REIT I, Inc., 6363 Woodway Drive, Suite 110, Houston, Texas 77057.

(2) Under SEC rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to dispose of or to direct the disposition of such security. A person also is deemed to be a beneficial owner of any securities which that person has a right to acquire within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which he or she has no economic or pecuniary interest.

(3) Includes 37,381 shares owned by Moody National REIT Sponsor, LLC. Moody National REIT Sponsor, LLC is indirectly owned and controlled by Mr. Moody.

ITEM 13. *Certain Relationships and Related Transactions and Director Independence*

The following describes all transactions during the period from January 1, 2015 to December 31, 2016 involving us, our directors, our advisor, our sponsor and any affiliate thereof and all such proposed transactions. See also Note 7 (Related Party Arrangements) to the consolidated financial statements included in this Annual Report. Our independent directors are specifically charged with and have examined the fairness of such transactions to our stockholders, and have determined that all such transactions are fair and reasonable to us.

Ownership Interests

On February 19, 2008, our sponsor purchased 22,222 shares of our common stock at $9.00 per share for an aggregate purchase price of $200,000 and was admitted as our initial stockholder. On April 25, 2008, Moody National LPOP I, LLC, or Moody LPOP, made an initial capital contribution of $1,000 to our operating partnership in exchange for 100 common partnership units and OP Holdings contributed $1,000 to our operating partnership in exchange for 100 special partnership units.

As of December 31, 2016, Moody LPOP owned less than 1% of the outstanding limited partnership interests in our operating partnership and OP Holdings owned 100% of the special partnership units issued by our operating partnership. We are the sole general partner of our operating partnership and own approximately 95% of the limited partnership units of our operating partnership. OP Holdings' ownership interest of the special partnership units entitles it to a subordinated participation in which it will receive (1) 15% of specified distributions made upon the disposition of our operating partnership's assets and (2) a one-time payment, in the form of shares of our common stock or a promissory note, in conjunction with the redemption of the special partnership units upon the occurrence of certain liquidity events or upon the occurrence of certain events that result in a termination or non-renewal of the advisory agreement, but in each case only after the other holders of our operating partnership's partnership units, including us, have received (or have been deemed to have received), in the aggregate, cumulative distributions equal to their capital contributions plus an 8.0% cumulative non-compounded annual pre-tax return on their net contributions. As the holder of special partnership units, OP Holdings is not entitled to receive any other distributions.

As of December 31, 2016, we have not paid any distributions to OP Holdings pursuant to the special partnership units. However, pursuant to the termination agreement, upon consummation of the partnership merger (in connection with which the special partnership units will be cancelled and retired), our operating partnership will pay OP Holdings the promote payment in an amount not to exceed $613,751.

Note Joint Venture

On June 3, 2011, and effective as of May 5, 2011, we acquired a joint venture interest in the Hyatt Place note, which was issued by Moody National HP Grapevine Trust, a Delaware statutory trust established by affiliates of our sponsor, or the "trust." We acquired the Hyatt Place note through our joint venture, MNHP Note Holder, LLC, a Delaware limited liability company, or the "note joint venture." During the year ended December 31, 2016, our operating partnership owned a 74.5% membership interest in the note joint venture, Moody National Mortgage Corporation, or "Moody National Mortgage," an affiliate of ours, owned a 14% membership interest in the note joint venture and the trust members owned the remaining 11.5% membership interests in the note joint venture. Pursuant to the terms of the note joint venture agreement, Moody National Mortgage was entitled to receive approximately 14% of all distributions of cash from operations of the note joint venture and our operating partnership and the other trust members were entitled to receive the remaining approximately 86% of distributions of cash from operations of the note joint venture in proportion to their respective membership interests in the note joint venture.

The entire unpaid principal balance of the Hyatt Place note and all accrued and unpaid interest thereon was due and payable in full by February 1, 2018. The Hyatt Place note accrued interest at a fixed rate of 5.15% per annum from May 5, 2011 through August 21, 2012. For the period from August 21, 2012 through August 21, 2015 the Hyatt Place note accrued interest at 5.15%, which was a fixed rate equal to (a) the variable interest rate per annum published in The Wall Street Journal as the "prime rate" of 3.25% in effect as of August 21, 2012, plus (b) 1.90%. For the period from August 21, 2015 through the date of payment in full, the Hyatt Place note accrued interest at 5.15%, which was a fixed rate equal to (a) the prime rate in effect as of August 21, 2015, plus (b) 1.90%, provided that in no event could the interest rate exceed the maximum interest rate permitted by applicable law.

On June 10, 2016, the Hyatt Place note receivable and an acquisition note payable and all accrued interest thereon were paid in full.

Notes Receivable from Related Parties

On August 21, 2015, pursuant to a related party note, we made a loan in the amount of $9,000,000 to Moody National DST Sponsor, LLC, or "DST Sponsor," an affiliate of ours, the proceeds of which were used by DST Sponsor for the acquisition of a commercial property located in Katy, Texas. An origination fee of $90,000 and an extension fee in the amount of $45,000 were paid to us by DST Sponsor on August 15, 2016 and an exit fee of $90,000 is payable by DST Sponsor to us upon maturity of the related party note. The related party note bears interest at a rate of 12% per annum and was due August 21, 2016. The maturity date of the related party note was extended to August 21, 2017. On April 29, 2016, pursuant to a related party mezzanine note, we made a loan in the amount of $4,500,000 to Moody National, an affiliate of ours, the proceeds of which were used by Moody National for the acquisition of a commercial property located in Houston, Texas. An origination fee of $45,000 and an exit fee of $45,000 is payable by Moody National to us upon maturity of the related party mezzanine note, including any earlier prepayment date or accelerated maturity date. The related party mezzanine note bears interest at a rate of 10% per annum and is due April 30, 2018, and it may be prepaid in whole or part by Moody National without penalty at any time upon prior written notice to us.

Interest income on notes receivable was $1,558,000 and $479,300 for the years ended December 31, 2016 and 2015, respectively. Partial payments of interest on notes receivable from related parties have been made.

Great Valley Hotel

On March 27, 2015, our operating partnership acquired fee simple title to the Great Valley Hotel from the current tenant-in-common owners of the Great Valley Hotel, or the "Great Valley TIC owners," for an aggregate purchase price, exclusive of closing costs, of $11,000,000. The Great Valley TIC owners acquired their tenant-in-common interests in the Great Valley Hotel in a tenant-in-common program sponsored by an affiliate of our sponsor.

Nashville Hotel

On June 16, 2015, our operating partnership acquired fee simple title to the Nashville Hotel from the current tenant-in-common owners of the Nashville Hotel, or the "Nashville TIC owners," for an aggregate purchase price, exclusive of closing costs, of $66,300,000. The Nashville TIC owners acquired their tenant-in-common interests in the Nashville Hotel in a tenant-in-common program sponsored by an affiliate of our sponsor.

Fort Worth Hotel

On December 18, 2015, our operating partnership acquired an interest in the Fort Worth Hotel from the current tenant-in-common owners of the Fort Worth Hotel, or the "Fort Worth TIC owners," for an aggregate purchase price, exclusive of closing costs, including the assumption of the outstanding debt secured by the Fort Worth Hotel, of $7,301,887. The Fort Worth TIC owners initially acquired their tenant-in-common interests in the Fort Worth Hotel in a tenant-in-common program sponsored by an affiliate of our sponsor.

Houston Hotel

On April 21, 2016, our operating partnership acquired fee simple title to the Houston Hotel from the current tenant-in-common owners of the Houston Hotel, or the "Houston TIC owners," for an aggregate purchase price, exclusive of closing costs, of $8,000,000. The Houston TIC owners acquired their tenant-in-common interests in the Houston Hotel in a tenant-in-common program sponsored by an affiliate of our sponsor.

Amount Due from Related Parties

On September 22, 2015, we assigned and transferred our Purchase Agreement, as amended, between us and a third-party seller for the property commonly referred to as the Hampton Inn Boston Logan Airport to Moody National, for the sum of $1,000,000. The $1,000,000 receivable from Moody National is recorded in due from related parties in the accompanying consolidated balance sheets.

Payment from Moody Securities

From 2012 to 2015, our former dealer manager, Moody Securities, was the subject of an ongoing examination by FINRA regarding its sales of our shares in our initial public offering, focused on a number of areas, including Moody Securities' compliance with FINRA Rule 2310 and the computation of organization and offering expenses incurred in connection with our initial public offering. The FINRA investigation of Moody Securities did not implicate us directly.

On March 27, 2015, Moody Securities settled the matter with FINRA by entering into a Notice of Acceptance Letter, Waiver and Consent with FINRA whereby Moody Securities, among other things, agreed to pay us $350,000 to be distributed pro rata to our stockholders in connection with the failure of Moody Securities to comply with FINRA Rule 2310 and the computation of organization and offering expenses incurred in connection with our initial public offering under FINRA rules. Moody Securities paid us $350,000 on July 21, 2015, which was recorded as a special contribution to us in our consolidated statements of equity and we made a special distribution to our stockholders of $350,000 on July 28, 2015.

Merger Agreement

As described elsewhere in this Annual Report on Form 10-K, on November 16, 2016, we entered into the merger agreement. As described elsewhere in this Annual Report on Form 10-K, concurrently with the entry into the merger agreement, we, our operating partnership, our advisor, Moody II, Moody National and OP Holdings entered into the termination agreement.

Our Relationships with our Advisor and our Sponsor

Our advisor, Moody National Advisor I, LLC, supervises and manages our day-to-day operations and selects our real property investments and real estate-related investments, subject to the oversight by our board of directors. Our advisor also provides marketing, sales and client services on our behalf. Our advisor was formed in January 2008 and is indirectly owned by our sponsor, Moody National REIT Sponsor, LLC. Mr. Moody, our Chairman of the Board, Chief Executive Officer and President, also serves as the Chief Executive Officer of our sponsor and our advisor. All of our officers and directors, other than our independent directors, are officers of our advisor and serve, and may serve in the future, other affiliates of our advisor.

Fees and Expense Reimbursements Paid to our Advisor

Pursuant to the advisory agreement with our advisor, we pay our advisor or its affiliates the fees described below.

- We pay our advisor an acquisition fee equal to 1.5% of (1) the cost of investments we acquire directly or (2) our allocable cost of investments acquired in a joint venture, in each case including purchase price, acquisition expenses and any debt attributable to such investments. With respect to investments in and origination of real estate-related loans, we will pay an origination fee to our advisor in lieu of an acquisition fee. For the year ended December 31, 2016, we paid our advisor an acquisition fee of $120,000 in connection with the acquisition of the Houston Hotel. For the year ended December 31, 2015, we paid our advisor an acquisition fee of $1,476,750 in connection with the acquisition of the Great Valley Hotel, the Nashville Hotel, the Homewood Suites Austin Hotel, and the Fort Worth Hotel.

- We pay our advisor an origination fee equal to 1.5% of the amount funded by us to acquire or originate real estate-related loans, including third party expenses related to such investments and any debt we use to fund the acquisition or origination of the real estate-related loans. We will not pay an acquisition fee with respect to such real estate-related loans. As of December 31, 2016, we had not paid our advisor any origination fees.

- We pay our advisor an annual asset management fee that is payable monthly in an amount equal to one-twelfth of 1.0% of the sum of the aggregate cost (before non-cash reserves and depreciation) of all assets we own and of our investments in joint ventures at month end. For the years ended December 31, 2016 and 2015, we incurred asset management fees of $2,626,589 and $2,071,879, respectively.

- We pay our advisor a debt financing fee equal to 1.0% of the amount available under any loan or line of credit we obtain and use to acquire properties or other permitted investments, which is in addition to the acquisition fees paid to our advisor. Our advisor may pay some or all of such debt financing fees to third parties if it subcontracts to coordinate financing for us. We will not pay a debt financing fee with respect to (1) the refinancing of a real estate asset already refinanced for which our advisor received a fee and (2) loan proceeds from any line of credit until such time as we have invested all net offering proceeds. For the year ended December 31, 2016, we paid our advisor aggregate debt financing fees of $48,000 related to our acquisition of the Houston Hotel. For the year ended December 31, 2015, we paid our advisor aggregate debt financing fees of $787,000 related to our refinancing of the Woodlands Hotel and the financing for our acquisition of the Great Valley Hotel, the Nashville Hotel, the Homewood Suites Austin Hotel, and the Fort Worth Hotel.

- If our advisor provides a substantial amount of services in connection with the sale of a property or other investment, we will pay our advisor a disposition fee of 3.0% of the contract sales price, which may be in addition to real estate commissions paid to an unaffiliated party, provided that the total real estate commissions (including the disposition fee) paid to all parties does not exceed 6.0% of the contract sales price of each property sold. With respect to a property held in a joint venture, the foregoing commission will be reduced to a percentage of such amounts reflecting our economic interest in the joint venture. For the year ended December 31, 2015, we paid a disposition fee to our advisor in the amount of $551,250, or 2.25% of the contract sales price, in connection with the sale of the Silicon Valley Hotel. We did not pay our advisor any disposition fees for the year ended December 31, 2016.

- Where we engage MNHM as our property manager, we pay MNHM a market-based property management fee and accounting fee in connection with the operation and management of properties. For the year ended December 31, 2016, we paid MNHM management fees of $1,776,468 and accounting fees of $340,000. For the year ended December 31, 2015, we paid MNHM management fees of $1,532,740 and accounting fees of $287,500.

In addition to the fees we pay to our advisor pursuant to the advisory agreement, we also reimburse our advisor for the following costs and expenses:

- Pursuant to our advisory agreement with our advisor, we are obligated to reimburse our advisor and its affiliates, as applicable, for organization and offering costs incurred on our behalf associated with each of our public offerings, but only to the extent that such reimbursements do not exceed actual expenses incurred by our advisor and would not cause sales commissions, the dealer manager fee and other organization and offering costs borne by us in a public offering to exceed 15.0% of gross offering proceeds from the sale of our shares in such public offering as of the date of reimbursement. Our advisor is obligated to reimburse us to the extent organization and offering costs (including sales commissions and dealer manager fees) incurred by us in a public offering exceed 15.0% of the gross offering proceeds from the sale of our shares of common stock in such public offering.

  Total offering costs for our initial public offering, which terminated on October 12, 2012, were $4,132,374. We directly incurred offering costs of $946,944 for our initial public offering and reimbursed our advisor for $742,134 in offering costs for our initial public offering. The remaining $2,443,296 in offering costs related to our initial public offering is not our liability because such costs exceeded 15.0% of the gross offering proceeds from the sale of our shares of common stock in our completed initial public offering. We reimbursed our advisor for $28,083 in organization costs for our initial public offering.

  As of December 31, 2016, total offering costs for our follow-on offering, which terminated on February 20, 2015, were $14,122,588. We directly incurred $11,397,725 of offering costs for our follow-on offering, and $2,724,863 in offering costs were reimbursable to our advisor. The total offering costs related to our follow-on offering did not exceed 15.0% of the gross offering proceeds from the sale of our shares of common stock in our follow-on offering. As of December 31, 2016, total offering costs for the DRIP offering were $124,000. We directly incurred $0 of offering costs for the DRIP offering and $124,000 in offering costs were reimbursed to our advisor. As of December 31, 2016, we had $0 payable to our advisor for offering costs related to our follow-on offering and the DRIP offering. We have not reimbursed our advisor any funds for organization costs for our follow-on offering.

- We will reimburse our advisor for all operating expenses paid or incurred by our advisor in connection with the services provided to us, subject to the limitation that we will not reimburse our advisor for any amount by which its operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of our average invested assets or (2) 25% of our net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of our assets for that period, which we refer to as the "2%/25% Limitation." Notwithstanding the above, we may reimburse our advisor for expenses in excess of this limitation if a majority of the independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended December 31, 2016, our total operating expenses were $4,031,112, which included $2,799,289 in operating expenses incurred directly by us and $1,231,823 incurred by our advisor on our behalf. Of the $4,031,112 in total operating expenses incurred during the four fiscal quarters ended December 31, 2016, $0 exceeded the 2%/25% Limitation. We reimbursed our advisor approximately $1,231,000 in operating expenses during the four fiscal quarters ended December 31, 2016. Additionally, our advisor has incurred $5,293,044 in operating expenses on our behalf prior to the four fiscal quarters ended December 31, 2016. Subject to a future determination by the board of directors, this amount is not reimbursable to our advisor and is not our obligation. Notwithstanding the foregoing, our advisor has waived all operating expenses reimbursable to our advisor for each of the 12 prior fiscal quarters ended March 31, 2014, or the "waiver period," to the extent such expenses had not been previously reimbursed to our advisor. Our advisor further agreed that all expenses incurred directly by us during the waiver period will be paid by our advisor on our behalf. Total reimbursable expenses so waived or assumed by our advisor were $1,967,721 as of December 31, 2016. For the year ended December 31, 2016, our total operating expenses as a percentage of average invested assets were 1.7%.

- We reimburse our advisor for acquisition expenses incurred related to the selection and acquisition of real property investments and real estate-related investments. As of December 31, 2016, we had not reimbursed our advisor for any acquisition expenses.

Our advisory agreement has a one-year term (unless terminated earlier pursuant to the termination agreement), subject to an unlimited number of successive one-year renewals upon mutual consent of the parties. On March 22, 2017, we entered into an amendment to the advisory agreement with our advisor which extended the term of the advisory agreement until the earlier of (i) the termination of the advisory agreement pursuant to the termination agreement or (ii) April 15, 2018 (one year from the date of the expiration of the current one-year term).

We may terminate the advisory agreement without cause or penalty upon 60 days' written notice and immediately for cause or upon the bankruptcy of our advisor. If we terminate the advisory agreement, we will pay our advisor all unpaid reimbursements of expenses and all earned but unpaid fees; *provided, however*, that pursuant to the termination agreement, upon consummation of the mergers, the advisory agreement will be terminated and we will pay our advisor the Moody I advisor payment of $5,580,685.

Selling Commissions and Fees Paid to our Dealer Manager

The dealer manager for our initial public offering and follow-on offering was Moody Securities, LLC, a wholly owned subsidiary of our sponsor. Moody Securities is a licensed broker-dealer registered with FINRA. As our dealer manager, Moody Securities was entitled to certain dealer manager fees, selling commissions and reimbursements. Our dealer manager agreement with Moody Securities provided for the following compensation:

- We paid Moody Securities selling commissions of up to 6.5% of the gross offering proceeds from the sale of our shares in our follow-on offering, all of which may be reallowed to participating broker-dealers. No selling commissions are paid for sales pursuant to our DRIP. As of December 31, 2016, we had paid Moody Securities an aggregate of $9,393,123 in selling commissions. During the year ended 2016, we paid Moody Securities $0 in selling commissions. During the year ended 2015, we paid Moody Securities $2,077,939 in selling commissions.

- We paid Moody Securities a dealer manager fee of 3.5% of the gross offering proceeds from the sale of our shares in our follow-on offering, a portion of which was reallowed to participating broker-dealers. No dealer manager fees are paid for sales pursuant to our DRIP. As of December 31, 2016, we had paid Moody Securities an aggregate of $2,646,269 in dealer manager fees. During the year ended 2016, we paid Moody Securities $0 in dealer manager fees. During the year ended 2015, we paid Moody Securities $586,660 in dealer manager fees.

- We reimbursed Moody Securities and participating broker-dealers for *bona fide* due diligence expenses of up to 0.5% of the gross offering proceeds from the sale of our shares in our public offering, including shares sold pursuant to our DRIP. These due diligence expenses did not include legal fees or expenses or out-of-pocket expenses incurred in connection with soliciting broker dealers to participate in our public offering, and we had the right to require detailed and itemized invoices for any such expenses. We also reimbursed Moody Securities for legal fees and expenses, travel, food and lodging for employees of the dealer manager, sponsor training and education meetings, attendance fees and expense reimbursements for broker-dealer sponsored conferences, attendance fees and expenses for industry sponsored conferences, and informational seminars, subject to the limitations included in our dealer manager agreement. As of December 31, 2016, Moody Securities had incurred no such expenses.

Approval of Related Party Transactions

Our board of directors, including our independent directors, has examined the material terms, factors and circumstances surrounding the transactions and arrangements described above. On the basis of such examination, our board of directors, including our independent directors, has determined that such transactions are fair and reasonable to us and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

Conflict Resolution Procedures

As discussed above, we are subject to potential conflicts of interest arising out of our relationship with our advisor and its affiliates. These conflicts may relate to compensation arrangements, the allocation of investment opportunities, the terms and conditions on which various transactions might be entered into by us and our advisor or its affiliates and other situations in which our interests may differ from those of our advisor or its affiliates. We have adopted the procedures set forth below to address these potential conflicts of interest.

Priority Allocation of Investment Opportunities

Our advisor has agreed that we will have the first opportunity to acquire any investment in an income-producing retail property identified by our sponsor or advisor that meets our investment criteria for which we have sufficient uninvested funds. Our advisor will make this determination in good faith. Our board of directors, including the independent directors, has a duty to ensure that the method used by our advisor for the allocation of the acquisition of real estate assets by two or more affiliated programs seeking to acquire similar types of real estate assets is reasonable and is applied fairly to us.

Independent Directors

Our independent directors, acting as a group, will resolve potential conflicts of interest whenever they determine that the exercise of independent judgment by the board of directors or our advisor or its affiliates could reasonably be compromised. However, the independent directors may not take any action which, under Maryland law, must be taken by the entire board of directors or which is otherwise not within their authority. The independent directors, as a group, are authorized to retain their own legal and financial advisors. Among the matters we expect the independent directors to review and act upon are:

- the continuation, renewal or enforcement of our agreements with our advisor and its affiliates, including the advisory agreement with our advisor;
- transactions with affiliates, including our directors and officers;
- awards under our long-term incentive plan; and
- pursuit of a potential liquidity event.

Compensation Involving Our Advisor and its Affiliates

Our independent directors will evaluate at least annually whether the compensation that we contract to pay to our advisor and its affiliates is reasonable in relation to the nature and quality of services performed and that such compensation is within the limits prescribed by our charter. The independent directors will supervise the performance of our advisor and its affiliates and the compensation we pay to them to determine that the provisions of our compensation arrangements are being performed appropriately. This evaluation will be based on the factors set forth below as well as any other factors deemed relevant by the independent directors:

- the quality and extent of the services and advice furnished by our advisor;
- the amount of fees paid to our advisor in relation to the size, composition and performance of our investments;
- the success of our advisor in generating investment opportunities that meet our investment objectives;
- rates charged to other externally advised REITs and similar investors by advisors performing similar services;
- additional revenues realized by our advisor and its affiliates through their relationship with us, whether we pay them or they are paid by others with whom we do business;
- the performance of our investments, including income, conservation and appreciation of capital, frequency of problem investments and competence in dealing with distress situations; and
- the quality of our investments relative to the investments generated by our advisor for its own account.

The independent directors shall record these factors in the minutes of the meetings at which they make such evaluations.

Acquisitions, Leases and Sales Involving Affiliates

We will not acquire or lease real estate assets in which our advisor or its affiliates or any of our directors has an interest without a determination by a majority of the directors not otherwise interested in the transaction (including a majority of the independent directors) that such transaction is fair and reasonable to us and at a price to us no greater than the cost of the asset to our advisor or its affiliates or such director unless there is substantial justification for any amount that exceeds such cost and such excess amount is determined to be reasonable. In no event will we acquire any property at an amount in excess of its appraised value as determined by an independent appraiser. We will not sell or lease real estate assets to our advisor or its affiliates or to our directors unless, as required by our charter, a majority of the directors not otherwise interested in the transaction (including a majority of the independent directors) determine the transaction is fair and reasonable to us.

Mortgage Loans Involving Affiliates

Our charter prohibits us from investing in or making mortgage loans, including when the transaction is with our advisor or our directors or any of their affiliates, unless an independent expert appraises the underlying property. We must keep the appraisal for at least five years and make it available for inspection and duplication by any of our stockholders. In addition, we must obtain a mortgagee’s or owner’s title insurance policy or commitment as to the priority of the mortgage or the condition of the title. Our charter prohibits us from making or investing in any mortgage loans that are subordinate to any lien or other indebtedness of our advisor, our directors or any of their affiliates.

Issuance of Options and Warrants to Certain Affiliates

Our charter prohibits the issuance of options or warrants to purchase our common stock to our advisor, our directors or any of their affiliates (1) on terms more favorable than we would offer such options or warrants to unaffiliated third parties or (2) in excess of an amount equal to 10.0% of our outstanding common stock on the date of grant.

Repurchase of Shares of Common Stock

Our charter prohibits us from paying a fee to our advisor or our directors or any of their affiliates in connection with our repurchase or redemption of our common stock.

Loans and Expense Reimbursements Involving Affiliates

We will not make any loans to our advisor or our directors or any of their affiliates except mortgage loans for which an appraisal is obtained from an independent appraiser. In addition, we will not borrow from these persons unless the independent directors approve the transaction as being fair, competitive and commercially reasonable, and no less favorable to us than comparable loans between unaffiliated parties. These restrictions on loans will only apply to advances of cash that are commonly viewed as loans, as determined by the board of directors. By way of example only, the prohibition on loans would not restrict advances of cash for legal expenses or other costs incurred as a result of any legal action for which indemnification is being sought, nor would the prohibition limit our ability to advance reimbursable expenses incurred by directors or officers or our advisor or its affiliates.

In addition, our directors and officers and our advisor and its affiliates will be entitled to reimbursement, at cost, for actual expenses incurred by them on behalf of us or joint ventures in which we are a joint venture partner, subject to the limitation on reimbursement of operating expenses to the extent that they exceed the 2%/25% Limitation.

Director Independence

We have a four-member board of directors. One of our directors, Brett C. Moody, is affiliated with our sponsor and its affiliates, and we do not consider Mr. Moody to be an independent director. The three remaining directors qualify as “independent directors” as defined in our charter in compliance with the requirements of the North American Securities Administrators Association’s Statement of Policy Regarding Real Estate Investment Trusts. Although our shares are not listed on any national securities exchange, our independent directors are “independent” as defined by the standards of the New York Stock Exchange, or “NYSE.” The NYSE standards provide that to qualify as an independent director, in addition to satisfying certain bright-line criteria, the board of directors must affirmatively determine that a director has no material relationship with us (either directly or as a partner, stockholder or officer of an organization that has a relationship with us).

Our charter provides that a majority of the directors must be “independent directors.” As defined in our charter, an “independent director” is a person who is not, on the date of determination, and within the last two years from the date of determination has not been, directly or indirectly, associated with our sponsor or our advisor by virtue of (1) ownership of an interest in our sponsor, our advisor, or any of their affiliates, other than us; (2) employment by our sponsor, our advisor, or any of their affiliates; (3) service as an officer or director of our sponsor, our advisor, or any of their affiliates, other than as one of our directors; (4) performance of services, other than as a director, for us; (5) service as a director or trustee of more than three real estate investment trusts organized by our sponsor or advised by our advisor; or (6) maintenance of a material business or professional relationship with our sponsor, our advisor, or any of their affiliates. A business or professional relationship is considered “material” if the aggregate gross revenue derived by the director from the sponsor, the advisor, and their affiliates (excluding fees for serving as one of our directors or other REIT or real estate program organized or advised or managed by the advisor or its affiliates) exceeds 5.0% of either the director’s annual gross revenue during either of the last two years or the director’s net worth on a fair market value basis. An indirect association with the sponsor or the advisor shall include circumstances in which a director’s spouse, parent, child, sibling, mother- or father-in-law, son- or daughter-in-law, or brother- or sister-in-law is or has been associated with the sponsor, the advisor, any of their affiliates, or with us. None of our independent directors face conflicts of interest because of affiliations with other programs sponsored by our sponsor and its affiliates.

Currently Proposed Transactions

There are no currently proposed material transactions with related persons other than the mergers and related transactions and those covered by the terms of the agreements described above.

ITEM 14. *Principal Accountant Fees and Services*

Independent Registered Public Accounting Firm

Pannell Kerr Forster of Texas, P.C., or PKF, served as our independent registered public accounting firm for the fiscal years ended December 31, 2010 and 2011. PKF resigned as our auditor on February 8, 2012 and our audit committee appointed Frazier & Deeter, LLC, or Frazier & Deeter, as our new independent registered public accounting firm. Frazier & Deeter has served as our independent registered public accounting firm since 2012.

Pre-Approval Policies

The audit committee charter imposes a duty on the audit committee to pre-approve all auditing services performed for us by our independent auditors as well as all permitted non-audit services in order to ensure that the provision of such services does not impair the auditors' independence. In determining whether or not to pre-approve services, the audit committee will consider whether the service is a permissible service under the rules and regulations promulgated by the SEC. The audit committee, may, in its discretion, delegate to one or more of its members the authority to pre-approve any audit or non-audit services to be performed by the independent auditors, provided any such approval is presented to and approved by the full audit committee at its next scheduled meeting.

All services rendered by Frazier & Deeter for the years ended December 31, 2016 and 2015 were pre-approved in accordance with the policies and procedures described above.

Independent Registered Public Accounting Firm Fees

Frazier & Deeter

The audit committee reviewed the audit services performed by Frazier & Deeter, as well as the fees charged by Frazier & Deeter for such services. Frazier & Deeter did not provide any non-audit services. The aggregate fees billed to us by Frazier & Deeter for professional accounting services for the years ended December 31, 2016 and 2015 are set forth in the table below.

	2016	2015
Audit fees	$ 253,973	$ 304,565
Audit related fees	—	—
Tax fees	—	—
All other fees	—	—
Total	$ 253,973	$ 304,565

For purposes of the preceding tables, Frazier & Deeter's professional fees are classified as follows:

- *Audit fees*—These are fees for professional services performed for the audit of our annual consolidated financial statements, the required review of quarterly consolidated financial statements, registration statements and other procedures performed in order for Frazier & Deeter to be able to form an opinion on our consolidated financial statements and audits of financial statements of certain hotel property acquisitions.
- *Audit-related fees*—These are fees for assurance and related services that traditionally are performed by independent auditors that are reasonably related to the performance of the audit or review of the financial statements, such as due diligence related to acquisitions and dispositions, attestation services that are not required by statute or regulation, internal control reviews, and consultation concerning financial accounting and reporting standards.

- *Tax fees*—These are fees for all professional services performed by professional staff in our independent auditor’s tax division, except those services related to the audit of our financial statements. These include fees for tax compliance, tax planning, and tax advice, including federal, state, and local issues. Services may also include assistance with tax audits and appeals before the IRS and similar state and local agencies, as well as federal, state, and local tax issues related to due diligence.

- *All other fees*—These are fees for any services not included in the above-described categories, including assistance with internal audit plans and risk assessments.

PART IV

ITEM 15. ***Exhibits and Financial Statement Schedules***

The following documents are filed as part of this Annual Report:

(a) Financial Statement Schedules

See the Index to Consolidated Financial Statements and Schedule at page F-1 of this report.

The following financial statement schedule is included herein at pages F-27 through F-28 of this report:

Schedule III – Real Estate Assets and Accumulated Depreciation

(b) Exhibits

The Exhibit Index attached hereto is incorporated herein by reference.

ITEM 16. ***Form 10-K Summary***

The Company has elected not to provide summary information.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MOODY NATIONAL REIT I, INC.

Date: March 23, 2017

By: /s/ Brett C. Moody
Brett C. Moody
Chief Executive Officer and President

POWER OF ATTORNEY

Each individual whose signature appears below constitutes and appoints Brett C. Moody as his or her true and lawful attorney-in-fact and agent with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report on Form 10-K, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent or his substitute, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ Brett C. Moody **Brett C. Moody**	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	March 23, 2017
/s/ Robert W. Engel **Robert W. Engel**	Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 23, 2017
/s/ William H. Armstrong **William H. Armstrong, III**	Director	March 23, 2017
/s/ Charles L. Horn **Charles L. Horn**	Director	March 23, 2017
/s/ John P. Thompson **John P. Thompson**	Director	March 23, 2017

EXHIBIT INDEX

2.1	Agreement and Plan of Merger, dated as of November 16, 2016, by and among Moody National REIT I, Inc., Moody National REIT II, Inc., Moody National Operating Partnership I, LP; Moody National Operating Partnership II, LP, Moody National Advisor I, LLC, Moody National Advisor II, LLC and Moody Merger Sub, LLC (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on November 17, 2016 and incorporated herein by reference)**
3.1	Second Articles of Amendment and Restatement of Moody National REIT I, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed on November 14, 2014)
3.2	Bylaws of Moody National REIT I, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-11 (No. 333-150612) filed on May 2, 2008)
3.3	Amendment No. 1 to Bylaws of Moody National REIT I, Inc. (incorporated by reference to Exhibit 3.3 to Pre-Effective Amendment No. 4 to the Company's Registration Statement on Form S-11 (No. 333-150612) filed on February 23, 2009)
4.1	Form of Account Update Form (included as Appendix B to prospectus, incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 9 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on July 30, 2015)
4.2	Moody National REIT I, Inc. Distribution Reinvestment Plan (included as Appendix C to prospectus, incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 9 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on July 30, 2015)
4.3	Amended and Restated Distribution Reinvestment Plan (filed as Exhibit 4.1 to the Company's Post-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 333-207805), filed on April 28, 2016 and incorporated herein by reference)
10.1	Amended and Restated Advisory Agreement among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC and Moody Realty Company, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2009)
10.2	Amendment No. 1 to the Amended and Restated Advisory Agreement, dated April 6, 2011, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC and Moody National Realty Company, L.P. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 6, 2011 and incorporated herein by reference)
10.3	Amendment No. 2 to the Amended and Restated Advisory Agreement, dated April 12, 2012, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC and Moody National Realty Company, L.P. (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 13, 2012 and incorporated herein by reference)
10.4	Amendment No. 3 to the Amended and Restated Advisory Agreement, dated April 9, 2013, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC and Moody National Realty Company, L.P. (filed as Exhibit 10.4 to the Company's Post-Effective Amendment No. 2 to Registration Statement on Form S-11 (No. 333-179521), filed on April 24, 2013 and incorporated herein by reference)
10.5	Amendment No. 6 to the Amended and Restated Advisory Agreement, dated March 24, 2016, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC and Moody National Realty Company, L.P. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 16, 2016 and incorporated herein by reference)
10.6*	Amendment No. 7 to the Amended and Restated Advisory Agreement, dated March 22, 2017, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC and Moody National Realty Company, L.P.
10.7	Limited Partnership Agreement of Moody National Operating Partnership I, L.P. (incorporated by reference to Exhibit 10.3 to Pre-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 (No. 333-150612) filed on March 27, 2009)
10.8	Moody National REIT I, Inc. 2009 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to Pre-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 (No. 333-150612) filed on March 27, 2009)
10.9	Moody National REIT I, Inc. Amended and Restated Independent Directors Compensation Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on August 14, 2009)

10.10 Loan Agreement, dated December 30, 2013, between Moody National Austin-Govr Holding, LLC and Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.61 to the Company's Annual Report on Form 10-K filed on March 19, 2014)

10.11 Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated December 30, 2013, between Moody National Austin-Govr Holding, LLC, Gary S. Farmer and Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.62 to the Company's Annual Report on Form 10-K filed on March 19, 2014)

10.12 Promissory Note, dated December 30, 2013, by Moody National Austin-Govr Holding, LLC in favor of Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.63 to the Company's Annual Report on Form 10-K filed on March 19, 2014)

10.13 Guaranty of Recourse Obligations, dated December 30, 2013, by Brett C. Moody in favor of Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.64 to the Company's Annual Report on Form 10-K filed on March 19, 2014)

10.14 Environmental Indemnity Agreement, dated December 30, 2013, by Moody National Austin-Govr Holding, LLC and Brett C. Moody in favor of Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.65 to the Company's Annual Report on Form 10-K filed on March 19, 2014)

10.15 Franchise Agreement, dated December 30, 2013, between Hampton Inns Franchise LLC and Moody National Austin-Govr MT, LLC (incorporated by reference to Exhibit 10.66 to the Company's Annual Report on Form 10-K filed on March 19, 2014)

10.16 Fee and Expense Waiver Agreement, dated December 30, 2013, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC and Moody National Realty Company, L.P. (incorporated by reference to Exhibit 10.67 to the Company's Annual Report on Form 10-K filed on March 19, 2014)

10.17 Agreement of Purchase and Sale, dated February 3, 2014, by and between Moody National REIT I, Inc., Moody National TPS Newark MT, LLC and MN Newark, LLC (incorporated by reference to Exhibit 10.80 to Post-Effective Amendment No. 4 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on March 28, 2014)

10.18 Fee and Expense Waiver Agreement, dated March 26, 2013, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, L.P., Moody National Advisor I, LLC and Moody National Realty Company, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2014)

10.19 Agreement of Purchase and Sale by and among Moody National REIT I, Inc., Moody National RI Grapevine S, LLC, Moody National RI Grapevine MT, LLC and Moody National Management, LP (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2014)

10.20 Loan Agreement, dated March 31, 2014, between Moody National 2020-Grapevine Holding, LLC and Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2014)

10.21 Promissory Note, dated March 31, 2014, by Moody National 2020-Grapevine Holding, LLC in favor of Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, filed on May 15, 2014)

10.22 Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of March 31, 2014, by Moody National 2020-Grapevine Holding, LLC to David Parnell for the benefit of Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2014)

10.23 Guaranty of Recourse Obligations, dated as of March 31, 2014, by Brett C. Moody for the benefit of Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2014)

10.24 Environmental Indemnity Agreement, dated as of March 31, 2014, by Moody National 2020-Grapevine Holding, LLC in favor of Ladder Capital Finance, LLC (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2014)

10.25 Amended and Restated Master Lease Agreement, dated March 31, 2014, bewteen Moody National 2020-Grapevine Holding, LLC and Moody National RI Grapevine MT, LLC (incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2014)

10.26 Amended and Restated Hotel Management Agreement, dated as of March 31, 2014, by and between Moody National RI Grapevine MT, LLC and Moody National Hospitality Management, LLC (incorporated by reference to Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2014)

10.27 Loan Agreement, dated June 15, 2012, by and between MN Newark, LLC and Ladder Capital Financing, LLC (incorporated by reference to Exhibit 10.90 to Post-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 filed on July 29, 2014)

10.28 Promissory Note, dated June 15, 2012, by MN Newark, LLC in favor of Ladder Capital Financing, LLC (incorporated by reference to Exhibit 10.91 to Post-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 filed on July 29, 2014)

10.29 Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filings, dated June 15, 2012, by MN Newark, LLC in favor of Ladder Capital Financing, LLC (incorporated by reference to Exhibit 10.92 to Post-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 filed on July 29, 2014)

10.30 Relicensing Franchise Agreement, dated January 29, 2014, by and between MIF L.L.C. and Moody National TPS Newark MT, LLC (incorporated by reference to Exhibit 10.93 to Post-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 filed on July 29, 2014)

10.31 Amendment to Relicensing Franchise Agreement, dated June 24, 2014, by and between MIF L.L.C. and Moody National TPS Newark MT, LLC (incorporated by reference to Exhibit 10.94 to Post-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 filed on July 29, 2014)

10.32 Guaranty, dated January 29, 2014, by Brett C. Moody in favor of MIF L.L.C. (incorporated by reference to Exhibit 10.95 to Post-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 filed on July 29, 2014)

10.33 Hotel Management Agreement, dated January 29, 2014, by and between Moody National TPS Newark MT, LLC and Moody National Hospitality Management, LLC (incorporated by reference to Exhibit 10.96 to Post-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 filed on July 29, 2014)

10.34 Amended and Restated Master Lease Agreement, effective June 24, 2014, by and between Moody National Cedar-Newark Holding, LLC and Moody National TPS Newark MT, LLC (incorporated by reference to Exhibit 10.97 to Post-Effective Amendment No. 5 to the Company's Registration Statement on Form S-11 filed on July 29, 2014)

10.35 Agreement for Sale and Purchase of Hotel, dated September 8, 2014, by and among Moody National REIT I, Inc. and WS Arboretum JV, LLC (incorporated by reference to Exhibit 10.98 to Post-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on October 29, 2014)

10.36 Limited Liability Company Operating Agreement of MN Lyndhurst Venture, LLC (incorporated by reference to Exhibit 10.99 to Post-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on October 29, 2014)

10.37 Hotel Management Agreement, dated December 31, 2014, by and among Moody National CY Lyndhurst MT, LLC and Moody National Hospitality Management, LLC (incorporated by reference to Exhibit 10.100 to Post-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on October 29, 2014)

10.38 Amended and Restated Master Lease Agreement, effective December 31, 2014, by and among Moody National 1 Polito Lyndhurst Holding, LLC and Moody National CY Lyndhurst MT, LLC (incorporated by reference to Exhibit 10.101 to Post-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on October 29, 2014)

10.39 Second Amendment to Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated December 31, 2014, by and between German American Capital Corporation, a Maryland corporation, and Moody National 1 Polito Lyndhurst Holding, LLC (incorporated by reference to Exhibit 10.102 to Post-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on October 29, 2014)

10.40 Guaranty, dated December 31, 2014, by Moody National REIT I, Inc. for the benefit of German American Capital Corporation (incorporated by reference to Exhibit 10.103 to Post-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on October 29, 2014)

10.41 Assumption of Environmental Indemnity, dated December 31, 2014, by and between Moody National 1 Polito Lyndhurst Holding, LLC, Moody National REIT I, Inc. and German American Capital Corporation (incorporated by reference to Exhibit 10.104 to Post-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on October 29, 2014)

10.42 Assumption and Loan Modification Agreement, dated December 31, 2014, by and among German American Capital Corporation, Moody National 1 Polito Lyndhurst Holding, LLC, and Moody National REIT I, Inc. (incorporated by reference to Exhibit 10.105 to Post-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on October 29, 2014)

10.43 Amendment to Courtyard by Marriott Relicensing Franchise Agreement, dated December 31, 2014, by and between Marriott International, Inc. and Moody National CY Lyndhurst MT, LLC (incorporated by reference to Exhibit 10.106 to Post-Effective Amendment No. 6 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on October 29, 2014)

10.44 Amended and Restated Master Lease Agreement, dated November 19, 2014, by and between Moody National Research Austin Holding, LLC and Moody National Research-Austin MT, LLC (incorporated by reference to Exhibit 10.107 to Post-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on January 29, 2015)

10.45 Franchise Agreement, dated November 19, 2014, by and between Moody National Research-Austin MT, LLC and Moody National Research Austin Holding, LLC (incorporated by reference to Exhibit 10.108 to Post-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on January 29, 2015)

10.46 Hotel Management Agreement, dated November 19, 2014, by and between Moody National Hospitality Management, LLC and Moody National Research-Austin MT, LLC (incorporated by reference to Exhibit 10.109 to Post-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on January 29, 2015)

10.47 Loan Agreement, dated November 19, 2014, by and between Moody National Research Austin Holding, LLC and Wells Fargo Bank National Association (incorporated by reference to Exhibit 10.110 to Post-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on January 29, 2015)

10.48 Promissory Note, dated November 19, 2014, by Moody National Research Austin Holding, LLC in favor of Wells Fargo Bank National Association (incorporated by reference to Exhibit 10.111 to Post-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on January 29, 2015)

10.49 Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated November 19, 2014, by Moody National Research Austin Holding, LLC for the benefit of Wells Fargo Bank National Association (incorporated by reference to Exhibit 10.112 to Post-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on January 29, 2015)

10.50 Guaranty of Recourse Obligations, dated as of November 19, 2014, by Moody National REIT I, Inc. in favor of Wells Fargo Bank National Association (incorporated by reference to Exhibit 10.113 to Post-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on January 29, 2015)

10.51 Environmental Indemnity Agreement, dated as of November 19, 2014, by and between Moody National REIT I, Inc., Moody National Research Austin Holding, LLC and Wells Fargo Bank National Association (incorporated by reference to Exhibit 10.114 to Post-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on January 29, 2015)

10.52 Purchase and Sale Agreement, effective as of January 16, 2015, by and among Moody National Hospitality Philly Great Valley II, LLC, Moody National REIT I, Inc. and the seller parties thereto (incorporated by reference to Exhibit 10.115 to Post-Effective Amendment No. 7 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on January 29, 2015)

10.53 Agreement of Purchase and Sale, effective as of April 24, 2015, by and among Moody National REIT I, Inc., Moody National Nashville MT, LLC and the other parties named therein (incorporated by reference to Exhibit 10.116 to Post-Effective Amendment No.8 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on July 30, 2015)

10.54 Purchase and Sale Agreement, dated May 5, 2015, by an between Moody National REIT I, Inc. and Revere Hospitality, LLC (incorporated by reference to Exhibit 10.117 to Post-Effective Amendment No. 9 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on April 30, 2015)

10.55 Purchase and Sale Agreement, dated May 27, 2015, by and between Moody National REIT I, Inc. and Austin HWS, LP (incorporated by reference to Exhibit 10.118 to Post-Effective Amendment No. 9 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on July 30, 2015)

10.56 Agreement of Purchase and Sale, dated July 20, 2015, by and between Moody National Cedar Newark Holding, LLC, Moody National TPS Newark MT, LLC and Holiday Garden SF Corp. (incorporated by reference to Exhibit 10.119 to Post-Effective Amendment No. 9 to the Company's Registration Statement on Form S-11 (No. 333-179521) filed on July 30, 2015)

10.57 Assignment Agreement, dated September 22, 2015, by and between Moody National REIT I, Inc. and Moody National Realty Company, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on November 16, 2015)

10.58 Assignment Agreement, dated September 22, 2015, by and between Moody National REIT I, Inc. and Moody National REIT II, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on November 16, 2015)

10.59 Limited Liability Company Operating Agreement of MN Fort Worth Venture, LLC

10.60 Hotel Management Agreement, dated December 18, 2015, by and among Moody National International-Fort Worth MT, LLC and Moody National Hospitality Management, LLC

10.61 Hotel Lease Agreement, effective December 18, 2015, by and among Moody National International-Fort Worth Holding, LLC and Moody National International-Fort Worth MT, LLC

10.62 Guaranty, dated December 18, 2015, by Moody National REIT I, Inc. for the benefit of U.S. Bank National Association

10.63 Environmental Liabilities Agreement, dated December 18, 2015, by and between Moody National International-Fort Worth Holding, LLC, Moody National REIT I, Inc. and U.S. Bank National Association

10.64 Assumption Agreement, dated December 18, 2015, by and among U.S. Bank National Association, Moody National International-Fort Worth Holding, LLC, and Moody National REIT I, Inc.

10.65 Relicensing Franchise Agreement, dated December 18, 2015, by and between Marriott International, Inc. and Moody National International-Fort Worth MT, LLC

10.66 Termination Agreement, dated as of November 16, 2016, by and among Moody National REIT I, Inc., Moody National Operating Partnership I, LP, Moody National Advisor I, LLC, Moody National REIT II, Inc. and Moody National Realty Company, LP (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on November 17, 2016 and incorporated herein by reference)

21.1* Subsidiaries of the Company

23.1* Consent of Frazier & Deeter, LLC

24.1* Power of attorney, included on signature page

31.1* Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2* Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1* Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2* Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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* Filed herewith.

** Schedules omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a supplemental copy of any omitted schedule to the SEC upon request.

Index to Consolidated Financial Statements and Schedule

Moody National REIT I, Inc.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
Moody National REIT I, Inc.

We have audited the accompanying consolidated balance sheets of Moody National REIT I, Inc. and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, equity, and cash flows for the years then ended. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedule III as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Moody National REIT I, Inc. and subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method for classifying debt issuance costs during 2016.

/s/Frazier & Deeter, LLC

Atlanta, Georgia
March 23, 2017

MOODY NATIONAL REIT I, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2016	December 31, 2015
ASSETS		
Investment in hotel properties, net	$ 238,165,886	$ 232,948,200
Cash and cash equivalents	2,419,383	14,071,228
Restricted cash	5,684,811	12,038,451
Accounts receivable, net of allowance of $30,000 and $32,000 as of December 31, 2016 and 2015, respectively	949,616	731,618
Mortgage note receivable	—	11,839,171
Notes receivable from related parties	13,500,000	9,000,000
Prepaid expenses and other assets	3,163,089	1,962,532
Earnest money and deposits	—	2,125,000
Deferred costs, net of accumulated amortization of $145,119 and $79,651 as of December 31, 2016 and 2015, respectively	914,881	905,349
Due from related parties	2,452,300	1,479,300
Total Assets	$ 267,249,966	$ 287,100,849
LIABILITIES AND EQUITY		
Liabilities:		
Notes payable, net of unamortized debt issuance costs of $2,192,164 and $2,767,439 as of December 31, 2016 and 2015, respectively	$ 169,445,086	$ 175,468,985
Accounts payable and accrued expenses	5,131,497	6,268,155
Due to related parties	1,145,500	96,088
Dividends payable	901,702	888,434
Operating partnership distributions payable	49,256	49,391
Total Liabilities	176,673,041	182,771,053
Special Partnership Units — 100 Special Units of the Operating Partnership	1,000	1,000
Commitments and Contingencies – Note 10		
Equity:		
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 50,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value per share; 400,000,000 shares authorized, 13,307,394 and 13,091,766 shares issued and outstanding at December 31, 2016 and 2015, respectively	133,074	130,918
Additional paid-in capital	116,651,244	114,526,834
Accumulated deficit	(32,590,777)	(17,843,394)
Total stockholders' equity	84,193,541	96,814,358
Noncontrolling interests in Operating Partnership	6,382,384	7,193,407
Noncontrolling interests in consolidated joint ventures	—	321,031
Total Equity	90,575,925	104,328,796
Total Liabilities and Equity	$ 267,249,966	$ 287,100,849

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT I, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years ended December 31, 2016	2015
Revenue		
Room revenue	$ 56,858,625	$ 48,250,399
Other hotel revenue	3,242,025	2,813,601
Total hotel revenue	60,100,650	51,064,000
Interest income from notes receivable	1,829,383	1,103,132
Total revenue	61,930,033	52,167,132
Expenses		
Hotel operating expenses	37,025,559	30,895,349
Property taxes, insurance and other	3,999,649	3,251,501
Depreciation and amortization	11,576,178	9,481,115
Acquisition expenses	1,321,263	3,946,882
Corporate general and administrative	4,030,289	3,196,995
Total expenses	57,952,938	50,771,842
Operating income	3,977,095	1,395,290
Other income (expense)		
Gain on sale of hotel property	—	10,145,221
Gain on acquisition of hotel property	—	2,698,113
Interest expense and amortization of debt issuance costs	(9,418,968)	(7,795,764)
Total other income (expense)	(9,418,968)	5,047,570
Income (loss) before income tax benefit	(5,441,873)	6,442,860
Income tax benefit	1,054,423	492,000
Net Income (Loss)	(4,387,450)	6,934,860
Income attributable to noncontrolling interests from consolidated joint ventures	(31,333)	(77,938)
Loss attributable to noncontrolling interest in variable interest entity	15,745	—
(Income) loss attributable to noncontrolling interest in Operating Partnership	229,487	(241,693)
Net income (loss) attributable to common stockholders	$ (4,173,551)	$ 6,615,229
Per-share information – basic and diluted:		
Net income (loss) attributable to common stockholders	$ (0.32)	$ 0.52
Dividends declared	$ 0.80	$ 0.80
Weighted average shares outstanding	13,219,957	12,667,556

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT I, INC.
CONSOLIDATED STATEMENTS OF EQUITY
Years ended December 31, 2016 and 2015

	Preferred Stock		Common Stock				Noncontrolling Interests in Operating Partnership				
	Number of Shares	Par Value	Number of Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Number of Units	Value	Noncontrolling Interest in Variable Interest Entity	Noncontrolling Interests in Consolidated Joint Ventures	Total Equity
Balance at December 31, 2014	—	$ —	10,023,463	$ 100,235	$ 87,457,901	$ (14,324,615)	100	$ 610	$ —	$ 291,577	$ 73,525,708
Issuance of common stock, net of offering costs	—	—	2,735,046	27,350	23,894,084	—	—	—	—	—	23,921,434
Issuance of operating partnership units	—	—	—	—	—	—	726,820	7,268,197	—	—	7,268,197
Special contribution	—	—	—	—	—	350,000	—	—	—	—	350,000
Redemption of common stock		—	(51,610)	(516)	(506,715)	—	—	—	—	—	(507,231)
Issuance of common stock pursuant to dividend reinvestment plan	—	—	382,367	3,824	3,628,666	—	—	—	—	—	3,632,490
Stock/unit-based compensation	—	—	2,500	25	52,898	—	—	—	—	—	52,923
Net income	—	—	—	—	—	6,615,229	—	241,693	—	77,938	6,934,860
Dividends and distributions declared	—	—	—	—	—	(10,484,008)	—	(317,093)	—	(48,484)	(10,849,585)
Balance at December 31, 2015	—	—	13,091,766	130,918	114,526,834	(17,843,394)	726,920	7,193,407	—	321,031	104,328,796
Redemption of common stock		—	(107,061)	(1,071)	(1,084,280)	—	—	—	—	—	(1,085,351)
Issuance of common stock pursuant to dividend reinvestment plan	—	—	322,689	3,227	3,194,613	—	—	—	—	—	3,197,840
Contribution of equity in variable interest entity	—	—	—	—	—	—	—	—	15,745	—	15,745
Stock/unit-based compensation	—	—	—	—	14,077	—	—	—	—	—	14,077
Net income (loss)	—	—	—	—	—	(4,173,551)	—	(229,487)	(15,745)	31,333	(4,387,450)
Dividends and distributions declared	—	—	—	—	—	(10,573,832)	—	(581,536)	—	(352,364)	(11,507,732)
Balance at December 31, 2016	—	$ —	13,307,394	$ 133,074	$ 116,651,244	$ (32,590,777)	726,920	$ 6,382,384	$ —	$ —	$ 90,575,925

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT I, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31, 2016	2015
Cash flows from operating activities		
Net income (loss)	$ (4,387,450)	$ 6,934,860
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Gain on sale of hotel property	—	(10,145,221)
Gain on acquisition of hotel property	—	(2,698,113)
Depreciation and amortization	11,576,178	9,481,115
Amortization of debt issuance costs	701,626	522,682
Stock-based compensation	14,077	52,923
Deferred income tax	(1,260,000)	(758,000)
Changes in operating assets and liabilities:		
Restricted cash	321,314	(1,263,715)
Accounts receivable	(217,998)	16,040
Prepaid expenses and other assets	59,443	(472,683)
Accounts payable and accrued expenses	(1,136,658)	3,064,427
Due to related parties	205,565	(527,628)
Net cash provided by operating activities	5,876,097	4,206,687
Cash flows from investing activities		
Proceeds from sale of hotel property	—	22,111,900
(Increase) decrease in restricted cash	6,032,326	(5,386,543)
Repayments of mortgage note receivable	11,839,171	220,761
Origination of notes receivable from related parties	(4,500,000)	(9,000,000)
(Increase) decrease in earnest money and deposits	2,125,000	(452,500)
Payment of deferred franchise costs	(75,000)	(525,000)
Due from related parties	—	(1,479,300)
Improvements and additions to hotel properties	(8,728,396)	(8,386,102)
Acquisitions of hotel properties	(8,000,000)	(84,416,539)
Net cash used in investing activities	(1,306,899)	(87,313,323)
Cash flows from financing activities		
Proceeds from issuance of common stock	—	27,341,593
Redemptions of common stock	(1,085,351)	(507,231)
Offering costs paid	(129,153)	(3,476,841)
Special contribution	—	350,000
Dividends paid	(7,362,724)	(6,605,520)
Operating partnership distributions paid	(581,671)	(267,709)
Contribution of equity in variable interest entity	15,745	—
Proceeds from notes payable	4,800,000	71,500,000
Repayments of notes payable	(11,399,174)	(13,135,923)
Payment of debt issuance costs	(126,351)	(1,816,093)
Distributions to noncontrolling interests in joint ventures	(352,364)	(48,484)
Net cash (used in) provided by financing activities	(16,221,043)	73,333,792
Net change in cash and cash equivalents	(11,651,845)	(9,772,844)
Cash and cash equivalents at beginning of period	14,071,228	23,844,072
Cash and cash equivalents at end of period	$ 2,419,383	$ 14,071,228
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 8,728,332	$ 7,127,305
Income taxes paid	$ 277,239	$ 188,780
Supplemental Disclosure of Non-Cash Investing and Financing Activity		
Decrease in accrued offering costs due to related party	$ (129,153)	$ (56,682)
Contributions from noncontrolling interest in operating partnership	$ —	$ 7,268,197
Assumption of notes payable in connection with acquisition of hotel properties	$ —	$ 7,167,151
Issuance of common stock from dividend reinvestment plan	$ 3,197,840	$ 3,632,490
Dividends payable	$ 901,702	$ 888,434
Operating partnership distributions payable	$ 49,256	$ 49,391

See accompanying notes to consolidated financial statements.

MOODY NATIONAL REIT I, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016 and 2015

1. Organization

Overview

Moody National REIT I, Inc. (the “Company”) was formed on January 15, 2008 as a Maryland corporation and elected to qualify as a real estate investment trust (“REIT”) commencing with the year ended December 31, 2011. The Company was organized to acquire a diverse portfolio of real properties, primarily in the hospitality sector, as well as other commercial properties, real estate securities and debt-related investments. The Company was initially capitalized with the sale of shares of its common stock to Moody National REIT Sponsor, LLC (“Sponsor”) on February 19, 2008. The Company’s fiscal year end is December 31. For more information on the Company’s capitalization, see Note 6 (“Equity”).

As of December 31, 2016, the Company owned (1) ten hotel properties located in Texas, Tennessee, South Carolina and Pennsylvania, comprising a total of 1,273 rooms, (2) a joint venture interest in a 227-suite hotel property located in Lyndhurst, New Jersey and a joint venture interest in a 95-suite hotel property in Fort Worth, Texas, (3) a loan in the aggregate principal amount of $9,000,000 originated to an affiliate of Sponsor used to acquire a commercial property located in Katy, Texas and (4) a loan in the aggregate principal amount of $4,500,000 originated to an affiliate of Sponsor used to acquire a commercial property located in Houston, Texas. For more information on the Company’s portfolio, see Notes 3 (“Investment in Hotel Properties”) and 4 (“Notes Receivable”).

On April 15, 2009, the Company commenced its initial public offering (the “Initial Public Offering”) pursuant to a registration statement on Form S-11 with the Securities and Exchange Commission (the “SEC”) to offer a maximum of $1,000,000,000 in shares of its common stock to the public in its primary offering and up to $100,000,000 in shares of its common stock to its stockholders pursuant to its distribution reinvestment plan (the “DRIP”). The Company accepted subscriptions for, and issued, 1,126,253 shares of its common stock in its Initial Public Offering, including 29,582 shares of common stock pursuant to the DRIP, resulting in aggregate gross offering proceeds of $10,966,713. On October 12, 2012, the Company terminated its Initial Public Offering.

On October 12, 2012, the Company commenced its follow-on public offering (the “Follow-On Offering”) of up to $1,000,000,000 in shares of the Company’s common stock, comprised of up to $900,000,000 in shares offered to the public in the primary offering and up to $100,000,000 in shares offered to its stockholders pursuant to the DRIP. Effective February 20, 2015, the Company terminated the offer and sale of shares to the public in the primary portion of the Follow-On Offering, but continued to offer shares of common stock pursuant to the DRIP. As of the termination of the Follow-On Offering, the Company had accepted investors’ subscriptions for, and issued, 11,719,636 shares of its common stock in the Follow-On Offering, including 510,457 shares of common stock issued pursuant to the DRIP, resulting in aggregate gross offering proceeds of $112,091,790. On November 4, 2015, the Company filed a new registration statement to register the sale of up to $25,000,000 in shares of the Company’s common stock pursuant to the DRIP (“DRIP Offering”). The DRIP was suspended in October 2016. As of December 31, 2016, the Company had accepted subscriptions for, and issued, 12,845,889 shares of common stock in the Company’s Initial Public Offering and Follow-On Offering, including 540,039 shares of common stock pursuant to the DRIP, resulting in aggregate gross offering proceeds of $123,058,503. As of December 31, 2016, the Company had sold 388,033 shares pursuant to the DRIP in the DRIP Offering, and 2,111,967 shares of common stock remained available for sale pursuant to the DRIP Offering.

Subject to the mergers described below, the Company intends to use substantially all of the remaining net proceeds from the foregoing offerings and the proceeds from any other offering of the Company’s securities that the Company may conduct in the future to continue to acquire a diversified portfolio of real properties, real estate securities and debt-related investments. The Company intends to continue to invest primarily in hotel properties located in the United States and Canada that it owns exclusively or in joint ventures or other co-ownership arrangements with other persons. The Company may also invest in other property types consisting of multifamily, office, retail and industrial assets located in the United States and Canada as well as securities of real estate companies and debt-related investments. The Company may also make opportunistic investments in properties that may be under-developed or newly constructed and in properties that it believes are undervalued.

The Company’s advisor is Moody National Advisor I, LLC (“Advisor”), a Delaware limited liability company and an affiliate of Sponsor. Subject to certain restrictions and limitations, Advisor is responsible for managing the Company’s affairs on a day-to-day basis and for identifying and making acquisitions and investments on behalf of the Company pursuant to an amended and restated advisory agreement (the “Advisory Agreement”), by and among the Company, Moody National Operating Partnership I, L.P., the Company’s operating partnership (the “OP”), and Advisor.

The OP's partnership agreement provides that the OP will be operated in a manner that will enable the Company to (1) satisfy the requirements for being classified as a REIT for tax purposes, (2) avoid any federal income or excise tax liability and (3) ensure that the OP will not be classified as a "publicly traded partnership" for purposes of Section 7704 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), which classification could result in the OP being taxed as a corporation rather than as a partnership. In addition to the administrative and operating costs and expenses incurred by the OP in acquiring and operating real estate assets, the OP will pay all of the Company's administrative costs and expenses, and such expenses will be treated as expenses of the OP. The common units of the OP may be tendered for redemption once they have been outstanding for at least one year. At such time, the Company has the option to redeem the common units for shares of the Company's common stock, cash or a combination thereof at the Company's sole discretion. The special units of the OP (the "Special Units") held by an affiliate of Advisor will be redeemed pursuant to the OP's partnership agreement upon the termination or nonrenewal of the Advisory Agreement or upon certain other events outside of the control of the Special Unit holder. Upon the termination or nonrenewal of the Advisory Agreement by the Company for "cause" (as defined in the Advisory Agreement), all of the Special Units will be redeemed for $1.00. As described in more detail in Note 9 ("Subordinated Participation Interest"), upon the occurrence of any of the other events which trigger redemption of the Special Units, the Special Units will be redeemed, at Advisor's option, for shares of the Company's common stock, a non-interest bearing promissory note payable solely from the proceeds of asset sales, or a combination thereof. Notwithstanding the foregoing, if the Mergers (as described below) are completed, all of the Special Units will be cancelled and retired and cease to exist, and the only payment made in respect of the Special Units will be a promote payment not to exceed $613,751.

Pending Merger with Moody National REIT II, Inc.

On September 27, 2016, the Company jointly announced with Moody National REIT II, Inc. ("Moody II") that the Company had entered into a non-binding Letter of Intent that set forth the terms and conditions upon which Moody II would acquire the Company and the Company's subsidiaries.

On November 16, 2016, the Company, the OP, the Advisor, Moody II, Moody National Operating Partnership II, LP, the operating partnership of Moody II ("Moody II OP"), Moody National Advisor II, LLC, Moody II's advisor ("Moody II Advisor"), and Moody Merger Sub, LLC, a wholly owned subsidiary of Moody II (the "Merger Sub"), entered into an agreement and plan of merger (the "Merger Agreement"). Pursuant to the Merger Agreement, the Company will merge with and into Merger Sub, with Merger Sub continuing as the "Surviving Entity" and a wholly-owned subsidiary of Moody II. The foregoing transaction is referred to herein as the "Merger." In addition, pursuant to the Merger Agreement, Moody II OP will merge with and into the OP, with the OP being referred to as the "Surviving Partnership," and which transaction is referred to herein as the "Partnership Merger." Unless context suggests otherwise, the Merger and the Partnership Merger shall be referred to herein together as the "Mergers." The Merger Agreement was the product of a negotiation between a special committee of the Company's board of directors and a special committee of the board of directors of Moody II (both consisting solely of independent directors), each of which was represented by its own counsel and financial advisor. Entry into the Merger Agreement was unanimously approved by the Company's board of directors upon the recommendation of the special committee of the Company's board of directors.

Subject to the terms and conditions of the Merger Agreement, Moody II agreed to pay gross consideration of $11.00 per share of the Company's common stock, which amount will be reduced by all fees and expenses that the Company incurs as a result of or in connection with the Mergers and other transactions contemplated by the Merger Agreement (including certain disposition fees and profit sharing amounts to Sponsor and parties related thereto, financial advisory and legal fees payable by the Company, and other transaction and closing costs incurred by the Company) (all such fees and expenses, the "Moody I Transaction Fees and Expenses") to arrive at the net merger consideration payable to the holders of the Company's common stock, which is referred to herein as the "Net Per Share Price;" *provided*, that in no event will the Net Per Share Price be less than $10.25. Pursuant to the terms of the Merger Agreement, the parties thereto have determined the final amount of the Moody I Transaction Fees and Expenses and have calculated the Net Per Share Price. Based on such determination, Net Per Share Price was determined to be $10.25.

At the effective time of the Merger, each outstanding share of the Company's common stock will be automatically cancelled and retired, and converted into the right to receive, at the election of each holder of such share of the Company's common stock, but subject to the limitations discussed below, either:

(i) an amount in cash equal to the Net Per Share Price (the "Cash Consideration"); or

(ii) a number of shares of common stock of Moody II (the “Stock Consideration”) equal to the Net Per Share Price divided by $25.00; with such quotient, as adjusted pursuant to the Merger Agreement, being referred to herein as the “Exchange Ratio.”

The “Stock Consideration” and the “Cash Consideration” are referred to together as the “Merger Consideration.”

Notwithstanding the above, the maximum number of shares of the Company’s common stock that may be converted into the right to receive the Cash Consideration may not exceed 50% of the aggregate number of shares of the Company’s common stock entitled to receive Merger Consideration in connection with the Merger. If the elections of the Company’s stockholders would cause more than 50% of the aggregate number of shares of the Company’s common stock to be converted into the right to receive the Cash Consideration, then the shares of the Company’s common stock that would be converted into the right to receive the Cash Consideration will be reduced proportionally so that the number of shares of the Company’s common stock that will be converted into the right to receive the Cash Consideration will not exceed 50%, and the remaining shares of the Company’s common stock will be converted into the right to receive the Stock Consideration.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the Partnership Merger, each outstanding unit of limited partnership interest in the OP will be automatically cancelled and retired, and converted into the right to receive a number of units of limited partnership interests in the Surviving Partnership equal to the exchange ratio. Each unit of limited partnership interest in the OP designated as a special partnership unit pursuant to the OP’s limited partnership agreement will be automatically cancelled and retired and shall cease to exist, and no consideration shall be paid, nor, except as expressly provided in the Termination Agreement (described below), shall any other payment or right inure or be made with respect thereto in connection with or as a consequence of the Partnership Merger. Each outstanding unit of limited partnership interest in Moody II OP will be converted into one unit of equity ownership in the Surviving Partnership, and each unit designated as a special partnership unit pursuant to the limited partnership agreement of Moody II OP will be converted into one special unit in the Surviving Partnership.

The Merger Agreement contains customary covenants, including covenants prohibiting the Company and its subsidiaries and representatives from soliciting, providing information or entering into discussions concerning proposals relating to alternative business combination transactions, subject to certain limited exceptions. However, under the terms of the Merger Agreement, during the period beginning on November 16, 2016 and continuing until 11:59 p.m. New York City time on December 31, 2016 (the “Go Shop Period End Time”), the Company had the right to initiate, solicit, provide information and enter into discussions concerning proposals relating to alternative business combination transactions. Additionally, for up to five business days after the Go Shop Period End Time, the Company had the right to continue to participate in such discussions with certain other parties (a “Go Shop Bidder”) and could have, subject to certain conditions set forth in the Merger Agreement regarding the proposal made by such Go Shop Bidder, terminated the Merger Agreement and entered into an agreement with a Go Shop Bidder with respect to the proposal made by such Go Shop Bidder.

In the go shop process described in the preceding paragraph, 99 prospective buyers, including 77 prospective financial buyers and 22 prospective strategic buyers, were contacted regarding each such party’s potential interest in exploring a transaction with the Company. During the go shop period (*i.e.*, between November 16, 2016 and December 31, 2016), seven parties (two of which were financial buyers and five of which were strategic buyers) negotiated and entered into confidentiality agreements with the Company and were provided with non-public information about the Company. None of the parties contacted during the go shop process, including the seven parties that entered into confidentiality agreements with the Company, submitted a proposal that was deemed an “Acquisition Proposal” under the Merger Agreement to the Company prior to the Go Shop Period End Time.

Additionally, in connection with the Merger, the Company will also seek the approval of its stockholders of an amendment to the Company’s charter to delete certain provisions regarding roll-up transactions (the “Charter Amendment”). Pursuant to the Merger Agreement, approval by the Company’s stockholders of the Charter Amendment is a condition to completing the Mergers.

Concurrently with the entry into the Merger Agreement, the Company, the OP, the Advisor, Moody National Realty Company, LP (“Moody National”), and Moody OP Holdings I, LLC (“OP Holdings”) entered into a termination agreement (the “Termination Agreement”). Pursuant to the Termination Agreement, at the effective time of the Mergers, the Amended and Restated Advisory Agreement, dated August 14, 2009, among the Company, the OP, the Advisor and Moody National will be terminated and the Company will pay the Advisor a payment of $5,580,685 (the “Moody I Advisor Payment”). In addition, the Termination Agreement provides that at the effective time of the Partnership Merger and in accordance with the terms of the limited partnership agreement of the OP, the OP will pay to OP Holdings an amount not to exceed $613,751 (the “Promote Payment”). In the event that the Merger Agreement is terminated prior to the consummation of the Mergers, the Termination Agreement will automatically terminate and be of no further effect and no Moody I Advisor Payment or Promote Payment will be owed and payable.

Also concurrently with the entry into the Merger Agreement, Moody II, Moody II OP and Moody II Advisor entered into an amended and restated advisory agreement, pursuant to which Moody II will be obligated to pay Moody II Advisor an acquisition fee of 1.5% of the aggregate cash consideration paid in the Merger. However, during the first year following the consummation of the Mergers, if Moody II sells a property that was previously owned by the Company, then any disposition fee to which Moody II Advisor would otherwise be entitled under the amended and restated advisory agreement will be reduced by an amount equal to the portion of the Moody I Advisor Payment attributable to such property.

The Merger Agreement may be terminated under certain circumstances by both Moody II and the Company. If such termination occurs under certain circumstances, then the Company would be obligated to pay Moody II a termination fee of $2,000,000 (of $1,000,000 if the Merger Agreement had been terminated pursuant to the go shop provisions therein), plus an expense reimbursement fee of up to $500,000. The Merger Agreement also provides that one party may be required to reimburse the other party's expenses, up to $500,000, if the Merger Agreement is terminated under certain circumstances.

The obligation of each party to consummate the Mergers is subject to a number of conditions, including the approval of the Company's stockholders, receipt of any regulatory approvals, delivery of certain documents and consents, the truth and correctness of the representations and warranties of the parties, subject to the materiality standards contained in the Merger Agreement, the effectiveness of the registration statement on Form S-4 (File No. 333-215362) filed by Moody II to register the shares of Moody II's common stock to be issued as stock consideration in the Merger, and the absence of a material adverse effect with respect to either the Company or Moody II. There is no guarantee that the Mergers will close. The Company's management has, and will continue to, expend time and resources to consummate the Mergers, which time and resources may otherwise have been allocated to the Company's other operational needs.

In connection with the Mergers, on February 2, 2017, Moody II entered into a stockholder servicing coordination agreement (the "Stockholder Servicing Coordination Agreement") with Moody Securities. Pursuant to the Stockholder Servicing Coordination Agreement, Moody II will pay to Moody Securities certain stockholder servicing fees (the "Stockholder Servicing Fees"), of up to $2.125 per share of Moody II's common stock issued as stock consideration. All Stockholder Servicing Fees will be re-allowed to broker-dealers that provide ongoing financial advisory services to the Company's stockholders and that enter into participating broker-dealer agreements with Moody Securities. The aggregate amount of Stockholder Servicing Fees will depend on the number of shares of Moody II's common stock issued as stock consideration, and could range from approximately $5,797,034 to $11,594,068, assuming that the maximum stockholder servicing fee of $2.125 per share is paid for all shares issued as stock consideration. No Stockholder Servicing Fees will be paid with respect to any cash paid by Moody II as cash consideration in the Merger.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The Company's consolidated financial statements include its accounts and the accounts of its subsidiaries over which it has control. All intercompany balances and transactions are eliminated in consolidation.

The Company includes the accounts of certain entities in its consolidated financial statements when the Company is the primary beneficiary for entities deemed to be variable interest entities ("VIEs") through which the Company has a controlling interest. Interests in entities acquired are evaluated based on U.S. generally accepted accounting principles ("GAAP"), which requires the consolidation of VIEs in which the Company is deemed to have the controlling financial interest. The Company has the controlling financial interest if the Company has the power to direct the activities of the VIE that most significantly impact its economic performance and the obligation to absorb losses or receive benefits from the VIE that could be significant to the Company. If the interest in the entity is determined not to be a VIE, then the entity is evaluated for consolidation based on legal form, economic substance and the extent to which the Company has control or substantive participating rights under the respective ownership agreement. There are judgments and estimates involved in determining if an entity in which the Company has an investment is a VIE. The entity is evaluated to determine if it is a VIE by determining, among other things, if the equity investors as a group have a controlling financial interest in the entity and if the entity has sufficient equity at risk to finance its activities without additional subordinated financial support. The Company did not have a VIE interest as of December 31, 2016 or 2015.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accompanying consolidated financial statements and reported amounts of revenues and expenses in the reporting period. Actual results could differ from those estimates.

Organization and Offering Costs

Organization and offering costs of the Company are paid directly by the Company or may be incurred by Advisor on behalf of the Company. Pursuant to the Advisory Agreement, the Company is obligated to reimburse Advisor or its affiliates, as applicable, for organization and offering costs incurred by Advisor associated with each of the Company's public offerings, provided that within 60 days of the last day of the month in which a public offering ends, Advisor is obligated to reimburse the Company to the extent organization and offering costs incurred by the Company in connection with the completed public offering exceed 15.0% of the gross offering proceeds from the sale of the Company's shares of common stock in the completed public offering. Such organization and offering costs include selling commissions and dealer manager fees paid to a dealer manager, legal, accounting, printing and other offering expenses, including marketing, salaries and direct expenses of Advisor's employees and employees of Advisor's affiliates and others. Any reimbursement of Advisor or its affiliates for organization and offering costs will not exceed actual expenses incurred by Advisor.

All offering costs, including selling commissions and dealer manager fees, are recorded as an offset to additional paid-in capital, and all organization costs are recorded as an expense when the Company has an obligation to reimburse Advisor.

The Company terminated its Follow-On Offering on February 20, 2015. Total offering costs for the Follow-On Offering were $14,122,588, comprised of $11,397,725 of offering costs for that offering incurred directly by the Company and $2,724,863 in offering costs incurred by and reimbursable to Advisor. As of December 31, 2016, total offering costs for the DRIP Offering were $124,000. The Company directly incurred $0 of offering costs for the DRIP Offering and $124,000 in offering costs that were reimbursed to Advisor. As of December 31, 2016, the Company had $0 payable to Advisor for reimbursable offering costs related to the Follow-On Offering and DRIP Offering. Offering costs related to the Follow-On Offering did not exceed 15.0% of the gross offering proceeds from the sale of the Company's shares of common stock in that offering. The Company has not reimbursed Advisor any funds for organization costs for the Follow-On Offering.

Income Taxes

The Company has made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2011. Prior to qualifying for taxation as a REIT, the Company was subject to normal federal and state corporation income taxes.

As a REIT, the Company generally will not be subject to federal corporate income tax to the extent it distributes its REIT taxable income to its stockholders, so long as it distributes at least 90% of its REIT taxable income (which is computed without regard to the dividends-paid deduction or net capital gain and which does not necessarily equal net income as calculated in accordance with GAAP) and satisfy the other organizational and operational requirements for REIT qualification. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property, and federal income and excise taxes on its undistributed income. The Company leases the hotels it acquires to wholly-owned taxable REIT subsidiaries ("TRSs") that are subject to federal, state and local income taxes.

The Company accounts for income taxes of its TRSs using the asset and liability method, under which deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company records a valuation allowance for net deferred tax assets that are not expected to be realized.

The Company has reviewed tax positions under GAAP guidance that clarify the relevant criteria and approach for the recognition and measurement of uncertain tax positions. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition of a tax position taken, or expected to be taken, in a tax return. A tax position may only be recognized in the consolidated financial statements if it is more likely than not that the tax position will be sustained upon examination. The Company had no material uncertain tax positions as of December 31, 2016.

The preparation of the Company's various tax returns requires the use of estimates for federal and state income tax purposes. These estimates may be subjected to review by the respective taxing authorities. A revision to an estimate may result in an assessment of additional taxes, penalties and interest. At this time, a range in which the Company's estimates may change is not expected to be material. The Company will account for interest and penalties relating to uncertain tax provisions in the current period results of operations, if necessary. The Company has tax years 2011 through 2015 remaining subject to examination by various federal and state tax jurisdictions.

Fair Value Measurement

Fair value measures are classified into a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs, such as quoted prices in active markets.
Level 2: Directly or indirectly observable inputs, other than quoted prices in active markets.
Level 3: Unobservable inputs for which there is little or no market data, which require a reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value are based on one or more of the following valuation techniques:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
Cost approach: Amount required to replace the service capacity of an asset (replacement cost).
Income approach: Techniques used to convert future income amounts to a single amount based on market expectations (including present-value, option-pricing, and excess-earnings models).

The Company's estimates of fair value were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts. The Company classifies assets and liabilities in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement.

The Company elected not to use the fair value option in recording its financial instruments, which include cash and cash equivalents, restricted cash, accounts receivable, notes receivable, notes payable, and accounts payable and accrued expenses. With the exception of the Company's fixed-rate notes payable, the carrying amounts of these financial instruments approximate their fair values due to their short-term nature or variable interest rates. For fair value of the Company's fixed-rate notes payable, see Note 5 ("Debt").

Concentration of Risk

As of December 31, 2016, the Company had cash and cash equivalents and restricted cash deposited in certain financial institutions in excess of federally insured levels. The Company diversifies its cash and cash equivalents with several banking institutions in an attempt to minimize exposure to any one of these institutions. The Company regularly monitors the financial stability of these financial institutions and believes that it is not exposed to any significant credit risk in cash and cash equivalents or restricted cash.

The Company is also exposed to credit risk with respect to its notes receivable from related parties. The failure of the borrowers on the notes receivable from related parties to make payments of interest and principal when due, or any other event of default under the notes receivable from related parties, would have an adverse impact on the Company's results of operations.

The Company is exposed to geographic risk in that seven of its twelve hotel properties are located in one state, Texas.

Valuation and Allocation of Hotel Properties — Acquisition

Upon acquisition, the purchase price of a hotel property is allocated to the tangible assets acquired, consisting of land, buildings and furniture, fixtures and equipment, any assumed debt, identified intangible assets and asset retirement obligations, if any, based on their fair values. Acquisition costs are charged to expense as incurred. Initial valuations are subject to change during the measurement period, but the measurement period ends as soon as the information is available. The measurement period shall not exceed one year from the acquisition date.

Land fair values are derived from appraisals, and fair value of buildings are calculated as replacement cost less depreciation or estimates of the relative fair value of these assets using discounted cash flow analyses or similar methods. The fair value of furniture, fixtures and equipment is based on their fair value using replacement costs less depreciation. Any difference between the fair value of the hotel property acquired and the purchase price of the hotel property is recorded as goodwill or a gain on acquisition of hotel property.

The Company determines the fair value of any assumed debt by calculating the net present value of the scheduled mortgage payments using interest rates for debt with similar terms and remaining maturities that the Company believes it could obtain at the date of acquisition. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan as interest expense.

In allocating the purchase price of each of the Company's properties, the Company makes assumptions and uses various estimates, including, but not limited to, the estimated useful lives of the assets, the cost of replacing certain assets and discount rates used to determine present values. Many of these estimates are obtained from independent third party appraisals. However, the Company is responsible for the source and use of these estimates. These estimates are based on judgments and subject to being imprecise; accordingly, if different estimates and assumptions were used, the valuation of the various categories of the Company's hotel properties or related intangibles could in turn result in a difference in the depreciation or amortization expense recorded in the Company's consolidated financial statements. These variances could be material to the Company's results of operations and financial condition.

Valuation and Allocation of Hotel Properties — Ownership

Investment in hotel properties is recorded at cost less accumulated depreciation. Major improvements that extend the life of an asset are capitalized and depreciated over a period equal to the shorter of the life of the improvement or the remaining useful life of the asset. The cost of ordinary repairs and maintenance are charged to expense when incurred.

Depreciation expense is computed using the straight-line and accelerated methods based upon the following estimated useful lives:

	Estimated Useful Lives (years)
Buildings and improvements	39-40
Exterior improvements	10-20
Furniture, fixtures and equipment	5-10

The Company designates a hotel property as held for sale when the sale is probable within the next twelve months. Generally, the Company considers a sale to be probable when a buyer completes its due diligence review, the Company has an executed contract for sale and the Company has received a substantial non-refundable deposit.

Impairments

The Company monitors events and changes in circumstances indicating that the carrying amounts of the hotel properties that it owns may not be recoverable. When such events or changes in circumstances are present, the Company assesses potential impairment by comparing estimated future undiscounted cash flows expected to be generated over the life of the asset from operating activities and from its eventual disposition, to the carrying amount of the asset. In the event that the carrying amount exceeds the estimated future undiscounted cash flows, the Company recognizes an impairment loss to adjust the carrying amount of the asset to estimated fair value for assets held for use and fair value less costs to sell for assets held for sale. There were no such impairment losses for the years ended December 31, 2016 and 2015.

In evaluating the Company's hotel properties for impairment, the Company makes several estimates and assumptions, including, but not limited to, the projected date of disposition of the properties, the estimated future cash flows of the properties during the Company's ownership and the projected sales price of each of the properties. A change in these estimates and assumptions could result in a change in the estimated undiscounted cash flows or fair value of the Company's hotel properties, which could in turn result in different conclusions regarding impairment and material changes to the Company's consolidated financial statements.

Revenue Recognition

Hotel revenues, including room, food, beverage and other ancillary revenues, are recognized as the related services are delivered. Interest income is recognized when earned. Revenue is recorded net of any sales and other taxes collected from customers. Amounts received prior to guest arrival are recorded as an advance from the customer and are recognized at the time of occupancy.

Cash and Cash Equivalents

Cash and cash equivalents represent cash on hand or held in banks and short-term investments with an initial maturity of three months or less at the date of purchase.

Restricted Cash

Restricted cash includes reserves for debt service, property taxes and insurance, as well as reserves for property improvements and replacement of furniture, fixtures and equipment, as required by certain management or mortgage debt agreement restrictions and provisions.

Accounts Receivable

The Company takes into consideration certain factors that require judgments to be made as to the collectability of receivables. Collectability factors taken into consideration are the amounts outstanding, payment history and financial strength of the customer, which taken as a whole determines the valuation. Ongoing credit evaluations are performed and an allowance for potential credit losses is provided against the portion of accounts receivable that is estimated to be uncollectible.

Impairment of Notes Receivable

The Company reviews the notes receivable for impairment in each reporting period pursuant to the applicable authoritative accounting guidance. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts recorded as assets on the consolidated balance sheets. The Company applies normal loan review and underwriting procedures (as may be implemented or modified from time to time) in making that judgment.

When a loan is impaired, the Company measures impairment based on the present value of expected cash flows discounted at the loan's effective interest rate against the value of the asset recorded on the consolidated balance sheets. The Company may also measure impairment based on a loan's observable market price or the fair value of collateral, if the loan is collateral dependent. If a loan is deemed to be impaired, the Company records a valuation allowance through a charge to earnings for any shortfall. The Company's assessment of impairment is based on considerable judgment and estimates. The Company did not record a valuation allowance during the years ended December 31, 2016 or 2015.

Prepaid Expenses and Other Assets

Prepaid expenses include prepaid property insurance and hotel operating expenses. Other assets include accrued interest receivable and the deferred income tax asset.

Earnest money and Deposits

Earnest money and deposits includes earnest money, rate-lock deposits and expense deposits for future acquisitions.

Deferred Franchise Costs

Deferred franchise costs are recorded at cost and amortized over the term of the respective franchise contract on a straight-line basis. Accumulated amortization of deferred franchise costs was $145,119 and $79,651 as of December 31, 2016 and 2015, respectively. Expected future amortization of deferred franchise costs as of December 31, 2016 is as follows:

Years Ending December 31,	
2017	$ 68,368
2018	68,368
2019	68,368
2020	68,368
2021	68,368
Thereafter	573,041
Total	$ 914,881

Debt Issuance Costs

In accordance with ASU No. 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” debt issuance costs are presented as a direct deduction from the carrying value of the notes payable on the consolidated balance sheets. All periods presented have been reclassified to conform with this presentation. Debt issuance costs are amortized as a component of interest expense over the term of the related debt using the straight-line method, which approximates the effective interest method. Accumulated amortization of debt issuance costs was $1,260,945 and $630,688 as of December 31, 2016 and 2015, respectively. Expected future amortization of debt issuance costs as of December 31, 2016 is as follows:

Years Ending December 31,	
2017	$ 506,665
2018	238,049
2019	238,049
2020	238,700
2021	238,049
Thereafter	732,652
Total	$ 2,192,164

Earnings (Loss) per Share

Earnings (loss) per share (“EPS”) is calculated based on the weighted average number of shares outstanding during each period. Basic and diluted EPS are the same for all periods presented. Non-vested shares of restricted stock, totaling 0 and 1,875 shares as of December 31, 2016 and 2015, respectively, held by the Company’s independent directors are included in the calculation of basic EPS because such shares have been issued and participate in dividends.

Comprehensive Income

For the periods presented, there were no differences between reported net income (loss) attributable to common stockholders and comprehensive income (loss).

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers,” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. In July 2015, the FASB voted to defer the effective date to January 1, 2018 with early adoption beginning January 1, 2017. The Company has begun to evaluate each of its revenue streams under the new model. Based on preliminary assessments, the Company does not expect the adoption of ASU No. 2014-09 to have a material effect on the Company’s consolidated financial position or the Company’s consolidated results of operations.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Liabilities," which enhances the reporting requirements surrounding the measurement of financial instruments and requires equity securities to be measured at fair value with changes in the fair value recognized through net income for the period. ASU No. 2016-01 is effective for the Company's fiscal year commencing on January 1, 2018. The Company does not anticipate that the adoption of ASU No. 2016-01 will have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases," which changes lessee accounting to reflect the financial liability and right-of-use asset that are inherent to leasing an asset on the balance sheet. ASU No. 2016-02 is effective for the Company's fiscal year commencing on January 1, 2019, but early adoption is permitted. The effect that the adoption of ASU No. 2016-02 will have on the Company's consolidated financial position or the Company's consolidated results of operations is not currently reasonably estimable.

In March 2016, the FASB issued ASU No. 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies the accounting for income taxes for certain equity-based awards to employees. ASU No. 2016-09 is effective for the Company's fiscal year commencing on January 1, 2017. The Company does not anticipate that the adoption of ASU No. 2016-09 will have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In August 2016, the FASB issued ASU No. 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which addresses the Statement of Cash Flow classification and presentation of certain cash transactions. ASU No. 2016-15 is effective for the Company's fiscal year commencing on January 1, 2018. The effect of this amendment is to be applied retrospectively where practical and early adoption is permitted. The Company expects to adopt ASU No. 2016-15 for the Company's fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-15 will not have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In October 2016, the FASB issued ASU No. 2016-17, "Interest Held Through Related Parties That Are Under Common Control," which amends the accounting guidance when determining the treatment of certain VIE's to include the interest of related parties under common control in a VIE when considering whether or not the reporting entity is the primary beneficiary of the VIE when considering consolidation. ASU No. 2016-17 is effective for the Company's fiscal year commencing on January 1, 2017. The adoption of ASU No. 2016-17 will not have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In November 2016, the FASB issued ASU No. 2016-18, "Classification of Restricted Cash," which addresses the Statement of Cash Flow classification and presentation of restricted cash transactions. ASU No. 2016-18 is effective for the Company's fiscal year commencing on January 1, 2018. The effect of this amendment is to be applied retrospectively and early adoption is permitted. The Company expects to adopt ASU No. 2016-18 for the Company's fiscal year commencing on January 1, 2018. The adoption of ASU No. 2016-18 will not have a material effect on the Company's consolidated financial position or the Company's consolidated results of operations.

In January 2017, the FASB issued ASU No. 2017-01, "Clarifying the Definition of a Business," with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as an acquisition of assets or a business. ASU No. 2017-01 is effective for the Company's fiscal year commencing on January 1, 2018. The effect of this guidance is to be applied prospectively and early adoption is permitted. The adoption of ASU No. 2017-01 will not have a material effect on the Company's financial position or the Company's results of operations.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

3. Investment in Hotel Properties

The following table sets forth summary information regarding the Company's investments in hotel properties as of December 31, 2016:

Property Name	Date Acquired	Location	Ownership Interest	Purchase Price(1)	Rooms	Mortgage Debt Outstanding(2)
Woodlands Hotel (Homewood Suites by Hilton)	November 8, 2012	The Woodlands, Texas	100%	$ 12,000,000	91	$ 9,300,000
Germantown Hotel (Hyatt Place)	April 9, 2013	Germantown, Tennessee	100%	11,300,000	127	7,325,393
Charleston Hotel (Hyatt Place)	July 2, 2013	North Charleston, South Carolina	100%	11,800,000	113	7,417,921
Austin Hotel (Hampton Inn)	December 30, 2013	Austin, Texas	100%	15,350,000	123	11,044,471
Grapevine Hotel (Residence Inn)	March 31, 2014	Grapevine, Texas	100%	20,500,000	133	12,759,654
Lyndhurst Hotel (Marriott Courtyard)	September 30, 2014	Lyndhurst, New Jersey	(3)	33,322,000	227	30,839,847
Austin Arboretum Hotel (Hilton Garden Inn)	November 20, 2014	Austin, Texas	100%	29,250,000	138	19,000,000
Great Valley Hotel (Hampton Inn)	March 27, 2015	Frazer, Pennsylvania	100%	11,000,000	125	8,200,000
Nashville Hotel (Embassy Suites)	June 16, 2015	Nashville, Tennessee	100%	66,300,000	208	43,000,000
Homewood Suites Austin Hotel (Homewood Suites)	August 3, 2015	Austin, Texas	100%	14,250,000	96	11,000,000
Fort Worth Hotel (TownPlace Suites)	December 18, 2015	Fort Worth, Texas	(4)	7,301,887	95	7,038,313
Houston Hotel (Hampton Inn)	April 21, 2016	Houston, Texas	100%	8,000,000	119	4,711,651
Totals				$ 240,373,887	1,595	$ 171,637,250

(1) Excludes closing costs.
(2) As of December 31, 2016.
(3) The Lyndhurst Hotel is owned by MN Lyndhurst Venture, LLC (the "Lyndhurst Joint Venture"). The OP contributed $100 to the Lyndhurst Joint Venture in exchange for 100% of the Class B membership interests of the Lyndhurst Joint Venture (the "Lyndhurst Class B Interests"). Pursuant to the operating agreement of the Lyndhurst Joint Venture, the OP also agreed to pay up to $5.37 million in costs and fees and capital reserve requirements associated with the transfer of the Lyndhurst Hotel to the Lyndhurst Joint Venture, all of which amounts are deemed to be additional capital contributions by the OP to the Lyndhurst Joint Venture in exchange for additional Lyndhurst Class B Interests. The prior tenant-in-common owners of the Lyndhurst Hotel (the "Lyndhurst TIC Owners") contributed their tenant-in-common ownership interests in the Lyndhurst Hotel (valued at $1,000 in the aggregate) to the Lyndhurst Joint Venture in exchange for non-voting Class A membership interests of the Lyndhurst Joint Venture (the "Lyndhurst Class A Interests"). The OP serves as the sole manager of the Lyndhurst Joint Venture and manages the business and affairs of the Lyndhurst Joint Venture. Cash available for distribution to the members of the Lyndhurst Joint Venture will be distributed as follows: (1) first, 100% to the OP until it has received cash distributions equal to a 12% annual, cumulative, non-compounded return on its capital contributions to the Lyndhurst Joint Venture and a return of 100% of its unreturned capital contributions to the Lyndhurst Joint Venture, (2) next, 100% to the holders of the Lyndhurst Class A Interests until they have received a return of 100% of their capital contributions to the Lyndhurst Joint Venture (valued at $1,000 in the aggregate), and (3) next, 60% to the OP and 40% to the holders of the Lyndhurst Class A Interests.

(4) The Fort Worth Hotel is owned by MN Fort Worth Venture, LLC (the "Fort Worth Joint Venture"). The OP contributed $100 to the Fort Worth Joint Venture in exchange for 100% of the Class B membership interests of the Fort Worth Joint Venture (the "Fort Worth Class B Interests"). Pursuant to the operating agreement of the Fort Worth Joint Venture, the OP also agreed to pay up to $3.146 million in costs and fees and capital reserve requirements associated with the transfer of the Fort Worth Hotel to the Fort Worth Joint Venture, all of which amounts are deemed to be additional capital contributions by the OP to the Fort Worth Joint Venture in exchange for additional Fort Worth Class B Interests. The prior tenant-in-common owners of the Fort Worth Hotel (the "Fort Worth TIC Owners") contributed their tenant-in-common ownership interests in the Fort Worth Hotel (valued at $1,000 in the aggregate) to the Fort Worth Joint Venture in exchange for non-voting Class A membership interests of the Fort Worth Joint Venture (the "Fort Worth Class A Interests"). The OP serves as the sole manager of the Fort Worth Joint Venture and manages the business and affairs of the Fort Worth Joint Venture. Cash available for distribution to the members of the Fort Worth Joint Venture will be distributed as follows: (1) first, 100% to the OP until it has received cash distributions equal to a 12% annual, cumulative, non-compounded return on its capital contributions to the Fort Worth Joint Venture and a return of 100% of its unreturned capital contributions to the Fort Worth Joint Venture, (2) next, 100% to the holders of the Fort Worth Class A Interests until they have received a return of 100% of their capital contributions to the Fort Worth Joint Venture (valued at $1,000 in the aggregate), and (3) next, 50% to the OP and 50% to the holders of the Fort Worth Class A Interests.

Investments in hotel properties consisted of the following at December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Land	$ 27,923,000	$ 26,300,000
Buildings and improvements	208,287,853	199,088,102
Furniture, fixtures and equipment	27,731,547	21,825,902
Total cost	263,942,400	247,214,004
Accumulated depreciation	(25,776,514)	(14,265,804)
Investment in hotel properties, net	$ 238,165,886	$ 232,948,200

Houston Hotel

On April 21, 2016, Moody Katy EC-Houston Holding, LLC, a wholly owned subsidiary of the OP ("Moody Katy EC-Houston Holding"), acquired fee simple title to the Houston Hotel from the current tenant-in-common owners of the Houston Hotel, for an aggregate purchase price of $8,000,000, excluding acquisition costs. The Company financed the acquisition of the Houston Hotel with proceeds from its public offering and $4,800,000 of indebtedness secured by the Houston Hotel. The purchase price of the Houston Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $1,623,000, $6,247,000, and $130,000, respectively. Acquisition costs of $112,283 were expensed when incurred in connection with the acquisition of the Houston Hotel. The Company has recognized approximately $1,531,000 in revenues and a $430,000 net loss, which includes acquisition costs, for the Houston Hotel for the period from the date of acquisition to December 31, 2016. In connection with the acquisition of the Houston Hotel, the Company formed a taxable REIT subsidiary (the "Houston Hotel TRS").

Great Valley Hotel

On March 27, 2015, Moody National Lancaster-Frazer Holding, LLC, a wholly owned subsidiary of the OP ("Moody Great Valley Holding"), acquired fee simple title to the Great Valley Hotel from the current tenant-in-common owners of the Great Valley Hotel, for an aggregate purchase price of $11,000,000, excluding acquisition costs. The Company financed the acquisition of the Great Valley Hotel with proceeds from its public offering and $8,200,000 of indebtedness secured by the Great Valley Hotel. The purchase price of the Great Valley Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $2,125,000, $8,125,000, and $750,000, respectively. Acquisition costs of $358,830 were expensed when incurred in connection with the acquisition of the Great Valley Hotel. The Company has recognized approximately $6,760,000 in revenues and a $520,000 net loss, which includes acquisition costs, for the Great Valley Hotel for the period from the acquisition date through December 31, 2016. In connection with the acquisition of the Great Valley Hotel, the Company formed a taxable REIT subsidiary.

Nashville Hotel

On June 16, 2015, Moody National Broadway-Nashville Holding, LLC, a wholly owned subsidiary of the OP ("Moody Nashville Holding"), acquired fee simple title to the Nashville Hotel from the current tenant-in-common owners of the Nashville Hotel, for an aggregate purchase price of $66,300,000, excluding acquisition costs. The Company financed the acquisition of the Nashville Hotel with a portion of the remaining proceeds from its public offering and $43,000,000 of indebtedness secured by the Nashville Hotel. The purchase price of the Nashville Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $7,100,000, $57,550,000, and $1,650,000, respectively. Acquisition costs of $1,417,679 were expensed when incurred in connection with the acquisition of the Nashville Hotel. The Company has recognized approximately $20,174,000 in revenues and a $425,000 net income, which includes acquisition costs, for the Nashville Hotel for the period from the acquisition date through December 31, 2016. In connection with the acquisition of the Nashville Hotel, the Company formed a taxable REIT subsidiary.

Homewood Suites Austin Hotel

On August 3, 2015, Moody National Governors-Austin Holding, LLC, a wholly owned subsidiary of the OP ("Moody Homewood Suites Austin Holding"), acquired fee simple title to the Homewood Suites Austin Hotel from a third-party seller, for an aggregate purchase price of $14,250,000, excluding acquisition costs. The Company financed the acquisition of the Homewood Suites Austin Hotel with a portion of the remaining proceeds from its public offering and $11,000,000 of indebtedness secured by the Homewood Suites Austin Hotel. The purchase price of the Homewood Suites Austin Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $1,022,000, $12,515,000, and $713,000, respectively. Acquisition costs of $283,853 were expensed when incurred in connection with the acquisition of the Homewood Suites Austin Hotel. The Company has recognized approximately $5,474,000 in revenues and a $538,000 net loss, which includes acquisition costs, for the Homewood Suites Austin Hotel for the period from the acquisition date through December 31, 2016. In connection with the acquisition of the Homewood Suites Austin Hotel, the Company formed a taxable REIT subsidiary.

Fort Worth Hotel

On December 18, 2015, the Company acquired an interest in a 95-unit TownPlace Suites hotel property located in Fort Worth, Texas (the "Fort Worth Hotel") from the then current tenant-in-common owners ("TIC Owners") of the Fort Worth Hotel for an aggregate purchase price of $7,301,887, exclusive of closing costs, including the assumption of the outstanding debt secured by the Fort Worth Hotel. In connection with the acquisition of the Fort Worth Hotel, Moody National International-Fort Worth Holding, LLC, a wholly owned subsidiary of the OP ("Moody TownPlace Suites Fort Worth Holding") assumed a loan secured by the Fort Worth Hotel with an original principal amount of $7,840,000. The Company recorded the Fort Worth Hotel at its fair value as of the date of acquisition of $10,000,000. The Company recognized a gain on acquisition of hotel property of $2,698,113.

Effective December 18, 2015, fifteen of the TIC Owners (the "Contributing Members") contributed title to their respective ownership interests, as tenants-in-common in the Fort Worth Hotel, to MN Fort Worth Venture, LLC, a subsidiary of the Company's OP (the "Fort Worth Joint Venture"), in exchange for 100% of the Class A membership interests ("Class A Interests") of the Fort Worth Joint Venture. The tenant-in common ownership interests in the Fort Worth Hotel contributed to the Fort Worth Joint Venture by the Contributing Members are valued at $1,000 in the aggregate. In addition, the OP contributed $100 in cash to the Fort Worth Joint Venture in exchange for 100% of the Class B membership interests (the "Class B Interests") of the Fort Worth Joint Venture. Pursuant to the limited liability company operating agreement of the Fort Worth Joint Venture (the "Fort Worth JV Agreement"), the OP has also paid approximately $3,146,000 in costs and fees and capital reserve requirements associated with the transfer of the Fort Worth Hotel to the Fort Worth Joint Venture, including (i) a loan assumption fee of approximately $36,000, (ii) a franchise property improvement plan escrow of approximately $2,689,000, and (iii) approximately $421,000 in other closing costs, including a disposition fee of $250,850 to Moody National Realty Company, L.P., an affiliate of the Company, all of which amounts will be deemed additional capital contributions by the OP to the Fort Worth Joint Venture in exchange for additional Class B Interests.

Pursuant to the Fort Worth JV Agreement, the OP will serve as the sole manager of the Fort Worth Joint Venture and will manage the business and affairs of the Fort Worth Joint Venture. Under the Fort Worth JV Agreement, the Contributing Members, as holders of the Class A Interests ("Class A Holders"), will have no voting or consent rights with respect to the management of the Fort Worth Joint Venture except as specifically set forth in the Fort Worth JV Agreement or as required by applicable law. Pursuant to the Fort Worth JV Agreement, cash available for distribution to the members of the Fort Worth Joint Venture, as determined by the OP in its discretion as the manager, will be distributed as follows: first, 100% to the OP as the holder of the Class B Interests (the "Class B Holder") until the Class B Holder has received cash distributions equal to a 12% annual, cumulative, non-compounded return on its unreturned capital contributions to the Fort Worth Joint Venture; second, 100% to the Class B Holder until the Class B Holder has received a return of 100% of its unreturned capital contributions to the Fort Worth Joint Venture; and third, 50% to the Class B Holder and 50% to the Class A Holders (in accordance with each Class A Holder's respective membership interests in the Fort Worth Joint Venture).

Two of the TIC Owners elected not to contribute their respective tenant-in-common ownership interests in the Fort Worth Hotel to the Fort Worth Joint Venture and instead elected to have their tenant-in-common ownership interests redeemed by Moody National Realty Company, L.P. for $1.00 and the assumption of the Property Loan by the Moody TownPlace Suites Fort Worth Holding.

The purchase price of the Fort Worth Hotel, excluding acquisition expenses, was allocated to land, buildings and improvements and furniture, fixtures and equipment in the amounts of $1,800,000, $7,107,000, and $1,093,000, respectively. Acquisition costs of $528,544 were expensed when incurred in connection with the acquisition of the Fort Worth Hotel. The Company has recognized approximately $2,000,000 in revenues and a $1,482,000 net loss, which includes acquisition costs and excludes gain on acquisition of hotel property, for the Fort Worth Hotel for the period from the acquisition date through December 31, 2016. In connection with the acquisition of the Fort Worth Hotel, the Company formed a taxable REIT subsidiary.

The following unaudited pro forma consolidated financial information for the years ended December 31, 2016 and 2015 is presented as if the Company had acquired the Great Valley Hotel, Nashville Hotel, Homewood Suites Austin Hotel, the Fort Worth Hotel and the Houston Hotel on January 1, 2015 and excludes the effect of the Company's investment in a hotel property located in Newark, California that was sold during the year ended December 31, 2015. This information is not necessarily indicative of what the actual results of operations would have been had the Company completed the acquisition of the Great Valley Hotel, Nashville Hotel, Homewood Suites Austin Hotel, the Fort Worth Hotel and the Houston Hotel on January 1, 2015, nor does it purport to represent the Company's future operations:

	Years ended December 31,	
	2016	2015
	(unaudited)	
Revenue	$ 62,666,486	$ 61,855,987
Net loss	(4,221,563)	(6,319,290)
Net loss attributable to common stockholders	(4,023,409)	(6,638,921)
Net loss per common share - basic and diluted	$ (0.30)	$ (0.52)

4. Notes Receivable

As of December 31, 2016 and 2015, mortgage note receivable amounts were $0 and $11,839,171, respectively. As of December 31, 2016 and 2015, the amounts of notes receivable from related parties were $13,500,000 and $9,000,000, respectively.

Hyatt Place Note

On June 3, 2011 (the "Closing Date"), and effective as of May 5, 2011 (the "Effective Date"), the Company acquired a 74.5% joint venture interest in a mortgage note secured by a hotel property in Grapevine, Texas (the "Hyatt Place Note") pursuant to the transaction described below. The Hyatt Place Note was issued by Moody National HP Grapevine Trust, a Delaware statutory trust (the "Trust"), in favor of Patriot Bank, a Texas banking association ("Patriot Bank"), and was secured by a lien on the underlying hotel property. As of the Closing Date, the Hyatt Place Note had an outstanding principal balance of $12,759,199.

The entire unpaid principal balance of the Hyatt Place Note and all accrued and unpaid interest thereon was due and payable in full on February 1, 2018 (the "Maturity Date"). The Hyatt Place Note accrued interest at a fixed rate of 5.15% per annum from the Closing Date through August 21, 2012 (the "First Change Date"). For the period from the First Change Date through August 21, 2015 (the "Second Change Date"), the Hyatt Place Note accrued interest at 5.15%, which is a fixed rate equal to (a) the variable interest rate per annum published in *The Wall Street Journal* as the "Prime Rate" of 3.25% (the "Prime Rate") in effect as of the First Change Date, plus (b) 1.90%. For the period from the Second Change Date through the Maturity Date, the Hyatt Place Note accrued interest at 5.15%, which is a fixed rate equal to (a) the Prime Rate in effect as of the Second Change Date, plus (b) 1.90%, provided that in no event will the interest rate exceed the maximum interest rate permitted by applicable law.

On June 10, 2016, the Hyatt Place Note and all accrued interest thereon was paid in full.

The estimated fair value of the Hyatt Place Note as of December 31, 2015 was $11,839,171. The fair value of the Hyatt Place Note was estimated based on discounted cash flow analyses using the current incremental borrowing rates for similar types of borrowing arrangements as of the respective reporting dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

Notes Receivable from Related Parties

On August 21, 2015, the Company originated an unsecured loan in the aggregate principal amount of $9,000,000 (the "Related Party Note") to Moody National DST Sponsor, LLC, a Texas limited liability company and an affiliate of Sponsor ("DST Sponsor"). Proceeds from the Related Party Note were used by DST Sponsor solely to acquire a commercial real property located in Katy, Texas.

The entire unpaid principal balance of the Related Party Note and all accrued and unpaid interest thereon and all other amounts due under the Related Party Note were due and payable in full on the earlier of (1) August 21, 2016 or (2) ten days following the sale of 100% of the equity ownership interests that are to be syndicated in the Subject Property. Interest on the outstanding principal balance of the Related Party Note accrues at a fixed per annum rate equal to 12%, provided that in no event will the interest rate exceed the maximum rate permitted by applicable law. DST Sponsor was required to pay the Company an origination fee in the amount of $90,000 and an exit fee in the amount of $90,000 upon the maturity date of the Related Party Note, including any earlier prepayment date or accelerated maturity date of the Related Party Note. The Related Party Note may be prepaid in whole or part by DST Sponsor without penalty at any time upon prior written notice to the Company.

On August 15, 2016, the maturity date of the Related Party note was extended from August 21, 2016 to August 21, 2017 and the origination fee in the amount of $90,000 and an extension fee in the amount of $45,000 were paid to the Company by DST Sponsor.

On April 29, 2016, the Company originated an unsecured loan in the aggregate principal amount of $4,500,000 (the "Related Party Mezzanine Note") to Moody National Realty Company, L.P., a Texas limited partnership and an affiliate of Sponsor ("Moody National"). Proceeds from the Related Party Mezzanine Note were used by Moody National solely to acquire a multifamily real property located in Houston, Texas.

The entire unpaid principal balance of the Related Party Mezzanine Note and all accrued and unpaid interest thereon and all other amounts due under the Related Party Mezzanine Note are due and payable in full on the earlier of (1) April 30, 2018, or (2) upon 90 days' written notice of acceleration of the maturity date by the Company to Moody National. Interest on the outstanding principal balance of the Related Party Mezzanine Note accrues at a fixed per annum rate equal to 10%, provided that in no event will the interest rate exceed the maximum rate permitted by applicable law. Moody National will pay the Company an origination fee in the amount of $45,000 and an exit fee in the amount of $45,000 upon the maturity date of the Related Party Mezzanine Note, including any earlier prepayment date or accelerated maturity date. The Related Party Mezzanine Note may be prepaid in whole or part by Moody National without penalty at any time upon prior written notice to the Company.

Interest income from notes receivable from related parties was $1,558,000 and $479,300 for the years ended December 31, 2016 and 2015, respectively. Interest receivable on notes receivable from related parties was $1,452,300 and $479,300 as of December 31, 2016 and 2015, respectively.

The aggregate estimated fair values of the notes receivable from related parties as of December 31, 2016 and 2015 were $13,500,000 and $9,000,000, respectively.

5. Debt

The Company's aggregate borrowings are reviewed by the Company's board of directors at least quarterly. Under the Company's Second Articles of Amendment and Restatement (as amended, the "Charter"), the Company is prohibited from borrowing in excess of 300% of the value of the Company's net assets. "Net assets" for purposes of this calculation is defined to be the Company's total assets (other than intangibles), valued at cost prior to deducting depreciation, reserves for bad debts and other non-cash reserves, less total liabilities. However, the Company may temporarily borrow in excess of these amounts if such excess is approved by a majority of the Company's independent directors and disclosed to stockholders in the Company's next quarterly report, along with an explanation for such excess. As of December 31, 2016, the Company's debt levels did not exceed 300% of the value of the Company's net assets, as defined above.

As of December 31, 2016 and 2015, the Company's notes payable consisted of the following:

	Principal as of December 31, 2016	Principal as of December 31, 2015	Interest Rate at December 31, 2016	Maturity Date
Hyatt Place Note Acquisition Note	$ —	$ 9,994,173	3.000%	N/A
Woodlands Hotel Loan	9,300,000	9,300,000	4.690%	April 11, 2025
Germantown Hotel Loan	7,325,393	7,465,018	4.300%	May 6, 2023
Charleston Hotel Loan	7,417,921	7,536,474	5.193%	August 1, 2023
Austin Hotel Loan	11,044,471	11,207,445	5.426%	January 6, 2024
Grapevine Hotel Loan	12,759,654	12,951,025	5.250%	April 6, 2024
Lyndhurst Hotel Loan	30,839,847	31,415,138	5.916%	September 6, 2017
Austin Arboretum Hotel Loan	19,000,000	19,000,000	4.530%	December 11, 2024
Great Valley Hotel Loan	8,200,000	8,200,000	4.700%	April 11, 2025
Nashville Hotel Loan	43,000,000	43,000,000	4.2123%	July 11, 2025
Homewood Suites Austin Loan	11,000,000	11,000,000	4.650%	August 11, 2025
Fort Worth Loan	7,038,313	7,167,151	6.136%	June 6, 2017
Houston Loan	4,711,651	—	5.750%	April 28, 2017
Total notes payable	171,637,250	178,236,424		
Less unamortized debt issuance costs	(2,192,164)	(2,767,439)		
Total notes payable, net of debt issuance costs	$ 169,445,086	$ 175,468,985		

The notes payable are secured by the respective hotel properties and are payable in monthly installments of principal and interest.

Maturities of notes payable as of December 31, 2016 are as follows:

Year ending December 31,	
2017	$ 44,043,280
2018	2,145,768
2019	2,248,650
2020	2,340,140
2021	2,468,800
Thereafter	118,390,612
Total	$ 171,637,250

Each of the Lyndhurst Hotel Loan, the Fort Worth Loan, and the Houston Loan mature in 2017. If the mergers are consummated, these loans may be extended or re-financed with financing obtained by Moody II. In the event the mergers are not consummated, the Company intends to extend the Houston Loan and refinance the Lyndhurst Hotel Loan and Fort Worth Hotel Loan with proceeds from new loans. The Company may not be able to extend or refinance the foregoing loans at all, or be able to extend or refinance such loans on favorable terms.

The estimated fair value of the Company's notes payable as of December 31, 2016 and 2015 was $172,000,000 and $177,000,000, respectively. The fair value of notes payable was estimated based on discounted cash flow analyses using Level 2 inputs for the current incremental borrowing rates for similar types of borrowing arrangements as of the respective reporting dates. The discounted cash flow method of assessing fair value results in a general approximation of value, and such value may never actually be realized.

6. Equity

Capitalization

Under the Charter, the Company has the authority to issue 400,000,000 shares of common stock and 50,000,000 shares of preferred stock. All shares of common and preferred stock have a par value of $0.01 per share. As of December 31, 2016, the Company had issued 13,233,922 shares of common stock in the Company's public offerings, net of redemptions, including 928,072 shares issued pursuant to the DRIP. As of December 31, 2016, there were a total of 13,307,394 shares of the Company's common stock issued and outstanding, including 22,222 shares sold to Sponsor and 51,250 shares of restricted stock, as discussed in Note 8 ("Incentive Award Plan").

The Company's board of directors is authorized to amend the Charter, without the approval of the stockholders, to increase the aggregate number of authorized shares of capital stock or the number of shares of any class or series that the Company has authority to issue.

Distributions

The Company's board of directors has authorized and declared a distribution to its stockholders that (1) accrues daily to the Company's stockholders of record as of the close of business on each day; (2) is payable in cumulative amounts on or before the 15th day of each calendar month; and (3) is calculated at a rate of $0.002192 per share of the Company's common stock per day, which, if paid each day over a 365-day period, is equivalent to an 8.0% annualized distribution rate based on a purchase price of $10.00 per share of common stock.

The following table summarizes distributions paid in cash and pursuant to the DRIP for the years ended December 31, 2016 and 2015. (The DRIP was suspended in October 2016.)

Period	Cash Distribution	Distribution Paid Pursuant to DRIP(1)	Total Amount of Distribution(1)
First Quarter 2016	$ 1,643,571	$ 965,287	$ 2,608,858
Second Quarter 2016	1,683,097	967,084	2,650,181
Third Quarter 2016	1,703,955	954,614	2,658,569
Fourth Quarter 2016	2,332,101	310,855	2,642,956
Total	$ 7,362,724	$ 3,197,840	$ 10,560,564
First Quarter 2015	$ 1,348,289	$ 746,826	$ 2,095,115
Second Quarter 2015	1,623,871	964,050	2,587,921
Third Quarter 2015(2)	1,980,101	978,008	2,958,109
Fourth Quarter 2015	1,653,259	943,606	2,596,865
Total	$ 6,605,520	$ 3,632,490	$ 10,238,010

(1) Amount of distributions paid in shares of common stock pursuant to the DRIP.
(2) Includes special distribution of $350,000 in third quarter of 2015.

Noncontrolling Interest in Operating Partnership

Noncontrolling interest in Operating Partnership at December 31, 2016 was $6,382,384, which represented ownership interests in the Operating Partnership, and is reported in equity in the consolidated balance sheets. Income (loss) from the Operating Partnership attributable to these noncontrolling interests was $(229,487) and $241,693 for the years ended December 31, 2016 and 2015, respectively.

Noncontrolling Interest in Variable Interest Entity

Noncontrolling interest in Moody VIE at December 31, 2016 was $0, which represented ownership interests in Moody VIE. Income (loss) from Moody VIE attributable to these noncontrolling interests was $(15,745) and $0 for the years ended December 31, 2016 and 2015, respectively.

Noncontrolling Interests in Consolidated Joint Ventures

Noncontrolling interest in consolidated joint ventures at December 31, 2016 was $0, which represented third-party ownership interests in the Lyndhurst Joint Venture, the Fort Worth Joint Venture, and the Note Joint Venture, and is reported in equity in the consolidated balance sheets. Income from consolidated joint venture attributable to these noncontrolling interests was $31,333 and $77,938 for the years ended December 31, 2016 and 2015, respectively.

7. Related Party Arrangements

Advisor and certain affiliates of Advisor received fees and compensation in connection with the Company's public offerings and have received and will continue to receive fees and compensation in connection with the acquisition, management and sale of the Company's real estate investments.

Selling Commissions and Dealer Manager Fees

Moody Securities, LLC ("Moody Securities"), the dealer manager of the Company's Initial Public Offering and Follow-On Offering, received a selling commission of up to 6.5% of gross offering proceeds raised in those offerings, all or a portion of which could be re-allowed to participating broker-dealers. In addition, the Company paid Moody Securities a dealer manager fee of up to 3.5% of gross offering proceeds raised in those offerings, a portion of which could be re-allowed to participating broker-dealers. No selling commissions or dealer manager fees are paid for sales pursuant to the DRIP. As of December 31, 2016, the Company had paid Moody Securities $746,368 and $8,646,755 in selling commissions related to the Initial Public Offering and Follow-On Offering, respectively, and $190,626 and $2,455,643 in dealer manager fees related to the Initial Public Offering and Follow-On Offering, respectively, which amounts have been recorded as a reduction to additional paid-in capital in the consolidated balance sheets.

Organization and Offering Costs

Advisor and its affiliates will be reimbursed up to 15.0% of offering proceeds for reimbursement of organization and offering expenses (including selling commissions and the dealer manager fee payable to Moody Securities) not to exceed actual expenses incurred. Advisor will be responsible for the payment of organization and offering expenses, other than selling commissions and dealer manager fees, to the extent they exceed 15.0% of gross offering proceeds, without recourse against or reimbursement by the Company. As of December 31, 2016, Advisor and its affiliates had incurred organization and offering expenses of approximately $3,214,000 related to the Initial Public Offering and $2,849,000 related to the Follow-On Offering and the DRIP Offering.

As of December 31, 2016, total offering costs for the Follow-On Offering were $14,122,588. The Company directly incurred $11,397,725 of offering costs for the Follow-On Offering and $2,724,863 in offering costs reimbursable to Advisor for the Follow-On Offering. As of December 31, 2016, total offering costs for the DRIP Offering were $124,000. The Company directly incurred $0 of offering costs for the DRIP Offering and $124,000 in offering costs were reimbursed to Advisor for the DRIP Offering. As of December 31, 2016, the Company had $0 payable to Advisor for offering costs related to the Follow-On Offering and DRIP Offerings. As of December 31, 2016, offering costs related to the Follow-On Offering did not exceed 15.0% of the gross offering proceeds from the sale of the Company's shares of common stock in the Follow-On Offering. The Company has not reimbursed Advisor any funds for organization costs for the Follow-On Offering.

Advisory Fees and Expense Reimbursement

Acquisition Fee

Advisor, or its affiliates, receives an acquisition fee equal to 1.5% of (1) the cost of investments the Company acquires or (2) the Company's allocable cost of investments acquired in a joint venture. With respect to investments in and originations of loans, Advisor will receive an origination fee in lieu of an acquisition fee. The origination fee will equal 1.5% of the amount funded by the Company to invest in or originate such loan. For the year ended December 31, 2016, the Company paid Advisor acquisition fees of $120,000 in connection with the acquisition of the Houston Hotel. For the year ended December 31, 2015, the Company paid Advisor acquisition fees of $1,476,750 in connection with the acquisition of the Great Valley Hotel, the Nashville Hotel, the Homewood Suites Austin Hotel, and the Fort Worth Hotel. Acquisition fees are recorded as acquisition expenses in the Company's consolidated statements of operations. As of December 31, 2016, the Company had not paid any origination fees to Advisor.

Debt Financing Fee

Advisor receives a debt financing fee of 1.0% of the amount available under any loan or line of credit made available to the Company. It is anticipated that Advisor will pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for the Company. For the year ended December 31, 2016, the Company paid $48,000 in debt financing fees to Advisor incurred in connection with the acquisition of the Houston Hotel. For the year ended December 31, 2015, the Company paid $787,000 in debt financing fees to Advisor for financing obtained in connection with the refinancing of the Woodlands Hotel and the acquisition of the Great Valley Hotel, the Nashville Hotel, the Homewood Suites Austin Hotel, and the Fort Worth Hotel.

Asset Management Fee

The Company pays Advisor a monthly asset management fee of one-twelfth of 1.0% of the aggregate cost (before non-cash reserves and depreciation) of all real estate investments held by the Company at month-end. For the years ended December 31, 2016 and 2015, the Company incurred asset management fees of $2,626,589 and $2,071,879, respectively, payable to Advisor, which are recorded in corporate general and administrative expenses in the accompanying consolidated statements of operations.

Disposition Fee

If Advisor provides a substantial amount of services in connection with the sale of a property or other investment, Advisor or its affiliates also will be paid a disposition fee equal to 3.0% of the contract sales price of each property or other investment sold, provided that total real estate commissions, including the disposition fee, do not exceed 6.0% of the contract sales price. For the year ended December 31, 2015, the Company paid a disposition fee to Advisor in the amount of $551,250, or 2.25% of the contract sales price, in connection with the sale of the Silicon Valley Hotel. The Company did not pay Advisor any disposition fees for the year ended December 31, 2016.

Operating Expense Reimbursement

The Company will reimburse Advisor for all operating expenses paid or incurred by Advisor in connection with the services provided to the Company, subject to the limitation that the Company will not reimburse Advisor for any amount by which its operating expenses (including the asset management fee) at the end of the four preceding fiscal quarters exceeds the greater of: (1) 2% of the Company's average invested assets, or (2) 25% of the Company's net income determined without reduction for any additions to reserves for depreciation, bad debts or other similar non-cash reserves and excluding any gain from the sale of the Company's assets for that period (the "2%/25% Limitation"). Notwithstanding the above, the Company may reimburse Advisor for expenses in excess of this limitation if a majority of the independent directors determines that such excess expenses are justified based on unusual and non-recurring factors. For the four fiscal quarters ended December 31, 2016, total operating expenses of the Company were $4,031,112, which included $2,799,289 in operating expenses incurred directly by the Company and $1,231,823 incurred by Advisor on behalf of the Company. Of the $4,031,112 in total operating expenses incurred during the four fiscal quarters ended December 31, 2016, $0 exceeded the 2%/25% Limitation. The Company reimbursed Advisor approximately $1,231,000 in operating expenses during the four fiscal quarters ended December 31, 2016. Additionally, Advisor has incurred $5,293,044 in operating expenses on the Company's behalf prior to the four fiscal quarters ended December 31, 2016. Subject to a future determination by the Company's board of directors, this amount is not reimbursable to Advisor nor an obligation of the Company.

Advisor has waived all operating expenses reimbursable to Advisor for each of the 12 prior fiscal quarters ended March 31, 2014 to the extent such expenses had not been previously reimbursed to Advisor. Advisor further agreed that all expenses incurred directly by the Company during the waiver period will be paid by Advisor on behalf of the Company. Total reimbursable expenses so waived or assumed by Advisor were $1,967,721 as of December 31, 2016.

Property Management Fees

The Company has engaged Moody National Hospitality Management, LLC, an affiliate of the Sponsor (the “Property Manager”), as its property manager. The Company pays Property Manager a market-based property management fee in connection with the operation and management of its properties pursuant to the terms of hotel management agreements. For the years ended December 31, 2016 and 2015, the Company paid the Property Manager property management fees of $1,776,468 and $1,532,740, respectively, and accounting fees of $340,000 and $287,500, respectively, which are included in hotel operating expenses in the accompanying consolidated statements of operations.

Notes Receivable from Related Parties

On August 21, 2015, pursuant to the Related Party Note, the Company made a loan in the amount of $9,000,000 to DST Sponsor, an affiliate of the Company, the proceeds of which were used by DST Sponsor for the acquisition of a commercial property located in Katy, Texas. An origination fee of $90,000 and an extension fee in the amount of $45,000 were paid to the Company by DST Sponsor on August 15, 2016 and an exit fee of $90,000 is payable by DST Sponsor to the Company upon maturity of the Related Party Note. The Related Party Note bears interest at a rate of 12% per annum and was due August 21, 2016. The maturity date of the Related Party note was extended to August 21, 2017. On April 29, 2016, pursuant to the Related Party Mezzanine Note, the Company made a loan in the amount of $4,500,000 to Moody National, the proceeds of which were used by Moody National for the acquisition of a commercial property located in Houston, Texas. An origination fee of $45,000 and an exit fee of $45,000 is payable by Moody National to the Company upon maturity of the Related Party Mezzanine Note. The Related Party Mezzanine Note bears interest at a rate of 10% per annum and is due April 30, 2018. Interest income from notes receivable from related parties was $1,558,000 and $479,300 for the years ended December 31, 2016 and 2015, respectively, which has been partially paid.

Due from Related Parties

On September 22, 2015, the Company assigned and transferred its Purchase Agreement, as amended, between the Company and a third-party seller for the property commonly referred to as the Hampton Inn Boston Logan Airport to Moody National for the sum of $1,000,000. The $1,000,000 receivable from Moody National is recorded in due from related parties in the accompanying consolidated balance sheets.

Note Joint Venture

As discussed in Note 4 (“Notes Receivable”), during the year ended December 31, 2016, the OP owned a 74.5% membership interest in the Note Joint Venture, Moody National Mortgage owned a 14% membership interest in the Note Joint Venture and the Trust Members owned the remaining 11.5% membership interests in the Note Joint Venture. Pursuant to the terms of the Note Joint Venture Agreement, Moody National Mortgage received approximately 14% of all distributions of cash from operations of the Note Joint Venture and the OP and the other Members received the remaining approximately 86% of distributions of cash from operations of the Note Joint Venture in proportion to their respective membership interests in the Note Joint Venture.

On June 10, 2016, the Hyatt Place Note receivable and all accrued interest thereon was paid in full.

Great Valley Hotel

On March 27, 2015, the OP acquired fee simple title to the Great Valley Hotel from the current tenant-in-common owners of the Great Valley Hotel (the “Great Valley TIC Owners”), for an aggregate purchase price, exclusive of closing costs, of $11,000,000. The Great Valley TIC Owners acquired their tenant-in-common interests in the Great Valley Hotel in a tenant-in-common program sponsored by an affiliate of the Company.

Nashville Hotel

On June 16, 2015, the OP acquired fee simple title to the Nashville Hotel from the current tenant-in-common owners of the Nashville Hotel (the “Nashville TIC Owners”), for an aggregate purchase price, exclusive of closing costs, of $66,300,000. The Nashville TIC Owners acquired their tenant-in-common interests in the Nashville Hotel in a tenant-in-common program sponsored by an affiliate of the Company.

Fort Worth Hotel

On December 18, 2015, the OP acquired an interest in the Fort Worth Hotel from the Fort Worth TIC Owners for an aggregate purchase price, exclusive of closing costs, including the assumption of the outstanding debt secured by the Fort Worth Hotel, of $7,301,887. The Fort Worth TIC Owners acquired their tenant-in-common interests in the Fort Worth Hotel in a tenant-in-common program sponsored by an affiliate of the Company.

Houston Hotel

On April 21, 2016, the OP acquired fee simple title to the Houston Hotel from the current tenant-in-common owners of the Houston Hotel (the "Houston TIC Owners"), for an aggregate purchase price, exclusive of closing costs, of $8,000,000. The Houston TIC Owners acquired their tenant-in-common interests in the Houston Hotel in a tenant-in-common program sponsored by an affiliate of the Company.

Payment from Moody Securities

On March 27, 2015, Moody Securities entered into a Notice of Acceptance Letter, Waiver and Consent with FINRA whereby Moody Securities, among other things, agreed to pay the Company $350,000 to be distributed pro rata to the Company's stockholders in connection with the failure of Moody Securities to comply with FINRA Rule 2310 and the computation of organization and offering expenses incurred in connection with the Company's initial public offering under FINRA rules. Moody Securities paid the Company $350,000 on July 21, 2015 which was recorded as a special contribution to the Company in the consolidated statements of equity and the Company made a special distribution to stockholders of $350,000 on July 28, 2015.

Pending Merger with Moody II

On November 16, 2016, the Company entered into the Merger Agreement. Concurrently with the entry into the Merger Agreement, the Company, the OP, the Advisor, Moody II, Moody National and OP Holdings entered into the Termination Agreement. See Note 1 ("Organization—Pending Merger with Moody National REIT II, Inc.").

8. Incentive Award Plan

The Company has adopted an incentive plan (the "Incentive Award Plan") that provides for the grant of equity awards to its employees, directors and consultants and those of the Company's affiliates. The Incentive Award Plan authorizes the grant of non-qualified and incentive stock options, restricted stock awards, restricted stock units, stock appreciation rights, dividend equivalents and other stock-based awards or cash-based awards. Shares of common stock will be authorized and reserved for issuance under the Incentive Award Plan. The Company has also adopted an independent directors compensation plan (the "Independent Directors Compensation Plan") pursuant to which each of the Company's then current independent directors were entitled to receive 5,000 shares of restricted stock when the Company raised the minimum offering amount of $2,000,000 in its initial public offering. Each new independent director that subsequently joins the Company's board of directors receives 5,000 shares of restricted stock on the date he or she joins the Company's board of directors. In addition, on the date of each of the first four annual meetings of the Company's stockholders at which an independent director is re-elected to the Company's board of directors, he or she receives 2,500 restricted shares. Subject to certain conditions, the non-vested shares of restricted stock granted pursuant to the Independent Directors Compensation Plan will vest and become non-forfeitable in four equal quarterly installments beginning on the first day of the first quarter following the date of grant; provided, however, that the restricted stock will become fully vested on the earlier to occur of (1) the termination of the independent director's service as a director due to his or her death or disability, or (2) a change in control of the Company. As of December 31, 2016, there were 1,948,750 common shares remaining available for future issuance under the Incentive Award Plan and the Independent Directors Compensation Plan.

A total of 0 and 2,500 shares of restricted stock were granted pursuant to the Independent Directors Compensation Plan during the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, a total of 51,250 shares of restricted common stock have been issued by the Company to the Company's independent directors pursuant to the Independent Directors Compensation Plan.

The weighted average grant date fair value of the shares of restricted stock issued by the Company pursuant to the Independent Directors Compensation Plan was $10.00 per share based on observable market transactions occurring near the dates of the grants. The Company recorded compensation related to such shares of restricted stock ratably from the grant date to the date the shares become fully vested based on the fair market value of such shares at the date they were granted. The Company recorded compensation related to such shares of restricted stock of $14,077 and $52,923 for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, all shares of restricted common stock granted pursuant to the Independent Directors Compensation Plan which were granted as of August 12, 2015 had been vested and there was no remaining unrecognized compensation expense.

The following is a summary of activity under the Independent Directors Compensation Plan for the years ended December 31, 2016 and 2015:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance of non-vested shares as of December 31, 2014	5,625	$ 10.00
Shares granted on August 12, 2015	2,500	10.00
Shares vested	(6,250)	10.00
Balance of non-vested shares as of December 31, 2015	1,875	10.00
Shares vested	(1,875)	10.00
Balance of non-vested shares as of December 31, 2016	0	$ 10.00

9. Subordinated Participation Interest

Pursuant to the limited partnership agreement of the OP, the holders of the Special Units will be entitled to distributions from the OP in an amount equal to 15.0% of net sales proceeds received by the OP on dispositions of its assets and dispositions of real properties by joint ventures or partnerships in which the OP owns a partnership interest, after the other holders of common units, including the Company, have received in the aggregate cumulative distributions from operating income, sales proceeds or other sources equal to their capital contributions plus an 8.0% cumulative non-compounded annual pre-tax return thereon. The Special Units will be redeemed for the above amount upon the earliest of: (1) the occurrence of certain events that result in the termination or non-renewal of the Advisory Agreement or (2) a listing of the Company's common stock on a national securities exchange. Notwithstanding the foregoing, if the Mergers are completed, all of the Special Units will be cancelled and retired and cease to exist, and the only payment made in respect of the Special Units will be the Promote Payment, not to exceed $613,751.

10. Commitments and Contingencies

Restricted Cash

Under certain management and debt agreements existing at December 31, 2016 and 2015, the Company escrows payments required for insurance, real estate taxes, capital improvements, property improvement plans, replacement of hotel furniture and fixtures, and debt service.

The composition of the Company's restricted cash as of December 31, 2016 and 2015 are as follows:

	2016	2015
Property improvement plan	$ 667,997	$ 7,031,398
Real estate taxes	1,592,615	2,182,435
Insurance	392,910	379,907
Hotel furniture and fixtures	2,485,725	2,154,650
Seasonality	290,064	290,061
Expense deposit	255,500	—
Total restricted cash	$ 5,684,811	$ 12,038,451

Franchise Agreements

As of December 31, 2016, all of the Company's hotel properties are operated under franchise agreements with initial terms ranging from 10 to 20 years. Franchise agreements allow the properties to operate under their respective brands. Pursuant to the franchise agreements, the Company pays a royalty fee, generally between 3.0% and 6.0% of room revenue, plus additional fees for marketing, central reservation systems and other franchisor costs that amount to between 1.5% and 4.3% of room revenue. For the years ended December 31, 2016 and 2015, the Company incurred franchise fee expense of approximately $4.9 million and $4.1 million, respectively, which is included in hotel operating expenses in the accompanying consolidated statements of operations.

Merger-Related Contingencies

The consummation of the Mergers is subject to certain customary closing conditions, including, among others, the approval of the Mergers by the Company's stockholders. The Merger Agreement may be terminated under certain circumstances by both the Company and Moody II. If such termination occurs under certain circumstances, then the Company would be obligated to pay Moody II a termination fee of $2,000,000, plus an expense reimbursement fee of up to $500,000. The Merger Agreement also provides that one party may be required to reimburse the other party's expenses, up to $500,000, if the Merger Agreement is terminated under certain circumstances.

11. Income Taxes

The Company has formed TRSs that are C-corporations for federal income tax purposes and use the consolidated asset and liability method of accounting for income taxes. Tax return positions are recognized in the consolidated financial statements when they are "more-likely-than-not" to be sustained upon examination by the taxing authority. Deferred income tax assets and liabilities result from temporary differences. Temporary differences are differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements that will result in taxable or deductible amounts in future periods. A valuation allowance may be placed on deferred income tax assets, if it is determined that it is more likely than not that a deferred tax asset may not be realized.

No provision for income taxes has been made for the Company (other than each TRS) for the years ended December 31, 2016 and 2015 as it made an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code commencing with the taxable year ended December 31, 2011. Prior to January 1, 2011, the Company was subject to federal and state income taxes as it had not elected to be taxed as a REIT.

The TRSs had deferred tax assets of $2,605,000 and $1,345,000 as of December 31, 2016 and 2015, respectively, resulting from net operating loss carry-forwards. As of December 31, 2016, the TRSs had net operating loss carry-forwards of approximately $6,495,000 expiring in 2033, 2034, 2035 and 2036.

As of December 31, 2016, the Company had operating loss carry-forwards of $355,800 expiring in 2033.

The income tax expense (benefit) for the years ended December 31, 2016 and 2015 consisted of the following:

	Years ended December 31, 2016	Years ended December 31, 2015
Current expense	$ 205,577	$ 266,000
Deferred benefit	(1,260,000)	(758,000)
Total income tax benefit	$ (1,054,423)	$ (492,000)
Federal	$ (1,211,000)	$ (531,500)
State	156,577	39,500
Total income tax benefit	$ (1,054,423)	$ (492,000)

The reconciliation of income tax expense (benefit) to the expected amount computed by applying federal statutory rate to income (loss) before income taxes is as follows:

	Years ended December 31,	
	2016	2015
Expected federal tax expense (benefit) at statutory rate	$ (1,959,000)	$ 2,319,000
Tax impact of REIT election	748,000	(2,850,500)
Expected tax benefit at TRS	(1,211,000)	(531,500)
State income tax expense, net of federal tax benefit	156,577	39,500
Income tax benefit	$ (1,054,423)	$ (492,000)

13. Subsequent Events

Distributions Declared

On December 31, 2016, the Company declared a distribution in the aggregate amount of $901,702, which was paid in cash on January 15, 2017. On January 31, 2017 the Company declared a distribution in the aggregate amount of $904,192 which was paid in cash on February 15, 2017. On February 28, 2016, the Company declared a distribution in the aggregate amount of $816,682 which was paid in cash on March 15, 2017.

Extension of Term of Advisory Agreement

On March 22, 2017, the Company entered into an amendment to the Advisory Agreement with Advisor, which extended the term of the Advisory Agreement until the earlier of (i) the termination of the Advisory Agreement pursuant to the Termination Agreement or (ii) April 15, 2018.

MOODY NATIONAL REIT I, INC.
SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2016
(in thousands)

				Initial Cost to Company			Cost Capitalized Subsequent to Acquisition	Gross Amount at which Carried at Close of Period					
Description	Location	Ownership Percent	Encumbrances	Land	Building, Improvements, and FF&E	Total		Land	Building, Improvements and FF&E (1)	Total (1)	Accumulated Depreciation and Amortization	Original Date of Construction	Date Acquired
Homewood Suites Woodlands	The Woodlands, Texas	100.0%	$ 9,300,000	$ 2,460,000	$ 9,540,000	$ 12,000,000	$ 2,492,200	$ 2,460,000	$ 12,032,200	$ 14,492,200	$ 2,244,727	2001	November 8, 2012
Hyatt Place Germantown	Germantown, Tennessee	100.0%	7,325,393	1,800,000	9,500,000	11,300,000	94,517	1,800,000	9,594,517	11,394,517	1,816,528	2009	April 9, 2013
Hyatt Place North Charleston	North Charleston, South Carolina	100.0%	7,417,921	1,000,000	10,800,000	11,800,000	99,912	1,000,000	10,899,912	11,899,912	1,874,629	2009	July 2, 2013
Hampton Inn Austin	Austin, Texas	100.0%	11,044,471	1,500,000	13,850,000	15,350,000	2,988,165	1,500,000	16,838,165	18,338,165	2,686,080	1997	December 30, 2013
Residence Inn Grapevine	Grapevine, Texas	100.0%	12,759,654	2,600,000	17,900,000	20,500,000	2,302,574	2,600,000	20,202,574	22,802,574	2,173,046	2007	March 31, 2014
Marriott Courtyard Lyndhurst	Lyndhurst, New Jersey	(2)	30,839,847	3,400,000	29,922,000	33,322,000	2,039,542	3,400,000	31,961,542	35,361,542	4,306,208	1990	December 31, 2014
Hilton Garden Inn Austin	Austin, Texas	100.0%	19,000,000	1,493,000	27,757,000	29,250,000	1,080,062	1,493,000	28,837,062	30,330,062	2,788,843	2002	November 20, 2014
Hampton Inn Great Valley	Frazer, Pennsylvania	100.0%	8,200,000	2,125,000	8,875,000	11,000,000	1,983,326	2,125,000	10,858,326	12,983,326	1,515,686	1998	March 27, 2015
Embassy Suites Nashville	Nashville, Tennessee	100.0%	43,000,000	7,100,000	59,200,000	66,300,000	2,627,991	7,100,000	61,827,991	68,927,991	4,047,988	2001	June 16, 2015
Homewood Suites Austin	Austin, Texas	100.0%	11,000,000	1,022,000	13,228,000	14,250,000	2,316,070	1,022,000	15,544,070	16,566,070	1,264,240	1998	August 3, 2015
TownPlace Suites Fort Worth	Fort Worth, Texas	**(2)**	7,038,313	1,800,000	8,200,000	10,000,000(3)	2,846,041	1,800,000	11,046,041	12,846,041	921,905	1998	December 18, 2015
Hampton Inn Houston	Hosuton, Texas	100.0%	4,711,651	1,623,000	6,377,000	8,000,000	–	1,623,000	6,377,000	8,000,000	136,634	1995	April 21, 2016
		Total	$ 171,637,250	$ 27,923,000	$ 215,149,000	$ 243,072,000	$ 20,870,400	$ 27,923,000	$ 236,019,400	$ 263,942,400	$ 25,776,514		

(1) The aggregate cost of real estate for federal income tax purposes was $236,019,400 as of December 31, 2016.
(2) 100% of the Class B membership interests of a joint venture.
(3) Includes gain on acquisition of hotel property of $2,698,113.

MOODY NATIONAL REIT I, INC.
SCHEDULE III
REAL ESTATE ASSETS AND ACCUMULATED DEPRECIATION (CONTINUED)
DECEMBER 31, 2016

	2016	2015
Real estate:		
Balance at the beginning of the year	$ 247,214,004	$ 149,810,607
Acquisitions	8,000,000	101,550,000
Improvements and additions	8,728,396	8,386,102
Dispositions	—	(12,532,705)
Balance at the end of the year	$ 263,942,400	$ 247,214,004
Accumulated depreciation:		
Balance at the beginning of the year	$ 14,265,804	$ 5,569,963
Depreciation	11,510,710	9,431,263
Dispositions	—	(735,422)
Balance at the end of the year	$ 25,776,514	$ 14,265,804

Exhibit 10.6

AMENDMENT NO. 7 TO THE AMENDED AND RESTATED ADVISORY AGREEMENT

This Amendment No. 7 to the Amended and Restated Advisory Agreement (this "Amendment") is made and entered into as of March 22, 2017, and to be effective on April 15, 2017, by and among Moody National REIT I, Inc., a Maryland corporation (the "Company"), Moody National Operating Partnership I, L.P., a Delaware limited partnership (the "Operating Partnership"), Moody National Advisor I, LLC, a Delaware limited liability company (the "Advisor"), and, solely in connection with the obligations set forth in Section 13 of the Advisory Agreement (as defined below), Moody National Realty Company, L.P., a Texas limited partnership ("Moody National"). The Company, the Operating Partnership, the Advisor and Moody National are collectively referred to herein as the "Parties." Capitalized terms used but not defined herein shall have the meaning set forth in the Advisory Agreement (as defined below).

W I T N E S S E T H

WHEREAS, the Parties previously entered into that certain Amended and Restated Advisory Agreement, dated and effective as of August 14, 2009 (as amended, the "Advisory Agreement"), which provides for, among other matters, the management of the Company's and the Operating Partnership's day-to-day activities by the Advisor;

WHEREAS, on November 16, 2016, the Company, the Operating Partnership, the Advisor, Moody National REIT II, Inc. ("Moody II"), Moody National Operating Partnership II, LP, Moody National Advisor II, LLC and Moody Merger Sub, LLC entered into an agreement and plan of merger (the "Merger Agreement");

WHEREAS, concurrently with the Merger Agreement, the Company, the Operating Partnership, the Advisor, Moody National Realty Company, LP and Moody II entered into a termination agreement, (the "Termination Agreement"), whereby, among other things, at the effective time of the mergers contemplated by the Merger Agreement, the Advisory Agreement will be terminated, and the Company will pay the Advisor a payment of $5,580,685;

WHEREAS, Section 16 of the Advisory Agreement provides that the term of the Advisory Agreement shall last for a period of one year from its effective date subject to an unlimited number of successive one-year renewals upon mutual consent of the Parties;

WHEREAS, the Advisory Agreement was last renewed by the Parties on April 15, 2016 for a term of one year, expiring on April 15, 2017; and

WHEREAS, the Company does not foresee that the mergers contemplated in the Merger Agreement will be effective by April 15, 2017, and the Company deems it necessary to renew the Advisory Agreement for a term beginning on April 15, 2017 and ending on the earlier of (i) the termination of the Advisory Agreement pursuant to the Termination Agreement or (ii) April 15, 2018.

ARTICLE I

AMENDMENT

In order to give effect to the Parties' agreement to renew the term of the Advisory Agreement for an additional one year term, or until the effective date of the Termination Agreement, if earlier, the Parties agree as follows:

Section 1.1 Renewal of Advisory Agreement. The Advisory Agreement is hereby renewed, effective April 15, 2017, provided that the term of the Advisory Agreement, as described in Section 16 thereof, shall be until the earlier of (i) one year or (ii) the termination of the Advisory Agreement pursuant to the Termination Agreement.

ARTICLE II

MISCELLANEOUS

Section 2.1 Continued Effect. Except as specifically set forth herein, all other terms and conditions of the Advisory Agreement shall remain unmodified and in full force and effect, the same being confirmed and republished hereby. In the event of any conflict between the terms of the Advisory Agreement and the terms of this Amendment, the terms of this Amendment shall control.

Section 2.2 Counterparts. The Parties may sign any number of copies of this Amendment. Each signed copy shall be an original, but all of them together represent the same agreement. Delivery of an executed counterpart of a signature page of this Amendment, or any document or instrument delivered in connection herewith, by telecopy or other electronic method shall be effective as delivery of a manually executed counterpart of this Amendment or such other document or instrument, as applicable.

Section 2.3 Governing Law. This Amendment shall be governed by, and construed in accordance with, the internal laws of the State of Delaware.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

MOODY NATIONAL REIT I, INC.

By: /s/ Brett C. Moody
Name: Brett C. Moody
Title: President

MOODY NATIONAL OPERATING PARTNERSHP I, LP

By: Moody National REIT I, Inc., its general partner

By: /s/ Brett C. Moody
Name: Brett C. Moody
Title: President

MOODY NATIONAL ADVISOR I, LLC

By: Moody National REIT Sponsor, LLC

By: Moody National REIT Sponsor SM, LLC

By: /s/ Brett C. Moody
Name: Brett C. Moody
Title: Member

[Solely in connection with the obligations set forth in Section 13 of the Advisory Agreement]:

MOODY NATIONAL REALTY COMPANY, L.P.

By: /s/ Brett C. Moody
Name: Brett C. Moody
Title: President

Exhibit 21.1

Subsidiaries

Moody National Operating Partnership I, L.P. (Delaware)
Moody National Perimeter REIT JV Member, LLC (Delaware)
Moody National RI Perimeter JV, LLC (Delaware)
Moody National RI Perimeter Holding, LLC (Delaware)
Moody National RI Perimeter MT., Inc. (Delaware)
Moody National RI Perimeter Master Tenant, LLC (Delaware)
MNHP Note Holder, LLC (Delaware)
Moody National Wood-Hou Holding, LLC (Delaware)
Moody National Wood-Hou MT, Inc. (Delaware)
Moody National Wood-Hou MT, LLC (Delaware)
Moody National HP G-Town Holding, LLC (Delaware)
Moody National HP G-Town MT, Inc. (Delaware)
Moody National HP G-Town MT, LLC (Delaware)
Moody National HP N-Charles Holding, LLC (Delaware)
Moody National HP N-Charles MT, Inc. (Delaware)
Moody National HP N-Charles MT, LLC (Delaware)
Moody National Austin-GOVR Holding, LLC (Delaware)
MN Austin-GOVR MT, Inc. (Delaware)
Moody National Austin-GOVR MT, LLC (Delaware)
Moody National 2020-Grapevine Holding, LLC (Delaware)
MN 2020-Grapevine MT, Inc. (Delaware)
Moody National RI Grapevine MT, LLC (Delaware)
Moody National Cedar-Newark Holding, LLC (Delaware)
MN Cedar-Newark MT, Inc. (Delaware)
Moody National TPS Newark MT, LLC (Delaware)
MN Lyndhurst Venture, LLC (Delaware)
Moody National 1 Polito-Lyndhurst Holding, LLC (Delaware)
MN 1 Polito-Lyndhurst MT, Inc. (Delaware)
Moody National CY Lyndhurst MT, LLC (Delaware)
Moody National Research-Austin Holding, LLC (Delaware)
MN Research-Austin MT, Inc. (Delaware)
Moody National Research-Austin MT, LLC (Delaware)
Moody National Lancaster-Frazer Holding, LLC (Delaware)
MN Lancaster-Frazer MT, Inc. (Delaware)
Moody National Lancaster-Frazer MT, LLC (Delaware)
Moody National Broadway-Nashville Holding, LLC (Delaware)
MN Broadway-Nashville MT, Inc. (Delaware)
Moody National Broadway-National MT, LLC (Delaware)
Moody National Governors-Austin Holding, LLC (Delaware)
MN Governors-Austin MT, Inc. (Delaware)
Moody National Governors-Austin MT, LLC (Delaware)
MN Fort Worth Venture, LLC (Delaware)
Moody National International-Fort Worth Holding, LLC (Delaware)
MN International-Fort Worth MT, Inc. (Delaware)
Moody National International-Fort Worth MT, LLC (Delaware)
Moody National Katy EC-Houston Holding, LLC (Delaware)
MN Katy EC-Houston MT, Inc. (Delaware)
Moody National Katy EC-Houston MT, LLC (Delaware)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Moody National REIT I, Inc.

We consent to the incorporation by reference in the Registration Statement on Form S-3 (File No. 333-207805) of Moody National REIT I, Inc. (the "Company") of our report dated March 23, 2017, with respect to the consolidated balance sheets of the Company and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, equity, and cash flows for the years then ended, and related financial statement schedule III, which appear in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Our report dated March 23, 2017 refers to a change in the method of accounting for debt issuance costs.

/s/ Frazier & Deeter, LLC

Atlanta, Georgia
March 23, 2017

Exhibit 31.1

Certification of Principal Executive Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Brett C. Moody, certify that:

1. I have reviewed this annual report on Form 10-K of Moody National REIT I, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2017

/s/ Brett C. Moody
Brett C. Moody
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 31.2

Certification of Principal Financial Officer Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert W. Engel, certify that:

1. I have reviewed this annual report on Form 10-K of Moody National REIT I, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2017

/s/ Robert W. Engel
Robert W. Engel
Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of Moody National REIT I, Inc. (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Executive Officer and President of the Company, certifies, to his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 23, 2017

/s/ Brett C. Moody
Brett C. Moody
Chairman of the Board, Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 32.2

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of Moody National REIT I, Inc. (the “Company”) for the year ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, the Chief Financial Officer, Treasurer and Secretary of the Company, certifies, to his knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 23, 2017

/s/ Robert W. Engel
Robert W. Engel
Chief Financial Officer, Treasurer and Secretary
(Principal Financial and Accounting Officer)