

**MOODY NATIONAL REIT II, INC.**  
**SUPPLEMENT NO. 7 DATED NOVEMBER 19, 2015**  
**TO THE PROSPECTUS DATED JANUARY 20, 2015**

This document supplements, and should be read in conjunction with, our prospectus dated January 20, 2015, as supplemented by Prospectus Supplement No. 1, dated March 5, 2015, Prospectus Supplement No. 2, dated May 19, 2015, Prospectus Supplement No. 3, dated July 13, 2015, Prospectus Supplement No. 4, dated August 14, 2015, Prospectus Supplement No. 5, dated October 9, 2015 and Prospectus Supplement No. 6, dated October 28, 2015 relating to our offering of up to \$1,100,000,000 in shares of our common stock. Terms used and not otherwise defined in this Supplement No. 7 shall have the same meanings as set forth in our prospectus. The purpose of this Supplement No. 7 is to disclose:

- the status of our public offering;
- our board of directors' determination of an estimated value per share of our common stock; and
- our Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, filed with the SEC on November 16, 2015.

**Status of Our Public Offering**

We commenced our initial public offering of up to \$1,100,000,000 in shares of our common stock on January 20, 2015. The terms of our public offering required us to deposit all subscription proceeds in escrow pursuant to the terms of our escrow agreement with UMB Bank, N.A., our escrow agent, until the earlier of the date that we receive subscriptions aggregating at least \$2,000,000 (including shares purchased by our sponsor, its affiliates and our directors and officers) or January 20, 2016. On July 2, 2015, we received subscriptions aggregating \$2,000,000, and the subscription proceeds held in escrow were released to us. As of November 16, 2015, we had received and accepted investors' subscriptions for and issued 342,614 shares of our common stock in our public offering, including 1,248 shares issued pursuant to our distribution reinvestment plan, resulting in gross offering proceeds of approximately \$8,534,151.

**Our Board of Directors' Determination of an Estimated Value Per Share**

On November 12, 2015, our board of directors determined an estimated value per share of our common stock of \$25.03 as of October 31, 2015. In determining an estimated value per share of our common stock, our board of directors relied upon information provided in a report, which we refer to as the valuation report, by our advisor, the recommendation of the audit committee of the board of directors, and the board of directors' experience with, and knowledge of our assets, including the hotel property that we own, as of October 31, 2015.

We are providing the estimated value per share to assist broker-dealers and stockholders in evaluating us. The objective of the board of directors in determining the estimated value per share was to arrive at a value, based on recent available data, that it believed was reasonable based on methods that it deemed appropriate after consultation with our advisor and the audit committee of the board of directors. The estimated value per share is based on (x) the estimated value of our assets less the estimated value of our liabilities divided by (y) the number of outstanding shares of our common stock, all as of October 31, 2015. We intend to determine an updated estimated value per share every year on or about the last day of our fiscal year, or more frequently in the sole discretion of the board of directors, which may be substantially different than the value determined as of October 31, 2015.

Investors are cautioned that the market for commercial real estate can fluctuate quickly and substantially and values of our assets and liabilities are expected to change in the future. Investors should also consider that we are in the very early stages of raising capital in our continuous public offering and as of October 31, 2015, the valuation date, we owned only one real property asset. As and when we continue to raise capital from the sale of shares of our common stock in our continuous public offering and to invest in additional real estate properties, our assets and liabilities, and the value per share of our common stock, will vary significantly from the values as of October 31, 2015.

The following is a summary of the valuation methods used for our assets and liabilities:

*Real Estate Investments.* As of October 31, 2015, we held an ownership interest in the hotel commonly known as the Residence Inn Austin University Area, in Austin, TX, or the Austin property, as our sole real property asset. Our board of directors determined that the market value of the Austin property was \$27,500,000 as of that date. This determination was based on an appraisal of the "market value – as is" as of July 29, 2015 of the Austin property performed by Landauer Valuation & Advisory, a division of Newmark Grubb Knight Frank, or Landauer, a third party appraiser, in connection with the underwriting of the mortgage secured by the Austin property. The appraisal was conducted to conform with applicable federal laws and professional standards, including 12 C.F.R. 564 and Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice.

*Note Payable.* The valuation report contained an estimated valuation of our note payable as equal to fair value as of October 31, 2015, as determined by generally accepted accounting principles. Our board of directors determined that the value of the note payable on October 31, 2015 was \$16,575,000.

*Other Assets and Liabilities.* The valuation report contained our other assets and liabilities, consisting primarily of cash and cash equivalents, restricted cash, deferred costs, accounts receivable, and prepaid expenses and other assets. These other assets and liabilities were considered by our board of directors to be equal to fair value as of October 31, 2015 due to their short maturities.

*Estimated Value Per Share.* The estimated value per share was based upon 319,261 shares of our common stock outstanding as of October 31, 2015. Although the estimated value per share has been developed as a measure of value as of October 31, 2015, a specific time, the estimated value per share does not reflect a liquidity discount for the fact that the shares are not currently traded on a national securities exchange or the limited nature in which a stockholder may redeem shares under the share repurchase program (as may be amended from time to time), a discount for the non-assumability or prepayment obligations associated with certain of our debt, or a discount for the our corporate level overhead.

The following table presents how the estimated value per share was determined as of October 31, 2015:

Investments in hotel properties, net	\$	27,500,000
Cash, cash equivalents and restricted cash		1,388,942
Other assets		504,172
		<u>29,393,114</u>
Note payable		16,575,000
Other liabilities		4,825,444
Special limited partnership interests		1,000
		<u>21,401,444</u>
Estimated value	\$	<u>7,991,670</u>
Common stock outstanding		319,261
Estimated value per share	\$	25.03

As of October 31, 2015, our estimated value per share was allocated on a per share basis as follows:

Investments in hotel properties, net	\$	86.14
Notes payable		(51.92)
Other assets, liabilities and special limited partnership interests		(9.19)
Estimated value per share	\$	<u>25.03</u>

*Material Assumptions in Property Valuation.* Landauer made certain key assumptions in the discounted cash flow models that it used to value the Austin property, which are set forth below:

Direct capitalization – capitalization rate	9.00%
Yield capitalization – discount rate	11.75%
Yield capitalization – terminal capitalization rate	9.25%

While we believe that Landauer’s assumptions are reasonable, a change in these assumptions would significantly impact the appraised value of the Austin property and thus, our estimated value per share. The table below illustrates the impact on the estimated value per share if the capitalization rates and discount rate listed above were increased or decreased by 2.5%, assuming all other factors remain unchanged:

	<b>Increase (Decrease) in the Estimated Value per Share due to</b>	
	<b>Decrease of 2.5%</b>	<b>Increase of 2.5%</b>
Direct capitalization – capitalization rate	\$ 27.22	\$ 22.84
Yield capitalization – discount rate only	\$ 26.60	\$ 23.47
Yield capitalization – terminal capitalization rate only	\$ 25.97	\$ 24.09

*Limitations of Valuation Method.* Financial Industry Regulatory Authority, Inc., or FINRA, rules provided limited guidance on the methods an issuer must use to determine its estimated value per share. As with any valuation method, and as noted above, the methods used to determine our estimated value per share were based upon a number of assumptions, estimates and judgments that may not be accurate or complete. The estimated value per share determined by our board of directors is not a representation, warranty or guarantee that, among other things:

- a stockholder would be able to realize the estimated value per share if such stockholder attempts to sell his or her shares;
- a stockholder would ultimately realize distributions per share equal to the estimated value per share upon liquidation of our assets and settlement of our liabilities or a sale of us;
- shares of our common stock would trade at the estimated value per share on a national securities exchange;
- a third party would offer the estimated value per share in an arms-length transaction to purchase all or substantially all of the shares of our common stock; or
- the methods used to determine the estimated value per share would be acceptable to FINRA, under the Employee Retirement Income Security Act, the SEC or any state securities regulatory entity with respect to their respective requirements.

Further, the estimated value per share was calculated as of a particular moment in time and the value of our shares will fluctuate over time as a result of, among other things, future acquisitions or dispositions of assets (including acquisitions and dispositions of real estate investments since October 31, 2015), developments related to individual assets and changes in the real estate and capital markets.

#### **Quarterly Report for the Quarter Ended September 30, 2015**

On November 16, 2015, we filed with the SEC our Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, a copy of which is attached to this prospectus supplement as Appendix A (without exhibits).

**APPENDIX A**

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2015  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 333-198305

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MOODY NATIONAL REIT II, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Maryland  
(State or Other Jurisdiction of  
Incorporation or Organization)

47-1436295  
(I.R.S. Employer  
Identification No.)

6363 Woodway Drive, Suite 110  
Houston, Texas  
(Address of Principal Executive Offices)

77057  
(Zip Code)

(713) 977-7500  
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer

Accelerated filer

Non-Accelerated filer

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   
As of November 9, 2015, there were 319,735 shares of the Registrant's common stock issued and outstanding.

**MOODY NATIONAL REIT II, INC.**  
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**PART I — FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**MOODY NATIONAL REIT II, INC.  
CONSOLIDATED BALANCE SHEETS  
(unaudited)**

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,335,774	\$ 198,624
Earnest money and deposits	1,778,250	—
<b>Total Assets</b>	<b>\$ 6,114,024</b>	<b>\$ 198,624</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,509	\$ —
Due to related parties	823,445	—
Dividends payable	32,442	—
<b>Total Liabilities</b>	<b>857,396</b>	<b>—</b>
<b>Special Limited Partnership Interests</b>	1,000	1,000
		10
<b>Stockholders' equity:</b>		
Preferred stock, \$0.01 par value per share; 100,000,000 shares authorized; no shares issued and outstanding	—	—
Convertible stock, \$0.01 par value per share; 1,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.01 par value per share; 999,999,000 shares authorized, 260,373 and 8,000 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	2,604	80
Additional paid-in capital	5,356,031	199,920
Accumulated deficit and distributions	(103,007)	(2,376)
<b>Total stockholders' equity</b>	<b>5,255,628</b>	<b>197,624</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 6,114,024</b>	<b>\$ 198,624</b>

See accompanying notes to consolidated financial statements.

**MOODY NATIONAL REIT II, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	<b>Three months ended September 30, 2015</b>	<b>Nine months ended September 30, 2015</b>	<b>Period from July 25, 2014 through September 30, 2014</b>
<b>Revenue</b>			
Interest income	\$ —	\$ 18	\$ —
Total revenue	<u>—</u>	<u>18</u>	<u>—</u>
<b>Expenses</b>			
General and administrative	44,876	45,410	2,376
Total expenses	<u>44,876</u>	<u>45,410</u>	<u>2,376</u>
<b>Net loss attributable to common stockholders</b>	<u>\$ (44,876)</u>	<u>\$ (45,392)</u>	<u>\$ (2,376)</u>
<b>Net loss per share attributable to common stockholders – basic and diluted</b>	<u>\$ (0.30)</u>	<u>\$ (0.81)</u>	<u>\$ (0.30)</u>
<b>Weighted average common shares outstanding – basic and diluted</b>	<u>150,008</u>	<u>55,856</u>	<u>8,000</u>

See accompanying notes to consolidated financial statements.



**MOODY NATIONAL REIT II, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**Nine months ended September 30, 2015**  
**(unaudited)**

	<u>Preferred Stock</u>		<u>Convertible Stock</u>		<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit and Distributions</u>	<u>Total Stockholders' Equity</u>
	<u>Number of Shares</u>	<u>Par Value</u>	<u>Number of Shares</u>	<u>Par Value</u>	<u>Number of Shares</u>	<u>Par Value</u>			
Balance at December 31, 2014	—	\$ —	—	\$ —	8,000	\$ 80	\$ 199,920	\$ (2,376)	197,624
Issuance of common stock, net of offering costs	—	—	—	—	242,127	2,422	5,111,913	—	5,114,335
Issuance of common stock pursuant to dividend reinvestment plan	—	—	—	—	246	2	5,836	—	5,838
Stock-based compensation	—	—	—	—	10,000	100	38,362	—	38,462
Net loss	—	—	—	—	—	—	—	(45,392)	(45,392)
Dividends declared	—	—	—	—	—	—	—	(55,239)	(55,239)
Balance at September 30, 2015	—	\$ —	—	\$ —	<u>260,373</u>	<u>\$ 2,604</u>	<u>\$ 5,356,031</u>	<u>\$ (103,007)</u>	<u>\$ 5,255,628</u>

See accompanying notes to consolidated financial statements.

**MOODY NATIONAL REIT II, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(unaudited)**

	<b>Nine months ended September 30, 2015</b>	<b>Period from July 25, 2014 through September 30, 2014</b>
	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities</b>		
Net loss	\$ (45,392)	\$ (2,376)
Stock-based compensation	38,462	—
Adjustments to reconcile net loss to net cash used in operating activities:		
Accounts payable and accrued expenses	1,509	—
Net cash used in operating activities	<u>(5,421)</u>	<u>(2,376)</u>
<b>Cash flows from investing activities</b>		
Earnest money and deposits	(1,778,250)	—
Due to related parties	489,910	—
Net cash used in investing activities	<u>(1,288,340)</u>	<u>—</u>
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock	6,053,189	200,000
Proceeds from issuance of Special Limited Partnership Interests	—	1,000
Offering costs paid	(605,319)	—
Dividends paid	(16,959)	—
Net cash provided by financing activities	<u>5,430,911</u>	<u>201,000</u>
Net change in cash and cash equivalents	4,137,150	198,624
Cash and cash equivalents at beginning of period	198,624	—
Cash and cash equivalents at end of period	<u>\$ 4,335,774</u>	<u>\$ 198,624</u>
<b>Supplemental Disclosure of Non-Cash Financing Activity</b>		
Increase in accrued offering costs due to related party	\$ 333,535	\$ —
Issuance of common stock from dividend reinvestment plan	\$ 5,838	\$ —
Dividends payable	\$ 32,442	\$ —

See accompanying notes to consolidated financial statements.

**MOODY NATIONAL REIT II, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2015**  
**(unaudited)**

**1. Organization**

Moody National REIT II, Inc. (the “Company”) was formed on July 25, 2014, as a Maryland corporation and intends to qualify as a real estate investment trust (“REIT”) beginning with the year ended December 31, 2015. The Company expects to use the proceeds from its initial public offering to invest in a portfolio of hospitality properties focusing primarily on the premier-brand, select-service segment of the hospitality sector. To a lesser extent, the Company may also invest in hospitality-related real estate securities and debt investments. As discussed in Note 3, the Company was initially capitalized by Moody National REIT Sponsor, LLC (the “Sponsor”). The Company’s fiscal year end is December 31. As of September 30, 2015, the Company did not own any real estate assets. The Company is offering a maximum of 40,000,000 shares of its common stock to the public in its primary offering (the “offering”) at \$25.00 per share, with discounts available to certain purchasers, and 4,210,526 shares of its common stock pursuant to its distribution reinvestment plan (the “DRP”) at \$23.75 per share. The Company may reallocate the shares between the offering and the DRP. In addition, the Company’s board of directors may, from time to time, in its sole discretion, change the price at which the Company offers shares to the public in the offering or to its stockholders pursuant to the DRP to reflect changes in the Company’s estimated value per share and other factors that the Company’s board of directors deems relevant.

Pursuant to the terms of the offering, the Company was required to deposit all subscription proceeds in escrow pursuant to the terms of the Company’s escrow agreement with UMB Bank, N.A. until the earlier of the date that the Company received subscriptions aggregating at least \$2,000,000 (including shares of the Company’s common stock purchased by the Company’s sponsor, its affiliates and the Company’s directors and officers) or January 20, 2016. On July 2, 2015, the Company received subscriptions aggregating \$2,000,000, and the subscription proceeds held in escrow were released to the Company. As of September 30, 2015, the Company had received and accepted investors’ subscriptions for and issued 242,373 shares of the Company’s common stock in the offering, including 246 shares of common stock pursuant to the DRP, resulting in gross offering proceeds of \$6,053,189. As of September 30, 2015, there were a total of 260,373 shares of the Company’s common stock issued and outstanding, including 8,000 shares sold to Sponsor and 10,000 shares of restricted stock discussed in Note 5.

The Company’s advisor is Moody National Advisor II, 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.

Substantially all of the Company’s business is conducted through Moody National Operating Partnership II, LP, a Delaware limited partnership (the “OP”). The Company is the sole general partner of the OP. The initial limited partners of the OP are Moody OP Holdings II, LLC, a Delaware limited liability company and a wholly-owned subsidiary of the Company (“Moody Holdings”), and Moody National LPOP II, LLC (“Moody LPOP II”), an affiliate of Advisor. Moody Holdings has invested \$1,000 in the OP in exchange for limited partner interests, and Moody LPOP II has invested \$1,000 in the OP in exchange for a separate class of limited partnership interests (the “Special Limited Partnership Interests”). As the Company accepts subscriptions for shares, it will transfer substantially all of the net proceeds of the offering to the OP as a capital contribution. The 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 properties, the OP will pay all of the Company’s administrative costs and expenses, and such expenses will be treated as expenses of the OP.

**2. Summary of Significant Accounting Policies**

***Consolidation***

The Company’s consolidated financial statements include the Company’s accounts and the accounts of subsidiaries over which the Company has control, including the OP and Moody Holdings. All intercompany balances and transactions are eliminated in consolidation.

### **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. Under the terms of the advisory agreement with Advisor, upon the sale of shares of common stock to the public, the Company is obligated to reimburse Advisor for organization and offering costs incurred by Advisor in connection with the offering. The amount of the reimbursement to Advisor for cumulative organization and offering costs is limited to a maximum amount of up to 15% of the aggregate gross proceeds from the sale of the shares of common stock sold in the Company's public offerings. Such costs shall include 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 such reimbursement will not exceed actual expenses incurred by Advisor.

As of September 30, 2015, total offering costs were \$938,854, comprised of \$605,319 of offering costs incurred directly by the Company and \$333,535 in offering costs incurred by and reimbursable to Advisor. As of September 30, 2015, the Company had \$333,535 payable to Advisor for reimbursable offering costs.

### **Income Taxes**

The Company intends to make an election to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code, commencing in the taxable year ended December 31, 2015. If the Company qualifies for taxation 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 percent 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 accounting principles generally accepted in the United States of America ("GAAP")). REITs are subject to a number of other organizational and operational requirements. 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.

In order for the income from any hotel property investments to constitute "rents from real properties" for purposes of the gross income test required for REIT qualification, the income the Company earns cannot be derived from the operation of any of these hotels. Therefore, the Company will lease each hotel property to a subsidiary of the OP, which the Company intends to be treated as a taxable REIT subsidiary (a "TRS").

### **Cash and Cash Equivalents**

Cash and cash equivalents consists of cash on hand and highly liquid investments purchased with original maturities of three months or less.

### **Earnest Money and Deposits**

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

## **3. Capitalization**

### **Capitalization**

Under the Company's Articles of Amendment and Restatement (the "Charter"), the Company has the authority to issue 999,999,000 shares of common stock, 100,000,000 shares of preferred stock, and 1,000 shares of non-participating, non-voting convertible stock. All shares of such stock have a par value of \$0.01 per share. On August 15, 2014, the Company sold 8,000 shares of common stock to Sponsor at a purchase price of \$25.00 per share for an aggregate purchase price of \$200,000, which was paid in cash. The Company's board of directors is authorized to amend its 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 15<sup>th</sup> day of each calendar month; and (3) is calculated at a rate of \$0.00479 per share of the Company's common stock per day, which, if paid each day over a 365-day period, is equivalent to an 7.0% annualized distribution rate based on a purchase price of \$25.00 per share of common stock.

The following table summarizes distributions paid in cash and pursuant to the DRP for the nine months ended September 30, 2015.

<b>Period (1)</b>	<b>Cash Distribution (1)</b>	<b>Distribution Paid Pursuant to DRP (1)(2)</b>	<b>Total Amount of Distribution (1)</b>
Third Quarter 2015	\$ 16,959	\$ 5,838	\$ 22,797
Total	\$ 16,959	\$ 5,838	\$ 22,797

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(1) Distributions are paid on a monthly basis. Distributions for all record dates in a given month are paid approximately 15 days following the end of such month.

(2) Amount of distributions paid in shares of common stock pursuant to our distribution reinvestment plan.

#### **4. Related Party Arrangements**

Advisor and certain affiliates of Advisor will receive fees and compensation in connection with the offering, and the acquisition, management and sale of the Company's real estate investments. In addition, in exchange for \$1,000 and in consideration of services to be provided by Advisor, the OP has issued an affiliate of the Advisor, Moody LPOP II, a separate, special limited partnership interest, in the form of Special Limited Partnership Interests. For further detail, please see Note 6 ("Subordinated Participation Interest") below.

##### *Sales Commissions and Dealer Manager Fees*

Moody National Securities, LLC ("Moody Securities"), the dealer manager of the offering and an affiliate of the Advisor, will receive a commission of up to 7.0% of gross offering proceeds. Moody Securities may reallocate all or a portion of such sales commissions earned to participating broker-dealers. In addition, the Company will pay Moody Securities a dealer manager fee of up to 3.0% of gross offering proceeds, a portion of which may be reallocated to participating broker-dealers. No selling commissions or dealer manager fee are paid for sales under the DRP. As of September 30, 2015, the Company had paid Moody Securities \$412,394 in selling commissions related to the offering and \$116,212 in dealer manager fees related to the offering, which has been recorded as a reduction to additional paid-in capital in the consolidated balance sheets.

##### *Organization and Offering Expenses*

Advisor will receive reimbursement for organizational and offering expenses incurred on the Company's behalf, but only to the extent that such reimbursements do not exceed actual expenses incurred by Advisor and do not cause the cumulative sales commission, the dealer manager fee and other organization and offering expenses borne by the Company to exceed 15.0% of gross offering proceeds from the sale of shares in its public offering as of the date of reimbursement.

As of September 30, 2015, total offering costs were \$938,854, comprised of \$605,319 of offering costs incurred directly by the Company and \$333,535 in offering costs incurred by and reimbursable to Advisor. As of September 30, 2015, the Company had \$333,535 payable to Advisor for reimbursable offering costs.

##### *Acquisition Fees*

Advisor, or its affiliates, will also receive an acquisition fee equal to 1.5% of (1) the cost of all investments the Company acquires (including the Company's pro rata share of any indebtedness assumed or incurred in respect of the investment and exclusive of acquisition and financing coordination fees), (2) the Company's allocable cost of investments acquired in a joint venture (including the Company's pro rata share of the purchase price and the Company's pro rata share of any indebtedness assumed or incurred in respect of that investment and exclusive of acquisition fees and financing coordination fees) or (3) the amount funded by the Company to acquire or originate a loan or other investment, including mortgage, mezzanine or bridge loans (including any third-party expenses related to such investment and exclusive of acquisition fees and financing coordination fees). Once the proceeds from the offering have been fully invested, the aggregate amount of acquisition fees and financing coordination fees shall not exceed 1.9% of the contract purchase price and the amount advanced for a loan or other investment, as applicable, for all the assets acquired. As of September 30, 2015, the Company had not paid any acquisition fees to Advisor.

##### *Financing Coordination Fee*

Advisor will also receive financing coordination fees of 1% of the amount available under any loan or line of credit made available to the Company and 0.75% of the amount available or outstanding under any refinanced loan or line of credit. Advisor will pay some or all of these fees to third parties with whom it subcontracts to coordinate financing for the Company. As of September 30, 2015, the Company had not paid any financing coordination fees to Advisor.

##### *Property Management Fee*

The Company will pay Moody National Hospitality Management, LLC ("Property Manager") a monthly hotel management fee equal to 4.0% of the monthly gross receipts from the properties managed by Property Manager for services it provides in connection with operating and managing properties. Property Manager may pay some or all of the compensation it receives from the Company to a third-party property manager for management or leasing services. In the event that the Company contracts directly with a non-affiliated third-party property manager, the Company will pay Property Manager a market-based oversight fee. The Company will reimburse the costs and expenses incurred by Property Manager on the Company's behalf, including legal, travel and other out-of-pocket expenses that are directly related to the management of specific properties, but the Company will not reimburse Property

Manager for general overhead costs or personnel costs other than employees or subcontractors who are engaged in the on-site operation, management, maintenance or access control of the properties.

The Company will also pay an annual incentive fee to Property Manager. Such annual incentive fee is equal to 15% of the amount by which the operating profit from the properties managed by Property Manager for such fiscal year (or partial fiscal year) exceeds 8.5% of the total investment of such properties. Property Manager may pay some or all of this annual fee to third-party sub-property managers for management services. For purposes of this fee, "total investment" means the sum of (i) the price paid to acquire a property, including closing costs, conversion costs, and transaction costs; (ii) additional invested capital; and (iii) any other costs paid in connection with the acquisition of the property, whether incurred pre- or post-acquisition. As of September 30, 2015, the Company had not paid any property management fees to Property Manager.

#### *Asset Management Fee*

The Company will pay Advisor a monthly asset management fee of one-twelfth of 1.0% of the cost of investment of all real estate investments the Company acquires. As of September 30, 2015, the Company had not paid any asset management fees to Advisor.

#### *Disposition Fee*

Advisor or its affiliates will also receive a disposition fee in an amount of up to one-half of the brokerage commission paid but in no event greater than 3.0% of the contract sales price of each property or other investment sold; provided, however, in no event may the aggregate disposition fees paid to the Advisor and any real estate commissions paid to unaffiliated third parties exceed 6.0% of the contract sales price. As of September 30, 2015, the Company had not paid any disposition fees to Advisor.

#### *Operating Expense Reimbursement*

The Company will reimburse Advisor for all 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 its average invested assets, or (2) 25% of its 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 September 30, 2015, total operating expenses of the Company were \$248,234, which included \$45,410 in operating expenses incurred directly by the Company and \$202,824 incurred by Advisor on behalf of the Company. Of the \$202,824 in operating expenses incurred by Advisor during the four fiscal quarters ended September 30, 2015, \$202,234 exceeded the 2%/25% Limitation. The Company reimbursed Advisor \$0 in operating expenses during the four fiscal quarters ended September 30, 2015.

### **5. 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 adopted an independent directors compensation plan (the "Independent Directors Compensation Plan") pursuant to which each of the Company's independent directors is entitled, subject to the plan's conditions and restrictions, to receive an initial grant of 5,000 shares of restricted stock when the Company raises the minimum offering amount of \$2,000,000 in the offering. Each new independent director that subsequently joins the Company's board of directors will receive a grant of 5,000 shares of restricted stock upon his or her election to 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 will receive an additional grant of 2,500 shares of restricted stock. 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.

10,000 shares of restricted stock were granted pursuant to the Independent Directors Compensation Plan during the three and nine months ended September 30, 2015. The weighted average grant date fair value of the shares of restricted stock was \$25.00 per share, which was based on observable market transactions occurring near the date of the grants. The Company recorded compensation expense 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 expense related to such shares of restricted stock of \$38,462 for the three and nine months ended September 30, 2015 and \$0 for the period from July 25, 2014 through September 30, 2014. As of September 30, 2015, there were 10,000 non-vested shares of restricted common stock granted pursuant to

the Independent Directors Compensation Plan on August 12, 2015. The remaining unrecognized compensation expense of \$211,538 will be recognized during the fourth quarter of 2015 and the first, second and third quarters of 2016.

## **6. Subordinated Participation Interest**

Pursuant to the Limited Partnership Agreement for the OP, Moody LPOP II, the holder of the Special Limited Partnership Interests, is entitled to receive distributions equal to 15.0% of the OP's net cash flows, whether from continuing operations, the repayment of loans, the disposition of assets or otherwise, but only after the Company's stockholders have received, in the aggregate, cumulative distributions equal to their total invested capital plus a 6.0% cumulative, non-compounded annual pre-tax return on such aggregated invested capital. In addition, the Special Limited Partnership Interest holder is entitled to a separate payment if it redeems its Special Limited Partnership Interests. The Special Limited Partnership Interests may be redeemed upon: (1) the listing of the Company's common stock on a national securities exchange; or (2) the occurrence of certain events that result in the termination or non-renewal of the Company's advisory agreement, in each case for an amount that Moody LPOP II would have been entitled to receive had the OP disposed of all of its assets at the enterprise valuation as of the date of the event triggering the redemption.

## **7. Subsequent Events**

### ***Distributions Declared***

On September 30, 2015, the Company declared a distribution in the aggregate amount of \$32,442, of which \$22,257 was paid in cash on October 15, 2015 and \$10,185 was paid pursuant to the DRP in the form of additional shares of the Company's common stock. On October 31, 2015, the Company declared a distribution in the aggregate amount of \$43,159 which was paid in cash and through the DRP in the form of additional shares of the Company's common stock on November 13, 2015.

### ***Residence Inn Austin***

On October 15, 2015, the Company, through a wholly owned subsidiary, acquired the Residence Inn University Area Austin (the "Residence Inn Austin") from a third-party seller for an aggregate purchase price of \$25,500,000, excluding acquisition costs. The Company financed the acquisition of the Residence Inn Austin with a portion of the proceeds from its public offering and financing, in the aggregate amount of \$16,575,000, secured by the Residence Inn Austin.

### ***Determination of Estimated Value Per Share***

On November 12, 2015, the Company's Board of Directors determined that the estimated value of the Company's common stock, as of October 31, 2015, was \$25.03 per share. More information about the determination of the Company's estimated value per share can be found in the Company's Current Report on Form 8-K filed with the SEC on November 16, 2015.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion and analysis should be read in conjunction with the accompanying financial statements of Moody National REIT II, Inc. and the notes thereto. As used herein, the terms "we," "our" and "us" refer to Moody National REIT II, Inc., a Maryland corporation, and, as required by context, Moody National Operating Partnership II, L.P., a Delaware limited partnership, which we refer to as our "operating partnership," and to their subsidiaries.

### **Forward-Looking Statements**

Certain statements included in this Quarterly Report on Form 10-Q 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. 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 terminology.

The forward-looking statements included in this quarterly report are based upon our current expectations, plans, estimates, assumptions and beliefs, 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:

- our ability to raise capital in our ongoing public offering;
- our ability to effectively deploy the proceeds raised in our public offering;
- our ability 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 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 for real estate and real estate-related assets on terms that are favorable to us;
- our ability 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 REITs);
- the availability of capital; and
- interest rates.

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 this Quarterly Report on Form 10-Q is filed with the Securities and Exchange Commission, or the SEC, 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 herein, whether as a result of new information, future events, changed circumstances or any other reason.



## Overview

We were formed on July 25, 2014 as a Maryland corporation that intends to qualify as a real estate investment trust, or REIT. We intend to use substantially all of the net proceeds from our initial public offering to invest in and manage a portfolio of hospitality properties focusing primarily on the select-service segment of the hospitality sector with premier brands including, but not limited to, Marriott, Hilton and Hyatt. We intend to acquire hotel properties in major metropolitan markets in the East Coast, West Coast and Sunbelt regions of the United States. We may also invest in real estate securities and debt-related investments related to the hospitality sector.

On January 20, 2015, the SEC declared our registration statement on Form S-11 effective and we commenced our initial public offering of up to \$1,100,000,000 in shares of common stock, including up to \$1,000,000,000 in shares to be offered to the public at an initial price of \$25.00 per share (subject to certain discounts) and up to \$100,000,000 in shares to be offered to our stockholders pursuant to our distribution reinvestment plan at an initial price of \$23.75 per share. Our board of directors may, in its sole discretion and from time to time, change the price at which we offer shares to the public in the primary offering or pursuant to our distribution reinvestment plan to reflect changes in our estimated value per share and other factors that our board of directors deems relevant. If we revise the price at which we offer our shares of common stock based upon changes in our estimated value per share, we do not anticipate that we will do so more frequently than quarterly. Our estimated value per share will be approved by our board of directors and calculated by our advisor based upon current available information which may include valuations of our assets obtained by independent third party appraisers or qualified independent valuation experts.

Pursuant to the terms of our initial public offering, offering proceeds were held in an escrow account until we met the minimum offering amount of \$2,000,000. On July 2, 2015, we received subscriptions aggregating \$2,000,000, and the subscription proceeds held in escrow were released to us. As of September 30, 2015, we had received and accepted investors' subscriptions for and issued 242,373 shares of our common stock in the offering, including 246 shares of common stock pursuant to our distribution reinvestment plan, resulting in gross offering proceeds of \$6,053,189. We will continue to offer shares of our common stock on a continuous basis until January 20, 2017, unless extended. However, in certain states the offering may continue for only one year unless we renew the offering period for an additional year. We reserve the right to terminate our initial public offering at any time. Moody National Advisor II, LLC is our advisor. Subject to certain restrictions and limitations, our advisor manages our day-to-day operations and our portfolio of properties and real estate-related assets. Our advisor sources and presents investment opportunities to our board of directors. Our advisor also provides investment management, marketing, investor relations and other administrative services on our behalf.

Substantially all of our business will be conducted through Moody National Operating Partnership II, LP, our operating partnership. We are the sole general partner of our operating partnership and our subsidiary, Moody OP Holdings II, LLC, and Moody National LPOP II, LLC, an affiliate of our advisor, are the initial limited partners of our operating partnership. As we accept subscriptions for shares, we will transfer substantially all of the net proceeds of the offering to our operating partnership as a capital contribution. The limited partnership agreement of our operating partnership provides that our operating partnership will be operated in a manner that will enable us to (1) satisfy the requirements for being classified as a REIT for federal income tax purposes, (2) avoid any federal income or excise tax liability and (3) ensure that our operating partnership will not be classified as a "publicly traded partnership" for purposes of Section 7704 of the Internal Revenue Code, which classification could result in our operating partnership being taxed as a corporation, rather than as a partnership. In addition to the administrative and operating costs and expenses incurred by our operating partnership in acquiring and operating our investments, our operating partnership pays all of our administrative costs and expenses, and such expenses will be treated as expenses of our operating partnership. We will experience a relative increase in liquidity as additional subscriptions for shares of our common stock are received and a relative decrease in liquidity as offering proceeds are used to acquire and operate our assets.

We do not anticipate establishing a general working capital reserve out of the proceeds of our public offering during the initial stages of the offering; however, we may establish capital reserves from offering proceeds with respect to particular investments as required by our lenders or as determined by our advisor. We also may, but are not required to, establish annual cash reserves out of cash flow generated by our investments or out of net cash proceeds from the sale of our investments.

To the extent that any working capital reserve is insufficient to satisfy our cash requirements, additional funds may be provided from cash generated from operations or through short-term borrowing. In addition, subject to the limitations described herein, we may incur indebtedness in connection with the acquisition of any investment property, refinance the debt thereon, arrange for the leveraging of any previously unfinanced property or reinvest the proceeds of financing or refinancing in additional properties.

If we qualify as a REIT for federal income tax purposes, we generally will not be 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 qualification is denied. Failing to qualify as a REIT could materially and adversely affect our net income.

## **Factors Which May Influence Results of Operations**

### ***Economic Conditions Affecting Our Target Portfolio***

Adverse economic conditions affecting the hospitality sector, the geographic regions in which we plan to invest or real estate generally may have a material impact on our capital resources and the revenue or income to be derived from the operation of our hospitality investments.

### ***Offering Proceeds***

Our ability to make investments will depend upon the net proceeds raised in our offering and our ability to finance the acquisition of our investments. If we raise substantially less than the maximum offering amount, we will make fewer investments resulting in less diversification in terms of the number of investments owned, resulting in fewer sources of income. In such event, the likelihood of our profitability being affected by the performance of any one of our investments will increase. In addition, if we are unable to raise substantial funds, our fixed operating expenses, as a percentage of gross income, would be higher, which could affect our net income and results of operations.

### **Results of Operations**

During the period from our inception (July 25, 2014) to December 31, 2014, we had not yet commenced real estate operations, as we had not yet commenced our initial public offering. As a result, we had no material results of operations for that period. For the six months ended June 30, 2015, we had raised the minimum offering amount of \$2,000,000 in our public offering, but funds had not been released from escrow and no shares had been issued. On July 2, 2015, we received subscriptions aggregating \$2,000,000, and the subscription proceeds held in escrow were released to us. No properties had been purchased and we had not commenced real estate operations as of September 30, 2015.

Pursuant to our advisory agreement with our advisor and the dealer manager agreement with our dealer manager, we are obligated to reimburse our advisor, our dealer manager or their affiliates, as applicable, for organization and offering costs associated with our initial public offering, provided that our advisor is obligated to reimburse us to the extent selling commissions, the dealer manager fee and other organization and offering costs incurred by us exceed 15% of our gross offering proceeds. As of September 30, 2015, our advisor and its affiliates have incurred organization costs of approximately \$0 and offering costs of approximately \$1,433,601 on our behalf.

### **Critical Accounting Policies**

#### ***General***

Below is a discussion of the accounting policies that we believe will be critical once we commence real estate operations. We consider these policies critical because they involve significant judgments and assumptions, require estimates about matters that are inherently uncertain and because they are important for understanding and evaluating our reported financial results. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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 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.

#### ***Valuation and Allocation of Real Property — Acquisition***

Upon acquisition, the purchase price of real property is allocated to the tangible assets acquired, consisting of land, buildings and tenant improvements, any assumed debt, identified intangible assets and asset retirement obligations based on their fair values. Identified intangible assets consist of above-market and below-market leases, in-place leases, in-place contracts, tenant relationships and any goodwill or gain on purchase.

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.

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.

In allocating the purchase price of each of our acquired 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, market rental rates per square foot and the period required to lease the property up to its occupancy at acquisition as if it were vacant. 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, if any, could in turn result in a difference in the depreciation or amortization expense recorded in our financial statements. These variances could be material to our results of operations and financial condition.

***Valuation and Allocation of Real Property — Ownership***

Depreciation or amortization expense will be computed using the straight-line and accelerated methods based upon the following estimated useful lives:

	<u>Years</u>
Buildings and improvements	39-40
Exterior improvements	10-20
Equipment and fixtures	5-10

***Investment Impairments***

For real estate we may wholly own or otherwise control, our management will monitor events and changes in circumstances indicating that the carrying amounts of the real estate assets may not be recoverable. When such events or changes in circumstances are present, we will assess potential impairment by comparing estimated future undiscounted cash flows expected to be generated over the life of the asset 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 will recognize an impairment loss to adjust the carrying amount of the asset to estimated fair value.

For real estate we may own through an investment in a joint venture or other similar investment structure, at each reporting date we will compare the estimated fair value of our investment to the carrying value. An impairment charge will be recorded to the extent the fair value of our investment is less than the carrying amount and the decline in value is determined to be other than a temporary decline.

In evaluating our investments for impairment, our advisor will make several estimates and assumptions, including, but not limited to, the projected date of disposition of the investments, the estimated future cash flows of the investments during our ownership and the projected sales price of each of the investments. A change in these estimates and assumptions could result in understating or overstating the book value of our investments which could be material to our financial statements.

***Liquidity and Capital Resources***

Our principal use of funds will be to acquire investments in accordance with our investment strategy, to pay operating expenses and interest on our outstanding indebtedness and to make distributions to our stockholders. Over time, we intend to generally fund our cash needs for items, other than asset acquisitions, from operations. Otherwise, we expect that our principal sources of working capital will include:

- public or private offerings;
- current cash balances;
- various forms of secured financing;
- equity capital from joint venture partners;
- proceeds from our distribution reinvestment plan; and
- cash from operations.

Over the short term, we believe that our sources of capital, specifically our cash balances, cash flow from operations, our ability to raise equity capital from our public equity offering and joint venture partners and our ability to obtain various forms of secured financing will be adequate to meet our liquidity requirements and capital commitments.

Over the longer term, in addition to the same sources of capital we will rely on to meet our short-term liquidity requirements, we may also utilize additional secured and unsecured financings and equity capital from joint venture partners. We may also conduct additional public or private offerings. We expect these sources of capital will be adequate to fund our operating activities, debt service and distributions, and our ongoing acquisition activities, as well as providing capital for investment in future development and other joint ventures along with potential forward purchase commitments.

If we raise substantially fewer funds in our current public equity offering than the maximum offering amount, we will make fewer investments resulting in less diversification. The value of an investment in us will fluctuate with the performance of the specific assets we acquire, so the value of such an investment may fluctuate more if we own fewer assets. Further, we will have certain fixed operating expenses, including certain expenses as a public REIT, regardless of whether we are able to raise substantial funds in our current public equity offering. Our inability to raise substantial funds would increase our fixed operating expenses as a percentage of gross income, reducing our net income and limiting our ability to make distributions.

As of September 30, 2015, we had no outstanding debt. Under our charter, we are prohibited from borrowing in excess of 300% of the value of our net assets, which generally approximates to 75% of the aggregate cost of our assets, though we may exceed this limit under certain circumstances.

In addition to making investments in accordance with our investment objectives, we expect to use our capital resources to make certain payments to our advisor and dealer manager. During our organization and offering stage, these payments will include payments to the dealer manager for sales commissions and the dealer manager fee and payments to our advisor for reimbursement of certain organization and offering expenses. However, our advisor has agreed to reimburse us to the extent that sales commissions, the dealer manager fee and other organization and offering expenses incurred by us exceed 15% of our gross offering proceeds. During our operating stage, we expect to make payments to our advisor in connection with the acquisition of investments, the management of our assets and costs incurred by our advisor in providing services to us.

### **Inflation**

Operators of hotels generally can adjust room rates daily to reflect the effects of inflation. Competitive pressures may, however, limit the operators' ability to do so.

With respect to other real estate investments, with the exception of leases with tenants in multifamily properties, we expect to include provisions in our tenant leases designed to protect us from the impact of inflation. These provisions will include reimbursement billings for operating expense pass-through charges, real estate tax and insurance reimbursements, or in some cases annual reimbursement of operating expenses above a certain allowance. Due to the generally long-term nature of these leases, annual rent increases may not be sufficient to cover inflation and rent may be below market. Leases in multifamily properties generally turn over on an annual basis and do not typically present the same issue regarding inflation protection due to their short-term nature. As of September 30, 2015, we have not entered into any leases.

### **REIT Compliance**

To qualify as a REIT for tax purposes, we will be required to distribute at least 90% of our REIT taxable income to our stockholders. 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, 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.

### **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 \$0.00479 per share of our common stock per day, which, if paid each day over a 365-day period, is equivalent to an 7.0% annualized distribution rate based on a purchase price of \$25.00 per share of our common stock.

The following table summarizes distributions paid in cash and pursuant to the DRP for the nine months ended September 30, 2015.

<b>Period (1)</b>	<b>Cash Distribution (1)</b>	<b>Distribution Paid Pursuant to DRP (1)(2)</b>	<b>Total Amount of Distribution (1)</b>
Third Quarter 2015	\$ 16,959	\$ 5,838	\$ 22,797
Total	\$ 16,959	\$ 5,838	\$ 22,797

(1) Distributions are paid on a monthly basis. Distributions for all record dates in a given month are paid approximately 15 days following the end of such month.

(2) Amount of distributions paid in shares of common stock pursuant to our distribution reinvestment plan.

## **Related Party Transactions and Agreements**

We have entered into agreements with our advisor and its affiliates whereby we will 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, sales commissions, dealer manager fees, asset and property management fees and expenses, leasing fees and reimbursement of certain operating costs. See Note 4 (Related Party Arrangements) to the consolidated financial statements included in this quarterly report for a discussion of the various related-party transactions, agreements and fees.

## **Off-Balance Sheet Arrangements**

As of September 30, 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.

## **Subsequent Events**

### ***Distributions Declared***

On September 30, 2015, we declared a distribution in the aggregate amount of \$32,442, of which \$22,257 was paid in cash on October 15, 2015 and \$10,185 was paid pursuant to the DRP in the form of additional shares of our common stock. On October 31, 2015, we declared a distribution in the aggregate amount of \$43,159 which was paid in cash and through the DRP in the form of additional shares of our common stock on November 13, 2015.

### ***Residence Inn Austin***

On October 15, 2015, we, through a wholly owned subsidiary, acquired Residence Inn University Area Austin (the “Residence Inn Austin”) from a third-party seller for an aggregate purchase price of \$25,500,000, excluding acquisition costs. We financed the acquisition of the Residence Inn Austin with a portion of the remaining proceeds from our public offering and financing, in the aggregate amount of \$16,575,000, secured by the Residence Inn Austin.

### ***Determination of Estimated Value Per Share***

On November 12, 2015, our Board of Directors determined that the estimated value of our common stock, as of October 31, 2015, was \$25.03 per share. More information about the determination of our estimated value per share can be found in our Current Report on Form 8-K filed with the SEC on November 16, 2015.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

We may be exposed to interest rate changes. 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 our real estate assets in the future. We will seek to limit the impact of interest rate changes on earnings and cash flows and to reduce our overall borrowing costs. We may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our real estate assets. Also, we will be exposed to both credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the 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. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. 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. Our board of directors has not yet established formal policies and procedures regarding our use of derivative financial instruments for hedging or other purposes. Because we have not commenced real estate operations, we currently have limited exposure to financial market risks. As of September 30, 2015, an increase or decrease in interest rates would have no effect on our interest expense as we had no outstanding debt as of that date.

## ITEM 4. CONTROLS AND PROCEDURES.

### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly 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 13d-15(e) under the Securities Exchange Act of 1934, as amended, or 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 Quarterly 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.

### 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 September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

None.

### ITEM 1A. RISK FACTORS.

None.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

On January 20, 2015, our Registration Statement on Form S-11 (File No. 333-198305), registering our initial public offering of up to \$1,100,000,000 in shares of our common stock, was declared effective under the Securities Act of 1933, as amended, or the Securities Act, and we commenced our initial public offering. We are offering up to \$1,000,000,000 in shares of our common stock to the public in our primary offering at \$25.00 per share and up to \$100,000,000 of shares of our common stock pursuant to our dividend reinvestment plan at \$23.75 per share.

The terms of our public offering required us to deposit all subscription proceeds in escrow pursuant to the terms of our escrow agreement with UMB Bank, N.A., our escrow agent, until the earlier of the date that we receive subscriptions aggregating at least \$2,000,000 (including shares purchased by our sponsor, its affiliates and our directors and officers) or January 20, 2016. On July 2, 2015, we received subscriptions aggregating \$2,000,000, and the subscription proceeds held in escrow were released to us. Our public offering will terminate no later than January 20, 2017, unless extended.

As of September 30, 2015, we had accepted subscriptions for, and issued, 242,373 shares of our common stock in our public offering, including 246 shares of our common stock pursuant to our distribution reinvestment plan, resulting in gross offering proceeds from our public offering of \$6,053,189.

As of September 30, 2015, we had incurred selling commissions, dealer manager fees and organization and other offering costs in our public offering in the amounts set forth in the table below. Moody Securities, LLC, our dealer manager, reallocated all of the selling commissions and a portion of the dealer manager fees to participating broker-dealers.

<u>Type of Expense</u>	<u>Amount</u>	<u>Estimated/Actual</u>
Selling commissions and dealer manager fees	\$ 528,606	Actual
Finders' fees	—	—
Expenses paid to or for underwriters	—	—
Other organization and offering costs	410,247	Actual
Total expenses	<u>\$ 938,853</u>	

The net offering proceeds to us from our public offering, after deducting the total expenses incurred as described above, were approximately \$5,114,335, excluding \$5,838 in offering proceeds from shares of our common stock issued pursuant to the DRIP.

As of September 30, 2015, we had not used any of the net proceeds from our public offering to fund real estate operations. For more information regarding how we used our net offering proceeds through September 30, 2015, see our financial statements included in this quarterly report.

During the three months ended September 30, 2015, we did not sell any equity securities that were not registered under the Securities Act.

During the three months ended September 30, 2015, we did not redeem any shares of our common stock.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6.****EXHIBITS.**

- 3.1 Articles of Amendment and Restatement of Moody National REIT II, Inc. (filed as Exhibit 3.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305) and incorporated herein by reference)
- 3.2 Bylaws of Moody National REIT II, Inc. (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-11 (No. 333-198305) and incorporated herein by reference)
- 4.1 Form of Subscription Agreement (included as Appendix B to prospectus, incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305))
- 4.2 Moody National REIT II, Inc. Distribution Reinvestment Plan (included as Appendix C to prospectus, incorporated by reference to Exhibit 4.2 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305))
- 10.1 Advisory Agreement, dated January 12, 2015, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP and Moody National Advisor II, LLC (incorporated by reference to Exhibit 10.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305))
- 10.2 Limited Partnership Agreement of Moody National Operating Partnership II, LP (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-11 (No. 333-198305))
- 10.3 Escrow Agreement, dated January 12, 2015, by and among Moody National REIT II, Inc., Moody Securities, LLC and UMB Bank, N.A. (incorporated by reference to Exhibit 10.3 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305))
- 10.4 Moody National REIT II, Inc. 2015 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305))
- 10.5 Moody National REIT II, Inc. Independent Directors Compensation Plan (incorporated by reference to Exhibit 10.5 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305))
- 10.6 Assignment Agreement, dated September 25, 2015, by and between Moody National REIT I, Inc. and Moody National REIT II, Inc.
- 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
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## SIGNATURES

Pursuant to the requirements 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 II, INC.

Date: November 16, 2015

By: /s/ Brett C. Moody

Brett C. Moody  
Chairman of the Board, Chief Executive Officer and  
President  
(Principal Executive Officer)

Date: November 16, 2015

By: /s/ Robert W. Engel

Robert W. Engel  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)

## EXHIBIT INDEX

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10.1	Advisory Agreement, dated January 12, 2015, by and among Moody National REIT II, Inc., Moody National Operating Partnership II, LP and Moody National Advisor II, LLC (incorporated by reference to Exhibit 10.1 to Pre-Effective Amendment No. 3 to the Company's Registration Statement on Form S-11 (No. 333-198305))
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