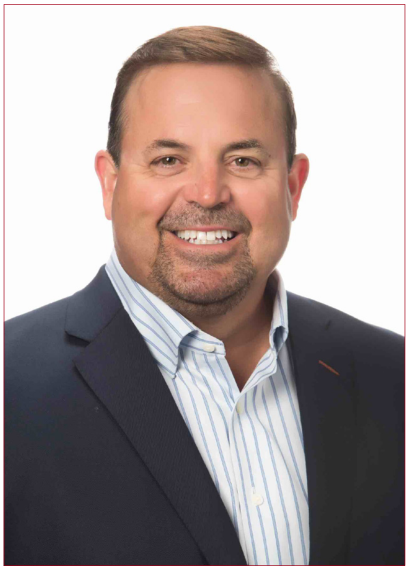
WINTER
2019

VESTA HOSPITALITY

THE INVESTOR REPORT

AC Hotel by Marriott at
the Port of Vancouver

Chairman's Message



Rick Takach, Chairman & CEO

Welcome to our first newsletter of 2019. Speaking of the New Year, Vesta participated in the ALIS conference held last month in Los Angeles. The takeaway was that, overall, the hospitality sector is proving to be resilient with strong fundamentals. At Vesta, we expect an excellent 2019 with the ability to drive increases in revenues and profits across our portfolio.

One important factor that will benefit Vesta this year is our renovation schedule. Over the past couple of years we have invested upwards of $42 million in various upgrades and one rebranding. This should support strong cash on cash returns in the coming year.

In 2019, Vesta is also taking on select hotel management assignments, which allows us to leverage our excellent capabilities in property management and grow relationships with select ownership groups.

Our AC Hotel by Marriott on the Vancouver (WA) waterfront is on pace and we have just launched Vesta OZ Fund I LLC to invest in this development. The project is located in a Qualified Opportunity Zone, offering investors potential tax benefits under the Tax Cuts and Jobs Act. We have also added a preferred return for our Vesta Hospitality Fund II LLC.

Finally, Vesta continues to actively explore acquisition opportunities, supported in part by our participation in investor conferences directed at high net worth individuals and family offices. To that end, our Q&A with Mike Cryan, Vesta's Chief Investment Officer, highlights the current transaction environment and our approach to value-add investing.

As always, thank you for your interest in Vesta.

Running 12 months through **January 2019**

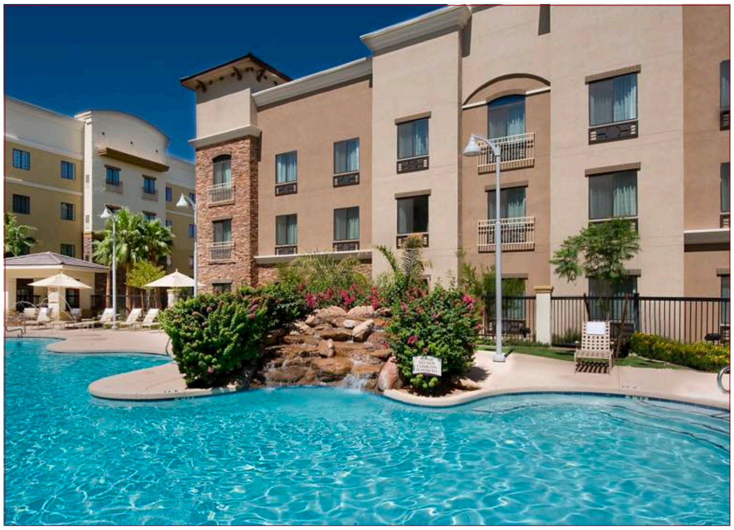
Suppy	↑	Up 2.0%	**Demand**	↑	Up 2.5%
Occupancy	↑	Up 0.5%	**ADR**	↑	Up 2.3%
RevPAR	↑	**Up 2.8%**			Source: STR

February 2019 Market Outlook

The hotel sector remains profitable. According to a report by the HotStats data service on full-service properties, hotels in the U.S. experienced a 3.4 percent increase in profits last year. This was the third consecutive year of growth in GOPPAR, a measure of Gross Operating Profit per room.

Lodging Ecometrics also recently reported that the U.S. construction pipeline continues its upward growth, up by 7% over last year for both rooms and total projects. However, the current pipeline hasn't reached the all-time high of the second quarter of 2008.

We think that these ambitious development plans from major hotel entities, focused on upper midscale limited service properties, represent continued confidence in the lodging sector and expectations that supply and demand can remain in relative balance.



Although this has been a long industry cycle highlighted by almost continuous RevPAR growth, we still expect modest increases in RevPAR through 2019 on the order of 2.3% to 2.8%, all rate driven. Performance is always property and market specific and Vesta carefully studies local factors that guide us as we adjust operations for any given property in our portfolio.

Finally, as discussed in the Q&A in this newsletter, we expect significant transaction activity in the coming year, with more hotels being brought to market this year than last. Factors include the current high valuations, a significant amount of commercial collaterized debt obligations coming due, and the maturity of many private equity portfolios. As always, Vesta looks carefully at all potential acquisitions with a focus on prudent financing and performance through all potential industry cycles.

Vesta Launches AC Marriott Vancouver Opportunity Zone Fund

Vesta is excited to announce the launch of Vesta OZ Fund I LLC (OZ Fund I) for the development and construction of the AC Hotel by Marriott at the Port of Vancouver, which is within a federal Opportunity Zone.

This planned high-end 150-room boutique hotel with 4,000 square feet of meeting space is located in the rapidly developing Vancouver, Washington Waterfront Project, an urban mixed-use development.

The AC Hotel by Marriott will feature panoramic views of the Columbia River waterfront and Mt. Hood. The property is approximately 10 minutes from the Portland International Airport and 15 minutes from the Portland downtown area.

- Construction is scheduled to begin in Winter 2019, with completion expected in 2021.
- The investment is intended as a Qualified Opportunity Fund, as those terms are defined in Section 1400Z- 2 of the Tax Cuts and Jobs Act.
- The tax advantages of Opportunity Zones include: Potentially defer the payment of any tax on a gain invested in this project until Dec 31, 2026; Potentially reduce the basis on the deferred tax by up to 15%; and Potentially pay zero tax on additional gains earned from the original gains invested in OZ Fund I.
- Fairway America will administer the Fund. Fairway America also organized and administers Vesta Hotel Fund 2014 and Vesta Hospitality Fund II.

Vesta Hospitality Fund II Enhanced; New Hotel Under Contract

Fund II has had an 8% targeted average annual cash yield since inception, along with an annualized IRR of 15-18%, including appreciation. With the successful growth of Fund II, Vesta has decided to make the targeted average annual cash yield of 8% an annualized preferred return, and Vesta will also maintain an 85% split of excess distributable cash/profits to investors.

Fund II currently has ownership interest in three hotels and also has a new asset under contract, a boutique property in Astoria, Oregon, the Cannery Pier Hotel & Spa, which will be an exciting addition to Fund II as a premier independent acquisition.

This article is not intended as a formal offering or promise of return on investment. To learn more about the Vesta OZ Fund I LLC and the Vesta Hospitality Fund II LLC, please contact Elson Strahan, Vesta Hospitality's Vice President of Investor Relations at (360) 798-1869 or via email at estrahan@vestahospitality.com.

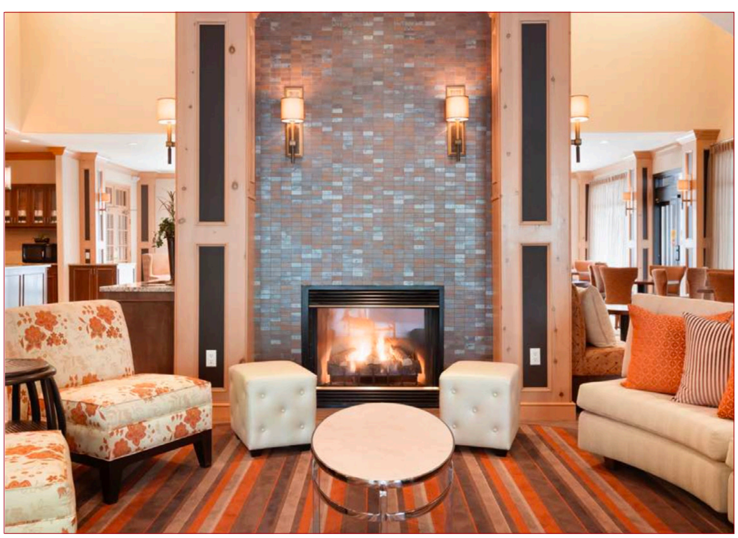
Executive Q&A with Mike Cryan
Chief Investment Officer, Vesta Hospitality

Overall, how would you depict the hospitality investment climate and prospects for 2019?

I think the transaction market will be active this year for a number of reasons. At present, there is a lot of liquidity from private equity funds for both debt and equity, and the REIT's also have money to deploy. The private equity funds are attracted to hospitality and some are adjusting their expected return on investment to be more competitive for acquisitions.

Banks also have money to deploy and, because of the amount of new hotel supply, they are slowing down on new construction lending and getting more aggressive with acquisition financing. Interest rates which had been moving up last year have retracted a bit making acquisitions more appealing for investors.

Overall industry fundamentals are still strong but we are entering a period where new supply has caught with new demand so occupancy is expected to be flat in 2019 and possibly decline somewhat in 2020. We are late in a hospitality cycle, one of the longest in recent memory, and many owners will be tempted to divest their assets while valuations remain high.



All these factors point to strong transaction activity in 2019.

Mike Cryan, CIO

We understand that the market seems to be flush with hotel properties for sale. Why is that?

In addition to the factors just discussed, there were a significant number of transactions completed in the 2012 - 2014 time frame by investment funds which typically have a 5 year investment horizon. So these groups are looking to liquidate while the market is still strong to realize their return goals as the fund's life may be expiring. Also, there is a huge amount of Commercial Mortgage-Backed Securities backed by hotels that are coming due this year and next. Owners have to decide if they want to sell or refinance and that decision is influenced by interest rates and renovation requirements from the brands.

With respect to property pricing and sales, what does a Cap Rate mean?

By definition, the Cap Rate is the net operating income of an asset divided by the purchase price or the all-in acquisition price. The all-in price would include planned renovation costs as well as closing

costs. The measure is simple however we always look closely at the "credibility" of that offered Cap Rate and focus on the trailing 12 months of actual earnings rather than the forecasted earnings.

Even then, we will want to know whether the purchase price reflects anticipated changes in the market due to supply or other factors that will influence the operating results. In addition we will review the trailing earnings for the previous 12 months to determine if cutbacks were made in areas like capital maintenance or sales and marketing budgets or if there were there atypical factors in that last year that led to an increase or decrease in income. This is all part of looking underneath the surface of a published Cap Rate.

Any other investment fundamentals that would be helpful for the Vesta audience to know?

A hotel is real estate, so location is critical, but from an operating business perspective we need to understand the market place. Questions we ask: Where does demand come from and how sustainable is that demand? Could overall demand be significantly impacted by major movement in a single user group like a major employer, university or health care center and how well are demand and supply in balance?

We also look at the purchase price per key for a given property class and brand and evaluate whether that benchmark can be justified in terms of potential for growth in valuation. Our investment returns are significantly impacted by the exit returns when we feel it is time to sell a hotel.

What is Vesta's core investment philosophy?

We look for opportunities where we think we can make a smart purchases based on the expectation of achieving a value-add (increased asset value), whether through improved property management, including enhancing staff productivity; renovation or rebranding.

We are not focused on any one location, although clearly we have a strong presence in the northwest,

Executive Q&A with Mike Cryan

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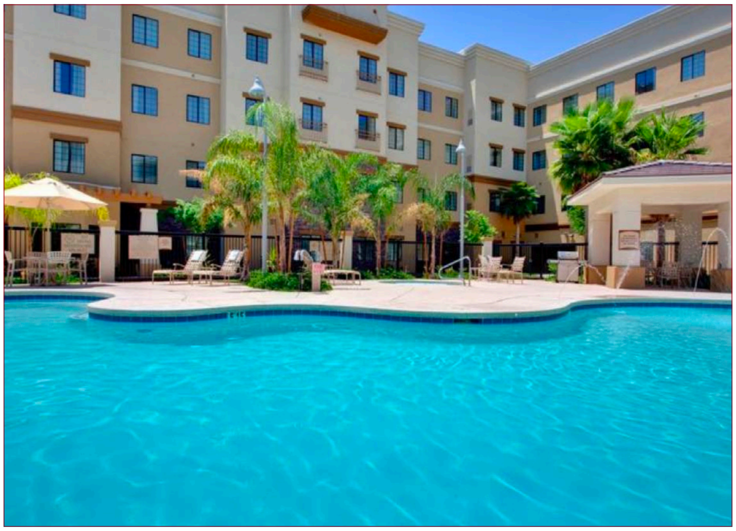
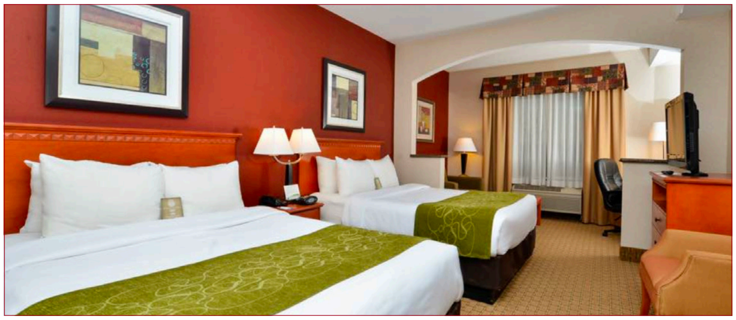


We always look at the individual property, its brand, location and the fundamentals of that given market, including how secure the demand is in that market, as mentioned earlier, and whether there are strong barriers to entry for new builds.

At the same time, we have to pay attention to and understand the factors that are impacting our national economy at any given time. We can't have tunnel vision through "falling in love" with any single property.

based on our corporate location and familiarity with our home market, and we are also building a concentration in the southeast.

We are willing to invest wherever we are comfortable that operating in that market will allow us to make money for Vesta and our investors.



Vesta In Action

- Rick Takach served on a panel at the ALIS conference discussing Brand Selection in the Era of Proliferation & Consolidation. In a story that recapped the ALIS conference and provided an industry outlook for 2019, included thoughts and comments from Rick Takach. You can read the article here: https://bit.ly/2BHaVIs

- Vesta sponsored a table at the "Night of a Thousand Stars" gala which was held the night before the official start of the conference. The event is a fundraiser for the American Hotel & Lodging Educational Foundation (AHLEF) and honored a number of industry leaders.

- Vesta will be participating in two upcoming investor's conferences: a Family Offices investors' conference in late April; and a Fairway America's conference in Del Mar in early May. We will have news and highlights from those conferences in an upcoming newsletter.