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**From:** Parker Lewis [PL@haymancapital.com]  
**Sent:** 11/6/2015 8:36:05 PM  
**To:** J. Kyle Bass [k@haymancapital.com]  
**Subject:** Apple REIT  
**Attachments:** image001.png; image002.jpg; image003.png; image004.png; image005.png; image006.png

Kyle - see below on Apple REIT. All and all, it was unfortunately a good quarter; RevPar was up 6.4% to ~\$108 and occupancy was up 0.9% to 80.6%. The only note I have seen on actual performance vs estimates is "FFO in-line, misses on revenue" but being realistic, the trajectory looks favorable. The company is also leveraging up to repurchase shares like LPL (dividend utilizes 90% of FCF so not much incremental capacity to self-fund share repurchases).

To put the operating metrics in context of the business cycle, occupancy in 2009 was in mid 60% and RevPar was in high 70s. There is general sentiment that there really is not much room to improve from here given where we are in the cycle (FCF yielding 6.6% well into a recovery / near peak for a business (hospitality) that is cyclical). This is based on direction of questions from analysts on the call... "given where we're at in the cycle".

That being said, the trade just isn't working. This was designed to be part of a basket targeting non-traded REITs and the investor base that owns this being similar to investor base that owns UDF (selling on an event).

I think of this collectively as a basket and knowing that we are not trying to express a view on B-class hospitality assets, I think we should look to eliminate this position given our exposure elsewhere. I don't think there is much further that it can run against us in near-term and there is nothing that should cause it to gap so I would recommend selling on down days or over next week. We are short 574k shares, average daily volume is 1.2 million; at current market price of \$20.23, we have a P&L loss of \$1.3mm on this piece of the basket.

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Valuation Overview  
[cid:image004.png@01D1189B.8E82CF70]

Operating Trends

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