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## Sunstone Hotel Investors Acquires the 175-Room Oceans Edge Hotel & Marina Key West, Florida

### Completes Disposition of the 199-Room Marriott Park City

**Aliso Viejo, Calif. (July 26, 2017)** – Sunstone Hotel Investors, Inc. (the “Company” or “Sunstone”) (NYSE: SHO) announced that it has acquired the fee-simple interest in the 175-room Oceans Edge Hotel & Marina in Key West, Florida for \$175 million. In addition, the Company announced that it had recently completed the disposition of the 199-room Marriott Park City in Park City, Utah for a gross sale price of \$27.6 million.

John Arabia, President and Chief Executive Officer stated, “The acquisition of Oceans Edge Hotel & Marina demonstrates a continuation of our strategy to recycle capital into higher quality, long-term relevant real estate while maintaining an industry leading balance sheet with ample investment capacity. Over the past 19 months, we have sold nearly \$735 million of real estate and used a portion of those proceeds to return capital to our shareholders, to strengthen our already low-levered balance sheet and to redeploy proceeds into exceptional real estate. The Oceans Edge Hotel & Marina is a brand new, purpose-built hotel and marina that is of significantly higher quality than the majority of the Key West hotel supply. The luxury resort and marina, which opened in January 2017, is expected to provide meaningful growth in the near term as it reaches stabilization, and over the long term due to the supply restrictions in the Key West market.”

The Company will provide an update to its 2017 guidance to incorporate the impact of these transactions with its second quarter earnings release on August 1, 2017.

#### **Oceans Edge Acquisition:**

Oceans Edge Hotel & Marina (“Oceans Edge” or the “Hotel”) is a newly constructed, purpose-built oceanfront hotel and marina complex that opened in January 2017. The property is situated across 20 land and water acres on Stock Island and is the largest purpose-built luxury resort and marina in Key West. The Hotel is comprised of 175 waterfront rooms, including 86 suites, all of which have private balconies and sweeping views of the Atlantic Ocean. The Hotel’s rooms are spread across four buildings designed with signature Key West conch style architecture and have an average size



of 470 square feet—some of the largest rooms available in the market. The Hotel also boasts six swimming pools, a full-service restaurant, waterfront bar, on-site water sports and paddle shop and a fitness facility. Described by the New York Times as the “new old Key West”, Stock Island offers an authentic Florida Keys vibe and is home to the Key West Symphony Orchestra, Tennessee Williams Theatre, numerous art galleries, a golf course and outstanding bars and restaurants.

As part of the transaction, Sunstone also acquired a combined 52 wet and dry boat slips and amenities in the attached marina which offers direct deep channel access to one of the most sought after fishing destinations in the country.

The Oceans Edge purchase price represents an estimated 14.1x multiple on the midpoint of the 2018 forecasted Hotel Adjusted EBITDA range of \$11.5 million to \$13.3 million and an estimated 6.5% capitalization rate on the midpoint of 2018 forecasted Hotel net operating income. Sunstone expects the stabilized yield on the purchase price of the Hotel to be between 8.0% and 9.0%.



The Company funded the acquisition from available cash on hand including proceeds from the recent sale of the Marriott Park City and Fairmont Newport Beach, as well as net proceeds received from the Company's recent equity issuance under its "At the Market" ("ATM") equity distribution program. A definition of Hotel Adjusted EBITDA and a reconciliation to net operating income is set forth at the end of this release.



Oceans Edge is Sunstone's first acquisition in the highly desirable Key West market which boasts the highest RevPAR of any market in the United States. Key West's favorable climate, diverse entertainment and recreational offerings and scenic beauty, make it a favorite year-round destination among travelers. In addition, local rate of growth ordinances which limit development in the area create significant barriers to entry for new hotel supply.

The Hotel will operate as an independent property and be managed by Singh Hospitality which has expertise in the local hotel market.

Additional details about the Hotel can be found on the property's website at [www.oceansedgekeywest.com](http://www.oceansedgekeywest.com).



### **Marriott Park City Disposition:**

The Company completed the disposition of the 199-room Marriott Park City on June 14, 2017 for a contractual sale price of \$27.6 million or approximately \$138,400 per key. The sale price represents a 8.9x multiple on the hotel's Adjusted EBITDA over the trailing four quarters of \$3.1 million and a 9.5% capitalization rate on the hotel's net operating income over the trailing four-quarter period. The sale resulted in a net book gain of \$1.2 million and will increase 2017 taxable income by \$4.4 million.

### **At-the-Market Equity Distribution Program Update:**

Through the date of this release, the Company has issued approximately 4.9 million shares of its common stock at an average price of \$16.28 per share for gross proceeds of \$79.4 million. The shares were issued in connection with an ATM program pursuant to equity distribution agreements entered into by the Company during the first quarter of 2017. The Company currently has \$220.6 million remaining under its current ATM authorization.

Bryan Giglia, Chief Financial Officer stated, "Since the beginning of the second quarter, we issued approximately \$79 million under our ATM program at a blended price of \$16.28 per share. This additional capital helped fund the Oceans Edge acquisition while allowing us to maintain low leverage and significant investment capacity."

### **About Sunstone Hotel Investors:**

Sunstone Hotel Investors, Inc. is a lodging real estate investment trust ("REIT") that, as of the date hereof, has interests in 27 hotels comprised of 13,202 rooms. Sunstone's hotels are primarily in the upper upscale segment and are generally operated under nationally recognized brands such as Marriott, Hilton and Hyatt. For further information, please visit Sunstone's website at [www.sunstonehotels.com](http://www.sunstonehotels.com).

### **Forward-Looking Statements**

This press release contains forward-looking statements within the meaning of federal securities laws and regulations. These forward-looking statements are identified by their use of terms and phrases such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "should," "will" and other similar terms and phrases, including opinions, references to assumptions and forecasts of future results. Forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from those anticipated at the time the forward-looking statements are made. These risks include, but are not limited to: volatility in the debt or equity markets affecting our ability to acquire or sell hotel assets; international, national and local economic and business conditions, including the likelihood of a U.S. recession, changes in the European Union or global economic slowdown, as well as any type of flu or disease-related pandemic, affecting the lodging and travel industry; the ability to maintain sufficient liquidity and our access to capital markets; terrorist attacks or civil unrest, which would affect occupancy rates at our hotels and the demand for hotel products and services; operating risks associated with the hotel business; risks associated with the level of our indebtedness and our ability to meet covenants in our debt and equity agreements; relationships with property managers and franchisors; our ability to maintain our properties in a first-class manner, including meeting capital expenditure requirements; our ability to compete effectively in areas such as access, location, quality of accommodations and room rate structures; changes in travel patterns, taxes and government regulations, which influence or determine wages, prices, construction procedures and costs; our ability to identify, successfully compete for and complete acquisitions; the performance of hotels after they are acquired; necessary capital expenditures and our ability to fund them and complete them with minimum disruption; our ability to continue to satisfy complex rules in order for us to qualify as a REIT for federal income tax purposes; and other risks and uncertainties associated with our

business described in the Company's filings with the Securities and Exchange Commission. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that the expectations will be attained or that any deviation will not be material. All forward-looking information in this release is as of July 26, 2017, and the Company undertakes no obligation to update any forward-looking statement to conform the statement to actual results or changes in the Company's expectations.

This release should be read together with the consolidated financial statements and notes thereto included in our most recent reports on Form 10-K and Form 10-Q. Copies of these reports are available on our website at [www.sunstonehotels.com](http://www.sunstonehotels.com) and through the SEC's Electronic Data Gathering Analysis and Retrieval System ("EDGAR") at [www.sec.gov](http://www.sec.gov).

### **Non-GAAP Financial Measures**

We present the following non-GAAP financial measures that we believe are useful to investors as key supplemental measures of our operating performance: earnings before interest expense, taxes, depreciation and amortization, or EBITDA; hotel Adjusted EBITDA; hotel Adjusted EBITDA margin; and funds from operations contribution, or FFO contribution. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP. EBITDA, hotel Adjusted EBITDA, hotel Adjusted EBITDA margin and FFO contribution as calculated by us, may not be comparable to other companies that do not define such terms exactly the same as the Company does. These non-GAAP measures are used in addition to and in conjunction with results presented in accordance with GAAP. They should not be considered as alternatives to operating profit, cash flow from operations, or any other operating performance measure prescribed by GAAP. These non-GAAP financial measures reflect additional ways of viewing our operations that we believe, when viewed with our GAAP results and the reconciliations to the corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure.

**Property-Level Adjusted EBITDA Reconciliation  
Oceans Edge Hotel & Marina**

	Total		Plus:	Equals:	Hotel Adjusted	Less:	Equals:	FFO
	Revenues	Net Income	Depreciation	Hotel Adjusted EBITDA	EBITDA Margin	FF&E Reserve	Hotel Net Operating Income	Contribution
Estimated Sunstone Ownership Period 2017 - High (1)	\$ 7,600	\$ 2,200	\$ 1,400	\$ 3,600	47.4%	\$ (304)	\$ 3,296	\$ 3,600
Estimated Sunstone Ownership Period 2017 - Low (1)	\$ 7,000	\$ 1,800	\$ 1,400	\$ 3,200	45.7%	\$ (280)	\$ 2,920	\$ 3,200
Estimated Full Year 2018 - High (1)	\$ 26,500	\$ 10,100	\$ 3,200	\$ 13,300	50.2%	\$ (1,060)	\$ 12,240	\$ 13,300
Estimated Full Year 2018 - Low (1)	\$ 23,500	\$ 8,300	\$ 3,200	\$ 11,500	48.9%	\$ (940)	\$ 10,560	\$ 11,500
2018 EBITDA Multiple / Cap Rate at Midpoint (2)				14.1x			6.5%	

**Marriott Park City**

	Total		Plus:	Equals:	Hotel Adjusted	Less:	Equals:	FFO
	Revenues	Net Income	Depreciation	Hotel Adjusted EBITDA	EBITDA Margin	FF&E Reserve	Hotel Net Operating Income	Contribution
Trailing Four Quarters as of March 31, 2017 (3)	\$ 11,645	\$ 1,068	\$ 2,024	\$ 3,092	26.6%	\$ (466)	\$ 2,626	\$ 3,092
Trailing Four Quarters EBITDA Multiple / Cap Rate (2)				8.9x			9.5%	

(1) Projections are subject to risks and uncertainties, including those disclosed in the Company's filings with the Securities and Exchange Commission, which can cause actual results to differ materially from those projected. Depreciation estimates subject to change based on final purchase price allocations to be completed after asset acquisition.

(2) EBITDA Multiple calculated as Contractual Gross Sale Price divided by Hotel Adjusted EBITDA. Cap Rate calculated as Hotel Net Operating Income divided by Contractual Gross Sale Price.

(3) Data as provided in supplemental financial information reported on the Company's Current Report on Form 8-K, furnished February 21, 2017 and May 2, 2017.

**For Additional Information:**

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