



# SUNSTONE

HOTEL INVESTORS

For Additional Information:

Bryan Giglia  
Sunstone Hotel Investors, Inc.  
(949) 382-3036

## SUNSTONE HOTEL INVESTORS REPORTS RESULTS FOR FIRST QUARTER 2018

ALISO VIEJO, CA – May 7, 2018 – Sunstone Hotel Investors, Inc. (the “Company” or “Sunstone”) (NYSE: SHO) today announced results for the first quarter ended March 31, 2018.

### First Quarter 2018 Operational Results (as compared to First Quarter 2017):

- Net income decreased 39.8% to \$38.5 million. Excluding the effect of gains on hotels sold during both the first quarters of 2018 and 2017, net income would have increased 16.7%.
- Income attributable to common stockholders per diluted common share decreased 44.4% to \$0.15. Excluding the effect of gains on hotels sold during both the first quarters of 2018 and 2017, income attributable to common stockholders per diluted common share would have increased 14.3%.
- 25 Hotel Comparable Portfolio RevPAR decreased 0.7% to \$160.54.
- 25 Hotel Comparable Portfolio Adjusted EBITDA<sub>re</sub> Margin, excluding prior year property tax adjustments, net decreased 170 basis points to 26.0%. Excluding the Hyatt Regency San Francisco, the Marriott Boston Long Wharf and the Renaissance Los Angeles Airport, all of which were under rooms renovation during the first quarter of 2018, the 22 Hotel Comparable Portfolio Adjusted EBITDA<sub>re</sub> Margin, excluding prior year property tax adjustments, net would have decreased 40 basis points.
- Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest decreased 10.3% to \$62.4 million.
- Adjusted FFO attributable to common stockholders per diluted share decreased 16.7% to \$0.20.

John Arabia, President and Chief Executive Officer, stated, “Our portfolio performed well during the first quarter, resulting in better-than-anticipated revenue growth and profitability above our previously provided guidance range. Profitability benefited from robust group spend on banquets and audio visual and strength in corporate transient demand. Our recently acquired or repositioned hotels, Boston Park Plaza, Oceans Edge and Wailea Beach Resort, all continued to outperform the respective markets, driving impressive year-over-year revenue and earnings growth.”

Mr. Arabia continued, “Year-to-date, we continue to find opportunities to invest in our portfolio to drive future growth. Several of our 2018 capital investment projects have been or will be completed during the second quarter, including the meeting space addition at Boston Park Plaza, and the guestroom renovations at the Marriott Boston Long Wharf, Renaissance Los Angeles Airport and Hyatt Regency San Francisco. While we experienced some short-term disruption year-to-date, we expect these investments to result in future growth. Additionally, the ongoing guestroom renovation at the JW Marriott New Orleans and the 47,000 additional square feet of state-of-the-art meeting space under construction at the Renaissance Orlando are expected to drive additional growth into 2019.”

**UNAUDITED SELECTED STATISTICAL AND FINANCIAL DATA**  
*(\$ in millions, except RevPAR, ADR and per share amounts)*

	Three Months Ended March 31,		
	2018	2017	Change
Net Income	\$ 38.5	\$ 63.8	(39.8) %
Income Attributable to Common Stockholders per Diluted Share	\$ 0.15	\$ 0.27	(44.4) %
25 Hotel Comparable Portfolio RevPAR Growth (1)	\$ 160.54	\$ 161.67	(0.7) %
25 Hotel Comparable Portfolio Occupancy (1)	78.6 %	78.7 %	(10) bps
25 Hotel Comparable Portfolio ADR (1)	\$ 204.25	\$ 205.42	(0.6) %
25 Hotel Comparable Portfolio Adjusted EBITDAre Margin (1) (2) (3)	26.0 %	27.7 %	(170) bps
Adjusted EBITDAre, excluding noncontrolling interest (3)	\$ 62.4	\$ 69.6	(10.3) %
Adjusted FFO Attributable to Common Stockholders	\$ 45.9	\$ 53.2	(13.7) %
Adjusted FFO Attributable to Common Stockholders per Diluted Share	\$ 0.20	\$ 0.24	(16.7) %

(1) The 25 Hotel Comparable Portfolio is comprised of all 25 hotels owned by the Company as of March 31, 2018, and includes prior ownership results for the Oceans Edge Resort & Marina acquired in July 2017.

(2) The 25 Hotel Comparable Portfolio Adjusted EBITDAre Margins exclude any prior year property tax adjustments, net.

(3) Effective January 1, 2018, the Company presents EBITDAre, reported in accordance with NAREIT guidelines, and Adjusted EBITDAre, excluding noncontrolling interest, as supplemental measures of performance. See the disclosures regarding non-GAAP financial measures for more information on this change.

Disclosures regarding the non-GAAP financial measures in this release are included on pages 6 through 8. Reconciliations of non-GAAP financial measures to the most comparable GAAP measure for each of the periods presented are included on pages 11 through 16 of this release.

The Company's actual results for the quarter ended March 31, 2018 compare to its guidance originally provided as follows:

Metric	Quarter Ended March 31, 2018 Guidance (1)	Adjustments (2)	Adjusted Prior First Quarter 2018 Guidance	Quarter Ended March 31, 2018 Actual Results (unaudited)	Performance Relative to Prior Guidance Midpoint
Net Income (\$ millions)	\$11 to \$14	+ \$16	\$26 to \$30	\$38	+ \$11
25 Hotel Comparable Portfolio RevPAR Growth	- 2.5% to - 0.5%	—	- 2.5% to - 0.5%	-0.7%	+ 0.8%
Adjusted EBITDAre, excluding noncontrolling interest (\$ millions)	\$57 to \$60	\$0	\$57 to \$60	\$62	+ \$4
Adjusted FFO Attributable to Common Stockholders (\$ millions)	\$41 to \$44	\$0	\$41 to \$44	\$46	+ \$4
Adjusted FFO Attributable to Common Stockholders per Diluted Share	\$0.18 to \$0.20	- 0.01	\$0.18 to \$0.19	\$0.20	+ \$0.013
Diluted Weighted Average Shares Outstanding	224,700,000	—	224,700,000	224,600,000	- 100,000

(1) Represents guidance presented on February 12, 2018.

(2) Adjustments reflect the cumulative impact of operating results for the Marriott Philadelphia and the Marriott Quincy before their sale in January 2018, including severance payments associated with the sale, the net gain on the sale of the hotels, and the effect on net income of business interruption proceeds at the Oceans Edge Resort & Marina recognized during the first quarter of 2018.

**Balance Sheet/Liquidity Update**

As of March 31, 2018, the Company had \$546.4 million of cash and cash equivalents, including restricted cash of \$79.3 million, total assets of \$3.8 billion, including \$3.1 billion of net investments in hotel properties, total consolidated debt of \$988.5 million and stockholders' equity of \$2.6 billion.

## Capital Improvements

The Company invested \$39.3 million into capital improvements of its portfolio during the three months ended March 31, 2018. In 2018, the Company expects to invest approximately \$150 million to \$175 million into its portfolio. Several of the 2018 projects began in the fourth quarter 2017 and are expected to be completed during the first half of 2018. Based on the expected timing and scope of its 2018 projects, the Company expects \$9 million to \$11 million of total revenue displacement related to all capital projects in 2018, of which approximately \$4.9 million of total revenue displacement was incurred during the first quarter. The anticipated revenue displacement is expected to reduce the Company's 2018 total Comparable Portfolio RevPAR growth by approximately 100 basis points. A selection of the Company's planned 2018 capital investment projects include:

- Renaissance Orlando at SeaWorld®: The Company is currently constructing 46,500 square feet of new meeting space, including a 16,400 square foot ballroom, on vacant land adjacent to the hotel's existing 150,000 square feet of total event and meeting space. Total cost for the new meeting space is expected to be \$22 million to \$24 million, with a portion spent in 2017. The new, state-of-the-art meeting space is expected to allow the hotel to increase the number of group rooms sold by approximately 20,000 room nights annually. Construction of the new meeting space began during the fourth quarter 2017, and is expected to be completed during the first quarter 2019. The Company expects zero to \$1 million of total revenue displacement during the second half of 2018 related to the construction.
- Marriott Boston Long Wharf: The Company expects to invest \$31 million to \$34 million, with a portion spent in 2017, to renovate all 412 guestrooms and suites. The renovation, which will better position the hotel with high-end group and business travelers, includes the complete redesign of all guestrooms and bathrooms, including enlarging many of the existing bathrooms and converting 346 bathtubs to showers, as well as expanding and upgrading the concierge lounge. The renovation began during the fourth quarter 2017, and is expected to be completed during the second quarter 2018. The Company expects \$5 million to \$6 million of total revenue displacement during the first half of 2018.
- JW Marriott New Orleans: The Company expects to invest \$26 million to \$28 million, with a portion spent in 2017, to renovate all 501 guestrooms and suites. The renovation includes the complete redesign of all guestrooms and bathrooms, including enlarging many of the existing bathrooms and converting 381 bathtubs to showers. The renovation began during the second quarter 2018, and is expected to be completed during the fourth quarter 2018. The Company expects \$2 million to \$3 million of total revenue displacement during 2018.
- Renaissance Los Angeles Airport: The Company is investing approximately \$9 million, with a portion spent in 2017, to renovate all 501 guestrooms and suites. In addition, the Company previously completed a renovation of its restaurant, lounge and meeting spaces in 2017. The renovation includes the complete redesign of all guestrooms. The renovation began during the fourth quarter 2017, and will be completed during the second quarter 2018. The Company expects to incur approximately \$1 million of total revenue displacement during the first half of 2018.
- Hyatt Regency San Francisco: The Company is investing approximately \$10 million, with a portion spent in 2017, to renovate the hotel's 138 suites and Regency Club rooms. The renovation began during the fourth quarter 2017, and will be completed during the second quarter 2018. The Company expects to incur approximately \$0.3 million of revenue displacement during the first half of 2018.
- Boston Park Plaza: The Company has converted vacant retail space to 8,000 square feet of new meeting space. The new meeting space is expected to allow the hotel to increase the number of group rooms sold by approximately 10,000 room nights annually. Construction of the new meeting space began during the fourth quarter 2017, and was completed during the second quarter 2018. Total cost for the new meeting space was approximately \$3 million. The Company did not incur any displacement related to the construction.

## 2018 Outlook

The Company's achievement of the anticipated results is subject to risks and uncertainties, including those disclosed in the Company's filings with the Securities and Exchange Commission. The Company's guidance does not take into account the impact of any unanticipated developments in its business, changes in its operating environment, or any unannounced hotel acquisitions, dispositions, re-brandings, management changes, transition costs, noncash impairment expense, changes in deferred tax assets or valuation allowances, severance costs associated with restructuring hotel services, uninsured property losses, early lease termination costs, prior year property tax assessments or credits, debt repurchases/repayments, or unannounced financings during 2018. The Company's 2018 guidance does include anticipated displacement from the scheduled 2018 capital investment projects. The Company expects the

negative impact of its 2018 capital investment projects to result in approximately 100 basis points less annual RevPAR growth and approximately \$6 million to \$8 million less Adjusted EBITDAre, excluding noncontrolling interest. The Company's 2018 guidance does not anticipate any acceleration in business travel resulting from the recent federal tax cuts or other stimulus programs.

For the second quarter of 2018, the Company expects:

Metric	Quarter Ended June 30, 2018 Guidance (3)
Net Income (\$ millions)	\$48 to \$51
25 Hotel Comparable Portfolio RevPAR Growth	+ 0.5% to + 2.5%
Adjusted EBITDAre, excluding noncontrolling interest (\$ millions)	\$96 to \$99
Adjusted FFO Attributable to Common Stockholders (\$ millions)	\$77 to \$81
Adjusted FFO Attributable to Common Stockholders per Diluted Share	\$0.34 to \$0.36
Diluted Weighted Average Shares Outstanding	224,800,000

For the full year of 2018, the Company expects:

Metric	Full Year 2018 Guidance (1)	Adjustments (2)	Adjusted Prior Full Year 2018 Guidance	Current Full Year 2018 Guidance (3)	Change in Full Year 2018 Guidance Midpoint
Net Income (\$ millions)	\$115 to \$140	+ \$16	\$130 to \$156	\$145 to \$164	+ \$11
25 Hotel Comparable Portfolio RevPAR Growth	- 0.5% to + 2.5%	—	- 0.5% to + 2.5%	0% to + 2.5%	+ 0.3%
Adjusted EBITDAre, excluding noncontrolling interest (\$ millions)	\$303 to \$327	\$0	\$303 to \$327	\$310 to \$328	+ \$4
Adjusted FFO Attributable to Common Stockholders (\$ millions)	\$235 to \$259	\$0	\$235 to \$259	\$242 to \$261	+ \$4
Adjusted FFO Attributable to Common Stockholders per Diluted Share	\$1.05 to \$1.15	- \$0.01	\$1.04 to \$1.15	\$1.07 to \$1.16	+ \$0.02
Diluted Weighted Average Shares Outstanding	225,000,000	—	225,000,000	225,000,000	—

(1) Reflects guidance presented on February 12, 2018.

(2) Adjustments reflect the cumulative impact of operating results for the Marriott Philadelphia and the Marriott Quincy before their sale in January 2018, including severance payments associated with the sale, the net gain on the sale of the hotels, and the effect on net income of business interruption proceeds at the Oceans Edge Resort & Marina recognized during the first quarter of 2018.

(3) See pages 13 and 14 for detailed reconciliations of Net Income to non-GAAP financial measures.

Second quarter and full year 2018 guidance are based in part on the following assumptions:

- Full year 25 Hotel Comparable Portfolio RevPAR guidance is negatively impacted by approximately 100 basis points, resulting from planned 2018 capital investment projects, a selection of which are discussed above.
- Full year revenue displacement of \$9 million to \$11 million, related to planned 2018 capital investment projects.
- Full year Adjusted EBITDAre, excluding noncontrolling interest displacement of approximately \$6 million to \$8 million, related to planned 2018 capital investment projects.
- Full year 25 Hotel Comparable Portfolio Adjusted EBITDAre Margin is expected to decline 50 basis points to 100 basis points, which is negatively impacted by approximately 40 basis points resulting from planned 2018 capital investment projects.
- Full year corporate overhead expense (excluding deferred stock amortization) of approximately \$21 million to \$22 million.
- Full year amortization of deferred stock compensation expense of approximately \$9 million.
- Full year interest expense of approximately \$46 million, including approximately \$3 million in amortization of deferred financing fees, approximately \$2 million of capital lease obligation interest and approximately \$3 million noncash gain on derivatives.
- Full year total preferred dividends of \$13 million, which includes the Series E and Series F cumulative redeemable preferred stock.

## Dividend Update

On May 3, 2018, the Company's board of directors declared a cash dividend of \$0.05 per share of common stock, as well as cash dividends of \$0.434375 per share payable to its Series E cumulative redeemable preferred stockholders and \$0.403125 per share

payable to its Series F cumulative redeemable preferred stockholders. The dividends will be paid on July 16, 2018 to stockholders of record as of June 29, 2018.

The Company expects to continue to pay a quarterly cash dividend of \$0.05 per share of common stock throughout 2018. Consistent with the Company's past practice and to the extent that the expected regular quarterly dividends for 2018 do not satisfy the annual distribution requirements, the Company expects to satisfy the annual distribution requirement by paying a "catch-up" dividend in January 2019. The level of any future quarterly dividends will be determined by the Company's board of directors after considering long-term operating projections, expected capital requirements, and risks affecting the Company's business.

### **Supplemental Disclosures**

Contemporaneous with this release, the Company has furnished a Form 8-K with unaudited financial information. This additional information is being provided as a supplement to the information in this release and other filings with the SEC. The Company has no obligation to update any of the guidance or other information provided to conform to actual results or changes in the Company's portfolio, capital structure or future expectations.

### **Earnings Call**

The Company will host a conference call to discuss first quarter 2018 financial results on May 8, 2018, at 12:00 p.m. Eastern Time (9:00 a.m. Pacific Time). A live web cast of the call will be available via the Investor Relations section of the Company's website. Alternatively, investors may dial 1-323-794-2094 and reference confirmation code 7239557 to listen to the call live. A replay of the web cast will also be archived on the website.

### **About Sunstone Hotel Investors, Inc.**

Sunstone Hotel Investors, Inc. is a lodging real estate investment trust ("REIT") that as of May 7, 2018 has interests in 25 hotels comprised of 12,450 rooms. Sunstone's hotels are primarily in the urban and resort upper upscale segment and are predominantly 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).

Sunstone's mission is to create meaningful value for our stockholders by producing superior long-term returns through the ownership of long-term relevant real estate in the lodging sector. Our values include transparency, trust, ethical conduct, honest communication and discipline. As demand for lodging generally fluctuates with the overall economy, we seek to own hotels that will maintain a high appeal with travelers over long periods of time and will generate economic earnings materially in excess of recurring capital requirements.

## 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; severe weather events or other natural disasters; 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 May 7, 2018, 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 for real estate, or EBITDA<sub>re</sub>; Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest (as defined below); funds from operations attributable to common stockholders, or FFO attributable to common stockholders; Adjusted FFO attributable to common stockholders (as defined below); hotel Adjusted EBITDA<sub>re</sub>; and hotel Adjusted EBITDA<sub>re</sub> margin. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with GAAP. In addition, our calculation of these measures may not be comparable to other companies that do not define such terms exactly the same as the Company. 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.

We present EBITDA<sub>re</sub> in accordance with guidelines established by the National Association of Real Estate Investment Trusts (“NAREIT”), as defined in its September 2017 white paper “Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate.” We believe EBITDA<sub>re</sub> is a useful performance measure to help investors evaluate and compare the results of our operations from period to period in comparison to our peers. NAREIT defines EBITDA<sub>re</sub> as net income (calculated in accordance with GAAP) plus interest expense, income tax expense, depreciation and amortization, gains or losses on the disposition of depreciated property (including gains or losses on change in control), impairment write-downs of depreciated property and of investments in unconsolidated affiliates caused by a decrease in the value of depreciated property in the affiliate, and adjustments to reflect the entity’s share of EBITDA<sub>re</sub> of unconsolidated affiliates.

We make additional adjustments to EBITDA<sub>re</sub> when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful information to investors regarding our operating performance, and that the presentation of Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest, when combined with the primary GAAP presentation of net

income, is beneficial to an investor's complete understanding of our operating performance. In addition, we use both EBITDA<sub>re</sub> and Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest as measures in determining the value of hotel acquisitions and dispositions. Our presentation of Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest results in a similar metric as our previous disclosure of Adjusted EBITDA.

We believe that the presentation of FFO attributable to common stockholders provides useful information to investors regarding our operating performance because it is a measure of our operations without regard to specified noncash items such as real estate depreciation and amortization, amortization of lease intangibles, any real estate impairment loss and any gain or loss on sale of real estate assets, all of which are based on historical cost accounting and may be of lesser significance in evaluating our current performance. Our presentation of FFO attributable to common stockholders conforms to NAREIT's definition of "FFO applicable to common shares." Our presentation may not be comparable to FFO reported by other REITs that do not define the terms in accordance with the current NAREIT definition, or that interpret the current NAREIT definition differently than we do.

We also present Adjusted FFO attributable to common stockholders when evaluating our operating performance because we believe that the exclusion of certain additional items described below provides useful supplemental information to investors regarding our ongoing operating performance, and may facilitate comparisons of operating performance between periods and our peer companies.

We adjust EBITDA<sub>re</sub> and FFO attributable to common stockholders for the following items, which may occur in any period, and refer to these measures as either Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest or Adjusted FFO attributable to common stockholders:

- *Amortization of favorable and unfavorable contracts:* we exclude the noncash amortization of the favorable management contract asset recorded in conjunction with our acquisition of the Hilton Garden Inn Chicago Downtown/Magnificent Mile, along with the favorable and unfavorable tenant lease contracts, as applicable, recorded in conjunction with our acquisitions of the Boston Park Plaza, the Hilton Garden Inn Chicago Downtown/Magnificent Mile, the Hilton New Orleans St. Charles, the Hyatt Regency San Francisco and the Wailea Beach Resort. We exclude the noncash amortization of favorable and unfavorable contracts because it is based on historical cost accounting and is of lesser significance in evaluating our actual performance for the current period.
- *Noncash ground rent:* we exclude the noncash expense incurred from straight-lining our ground lease obligations as this expense does not reflect the actual rent amounts due to the respective lessors in the current period and is of lesser significance in evaluating our actual performance for the current period.
- *Gains or losses from debt transactions:* we exclude the effect of finance charges and premiums associated with the extinguishment of debt, including the acceleration of deferred financing costs from the original issuance of the debt being redeemed or retired because, like interest expense, their removal helps investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure.
- *Acquisition costs:* under GAAP, costs associated with completed acquisitions that meet the definition of a business are expensed in the year incurred. We exclude the effect of these costs because we believe they are not reflective of the ongoing performance of the Company or our hotels.
- *Cumulative effect of a change in accounting principle:* from time to time, the FASB promulgates new accounting standards that require the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude these one-time adjustments, which include the accounting impact from prior periods, because they do not reflect our actual performance for that period.
- *Other adjustments:* we exclude other adjustments that we believe are outside the ordinary course of business because we do not believe these costs reflect our actual performance for the period and/or the ongoing operations of our hotels. Such items may include: lawsuit settlement costs; prior year property tax assessments or credits; property-level restructuring, severance and management transition costs; lease terminations; and uninsured losses.

In addition, to derive Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest we exclude the noncontrolling partner's pro rata share of the net income (loss) allocated to the Hilton San Diego Bayfront partnership, as well as the noncontrolling partner's pro rata share of any EBITDA<sub>re</sub> and Adjusted EBITDA<sub>re</sub> components. We also exclude the noncash expense incurred with the amortization of deferred stock compensation as this expense is based on historical stock prices at the date of grant to our corporate employees and does not reflect the underlying performance of our hotels. Additionally, we include an adjustment for the cash ground lease expenses recorded on the ground lease at the Courtyard by Marriott Los Angeles and the building lease at the Hyatt Centric Chicago

Magnificent Mile. We have determined that both of these leases are capital leases, and, therefore, we include a portion of the capital lease payments each month in interest expense. We include an adjustment for ground lease expense on capital leases in order to more accurately reflect the actual rent due to both hotels' lessors in the current period, as well as the operating performance of both hotels. We also exclude the effect of gains and losses on the disposition of undepreciable assets because we believe that including them in Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest is not consistent with reflecting the ongoing performance of our assets.

To derive Adjusted FFO attributable to common stockholders, we also exclude the noncash interest on our derivatives and capital lease obligations, the noncontrolling partner's pro rata share of any FFO adjustments related to our consolidated Hilton San Diego Bayfront partnership, as well as changes to deferred tax assets or valuation allowances, and income tax benefits or provisions associated with the application of net operating loss carryforwards, uncertain tax positions or with the sale of assets other than real estate investments. We believe that these items are not reflective of our ongoing finance costs.

In presenting hotel Adjusted EBITDA<sub>re</sub> and hotel Adjusted EBITDA<sub>re</sub> margins, miscellaneous non-hotel items have been excluded. We believe the calculation of hotel Adjusted EBITDA<sub>re</sub> results in a more accurate presentation of the hotel Adjusted EBITDA<sub>re</sub> margins for our hotels, and that these non-GAAP financial measures are useful to investors in evaluating our property-level operating performance.

Our 25 Hotel Comparable Portfolio is comprised of all 25 hotels we owned as of March 31, 2018, and includes both our results and the prior owner's results for the Oceans Edge Resort & Marina acquired in July 2017. We obtained prior ownership information from the Oceans Edge Resort & Marina's previous owner during the due diligence period before acquiring the hotel. We performed a limited review of the information as part of our analysis of the acquisition. We caution you not to place undue reliance on the prior ownership information. We believe that providing comparable hotel data is useful to us and to investors in evaluating our operating performance because this measure helps us and investors evaluate and compare the results of our operations from period to period by removing the fluctuations caused by any acquisitions or dispositions, as well as by those hotels that we classify as held for sale, those hotels that are undergoing a material renovation or repositioning and those hotels whose room counts have materially changed during either the current or prior year. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure.

Reconciliations of net income to EBITDA<sub>re</sub>, Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest, FFO attributable to common stockholders and Adjusted FFO attributable to common stockholders are set forth on pages 11 and 12. Reconciliations and the components of hotel Adjusted EBITDA<sub>re</sub> and hotel Adjusted EBITDA<sub>re</sub> margin are set forth on pages 15 and 16.

**Sunstone Hotel Investors, Inc.**  
**Consolidated Balance Sheets**  
*(In thousands, except share data)*

	<b>March 31, 2018</b>	<b>December 31, 2017</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 467,050	\$ 488,002
Restricted cash	79,336	71,309
Accounts receivable, net	48,589	34,219
Inventories	1,375	1,323
Prepaid expenses	12,532	10,464
Assets held for sale, net	—	122,807
Total current assets	608,882	728,124
Investment in hotel properties, net	3,110,887	3,106,066
Deferred financing fees, net	1,045	1,305
Other assets, net	31,971	22,317
Total assets	\$ 3,752,785	\$ 3,857,812
<b>Liabilities and Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 34,950	\$ 31,810
Accrued payroll and employee benefits	18,174	26,687
Dividends and distributions payable	14,488	133,894
Other current liabilities	43,073	44,502
Current portion of notes payable, net	5,569	5,477
Liabilities of assets held for sale	—	189
Total current liabilities	116,254	242,559
Notes payable, less current portion, net	975,779	977,282
Capital lease obligations, less current portion	26,854	26,804
Other liabilities	31,041	28,989
Total liabilities	1,149,928	1,275,634
Commitments and contingencies		
Equity:		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized:		
6.95% Series E Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding at March 31, 2018 and December 31, 2017, stated at liquidation preference of \$25.00 per share	115,000	115,000
6.45% Series F Cumulative Redeemable Preferred Stock, 3,000,000 shares issued and outstanding at March 31, 2018 and December 31, 2017, stated at liquidation preference of \$25.00 per share	75,000	75,000
Common stock, \$0.01 par value, 500,000,000 shares authorized, 225,614,712 issued and outstanding at March 31, 2018 and 225,321,660 shares issued and outstanding at December 31, 2017	2,256	2,253
Additional paid in capital	2,677,099	2,679,221
Retained earnings	968,293	932,277
Cumulative dividends and distributions	(1,284,501)	(1,270,013)
Total stockholders' equity	2,553,147	2,533,738
Noncontrolling interest in consolidated joint venture	49,710	48,440
Total equity	2,602,857	2,582,178
Total liabilities and equity	\$ 3,752,785	\$ 3,857,812

**Sunstone Hotel Investors, Inc.**  
**Consolidated Statements of Operations**  
*(In thousands, except per share data)*

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
	<i>(unaudited)</i>	
<b>Revenues</b>		
Room	\$ 180,276	\$ 190,367
Food and beverage	74,266	75,501
Other operating	16,904	14,875
<b>Total revenues</b>	<b>271,446</b>	<b>280,743</b>
<b>Operating expenses</b>		
Room	51,095	51,292
Food and beverage	50,154	50,537
Other operating	3,941	3,831
Advertising and promotion	13,906	14,946
Repairs and maintenance	11,103	10,967
Utilities	7,475	7,222
Franchise costs	7,853	8,055
Property tax, ground lease and insurance	21,781	21,287
Other property-level expenses	33,907	34,738
Corporate overhead	7,102	6,779
Depreciation and amortization	36,688	40,807
<b>Total operating expenses</b>	<b>245,005</b>	<b>250,461</b>
<b>Operating income</b>	<b>26,441</b>	<b>30,282</b>
Interest and other income	1,491	721
Interest expense	(8,876)	(11,249)
Loss on extinguishment of debt	—	(4)
Gain on sale of assets	15,659	44,285
<b>Income before income taxes</b>	<b>34,715</b>	<b>64,035</b>
Income tax benefit (provision), net	3,740	(208)
<b>Net income</b>	<b>38,455</b>	<b>63,827</b>
Income from consolidated joint venture attributable to noncontrolling interest	(2,439)	(1,992)
Preferred stock dividends	(3,207)	(3,207)
<b>Income attributable to common stockholders</b>	<b>\$ 32,809</b>	<b>\$ 58,628</b>
<b>Basic and diluted per share amounts:</b>		
Basic and diluted income attributable to common stockholders per common share	<b>\$ 0.15</b>	<b>\$ 0.27</b>
<b>Basic and diluted weighted average common shares outstanding</b>	<b>224,282</b>	<b>219,093</b>
<b>Distributions declared per common share</b>	<b>\$ 0.05</b>	<b>\$ 0.05</b>

**Sunstone Hotel Investors, Inc.**  
**Reconciliation of Net Income to Non-GAAP Financial Measures**  
*(Unaudited and in thousands)*

**Reconciliation of Net Income to EBITDAre and Adjusted EBITDAre, Excluding Noncontrolling Interest**

	Three Months Ended March 31,	
	2018	2017
<b>Net income</b>	\$ 38,455	\$ 63,827
<b>Operations held for investment:</b>		
Depreciation and amortization	36,688	40,807
Amortization of lease intangibles	63	63
Interest expense	8,876	11,249
Income tax (benefit) provision, net	(3,740)	208
Gain on sale of assets, net	(15,669)	(44,570)
<b>EBITDAre</b>	64,673	71,584
<b>Operations held for investment:</b>		
Amortization of deferred stock compensation	2,000	1,749
Amortization of favorable and unfavorable contracts, net	3	99
Noncash ground rent	(281)	(275)
Capital lease obligation interest - cash ground rent	(589)	(351)
Loss on extinguishment of debt	—	4
Hurricane-related uninsured losses	69	—
Prior year property tax adjustments, net	(19)	—
<b>Noncontrolling interest:</b>		
Income from consolidated joint venture attributable to noncontrolling interest	(2,439)	(1,992)
Depreciation and amortization	(638)	(875)
Interest expense	(435)	(457)
Noncash ground rent	72	72
	(2,257)	(2,026)
<b>Adjusted EBITDAre, excluding noncontrolling interest</b>	\$ 62,416	\$ 69,558

**Sunstone Hotel Investors, Inc.**  
**Reconciliation of Net Income to Non-GAAP Financial Measures**  
*(Unaudited and in thousands, except per share amounts)*

**Reconciliation of Net Income to FFO Attributable to Common Stockholders and  
Adjusted FFO Attributable to Common Stockholders**

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Net income</b>	\$ 38,455	\$ 63,827
Preferred stock dividends	(3,207)	(3,207)
<b>Operations held for investment:</b>		
Real estate depreciation and amortization	36,594	40,678
Amortization of lease intangibles	63	63
Gain on sale of assets, net	(15,669)	(44,570)
<b>Noncontrolling interest:</b>		
Income from consolidated joint venture attributable to noncontrolling interest	(2,439)	(1,992)
Real estate depreciation and amortization	(638)	(875)
<b>FFO attributable to common stockholders</b>	<b>53,159</b>	<b>53,924</b>
<b>Operations held for investment:</b>		
Amortization of favorable and unfavorable contracts, net	3	99
Noncash ground rent	(281)	(275)
Noncash interest on derivatives and capital lease obligations, net	(3,137)	(657)
Loss on extinguishment of debt	—	4
Hurricane-related uninsured losses	69	—
Prior year property tax adjustments, net	(19)	—
Noncash income tax benefit	(3,966)	—
<b>Noncontrolling interest:</b>		
Noncash ground rent	72	72
Noncash interest on derivative, net	3	(4)
	<b>(7,256)</b>	<b>(761)</b>
<b>Adjusted FFO attributable to common stockholders</b>	<b>\$ 45,903</b>	<b>\$ 53,163</b>
<b>FFO attributable to common stockholders per diluted share</b>	<b>\$ 0.24</b>	<b>\$ 0.25</b>
<b>Adjusted FFO attributable to common stockholders per diluted share</b>	<b>\$ 0.20</b>	<b>\$ 0.24</b>
<b>Basic weighted average shares outstanding</b>	224,282	219,093
Shares associated with unvested restricted stock awards	343	262
<b>Diluted weighted average shares outstanding</b>	<b>224,625</b>	<b>219,355</b>

**Sunstone Hotel Investors, Inc.**  
**Reconciliation of Net Income to Non-GAAP Financial Measures**  
**Guidance for Second Quarter 2018**  
*(Unaudited and in thousands, except per share amounts)*

**Reconciliation of Net Income to Adjusted EBITDA<sub>re</sub>, Excluding Noncontrolling Interest**

	Quarter Ended June 30, 2018	
	Low	High
<b>Net income</b>	\$ 47,900	\$ 51,400
Depreciation and amortization	36,200	36,100
Amortization of lease intangibles	100	100
Interest expense	12,700	12,400
Income tax provision	200	200
Noncontrolling interest	(3,100)	(3,200)
Amortization of deferred stock compensation	2,900	2,900
Noncash ground rent	(300)	(300)
Capital lease obligation interest - cash ground rent	(600)	(600)
<b>Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest</b>	<u>\$ 96,000</u>	<u>\$ 99,000</u>

**Reconciliation of Net Income to Adjusted FFO Attributable to Common Stockholders**

<b>Net income</b>	\$ 47,900	\$ 51,400
Preferred stock dividends	(3,200)	(3,200)
Real estate depreciation and amortization	35,700	35,600
Amortization of lease intangibles	100	100
Noncontrolling interest	(2,900)	(3,000)
Noncash ground rent	(300)	(300)
Noncash interest on derivatives and capital lease obligations, net	100	100
<b>Adjusted FFO attributable to common stockholders</b>	<u>\$ 77,400</u>	<u>\$ 80,700</u>
<b>Adjusted FFO attributable to common stockholders per diluted share</b>	<u>0.34</u>	<u>0.36</u>
<b>Diluted weighted average shares outstanding</b>	<u>224,800</u>	<u>224,800</u>

**Sunstone Hotel Investors, Inc.**  
**Reconciliation of Net Income to Non-GAAP Financial Measures**  
**Guidance for Full Year 2018**  
*(Unaudited and in thousands, except per share amounts)*

**Reconciliation of Net Income to Adjusted EBITDA<sub>re</sub>, Excluding Noncontrolling Interest**

	Year Ended December 31, 2018	
	Low	High
<b>Net income</b>	\$ 144,800	\$ 163,900
Depreciation and amortization	145,100	144,700
Amortization of lease intangibles	300	300
Interest expense	45,900	45,500
Income tax benefit, net	(3,100)	(3,100)
Gain on sale of assets, net	(15,700)	(15,700)
Noncontrolling interest	(12,900)	(13,200)
Amortization of deferred stock compensation	9,000	9,000
Noncash ground rent	(1,100)	(1,100)
Capital lease obligation interest - cash ground rent	(2,400)	(2,400)
Hurricane-related uninsured losses	100	100
<b>Adjusted EBITDA<sub>re</sub>, excluding noncontrolling interest</b>	<b>\$ 310,000</b>	<b>\$ 328,000</b>

**Reconciliation of Net Income to Adjusted FFO Attributable to Common Stockholders**

<b>Net income</b>	\$ 144,800	\$ 163,900
Preferred stock dividends	(12,800)	(12,800)
Real estate depreciation and amortization	144,400	144,200
Amortization of lease intangibles	300	300
Gain on sale of assets, net	(15,700)	(15,700)
Noncontrolling interest	(11,200)	(11,400)
Noncash ground rent	(1,100)	(1,100)
Noncash interest on derivatives and capital lease obligations, net	(3,000)	(3,000)
Hurricane-related uninsured losses	100	100
Noncash income tax benefit	(4,000)	(4,000)
<b>Adjusted FFO attributable to common stockholders</b>	<b>\$ 241,800</b>	<b>\$ 260,500</b>
<b>Adjusted FFO attributable to common stockholders per diluted share</b>	<b>\$ 1.07</b>	<b>\$ 1.16</b>
<b>Diluted weighted average shares outstanding</b>	<b>225,000</b>	<b>225,000</b>

**Sunstone Hotel Investors, Inc.**  
**Non-GAAP Financial Measures**  
**25 Hotel Comparable Portfolio Adjusted EBITDAre and Margins**  
*(Unaudited and in thousands)*

	Three Months Ended March 31,	
	2018	2017
<b>25 Hotel Comparable Portfolio Adjusted EBITDAre Margin (1)</b>	<b>26.0%</b>	<b>27.7%</b>
<b>25 Hotel Comparable Portfolio Adjusted EBITDAre Margin, excluding prior year property tax adjustments, net (2)</b>	<b>26.0%</b>	<b>27.7%</b>
Total revenues	\$ 271,446	\$ 280,743
Non-hotel revenues (3)	(20)	(18)
Total Actual Hotel Revenues	271,426	280,725
Recently acquired hotel prior ownership revenues (4)	—	3,980
Sold hotel revenues (5)	(603)	(18,344)
<b>Total 25 Hotel Comparable Portfolio Revenues</b>	<b>\$ 270,823</b>	<b>\$ 266,361</b>
Net income	\$ 38,455	\$ 63,827
Non-hotel revenues (3)	(20)	(18)
Non-hotel operating expenses, net (6)	(773)	(435)
Hurricane-related uninsured losses (7)	69	—
Corporate overhead	7,102	6,779
Depreciation and amortization	36,688	40,807
Interest and other income	(1,491)	(721)
Interest expense	8,876	11,249
Loss on extinguishment of debt	—	4
Gain on sale of assets	(15,659)	(44,285)
Income tax (benefit) provision, net	(3,740)	208
Actual Hotel Adjusted EBITDAre	69,507	77,415
Recently acquired hotel prior ownership Adjusted EBITDAre (4)	—	1,178
Sold hotel Adjusted EBITDAre (5)	943	(4,899)
<b>25 Hotel Comparable Portfolio Adjusted EBITDAre</b>	<b>70,450</b>	<b>73,694</b>
Prior year property tax adjustments, net (8)	(19)	—
<b>25 Hotel Comparable Portfolio Adjusted EBITDAre, excluding prior year property tax adjustments, net</b>	<b>\$ 70,431</b>	<b>\$ 73,694</b>

\* Footnotes on page 16

- (1) 25 Hotel Comparable Portfolio Adjusted EBITDAre Margin is calculated as 25 Hotel Comparable Portfolio Adjusted EBITDAre divided by Total 25 Hotel Comparable Portfolio Revenues.
- (2) 25 Hotel Comparable Portfolio Adjusted EBITDAre Margin, excluding prior year property tax adjustments, net is calculated as 25 Hotel Comparable Portfolio Adjusted EBITDAre, excluding prior year property tax adjustments, net divided by Total 25 Hotel Comparable Portfolio Revenues.
- (3) Non-hotel revenues include the amortization of favorable and unfavorable tenant lease contracts recorded in conjunction with the Company's acquisitions of the Boston Park Plaza, the Hilton Garden Inn Chicago Downtown/Magnificent Mile, the Hilton New Orleans St. Charles, the Hyatt Regency San Francisco and the Wailea Beach Resort.
- (4) Recently acquired hotel includes hotel revenues and Adjusted EBITDAre generated during the prior ownership period for the Oceans Edge Resort & Marina, acquired in July 2017.
- (5) Sold hotel includes hotel revenues and Adjusted EBITDAre generated during the Company's ownership period for the Marriott Philadelphia and the Marriott Quincy, both of which were sold in January 2018, along with the Marriott Park City and the Fairmont Newport Beach, sold in June 2017 and February 2017, respectively.
- (6) Non-hotel operating expenses, net include the following: the amortization of lease intangibles; the amortization of a favorable management agreement; noncash ground rent; and capital lease obligation interest - cash ground rent.
- (7) Hurricane-related uninsured losses include \$64,000 at the Oceans Edge Resort & Marina and a total of \$5,000 at the two Houston hotels.
- (8) Prior year property tax adjustments, net for the three months ended March 31, 2018 excludes the additional net benefit of \$19,000.