

Sunstone Hotel Investors, Inc.  
Form 8-K  
September 13, 2006

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

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**FORM 8-K**

**CURRENT REPORT**

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

Date of Report (Date of earliest event reported): September 12, 2006

**Sunstone Hotel Investors, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Maryland**  
(State or Other Jurisdiction  
of Incorporation)

**001-32319**  
(Commission  
File Number)

**20-1296886**  
(IRS Employer  
Identification No.)

**903 Calle Amanecer, Suite 100**

**San Clemente, California**  
(Address of Principal Executive Office)

**(949) 369-4000**

**92673**  
(Zip Code)

(Registrant's telephone number, including area code)

N/A

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

.. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

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- .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  
  - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  
  - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**ITEM 8.01 OTHER EVENTS**

On September 12, 2006, Sunstone Hotel Investors, Inc. (the Company) completed the sale of 13 hotels (the Portfolio) for gross proceeds of \$144.1 million to affiliates of Trinity Hotel Investors, LLC. The Portfolio consists of the following properties:

| Property               | Location                       | # of Rooms   |
|------------------------|--------------------------------|--------------|
| Holiday Inn            | Boise, ID                      | 265          |
| Holiday Inn            | Craig, CO                      | 152          |
| Holiday Inn            | Price, UT                      | 151          |
| Holiday Inn            | Renton, WA                     | 226          |
| Holiday Inn            | San Diego (Mission Valley), CA | 175          |
| Crowne Plaza           | Englewood, NJ                  | 194          |
| Crowne Plaza           | Williamsburg, VA               | 303          |
| Hawthorn Suites        | Kent, WA                       | 152          |
| Marriott               | Ogden, UT                      | 292          |
| Marriott               | Pueblo, CO                     | 164          |
| Courtyard              | Lynnwood, WA                   | 164          |
| Courtyard              | Fresno, CA                     | 116          |
| Courtyard              | NM                             | 213          |
| <b>Total Portfolio</b> |                                | <b>2,567</b> |

The Portfolio is being sold unencumbered of both debt and management.

*Sunstone Pro Forma Portfolio Statistics*

|                            | Pre-Sale  | Post-Sale | % Increase/<br>(Decrease) |
|----------------------------|-----------|-----------|---------------------------|
| Total Hotels               | 63        | 50        | (20.6)%                   |
| Total Rooms                | 18,495    | 15,928    | (13.9)%                   |
| Number of States           | 19        | 14        | (26.3)%                   |
| Rooms per Hotel            | 294       | 319       | 8.5%                      |
| 1H 2006 Occupancy          | 72.9%     | 73.9%     | 1.0%                      |
| 1H 2006 Average Daily Rate | \$ 136.02 | \$ 143.60 | 5.6%                      |
| 1H 2006 RevPAR             | \$ 99.10  | \$ 106.41 | 7.4%                      |

*Pre/Post Sale Portfolio by Region/Brand/Chain Scale Segment*

| REGION                 | Pre-Sale  |               |               | Sold      |              |               | Post-Sale |               |               |
|------------------------|-----------|---------------|---------------|-----------|--------------|---------------|-----------|---------------|---------------|
|                        | Hotels    | Rooms         | % of total    | Hotels    | Rooms        | % of total    | Hotels    | Rooms         | % of total    |
| California             | 24        | 6,290         | 34.0%         | 2         | 291          | 11.3%         | 22        | 5,999         | 37.7%         |
| Other West             | 15        | 3,362         | 18.2%         | 8         | 1,566        | 61.0%         | 7         | 1,796         | 11.3%         |
| Midwest                | 9         | 2,694         | 14.6%         | 0         | 0            | 0.0%          | 9         | 2,694         | 16.9%         |
| Middle Atlantic        | 7         | 3,012         | 16.3%         | 1         | 194          | 7.6%          | 6         | 2,818         | 17.7%         |
| South                  | 5         | 2,062         | 11.1%         | 1         | 303          | 11.8%         | 4         | 1,759         | 11.0%         |
| Southwest              | 3         | 1,075         | 5.8%          | 1         | 213          | 8.3%          | 2         | 862           | 5.4%          |
| <b>Total Portfolio</b> | <b>63</b> | <b>18,495</b> | <b>100.0%</b> | <b>13</b> | <b>2,567</b> | <b>100.0%</b> | <b>50</b> | <b>15,928</b> | <b>100.0%</b> |

**BRAND**

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|                   |    |       |       |   |       |       |    |       |       |
|-------------------|----|-------|-------|---|-------|-------|----|-------|-------|
| Marriott          | 32 | 9,350 | 50.6% | 5 | 949   | 37.0% | 27 | 8,401 | 52.7% |
| Hilton            | 7  | 2,112 | 11.4% | 0 | 0     | 0.0%  | 7  | 2,112 | 13.3% |
| InterContinental  | 11 | 2,301 | 12.4% | 7 | 1,466 | 57.1% | 4  | 835   | 5.2%  |
| Hyatt             | 5  | 1,757 | 9.5%  | 1 | 152   | 5.9%  | 4  | 1,605 | 10.1% |
| Starwood          | 3  | 824   | 4.5%  | 0 | 0     | 0.0%  | 3  | 824   | 5.2%  |
| Other/Independent | 5  | 2,151 | 11.6% | 0 | 0     | 0.0%  | 5  | 2,151 | 13.5% |

|                        |           |               |        |           |              |        |           |               |        |
|------------------------|-----------|---------------|--------|-----------|--------------|--------|-----------|---------------|--------|
| <b>Total Portfolio</b> | <b>63</b> | <b>18,495</b> | 100.0% | <b>13</b> | <b>2,567</b> | 100.0% | <b>50</b> | <b>15,928</b> | 100.0% |
|------------------------|-----------|---------------|--------|-----------|--------------|--------|-----------|---------------|--------|

**CHAIN SCALE**

|                        |    |        |       |   |       |       |    |        |       |
|------------------------|----|--------|-------|---|-------|-------|----|--------|-------|
| Luxury / Upper Upscale | 33 | 11,842 | 64.0% | 2 | 456   | 17.8% | 31 | 11,386 | 71.5% |
| Upscale                | 21 | 4,898  | 26.5% | 6 | 1,142 | 44.5% | 15 | 3,756  | 23.6% |
| Midscale               | 9  | 1,755  | 9.5%  | 5 | 969   | 37.7% | 4  | 786    | 4.9%  |

|                        |           |               |        |           |              |        |           |               |        |
|------------------------|-----------|---------------|--------|-----------|--------------|--------|-----------|---------------|--------|
| <b>Total Portfolio</b> | <b>63</b> | <b>18,495</b> | 100.0% | <b>13</b> | <b>2,567</b> | 100.0% | <b>50</b> | <b>15,928</b> | 100.0% |
|------------------------|-----------|---------------|--------|-----------|--------------|--------|-----------|---------------|--------|

*Sale Portfolio vs. 2005/2006 Acquisitions*

|                      | 1H 2006                  |                           |                 |
|----------------------|--------------------------|---------------------------|-----------------|
|                      | 13<br>Hotel<br>Portfolio | 2005/2006<br>Acquisitions | %<br>Difference |
| # of Hotels          | 13                       | 13                        |                 |
| Average Daily Rate   | \$ 80.03                 | \$ 184.71                 | 130.8%          |
| Occupancy            | 65.9%                    | 74.0%                     | 8.1%            |
| RevPAR               | \$ 52.71                 | \$ 136.64                 | 159.2%          |
| Avg. Rooms per Hotel | 197                      | 463                       | 135.0%          |

*Net Proceeds*

Net proceeds of approximately \$136.4 million (including a \$5.6 million promissory note) from this sale will be reinvested into hotels similar to those acquired over the past two years. At this time, no specific properties are under contract. Pending such reinvestment, approximately \$20.3 million of the net proceeds will be used to repay amounts outstanding under the Company's revolving credit facility and the balance of the net proceeds will be invested at a floating interest rate, currently approximately 5.0%. The Company's net proceeds may be affected by customary post-closing proration adjustments.

**SIGNATURE**

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 hereunto duly authorized.

**Sunstone Hotel Investors, Inc.**

Date: September 13, 2006

By: /s/ Jon D. Kline  
Jon D. Kline

President and Chief Financial Officer