Sunstone Hotel Investors, Inc.
Form 424B3
November 21, 2005
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**Filed Pursuant to Rule 424(b)(3)**

**Registration No. 333-129258**

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 17, 2005)

# 3,699,572 Shares

# Sunstone Hotel Investors, Inc.

## Common Stock

## $25.10 per share

The selling stockholders, Sunstone Hotel Investors, L.L.C., Sunstone/WB Hotel Investors IV, LLC, Sunstone/WB Manhattan Beach, LLC and WB Hotel Investors, LLC, are offering 3,699,572 shares of our common stock.

Our common stock currently trades on the New York Stock Exchange, or NYSE, under the symbol SHO. On November 17, 2005, the last reported sale price of our common stock was $25.32 per share. Shares of our common stock are subject to ownership and transfer limitations that must be applied to maintain our status as a real estate investment trust, or REIT.

**See Risk Factors beginning on page 4 to read about factors you should consider before buying shares of our common stock.**

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.**

The underwriters have agreed to purchase the shares from the selling stockholders at a price of $25.02 per share. The proceeds to the selling stockholders from this sale will be $92,563,291.

In addition to the underwriting discount, the underwriters will receive a commission equivalent from the investors in the amount of $0.05 for each share of common stock sold to the investors in the offering.

The underwriters expect to deliver the shares to purchasers on November 23, 2005.

**Citigroup** **Merrill Lynch & Co.**

The date of this Prospectus Supplement is November 17, 2005.

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## SELLING STOCKHOLDERS

The following tables set forth, to our knowledge, certain information about the selling stockholders as of November 17, 2005.

### SHARES OF COMMON STOCK REGISTERED FOR SALE

| Name of Selling Stockholder Offering | Number of Shares Beneficially Owned Prior To Offering | Number of Shares Offered Hereby | Number of Shares Beneficially Owned After Offering |
|---|---|---|---|
| Sunstone Hotel Investors, L.L.C.(1) | 1,671,985 | 1,671,985 | 0 |
| Sunstone/WB Hotel Investors IV, LLC(1) | 1,257,439 | 1,257,439 | 0 |
| Sunstone/WB Manhattan Beach, LLC(1) | 439,739 | 439,739 | 0 |
| WB Hotel Investors, LLC(1) | 330,409 | 330,409 | 0 |

(1) Westbrook Real Estate Partners, L.L.C. is the managing member of the general partners of entities that have the right to appoint a majority of the members of the executive committees of Sunstone Hotel Investors, L.L.C., Sunstone/WB Hotel Investors IV, LLC, Sunstone/WB Manhattan Beach, LLC and WB Hotel Investors, LLC. Voting and investment control of the securities owned by the Contributing Entities is held by executive committees, of which Messrs. Alter, Kazilionis and Paul, among others, are members. Voting and investment control of the securities owned by Westbrook Real Estate Partners, L.L.C. is held by a committee, of which Messrs. Kazilionis and Paul, among others, are members. The address for these entities is 13155 Noel Road, LB 54, Suite 700, Dallas, Texas 75240.

## UNDERWRITING

Subject to the terms and conditions contained in the purchase agreement dated November 17, 2005, among Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, the Company and the selling stockholders, each of the underwriters named below has agreed to purchase, and the selling stockholders have agreed to sell to that underwriter, the respective number of shares of our common stock set forth opposite the underwriter s name.

| Underwriter | Number of Shares |
|---|---|
| Citigroup Global Markets Inc. | 1,849,786 |
| Merrill Lynch, Pierce, Fenner & Smith Incorporated | 1,849,786 |
| Total | 3,699,572 |

The underwriting agreement provides that the obligations of the underwriters to purchase and accept delivery of the shares included in this offering are subject to approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to purchase and accept delivery of all the shares if they purchase any of the shares.

The underwriters propose to initially offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus. After the initial offering of the shares to the public, the underwriters may change the public offering price. The underwriters do not intend to confirm sales to any accounts over which they exercise discretionary authority.

The following table shows the underwriting discounts and commissions that the selling stockholders are to pay to the underwriters in connection with this offering.

| | **Paid by Selling Stockholders** |
|---|---|
| Per share | $ 0.08 |
| Total | $ 295,966 |

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In addition to the underwriting discount, the underwriters will receive a commission equivalent from the investors in the amount of $0.05 for each share of common stock sold to the investors in the offering.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

For a period of 30 days after the date of this prospectus supplement, we have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to any additional shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of the underwriters. The foregoing sentence shall not apply to the shares sold in this offering.

Our officers and certain of our directors have agreed that they will not offer, sell, contract to sell, pledge (subject to certain limited exceptions approved by the underwriters) or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction that would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any of these transactions are to be settled by delivery of our common stock or other securities, in cash or otherwise, or publicly disclose the intention to make any offer, sale, pledge or disposition, or to enter into any transaction, swap or other arrangement, without, in each case, the prior written consent of the underwriters for a period of 30 days after the date of this prospectus.

We have been advised by the underwriters that:

- they have not offered or sold and, prior to the expiration of a period of six months from the date of this prospectus, will not offer or sell any shares of common stock offered hereby to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers at Securities Regulations 1995;

- they have only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, or FSMA), received by them in connection with the issue or sale of any shares of common stock offered hereby in circumstances in which section 21(1) of the FSMA does not apply to us;

- they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by them in relation to the shares of common stock offered hereby in, from or otherwise involving the United Kingdom; and

- the shares of common stock offered by means of this prospectus are not, may not and will not be offered, distributed, sold, transferred or delivered, directly or indirectly, in or from the Netherlands, to any person other than our employees and/or our subsidiaries, or individuals or legal entities which trade or invest in securities in the conduct of their profession or business within the meaning of article 2 of the Exemption Regulation issued pursuant to the Securities Transactions Supervision Act 1995 ( Vrijstellingsregeling Wet toezicht effectenverkeer 1995 ), which includes, but is not limited to, banks, brokers, dealers, pension funds, insurance companies, securities institutions, investment institutions and other institutional investors, including, among others, treasuries of large enterprises.

In connection with the offering, the underwriters may purchase and sell shares of our common stock in the open market. These transactions may include short sales and stabilizing transactions. Short sales involve syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

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Any of these activities may have the effect of preventing or retarding a decline in the market price of the common stock. They may also cause the price of the common stock to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NYSE or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

Certain of the underwriters have from time to time performed, and may in the future perform, various financial advisory and investment banking services for us and funds sponsored by Westbrook for which they have received or will receive customary fees and expenses. In addition, affiliates of certain of the underwriters are lenders under our revolving credit facility and other debt obligations. Affiliates of Citigroup Global Markets Inc. are investors in funds sponsored by Westbrook, including funds that hold interests in the Contributing Entities that are the selling stockholders in this offering.

A prospectus and prospectus supplement in electronic format may be made available on the websites maintained by one or more of the underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The underwriters will allocate shares so that they may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

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**Prospectus**

# 8,043,572 Shares Common Stock

## 4,102,564 Shares Series C Cumulative Convertible Redeemable

## Preferred Stock

# Sunstone Hotel Investors, Inc.

This prospectus relates to the offering for resale from time to time of up to 8,043,572 shares of common stock and 4,102,564 shares of series C cumulative convertible redeemable preferred stock, which we refer to as series C preferred, including 4,102,564 shares of common stock issuable upon conversion of the series C preferred, by the selling stockholders named in this prospectus and any additional stockholders that may be identified in a supplement to this prospectus or an amendment to the registration statement of which this prospectus forms a part. We will not receive any of the proceeds from the sale of the shares by the selling stockholders. The selling stockholders, or their pledgees, donees, transferees or other successors in interest, may offer the shares through public or private transactions at prevailing market prices, at prices related to prevailing market prices or at privately negotiated prices.

The securities covered by this prospectus are comprised of up to 3,699,572 shares of common stock that may be issued to certain selling stockholders, at our option, upon the redemption of their membership units in Sunstone Hotel Partnership, LLC, and 4,344,000 shares of common stock and 4,102,564 shares of series C preferred, including 4,102,564 shares of common stock issuable upon conversion of the series C preferred, issued or issuable in private placements and the shares of common stock underlying the series C preferred.

Shares of our common stock are subject to ownership and transfer limitations that must be applied to maintain our status as a real estate investment trust, or REIT, which are described under Description of Stock.

Our common stock currently trades on the New York Stock Exchange, or NYSE, under the symbol SHO. On November 15, 2005, the last reported sale price of our common stock was $25.05 per share. There is currently no public trading market for the series C preferred. We will apply to have the series C preferred listed on the NYSE at such time as the distribution of series C preferred meets the applicable listing standards of the NYSE. There can be no assurance such listing will occur.

You should read carefully this prospectus before you invest.

**Investing in our securities involves risks. See Risk Factors beginning on page 4 to read about factors you should consider before buying our securities.**

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

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Our principal executive offices are at 903 Calle Amanecer, Suite 100, San Clemente, California 92673. Our telephone number is (949) 369-4000. Our website is located at www.sunstonehotels.com. Information on the website is not deemed to be a part of this prospectus.

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The date of this Prospectus is November 17, 2005

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**You should rely only on the information contained, or incorporated by reference, in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained, or incorporated by reference, in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents.**

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**This prospectus contains, or incorporates by reference, registered trademarks that are the exclusive property of companies other than us, including Courtyard by Marriott®, Crowne Plaza®, Doubletree®, Embassy Suites Hotels®, Fairmont®, Four Points®, Hawthorn Suites®, Hilton®, Holiday Inn®, Hyatt®, Marriott®, Renaissance®, Residence Inn by Marriott®, Sheraton®, Wyndham® and Starbucks®. We are a party to license agreements or management agreements with the owners of these trademarks, which enable hotels we own to be operated using those trademarks. None of the owners of these trademarks or their affiliates, officers, directors, agents or employees own any of our hotels. None of the owners of these trademarks, or any of their affiliates, officers, directors, agents or employees is an issuer or underwriter of the securities being offered hereby or a participant in this offering. In addition, none of the owners of these trademarks, or any of their officers, directors, agents or employees has or will endorse the offering or assume any liability arising out of or related to the sale or offer of the securities being offered hereby, including any liability or responsibility for any financial statements or other financial information contained, or incorporated by reference, in this prospectus. None of the owners of these trademarks, or any of their officers, directors, agents or employees will receive any proceeds from the sale of the securities in this offering and the purchasers of shares will not receive any interest in the trademarks of such owners.**

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Unless otherwise indicated, industry statistics are from Smith Travel Research, an independent statistical research service that specializes in the lodging industry. Some of the terms used or incorporated by reference in this prospectus, such as luxury, upper upscale, upscale and midscale, are consistent with Smith Travel Research terms. The category of luxury includes Fairmont; the upper upscale includes hotels such as Doubletree, Embassy Suites Hotels, Hilton, Hyatt, Marriott, Renaissance and Sheraton; the category of upscale includes hotels such as Courtyard by Marriott, Crowne Plaza, Hawthorn Suites, Hilton Garden Inn, Radisson, Residence Inn by Marriott and Wyndham; and the category of midscale includes hotels such as Four Points Sheraton, Holiday Inn, Holiday Inn Express and Holiday Inn Select.

As used in this prospectus, references to the Contributing Entities are to Sunstone Hotel Investors, L.L.C., Sunstone/WB Hotel Investors IV, LLC, Sunstone/WB Manhattan Beach, LLC and WB Hotel Investors, LLC, each of which is controlled by Westbrook Real Estate Partners, L.L.C. References to we, our and us are to Sunstone Hotel Investors, Inc. and, except as the context otherwise requires, its consolidated subsidiaries, including Sunstone Hotel Partnership, LLC and its consolidated subsidiaries.

## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, using a shelf registration process or continuous offering process. Under this shelf registration process, the selling stockholders may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities that may be offered by the selling stockholders. We may also file, from time to time, a prospectus supplement or an amendment to the registration statement of which this prospectus forms a part containing specific information about the selling stockholders and the terms of the securities being offered. That prospectus supplement or amendment may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement or amendment may also add, update, or change information in this prospectus. If there is any supplement or amendment, you should rely on the information in that prospectus supplement or amendment.

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## RISK FACTORS

*Investing in our securities involves risk. In deciding whether to invest in our common stock or series C preferred, you should carefully consider the disclosures in our Annual Report on Form 10-K for the year ended December 31, 2004 as well as the risk factors set forth below, the disclosures in our Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, and the other information contained, or incorporated by reference, in this prospectus or any prospectus supplements. The risks and uncertainties described below and in these documents are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occurs, our business, financial condition or results of operations could be materially and adversely affected. In that case, the value of our common stock or series C preferred and your investment could decline.*

### Risks Related to Our Business

***In the recent past, events beyond our control, including an economic slowdown and terrorism, harmed the operating performance of the hotel industry generally and the performance of our hotels, and if these or similar events occur again, our operating and financial results may be harmed by declines in average daily room rates or occupancy.***

The performance of the lodging industry has traditionally been closely linked with the performance of the general economy and, specifically, growth in the United States gross domestic product. Revenue per available room, or RevPAR, in the lodging industry declined 6.9% in 2001 and 2.6% in 2002. In 2002, RevPAR for the 52 hotels that we owned at May 31, 2005 decreased 1.2%. The majority of our hotels are classified as upper upscale or upscale hotels. In an economic downturn, these types of hotels may be more susceptible to a decrease in revenue, as compared to hotels in other categories that have lower room rates. This characteristic may result from the fact that upper upscale and upscale hotels generally target business and high-end leisure travelers. In periods of economic difficulties, business and leisure travelers may seek to reduce travel costs by limiting travel or seeking to reduce costs on their trips. In addition, the terrorist attacks of September 11, 2001 had a dramatic adverse effect on business and leisure travel, and on our occupancy and average daily rate, or ADR. Future terrorist activities could have a similarly harmful effect on both the industry and us.

***As of September 30, 2005, we had approximately $1.0 billion of outstanding debt, or $1.2 billion on a pro forma basis giving effect to the acquisition of the Hyatt Regency Century Plaza in October 2005. Carrying such debt may harm our financial flexibility or harm our business and financial results by imposing requirements on our business.***

Carrying our outstanding debt may harm our business and financial results by:

- requiring us to use a substantial portion of our funds from operations to make required payments on principal and interest, which will reduce the amount of cash available to us for distributions to our stockholders and for our operations and capital expenditures, future business opportunities and other purposes;
- making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions;
- limiting our ability to borrow more money for operations, capital expenditures or to finance acquisitions in the future; and

requiring us to sell one or more properties, possibly on disadvantageous terms, in order to make required payments of interest and principal.

We also intend to incur additional debt in connection with future acquisitions of real estate, which may include loans secured by a portfolio of some or all of the hotels we acquire. If necessary or advisable, we may also borrow funds to satisfy the requirement that we distribute to our stockholders at least 90% of our annual REIT taxable income or otherwise to ensure that we maintain our qualification as a REIT for Federal income tax purposes. In addition, at September 30, 2005, we had $29.5 million in outstanding letters of credit.

***If we were to default on our secured debt in the future, the loss of our property securing the debt would harm our ability to satisfy other obligations.***

A majority of our debt is secured by first deeds of trust on our properties. Using our properties as collateral increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated

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by lenders and ultimately our loss of the property that secures any loan under which we are in default. For tax purposes, a foreclosure on any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure but would not receive any cash proceeds. As a result, we may be required to identify and utilize other sources of cash for distributions to our stockholders. In addition, because of various cross-collateralization provisions in our notes payable, our default under some of our mortgage debt obligations may result in a default on our other indebtedness. If this occurs, our financial condition, cash flow and ability to satisfy our other debt obligations or ability to pay dividends may be harmed.

***We anticipate that we will refinance our indebtedness from time to time to repay our debt, and our inability to refinance on favorable terms, or at all, could harm our operating results.***

Since we anticipate that our internally generated cash will be adequate to repay only a portion of our indebtedness prior to maturity, we expect that we will be required to repay debt from time to time through refinancings of our indebtedness and/or offerings of equity or debt. The amount of our existing indebtedness may harm our ability to repay our debt through refinancings. If we are unable to refinance our indebtedness on acceptable terms, or at all, we might be forced to sell one or more of our properties on disadvantageous terms, which might result in losses to us and reduce the amount of cash available to us for distributions to our stockholders. If prevailing interest rates or other factors at the time of any refinancing result in higher interest rates on refinancing, our interest expense would increase, which would harm our operating results.

***Financial covenants in our existing notes payable and those notes we may assume may restrict our operating or acquisition activities.***

Some of our existing notes payable contain restrictions, requirements and other limitations on our ability to incur additional debt on specific properties, as well as financial covenants relating to the performance of those properties. Our ability to borrow under these agreements is subject to compliance with these financial and other covenants. If we are unable to engage in activities that we believe would benefit those properties or we are unable to incur debt to pursue those activities, our growth may be limited. If we need to obtain consents or waivers from compliance with these covenants, it may take time or cause us to incur additional expenses.

***Our revolving credit facility and term loan facility contain financial covenants that could harm our financial condition.***

Our revolving credit facility and term loan facility contain financial and operating covenants, including net worth requirements, fixed charge coverage and debt ratios and other limitations on our ability to make distributions or other payments to our stockholders (other than those required by the Internal Revenue Code of 1986, as amended, or the Code), as well as limitations on our ability to sell all or substantially all of our assets and engage in mergers, consolidations and certain acquisitions. Failure to meet our financial covenants could result from, among other things, changes in our results of operations, the incurrence of debt or changes in general economic conditions. Advances under the revolving credit facility are subject to borrowing base requirements based on the hotels securing the facility. These covenants may restrict our ability to engage in transactions that we believe would otherwise be in the best interests of our stockholders. Failure to comply with any of the covenants in our revolving credit facility or term loan facility could result in a default under one or more of our debt instruments. This could cause one or more of our lenders to accelerate the timing of our payment obligations and could harm our business, operations, financial condition or liquidity.

***Our organizational documents contain no limitations on the amount of debt we may incur, so we may become too highly leveraged.***

Our organizational documents do not limit the amount of indebtedness that we may incur. If we become highly leveraged, then the resulting increase in cash flow that must be used for debt service would reduce cash available for distribution and could harm our ability to make payments on our outstanding indebtedness and our financial condition.

***Some of our directors and officers have economic interests in other real estate investments, including hotels, which may result in conflicts and competing demands on their time.***

Four of our directors, Messrs. Kazilionis, Paul, Wolff and Dona, are actively involved in the management of entities that invest in real estate, including hotels. Accordingly, these directors may have a conflict of interest in evaluating acquisition

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opportunities in which we and those entities both have a potential interest. In addition, our executive officers, Messrs. Alter, Kline and Stougaard, have economic interests in other hotel investments and, therefore, may have competing demands on their time.

***Some of our directors have conflicts of interest involving Westbrook Real Estate Partners, L.L.C.***

Two of our directors, Messrs. Kazilionis and Paul, are Managing Principals of Westbrook Real Estate Partners, L.L.C. In addition, one of our directors, Ms. Behar, is employed by an entity that has investments in funds managed by Westbrook Real Estate Partners, L.L.C. that own interests in the Contributing Entities. Accordingly, these directors may have conflicts of interest in evaluating situations in which we and Westbrook Real Estate Partners, L.L.C. or its affiliates have a conflicting interest.

***The Contributing Entities and their affiliates own interests in hotels that compete with us.***

The Contributing Entities and their affiliates, including our executive officers, own interests in other hotels in which we have no interest or rights. Some of these hotels are located in the same geographic area as our hotels, and hotels we acquire in the future also may be located in the same geographic area as the hotels owned by the Contributing Entities and their affiliates. Hotels located in the same geographic area compete for business, and this competition may harm our results of operations.

***Sales of our common stock by the Contributing Entities may reduce or eliminate the desire of two of our directors to serve on our board.***

Messrs. Kazilionis and Paul are Managing Principals of Westbrook Real Estate Partners, L.L.C., which is the managing member of entities that have controlling ownership interests in the Contributing Entities. If the Contributing Entities sell their shares of our common stock, Messrs. Kazilionis and Paul, in light of their role at Westbrook Real Estate Partners, L.L.C., may resign from our board if Westbrook Real Estate Partners, L.L.C., which controls each of the Contributing Entities, no longer has an indirect ownership interest in us. The Contributing Entities and their affiliates beneficially own approximately 7.2% of our common stock assuming full conversion of their membership units of Sunstone Hotel Partnership into shares of our common stock.

***We face competition for the acquisition of hotels, and we may not be successful in identifying or completing hotel acquisitions that meet our criteria, which may impede our growth.***

One component of our business strategy is expansion through acquisitions, and we may not be successful in identifying or completing acquisitions that are consistent with our strategy. We compete with institutional pension funds, private equity investors, other REITs, owner-operators of hotels, franchise-owned hotels and others who are engaged in the acquisition of hotels. These competitors may affect the supply/demand dynamics and, accordingly, increase the price we must pay for hotels or hotel companies we seek to acquire, and these competitors may succeed in acquiring those hotels or hotel companies themselves. Furthermore, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater marketing and financial resources, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities competing for suitable hotels may increase in the future, which would increase demand for these hotels and the prices we must pay to acquire them. If we pay higher prices for hotels, our profitability may be reduced. Also, future acquisitions of hotels or hotel companies may not yield the returns we expect and, if financed using our equity, may result in stockholder dilution. In addition, our profitability may suffer because of acquisition-related costs or amortization costs for acquired intangible assets, and the integration of such acquisitions may cause disruptions to our business and may strain management resources.

***The acquisition of a portfolio of hotels presents more risks to our business and financial results than the acquisition of a single hotel.***

We have focused, and may continue to focus, on the acquisition of multiple hotels in single transactions to seek to reduce acquisition costs per hotel and enable us to expand our hotel portfolio more rapidly. Multiple hotel acquisitions such as the acquisition of the Renaissance Hotels, however, are generally more complex than single hotel acquisitions and, as a

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result, the risk that they will not be completed is greater. These acquisitions may also result in our owning hotels in geographically dispersed markets, which places additional demands on our ability to actively asset manage the hotels. In addition, we may be required by a seller to purchase a group of hotels as a package, even though one or more of the hotels in the package does not meet our investment criteria. In those events, we expect to attempt to sell the hotels that do not meet our investment criteria, but may not be able to do so on acceptable terms. These hotels may harm our operating results if they operate at a loss or we sell them at a loss. Also, a portfolio of hotels may be more difficult to integrate with our existing hotels than a single hotel, may strain our management resources and may make it more difficult to find one or more management companies to operate the hotels. Any of these risks could harm our operating results.

***Most of our hotels are upper upscale and upscale hotels, and the upper upscale and upscale segments of the lodging market are highly competitive and generally subject to greater volatility than other segments of the market, which could harm our profitability.***

The upper upscale and upscale segments of the hotel business are highly competitive. Our hotels compete on the basis of location, room rates and quality, service levels, reputation and reservations systems, among many other factors. There are many competitors in our hotel chain scale segments, and many of these competitors have substantially greater marketing and financial resources than we have. This competition could reduce occupancy levels and rental revenue at our hotels, which would harm our operations. Over-building in the hotel industry may increase the number of rooms available and may decrease occupancy and room rates. We also face competition from nationally recognized hotel brands with which we are not associated. In addition, in periods of weak demand, profitability is negatively affected by the relatively high fixed costs of operating upper upscale and upscale hotels when compared to other classes of hotels. For example, from 1998 to 2003, upscale RevPAR growth was lower than RevPAR growth for the overall lodging industry, and from 2001 to 2003, upper upscale RevPAR growth was lower than RevPAR growth for the overall lodging industry.

***Rising operating expenses could reduce our cash flow and funds available for future distributions.***

Our hotels, and any hotels we buy in the future, are and will be subject to operating risks common to the lodging industry in general. If any hotel is not occupied at a level sufficient to cover our operating expenses, then we could be required to spend additional funds for that hotel s operating expenses. In the future, our hotels will be subject to increases in real estate and other tax rates, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, which could reduce our cash flow and funds available for future distributions.

***Our hotels are geographically concentrated in California and, accordingly, we could be disproportionately harmed by an economic downturn in this area of the country or a natural disaster, such as an earthquake.***

Giving effect to the acquisition of the nine hotels we have completed in 2005, approximately 36.1% of our hotels, representing 32.0% of our rooms and 33.6% of our 2004 pro forma revenues, are located in California. The concentration of our hotels in California makes our business disproportionately affected by economic conditions, competition and real and personal property tax rates in California. Natural disasters in California, such as earthquakes, fires or mudslides, would disproportionately affect our hotel portfolio. The California economy and tourism industry, in comparison to other parts of the country, is negatively affected to a greater extent by changes and downturns in certain industries, including the entertainment and high technology industries. It is also possible that because of our California concentration, a change in California laws applicable to hotels and the lodging industry may have a greater impact on us than a change in comparable laws in another geographical area in which we have hotels. Adverse developments in California could harm our revenue or increase our operating expenses in that state.

***The results of some of our individual hotels are significantly impacted by group contract business and other large customers, and the loss of such customers for any reason could harm our operating results.***

Group contract business and other large customers, or large events, can significantly impact the results of operations of our hotels. These contracts and customers vary from hotel to hotel and change from time to time. Such contracts are typically for a limited period of time after which they may be put up for competitive bidding. The impact and timing of large events, such as the 2002 Winter Olympics, are not always easy to predict and are often episodic in nature. In addition, we incurred a $1.3 million provision for bad debt expense related to a customer at one of our hotels in 2004 and an additional reserve of

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$2.1 million taken in 2005 related to a contract interpretation issue with this customer. The operating results for our individual hotels can fluctuate as a result of these factors, possibly in adverse ways, and these fluctuations can affect our overall operating results.

***Because most of our hotels are operated under franchise agreements with national franchisors, termination of franchise agreements or circumstances that negatively affect the franchisor itself could cause us to lose business at hotels operated under the franchisor s name or lead to a default or acceleration of our obligations under certain of our notes payable.***

As of September 30, 2005, approximately 95.0% of our hotels, representing 92.9% of our rooms, were operated under franchise or management agreements with national franchisors. In general, under franchise arrangements, the franchisor provides marketing services and room reservations and certain other operating assistance, but requires us, as the franchisee, to pay significant fees to it, and to maintain the hotel in a required condition. If our primary management company, Interstate Hotels & Resorts, Inc, or the Management Company, or other management companies fail to maintain these required standards, then the franchisor may terminate the franchise agreement and obtain damages for any liability we may have caused. Moreover, from time to time, we may receive notices from franchisors regarding our alleged non-compliance with the franchise agreements, and we may disagree with a franchisor s claim that we are not in compliance with applicable franchise agreements. Any disputes arising under our franchise agreements could also lead to a termination of a franchise agreement and a payment of liquidated damages. Such a termination may trigger a default or acceleration of our obligations under some of our notes payable. In addition, as our agreements expire, we may not be able to renew them on favorable terms or at all. If we were to lose a franchise on a particular hotel, it could harm the operation, financing, financeability or value of that hotel due to the loss of the franchise name, marketing support and centralized reservation system. Moreover, negative publicity affecting a franchisor in general could reduce the revenue we receive from the hotels subject to that particular franchise. Any loss of revenue at a hotel could harm the ability of Sunstone Hotel TRS Lessee Inc., our wholly owned subsidiary, or the TRS Lessee, to whom we have leased our hotels as a result of certain Federal income tax restrictions on lodging REITs, to pay rent to Sunstone Hotel Partnership, LLC and could harm our ability to pay dividends on our common stock or series C preferred.

***Our franchisors require us to make capital expenditures pursuant to property improvement plans, or PIPs, under our franchise agreements, and the failure to make the expenditures required under the PIPs could cause the franchisors to terminate the franchise agreements.***

As a result of our initial public offering, some of our franchisors required that new franchise agreements be executed with the TRS Lessee or its subsidiaries. As a condition to receiving the new franchise agreements, some of our franchisors required that we make renovations to some of our hotels, which we expect to do as part of our ordinary capital expenditure programs. In addition, upon regular inspection of our hotels, our franchisors may determine that additional renovations are required to bring the physical condition of our hotels into compliance with the specifications and standards each franchisor has developed in connection with the operation of our hotels. In connection with the acquisitions of hotels, franchisors may also require PIPs. The franchisors generally set forth their renovation requirements in PIPs and if we do not satisfy the PIP renovation requirements pursuant to the franchisor s criteria, the franchisor will have the right to terminate the applicable franchise agreement. In addition, in the event that we are in default under any franchise agreement as a result of our failure to comply with the PIP requirements, in general, we will be required to pay the franchisor liquidated damages, generally equal to a percentage of gross room revenue for the preceding two-, three- or five-year period for the hotel or a percentage of gross room revenue for the preceding twelve-month period for all hotels operated under the franchised brand if the hotel has not been operating for at least two years.

***Our hotels have an ongoing need for renovations and other capital improvements, some of which are mandated by applicable laws or regulations or agreements with third parties, and the costs of such improvements may exceed our expectations or cause other problems.***

In addition to capital expenditures required by our franchise and loan agreements, we will need to make capital expenditures to comply with applicable laws and regulations, remain competitive with other hotels and maintain the economic value of our hotels. In connection with our recently completed acquisitions we expect to make a total of approximately $80.0 million of capital expenditures. Occupancy and ADR are often affected by the maintenance and improvements at a hotel. The costs of capital improvements we need or choose to make could harm our financial condition

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and reduce amounts available for distribution to our stockholders. These capital improvements may give rise to the following additional risks, among others:

- construction cost overruns and delays;
- a possible shortage of available cash to fund capital improvements and the related possibility that financing for these capital improvements may not be available to us on affordable terms;
- uncertainties as to market demand or a loss of market demand after capital improvements have begun;
- disruption in service and room availability causing reduced demand, occupancy and rates;
- possible environmental problems; and
- disputes with franchisors regarding our compliance with the requirements under the relevant franchise agreement.

***Our returns depend on management of our hotels by third parties and, in particular, on the performance of Interstate Hotels & Resorts, Inc., or the Management Company.***

In order to qualify as a REIT under the Code, we cannot directly operate our hotels or participate in the decisions affecting the daily operations of our hotels. Accordingly, we must enter into management agreements with eligible independent contractors to manage the hotels. Thus, independent management companies, including, among others, the Management Company, under management agreements with us, control the daily operations of our hotels.

The Management Company manages and operates 48 of our 61 hotels pursuant to management agreements with the TRS Lessee or its subsidiaries. Five of our remaining hotels are managed by Marriott or Hyatt under existing management agreements, six Renaissance Hotels are managed by Renaissance Hotel Operating Company, one recently acquired hotel is operated pursuant to a management agreement with Fairmont Hotels & Resorts (U.S.) Inc. and one is operated pursuant to a management agreement with Hyatt. Under the terms of these management agreements, although we actively participate in setting operating strategies, we do not have the authority to require any hotel to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (e.g., setting room rates, etc.). We depend on these independent management companies to adequately operate our hotels as provided in the applicable management agreements. Thus, even if we believe a hotel is being operated inefficiently or in a manner that does not result in satisfactory ADR, occupancy rates and RevPAR, we may not have a contractual right to cause an independent management company to change its method of operation at our hotels. We can only seek redress if a management company violates the terms of its applicable management agreement with us or fails to meet performance objectives set forth in the applicable management agreement, and then only to the extent of the remedies provided in the management agreement. Additionally, while our management agreements typically provide for limited contractual penalties in the event that we terminate the applicable management agreement upon an event of default and, therefore, need to replace any of our management companies, those events could result in significant disruptions at the affected hotels upon the termination of a manager. If any of the foregoing occurs, our relationships with franchisors may be damaged, and we may be in breach of one or more of our franchise agreements.

Therefore, we are dependent to a large degree on the operating performance of the Management Company and its ability to generate revenue at our hotels in excess of our operating expenses. We cannot assure you that the Management Company will successfully manage our hotels. A failure by the Management Company to successfully manage our hotels could lead to an increase in our operating expenses or a decrease in our revenue, which would reduce the amount available for dividends on our common stock. In addition, the management companies may operate other hotels that may compete with our hotels or divert attention away from the management of our hotels.

Our contractual arrangements with the Management Company are relatively new. Accordingly, we cannot assure you that our relationship with the Management Company will be satisfactory to us, or that our expectations regarding the quality and effectiveness of its performance will be met. As a result, the management agreements with the Management Company could be terminated by us prior to the expiration of their respective terms, which would be disruptive to our business and could harm our profitability and cash flow.

***Because we are a REIT, we depend on the TRS Lessee to make rent payments to us, and its inability to do so could harm our revenue and our ability to make distributions to our stockholders.***

Due to certain Federal income tax restrictions on hotel REITs, we cannot directly operate our hotel properties. Therefore, we leased our hotel properties to the TRS Lessee, who contracted with the Management Company and other third

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party hotel managers to manage our hotels. Our revenue and our ability to make distributions to our stockholders will depend solely upon the ability of the TRS Lessee to make rent payments under these leases. In general, under the leases with the TRS Lessee, we will receive from the TRS Lessee both base rent and percentage rent based upon a percentage of gross revenue above a certain minimum level. As a result, we participate in the economic operations of our hotels only through our share of gross revenue under the leases.

The TRS Lessee s ability to pay rent will be affected by factors beyond its control, such as changes in general economic conditions, the level of demand for hotels and the related services of our hotels, competition in the lodging and hospitality industry, the ability to maintain and increase gross revenue at our hotels and other factors relating to the operations of our hotels.

Although failure on the part of the TRS Lessee to materially comply with the terms of a lease (including failure to pay rent when due) will give us the right to terminate the lease, repossess the hotel and enforce the payment obligations under the lease, such steps may not provide us with any substantive relief since the TRS Lessee is our subsidiary. If we were to terminate a lease, we would then be required to find another lessee to lease the hotel since we cannot operate hotel properties directly and remain qualified as a REIT. We cannot assure you that we would be able to find another lessee or that, if another lessee were found, we would be able to enter into a new lease on terms as favorable to us.

***Because land underlying eleven of our hotels is held by ground leases, termination of these leases by the ground lessors could cause us to lose the ability to operate these hotels altogether and incur substantial costs in restoring the premises.***

Our rights to use the land underlying 11 of our hotels is based upon our interest under long-term ground or air leases. Pursuant to the terms of the ground or air leases for these hotels, we are required to pay all rent due and comply with all other lessee obligations under the ground or air leases. As of December 31, 2004, the terms of these ground or air leases (including renewal options) range from 43 to 92 years. Any pledge of our interest in a ground or air lease may also require the consent of the applicable ground lessor and its lenders. As a result, we may not be able to sell, assign, transfer or convey our lessee s interest in any hotel subject to a ground or air lease in the future absent consent of such third parties even if such transactions may be in the best interest of our stockholders.

The ground or air lessor may require us, at the expiration or termination of the ground or air leases, to surrender or remove any improvements, alterations or additions to the land at our own expense. The ground or air leases also generally require us to restore the premises following a casualty or taking and to apply in a specified manner any proceeds received in connection therewith. We may have to restore the premises if a material casualty, such as a fire or an act of God, occurs and the cost thereof exceeds available insurance proceeds.

***Our hedging strategies may not be successful in mitigating our risks associated with interest rates.***

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. When rates change, we expect to record a gain or loss on derivatives. Our hedging activities may include entering into interest rate swaps, caps and floors and options to purchase these items. We currently use interest rate caps to manage our interest rate risks related to our variable rate indebtedness; however, our actual hedging decisions will be determined in light of the facts and circumstances existing at the time and may differ from our currently anticipated hedging strategy. We cannot assure you that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses, and such losses could harm our results of operations, financial condition and business prospects.

In addition, we also may be limited in the type and amount of hedging transactions we may use in the future by our need to satisfy the REIT income tests under the Code. Only income from certain hedging transactions qualifies for purposes of the 95% gross income test, and no hedging income qualifies for purposes of the 75% gross income test. As a result, our ability to effectively hedge against changes in interest rates could be limited, and our earnings could be reduced and could vary more from period to period.

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**Risks Related to the Common Stock Offered Hereby**

***Shares available for future sale could cause the market price of our common stock to drop significantly, even if our business is doing well.***

As of September 30, 2005, we have 55,320,447 (including, without limitation, the shares covered by this prospectus) shares of our common stock and membership units outstanding. Of the common stock, 5,993,554 were sold in September 2005, 24,625,000 shares were sold in connection with our initial public offering and 3,000,000 shares were sold in June 2005, all of which are freely tradable without restriction, except for any shares purchased by our affiliates, as that term is used in Rule 144 of the Securities Act. Affiliates may only sell their shares pursuant to the requirements of Rule 144, in a registered public offering or pursuant to an exemption under the Securities Act. Furthermore, 3,699,572 shares of common stock issuable to the Contributing Entities upon exchange of their membership units in Sunstone Hotel Partnership, 300,000 shares of common stock issued or issuable to Security Capital Preferred Growth Incorporated, 4,102,564 shares of common stock issuable to Security Capital Preferred Growth Incorporated upon conversion of the same number of shares of series C preferred and 4,044,000 shares of common stock issued to GIC Real Estate, may be sold by the selling stockholders in the public market pursuant to this prospectus. In addition, all shares of our common stock that we may issue under our 2004 long-term incentive plan have been registered and can be freely sold in the public market after vesting.

The sale of these shares could cause the market price of our common stock to decline significantly and could impair our ability to raise capital through the sale of additional stock.

***The terms of our management agreements with the Management Company were negotiated by us and Sunstone Hotel Investors, L.L.C., which had a conflict of interest because of the payment it received from the Management Company for its interests in the subsidiary that managed our hotels prior to the formation and structuring transactions consummated at the time of our initial public offering.***

The terms of the management agreements with the Management Company are the result of negotiations among us, Sunstone Hotel Investors, L.L.C. and the Management Company. At the time of the formation and structuring transactions, the Management Company purchased from Sunstone Hotel Investors the corporate subsidiary that managed our hotels and employed the employees of our hotels and paid $8.0 million in cash to Sunstone Hotel Investors, L.L.C.; this payment was not contributed to us in the formation and structuring transactions that took place at the time of our initial public offering. As a result of this payment, Sunstone Hotel Investors, L.L.C. had a conflict of interest with us in negotiating the management agreements with the Management Company.

***We could be exposed to substantial liabilities for events or circumstances that predate the consummation of our initial public offering.***

In connection with the contribution by the Contributing Entities of the hotel properties and entities to us in connection with the formation and structuring transactions consummated at the time of our initial public offering, we assumed the liabilities (known and unknown) associated with those properties and entities that were incurred prior to the consummation of the formation and structuring transactions. In addition, in connection with the Management Company s agreement to purchase the corporate subsidiary of Sunstone Hotel Investors, L.L.C. that managed our hotels and employed the employees of our hotels, the Management Company required that we indemnify it from any liabilities of the corporate subsidiary that accrued prior to the consummation of our initial public offering. These potential liabilities may include, without limitation, liabilities associated with the employees who currently work or previously worked for the corporate subsidiary. At this time, we are not aware of, or able to quantify, any potential liabilities which may arise as a result of our acquisition of the hotel properties and entities in these formation and structuring transactions or the indemnification of the Management Company. Any such claims could give rise to economic liabilities which could be substantial and for which we would have no recourse. If any such liability is established against us, our financial condition could be harmed.

***The market price of our equity securities may vary substantially.***

The trading prices of equity securities issued by REITs may be affected by changes in market interest rates. One of the factors that may influence the price of our common stock or preferred stock in public trading markets is the annual yield from distributions on our common stock or preferred stock, if any, as compared to yields on other financial instruments. An increase in market interest rates, or a decrease in our distributions to stockholders, may lead prospective purchasers of our stock to demand a higher annual yield, which could reduce the market price of our equity securities.

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Other factors that could affect the market price of our equity securities include the following:

- actual or anticipated variations in our quarterly or annual results of operations;
- changes in market valuations of companies in the hotel or real estate industries;
- changes in expectations of our future financial performance or changes in our estimates by securities analysts;
- the trading volumes of our stock;
- the reputation and performance of our franchisors;
- the reputation and performance of the Management Company and our other management companies;
- additional issuances of our common stock or other securities, including the issuance of our preferred stock, in the foreseeable future;
- the addition or departure of key personnel or board members;
- announcements by us or our competitors of acquisitions, investments or strategic alliances;
- adverse market reaction to any increased indebtedness we incur in the future; and
- general market, economic and political conditions and world events.

***Our distributions to stockholders may change.***

We paid a quarterly dividend of $0.285 per share of common stock and membership unit, a quarterly dividend of $0.50 per share of series A cumulative redeemable preferred stock, or the series A preferred, and a quarterly dividend of $0.393 per share of series C preferred on October 14, 2005 to stockholders of record on September 30, 2005. Distributions will be authorized and determined by our board of directors in its sole discretion from time to time and will be dependent upon a number of factors, including restrictions under applicable law and our capital requirements. Consequently, our dividend levels may fluctuate.

**Risk Factors Relating to the Series C Preferred Offered Hereby**

***Our series C preferred does not have an established trading market, which may negatively impact its market value and your ability to transfer or sell your shares, and the series C preferred have no stated maturity date.***

Our series C preferred is a newly issued security with no established trading market. Because the series C preferred does not have a stated maturity date, investors seeking liquidity will be limited to selling their shares in the secondary market. We will apply to have the series C preferred listed on the NYSE at such time as the distribution of series C preferred meets the applicable listing standards of the NYSE; however, we cannot assure you that the series C preferred will be approved for listing. An active trading market for the series C preferred may not develop or, even if it develops, may not last, in which case the trading price of the series C preferred could be adversely affected.

***The market value of the series C preferred could be substantially affected by various factors.***

As with other publicly-traded securities, the trading price for the series C preferred will depend on many factors, which may change from time to time, including:

- the market price for our common stock and our preferred stock;
- any increases in prevailing interest rates, which may negatively affect the market for the series C preferred;
- the market for similar securities;
- additional issuances of other series or classes of preferred shares;
- general economic conditions or conditions in the financial or real estate markets; and
- our financial condition, performance and prospects.

***Our series C preferred has not been rated and is subordinated to our existing and future debt, and there are no restriction on the issuance of parity preferred securities.***

Our series C preferred has not been rated by any nationally recognized statistical rating organization, which may negatively affect its market value and your ability to sell them. The payment of amounts due on the series C preferred will be subordinated to all of our existing and future debt, including our revolving credit facility and term loan facility. We may also issue additional preferred shares in the future which are on a parity with (or, upon the affirmative vote or consent of the holders of two-thirds of the outstanding series A preferred and each other class or series of preferred stock ranking on a parity with the series C preferred which are entitled to similar voting rights, voting as a single class, senior to) the series C preferred with respect to the payment of dividends and the distribution of assets upon liquidation, dissolution or winding up. Any of these factors may affect the trading price for the series C preferred.

**Risks Related to Our Organization and Structure**

***The Contributing Entities may exercise significant control over our company and possibly delay, prevent or cause us to defer taking actions that would be beneficial to our other stockholders.***

As of September 30, 2005, the Contributing Entities and their affiliates beneficially owned approximately 7.2% of our common stock, assuming full conversion of their membership units of Sunstone Hotel Partnership into shares of our common stock. Accordingly, the Contributing Entities and their affiliates are able to exercise significant control over the outcome of substantially all matters required to be submitted to our stockholders for approval, including decisions relating to the election of our board of directors, and influence the determination of our day-to-day corporate and management policies, the appointment of executive officers, the amount of distributions, the timing of additional offerings (including offerings of our securities held by them) and the terms of the management agreements with the Management Company and the other independent management companies and the leases with the TRS Lessee. In addition, we have entered into an agreement with the Contributing Entities pursuant to which the Contributing Entities, acting as a group, have the right to require our board of directors and nominating and corporate governance committee to nominate up to two of their designees to our board of directors with the actual number at any time dependent on their percentage ownership interest in us at that time. Also, the Contributing Entities and their affiliates are able to exercise significant control over the outcome of any proposed merger or consolidation of our company under Maryland law. The Contributing Entities and their affiliates   ownership interest in our company may discourage third parties from seeking to acquire control of our company, which may harm the market price of our shares of common stock.

***Provisions of Maryland law and our organizational documents may limit the ability of a third party to acquire control of our company and may depress our stock price.***

Provisions of Maryland law and our charter and bylaws could have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change of control of us, and may have the effect of entrenching our management and members of our board of directors, regardless of performance. These provisions include the following:

*Aggregate Share and Common Share Ownership Limits.* In order for us to qualify as a REIT, no more than 50% of the value of outstanding shares of our stock may be owned, actually or constructively, by five or fewer individuals at any time during the last half of each taxable year. To assure that we will not fail to qualify as a REIT under this test, subject to some exceptions, our charter prohibits any stockholder from owning actually or constructively more than 9.8% (in number or value, whichever is more restrictive) of the outstanding shares of our common stock or more than 9.8% of the value of the outstanding shares of our capital stock. Any attempt to own or transfer shares of our capital stock in excess of the ownership limit without the consent of our board of directors will be void and could result in the shares (and all dividends thereon) being automatically transferred to a charitable trust. Our board of directors may not consent to such a transfer if it would result in the termination of our status as a REIT. This ownership limitation may prevent a third party from acquiring control of us if our board of directors does not grant an exemption from the ownership limitation, even if our stockholders believe the change of control is in their best interests. The Contributing Entities and their affiliates constructively own approximately 9.7% of the outstanding shares of our common stock prior to this offering.

*Authority to Issue Stock.* Our charter authorizes our board of directors to cause us to issue up to 500,000,000 shares of common stock and up to 100,000,000 shares of preferred stock. Our charter authorizes our board of directors to amend our charter without stockholder approval to increase or decrease the aggregate number of shares of stock or the number of shares of any class or series of our stock that it has authority to issue, to classify or reclassify any unissued shares of our common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares. Issuances of additional shares of stock may have the effect of delaying or preventing a change in control of our company, including change of control transactions offering a premium over the market price of shares of our common stock, even if our stockholders believe that a change of control is in their interest.

*Number of directors, board vacancies, term of office.* Under our charter and bylaws, we have elected to be subject to certain provisions of Maryland law which vest in the board of directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining directors, to fill vacancies on the board even if the remaining directors do not constitute a quorum. Any director elected to fill a vacancy shall hold office until the next annual meeting of stockholders, and until his or her successor is elected and qualifies. As a result, stockholder influence over these matters is limited.

*Limitation on stockholder requested special meetings.* Our bylaws provide that our stockholders have the right to call a special meeting only upon the written request of the stockholders entitled to cast not less than a majority of all the votes entitled to be cast by the stockholders at such meeting. This provision makes it more difficult for stockholders to call special meetings.

*Advance notice provisions for stockholder nominations and proposals.* Our bylaws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any meeting of our stockholders. This bylaw provision limits the ability of our stockholders to make nominations of persons for election as directors or to introduce other proposals unless we are notified in a timely manner prior to the meeting.

*Exclusive authority of our board to amend our bylaws.* Our bylaws provide that our board of directors has the exclusive power to adopt, alter or repeal any provision of the bylaws or to make new bylaws, except with respect to amendments to the provision of our bylaws regarding our opt out of the Maryland business combination and control share acquisition statutes. Thus, our stockholders may not effect any changes to our bylaws.

*Duties of directors.* Maryland law requires that a director perform his or her duties (1) in good faith, (2) in a manner he or she reasonably believes to be in the best interests of the corporation and (3) with the care that an ordinary prudent person in a like position would use in similar circumstances. The duties of directors of Maryland corporations do not require them to (1) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (2) authorize the corporation to redeem any rights under, of modify or render inapplicable, any stockholders rights plan, (3) make a determination under the Maryland business combination act or the Maryland control share acquisition act or (4) act or fail to act solely because of the effect the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, under Maryland law the act of the directors of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law. These provisions increase the ability of our directors to respond to a takeover and may make it more difficult for a third party to effect an unsolicited takeover.

*Unsolicited Takeover Provisions.* Provisions of Maryland law permit the board of a corporation with a class of equity securities registered under the Securities Exchange Act of 1934 and at least three independent directors, without stockholder approval, to implement possible takeover defenses, such as a classified board. These provisions may make it more difficult for a third party to effect a takeover.

***Our management team has a limited history of operating a REIT and managing a public company, which may give rise to inefficiencies or strain our operations and resources.***

We have recently been organized and we have a limited operating history as a REIT. Our management team operated our business as a privately-owned company for the five years prior to our initial public offering in October 2004 and, therefore, other than Mr. Alter, had no experience operating a REIT and managing a publicly-owned company. We will need to continue to develop control systems and procedures adequate to support a public REIT, and this transition could place a significant strain on our management systems, infrastructure, financial condition and other resources.

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***We rely on our executive officers, the loss of whom could significantly harm our business.***

Our continued success will depend to a significant extent on the efforts and abilities of our executive officers, especially Messrs. Alter, Kline and Stougaard. These individuals are important to our business and strategy and to the extent that any of them departs and is not replaced with an experienced substitute, such person s departure could harm our operations, financial condition and operating results.

***Because we made changes to our operations and to qualify and elect to be treated as a REIT, our future financial performance may be affected by unanticipated changes and may differ materially from our historical and pro forma performance.***

The historical financial data incorporated by reference in this prospectus is the historical financial data for us and our predecessor companies. Our initial public offering resulted in changes to our assets and operations that are reflected in our pro forma financial data for 2004. We are unable to predict all changes that will result under our new structure, including our agreements with the Management Company. Accordingly, you should not rely on our historical or pro forma financial data as a predictor of our future performance.

***Our insurance arrangements with affiliates of Westbrook Real Estate Partners, L.L.C. expose us to expense and coverage risks.***

Our environmental insurance coverage also relates to affiliates of Westbrook Real Estate Partners, L.L.C. and other hotels owned by them and our executive officers. We expect to obtain our own insurance, which we expect to be more expensive. In addition, if claims or losses are experienced under the current policy that do not relate to us, the amount of coverage available to us would be reduced.

**Risks Related to the Lodging and Real Estate Industries**

***A number of factors, many of which are common to the lodging industry and beyond our control, could affect our business, including the following:***

- increased threat of terrorism, terrorist events, airline strikes or other factors that may affect travel patterns and reduce the number of business and commercial travelers and tourists and other factors that may not be offset by increased room rates;
- increased competition from other hotels in our markets;
- new hotel supply in our markets, which could harm our occupancy levels and revenue at our hotels;
- dependence on business and commercial travel, leisure travel and tourism;

- increases in operating costs due to inflation, labor costs (including the impact of unionization), workers compensation and health-care related costs, utility costs, insurance and unanticipated costs such as acts of nature and their consequences and other factors that may not be offset by increased room rates;

- changes in interest rates and in the availability, cost and terms of debt financing and other changes in our business that adversely affect our ability to comply with covenants in our debt financing;

- changes in our relationships with, and the performance and reputation of, the Management Company and our other management companies and franchisors;

- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances;

- adverse effects of international market conditions, which may diminish the desire for leisure travel or the need for business travel, as well as national, regional and local economic and market conditions in which our hotels operate and where our customers live; and

- adverse effects of a downturn in the lodging industry.

These factors could harm our financial condition, results of operations and ability to make distributions to our stockholders.

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***The hotel business is seasonal and seasonal variations in revenue at our hotels can be expected to cause quarterly fluctuations in our revenue.***

Our revenue is generally highest in the second and third quarters. Quarterly revenue also may be harmed by events beyond our control, such as extreme weather conditions, terrorist attacks or alerts, contagious diseases, airline strikes, economic factors and other considerations affecting travel. To the extent that cash flow from operations is insufficient during any quarter due to temporary or seasonal fluctuations in revenue, we may have to enter into short-term borrowings to make distributions to our stockholders.

***The threat of terrorism has harmed the hotel industry generally, including our results of operations, and these harmful effects may continue or worsen, particularly if there are further terrorist events.***

The threat of terrorism has had a negative impact on hotel operations and caused a significant decrease in hotel occupancy and ADRs due to disruptions in business and leisure travel patterns and concerns about travel safety. Hotels in major metropolitan areas and near airports, such as many of our hotels, have been harmed due to concerns about air travel safety and a significant overall decrease in the amount of air travel, particularly transient business travel, which includes the corporate and premium business segments that generally pay the highest average room rates. Future terrorist acts, terrorism alerts or outbreaks of hostilities could have a negative effect on travel and, correspondingly, on our business.

The attacks of September 11, 2001 had a dramatic adverse impact on business and leisure travel, hotel occupancy and RevPAR. While there have been recent improvements, the uncertainty associated with the continuing war on terrorism and the possibility of future attacks may continue to hamper business and leisure travel patterns and, accordingly, the performance of our business.

***The use of Internet travel intermediaries by consumers may harm our profitability as a result of increased commissions or lower room rates.***

Some of our hotel rooms are booked through independent, third party Internet travel intermediaries such as Travelocity.com, Expedia.com, Orbitz.com and Hotels.com. For the year 2004, 1.7% of our room revenues (on a pro forma basis to reflect the formation and structuring transactions consummated at the time of our initial public offering) were attributable to bookings through these intermediaries. As we may continue to selectively use these third party Internet intermediaries to generate sales, they may be able to obtain higher commissions, reduced room rates or other significant contract concessions from us. If the amount of sales made through Internet intermediaries increases significantly and we fail to appropriately price room inventory in a manner that maximizes yields, or we are unable to do so, our room revenue may flatten or decrease and our profitability may decline.

***The illiquidity of real estate investments and the lack of alternative uses of hotel properties could significantly limit our ability to respond to adverse changes in the performance of our hotels and harm our financial condition.***

Because real estate investments are relatively illiquid, our ability to promptly sell one or more of our hotels in response to changing economic, financial and investment conditions is limited. The real estate market, including our hotels, is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We may not be able to sell any of our hotels on favorable terms. It may take a long time to find a willing purchaser and to close the sale of a hotel if we want to sell. Should we decide to sell a hotel during the term of that particular hotel s management agreement, we may have to pay termination fees, which could be substantial, to the appropriate management company.

In addition, hotels may not readily be converted to alternative uses if they were to become unprofitable due to competition, age of improvements, decreased demand or other factors. The conversion of a hotel to alternative uses would also generally require substantial capital expenditures and may give rise to substantial payments to our franchisors, management companies and lenders.

We may be required to expend funds to correct defects or to make improvements before a hotel can be sold. We may not have funds available to correct those defects or to make those improvements and, as a result, our ability to sell the hotel would be restricted. In acquiring a hotel, we may agree to lock-out provisions that materially restrict us from selling that

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hotel for a period of time or impose other restrictions on us, such as a limitation on the amount of debt that can be placed or repaid on that hotel to address specific concerns of sellers. These lock-out provisions would restrict our ability to sell a hotel. These factors and any others that would impede our ability to respond to adverse changes in the performance of our hotels could harm our financial condition and results of operations.

***Claims by persons relating to our properties could affect the attractiveness of our hotels or cause us to incur additional expenses.***

We could incur liabilities resulting from loss or injury to our hotels or to persons at our hotels. These losses could be attributable to us or result from actions taken by a management company, including the Management Company. Claims such as these, whether or not they have merit, could harm the reputation of a hotel or cause us to incur expenses to the extent of insurance deductibles or losses in excess of policy limitations, which could harm our results of operations.

***Uninsured and underinsured losses could harm our financial condition, results of operations and ability to make distributions to our stockholders.***

Various types of catastrophic losses, such as losses due to wars, terrorist acts, earthquakes, floods, hurricanes, pollution or environmental matters, generally are either uninsurable or not economically insurable, or may be subject to insurance coverage limitations, such as large deductibles or co-payments. Of our 61 hotels, 22 are located in California, which has been historically at greater risk to certain acts of nature (such as fires and earthquakes) than other states.

In the event of a catastrophic loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a hotel, as well as the anticipated future revenue from the hotel. In that event, we might nevertheless remain obligated for any notes payable or other financial obligations related to the property, in addition to obligations to our ground lessors, franchisors and managers. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position on the damaged or destroyed hotel.

Since September 11, 2001, it has generally become more difficult and expensive to obtain property and casualty insurance, including coverage for terrorism. When our current insurance policies expire, we may encounter difficulty in obtaining or renewing property or casualty insurance on our hotels at the same levels of coverage and under similar terms. Such insurance may be more limited and for some catastrophic risks (e.g., earthquake, fire, flood and terrorism) may not be generally available at current levels. Even if we are able to renew our policies or to obtain new policies at levels and with limitations consistent with our current policies, we cannot be sure that we will be able to obtain such insurance at premium rates that are commercially reasonable. If we are unable to obtain adequate insurance on our hotels for certain risks, it could cause us to be in default under specific covenants on certain of our indebtedness or other contractual commitments we have to our ground lessors, franchisors and managers which require us to maintain adequate insurance on our properties to protect against the risk of loss. If this were to occur, or if we were unable to obtain adequate insurance and our properties experienced damages which would otherwise have been covered by insurance, it could harm our financial condition and results of operations.

***Laws and governmental regulations may restrict the ways in which we use our hotel properties and increase the cost of compliance with such regulations. Noncompliance with such regulations could subject us to penalties, loss of value of our properties or civil damages.***

Our hotel properties are subject to various Federal, state and local laws relating to the environment, fire and safety and access and use by disabled persons. Under these laws, courts and government agencies have the authority to require us, if we are the owner of a contaminated property, to clean up the property, even if we did not know of or were not responsible for the contamination. These laws also apply to persons who owned a property at the time it became contaminated. In addition to the costs of cleanup, environmental contamination can affect the value of a property and, therefore, an owner s ability to borrow funds using the property as collateral or to sell the property. Under such environmental laws, courts and government agencies also have the authority to require that a person who sent waste to a waste disposal facility, such as a landfill or an incinerator, to pay for the clean-up of that facility if it becomes contaminated and threatens human health or the environment.

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Furthermore, various court decisions have established that third parties may recover damages for injury caused by property contamination. For instance, a person exposed to asbestos while staying in or working at a hotel may seek to recover damages for injuries suffered. Additionally, some of these environmental laws restrict the use of a property or place conditions on various activities. For example, some laws require a business using chemicals (such as swimming pool chemicals at a hotel) to manage them carefully and to notify local officials that the chemicals are being used.

We could be responsible for the types of costs discussed above. The costs to clean up a contaminated property, to defend against a claim or to comply with environmental laws could be material and could reduce the funds available for distribution to our stockholders. Future laws or regulations may impose material environmental liabilities on us, or the current environmental condition of our hotel properties may be affected by the condition of the properties in the vicinity of our hotels (such as the presence of leaking underground storage tanks) or by third parties unrelated to us. Our hotel properties are also subject to the Americans with Disabilities Act of 1990, or the ADA. Under the ADA, all public accommodations must meet various Federal requirements related to access and use by disabled persons. Compliance with the ADA s requirements could require removal of access barriers and non-compliance could result in the U.S. government imposing fines or in private litigants winning damages. If we are required to make substantial modifications to our hotels, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations and the ability to make distributions to our stockholders could be harmed. In addition, we are required to operate our hotel properties and laundry facilities in compliance with fire and safety regulations, building codes and other land use regulations, as they may be adopted by governmental agencies and become applicable to our properties.

**Tax and Employee Benefit Plan Risks**

***Your investment has various Federal income tax risks.***

Although the provisions of the Code relevant to your investment are generally described in U.S. Federal Income Tax Considerations, we strongly urge you to consult your own tax advisor concerning the effects of Federal, state and local income tax law on an investment in our common stock or series C preferred and on your individual tax situation.

***If we fail to qualify as a REIT, our distributions will not be deductible by us and our income will be subject to Federal taxation, reducing our cash available for distribution.***

We are a REIT under the Code which affords us significant tax advantages. The requirements for qualifying as a REIT, however, are complex. If we fail to meet these requirements, our distributions will not be deductible by us and we will have to pay a corporate Federal level tax on our income. This would substantially reduce our cash available to pay distributions and your yield on your investment in our common stock. In addition, such a tax liability might cause us to borrow funds, liquidate some of our investments or take other steps which could negatively affect our results of operations. Moreover, if our REIT status is terminated because of our failure to meet a technical REIT requirement or if we voluntarily revoke our election, we would generally be disqualified from electing treatment as a REIT for the four taxable years following the year in which REIT status is lost.

***Even as a REIT, we may become subject to Federal, state or local taxes on our income or property, reducing our cash available for distribution.***

Even as a REIT, we may become subject to Federal income taxes and related state taxes. For example, if we have net income from a prohibited transaction, that income will be subject to a 100% tax. A prohibited transaction is, in general, the sale or other disposition of inventory or property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain income we earn from the sale or other disposition of our property and pay Federal income tax directly on that income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of that tax liability.

We may also be subject to state and local taxes on our income or property, either directly or at the level of our operating partnership or at the level of the other companies through which we indirectly own our assets. We cannot assure you that we will be able to continue to satisfy the REIT requirements, or that it will be in our best interests to continue to do so.

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In view of the complexity of the tax aspects of this offering, particularly in light of the fact that some of the tax aspects of this offering will not be the same for all investors, prospective investors are strongly advised to consult their own tax advisors with specific reference to their own tax situation prior to an investment in shares of our common stock or series C preferred.

***If the leases of our hotels to our taxable REIT subsidiary are not respected as true leases for Federal income tax purposes, we would fail to qualify as a REIT.***

To qualify as a REIT, we must satisfy two gross income tests, under which specified percentages of our gross income must be passive income, like rent. For the rent paid pursuant to the leases of our hotels to Sunstone Hotel Partnership by our taxable REIT subsidiary, the TRS Lessee, which constitutes substantially all of our gross income, to qualify for purposes of the gross income tests, the leases must be respected as true leases for Federal income tax purposes and not be treated as service contracts, joint ventures or some other type of arrangement. If the leases are not respected as true leases for Federal income tax purposes, we would fail to qualify as a REIT.

***Our taxable REIT subsidiary is subject to special rules that may result in increased taxes.***

Several Code provisions ensure that a taxable REIT subsidiary is subject to an appropriate level of Federal income taxation. For example, a taxable REIT subsidiary, such as the TRS Lessee, is limited in its ability to deduct interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% penalty tax on some payments that it receives if the economic arrangements between us and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties. The IRS may successfully assert that the economic arrangements of any of our inter-company transactions, including the hotel leases, are not comparable to similar arrangements between unrelated parties.

***We may be required to pay a penalty tax upon the sale of a hotel.***

The Federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a prohibited transaction that is subject to a 100% penalty tax. Under current law, unless a sale of real property qualifies for a safe harbor, the question of whether the sale of a hotel (or other property) constitutes the sale of property held primarily for sale to customers is generally a question of the facts and circumstances regarding a particular transaction. We may make sales that do not satisfy the requirements of the safe harbors or the IRS may successfully assert that one or more of our sales are prohibited transactions and, therefore, we may be required to pay a penalty tax.

***We also may be subject to corporate level income tax on certain built-in gains.***

We hold certain properties acquired from C corporations (and may acquire additional such properties in the future), in which we must adopt the C corporation s tax basis in that asset as our tax basis. If we sell any such property within ten years of the date on which we acquire it, then we will have to pay tax on the gain at the highest regular corporate tax rate.

***An investment in our common stock or series C preferred may not be suitable for every employee benefit plan.***

When considering an investment in our common stock or series C preferred, an individual with investment discretion over assets of any pension plan, profit-sharing plan, retirement plan, individual retirement account under Section 408(a) of the Code or other employee benefit plan covered by the Employee Retirement Income Security Act of 1974, as amended, or ERISA, should consider whether the investment satisfies the requirements of Section 404 of ERISA or other applicable laws. In particular, attention should be paid to the diversification requirements of Section 404(a)(1)(C) of ERISA in light of all the facts and circumstances, including the portion of the plan s portfolio of which the investment will be a part. All plan investors should also consider whether the investment is prudent and meets plan liquidity requirements as there may be only a limited market in which to sell or otherwise dispose of our common stock, and whether the investment is permissible under the plan s governing instrument. We have not, and will not, evaluate whether an investment in our common stock or series C preferred is suitable for any particular plan.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained, or incorporated by reference, in this prospectus constitute forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potent of these terms or other comparable terminology.

The forward-looking statements contained, or incorporated by reference, in this prospectus reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. The factors that could cause actual results to differ materially from expected results include changes in economic, business, competitive market and regulatory conditions. Important risks and factors that could cause our actual results to differ materially from any forward-looking statements include, without limitation, the following:

- the factors discussed in this prospectus set forth under the sections titled Risk Factors and in the sections of our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q under the sections titled Management s Discussion and Analysis of Financial Condition and Results of Operations;
- downturns in economic and market conditions, particularly levels of spending in the travel and leisure industries in the markets in which we invest;
- hostilities, including future terrorist attacks, or fear of hostilities that affect travel within or to the United States;
- the performance and reputation of the Management Company and the other independent hotel management companies with whom we contract;
- unknown liabilities and our indemnity of the Management Company;
- the performance and reputation of our franchisors;
- increases in interest rates and operating costs;
- difficulties in identifying hotels to acquire and completing and integrating acquisitions;
- our ability to sell existing hotels in a manner consistent with our business strategy;
- changes in our board and executive officers;
- risks related to natural disasters, including earthquakes;

general volatility of the capital markets and the market price of our shares of common stock;

our failure to qualify and maintain our status as a REIT;

disputes and litigation with third parties with whom we do business;

changes in real estate and zoning laws or regulations;

increases in real property tax rates;

contemplated dividend payment rates and amounts;

the performance of acquired properties, including the recently acquired Hyatt Regency Century Plaza in Century City, California, after they are acquired;

necessary expenditures on acquired properties; and

changes in the competitive environment in our industry.

We do not intend, and disclaim any duty or obligation, to update or revise any industry information or forward-looking statements set forth or incorporated by reference in this prospectus to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the events described by our forward-looking statements might not occur. We qualify any and all of our forward-looking statements by these cautionary factors. Please keep this special note in mind as you read this prospectus and the information incorporated by reference in this prospectus.

This prospectus and the information incorporated by reference herein contains market data, industry statistics and other data that have been obtained from, or compiled from, information made available by third parties. We have not independently verified their data.

## RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS

The following table sets forth our historical ratios of earnings to fixed charges and earnings to combined fixed charges and preferred dividends for the periods indicated. To the extent the ratio indicates less than one-to-one coverage, the dollar amount of the deficiency is also listed.

| | Nine Months Ended September 30, 2005 | Period October 26, through December 31, 2004 | Period January 1, through October 25, 2004 | Year Ended December 31, 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|---|---|
| Ratio of Earnings to Fixed Charges | 1.38 | (0.04) | 1.04 | 0.58 | 0.85 | 0.56 | 0.67 |
| Deficiency (in 000s) | N/A | $ (20,354) | N/A | $ (22,801) | $ (4,115) | $ (17,799) | $ (13,669) |
| Ratio of Earnings to Combined Fixed Charges and Preferred Dividends | 1.19 | (0.04) | 1.04 | 0.58 | 0.85 | 0.56 | 0.67 |
| Deficiency (in 000s) | N/A | $ (20,354) | N/A | $ (22,801) | $ (4,115) | $ (17,799) | $ (13,669) |

The ratios of earnings to fixed charges were computed by dividing earnings by fixed charges. The ratios of earnings to combined fixed charges and preferred dividends were computed by dividing earnings by the sum of fixed charges and preferred dividends. For these purposes, earnings consist of pre-tax income from continuing operations plus fixed charges. Fixed charges consist of interest expense and the amortization of deferred

## THE COMPANY

We are a hospitality company that owns primarily upper upscale and upscale hotels in the United States. Our hotels are operated under leading brand names franchised or licensed from others, such as Marriott, Hilton, InterContinental, Hyatt, Starwood and Wyndham. We own 61 hotels with an aggregate of 17,411 rooms in 19 states. Our portfolio also includes luxury and midscale hotels. The terms luxury, upper upscale, upscale and midscale are classifications of hotels by brand that are defined by Smith Travel Research, an independent provider of lodging industry statistical data. We are a real estate investment trust, or REIT, under the Code.

### Recent Developments

***Recently Completed Acquisitions.*** We recently acquired several hotels:

***Hyatt Regency Century Plaza***

In October 2005, we completed our acquisition of the 728-room Century Plaza Hotel and Spa, which we have re-branded as the Hyatt Regency Century Plaza, in Century City, California for approximately $293.0 million. In connection with the acquisition, we entered into a long-term management agreement with Hyatt Corporation and have embarked on a renovation of the hotel. In connection with this acquisition, in October 2005, we closed on a loan with Bear Stearns Commercial Mortgage, Inc. to provide $175 million in fixed-rate mortgage debt to be secured by the Hyatt Regency Century Plaza.

***Fairmont Newport Beach (Sutton Place Hotel)***

In July 2005, we completed our acquisition of the 444-room Sutton Place Hotel in Newport Beach, California for $72.3 million and have named Fairmont Hotels & Resorts U.S. (U.S.) Inc. as manager. We have commenced a major renovation of the hotel s guestrooms and public areas. Following the acquisition, the hotel was re-named the Fairmont Newport Beach.

***Renaissance Hotels***

In June 2005, we completed the acquisition from Marriott International, Inc. of a portfolio of six hotels (which included a 25% interest in one of those hotels) comprising 3,326 rooms for approximately $433.7 million. The hotels included: the

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Renaissance Harbor Place in Baltimore, Maryland; the Renaissance Concourse in Atlanta, Georgia; the Renaissance Long Beach in Long Beach, California; the Renaissance Westchester in White Plains, New York; an 85% ownership interest (and the lender s position in several partnership loans that collectively provide us with the entire economic interest in the hotel) in the Renaissance Orlando Resort at Sea World in Orlando, Florida; and a 25% ownership interest in the Renaissance Washington D.C. Hotel in Washington, D.C. We used a combination of the net proceeds of debt and equity financings with Bear Stearns Commercial Mortgage, Inc., BIP REIT Private Limited and Security Capital Preferred Growth described below to finance this acquisition.

***Remaining 75% of Renaissance Washington D.C.***

In July 2005, we completed our acquisition of the remaining 75% interest in the Renaissance Washington D.C. Hotel. The hotel will continue to be operated by Marriott under the Renaissance Hotels & Resorts brand name. The aggregate purchase price for this hotel was approximately $160 million, which included the 25% interest we had previously agreed to acquire, closing costs, the assumption of a $54 million fixed-rate note bearing interest at 7.5% per annum with a maturity date of April 2008 and the repayment of a partnership loan previously funded by Marriott International. We refer to the six Renaissance hotels collectively as the Renaissance Hotels.

***Sheraton Cerritos Hotel***

In June 2005, we completed our acquisition of the 203-room Sheraton Hotel in Cerritos, California for approximately $25.4 million.

***Recent Financing Transactions.*** We have entered into the following financing transactions since our initial public offering:

***Fixed Rate Mortgage Loans***

On June 23, 2005, we closed four individual fixed-rate loans totaling $250.0 million. Two of the mortgages, totaling $65.0 million, mature in 2012 with a weighted average rate of 4.98%, and the remaining two mortgages, totaling $185.0 million, mature in 2016 with a weighted average rate of 5.20%. We used the net proceeds of these loans to acquire the Renaissance Hotels.

***Amendment to Term Loan***

On June 7, 2005, we amended our term credit agreement, dated as of October 26, 2004, among the Company, Sunstone Hotel Partnership, LLC and the agents and lenders named therein. Pursuant to the amendment, the borrowing rate was reduced from LIBOR plus 4.00% to LIBOR plus 2.25%.

***Fixed Rate Mortgage Loan Refinance***

On April 29, 2005, we closed 10 individual non cross-collateralized fixed-rate mortgage loans totaling $276.0 million. The loans are each for a term of 10 years with a fixed-rate of 5.34% per annum. We used the net proceeds of these loans to retire $175.1 million of floating rate debt which was cross-collateralized by 13 hotels and $37.5 million of floating rate debt which was cross-collateralized by two hotels.

***Series A and Series B Preferred Offering***

On March 18, 2005 we closed a public offering of 4,850,000 shares of our 8.0% series A and series B cumulative redeemable preferred stock, or series B preferred, with a liquidation preference of $25.00 per share, for net proceeds of $117.5 million. All of the 750,000 outstanding shares of our series B preferred stock were subsequently exchanged for an equal number of shares of series A preferred. For more information, see Description of Stock Preferred Stock.

***Common Stock Offerings***

On June 10, 2005, we and certain selling stockholders completed a public offering of 12,180,800 shares of our common stock at a price per share of $23.40 (before underwriting discounts and offering costs). We sold 3,000,000 shares of our common stock in the offering, generating gross proceeds to us of $70.2 million, and affiliates of Westbrook Real Estate Partners, L.L.C. sold 9,180,800 shares of common stock in the offering. The proceeds to us, net of underwriters discount and offering costs, were $65.3 million and were used for certain of the acquisitions described above.

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On June 23, 2005, we completed a private offering to GIC Real Estate, an institutional accredited investor and an investment arm of the Government of Singapore, of 3,750,000 and 294,000 shares of common stock at a price per share of $20.65 and $21.97, respectively, generating gross proceeds of $83.9 million. The proceeds to us, net of offering costs, were $83.8 million and were used to finance certain of the acquisitions described above.

On September 20, 2005, we and certain selling stockholders completed a public offering of 6,700,000 shares of our common stock at a price per share of $24.34 (before underwriting discounts and offering costs). We sold 5,993,554 shares of our common stock in the offering and affiliates of Westbrook Real Estate Partners, L.L.C. sold 706,446 shares of common stock in the offering. The proceeds to us, before expenses, were $143.0 million and were used for the acquisition of the Hyatt Regency Century Plaza.

***Private Sale of Series C Convertible Redeemable Preferred Stock and Common Stock to Security Capital Preferred Growth Incorporated***

In July 2005, we closed on the sale of 4,102,564 shares of series C preferred to Security Capital Preferred Growth Incorporated, or Security Capital. The gross proceeds to us from the sale of these securities was approximately $99.0 million. The series C preferred was sold at a purchase price of $24.13125, pays a base dividend of 6.45% of liquidation preference, is convertible on a one for one basis into our common stock and is callable at its liquidation preference after five years. In certain circumstances, the holders of the series C preferred have the right to require us to redeem any or all of our series C preferred. In addition, on June 28, 2005, we completed a private offering to Security Capital of 300,000 shares of our common stock at a price per share of $22.347, generating net proceeds of approximately $6.7 million which were used for acquisitions. For more information, see Description of Stock Common Stock.

**Other Recent Developments**

In November 2004, we sold the Holiday Inn, Flagstaff, Arizona and the San Marcos Resort, Chandler, Arizona to unrelated third parties for gross proceeds of $21.3 million. In April 2005, we sold the Doubletree hotel located in Carson, California and the Holiday Inn hotel located in Mesa, Arizona to an unrelated third party. The hotels were sold for aggregate gross proceeds of $26.1 million. We used the net proceeds of the Carson and Mesa sales to retire $22.5 million in floating rate debt. The operating results of the hotels are included in discontinued operations in the financial statements included in this prospectus.

In June 2005, we amended the management agreement with Interstate Hotels and Resorts, which relates to 48 of our hotels, to provide for a management fee of 1.75% of our gross revenues for the hotels for the balance of 2005. In addition, the amended agreement provides that the management fee in 2006 will be 2.0%. Prior to the amendment, the management agreement had provided for the fee to increase to 1.85% on July 1, 2005 and 2.1% on January 1, 2006.

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## USE OF PROCEEDS

We will not receive any proceeds from the sale of any of the securities described herein by the selling stockholders.

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## SELLING STOCKHOLDERS

The securities covered by this prospectus are being registered pursuant to provisions of the limited liability company agreement of our operating partnership and registration rights agreements by and among us, certain selling stockholders and other persons. Except as otherwise indicated, the number of securities beneficially owned is determined under rules promulgated by the SEC, and the information may not represent beneficial ownership for any other purpose. Except as indicated otherwise in the table below, each selling stockholder has sole voting power and disposition power with respect to all securities listed as owned by such selling stockholder. At September 30, 2005, there were 47,870,875 shares of common stock outstanding and 4,102,564 shares of series C preferred outstanding.

We do not know when or in what amounts the selling stockholders may offer securities for sale. The selling stockholders may elect not to sell any or all of the securities offered by this prospectus. Because the selling stockholders may offer all or some of the securities pursuant to this offering, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the securities that will be held by the selling stockholders after completion of the offering, we cannot estimate the number of the securities that will be held by the selling stockholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the securities covered by the prospectus will be held by the selling stockholders.

The following tables set forth, to our knowledge, certain information about the selling stockholders as of November 9, 2005.

### SHARES OF COMMON STOCK REGISTERED FOR SALE

| Name of Selling Stockholder Offering | Number of Shares Beneficially Owned Prior To Offering | Number of Shares Offered Hereby | Number of Shares Beneficially Owned After Offering |
|---|---|---|---|
| **Westbrook Real Estate Partners, L.L.C[(1)]** | **3,699,572** | **3,699,572** | **0** |
| **SGP/SHO Hotel Trust[(2)]** | **4,044,000** | **4,044,000** | **0** |
| **Security Capital Preferred Growth Incorporated[(3)]** | **4,402,564** | **4,402,564** | **0** |

(1) Westbrook Real Estate Partners, L.L.C. is the managing member of the general partners of entities that have the right to appoint a majority of the members of the executive committees of the Contributing Entities (Sunstone Hotel Investors, L.L.C., Sunstone/WB Hotel Investors IV, LLC, Sunstone/WB Manhattan Beach, LLC and WB Hotel Investors, LLC). Voting and investment control of the securities owned by the Contributing Entities is held by executive committees, of which Messrs. Alter, Kazilionis and Paul, among others, are members. Voting and investment control of the securities owned by Westbrook Real Estate Partners, L.L.C. is held by a committee, of which Messrs. Kazilionis and Paul, among others, are members. The address for these entities is 13155 Noel Road, LB 54, Suite 700, Dallas, Texas 75240. Messrs. Kazilionis and Paul control the investment decisions of Westbrook Real Estate Partners, L.L.C.

(2) On October 13, 2005, BIP REIT PTE Ltd., or BIP, sold its shares of our common stock that it purchased pursuant to the Stock Purchase Agreement between us and BIP dated April 27, 2005, as modified by the addendum dated June 30, 2005, to an affiliated entity, SGP/SHO Hotel Trust. SGP/SHO Hotel Trust is a statutory trust formed under the laws of Delaware whose beneficiary is SGP/SHO Intermediate Trust, which is a statutory trust formed under the laws of Delaware whose beneficiary is Government of Singapore Investment Corporation (Realty) Pte Ltd. ( GIC R ). GIC R is a corporation organized under the laws of Singapore and is a 100% owned subsidiary of the Minister for Finance Inc. The Minister for Finance Inc. is a Singapore corporation and is 100% owned by the Government of Singapore. We have been advised by SGP/SHO Hotel Trust that all investment and voting decisions relating to the trust s ownership of our shares will be made by GIC Real Estate Pte Ltd., the private real estate investment arm of Government of Singapore Investment Corporation Pte Ltd. through its multiple member investment committee. GIC Real Estate Pte Ltd and Government of Singapore Investment Corporation Pte Ltd. are 100% owned subsidiaries of Minister for Finance Inc.

(3) Security Capital has indicated to us that the portfolio management committee of Security Capital Research & Management Incorporated ( SCR&M ) (Security Capital s investment advisor pursuant to an investment advisory agreement) currently exercises voting and dispositive power with respect to the 300,000 shares of common stock and the 4,102,564 shares of series C preferred owned by Security Capital, and if it is converted, 4,102,564 additional shares of common stock. Security Capital has also entered into an agreement to purchase 599,355 shares of our common stock and when these shares are acquired, the portfolio management committee of SCR&M will exercise voting and dispositive power with respect to them; these 599,355 shares are not being registered for sale pursuant to this registration statement. The portfolio management committee of SCR&M consists of Anthony R. Manno Jr., President and Managing Director, Kenneth D. Statz, Managing Director, David E. Rosenbaum, Managing Director and Kevin W. Bedell, Managing Director. SCR&M does not own an equity interest in Security Capital. SCR&M is a wholly owned subsidiary of JPMorgan Chase & Co. JPMorgan Chase & Co. is affiliated with registered broker-dealers. Security Capital acquired, or is acquiring, the common stock and the series C preferred in the ordinary course of its business. At the time it acquired the common stock and the series C preferred, and at the time it agreed to acquire the additional shares of common stock, Security Capital had no agreement or understandings, directly or indirectly, with any person to distribute the securities.

**SHARES OF SERIES C PREFERRED REGISTERED FOR SALE**

| Name of Selling Stockholder Offering | Number of Shares Beneficially Owned Prior to Offering | Number of Shares Offered Hereby | Number of Shares Beneficially Owned After Offering |
|---|---|---|---|
| **Security Capital Preferred Growth Incorporated** | **4,102,564** | **4,102,564** | **0** |

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## DESCRIPTION OF STOCK

Rights of our stockholders are governed by the Maryland General Corporation Law, or MGCL, our charter and our bylaws. The following is a summary of the provisions of our stock and describes certain provisions of our charter and bylaws, copies of which are filed as exhibits to the registration statement of which this prospectus is a part.

### General

Our charter provides that we are authorized to issue 500,000,000 shares of common stock, $0.01 par value per share, and 100,000,000 shares of preferred stock, $0.01 par value per share. Our board, without any action by our stockholders, may amend our charter to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

### Common Stock

As of September 30, 2005, there were 47,870,875 shares of our common stock issued and outstanding. Our common stock is listed on the NYSE under the symbol SHO.

***Distributions.*** Subject to provisions of law and the preferential rights of any other class or series of stock and the restrictions on transfer of stock as provided in our charter, the holders of our common stock are entitled to receive distributions when, as and if authorized by our board of directors and declared by us out of assets legally available therefor. We will pay those distributions either in cash or otherwise at the rate and on the date or dates designated by our board of directors.

***Liquidation preference.*** Upon the occurrence of any liquidation, dissolution or winding up of our affairs, whether voluntary or involuntary, and subject to the liquidation preferences of any outstanding class or series of stock, the holders of our common stock are entitled to receive their proportionate share of all assets available for distribution.

***Voting rights.*** Subject to the restrictions on transfer of stock in our charter and the separate voting rights of any other class or series of stock, holders of our common stock are entitled to one vote for each share of our common stock held on every matter submitted to a vote of stockholders. Except as otherwise required by the terms of any outstanding class or series of stock, the holders of our common stock have sole voting power. Holders of our common stock do not have cumulative voting rights in the election of directors, which means that the holders of a majority of the shares of our outstanding common stock, voting as a single class, may elect all of the directors and the holders of the remaining shares of our common stock are not able to elect any directors.

***Preemptive Rights of Security Capital.*** We agreed in the stock purchase agreement with Security Capital Preferred Growth Incorporated that if we offer to sell common stock or any security convertible into, or exchangeable for, common stock within 180 days of the execution of its stock purchase agreement, Security Capital has the right to purchase, upon the same terms and conditions as the other purchasers (minus the amount of any underwriting discounts, commissions or similar fees), the same securities in an amount up to 10% of the aggregate amount being offered.

For further information on the transactions in which this right was granted to Security Capital, see The Company Recent Developments.

***Other rights*.** Holders of shares of our common stock have no conversion, sinking fund, redemption, exchange or appraisal rights and except as described above have no preemptive rights to subscribe for any of our securities.

**Preferred Stock**

Our charter authorizes our board of directors to classify any unissued shares of preferred stock and to reclassify any previously classified but unissued shares of any series. Prior to issuance of shares of each series, our board of directors is required by the MGCL and our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each such series. Thus, our board of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest.

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**8.0% Series A Cumulative Redeemable Preferred Stock**

As of September 30, 2005, there were 4,850,000 shares of our series A preferred issued and outstanding.

***Rank.*** The series A preferred ranks, with respect to dividend rights and rights upon voluntary or involuntary liquidation, dissolution or winding-up of our affairs, senior to all classes or series of our common stock and on parity with our series B preferred and series C preferred.

***Dividends.*** Subject to the preferential rights of any security senior to the series A preferred as to dividends, the holders of series A preferred are entitled to receive, when, as, and if authorized by our board of directors and declared by us out of funds legally available for the payment of dividends, cumulative cash dividends at the rate of 8.0% per annum of the $25.00 liquidation preference per share of the series A preferred (equivalent to an annual rate of $2.00 per share of the series A preferred). Accrued but unpaid dividends on the series A preferred will accumulate as of the dividend payment date on which they first became payable. Dividends on the series A preferred will accrue whether or not:

- we have earnings;
- there are funds legally available for the payment of those dividends; or
- those dividends are authorized or declared.

Except as described in the next paragraph, unless full cumulative dividends on the series A preferred for all past dividend periods and the then current dividend period shall have been or contemporaneously are declared and paid in cash or declared and a sum sufficient for the payment thereof in cash is set apart for payment, we will not:

- declare or pay or set aside for payment of dividends, and we will not declare or make any distribution of cash or other property, directly or indirectly, on or with respect to any shares of our common stock or series C preferred, or any other class or series of stock ranking as to dividends on parity with or junior to the series A preferred for any period; or
- redeem, purchase or otherwise acquire for any consideration, or make any other distribution of cash or other property, directly or indirectly, on or with respect to, or pay or make available any monies for a sinking fund for the redemption of, any common stock or series C preferred, or any other class or series of stock ranking, with respect to dividends and upon liquidation, on parity with or junior to our series A preferred.

The foregoing sentence, however, will not prohibit:

- dividends payable solely in capital stock ranking junior to the series A preferred;
- the conversion into or exchange for other shares of any class or series of capital stock ranking junior to the series A preferred; and

our purchase of shares of series A preferred, preferred stock ranking on parity with the series A preferred as to payment of dividends or capital stock or equity securities ranking junior to the series A preferred pursuant to our charter to the extent necessary to preserve our status as a REIT.

***Liquidation Preference.*** Upon any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, and before any distribution or payment shall be made to holders of our common stock, the holders of shares of series A preferred are entitled to be paid out of our assets legally available for distribution to our stockholders, after payment or provision for our debts and other liabilities, a liquidation preference of $25.00 per share of series A preferred, plus an amount equal to any accrued and unpaid dividends (whether or not earned or declared) to and including the date of payment. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of series A preferred will have no right or claim to any of our remaining