



Sunstone

Hotel Investors, Inc.

**Bear Stearns Retail Restaurants
& Consumers Conference
February 2007**



Forward-Looking Statements & Non-GAAP Measures



With the exception of historical information, statements in this presentation are forward-looking statements within the meaning of federal securities laws and regulations. Forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially from those anticipated at the time the forward-looking statements are made. The risks and uncertainties relating to the forward looking statements in this presentation include those described under the caption “Risk Factors” in Sunstone Hotel Investors’ Annual Report on Form 10-K filed on February 8, 2007 and from time to time in its other filings with the Securities and Exchange Commission. Although the Company believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that the expectations will be attained or that any deviation will not be material. The Company undertakes no obligation to update any forward-looking statement to conform the statement to actual results or changes in the Company’s expectations.

Included in this presentation are certain non-GAAP financial measures, such as Adjusted EBITDA and Adjusted FFO. Descriptions of and reconciliations at a Company-level to the closest applicable GAAP measures are included in the Company’s prior earnings press releases. These press releases can be found in the “Investor Relations” section of the Company’s website under “News Releases.”





Sunstone Hotel Investors, Inc. (NYSE:SHO) is a Southern California-based lodging real estate investment trust (REIT)

- **IPO - October 2004**
- **\$3.6 Billion TEV**
- **51 Hotels - 16,717 rooms**
- **High quality portfolio positioned for growth**
- **Strong management team**
- **Conservative balance sheet**

(1) Includes interest in joint ventures



Portfolio of Nationally Recognized Brands



Marriott



Hilton



Hyatt



Starwood



Other



Favorable Hotel Management Relationships



EBITDA Contribution from Top 20 Metropolitan Statistical Areas (MSAs)

| | Top 20 MSAs (2) | % of 2006E (1) EBITDA |
|----|--|--------------------------|
| 1 | New York Metro, NY/NJ | 13.0% |
| 2 | Los Angeles / Long Beach / Orange County, CA | 20.5% |
| 3 | Chicago, IL | 3.9% |
| 4 | Philadelphia, PA | 1.6% |
| 5 | Dallas, TX | 0.0% |
| 6 | Miami, FL | 0.0% |
| 7 | Houston, TX | 4.4% |
| 8 | Washington, D.C. / Baltimore | 14.9% |
| 9 | Atlanta, GA | 2.4% |
| 10 | Detroit, MI | 2.5% |
| 11 | Boston, MA | 0.0% |
| 12 | San Francisco, CA | 0.0% |
| 13 | Riverside, CA | 3.6% |
| 14 | Phoenix, AZ | 0.0% |
| 15 | Seattle, WA | 0.0% |
| 16 | Minneapolis, MN | 1.2% |
| 17 | San Diego, CA | 13.1% |
| 18 | St. Louis, MO | 0.0% |
| 19 | Tampa, FL | 0.0% |
| 20 | Pittsburgh, PA | 0.0% |
| | % of TOTAL 2006 EBITDA | 81.1% |

(1) Full Year 2006 Estimated EBITDA including prior ownership for acquisition hotels and pro rata share of JV investments.

(2) US Census Bureau July 1, 2005



Experienced Management Team



Sunstone Hotel Investors, Inc. (REIT)

| Name | Title | Years with Sunstone | Experience | Years in Industry / Function |
|-----------------|-------------------------|---------------------|--------------------------------|------------------------------|
| Robert Alter | Chief Executive Officer | 20 | Sunstone | 31 |
| Steve Goldman | CEO - elect | 0 | Global Hyatt/Starwood Capital | 23 |
| Jon Kline | President | 4 | Merrill Lynch | 13 |
| Gary Stougaard | EVP – CIO | 9 | Hardage Suite Hotels | 19 |
| Ken Cruse | SVP – CFO | 2 | Host Marriott / Marriott Int. | 14 |
| Thomas Naughton | SVP – Acquisitions | 4 | ING / Goldman Sachs | 11 |
| William Wagner | SVP – Accounting | 3 | Ernst & Young / Irvine Company | 16 |
| Marc Hoffman | SVP – Asset Management | 1 | Marriott International | 26 |
| Olivier Kolpin | VP – Tax | 3 | PricewaterhouseCoopers | 14 |
| Lindsay Monge | VP – Treasurer | 7 | Hilton / Sunstone | 12 |
| Randy Hulce | VP – Asset Management | 1 | Sunstone Hotel Properties | 30 |
| Bryan Giglia | VP – Corporate Finance | 3 | Hilton Hotels | 9 |
| Hunter Oliver | VP – Acquisitions | 4 | Atlas Hotels | 4 |

Sunstone Hotel Properties, a division of Interstate Hotels

| Name | Title | Years with Sunstone | Experience | Years in Industry / Function |
|------------------|-------------------------|---------------------|-------------------------------|------------------------------|
| Evan Studer | EVP – Operations | 8 | Vista Host / WHI | 33 |
| John Elston | EVP – Sales & Marketing | 4 | Hilton / Red Lion | 23 |
| Phil Degnan | RVP – Operations | 5 | Westmark / White / WHI | 32 |
| Lee Grossbard | RVP – Operations | 3 | Wyndham Hotels | 43 |
| Steve Henderson | RVP – Operations | 2 | CSM/Hilton/Adams Mark | 29 |
| John Beltz | RVP – Sales | 2 | Wyndham Hotels | 19 |
| Jay Best | RVP – Sales | 2 | Wyndham/Red Lion/Marriott | 23 |
| Dan Engle | RVP – Sales | 2 | Lodgian/Interstate Hotels | 26 |
| David Kreizinger | VP – Hotel Accounting | 2 | Edwards Theater/Ernst & Young | 15 |



- **Bob Alter to Become Chairman of the Board during 2007**
- **Steve Goldman Appointed CEO effective March 19, 2007**
 - **Strong Industry Experience**
 - **Key Industry Relationships**
 - **Proven Track Record**
- **Completion of Senior Management Restructuring**
 - **Jon Kline – President**
 - **Ken Cruse – CFO**
 - **Marc Hoffman – SVP Asset Management**





- Our mission statement describes Sunstone's business philosophy and is the foundation of our business plan:

Sunstone Hotel Investors is a leading owner of high-quality hotels committed to maximizing shareholder value through disciplined acquisitions, aggressive asset management, targeted capital investments and a balanced capital structure.



Sunstone is focused on maximizing shareholder value through a comprehensive approach to portfolio management. Our strategy is predicated on:

acquiring upper upscale and luxury hotels with nationally recognized brands in markets with high barriers to entry;

enhancing the value of our hotels through major capital projects and repositionings;

optimizing the performance of our portfolio through aggressive asset management;

recycling capital through opportunistic dispositions of non-core assets;

minimizing our cost of capital through disciplined balance sheet management.



Acquiring Upper Upscale and Luxury Hotels



Doubletree Times Square (JV)
Acquired December 2006
460 Rooms



Acquiring Upper Upscale and Luxury Hotels



Renaissance LAX
Acquired January 2007
499 Rooms



Acquiring Upper Upscale and Luxury Hotels



Hilton Times Square
Acquired March 2006
444 Rooms



Acquiring Upper Upscale and Luxury Hotels



Century Plaza Hyatt Regency
Acquired October 2005
728 Rooms



Acquiring Upper Upscale and Luxury Hotels



Renaissance Washington D.C.
Acquired July 2005
807 Rooms



Acquiring Upper Upscale and Luxury Hotels



Renaissance Baltimore
Acquired June 2005
622 Rooms



Acquiring Upper Upscale and Luxury Hotels



Renaissance Orlando Resort
Acquired June 2005
780 Rooms



Acquiring Upper Upscale and Luxury Hotels



Fairmont Newport Beach
Acquired July 2005
444 Rooms



Acquiring Upper Upscale and Luxury Hotels



W San Diego
Acquired June 2006
259 Rooms



Acquiring Upper Upscale and Luxury Hotels



\$1.6 Billion of acquisitions since IPO

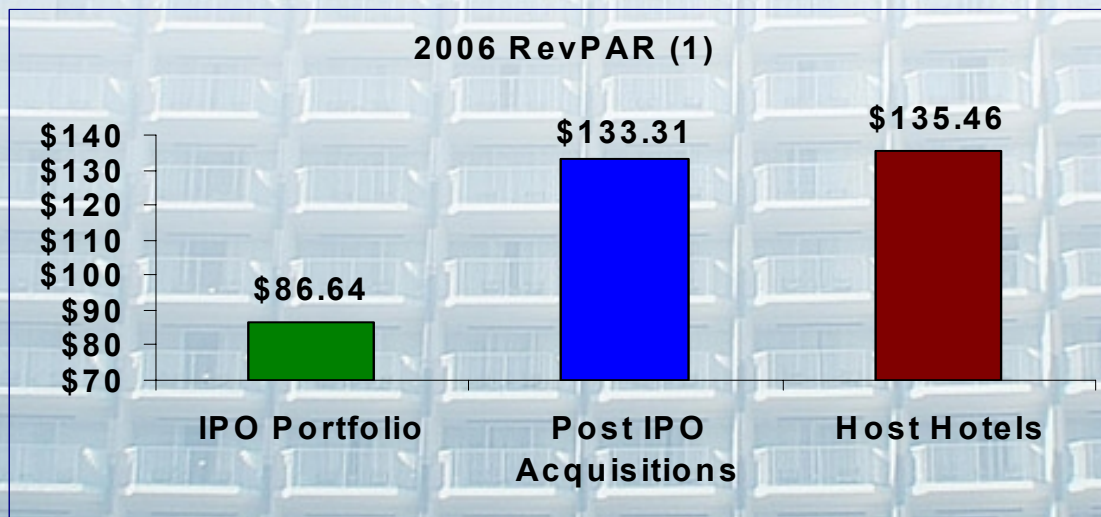
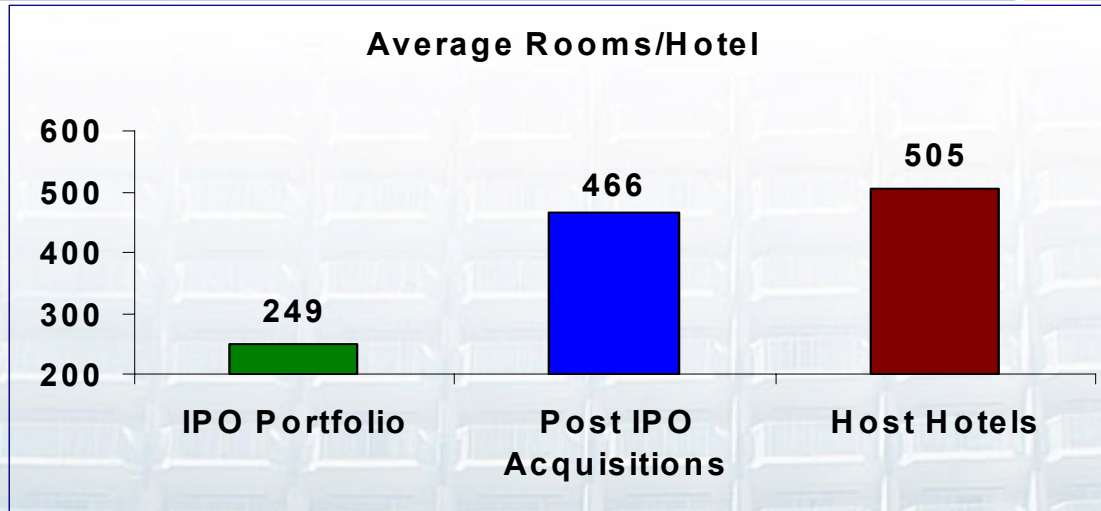
| Closed Date | Asset | Location | # of Rooms | Purchase Price (mm) | Price / Key |
|--|--|-------------------|--------------|---------------------|---------------|
| June '05 | Renaissance 5 Hotel Portfolio (excluding DC) | Atlanta, GA | 387 | \$35.6 | \$92K |
| | | Baltimore, MD | 622 | \$148.7 | \$239K |
| | | Long Beach, CA | 373 | \$45.1 | \$121K |
| | | Orlando, FL | 780 | \$127.9 | \$164K |
| | | Westchester, NY | 357 | \$42.1 | \$118K |
| | | | 2,519 | \$399.5 | \$159K |
| July '05 | Sheraton Cerritos | Cerritos, CA | 203 | \$24.8 | \$122K |
| July '05 | Renaissance D.C. (1) | Washington, DC | 807 | \$160.0 | \$198K |
| July '05 | Fairmont Newport Beach | Newport Beach, CA | 444 | \$72.0 | \$162K |
| October '05 | Hyatt Century Plaza | Century City, CA | 728 | \$293.0 | \$402K |
| January '06 | San Diego Marriott Del Mar | San Diego, CA | 284 | \$69.0 | \$243K |
| March '06 | Hilton New York Times Square | New York, NY | 444 | \$242.5 | \$546K |
| May '06 | Embassy Suites La Jolla | La Jolla, CA | 335 | \$100.0 | \$299K |
| June '06 | W San Diego | San Diego, CA | 259 | \$96.0 | \$371K |
| January '07 | Renaissance Los Angeles Airport | Los Angeles, CA | 499 | \$65.0 | \$130K |
| Acquisitions Total / Average | | | 6,522 | \$1,521.8 | \$233K |
| JV Partnership Investment | | | | | |
| December '06 | Doubletree Times Square (2) | New York, NY | 460 | \$40.0 | |
| Acquisitions and Investment Total / Average | | | 6,982 | \$1,561.8 | |

(1) Represents 100% ownership.

(2) Represents 38% ownership; JV Partnership with Whitehall and Highgate



Acquiring Upper Upscale and Luxury Hotels



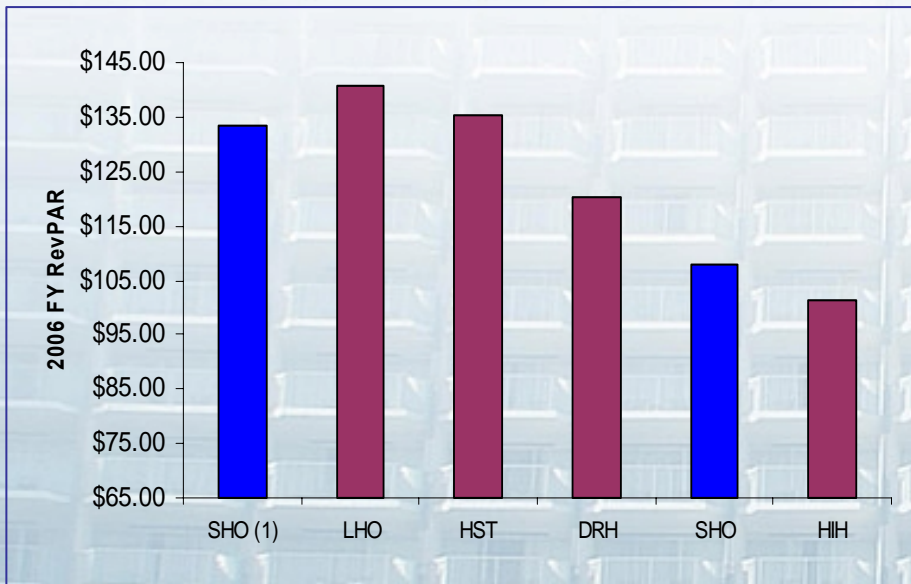
(1) Reflects FY 2006 RevPAR (including prior ownership). Includes Pro Rata share of JV assets.



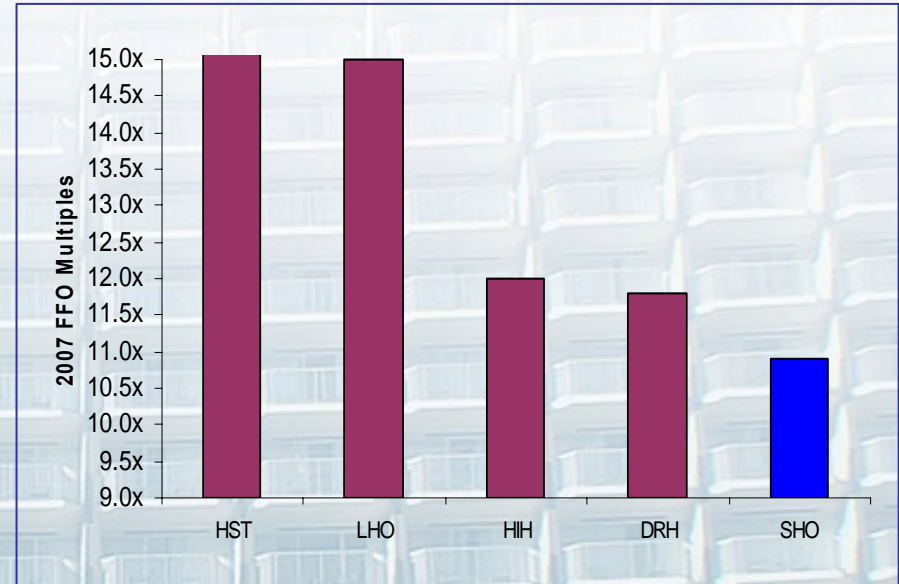
Acquiring Upper Upscale and Luxury Hotels



2006 RevPAR



2007 FFO Multiples



(1) SHO Acquisition hotels since IPO.

Note: Reflect 02-16-07 closing stock price. Excludes companies that have not yet reported (AHT, BEE).



Enhancing Our Portfolio - Capital Expenditures



Class of 2004 Major Renovations

| Hotel | 2003 NOI | 2004 Capex | 2006 NOI | ▲ in NOI | Return on Capex ▲ in NOI / Capex |
|---|---------------------|---------------------|---------------------|---------------------|-------------------------------------|
| San Diego Courtyard | \$1,696,895 | \$2,300,000 | \$4,197,188 | \$2,500,293 | 108.7% |
| Chicago Embassy Suites | \$4,100,345 | \$7,300,000 | \$9,348,562 | \$5,248,216 | 71.9% |
| Tysons Corner Marriott | \$3,684,429 | \$6,200,000 | \$6,024,697 | \$2,340,268 | 37.7% |
| Manhattan Beach Residence Inn | \$1,366,944 | \$2,700,000 | \$2,996,941 | \$1,629,997 | 60.4% |
| Philadelphia Marriott | \$2,441,132 | \$2,700,000 | \$3,530,678 | \$1,089,545 | 40.4% |
| Hyatt Regency Newport Beach | \$2,389,306 | \$9,600,000 | \$5,592,643 | \$3,203,337 | 33.4% |
| Ontario Marriott | \$2,072,569 | \$3,800,000 | \$3,204,940 | \$1,132,371 | 29.8% |
| Troy Marriott | \$4,125,113 | \$4,700,000 | \$5,711,164 | \$1,586,051 | 33.7% |
| Grand Rapids Crowne Plaza | \$1,376,862 | \$1,600,000 | \$1,753,340 | \$376,479 | 23.5% |
| Oxnard Courtyard | \$1,168,174 | \$3,500,000 | \$1,268,280 | \$100,107 | 2.9% |
| Total / Weighted Average Return on Capex | \$24,421,770 | \$44,400,000 | \$43,628,434 | \$19,206,664 | 43.3% |

| | |
|--------------------------------------|---------------------|
| Market RevPAR Increase (2003 - 2006) | 23.4% |
| SHO RevPAR Increase (2003 - 2006) | 31.5% |
| % of RevPAR Increase from Renovation | 34.9% |
| Incremental NOI | 6,702,164 |
| Assumed Cap Rate | 7.0% |
| Implied Value | 95,745,205 |
| 2004 Total CapEx | \$44,400,000 |
| Value Creation | \$51,345,205 |



Optimizing Performance - Asset Management



Hyatt Regency Century Plaza Case Study

| <u>Asset Management Initiative</u> | <u>Capital Investment</u> | <u>Projected Annual NOI</u> |
|------------------------------------|---------------------------|-----------------------------|
| Added Equinox Spa | \$4 million | \$1.6 million |
| Replaced workers Comp program | \$0 | \$700k |
| Optimizing F&B Ops | \$0 | \$500k |
| Renegotiated energy contract | \$0 | \$500k |
| Renegotiated parking agreement | \$0 | \$200k |
| Added Starbucks | \$300k | \$100k |
| Outsourced Laundry | \$0 | \$100k |
| Total | \$4.3 million | \$3.7 million |

Return on Investment Analysis - Cenutry Plaza Hyatt Renovations

| | |
|--------------------------|-------------------|
| Incremental NOI | \$3,700,000 |
| Assumed Cap Rate | 7.0% |
| Implied Value | \$52,857,143 |
| Total Capital Investment | \$4,300,000 |
| Value Creation | 48,557,143 |



Recycling Capital - Recent Dispositions



\$226 million of dispositions since IPO

| Sold Date | Asset | Location | # of Rooms | Sale Price (mm) | Price / Key |
|------------------------|-------------------------------|------------------|--------------|-----------------|---------------|
| Q4 2004 | Holiday Inn Flagstaff | Flagstaff, AZ | 156 | \$21 | \$47 K |
| | San Marcos Resort | Chandler, AZ | 295 | | |
| | | | 451 | | |
| Q1 2005 | Holiday Inn Mesa | Mesa, AZ | 246 | \$26 | \$56 K |
| | Doubletree Carson | Carson, CA | 224 | | |
| | | | 470 | | |
| Q4 2005 | Holiday Inn Provo | Provo, UT | 78 | \$4 | \$47 K |
| Q1 2006 | Holiday Inn Hollywood | Hollywood, CA | 160 | \$26 | \$162 K |
| Q3 2006 | Holiday Inn San Diego Stadium | San Diego, CA | 175 | \$144 | \$56 K |
| | Crowne Plaza Williamsburg | Williamsburg, VA | 303 | | |
| | Holiday Inn Boise | Boise, ID | 265 | | |
| | Courtyard Lynnwood | Lynnwood, WA | 164 | | |
| | Courtyard Santa Fe | Santa Fe, NM | 213 | | |
| | Crowne Plaza Englewood | Englewood, NJ | 194 | | |
| | Courtyard Fresno | Fresno, CA | 116 | | |
| | Holiday Inn Price | Price, UT | 151 | | |
| | Holiday Inn Select Renton | Renton, WA | 226 | | |
| | Hawthorn Suites Kent | Kent, WA | 152 | | |
| | Marriott Ogden | Ogden, UT | 292 | | |
| | Marriott Pueblo | Pueblo, CO | 164 | | |
| Holiday Inn Craig | Craig, CO | 152 | | | |
| | | | 2,567 | | |
| Q4 2006 | Holiday Inn Rochester | Rochester, MN | 170 | \$5 | \$31 K |
| Total / Average | | | 3,896 | \$226 | \$58 K |

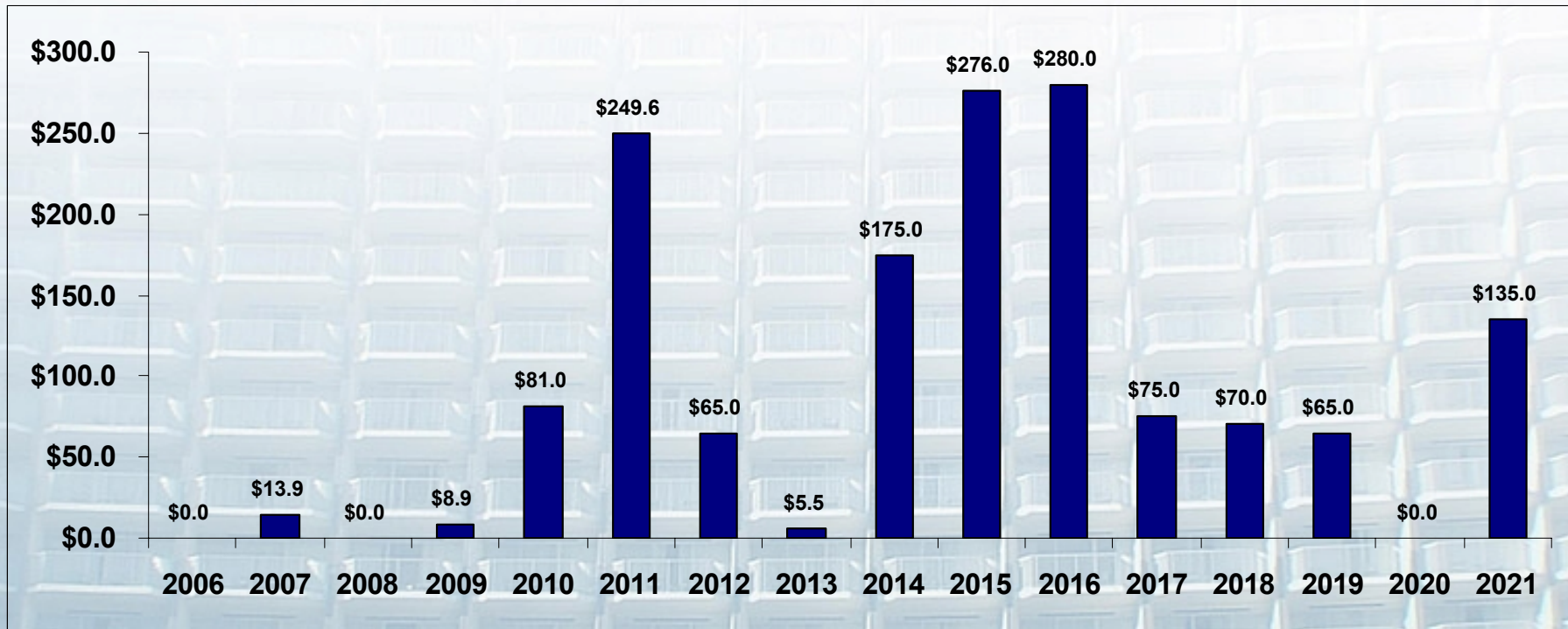


Minimizing WACC - Balance Sheet Management



Weighted Average Interest Rate: 5.82%

(Dollars in millions)



100% Fixed Rate Debt; Average Maturity of
Approximately 8.5 years



Maximizing Shareholder Value



(in '000 except for RevPAR and FFO/share)

| | 2004 | 2005 | 2006 |
|---------------|---------|---------|----------|
| RevPAR | \$69.38 | \$84.22 | \$105.11 |
| <i>growth</i> | | 21.4% | 24.8% |
| Total Revenue | \$489.6 | \$651.1 | \$903.1 |
| <i>growth</i> | | 33.0% | 38.7% |
| EBITDA | \$107.7 | \$167.4 | \$252.1 |
| <i>growth</i> | | 55.4% | 50.6% |
| FFO/share | \$1.95 | \$2.12 | \$2.41 |
| <i>growth</i> | | 8.7% | 13.7% |



Maximizing Shareholder Value



| 2007 FY Guidance | Sunstone |
|---|-----------------------------------|
| Comparable RevPAR Growth | 7.5% - 9.5% |
| Adjusted EBITDA | \$288.0 million - \$298.0 million |
| Adjusted FFO available to common stockholders | \$168.8 million - \$178.8 million |
| Adjusted FFO available to common stockholders per diluted share | \$2.65 - \$2.80 |
| FFO per diluted share growth | 10.0% - 16.2% |
| Capital Expenditures | \$120 million to \$130 million |

