UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from to

Commission file number 001-32319

Sunstone Hotel Investors, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	**20-1296886** (I.R.S. Employer Identification Number)
15 Enterprise, Suite 200 **Aliso Viejo, California** (Address of Principal Executive Offices)	**92656** (Zip Code)

Registrant's telephone number, including area code: **(949) 330-4000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	SHO	New York Stock Exchange
Series H Cumulative Redeemable Preferred Stock, $0.01 par value	SHO.PRH	New York Stock Exchange
Series I Cumulative Redeemable Preferred Stock, $0.01 par value	SHO.PRI	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of November 6, 2024, there were200,901,248 shares of Sunstone Hotel Investors, Inc.'s common stock, $0.01 par value per share, outstanding.

SUNSTONE HOTEL INVESTORS, INC.
QUARTERLY REPORT ON
FORM 10-Q

For the Quarterly Period Ended September 30, 2024

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

SUNSTONE HOTEL INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	September 30, 2024 (unaudited)	December 31, 2023
ASSETS		
Investment in hotel properties, net	$ 2,849,875	$ 2,585,279
Operating lease right-of-use assets, net	9,330	12,755
Cash and cash equivalents	115,542	426,403
Restricted cash	77,018	67,295
Accounts receivable, net	34,110	31,206
Prepaid expenses and other assets, net	30,666	26,383
Total assets	$ 3,116,541	$ 3,149,321
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Debt, net of unamortized deferred financing costs	$ 814,112	$ 814,559
Operating lease obligations	13,039	16,735
Accounts payable and accrued expenses	63,644	48,410
Dividends and distributions payable	22,619	29,965
Other liabilities	78,332	73,014
Total liabilities	991,746	982,683
Commitments and contingencies *(Note 11)*		
Stockholders' equity:		
Preferred stock, $0.01 par value, 100,000,000 shares authorized:		
Series G Cumulative Redeemable Preferred Stock, 2,650,000 shares issued and outstanding at both September 30, 2024 and December 31, 2023, stated at liquidation preference of $25.00 per share	66,250	66,250
6.125% Series H Cumulative Redeemable Preferred Stock, 4,600,000 shares issued and outstanding at both September 30, 2024 and December 31, 2023, stated at liquidation preference of $25.00 per share	115,000	115,000
5.70% Series I Cumulative Redeemable Preferred Stock, 4,000,000 shares issued and outstanding at both September 30, 2024 and December 31, 2023, stated at liquidation preference of $25.00 per share	100,000	100,000
Common stock, $0.01 par value, 500,000,000 shares authorized, 200,919,457 shares issued and outstanding at September 30, 2024 and 203,479,585 shares issued and outstanding at December 31, 2023	2,009	2,035
Additional paid in capital	2,394,525	2,416,417
Distributions in excess of retained earnings	(552,989)	(533,064)
Total stockholders' equity	2,124,795	2,166,638
Total liabilities and stockholders' equity	$ 3,116,541	$ 3,149,321

See accompanying notes to unaudited consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
REVENUES				
Room	$ 138,759	$ 158,467	$ 425,870	$ 484,304
Food and beverage	63,866	64,007	196,572	213,634
Other operating	23,767	25,226	68,597	69,317
Total revenues	226,392	247,700	691,039	767,255
OPERATING EXPENSES				
Room	37,453	41,034	110,349	122,756
Food and beverage	46,286	47,777	138,343	148,309
Other operating	5,815	6,129	18,153	18,031
Advertising and promotion	13,220	12,767	38,326	39,686
Repairs and maintenance	9,094	10,060	26,783	29,112
Utilities	7,670	7,784	19,909	21,644
Franchise costs	4,711	4,278	13,735	12,756
Property tax, ground lease and insurance	19,777	21,709	58,686	60,320
Other property-level expenses	26,702	29,020	82,445	92,654
Corporate overhead	7,577	7,127	23,263	23,991
Depreciation and amortization	31,689	33,188	91,841	97,927
Total operating expenses	209,994	220,873	621,833	667,186
Interest and other income	2,350	1,218	11,306	6,398
Interest expense	(15,982)	(11,894)	(39,685)	(34,911)
Gain on sale of assets, net	—	—	457	—
Gain on extinguishment of debt	—	9	59	9,930
Income before income taxes	2,766	16,160	41,343	81,486
Income tax benefit (provision), net	483	(602)	1,083	(1,763)
NET INCOME	3,249	15,558	42,426	79,723
Preferred stock dividends	(3,931)	(3,226)	(11,297)	(10,762)
(LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (682)	$ 12,332	$ 31,129	$ 68,961
Basic and diluted per share amounts:				
Basic (loss) income attributable to common stockholders per common share	$ 0.00	$ 0.06	$ 0.15	$ 0.33
Diluted (loss) income attributable to common stockholders per common share	$ 0.00	$ 0.06	$ 0.15	$ 0.33
Basic weighted average common shares outstanding	201,402	205,570	202,261	206,257
Diluted weighted average common shares outstanding	201,402	205,782	202,857	206,553

See accompanying notes to unaudited consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except share and per share data)

	Preferred Stock		Common Stock			Distributions	
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid in Capital	in Excess of Retained Earnings	Total
Balance at December 31, 2023 (audited)	11,250,000	$ 281,250	203,479,585	$ 2,035	$ 2,416,417	$ (533,064)	$ 2,166,638
Amortization of deferred stock compensation	—	—	—	—	2,887	—	2,887
Issuance of restricted common stock, net	—	—	194,813	2	(3,219)	—	(3,217)
Common stock distributions declared at $0.07 per share	—	—	—	—	—	(14,364)	(14,364)
Series G preferred stock dividends declared at $0.187500 per share	—	—	—	—	—	(497)	(497)
Series H preferred stock dividends declared at $0.382813 per share	—	—	—	—	—	(1,761)	(1,761)
Series I preferred stock dividends declared at $0.356250 per share	—	—	—	—	—	(1,425)	(1,425)
Net income	—	—	—	—	—	13,035	13,035
Balance at March 31, 2024	11,250,000	281,250	203,674,398	2,037	2,416,085	(538,076)	2,161,296
Amortization of deferred stock compensation	—	—	—	—	3,298	—	3,298
Issuance of restricted common stock	—	—	75,002	—	—	—	—
Common stock distributions declared at $0.09 per share	—	—	—	—	—	(18,504)	(18,504)
Series G preferred stock dividends declared at $0.187500 per share	—	—	—	—	—	(497)	(497)
Series H preferred stock dividends declared at $0.382813 per share	—	—	—	—	—	(1,761)	(1,761)
Series I preferred stock dividends declared at $0.356250 per share	—	—	—	—	—	(1,425)	(1,425)
Repurchases of outstanding common stock	—	—	(359,008)	(3)	(3,619)	—	(3,622)
Net income	—	—	—	—	—	26,142	26,142
Balance at June 30, 2024	11,250,000	$ 281,250	203,390,392	$ 2,034	$ 2,415,764	$ (534,121)	$ 2,164,927
Amortization of deferred stock compensation	—	—	—	—	2,351	—	2,351
Repurchases of common stock for employee tax obligations	—	—	(91,439)	(1)	(942)	—	(943)
Forfeiture of restricted common stock	—	—	(68,131)	(1)	1	—	—
Common stock distributions declared at $0.09 per share	—	—	—	—	—	(18,186)	(18,186)
Series G preferred stock dividends declared at $0.281250 per share	—	—	—	—	—	(745)	(745)
Series H preferred stock dividends declared at $0.382813 per share	—	—	—	—	—	(1,761)	(1,761)
Series I preferred stock dividends declared at $0.356250 per share	—	—	—	—	—	(1,425)	(1,425)
Repurchases of outstanding common stock	—	—	(2,311,365)	(23)	(22,649)	—	(22,672)
Net income	—	—	—	—	—	3,249	3,249
Balance at September 30, 2024	11,250,000	$ 281,250	200,919,457	$ 2,009	$ 2,394,525	$ (552,989)	$ 2,124,795

See accompanying notes to unaudited consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF EQUITY
(In thousands, except share and per share data)

	Preferred Stock		Common Stock			Distributions in Excess of Retained Earnings	
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid in Capital		Total
Balance at December 31, 2022 (audited)	11,250,000	$ 281,250	209,320,447	$ 2,093	$ 2,465,595	$ (663,977)	$ 2,084,961
Amortization of deferred stock compensation	—	—	—	—	2,545	—	2,545
Issuance of restricted common stock, net	—	—	55,970	1	(3,349)	—	(3,348)
Forfeiture of restricted common stock	—	—	(1,435)	—	—	—	—
Common stock distributions declared at $0.05 per share	—	—	—	—	—	(10,449)	(10,449)
Series G preferred stock dividends declared at $0.219536 per share	—	—	—	—	—	(582)	(582)
Series H preferred stock dividends declared at $0.382813 per share	—	—	—	—	—	(1,761)	(1,761)
Series I preferred stock dividends declared at $0.356250 per share	—	—	—	—	—	(1,425)	(1,425)
Repurchases of outstanding common stock	—	—	(1,964,923)	(20)	(18,606)	—	(18,626)
Net income	—	—	—	—	—	21,087	21,087
Balance at March 31, 2023	11,250,000	281,250	207,410,059	2,074	2,446,185	(657,107)	2,072,402
Amortization of deferred stock compensation	—	—	—	—	3,442	—	3,442
Issuance of restricted common stock	—	—	82,552	1	(429)	—	(428)
Forfeiture of restricted common stock	—	—	(6,459)	—	—	—	—
Common stock distributions declared at $0.05 per share	—	—	—	—	—	(10,448)	(10,448)
Series G preferred stock dividends declared at $0.219536 per share	—	—	—	—	—	(582)	(582)
Series H preferred stock dividends declared at $0.382813 per share	—	—	—	—	—	(1,761)	(1,761)
Series I preferred stock dividends declared at $0.356250 per share	—	—	—	—	—	(1,425)	(1,425)
Repurchases of outstanding common stock	—	—	(301,461)	(3)	(2,852)	—	(2,855)
Acquisition of noncontrolling interest, net	—	—	—	—	(299)	—	(299)
Net income	—	—	—	—	—	43,078	43,078
Balance at June 30, 2023	11,250,000	$ 281,250	207,184,691	$ 2,072	$ 2,446,047	$ (628,245)	$ 2,101,124
Amortization of deferred stock compensation	—	—	—	—	2,628	—	2,628
Common stock distributions declared at $0.07 per share	—	—	—	—	—	(14,357)	(14,357)
Series G preferred stock dividends declared at $0.015182 per share	—	—	—	—	—	(40)	(40)
Series H preferred stock dividends declared at $0.382813 per share	—	—	—	—	—	(1,761)	(1,761)
Series I preferred stock dividends declared at $0.356250 per share	—	—	—	—	—	(1,425)	(1,425)
Repurchases of outstanding common stock	—	—	(1,561,375)	(16)	(14,026)	—	(14,042)
Net income	—	—	—	—	—	15,558	15,558
Balance at September 30, 2023	11,250,000	$ 281,250	205,623,316	$ 2,056	$ 2,434,649	$ (630,270)	$ 2,087,685

See accompanying notes to unaudited consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 42,426	$ 79,723
Adjustments to reconcile net income to net cash provided by operating activities:		
Bad debt expense	319	184
Gain on sale of assets, net	(457)	—
Gain on extinguishment of debt	(59)	(9,930)
Noncash interest on derivatives, net	1,095	(3,348)
Depreciation	90,862	97,540
Amortization of franchise fees and other intangibles	979	332
Amortization of deferred financing costs	2,219	1,960
Amortization of deferred stock compensation	8,381	8,263
Gain on insurance recoveries	(314)	(3,722)
Changes in operating assets and liabilities:		
Accounts receivable, net	(17)	7,477
Prepaid expenses and other assets	(5,555)	(5,804)
Accounts payable and other liabilities	275	(3,851)
Operating lease right-of-use assets and obligations	(271)	(82)
Net cash provided by operating activities	139,883	168,742
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of hotel property	(229,330)	—
Disposition deposit	—	10,000
Proceeds from property insurance	314	3,722
Renovations and additions to hotel properties and other assets	(110,241)	(73,944)
Net cash used in investing activities	(339,257)	(60,222)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of noncontrolling interest, including transaction costs	—	(299)
Payment of common stock offering costs	—	(428)
Repurchases of outstanding common stock	(26,294)	(35,523)
Repurchases of common stock for employee tax obligations	(4,160)	(3,348)
Proceeds from note payable	—	225,000
Payments on notes payable	(1,613)	(221,554)
Payments of deferred financing costs	—	(2,332)
Dividends and distributions paid	(69,697)	(42,246)
Net cash used in financing activities	(101,764)	(80,730)
Net (decrease) increase in cash and cash equivalents and restricted cash	(301,138)	27,790
Cash and cash equivalents and restricted cash, beginning of period	493,698	157,206
Cash and cash equivalents and restricted cash, end of period	$ 192,560	$ 184,996

See accompanying notes to unaudited consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

Supplemental Disclosure of Cash Flow Information

	September 30,	
	2024	2023
Cash and cash equivalents	$ 115,542	$ 113,768
Restricted cash	77,018	71,228
Total cash and cash equivalents and restricted cash shown on the consolidated statements of cash flows	$ 192,560	$ 184,996

	Nine Months Ended September 30,	
	2024	2023
Cash paid for interest, net of capitalized interest	$ 39,734	$ 39,013
Cash paid for income taxes, net	$ 3,476	$ 1,272
Operating cash flows used for operating leases	$ 4,288	$ 4,150
Changes in operating lease right-of-use assets	$ 3,425	$ 3,304
Changes in operating lease obligations	(3,696)	(3,386)
Changes in operating lease right-of-use assets and lease obligations, net	$ (271)	$ (82)

Supplemental Disclosure of Noncash Investing and Financing Activities

	Nine Months Ended September 30,	
	2024	2023
Accrued renovations and additions to hotel properties and other assets	$ 25,247	$ 12,029
Operating lease right-of-use asset obtained in exchange for operating lease obligation	$ —	$ 2,163
Amortization of deferred stock compensation — construction activities	$ 155	$ 352
Dividends and distributions payable	$ 22,619	$ 17,765

See accompanying notes to unaudited consolidated financial statements.

SUNSTONE HOTEL INVESTORS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

Sunstone Hotel Investors, Inc. (the "Company") was incorporated in Maryland on June 28, 2004 in anticipation of an initial public offering of common stock, which was consummated on October 26, 2004. The Company elected to be taxed as a real estate investment trust ("REIT") for federal income tax purposes, commencing with its taxable year ended on December 31, 2004. The Company, through its 100% controlling interest in Sunstone Hotel Partnership, LLC (the "Operating Partnership"), of which the Company is the sole managing member, and the subsidiaries of the Operating Partnership, including Sunstone Hotel TRS Lessee, Inc. (the "TRS Lessee") and its subsidiaries, invests in hotels where it can add value through capital investment, hotel repositioning and asset management. In addition, the Company seeks to capitalize on its portfolio's embedded value and balance sheet strength to actively recycle past investments into new growth and value creation opportunities in order to deliver strong stockholder returns and superior per share net asset value growth.

As a REIT, certain tax laws limit the amount of "non-qualifying" income the Company can earn, including income derived directly from the operation of hotels. The Company leases all of its hotels to its TRS Lessee, which in turn enters into long-term management agreements with third parties to manage the operations of the Company's hotels, in transactions that are intended to generate qualifying income.

As of both September 30, 2024 and 2023, the Company owned 15 hotels.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements as of September 30, 2024 and December 31, 2023, and for the three and nine months ended September 30, 2024 and 2023, include the accounts of the Company, the Operating Partnership, the TRS Lessee and their controlled subsidiaries. All significant intercompany balances and transactions have been eliminated. If the Company determines that it has an interest in a variable interest entity, the Company will consolidate the entity when it is determined to be the primary beneficiary of the entity.

The accompanying interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and in conformity with the rules and regulations of the Securities and Exchange Commission. In the Company's opinion, the interim financial statements presented herein reflect all adjustments, consisting solely of normal and recurring adjustments, which are necessary to fairly present the interim financial statements. These financial statements should be read in conjunction with the financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission on February 23, 2024. Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

The Company does not have any comprehensive income other than what is included in net income. If the Company has any comprehensive income in the future such that a statement of comprehensive income would be necessary, the Company will include such statement in one continuous consolidated statement of operations.

The Company has evaluated subsequent events through the date of issuance of these financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

Earnings Per Share

The Company applies the two-class method when computing its earnings per share. Net income per share for each class of stock is calculated assuming all of the Company's net income is distributed as dividends to each class of stock based on their contractual rights.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid), which include the Company's time-based restricted stock awards, are considered participating securities and are included in the computation of earnings per share.

Basic earnings attributable to common stockholders per common share is computed based on the weighted average number of shares of common stock outstanding during each period, including shares of the Company's performance-based restricted stock units for which all necessary conditions have been satisfied except for the passage of time. Diluted earnings attributable to common stockholders per common share is computed based on the weighted average number of shares of common stock outstanding during each period, plus potential common shares considered outstanding during the period, as long as the inclusion of such awards is not anti-dilutive. Potential common shares consist of time-based unvested restricted stock awards and performance-based restricted stock units, using the more dilutive of either the two-class method or the treasury stock method. The Company's performance-based restricted stock units are considered for computing diluted net income per common share as of the beginning of the period in which all necessary conditions have been satisfied and the only remaining vesting condition is a service vesting condition.

The following table sets forth the computation of basic and diluted earnings per common share (unaudited and in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net income	$ 3,249	$ 15,558	$ 42,426	$ 79,723
Preferred stock dividends	(3,931)	(3,226)	(11,297)	(10,762)
Distributions paid to participating securities	(62)	(72)	(211)	(176)
Undistributed income allocated to participating securities	—	—	—	(178)
Numerator for basic and diluted (loss) income attributable to common stockholders	$ (744)	$ 12,260	$ 30,918	$ 68,607
Denominator:				
Weighted average basic common shares outstanding	201,402	205,570	202,261	206,257
Unvested restricted stock units	—	212	596	296
Weighted average diluted common shares outstanding	201,402	205,782	202,857	206,553
Basic (loss) income attributable to common stockholders per common share	$ 0.00	$ 0.06	$ 0.15	$ 0.33
Diluted (loss) income attributable to common stockholders per common share	$ 0.00	$ 0.06	$ 0.15	$ 0.33

In its calculation of diluted earnings per share, the Company excluded 688,288 anti-dilutive unvested time-based restricted stock awards for the three and nine months ended September 30, 2024, and 1,032,564 anti-dilutive unvested time-based restricted stock awards for the three and nine months ended September 30, 2023, respectively (see Note 10).

The Company also had 1,382,074 and 1,076,160 unvested performance-based restricted stock units as of September 30, 2024 and 2023, respectively, that are not considered participating securities as the awards contain forfeitable rights to dividends or dividend equivalents. The performance-based restricted stock units were granted based on either target market condition thresholds or pre-determined stock price targets (see Note 10). Based on the Company's third quarter 2024 loss attributable to common stockholders, the Company excluded all 1,382,074 anti-dilutive performance based restricted stock units from its calculation of diluted earnings per share for the three months ended September 30, 2024. Based on the Company's common stock performance, the Company excluded 188,004 anti-dilutive performance-based restricted stock units from its calculations of diluted earnings per share for the three months ended September 30, 2023 and for both the nine months ended September 30, 2024 and 2023.

Restricted Cash

Restricted cash primarily includes reserves for operating expenses and capital expenditures required by certain of the Company's management, franchise, and debt agreements. At times, restricted cash also includes hotel acquisition or disposition-related earnest money held in escrow reserves pending completion of the associated transaction. In addition, restricted cash as of December 31, 2023 included $0.2 million held in escrow related to certain current and potential employee-related obligations at one of the Company's former hotels. In the second quarter of 2024, the escrow agreement was terminated and the remaining $0.1 million of restricted cash held in escrow was returned to the Company (see Note 11). As of both September 30, 2024 and December 31, 2023, restricted cash included $0.2 million held as collateral for certain letters of credit (see Note 11).

Investments in Hotel Properties

Investments in hotel properties, including land, buildings, furniture, fixtures and equipment ("FF&E") and identifiable intangible assets are recorded at their respective relative fair values for an asset acquisition or at their estimated fair values for a business acquisition. Property and equipment purchased after the hotel acquisition date is recorded at cost. Replacements and improvements are capitalized, while repairs and maintenance are expensed as incurred. Interest imputed during construction or renovation projects is capitalized, using the Company's weighted average interest rate on its variable rate debt, including the effects of interest rate swap derivatives, until construction is substantially complete or the assets are placed in service. Upon the sale or retirement of a fixed asset, the cost and related accumulated depreciation is removed from the Company's accounts and any resulting gain or loss is included in the consolidated statements of operations.

Depreciation expense is based on the estimated life of the Company's assets. The life of the assets is based on a number of assumptions, including the cost and timing of capital expenditures to maintain and refurbish the Company's hotels, as well as specific market and economic conditions. Hotel properties are depreciated using the straight-line method over estimated useful lives primarily ranging from five years to forty years for buildings and improvements and three years to twelve years for FF&E. Intangible assets are amortized using the straight-line method over the shorter of their estimated useful life or over the length of the related agreement.

The Company's investment in hotel properties, net also includes initial franchise fees which are recorded at cost and amortized using the straight-line method over the terms of the franchise agreements ranging from fifteen years to twenty years. All other franchise fees that are based on the Company's results of operations are expensed as incurred.

While the Company believes its estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income or the gain or loss on the sale of any of the Company's hotels. The Company has not changed the useful lives of any of its assets during the periods discussed.

Impairment losses are recorded on investments in hotel properties to be held and used by the Company whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors the Company considers when assessing whether impairment indicators exist include, but are not limited to, hotel disposition strategy and hold period, a significant decline in operating results not related to renovations or repositionings, significant changes in the manner in which the Company uses the asset, physical damage to the property due to unforeseen events such as natural disasters, and other market and economic conditions.

Recoverability of assets that will continue to be used is measured by comparing the carrying amount of the asset to the related total future undiscounted net cash flows. If an asset's carrying value is not recoverable through those cash flows, the asset is considered to be impaired. The impairment is measured by the difference between the asset's carrying amount and its fair value. The Company performs a fair value assessment using valuation techniques such as discounted cash flows and comparable sale transactions in the market to estimate the fair value of the hotel and, if appropriate and available, current estimated net sales proceeds from pending offers. The Company's judgment is required in determining the discount rate, terminal capitalization rate, the estimated growth of revenues and expenses, revenue per available room and margins, as well as specific market and economic conditions. Based on the Company's review, no hotels were impaired during either the three or nine months ended September 30, 2024 and 2023.

Fair value represents the amount at which an asset could be bought or sold in a current transaction between willing parties, that is, other than a forced or liquidation sale. The estimation process involved in determining if assets have been impaired and in the determination of fair value is inherently uncertain because it requires estimates of current market yields as well as future events and conditions. Such future events and conditions include economic and market conditions, as well as the availability of suitable financing. The realization of the Company's investment in hotel properties is dependent upon future uncertain events and conditions and, accordingly, the actual timing and amounts realized by the Company may be materially different from their estimated fair values.

Leases

The Company determines if a contract is a lease at inception. Leases with an initial term of twelve months or less are not recorded on the balance sheet. Expense for these short-term leases is recognized on a straight-line basis over the lease term. For leases with an initial term greater than twelve months, the Company records a right-of-use ("ROU") asset and a corresponding lease obligation. ROU assets represent the Company's right to use an underlying asset for the lease term, and lease obligations represent the Company's obligation to make fixed lease payments as stipulated by the lease. The Company has elected to not separate lease components from nonlease components, resulting in the Company accounting for lease and nonlease components as one single lease component.

Leases are accounted for using a dual approach, classifying leases as either operating or financing based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the Company. This classification determines whether the lease expense is recognized on a straight-line basis over the term of the lease for operating leases or based on an effective interest method for finance leases.

Lease ROU assets are recognized at the lease commencement date and include the amount of the initial operating lease obligation, any lease payments made at or before the commencement date, excluding any lease incentives received, and any initial direct costs incurred. For leases that have extension options that the Company can exercise at its discretion, management uses judgment to determine if it is reasonably certain that the Company will in fact exercise such option. If the extension option is reasonably certain to occur, the Company includes the extended term's lease payments in the calculation of the respective lease liability. None of the Company's leases contain any material residual value guarantees or material restrictive covenants.

Lease obligations are recognized at the lease commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate ("IBR") based on information available at the commencement date in determining the present value of lease payments over the lease term. The IBR is the rate of interest that a lessee would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. In order to estimate the Company's IBR, the Company first looks to its own unsecured debt offerings, and adjusts the rate for both length of term and secured borrowing using available market data as well as consultations with leading national financial institutions that are active in the issuance of both secured and unsecured notes.

The Company reviews its right-of-use assets for indicators of impairment. If such assets are considered to be impaired, the related assets are adjusted to their estimated fair value and an impairment loss is recognized. The impairment loss recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Based on the Company's review, no ROU assets were impaired during either the three or nine months ended September 30, 2024 and 2023.

Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to hotel guests, which is generally defined as the date upon which a guest occupies a room and/or utilizes the hotel's services. Room revenue and other occupancy based fees are recognized over a guest's stay at the previously agreed upon daily rate. Some of the Company's hotel rooms are booked through independent internet travel intermediaries. If the guest pays the independent internet travel intermediary directly, revenue for the room is recognized by the Company at the price the Company sold the room to the independent internet travel intermediary, less any discount or commission paid. If the guest pays the Company directly, revenue for the room is recognized by the Company on a gross basis, with the related discount or commission recognized in room expense. A majority of the Company's hotels participate in frequent guest programs sponsored by the hotel brand owners whereby the hotel allows guests to earn loyalty points during their hotel stay. The Company expenses charges associated with these programs as incurred, and recognizes revenue at the amount it will receive from the brand when a guest redeems their loyalty points by staying at one of the Company's hotels. In addition, some contracts for rooms or food and beverage services require an advance deposit, which the Company records as deferred revenue (or a contract liability) and recognizes once the performance obligations are satisfied. Cancellation fees and attrition fees, which are charged to groups when they do not fulfill their contracted minimum number of room nights or minimum food and beverage spending requirements, are typically recognized as revenue in the period the Company determines it is probable that a significant reversal in the amount of revenue recognized will not occur, which is generally the period in which these fees are collected.

Food and beverage revenue and other ancillary services revenue are generated when a customer chooses to purchase goods or services. The revenue is recognized when the goods or services are provided to the customer at the amount the Company expects to be entitled to in exchange for those goods or services. For ancillary services provided by third parties, the Company assesses whether it is the principal or the agent. If the Company is the principal, revenue is recognized based upon the gross sales price. If the Company is the agent, revenue is recognized based upon the commission earned from the third party.

Additionally, the Company collects sales, use, occupancy and other similar taxes from customers at its hotels at the time of purchase, which are not included in revenue. The Company records a liability upon collection of such taxes from the customer, and relieves the liability when payments are remitted to the applicable governmental agency.

Trade receivables and contract liabilities consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
	(unaudited)	
Trade receivables, net (1)	$ 13,306	$ 14,431
Contract liabilities (2)	$ 50,562	$ 45,432

(1) Trade receivables, net are included in accounts receivable, net on the accompanying consolidated balance sheets.

(2) Contract liabilities consist of advance deposits and are included in other liabilities on the accompanying consolidated balance sheets.

During the three months ended September 30, 2024 and 2023, the Company recognized approximately $ 4.6 million and $3.0 million, respectively, in revenue related to its outstanding contract liabilities. During the nine months ended September 30, 2024 and 2023, the Company recognized approximately $38.3 million and $41.9 million, respectively, in revenue related to its outstanding contract liabilities.

Segment Reporting

The Company considers each of its hotels to be an operating segment and allocates resources and assesses the operating performance for each hotel. Because all of the Company's hotels have similar economic characteristics, facilities and services, the hotels have been aggregated into one single reportable segment, hotel ownership.

New Accounting Standards and Accounting Changes

In November 2023, the FASB issued Accounting Standards Update No. 2023-07, " *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*" ("ASU 2023-07"), which amended the guidance in Accounting Standards Codification (ASC) 280, *Segment Reporting*, to require a public entity to disclose significant segment expenses and other segment items on an annual and interim basis and to provide in interim periods all disclosures about a reportable segment's profit or loss and assets that are currently required annually. Public entities with a single reportable segment, such as the Company, are required to provide the new disclosures and all the disclosures required under ASC 280. ASU 2023-07 is applied retrospectively to all periods presented in the financial statements, unless it is impracticable. The guidance will be effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating ASU 2023-07's additional disclosure requirements and expects to adopt the additional disclosure requirements beginning with its fiscal year ending December 31, 2024.

In December 2023, the FASB issued Accounting Standards Update No. 2023-09, " *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*" ("ASU 2023-09"), to enhance the transparency and decision-usefulness of income tax disclosures, particularly in the rate reconciliation table and disclosures about income taxes paid. All entities should apply the guidance prospectively but have the option to apply it retrospectively. ASU 2023-09 will be effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating ASU 2023-09's additional disclosure requirements.

In November 2024, the FASB issued Accounting Standards Update No. 2024-03, " *Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*" ("ASU 2024-03"), to improve the disclosures about a public business entity's expenses and address requests from investors for more detailed information about the types of expenses (including purchases of inventory, employee compensation, depreciation, and amortization) in each income statement line item that contains those expenses. All entities are required to apply the guidance prospectively and may apply it retrospectively. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027, with early adoption permitted. The Company is currently evaluating ASU 2024-03's additional disclosure requirements.

3. Investment in Hotel Properties

Investment in hotel properties, net consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
	(unaudited)	
Land	$ 645,884	$ 614,112
Buildings and improvements	2,818,307	2,587,278
Furniture, fixtures and equipment	442,872	407,861
Intangible assets	44,063	42,187
Construction in progress	117,513	61,247
Investment in hotel properties, gross	4,068,639	3,712,685
Accumulated depreciation and amortization	(1,218,764)	(1,127,406)
Investment in hotel properties, net	$ 2,849,875	$ 2,585,279

In April 2024, the Company purchased the fee-simple interest in the 630-room Hyatt Regency San Antonio Riverwalk, located in San Antonio Texas, for a contractual purchase price of $230.0 million. In addition to the fee-simple interest in the hotel, an affiliate of the seller will reimburse the Company for the first $8.0 million of capital invested into the hotel pursuant to the hotel's management agreement. The acquisition was accounted for as an asset acquisition and was funded from available cash.

4. Fair Value Measurements and Interest Rate Derivatives

Fair Value Measurements

As of September 30, 2024 and December 31, 2023, the carrying amount of certain financial instruments, including cash and cash equivalents, restricted cash, accounts receivable and accounts payable and accrued expenses were representative of their fair values due to the short-term maturity of these instruments.

A fair value measurement is based on the assumptions that market participants would use in pricing an asset or liability in an orderly transaction. The hierarchy for inputs used in measuring fair value is as follows:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

As of both September 30, 2024 and December 31, 2023, the Company measured its interest rate derivatives at fair value on a recurring basis. The Company estimated the fair value of its interest rate derivatives using Level 2 measurements based on quotes obtained from the counterparties, which are based upon the consideration that would be required to terminate the agreements.

Fair Value of Debt

As of September 30, 2024 and December 31, 2023, 51.1% and 51.2%, respectively, of the Company's outstanding debt had fixed interest rates, including the effects of interest rate swap derivatives. The Company uses Level 3 measurements to estimate the fair value of its debt by discounting the future cash flows of each instrument at estimated market rates.

The Company's principal balances and fair market values of its consolidated debt as of September 30, 2024 (unaudited) and December 31, 2023 were as follows (in thousands):

	September 30, 2024		December 31, 2023	
	Carrying Amount (1)	Fair Value (2)	Carrying Amount (1)	Fair Value (2)
Debt	$ 817,437	$ 817,252	$ 819,050	$ 805,212

(1) The principal balance of debt is presented before any unamortized deferred financing costs.

(2) Due to changes in market conditions and the economic environment, actual interest rates could vary materially from those estimated, which would result in variances in the Company's calculations of the fair market value of its debt.

Interest Rate Derivatives

The Company's interest rate derivatives, which are not designated as effective cash flow hedges, consisted of the following at September 30, 2024 (unaudited) and December 31, 2023 (in thousands):

							Estimated Fair Value of Assets (Liabilities) (1)	
Hedged Debt	Type	Strike / Capped Rate	Index	Effective Date	Maturity Date	Notional Amount	September 30, 2024	December 31, 2023
Term Loan 1	Swap	3.675 %	CME Term SOFR	March 17, 2023	March 17, 2026	$ 75,000	$ (966)	$ 417
Term Loan 1	Swap	3.931 %	CME Term SOFR	September 14, 2023	September 14, 2026	$ 100,000	(113)	(401)
							$ (1,079)	$ 16

(1) The fair value of the swap derivative asset was included in prepaid expenses and other assets, net on the accompanying consolidated balance sheet as of December 31, 2023. The fair values of the swap derivative liabilities were included in other liabilities on the accompanying consolidated balance sheets as of September 30, 2024 and December 31, 2023.

Noncash changes in the fair values of the Company's interest rate derivatives resulted in increases (decreases) to interest expense for the three and nine months ended September 30, 2024 and 2023 as follows (unaudited and in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Noncash interest on derivatives, net	$ 3,326	$ (1,469)	$ 1,095	$ (3,348)

5. Prepaid Expenses and Other Assets

Prepaid expenses and other assets, net consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
	(unaudited)	
Prepaid expenses	$ 13,300	$ 8,123
Inventory	10,474	9,185
Deferred financing costs	2,574	3,627
Property and equipment, net	2,515	3,120
Interest rate derivatives	—	417
Deferred rent on straight-lined third-party tenant leases	437	552
Liquor licenses	930	930
Other	436	429
Total prepaid expenses and other assets, net	$ 30,666	$ 26,383

6. Notes Payable

Notes payable consisted of the following (in thousands):

	September 30, 2024				Balance Outstanding as of	
	Rate Type		Interest Rate	Maturity Date	September 30, 2024 (unaudited)	December 31, 2023
Mortgage Loans						
JW Marriott New Orleans	Fixed		4.15 %	December 11, 2024	$ 72,437	$ 74,050
Unsecured Corporate Credit Facilities						
Term Loan 1	Fixed	(1)	5.27 %	July 25, 2027	$ 175,000	$ 175,000
Term Loan 2	Variable	(2)	6.70 %	January 25, 2028	175,000	175,000
Term Loan 3	Variable	(3)	6.55 %	May 1, 2025	225,000	225,000
Total unsecured corporate credit facilities					$ 575,000	$ 575,000
Unsecured Senior Notes						
Series A	Fixed		4.69 %	January 10, 2026	$ 65,000	$ 65,000
Series B	Fixed		4.79 %	January 10, 2028	105,000	105,000
Total unsecured senior notes					$ 170,000	$ 170,000
Total debt					817,437	819,050
Unamortized deferred financing costs					(3,325)	(4,491)
Debt, net of unamortized deferred financing costs					$ 814,112	$ 814,559

(1) Term Loan 1 is subject to two interest rate swap derivatives (see Note 4). The variable interest rate is based on a pricing grid with a range of 1.35% to 2.20%, depending on the Company's leverage ratios, plus SOFR and a 0.10% adjustment. The Company did not achieve its 2023 sustainability performance metric as specified in the Second Amended Credit Agreement, resulting in the pricing grid returning to its range of 1.35% to 2.20% in May 2024, an increase of 0.02% from the previous year. The achievement of the sustainability metric and its impact on the pricing grid is evaluated annually. The effective interest rates on the term loan were 5.27% and 5.25% at September 30, 2024 and December 31, 2023, respectively.

(2) Term Loan 2's variable interest rate is based on a pricing grid with a range of 1.35% to 2.20%, depending on the Company's leverage ratios, plus SOFR and a 0.10% adjustment. The Company did not achieve its 2023 sustainability performance metric as specified in the Second Amended Credit Agreement, resulting in the pricing grid returning to its range of 1.35% to 2.20% in May 2024, an increase of 0.02% from the previous year. The achievement of the sustainability metric and its impact on the pricing grid is evaluated annually. The effective interest rates on the term loan were 6.70% and 6.77% at September 30, 2024 and December 31, 2023, respectively.

(3) Term Loan 3's variable interest rate is based on a pricing grid with a range of 1.35% to 2.20%, depending on the Company's leverage ratios, plus SOFR and a 0.10% adjustment. The effective interest rates on the term loan were 6.55% and 6.81% at September 30, 2024 and December 31, 2023, respectively.

As of September 30, 2024, the Company had no amount outstanding on its credit facility, with $ 500.0 million of capacity available for borrowing under the facility. The Company's ability to draw on the credit facility is subject to the Company's compliance with various covenants.

Interest Expense

Total interest incurred and expensed on the Company's debt was as follows (unaudited and in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest expense on debt	$ 12,395	$ 12,623	$ 37,012	$ 36,299
Noncash interest on derivatives, net	3,326	(1,469)	1,095	(3,348)
Amortization of deferred financing costs	741	740	2,219	1,960
Capitalized interest	(480)	—	(641)	—
Total interest expense	$ 15,982	$ 11,894	$ 39,685	$ 34,911

7. Other Liabilities

Other Liabilities

Other liabilities consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
	(unaudited)	
Advance deposits	$ 50,562	$ 45,432
Property, sales and use taxes payable	15,254	6,903
Accrued interest	2,984	6,346
Deferred rent	1,752	2,711
Income taxes payable	—	2,860
Interest rate derivative	1,079	401
Management fees payable	184	1,321
Other	6,517	7,040
Total other liabilities	$ 78,332	$ 73,014

8. Leases

As of both September 30, 2024 and December 31, 2023, the Company had operating leases for ground, office, equipment and airspace leases with maturity dates ranging from 2025 through 2097, excluding renewal options. Including renewal options available to the Company, the lease maturity date extends to 2147.

Operating leases were included on the Company's consolidated balance sheets as follows (in thousands):

	September 30, 2024	December 31, 2023
	(unaudited)	
Right-of-use assets, net	$ 9,330	$ 12,755
Lease obligations	$ 13,039	$ 16,735
Weighted average remaining lease term	25 years	
Weighted average discount rate	5.4 %	

The components of lease expense were as follows (unaudited and in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating lease cost	$ 1,334	$ 1,360	$ 4,024	$ 4,068
Variable lease cost (1)	2,015	2,481	6,521	6,764
Sublease income (2)	(296)	(296)	(890)	(890)
Total lease cost	$ 3,053	$ 3,545	$ 9,655	$ 9,942

(1) Several of the Company's hotels pay percentage rent, which is calculated on operating revenues above certain thresholds.

(2) Sublease income is included in corporate overhead in the accompanying consolidated statements of operations for the three and nine months ended September 30, 2024 and 2023.

9. Stockholders' Equity

Series G Cumulative Redeemable Preferred Stock

Contemporaneous with the Company's April 2021 purchase of the Montage Healdsburg, the Company issued 2,650,000 shares of its Series G Cumulative Redeemable Preferred Stock ("Series G preferred stock") to the hotel's seller as partial payment of the hotel. The Series G preferred stock, which is callable at its $25.00 redemption price plus accrued and unpaid dividends by the Company at any time, initially accrued dividends at a rate equal to the Montage Healdsburg's annual net operating income yield on the

Company's total investment in the resort. In January 2024, the annual dividend rate increased to the greater of 3.0% or the rate equal to the Montage Healdsburg's annual net operating income yield on the Company's total investment in the resort. Beginning with the third quarter of 2024, the annual dividend rate increased to the greater of 4.5% or the rate equal to the Montage Healdsburg's annual net operating income yield on the Company's total investment in the resort. The Series G preferred stock is not convertible into any other security.

Series H Cumulative Redeemable Preferred Stock

In May 2021, the Company issued 4,600,000 shares of its 6.125% Series H Cumulative Redeemable Preferred Stock ("Series H preferred stock") with a liquidation preference of $25.00. On or after May 24, 2026, the Series H preferred stock will be redeemable at the Company's option, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date. Upon the occurrence of a change of control, as defined by the Articles Supplementary for Series H preferred stock, the Company may at its option redeem the Series H preferred stock for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date. If the Company chooses not to redeem the Series H preferred stock upon the occurrence of a change of control, holders of the Series H preferred stock may convert their preferred shares into shares of the Company's common stock.

Series I Cumulative Redeemable Preferred Stock

In July 2021, the Company issued 4,000,000 shares of its 5.70% Series I Cumulative Redeemable Preferred Stock ("Series I preferred stock") with a liquidation preference of $25.00. On or after July 16, 2026, the Series I preferred stock will be redeemable at the Company's option, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date. Upon the occurrence of a change of control, as defined by the Articles Supplementary for Series I preferred stock, the Company may at its option redeem the Series I preferred stock for cash at a redemption price of $25.00 per share, plus accrued and unpaid dividends up to, but not including, the redemption date. If the Company chooses not to redeem the Series I preferred stock upon the occurrence of a change of control, holders of the Series I preferred stock may convert their preferred shares into shares of the Company's common stock.

Common Stock

Stock Repurchase Program. In February 2023, the Company's board of directors reauthorized the Company's existing stock repurchase program, allowing the Company to acquire up to an aggregate of $500.0 million of its common and preferred stock. The stock repurchase program has no stated expiration date.

Details of the Company's repurchases were as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Number of common shares repurchased	2,311,365	1,561,375	2,670,373	3,827,759
Cost, including fees and commissions	$ 22,672	$ 14,042	$ 26,294	$ 35,523
Number of preferred shares repurchased	—	—	—	—

As of September 30, 2024, $428.5 million remains available for repurchase under the stock repurchase program. Future repurchases will depend on various factors, including the Company's capital needs and restrictions under its various financing agreements, as well as the price of the Company's common and preferred stock.

ATM Agreements. In March 2023, the Company entered into separate "At the Market" Agreements (the "ATM Agreements") with several financial institutions. In accordance with the terms of the ATM Agreements, the Company may from time to time offer and sell shares of its common stock having an aggregate offering price of up to $300.0 million. No common stock was issued under the ATM Agreements during either the three or nine months ended September 30, 2024 and 2023, leaving $300.0 million available for sale.

10. Incentive Award Plan

The Company's Incentive Award Plan (the "Plan") provides for granting discretionary awards to employees, consultants and non-employee directors. The awards may be made in the form of options, restricted stock awards, dividend equivalents, stock payments, restricted stock units, other incentive awards, LTIP units or share appreciation rights.

Should a stock grant be forfeited prior to its vesting, the shares covered by the stock grant are added back to the Plan and remain available for future issuance. Shares of common stock tendered or withheld to satisfy the grant or exercise price or tax withholding obligations upon the vesting of a stock grant are not added back to the Plan.

Restricted shares and units are measured at fair value on the date of grant and amortized as compensation expense over the relevant requisite service period or derived service period. The Company has elected to account for forfeitures as they occur.

As of both September 30, 2024 and 2023, the Company's issued and outstanding awards consisted of both time-based and performance-based restricted stock grants. The Company's amortization expense, including forfeitures related to restricted shares was as follows (unaudited and in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Amortization expense, including forfeitures	$ 2,430	$ 2,511	$ 8,381	$ 8,263
Capitalized compensation cost (1)	$ (79)	$ 117	$ 155	$ 352

(1) The Company capitalizes compensation costs related to restricted shares granted to certain employees whose work is directly related to the Company's capital investment in its hotels.

Restricted Stock Awards

The Company's restricted stock awards are time-based restricted shares that generally vest over periods ranging from three years to five years from the date of grant. The following is a summary of non-vested restricted stock award activity for the nine months ended September 30, 2024:

	Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2024	1,032,266	$ 11.11
Granted	444,077	$ 10.66
Vested	(719,924)	$ 11.25
Forfeited	(68,131)	$ 10.89
Unvested at September 30, 2024	688,288	$ 10.70

Restricted Stock Units

The Company's restricted stock units are performance-based restricted shares that generally vest based on the Company's total relative shareholder return or the achievement of pre-determined stock price targets during performance periods ranging from three years to five years. The following is a summary of non-vested restricted stock unit activity, at target performance, for the nine months ended September 30, 2024:

	Target Number of Shares	Weighted-Average Grant Date Fair Value
Unvested at January 1, 2024	1,076,160	$ 10.69
Granted	475,746	$ 11.50
Vested	(119,732)	$ 11.21
Forfeited	(50,100)	$ 11.21
Unvested at September 30, 2024	1,382,074	$ 10.90

The restricted stock units granted during the first nine months of 2024 vest based on the Company's total relative shareholder return following a three-year performance period. The number of shares that may become vested ranges from zero to 200% of the amount granted. The grant date fair values of the restricted stock units were determined using a Monte Carlo simulation model with the following assumptions:

Expected volatility	31.0 %
Dividend yield (1)	—
Risk-free rate	4.34 %
Expected term	3 years

(1) Dividend equivalents are assumed to be reinvested in shares of the Company's common stock and dividend equivalents will only be paid to the extent the award vests.

11. Commitments and Contingencies

Management Agreements

Management agreements with the Company's third-party hotel managers currently require the Company to pay between 2.0% and 3.0% of total revenue of the managed hotels to the third-party managers each month as a basic management fee. In addition to basic management fees, provided that certain operating thresholds are met, the Company may also be required to pay incentive management fees to certain of its third-party managers.

Total basic management and incentive management fees were included in other property-level expenses on the Company's consolidated statements of operations as follows (unaudited and in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Basic management fees	$ 6,022	$ 6,774	$ 18,635	$ 21,101
Incentive management fees	(744)	604	2,603	6,546
Total basic and incentive management fees	$ 5,278	$ 7,378	$ 21,238	$ 27,647

License and Franchise Agreements

The Company has entered into license and franchise agreements related to certain of its hotels. The license and franchise agreements require the Company to, among other things, pay monthly fees that are calculated based on specified percentages of certain revenues. The license and franchise agreements generally contain specific standards for, and restrictions and limitations on, the operation and maintenance of the hotels which are established by the franchisors to maintain uniformity in the system created by each such franchisor. Such standards generally regulate the appearance of the hotel, quality and type of goods and services offered, signage and protection of trademarks. Compliance with such standards may from time to time require the Company to make significant expenditures for capital improvements.

Total license and franchise fees were included in franchise costs on the Company's consolidated statements of operations as follows (unaudited and in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Franchise assessments (1)	$ 4,411	$ 4,025	$ 12,781	$ 11,842
Franchise royalties	300	253	954	914
Total franchise costs	$ 4,711	$ 4,278	$ 13,735	$ 12,756

(1) Includes advertising, reservation and frequent guest program assessments.

Renovation and Construction Commitments

At September 30, 2024, the Company had various contracts outstanding with third parties in connection with the ongoing renovations of certain of its hotels. The remaining commitments under these contracts at September 30, 2024 totaled $79.3 million.

Concentration of Risk

The concentration of the Company's hotels in California, Florida, Hawaii and Washington DC exposes the Company's business to economic and severe weather conditions, competition and real and personal property tax rates unique to these locales.

As of September 30, 2024, our hotels were geographically concentrated as follows (unaudited):

	Number of Hotels	Percentage of Total Rooms	Trailing 12-Month Total Consolidated Revenue
Northern California	3	14 %	21 %
Southern California	2	22 %	22 %
Florida	3	17 %	13 %
Hawaii	1	8 %	16 %
Washington DC	1	11 %	10 %

Other

In accordance with the assignment-in-lieu agreement executed in December 2020 between the Company and the mortgage holder of a hotel disposed of in a prior year, the Company was required to retain reserves for certain current and potential employee-related obligations (the "potential obligation"). There was $0.2 million included in accounts payable and accrued expenses for the potential obligation on the accompanying consolidated balance sheet as of December 31, 2023. The potential obligation was reassessed at the end of the first and second quarters of 2024, resulting in a total gain on extinguishment of debt of $0.1 million, which was included on the accompanying consolidated statement of operations for the nine months ended September 30, 2024. In the second quarter of 2024, the escrow agreement was terminated and the remaining $0.1 million of restricted cash held in escrow was returned to the Company.

The Company has provided customary unsecured indemnities to certain lenders, including in particular, environmental indemnities. The Company has performed due diligence on the potential environmental risks, including obtaining an independent environmental review from outside environmental consultants. These indemnities obligate the Company to reimburse the indemnified parties for damages related to certain environmental matters. There is no term or damage limitation on these indemnities; however, if an environmental matter arises, the Company could have recourse against other previous owners or a claim against its environmental insurance policies.

At September 30, 2024, the Company had $ 0.2 million of outstanding irrevocable letters of credit to guarantee the Company's financial obligations related to workers' compensation insurance programs from prior policy years. The beneficiaries of these letters of credit may draw upon the letters of credit in the event of a contractual default by the Company relating to each respective obligation. No draws have been made through September 30, 2024. The letters of credit are collateralized with $0.2 million held in a restricted bank account owned by the Company, which is included in restricted cash on the accompanying consolidated balance sheets as of both September 30, 2024 and December 31, 2023.

The Company is subject to various claims, lawsuits and legal proceedings, including routine litigation arising in the ordinary course of business, regarding the operation of its hotels, its managers and other Company matters. While it is not possible to ascertain the ultimate outcome of such matters, the Company believes that the aggregate identifiable amount of such liabilities, if any, in excess of amounts covered by insurance will not have a material adverse impact on its financial condition or results of operations. The outcome of claims, lawsuits and legal proceedings brought against the Company, however, is subject to significant uncertainties.

12. Subsequent Event

On November 7, 2024, the Company entered into a new delayed draw $100.0 million term loan agreement with several financial institutions. The new term loan will bear interest pursuant to a leverage-based pricing grid ranging from 1.35% to 2.20% over the applicable adjusted term SOFR and the Company may elect to swap some or all of the loan balance to fixed rates. The new term loan has an initial term of one year with two six-month extension options at the Company's election, resulting in an extended maturity of November 7, 2026. The Company expects to fully draw the new term loan in early December and use most of the proceeds to repay the loan secured by the JW Marriott New Orleans, which matures December 11, 2024 and is projected to have a balance of $72.1 million.

Cautionary Statement

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. The Company intends such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and includes this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe the Company's future plans, strategies and expectations, are generally identifiable by use of the words "anticipate," "believe," "estimate," "expect," "intend," "project," or similar expressions. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond the Company's control, and which could materially affect actual results, performances or achievements. Accordingly, there is no assurance that the Company's expectations will be realized. In evaluating these statements, you should specifically consider the risks outlined in detail in our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 23, 2024, under the caption "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q, including but not limited to the following factors:

- we own upper upscale and luxury hotels located in urban and resort destinations in an industry that is highly competitive;
- events beyond our control, including economic slowdowns or recessions, pandemics, natural disasters, civil unrest and terrorism may harm the operating performance of the hotel industry generally and the performance of our hotels;
- inflation may adversely affect our financial condition and results of operations;
- system security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt the information technology network and systems used by us, our suppliers, our third-party managers or our franchisors;
- a significant portion of our hotels are geographically concentrated and, accordingly, we could be disproportionately harmed by economic conditions, competition, new hotel supply, real and personal property tax rates, or natural disasters in these areas of the country;
- we face possible risks associated with the physical and transitional effects of climate change;
- uninsured or underinsured losses could harm our financial condition;
- the operating results of some of our hotels are significantly reliant upon group and transient business generated by large corporate customers, and the loss of such customers for any reason could harm our operating results;
- the increased use of virtual meetings and similar technologies could lessen the need for business-related travel, and, therefore, demand for rooms in our hotels may be adversely affected;
- our hotels require ongoing capital investment and we may incur significant capital expenditures in connection with acquisitions, repositionings and other improvements, some of which are mandated by applicable laws or regulations or agreements with third parties, and the costs of such renovations, repositionings or improvements may exceed our expectations or cause other problems;
- delays in the acquisition, renovation or repositioning of hotel properties may have adverse effects on our results of operations and returns to our stockholders;
- accounting for the acquisition of a hotel property or other entity involves assumptions and estimations to determine fair value that could differ materially from the actual results achieved in future periods;
- volatility in the debt and equity markets may adversely affect our ability to acquire, renovate, refinance or sell our hotels;
- we may pursue joint venture investments that could be adversely affected by our lack of sole decision-making authority, our reliance on a co-venturer's financial condition and disputes between us and our co-venturer;
- we may be subject to unknown or contingent liabilities related to recently sold or acquired hotels, as well as hotels we may sell or acquire in the future;
- we may seek to acquire a portfolio of hotels or a company, which could present more risks to our business and financial results than the acquisition of a single hotel;
- the sale of a hotel or portfolio of hotels is typically subject to contingencies, risks and uncertainties, any of which may cause us to be unsuccessful in completing the disposition;
- 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;
- we may issue or invest in hotel loans, including subordinated or mezzanine loans, which could involve greater risks of loss than senior loans secured by income-producing real properties;
- if we make or invest in mortgage loans with the intent of gaining ownership of the hotel secured by or pledged to the loan, our ability to perfect an ownership interest in the hotel is subject to the sponsor's willingness to forfeit the property in lieu of the debt;
- one of our hotels is subject to a ground lease with an unaffiliated party, the termination of which by the lessor for any reason, including due to our default on the lease, could cause us to lose the ability to operate the hotel altogether and may adversely affect our results of operations;
- because we are a REIT, we depend on third parties to operate our hotels;

- we are subject to risks associated with our operators' employment of hotel personnel;
- most of our hotels operate under a brand owned by Marriott, Hyatt, Hilton, Four Seasons or Montage. Should any of these brands experience a negative event, or receive negative publicity, our operating results may be harmed;
- our franchisors and brand managers may adopt new policies or change existing policies, which could result in increased costs that could negatively impact our hotels;
- future adverse litigation judgments or settlements resulting from legal proceedings could have an adverse effect on our financial condition;
- claims by persons regarding our properties could affect the attractiveness of our hotels or cause us to incur additional expenses;
- the hotel business is seasonal and seasonal variations in business volume at our hotels will cause quarterly fluctuations in our revenue and operating results;
- changes in the debt and equity markets may adversely affect the value of our hotels;
- certain of our hotels have in the past become impaired and additional hotels may become impaired in the future;
- 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;
- corporate responsibility, specifically related to environmental sustainability, social responsibility and corporate governance ("ESG") factors and commitments, may impose additional costs and expose us to new risks that could adversely affect our results of operations, financial condition and cash flows;
- our franchisors and brand managers may require us to make capital expenditures pursuant to property improvement plans or to comply with brand standards, and the failure to make the required expenditures could cause the franchisors or hotel brands to terminate the franchise, management or operating lease agreements;
- termination of any of our franchise, management or operating lease agreements could cause us to lose business or lead to a default or acceleration of our obligations under certain of our debt instruments;
- the growth of alternative reservation channels could adversely affect our business and profitability;
- the failure of tenants in our hotels to make rent payments or otherwise comply with the material terms of our retail and restaurant leases may adversely affect our results of operations;
- we rely on our corporate and hotel senior management teams, the loss of whom may cause us to incur costs and harm our business;
- we could be harmed by inadvertent errors, misconduct or fraud that is difficult to detect;
- if we fail to maintain effective internal control over financial reporting and disclosure controls and procedures, we may not be able to accurately report our financial results or identify and prevent fraud;
- we have outstanding debt which may restrict our financial flexibility;
- our debt agreements contain various covenants, and should we default, we may be required to pay additional fees, provide additional security, repay the debt or forfeit the hotel securing the debt. Defaulting on existing debt may limit our ability to access additional debt financing in the future;
- covenants in our debt instruments may restrict our operating, acquisition or disposition activities;
- our debt agreements contain "cash trap" and restricted payment provisions that, in certain circumstances, could limit our ability to use funds generated by our hotels for other corporate purposes or to make distributions to our stockholders;
- certain of our debt is subject to variable interest rates, which creates uncertainty in the amount of interest expense we will incur in the future and may negatively impact our operating results;
- we may not be able to refinance our debt on favorable terms or at all;
- our organizational documents contain no limitations on the amount of debt we can incur so we may become too highly leveraged;
- if we fail to qualify as a REIT, our distributions will not be deductible by us and our income will be subject to federal and state taxation;
- even as a REIT, we may become subject to federal, state or local taxes on our income or property;
- if the leases between our hotels and the TRS Lessee are not respected as true leases for federal income tax purposes, we would fail to qualify as a REIT;
- we may be subject to taxes in the event our operating leases are not held to be on an arm's-length basis;
- legislative or other actions affecting REITs could have a negative effect on us; and
- our stock repurchase program may not enhance long-term stockholder value, could cause volatility in the price of our common and preferred stock and could diminish our cash reserves.

These factors may cause our actual events to differ materially from the expectations expressed or implied by any forward-looking statement. Except as otherwise required by federal securities laws, the Company disclaims any obligations or undertaking to publicly release any updates or revisions to any forward-looking statement contained herein (or elsewhere) to reflect any change in the

Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Sunstone Hotel Investors, Inc. (the "Company," "we," "our" or "us") is a Maryland corporation. We operate as a self-managed and self-administered real estate investment trust ("REIT"). A REIT is a corporation that directly or indirectly owns real estate assets and has elected to be taxable as a real estate investment trust for federal income tax purposes. To qualify for taxation as a REIT, the REIT must meet certain requirements, including regarding the composition of its assets and the sources of its income. REITs generally are not subject to federal income taxes at the corporate level as long as they pay stockholder dividends equivalent to 100% of their taxable income. REITs are required to distribute to stockholders at least 90% of their REIT taxable income. We own, directly or indirectly, 100% of the interests of Sunstone Hotel Partnership, LLC (the "Operating Partnership"), which is the entity that directly or indirectly owns our hotels. We also own 100% of the interests of our taxable REIT subsidiary, Sunstone Hotel TRS Lessee, Inc. (the "TRS Lessee"), which, directly or indirectly, leases all of our hotels from the Operating Partnership, and engages independent third-parties to manage our hotels.

We own hotels in urban and resort destinations that benefit from significant barriers to entry by competitors and diverse economic drivers. As of September 30, 2024, we owned 15 hotels (the "15 Hotels"), which average 484 rooms in size. All of our hotels are operated under nationally recognized brands, except the Oceans Edge Resort & Marina, which has established itself in a resort destination market.

Operating Activities

Revenues. Substantially all of our revenues are derived from the operation of our hotels. Specifically, our revenues consist of the following:

- *Room revenue*, which is comprised of revenue realized from the sale of rooms at our hotels;
- *Food and beverage revenue*, which is comprised of revenue realized in the hotel food and beverage outlets as well as banquet and catering events; and
- *Other operating revenue*, which includes ancillary hotel revenue and other items primarily driven by occupancy such as telephone/internet, parking, spa, destination and resort fees, entertainment and other guest services. Additionally, this category includes, among other things, attrition and cancellation revenue, tenant revenue derived from hotel space and marina slips leased by third parties, winery revenue, any business interruption proceeds and any performance guarantee or reimbursements to offset net losses.

Expenses. Our expenses consist of the following:

- *Room expense*, which is primarily driven by occupancy and, therefore, has a significant correlation with room revenue;
- *Food and beverage expense*, which is primarily driven by hotel food and beverage sales and banquet and catering bookings and, therefore, has a significant correlation with food and beverage revenue;
- *Other operating expense*, which includes the corresponding expense of other operating revenue, advertising and promotion, repairs and maintenance, utilities and franchise costs;
- *Property tax, ground lease and insurance expense*, which includes the expenses associated with property tax, ground lease and insurance payments, each of which is primarily a fixed expense, however property tax is subject to regular revaluations based on the specific tax regulations and practices of each municipality, along with our cash and noncash operating lease expenses, general excise tax assessed by Hawaii and taxes assessed on commercial rents by San Francisco and Texas;
- *Other property-level expenses*, which includes our property-level general and administrative expenses, such as payroll, benefits and other employee-related expenses, contract and professional fees, credit and collection expenses, employee recruitment, relocation and training expenses, labor dispute expenses, consulting fees, management fees and other expenses;

- *Corporate overhead expense,* which includes our corporate-level expenses, such as payroll, benefits and other employee-related expenses, amortization of deferred stock compensation, business acquisition and due diligence expenses, legal expenses, association, contract and professional fees, board of director expenses, entity-level state franchise and minimum taxes, travel expenses, office rent and other customary expenses; and

- *Depreciation and amortization expense*, which includes depreciation on our hotel buildings, improvements, furniture, fixtures and equipment ("FF&E"), along with amortization on our franchise fees and certain intangibles. Additionally, this category includes depreciation and amortization related to FF&E for our corporate office.

Other Revenue and Expense. Other revenue and expense consists of the following:

- *Interest and other income,* which includes interest we have earned on our restricted and unrestricted cash accounts, as well as any energy or other rebates, property insurance proceeds we have received, miscellaneous income and any gains or losses we have recognized on sales or redemptions of assets other than real estate investments;

- *Interest expense,* which includes interest expense incurred on our outstanding fixed and variable rate debt, gains or losses on interest rate derivatives, amortization of deferred financing costs, and any loan fees incurred on our debt, net of any capitalized interest;

- *Gain on sale of assets, net*, which includes the gains we recognized on our hotel sales, including the net gains related to the resolution of contingencies, that do not qualify as discontinued operations;

- *Gain (loss) on extinguishment of debt, net*, which includes gains related to the resolution of contingencies on extinguished debt and losses recognized on amendments or early repayments of mortgages or other debt obligations from the accelerated amortization of deferred financing costs, along with any other costs;

- *Income tax benefit (provision), net*, which includes federal and state income taxes charged to the Company net of any refundable credits or refunds received, any adjustments to deferred tax assets, liabilities or valuation allowances, and any adjustments to unrecognized tax positions, along with any related interest and penalties incurred; and

- *Preferred stock dividends,* which includes dividends accrued on our Series G Cumulative Redeemable Preferred Stock ("Series G preferred stock"), Series H Cumulative Redeemable Preferred Stock ("Series H preferred stock") and Series I Cumulative Redeemable Preferred Stock ("Series I preferred stock").

***Operating Performance Indicators*.** The following performance indicators are commonly used in the hotel industry:

- *Occupancy*, which is the quotient of total rooms sold divided by total rooms available;

- *Average daily room rate,* or ADR, which is the quotient of room revenue divided by total rooms sold;

- *Revenue per available room,* or RevPAR, which is the product of occupancy and ADR, and does not include food and beverage revenue, or other operating revenue;

- *RevPAR index,* which is the quotient of a hotel's RevPAR divided by the average RevPAR of its competitors, multiplied by 100. A RevPAR index in excess of 100 indicates a hotel is achieving higher RevPAR than the average of its competitors. In addition to absolute RevPAR index, we monitor changes in RevPAR index;

- *EBITDAre*, which is net income excluding: interest expense; benefit or provision for income taxes, including any changes to deferred tax assets, liabilities or valuation allowances and income taxes applicable to the sale of assets; depreciation and amortization; gains or losses on disposition of depreciated property (including gains or losses on change in control); and any impairment write-downs of depreciated property;

- *Adjusted EBITDAre*, which is EBITDA*re* adjusted to exclude: amortization of deferred stock compensation; amortization of contract intangibles; amortization of right-of-use assets and obligations; the impact of any gain or loss from undepreciated asset sales or property damage from natural disasters; any lawsuit settlement costs; the write-off of development costs associated with abandoned projects; property-level restructuring, severance, and management transition costs; pre-opening costs associated with extensive renovation projects such as the work being performed at The Confidante Miami Beach; debt resolution costs; and any other nonrecurring identified adjustments;

- *Funds from operations ("FFO") attributable to common stockholders* , which is net income and preferred stock dividends and any redemption charges, excluding: gains and losses from sales of property; real estate-related depreciation and amortization (excluding amortization of deferred financing costs and right-of-use assets and obligations); and any real estate-related impairment losses; and

- *Adjusted FFO attributable to common stockholders* , which is FFO attributable to common stockholders adjusted to exclude: amortization of deferred stock compensation; amortization of contract intangibles; real estate-related amortization of right-of-use assets and obligations; noncash interest on our derivatives; income tax benefits or provisions associated with any changes to deferred tax assets, liabilities or valuation allowances, the application of net operating loss carryforwards, uncertain tax positions or with the sale of assets; gains or losses due to property damage from natural disasters; any lawsuit settlement costs; the write-off of development costs associated with abandoned projects; non-real estate-related impairment losses; property-level restructuring, severance, and management transition costs; pre-opening costs associated with extensive renovation projects such as the work being performed at The Confidante Miami Beach; debt resolution costs; preferred stock redemption charges; and any other nonrecurring identified adjustments.

Factors Affecting Our Operating Results. The primary factors affecting our operating results include overall demand for hotel rooms, the pace of new hotel development, or supply, and the relative performance of our operators in increasing revenue and controlling hotel operating expenses.

- *Demand.* The demand for lodging has traditionally been closely linked with the performance of the general economy. Our hotels are classified as either upper upscale or luxury hotels. In an economic downturn or recession, 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 in part because upper upscale and luxury hotels generally target business and leisure travelers at higher price points, and these groups may seek to curtail spending in periods of economic decline. In addition, operating results at our hotels in resort markets may be negatively affected by reduced demand from domestic travelers due in part to elevated demand for international travel in the post-pandemic-era, and by changes in the value of the U.S. dollar in relation to other currencies which may make international travel more affordable; whereas operating results at our hotels in key gateway markets may be negatively affected by reduced demand from international travelers due to financial conditions in their home countries or a material strengthening of the U.S. dollar in relation to other currencies which makes travel to the U.S. less affordable. Also, volatility in transportation fuel costs, increases in air and ground travel costs, decreases in airline capacity, and prolonged periods of inclement weather in our markets may reduce the demand for our hotels.

- *Supply*. The addition of new competitive hotels affects the ability of existing hotels to absorb demand for lodging and, therefore, impacts the ability to generate growth in RevPAR and profits. The development of new hotels is largely driven by construction costs, the cost and availability of financing, and the expected performance of existing hotels. Prior to the COVID-19 pandemic, U.S. hotel supply continued to increase, and some markets experienced new hotel room openings at or greater than historic levels. In the years since the COVID-19 pandemic, U.S. hotel supply growth has been below historic levels in most markets as the cost of construction and the cost and availability of financing have not been conducive to the development of new hotels. Separate from the development of new hotels, an increase in the supply of vacation rental or sharing services such as Airbnb may negatively affect the ability of existing hotels to generate growth in RevPAR and profits.

- *Revenues and expenses*. We believe that marginal improvements in RevPAR index, even in the face of declining revenues, are a good indicator of the relative quality and appeal of our hotels, and our operators' effectiveness in maximizing revenues. Similarly, we also evaluate our operators' effectiveness in minimizing incremental operating expenses in the context of increasing revenues or, conversely, in reducing operating expenses in the context of declining revenues. Inflationary pressures could increase operating costs, which could limit our operators' effectiveness in minimizing expenses.

Operating Results. The following table presents our unaudited operating results for the three months ended September 30, 2024 and 2023, including the amount and percentage change in the results between the two periods.

	Three Months Ended September 30,			
	2024	2023	Change $	Change %
	(in thousands, except statistical data)			
REVENUES				
Room	$ 138,759	$ 158,467	$ (19,708)	(12.4)%
Food and beverage	63,866	64,007	(141)	(0.2)%
Other operating	23,767	25,226	(1,459)	(5.8)%
Total revenues	226,392	247,700	(21,308)	(8.6)%
OPERATING EXPENSES				
Hotel operating	144,026	151,538	(7,512)	(5.0)%
Other property-level expenses	26,702	29,020	(2,318)	(8.0)%
Corporate overhead	7,577	7,127	450	6.3 %
Depreciation and amortization	31,689	33,188	(1,499)	(4.5)%
Total operating expenses	209,994	220,873	(10,879)	(4.9)%
Interest and other income	2,350	1,218	1,132	92.9 %
Interest expense	(15,982)	(11,894)	(4,088)	(34.4)%
Gain on extinguishment of debt	—	9	(9)	(100.0)%
Income before income taxes	2,766	16,160	(13,394)	(82.9)%
Income tax benefit (provision), net	483	(602)	1,085	180.2 %
NET INCOME	3,249	15,558	(12,309)	(79.1)%
Preferred stock dividends	(3,931)	(3,226)	(705)	(21.9)%
(LOSS) INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (682)	$ 12,332	$ (13,014)	(105.5)%

The following table presents our unaudited operating results for the nine months ended September 30, 2024 and 2023, including the amount and percentage change in the results between the two periods.

	Nine Months Ended September 30,			
	2024	2023	Change $	Change %
	(in thousands, except statistical data)			
REVENUES				
Room	$ 425,870	$ 484,304	$ (58,434)	(12.1)%
Food and beverage	196,572	213,634	(17,062)	(8.0)%
Other operating	68,597	69,317	(720)	(1.0)%
Total revenues	691,039	767,255	(76,216)	(9.9)%
OPERATING EXPENSES				
Hotel operating	424,284	452,614	(28,330)	(6.3)%
Other property-level expenses	82,445	92,654	(10,209)	(11.0)%
Corporate overhead	23,263	23,991	(728)	(3.0)%
Depreciation and amortization	91,841	97,927	(6,086)	(6.2)%
Total operating expenses	621,833	667,186	(45,353)	(6.8)%
Interest and other income	11,306	6,398	4,908	76.7 %
Interest expense	(39,685)	(34,911)	(4,774)	(13.7)%
Gain on sale of assets, net	457	—	457	100.0 %
Gain on extinguishment of debt	59	9,930	(9,871)	(99.4)%
Income before income taxes	41,343	81,486	(40,143)	(49.3)%
Income tax benefit (provision), net	1,083	(1,763)	2,846	161.4 %
NET INCOME	42,426	79,723	(37,297)	(46.8)%
Preferred stock dividends	(11,297)	(10,762)	(535)	(5.0)%
INCOME ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ 31,129	$ 68,961	$ (37,832)	(54.9)%

Summary of Operating Results. The following items significantly impact the year-over-year comparability of our operations:

- *Hotel Renovations*: During the first nine months of 2024, operations at The Confidante Miami Beach and the Renaissance Long Beach (the “Two Renovation Hotels”) were negatively impacted by renovations as they transitioned to Andaz Miami Beach and the Marriott Long Beach Downtown, respectively. Beginning in the fourth quarter of 2023 and continuing into the first quarter of 2024, hotel amenities at The Confidante Miami Beach, including the pool, meeting space, and food and beverage outlets, were closed in phases in preparation for the hotel’s temporary suspension of operations on March 25, 2024 to allow the extensive renovation work to be performed more efficiently. We expect the resort to resume operations as Andaz Miami Beach in February 2025. The Renaissance Long Beach converted to Marriott Long Beach Downtown in March 2024. Renovation work at the hotel continued through the end of the second quarter of 2024, and the hotel began to ramp-up operations in the third quarter of 2024. As a result of these two renovations, our revenues and operating expenses in the third quarter and first nine months of 2024 are not comparable to the same periods in 2023.
- *Hotel Disposition*: In October 2023, we sold the Boston Park Plaza. As a result, our revenues, operating expenses, and depreciation expense in the third quarter and first nine months of 2024 are not comparable to the same periods in 2023.
- *Hotel Acquisition*: In April 2024, we acquired the Hyatt Regency San Antonio Riverwalk. As a result, our revenues, operating expenses, and depreciation expense in the third quarter and first nine months of 2024 are not comparable to the same periods in 2023.

Room revenue. Room revenue decreased $19.7 million, or 12.4%, in the third quarter of 2024 as compared to the third quarter of 2023 as follows:

- The sale of the Boston Park Plaza caused room revenue to decrease by $24.0 million.
- The Two Renovation Hotels caused room revenue to decrease by $3.3 million. Occupancy decreased 2,430 basis points; however, the average daily room rate increased 7.2%, reflecting Marriott Long Beach Downtown’s post- conversion ramp-up in the third quarter of 2024. RevPAR decreased 33.6%.

	Three Months Ended September 30,								
	2024			2023			Change		
	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR
Two Renovation Hotels	39.6 %	$ 219.50	$ 86.92	63.9 %	$ 204.71	$ 130.81	(2,430) bps	7.2 %	(33.6) %

- The acquisition of the Hyatt Regency San Antonio Riverwalk caused room revenue to increase by $6.8 million. Occupancy was 66.2% and the average daily rate was $176.24, resulting in RevPAR of $116.67.
- Room revenue at the 12 hotels we owned during the entirety of the third quarter and first nine months of both 2024 and 2023, excluding the Two Renovation Hotels (the “Comparable Portfolio”) increased $0.9 million. Occupancy increased 250 basis points and the average daily room rate decreased 2.8%, resulting in a 0.7% increase in RevPAR. The Comparable Portfolio’s room revenue was positively impacted by continued strength in group activity, as well as an acceleration in business travel. These positive impacts were partially reduced by the negative effects of a market-wide moderation in leisure demand in Maui and labor activity at the Hilton San Diego Bayfront, which led to the cancellation of certain group events and overall lower business volume at the hotel.

	Three Months Ended September 30,								
	2024			2023			Change		
	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR
Comparable Portfolio	72.3 %	$ 318.79	$ 230.49	69.8 %	$ 327.94	$ 228.90	250 bps	(2.8) %	0.7 %

For the nine months ended September 30, 2024, room revenue decreased $58.4 million, or 12.1%, as compared to the nine months ended September 30, 2023 as follows:

- The sale of the Boston Park Plaza caused room revenue to decrease by $58.7 million.
- The Two Renovation Hotels caused room revenue to decrease by $20.1 million. Occupancy decreased 3,660 basis points and the average daily room rate decreased 7.6%, resulting in a 55.0% decrease in RevPAR.

	Nine Months Ended September 30,								
	2024			2023			Change		
	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR
Two Renovation Hotels	34.8 %	$ 234.41	$ 81.57	71.4 %	$ 253.66	$ 181.11	(3,660) bps	(7.6) %	(55.0) %

- The acquisition of the Hyatt Regency San Antonio Riverwalk caused room revenue to increase by $13.3 million. Occupancy was 69.9% and the average daily rate was $186.75, resulting in RevPAR of $130.54.

- Room revenue at the Comparable Portfolio increased $7.1 million. Occupancy increased 220 basis points and the average daily room rate decreased 1.7%, resulting in a 1.3% increase in RevPAR. The Comparable Portfolio's room revenue for the first nine months of 2024 was impacted primarily due to the same reasons noted in the discussion above regarding room revenue for the third quarter of 2024.

	Nine Months Ended September 30,								
	2024			2023			Change		
	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR	Occ%	ADR	RevPAR
Comparable Portfolio	73.7 %	$ 329.22	$ 242.64	71.5 %	$ 335.02	$ 239.54	220 bps	(1.7) %	1.3 %

Food and beverage revenue. Food and beverage revenue decreased $0.1 million, or 0.2%, in the third quarter of 2024 as compared to the third quarter of 2023, as follows:

- The sale of the Boston Park Plaza caused food and beverage revenue to decrease by $7.2 million.
- The Two Renovation Hotels caused food and beverage revenue to decrease by $1.4 million.
- Food and beverage revenue at the Comparable Portfolio increased $5.2 million due to increases in both banquet and outlet revenues, primarily due to increases in both group and transient occupancy. In addition, food and beverage revenue increased at the Wailea Beach Resort due to the negative impact of the wildfire in the third quarter of 2023, and at The Westin Washington, DC Downtown, which was under renovation in the prior year. These increases in food and beverage revenue were partially offset by decreases in both banquet and outlet revenue at the Hilton San Diego Bayfront due to labor activity at the hotel during the third quarter of 2024, which led to the cancellation of certain group events and overall lower business volume at the hotel.
- The acquisition of the Hyatt Regency San Antonio Riverwalk caused food and beverage revenue to increase by $3.2 million.

For the first nine months of 2024, food and beverage revenue decreased $17.1 million, or 8.0%, as compared to the first nine months of 2023, as follows:

- The sale of the Boston Park Plaza caused food and beverage revenue to decrease by $20.7 million.
- The Two Renovation Hotels caused food and beverage revenue to decrease by $8.6 million.
- The acquisition of the Hyatt Regency San Antonio Riverwalk caused food and beverage revenue to increase by $6.5 million.
- Food and beverage revenue at the Comparable Portfolio increased $5.7 million due to increases in both outlet and banquet revenues. Outlet revenue increased primarily due to increased transient occupancy. In addition, outlet revenue increased at the Wailea Beach Resort due to the negative impact of the wildfire in the third quarter of 2023, and at The Westin Washington, DC Downtown, which was under renovation in the prior year. Banquet revenue increased at the Marriott Boston Long Wharf and the Montage Healdsburg due to strong group performance, and at The Westin Washington, DC Downtown, which was under renovation in the prior year. These increases to food and beverage revenue were partially offset by decreases in both outlet and banquet revenues at the Hilton San Diego Bayfront due to labor activity at the hotel during the third quarter of 2024, which led to the cancellation of certain group events and overall lower business volume at the hotel.

Other operating revenue. Other operating revenue decreased $1.5 million, or 5.8%, in the third quarter of 2024 as compared to the third quarter of 2023 as follows:

- The sale of the Boston Park Plaza caused other operating revenue to decrease by $2.8 million.
- The Two Renovation Hotels caused other operating revenue to decrease by $0.7 million.
- The acquisition of the Hyatt Regency San Antonio Riverwalk caused other operating revenue to increase by $1.9 million.
- Other operating revenue at the Comparable Portfolio increased $0.2 million, primarily due to the increase in occupancy, which resulted in increased revenue from destination and resort fees, retail revenue, and parking revenue. These increases were partially offset by decreased winery revenue, cancellation and attrition fees and marina revenue.

For the first nine months of 2024, other operating revenue decreased $0.7 million, or 1.0%, as compared to the first nine months of 2023 as follows:

- The sale of the Boston Park Plaza caused other operating revenue to decrease by $6.3 million.
- The Two Renovation Hotels caused other operating revenue to decrease by $2.9 million.

- Other operating revenue at the Comparable Portfolio increased $5.4 million, primarily due to the increase in occupancy, which resulted in increased revenue from destination and resort fees, parking fees, and retail revenue. These increases were partially offset as other operating revenue in the first nine months of 2023 included $0.5 million in business interruption proceeds at the Hilton New Orleans St. Charles related to Hurricane Ida disruption, with no corresponding revenue recognized in the first nine months of 2024. In addition, the Comparable Portfolio's other operating revenue decreased due to decreases in winery revenue, marina revenue, and internet usage fees.
- The acquisition of the Hyatt Regency San Antonio Riverwalk caused other operating revenue to increase by $3.1 million.

Hotel operating expenses. Hotel operating expenses, which are comprised of room, food and beverage, advertising and promotion, repairs and maintenance, utilities, franchise costs, property tax, ground lease and insurance, and other hotel operating expenses decreased $7.5 million, or 5.0%, in the third quarter of 2024 as compared to the third quarter of 2023 as follows:

- The sale of the Boston Park Plaza caused hotel operating expenses to decrease by $17.8 million.
- The Two Renovation Hotels caused hotel operating expenses to decrease by $3.3 million.
- Hotel operating expenses at the Comparable Portfolio increased $6.9 million, primarily corresponding to the increases in the Comparable Portfolio's revenues and occupancy rates, along with increased property taxes and liability insurance. These increases were partially offset by decreased property insurance due to successful policy renewals in the third quarter of 2024.
- The acquisition of the Hyatt Regency San Antonio Riverwalk caused hotel operating expenses to increase by $6.7 million.

For the first nine months of 2024, hotel operating expenses decreased $28.3 million, or 6.3%, as compared to the first nine months of 2023 as follows:

- The sale of the Boston Park Plaza caused hotel operating expenses to decrease by $50.0 million.
- The Two Renovation Hotels caused hotel operating expenses to decrease by $12.1 million.
- Hotel operating expenses at the Comparable Portfolio increased $21.8 million, primarily corresponding to the increases in the Comparable Portfolio's revenues and occupancy rates, along with increased property and liability insurance and property taxes.
- The acquisition of the Hyatt Regency San Antonio Riverwalk caused hotel operating expenses to increase by $11.9 million.

Other property-level expenses. Other property-level expenses decreased $2.3 million, or 8.0%, in the third quarter of 2024 as compared to the third quarter of 2023 as follows:

- The sale of the Boston Park Plaza caused other property-level expenses to decrease by $3.3 million.
- The Two Renovation Hotels caused other property-level expenses to decrease by $0.6 million.
- The acquisition of the Hyatt Regency San Antonio Riverwalk caused other property-level expenses to increase by $1.3 million.
- Other property-level expenses at the Comparable Portfolio increased $0.2 million, primarily due to increases in payroll and related expenses, contract and professional fees, and credit card commissions. These increased expenses were partially offset by decreases in management fees and supply expenses.

For the first nine months of 2024, other property-level expenses decreased $10.2 million, or 11.0%, as compared to the first nine months of 2023 as follows:

- The sale of the Boston Park Plaza caused other property-level expenses to decrease by $8.9 million.
- The Two Renovation Hotels caused other property-level expenses to decrease by $2.5 million.
- Other property-level expenses at the Comparable Portfolio decreased $1.3 million, primarily due to a $1.3 million COVID-19 relief grant received in the first quarter of 2024 at the Marriott Boston Long Wharf with no corresponding grant received in the first nine months of 2023. Additional decreases in other property-level expenses at the Comparable Portfolio included management fees and supply expenses. These decreased expenses were partially offset by increased payroll and related expenses, contract and professional fees, and credit card commissions.
- The acquisition of the Hyatt Regency San Antonio Riverwalk caused other property-level expenses to increase by $2.5 million.

Corporate overhead expense. Corporate overhead expense increased $0.5 million, or 6.3%, in the third quarter of 2024 as compared to the third quarter of 2023, primarily due to increased due diligence fees, professional fees, and entity-level state franchise and minimum taxes. These increased expenses were partially offset by decreased payroll and related expenses and deferred stock amortization expense.

For the first nine months of 2024, corporate overhead expense decreased $0.7 million, or 3.0%, as compared to the first nine months of 2023, primarily due to decreased entity-level state franchise and minimum taxes, payroll and related expenses, and board of director expenses. These decreased expenses were partially offset by increased professional fees, deferred stock amortization expense, and due diligence expenses.

Depreciation and amortization expense. Depreciation and amortization expense decreased $1.5 million, or 4.5%, in the third quarter of 2024 as compared to the third quarter of 2023 as follows:

- The sale of the Boston Park Plaza resulted in a decrease in depreciation and amortization expense of $4.1 million.
- Depreciation and amortization expense related to the Comparable Portfolio decreased $0.1 million as reduced expense due to fully depreciated assets was partially offset by increased expense at our newly renovated hotels.
- The Two Renovation Hotels caused a $0.5 million increase in depreciation and amortization expense.
- The acquisition of the Hyatt Regency San Antonio Riverwalk resulted in an increase in depreciation and amortization expense of $2.1 million.

For the first nine months of 2024, depreciation and amortization expense decreased $6.1 million, or 6.2%, as compared to the first nine months of 2023 as follows:

- The sale of the Boston Park Plaza resulted in a decrease in depreciation and amortization expense of $12.8 million.
- The acquisition of the Hyatt Regency San Antonio Riverwalk resulted in an increase in depreciation and amortization expense of $4.3 million.
- Depreciation and amortization expense related to the Comparable Portfolio increased $2.0 million due to increased expense at our newly renovated hotels, partially offset by decreased expense due to fully depreciated assets.
- The Two Renovation Hotels caused a $0.5 million increase in depreciation and amortization expense.

Interest and other income. Interest and other income totaled $2.4 million and $1.2 million in the third quarters of 2024 and 2023, respectively, and $11.3 million and $6.4 million in the first nine months of 2024 and 2023, respectively.

During the third quarters of 2024 and 2023, we recognized interest income of $2.3 million and $1.2 million, respectively. Interest income increased in the third quarter of 2024 as compared to the third quarter of 2023 due to increases in our cash balances as well as increased interest rates. In addition, during the third quarter of 2024, we recognized other miscellaneous income of $0.1 million.

During the first nine months of 2024 and 2023, we recognized interest income of $10.9 and $2.7 million, respectively. Interest income increased in the first nine months of 2024 as compared to the first nine months of 2023 due to increases in our cash balances as well as increased interest rates. In addition, during the first nine months of 2024 and 2023, we recognized property insurance recoveries of $0.3 million and $3.7 million related to fire damage at the Hilton San Diego Bayfront and Hurricane Ida-related property damage at the Hilton New Orleans St. Charles, respectively. During the first nine months of 2024, we also recognized other miscellaneous income of $0.1 million.

We expect our interest income will decrease in the fourth quarter of 2024 and into 2025 in accordance with the Federal Reserve Board's interest rates reductions and our lower cash balances.

Interest expense. We incurred interest expense as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest expense on debt	$ 12,395	$ 12,623	$ 37,012	$ 36,299
Noncash interest on derivatives, net	3,326	(1,469)	1,095	(3,348)
Amortization of deferred financing costs	741	740	2,219	1,960
Capitalized interest	(480)	—	(641)	—
Total interest expense	$ 15,982	$ 11,894	$ 39,685	$ 34,911

Interest expense increased $4.1 million, or 34.4%, and $4.8 million, or 13.7%, in the third quarter and first nine months of 2024, respectively, as compared to the same periods in 2023.

The increase in interest expense during the third quarter of 2024 was primarily due to a $4.8 million noncash change in the fair market value of our derivatives. This increase to expense was partially offset by $0.5 million in capitalized interest and a $0.2 million decrease in interest expense on our debt. During the third quarter of 2024, we capitalized $0.5 million of interest expense related to the extensive renovation work at The Confidante Miami Beach as it transitions to Andaz Miami Beach. Interest expense on our debt decreased $0.2 million primarily due to decreased interest on our variable rate debt.

The increase in interest expense during the first nine months of 2024 was primarily due to a $4.4 million noncash change in the fair market value of our derivatives. In addition, interest expense on our debt increased $0.7 million primarily due to increased interest on our variable rate debt and our draw of the $225.0 million available under our third term loan in May 2023, which was partially offset due to our repayment of the $220.0 million loan secured by the Hilton San Diego Bayfront in May 2023. The amortization of deferred financing costs caused interest expense to increase $0.3 million in the first nine months of 2024 as compared to the same period in 2023 due to costs incurred on our third term loan. These increases were partially offset by $0.6 million of interest capitalized related to the extensive renovation work at The Confidante Miami Beach as it transitions to Andaz Miami Beach.

Our weighted average interest rate per annum, including our variable rate debt obligations and excluding capitalized interest, was approximately 5.7% and 5.8% at September 30, 2024 and 2023, respectively. Approximately 51.1% and 51.2% of our outstanding notes payable had fixed interest rates or had been swapped to fixed interest rates at September 30, 2024 and 2023, respectively.

Gain on sale of assets, net. Gain on sale of assets, net totaled zero and $0.5 million for the third quarter and first nine months of 2024, respectively, and zero for both the third quarter and first nine months of 2023. In the first quarter of 2024, we recognized an additional $0.5 million net gain related to a contingency resolution at a hotel sold in a prior year.

Gain on extinguishment of debt. Gain on extinguishment of debt totaled zero and a nominal amount for the third quarters of 2024 and 2023, respectively. In the third quarter of 2023, we recorded a nominal gain associated with reassessments of the remaining potential employee-related obligations held in escrow associated with our assignment of a hotel to the hotel's mortgage holder in 2020.

For the first nine months of 2024 and 2023, gain on extinguishment of debt totaled $0.1 million and $9.9 million, respectively, both of which were related to the remaining potential employee-related obligations noted above in the discussion regarding the third quarter of 2023. During the first nine months of 2024, we recognized $21,000 due to reassessments of the remaining potential employee-related obligations held in escrow, and $38,000 due to the release of the remaining potential employee-related obligations in conjunction with the termination of the escrow agreement during the second quarter of 2024. During the first nine months of 2023 we recognized a gain of $9.9 million, comprised of $9.8 million from the relief of the majority of the potential employee-related obligations, with the funds released to us from escrow, and $0.1 million due to reassessments of the remaining potential employee-related obligations held in escrow.

Income tax benefit (provision), net. We lease our hotels to the TRS Lessee and its subsidiaries, which are subject to federal and state income taxes. In addition, we and the Operating Partnership may also be subject to various state and local income taxes.

In the third quarter and first nine months of 2024, we recognized net current income tax benefits of $0.5 million and $1.1 million, respectively, resulting from current state and federal income tax expenses, net of any refunds.

In the third quarter and first nine months of 2023, we recognized current income tax provisions of $0.6 million and $1.8 million, respectively, resulting from current state and federal income tax expenses.

Preferred stock dividends. Preferred stock dividends were incurred as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Series G preferred stock	$ 745	$ 40	$ 1,739	$ 1,204
Series H preferred stock	1,761	1,761	5,283	5,283
Series I preferred stock	1,425	1,425	4,275	4,275
Total preferred stock dividends	$ 3,931	$ 3,226	$ 11,297	$ 10,762

The Series G preferred stock initially accrued dividends at a rate equal to the Montage Healdsburg's annual net operating income yield on our total investment in the resort. In the first and third quarters of 2024, the annual dividend rate increased to the greater of 3.0% and 4.5%, respectively, or the rate equal to the Montage Healdsburg's annual net operating income yield on our total investment in the resort.

Non-GAAP Financial Measures. We use the following "non-GAAP financial measures" that we believe are useful to investors as key supplemental measures of our operating performance: EBITDA*re;* Adjusted EBITDA*re*; FFO attributable to common stockholders; and Adjusted FFO attributable to common stockholders. These measures should not be considered in isolation or as a substitute for measures of performance in accordance with accounting principles generally accepted in the United States ("GAAP"). In addition, our calculation of these measures may not be comparable to other companies that do not define such terms exactly the same as the Company. These non-GAAP measures are used in addition to and in conjunction with results presented in accordance with GAAP. They should not be considered as alternatives to net income (loss), cash flow from operations, or any other operating performance measure prescribed by GAAP. These non-GAAP financial measures reflect additional ways of viewing our operations that we believe, when viewed with our GAAP results and the reconciliations to the corresponding GAAP financial measures, provide a more complete understanding of factors and trends affecting our business than could be obtained absent this disclosure. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure.

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

We make additional adjustments to EBITDA*re* when evaluating our performance because we believe that the exclusion of certain additional items described below provides useful information to investors regarding our operating performance, and that the presentation of Adjusted EBITDA*re*, when combined with the primary GAAP presentation of net income, is beneficial to an investor's complete understanding of our operating performance. In addition, we use both EBITDA*re* and Adjusted EBITDA*re* as measures in determining the value of hotel acquisitions and dispositions.

We adjust EBITDA*re* for the following items, which may occur in any period, and refer to this measure as Adjusted EBITDA*re*:

- *Amortization of deferred stock compensation*: we exclude the noncash expense incurred with the amortization of deferred stock compensation as this expense is based on historical stock prices at the date of grant to our corporate employees and does not reflect the underlying performance of our hotels.

- *Amortization of contract intangibles*: we exclude the noncash amortization of any favorable or unfavorable contract intangibles recorded in conjunction with our hotel acquisitions. We exclude the noncash amortization of contract intangibles because it is based on historical cost accounting and is of lesser significance in evaluating our actual performance for the current period.

- *Amortization of right-of-use assets and obligations*: we exclude the amortization of our right-of-use assets and related lease obligations, as these expenses are based on historical cost accounting and do not reflect the actual rent amounts due to the respective lessors or the underlying performance of our hotels.

- *Undepreciated asset transactions*: we exclude the effect of gains and losses on the disposition of undepreciated assets because we believe that including them in Adjusted EBITDA*re* is not consistent with reflecting the ongoing performance of our assets.

- *Gains or losses from debt transactions*: we exclude the effect of finance charges and premiums associated with the extinguishment of debt, including the acceleration of deferred financing costs from the original issuance of the debt being redeemed or retired because, like interest expense, their removal helps investors evaluate and compare the results of our operations from period to period by removing the impact of our capital structure.

- *Cumulative effect of a change in accounting principle*: from time to time, the FASB promulgates new accounting standards that require the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude these one-time adjustments, which include the accounting impact from prior periods, because they do not reflect our actual performance for that period.

- *Other adjustments*: we exclude other adjustments that we believe are outside the ordinary course of business because we do not believe these costs reflect our actual performance for the period and/or the ongoing operations of our hotels. Such items may include: lawsuit settlement costs; the write-off of development costs associated with abandoned projects;

property-level restructuring, severance, and management transition costs; pre-opening costs associated with extensive renovation projects such as the work being performed at The Confidante Miami Beach; debt resolution costs; lease terminations; property insurance restoration proceeds or uninsured losses; and other nonrecurring identified adjustments.

The following table reconciles our unaudited net income to EBITDA*re* and Adjusted EBITDA*re* for the three and nine months ended September 30, 2024 and 2023 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	$ 3,249	$ 15,558	$ 42,426	$ 79,723
Depreciation and amortization	31,689	33,188	91,841	97,927
Interest expense	15,982	11,894	39,685	34,911
Income tax (benefit) provision, net	(483)	602	(1,083)	1,763
Gain on sale of assets, net	—	—	(457)	—
EBITDA*re*	50,437	61,242	172,412	214,324
Amortization of deferred stock compensation	2,430	2,511	8,381	8,263
Amortization of right-of-use assets and obligations	(153)	(13)	(271)	(82)
Amortization of contract intangibles, net	—	(19)	—	(55)
Gain on extinguishment of debt	—	(9)	(59)	(9,930)
Gain on insurance recoveries	—	—	(314)	(3,722)
Pre-opening costs	853	—	1,452	—
Adjustments to EBITDA*re*, net	3,130	2,470	9,189	(5,526)
Adjusted EBITDA*re*	$ 53,567	$ 63,712	$ 181,601	$ 208,798

Adjusted EBITDA*re* decreased $10.1 million, or 15.9%, in the third quarter of 2024 as compared to the third quarter of 2023, and $27.2 million, or 13.0%, in the first nine months of 2024 as compared to the first nine months of 2023 primarily due to the following:

- The Boston Park Plaza recorded Adjusted EBITDA*re* of $12.9 million and $26.6 million in the third quarter and first nine months of 2023, respectively.
- Adjusted EBITDA*re* at the Two Renovation Hotels decreased $0.7 million, or 74.5%, and $15.6 million, or 119.2%, in the third quarter and first nine months of 2024, respectively, as compared to the same periods in 2023.
- Adjusted EBITDA*re* at the Comparable Portfolio decreased $0.8 million, or 1.6%, and $4.0 million, or 2.2%, in the third quarter and first nine months of 2024, respectively, as compared to the same periods in 2023 primarily due to the changes in the Comparable Portfolio's revenues and expenses included in the discussion above regarding the operating results for the third quarter and first nine months of 2024.
- The Hyatt Regency San Antonio Riverwalk recorded Adjusted EBITDA*re* of $4.0 million and $8.6 million in the third quarter and first nine months of 2024, respectively.

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

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

We adjust FFO attributable to common stockholders for the following items, which may occur in any period, and refer to this measure as Adjusted FFO attributable to common stockholders:

- *Amortization of deferred stock compensation*: we exclude the noncash expense incurred with the amortization of deferred stock compensation as this expense is based on historical stock prices at the date of grant to our corporate employees and does not reflect the underlying performance of our hotels.

- *Amortization of contract intangibles*: we exclude the noncash amortization of any favorable or unfavorable contract intangibles recorded in conjunction with our hotel acquisitions. We exclude the noncash amortization of contract intangibles because it is based on historical cost accounting and is of lesser significance in evaluating our actual performance for the current period.

- *Real estate amortization of right-of-use assets and obligations* : we exclude the amortization of our real estate right-of-use assets and related lease obligations (with the exception of our corporate operating lease) as these expenses are based on historical cost accounting and do not reflect the actual rent amounts due to the respective lessors or the underlying performance of our hotels.

- *Gains or losses from debt transactions* : we exclude the effect of finance charges and premiums associated with the extinguishment of debt, including the acceleration of deferred financing costs from the original issuance of the debt being redeemed or retired, as well as the noncash interest on our derivatives. We believe that these items are not reflective of our ongoing finance costs.

- *Cumulative effect of a change in accounting principle* : from time to time, the FASB promulgates new accounting standards that require the consolidated statement of operations to reflect the cumulative effect of a change in accounting principle. We exclude these one-time adjustments, which include the accounting impact from prior periods, because they do not reflect our actual performance for that period.

- *Other adjustments*: we exclude other adjustments that we believe are outside the ordinary course of business because we do not believe these costs reflect our actual performance for that period and/or the ongoing operations of our hotels. Such items may include: lawsuit settlement costs; the write-off of development costs associated with abandoned projects; changes to deferred tax assets, liabilities or valuation allowances; property-level restructuring, severance, and management transition costs; pre-opening costs associated with extensive renovation projects such as the work being performed at The Confidante Miami Beach; debt resolution costs; preferred stock redemption charges; lease terminations; property insurance restoration proceeds or uninsured losses; income tax benefits or provisions associated with the application of net operating loss carryforwards, uncertain tax positions or with the sale of assets; and other nonrecurring identified adjustments.

The following table reconciles our unaudited net income to FFO attributable to common stockholders and Adjusted FFO attributable to common stockholders for the three and nine months ended September 30, 2024 and 2023 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	$ 3,249	$ 15,558	$ 42,426	$ 79,723
Preferred stock dividends	(3,931)	(3,226)	(11,297)	(10,762)
Real estate depreciation and amortization	31,320	33,025	90,846	97,456
Gain on sale of assets, net	—	—	(457)	—
FFO attributable to common stockholders	30,638	45,357	121,518	166,417
Amortization of deferred stock compensation	2,430	2,511	8,381	8,263
Real estate amortization of right-of-use assets and obligations	(129)	(124)	(381)	(371)
Amortization of contract intangibles, net	315	84	833	252
Noncash interest on derivatives, net	3,326	(1,469)	1,095	(3,348)
Gain on extinguishment of debt	—	(9)	(59)	(9,930)
Gain on insurance recoveries	—	—	(314)	(3,722)
Pre-opening costs	853	—	1,452	—
Prior year income tax benefit, net	(582)	—	(1,530)	—
Adjustments to FFO attributable to common stockholders, net	6,213	993	9,477	(8,856)
Adjusted FFO attributable to common stockholders	$ 36,851	$ 46,350	$ 130,995	$ 157,561

Adjusted FFO attributable to common stockholders decreased $9.5 million, or 20.5%, and $26.6 million, or 16.9%, in the third quarter and first nine months of 2024, respectively, as compared to the same periods in 2023 primarily due to the same reasons noted in the discussion above regarding Adjusted EBITDA*re*.

Liquidity and Capital Resources

During the periods presented, our sources of cash included our operating activities and working capital, as well as proceeds from our term loan, property insurance, and a hotel disposition deposit. Our primary uses of cash were for capital expenditures for hotels and other assets, an acquisition of a hotel, operating expenses, repurchases of our common stock, repayments of notes payable and dividends and distributions on our preferred and common stock. We cannot be certain that traditional sources of funds will be available in the future.

Operating activities*.* Our net cash provided by or used in operating activities fluctuates primarily as a result of changes in the net cash generated by our hotels, offset by the cash paid for corporate expenses. Our net cash provided by or used in operating activities may also be affected by changes in our portfolio resulting from hotel acquisitions, dispositions or renovations. Net cash provided by operating activities was $139.9 million in the first nine months of 2024 as compared to $168.7 million in the first nine months of 2023. The net decrease in cash provided by operating activities during the first nine months of 2024 as compared to the same period in 2023 was primarily due to decreases in operating cash at the Two Renovation Hotels, as well as decreases caused by our sale of the Boston Park Plaza and higher interest payments on our variable rate debt, partially offset by the acquisition of the Hyatt Regency San Antonio Riverwalk as well as additional operating cash provided by the increase in travel demand benefiting our hotels.

Investing activities. Our net cash provided by or used in investing activities fluctuates primarily as a result of acquisitions, dispositions and renovations of hotels and other assets. Net cash used in investing activities during the first nine months of 2024 as compared to the first nine months of 2023 was as follows (in thousands):

	Nine Months Ended September 30,	
	2024	**2023**
Acquisition of hotel property	$ (229,330)	$ —
Disposition deposit	—	10,000
Proceeds from property insurance	314	3,722
Renovations and additions to hotel properties and other assets	(110,241)	(73,944)
Net cash used in investing activities	$ (339,257)	$ (60,222)

During the first nine months of 2024, we paid $229.3 million to acquire the Hyatt Regency San Antonio Riverwalk, including closing costs and prorations and we invested $110.2 million for renovations and additions to our portfolio and other assets. These cash outflows were slightly offset by $0.3 million in property insurance proceeds received related to fire damage at the Hilton San Diego Bayfront.

During the first nine months of 2023, we received a disposition deposit of $10.0 million from the buyer of the Boston Park Plaza, which we sold in October 2023, and we received insurance proceeds of $3.7 million for hurricane-related property damage at the Hilton New Orleans St. Charles. These cash inflows were offset by $73.9 million invested for renovations and additions to our portfolio and other assets.

Financing activities. Our net cash provided by or used in financing activities fluctuates primarily as a result of our dividends and distributions paid, issuance and repurchase of common stock, issuance and repayment of notes payable and our credit facility, and issuance and redemption of other forms of capital, including preferred equity. Net cash used in financing activities during the first nine months of 2024 as compared to the first nine months of 2023 was as follows (in thousands):

	Nine Months Ended September 30,	
	2024	**2023**
Acquisition of noncontrolling interest, including transaction costs	$ —	$ (299)
Payment of common stock offering costs	—	(428)
Repurchases of outstanding common stock	(26,294)	(35,523)
Repurchases of common stock for employee tax obligations	(4,160)	(3,348)
Proceeds from note payable	—	225,000
Payments on notes payable	(1,613)	(221,554)
Payments of deferred financing costs	—	(2,332)
Dividends and distributions paid	(69,697)	(42,246)
Net cash used in financing activities	$ (101,764)	$ (80,730)

During the first nine months of 2024, we paid $26.3 million to repurchase 2,670,373 shares of our outstanding common stock, $4.2 million to repurchase common stock to satisfy the tax obligations in connection with the vesting of restricted common stock issued to employees, $1.6 million in scheduled principal payments on our loan secured by the JW Marriott New Orleans and $69.7 million in dividends and distributions to our preferred and common stockholders.

During the first nine months of 2023, we paid an additional $0.3 million to true-up the total acquisition cost of the outside 25.0% equity interest in the entity that owns the Hilton San Diego Bayfront and $0.4 million in common stock offering costs related to our shelf registration statement. In addition, we paid $35.5 million to repurchase 3,827,759 shares of our outstanding common stock, $3.3 million to repurchase common stock to satisfy the tax obligations in connection with the vesting of restricted common stock issued to employees, and $42.2 million in dividends and distributions to our preferred and common stockholders. We also entered into a term loan agreement, receiving $225.0 million in proceeds and paying $2.3 million in related deferred financing costs. We utilized the proceeds received from the term loan to repay the $220.0 million loan secured by the Hilton San Diego Bayfront. We also paid $1.6 million in scheduled principal payments on our loan secured by the JW Marriott New Orleans.

Future. We expect our primary sources of cash will continue to be our operating activities, working capital, borrowing under our credit facility, additional issuances of notes payable, dispositions of hotel properties and proceeds from offerings of common and preferred stock. However, there can be no assurance that our future asset sales, debt issuances or equity offerings will be successfully completed. As a result of potential increases in inflation rates and interest rates, as well as possible recessionary periods in the future, certain sources of capital may not be as readily available to us as they have in the past or may only be available at higher costs.

We expect our primary uses of cash to be for operating expenses, capital investments in our hotels, repayment of principal on our notes payable and credit facility, interest expense, repurchases of our common stock, distributions on our common stock, dividends on our preferred stock and acquisitions of hotels or interests in hotels. In October 2024, we paid $0.2 million to repurchase 18,209 shares of our outstanding common stock, leaving $428.3 million available for repurchase under our stock repurchase program.

While both inflation and interest rates began to decrease in the third quarter of 2024, the recent increases in inflation and interest rates have had a negative effect on our operations. We have experienced increases in wages, employee-related benefits, food costs, commodity costs, including those used to renovate or reposition our hotels, property taxes, property and liability insurance, utilities and borrowing costs. The ability of our hotel operators to adjust rates has mitigated the impact of increased operating costs on our financial position and results of operations. However, the increases in interest rates negatively affected our variable rate debt, resulting in increased interest payments during the first nine months of 2024.

Cash Balance. As of September 30, 2024, our unrestricted cash balance was $115.5 million. We believe that our current unrestricted cash balance and our ability to draw the $500.0 million capacity available for borrowing under the unsecured revolving credit facility will enable us to successfully manage our Company.

Debt. As of September 30, 2024, we had $817.4 million of debt, $192.6 million of cash and cash equivalents, including restricted cash, and total assets of $3.1 billion. We believe that by maintaining appropriate debt levels, staggering maturity dates and maintaining a highly flexible structure, we will have lower capital costs than more highly leveraged companies, or companies with limited flexibility due to restrictive covenants.

As of September 30, 2024, 51.1% of our outstanding debt had fixed interest rates or had been swapped to fixed interest rates, including the loan secured by the JW Marriott New Orleans, unsecured corporate-level Term Loan 1 and two unsecured corporate-level senior notes.

The Company’s floating rate debt as of September 30, 2024 included the $175.0 million unsecured corporate-level Term Loan 2 and the $225.0 million unsecured corporate-level Term Loan 3.

On November 7, 2024, the Company entered into a new delayed draw $100.0 million term loan agreement with several financial institutions. The new term loan will bear interest pursuant to a leverage-based pricing grid ranging from 1.35% to 2.20% over the applicable adjusted term SOFR and we may elect to swap some or all of the loan balance to fixed rates. The new term loan has an initial term of one year with two six-month extension options at the Company’s election, resulting in an extended maturity of November 7, 2026. The Company expects to fully draw the new term loan in early December and use most of the proceeds received to repay the loan secured by the JW Marriott New Orleans, which matures December 11, 2024 and is projected to have a balance of $72.1 million.

We may in the future seek to obtain mortgages on one or more of our 14 unencumbered hotels (subject to certain provisions under our unsecured term loans and senior notes), all of which were held by subsidiaries whose interests were pledged to our credit facility as of September 30, 2024. Should we obtain secured financing on any of our unencumbered hotels, the amount of capital available through our credit facility or future unsecured borrowings may be reduced. Following the repayment of the loan secured by the JW Marriott New Orleans in December 2024, all of our hotels will be unencumbered and held by subsidiaries whose interests are pledged to our credit facility.

Contractual Obligations. The following table summarizes our payment obligations and commitments as of September 30, 2024 (in thousands):

	Payment due by period				
	Total	Less Than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Notes payable (1)	$ 817,437	$ 72,437	$ 465,000	$ 280,000	$ —
Interest obligations on notes payable (1) (2)	118,560	44,365	66,927	7,268	—
Operating lease obligations, including imputed interest (3)	11,687	5,881	3,057	1,765	984
Construction commitments	79,339	79,339	—	—	—
Total	$ 1,027,023	$ 202,022	$ 534,984	$ 289,033	$ 984

(1) Notes payable and interest obligations on notes payable include the $225.0 million unsecured Term Loan 3 assuming the Company has exercised its one-time option to extend the maturity of the loan from May 1, 2025 to May 1, 2026 upon payment of applicable fees and the satisfaction of certain customary conditions.

(2) Interest is calculated based on the loan balances and variable rates, as applicable, at September 30, 2024, and includes the effect of our interest rate derivatives.

(3) Operating lease obligations include the lease on our current corporate headquarters and the sublease on our former corporate headquarters. In addition, operating lease obligations include a ground lease that expires in 2071 and requires a reassessment of rent payments due after 2025, agreed upon by both us and the lessor; therefore, no amounts are included in the above table for this ground lease after 2025.

Capital Expenditures and Reserve Funds

We believe we maintain each of our hotels in good repair and condition and in general conformity with applicable franchise and management agreements, ground lease, laws and regulations. Our capital expenditures primarily relate to the ongoing maintenance of our hotels and are budgeted in the reserve accounts described in the following paragraph. We also incur capital expenditures for cyclical renovations, hotel repositionings and development. We invested $110.2 million and $73.9 million in our portfolio and other assets during the first nine months of 2024 and 2023, respectively. As of September 30, 2024, we have contractual construction commitments totaling $79.3 million for ongoing renovations. During the remainder of 2024, we will continue to incur significant capital expenditures as we complete the substantial renovation and rebranding of The Confidante Miami Beach to Andaz Miami Beach. If we renovate additional hotels in the future, our capital expenditures will likely increase.

With respect to our hotels that are operated under management or franchise agreements with major national hotel brands and our hotel subject to a first mortgage lien, we are obligated to maintain an FF&E reserve account for future planned and emergency-related capital expenditures at these hotels. The amount funded into each of these reserve accounts is determined pursuant to the management, franchise and loan agreements for each of the respective hotels, ranging between 2.0% and 5.5% of the respective hotel's applicable annual revenue. As of September 30, 2024, our balance sheet includes restricted cash of $76.4 million, which was held in FF&E reserve accounts for future capital expenditures at the majority of our hotels. According to certain loan and management agreements, reserve funds are to be held by the lender or managers in restricted cash accounts, and we are not required to spend the entire amount in such reserve accounts each year.

Inflation

Inflation affects our expenses, including, without limitation, by increasing such costs as wages, employee-related benefits, food costs, commodity costs, including those used to renovate or reposition our hotels, property taxes, property and liability insurance, utilities and borrowing costs. We rely on our hotel operators to adjust room rates and pricing for hotel services to reflect the effects of inflation. However, previously contracted rates, competitive pressures or other factors may limit the ability of our operators to respond to inflation. As a result, our expenses may increase at higher rates than our revenue.

Seasonality and Volatility

As is typical of the lodging industry, we experience seasonality in our business. Demand at certain of our hotels is affected by seasonal business patterns that can cause quarterly fluctuations in our revenues.

Quarterly revenue also may be adversely affected by renovations and repositionings, our managers' effectiveness in generating business and by events beyond our control, such as economic and business conditions, including a U.S. recession or increased inflation, trade conflicts and tariffs, changes impacting global travel, regional or global economic slowdowns, any flu or disease-related pandemic that impacts travel or the ability to travel, weather patterns, the adverse effects of climate change, the threat of terrorism, terrorist events, civil unrest, government shutdowns, events that reduce the capacity or availability of air travel, increased competition from other hotels in our markets, new hotel supply or alternative lodging options and unexpected changes in business, commercial travel, leisure travel and tourism.

Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities.

We evaluate our estimates on an ongoing basis. We base our estimates on historical experience, information that is currently available to us and on various other assumptions that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the most significant judgments and estimates used in the preparation of our consolidated financial statements.

- ***Impairment of investments in hotel properties*** . Impairment losses are recorded on investments in hotel properties to be held and used by us whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors we consider when assessing whether impairment indicators exist include, but are not limited to, hotel disposition strategy and hold period, a significant decline in operating results not related to renovations or repositioning, significant changes in the manner in which the Company uses the asset, physical damage to the property due to unforeseen events such as natural disasters, and other market and economic conditions.

  Recoverability of assets that will continue to be used is measured by comparing the carrying amount of the asset to the related total future undiscounted net cash flows. If an asset's carrying value is not recoverable through those cash flows, the asset is considered to be impaired. The impairment is measured by the difference between the asset's carrying amount and its fair value. We perform a fair value assessment using valuation techniques such as discounted cash flows and comparable sales transactions in the market to estimate the fair value of the hotel and, if appropriate and available, current estimated net sales proceeds from pending offers. Our judgment is required in determining the discount rate, terminal capitalization rate, the estimated growth of revenues and expenses, revenue per available room and margins, as well as specific market and economic conditions.

- ***Acquisition-related assets and liabilities*** . The acquisition of a hotel property or other entity requires an analysis of the transaction to determine if it qualifies as the purchase of a business or an asset. If the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, then the transaction is an asset acquisition. Transaction costs associated with asset acquisitions are capitalized and subsequently depreciated over the life of the related asset, while the same costs associated with a business combination are expensed as incurred and included in corporate overhead on our consolidated statements of operations. Also, given the subjectivity, business combinations are provided a one-year measurement period to adjust the provisional amounts recognized if the necessary information is not available by the end of the reporting period in which the acquisition occurs; whereas asset acquisitions are not subject to a measurement period.

  Accounting for the acquisition of a hotel property or other entity requires either allocating the purchase price to the assets acquired and the liabilities assumed in the transaction at their respective relative fair values for an asset acquisition or recording the assets and liabilities at their estimated fair values with any excess consideration above net assets going to goodwill for a business combination. The most difficult estimations of individual fair values are those involving long-lived assets, such as property, equipment and intangible assets, together with any finance or operating lease right-of-use assets and their related obligations. When we acquire a hotel property or other entity, we use all available information to make these fair value determinations, including discounted cash flow analyses, market comparable data and replacement cost data. In addition, we make significant estimations regarding capitalization rates, discount rates, average daily rates, revenue growth rates and occupancy. We also engage independent valuation specialists to assist in the fair value determinations of the long-lived assets acquired and the liabilities assumed. The determination of fair value is subjective and is based in part on assumptions and estimates that could differ materially from actual results in future periods.

- ***Depreciation and amortization expense*** . Depreciation expense is based on the estimated useful life of our assets. The life of the assets is based on a number of assumptions, including the cost and timing of capital expenditures to maintain and refurbish our hotels, as well as specific market and economic conditions. Hotel properties are depreciated using the straight-line method over estimated useful lives primarily ranging from five years to forty years for buildings and improvements and three years to twelve years for FF&E. Intangible assets are amortized using the straight-line method over the shorter of their estimated useful life or the length of the related agreement. While we believe our estimates are reasonable, a change in the estimated lives could affect depreciation expense and net income or the gain or loss on the sale of any of our hotels. We have not changed the useful lives of any of our assets during the periods discussed.

- ***Income Taxes***. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our REIT taxable income (determined without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders. As a REIT, we generally will not be subject to federal corporate income tax on that portion of our taxable income that is currently distributed to stockholders. We are subject to certain state and local taxes on our income and property, and to federal income and excise taxes on our undistributed taxable income. In addition, our wholly owned TRS, which leases our hotels from the Operating Partnership, is subject to federal and state income taxes. We account for income taxes using the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to the differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, and for net operating loss, capital loss and tax credit carryforwards. The deferred tax assets and liabilities are measured using the enacted income tax rates in effect for the year in which those temporary differences are expected to be realized or settled. The effect on the deferred tax assets and liabilities from a change in tax rates is recognized in earnings in the period when the new rate is enacted. However, deferred tax assets are recognized only to the extent that it is more likely than not that they will be realized based on consideration of all available evidence, including the future reversals of existing taxable temporary differences, future projected taxable income and tax planning strategies. Valuation allowances are provided if, based upon the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

  We review any uncertain tax positions and, if necessary, we will record the expected future tax consequences of uncertain tax positions in the consolidated financial statements. Tax positions not deemed to meet the “more-likely-than-not” threshold are recorded as a tax benefit or expense in the current year. We are required to analyze all open tax years, as defined by the statute of limitations, for all major jurisdictions, which includes federal and certain states.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

To the extent that we incur debt with variable interest rates, our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. We have no derivative financial instruments held for trading purposes. We use derivative financial instruments, which are intended to manage interest rate risks on our floating rate debt.

As of September 30, 2024, 51.1% of our debt obligations were fixed in nature or were subject to interest rate swap derivatives, which mitigates the effect of changes in interest rates on our cash interest payments. If the market rate of interest on our variable rate debt increases or decreases by 50 basis points, interest expense on an annualized basis would increase or decrease, respectively, our future consolidated earnings and cash flows by approximately $2.0 million based on the debt balances and variable rates at September 30, 2024.

Item 4. Controls and Procedures

Attached as exhibits to this Form 10-Q are the certifications required by Rule 13a-14 of the Securities Exchange Act of 1934, as amended. This section includes information concerning the controls and control evaluations referred to in the certifications.

***Evaluation of Disclosure Controls and Procedures*.** Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. During our fiscal quarter to which this Quarterly Report on Form 10-Q relates, there has not occurred any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) None.

(c) In February 2023, our board of directors reauthorized the Company's existing stock repurchase program and restored the $500.0 million amount of aggregate common and preferred stock allowed to be repurchased under the program. The stock repurchase program has no stated expiration date. During the three months ended September 30, 2024, the Company repurchased 2,311,365 shares of its common stock for a total purchase price of $22.7 million, including fees and commissions, leaving $428.5 million remaining under the stock repurchase program. Future repurchases will depend on various factors, including our capital needs and restrictions under our various financing agreements, as well as the price of our common and preferred stock.

In September 2024, the Company withheld 91,439 shares of its restricted stock at an average market value of $10.31 per share and used the proceeds to satisfy the tax obligations in connection with the vesting of restricted common shares issued to employees.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Appropriate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2024 - July 31, 2024	—		—	$ 451,078,555
August 1, 2024 - August 31, 2024	1,694,337	$ 9.75	1,694,337	$ 434,559,637
September 1, 2024 - September 30, 2024	708,467	$ 9.95	617,028	$ 428,452,987
Total	2,402,804	$ 9.81	2,311,365	$ 428,452,987

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

(a) None.

(b) None.

(c) During the quarter ended September 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement" as each such term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

The following Exhibits are filed as a part of this report:

Exhibit Number	Description
3.1	Articles of Amendment and Restatement of Sunstone Hotel Investors, Inc. (incorporated by reference to Exhibit 3.1 to the registration statement on Form S-11 (File No. 333-117141) filed by the Company).
3.2	Third Amended and Restated Bylaws of Sunstone Hotel Investors, Inc. effective as of February 9, 2023 (incorporated by reference to Exhibit 3.1 to Form 8-K, filed by the Company on February 10, 2023).
3.3	Articles Supplementary Prohibiting the Company From Electing to be Subject to Section 3-803 of the Maryland General Corporation Law Absent Shareholder Approval (incorporated by reference to Exhibit 3.1 to Form 8-K, filed by the Company on April 29, 2013).
3.4	Articles Supplementary for Series G preferred stock (incorporated by reference to Exhibit 3.1 to Form 8-K, filed by the Company on April 28, 2021).
3.5	Articles Supplementary for Series H preferred stock (incorporated by reference to Exhibit 3.3 to the registration statement on Form 8-A, filed by the Company on May 20, 2021).
3.6	Articles Supplementary for Series I preferred stock (incorporated by reference to Exhibit 3.3 to the registration statement on Form 8-A, filed by the company on July 15, 2021).
3.7	Eighth Amended and Restated Limited Liability Agreement of Sunstone Hotel Partnership LLC (incorporated by reference to Exhibit 3.2 to Form 8-K, filed by the Company on July 16, 2021).
31.1	Certification of Principal Executive Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of Principal Financial Officer Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101.INS	XBRL Instance Document - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.*
101.SCH	Inline XBRL Taxonomy Extension Schema Document. *
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document. *
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document. *
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document. *
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document. *
104	Cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 formatted in Inline XBRL (included in Exhibit 101).

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sunstone Hotel Investors, Inc.

Date: November 12, 2024	By: /s/ Aaron R. Reyes
	Aaron R. Reyes
	(Chief Financial Officer and Duly Authorized Officer)

Exhibit 31.1

Certification of Principal Executive Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002

I, Bryan A. Giglia, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunstone Hotel Investors, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

/s/ Bryan A. Giglia
Bryan A. Giglia
Chief Executive Officer

Exhibit 31.2

**Certification of Principal Financial Officer Pursuant to
Securities Exchange Act Rules 13a-14 and 15d-14
as Adopted Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, Aaron R. Reyes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sunstone Hotel Investors, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2024

/s/ Aaron R. Reyes
Aaron R. Reyes
Chief Financial Officer

Exhibit 32.1

Certification of Principal Executive Officer and Principal Financial Officer Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

The undersigned, the Chief Executive Officer and the Chief Financial Officer of Sunstone Hotel Investors, Inc. (the “Company”), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each hereby certifies that to his knowledge on the date hereof:

(a) The Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2024, filed on the date hereof with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2024

/s/ Bryan A. Giglia
Bryan A. Giglia
Chief Executive Officer

Date: November 12, 2024

/s/ Aaron R. Reyes
Aaron R. Reyes
Chief Financial Officer