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Sunstone Hotel Investors, Inc. (SHO)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, and thank you for standing by. Welcome to the Sunstone Hotel Investors' First Quarter Earnings Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. I would like to remind everyone that this conference is being recorded today, May 5, 2026 at 11 AM Eastern Time.

I will now turn the presentation over to Mr. Aaron Reyes, Chief Financial Officer. Please go ahead, sir.

Aaron R. Reyes

Executive Vice President & Chief Financial Officer, Sunstone Hotel Investors, Inc.

Thank you, operator. Before we begin, I would like to remind everyone that this call contains forward-looking statements that are subject to risks and uncertainties, including those described in our filings with the SEC, which could cause actual results to differ materially from those projected. We caution you to consider these factors in evaluating our forward-looking statements. We also note that the commentary on this call will contain non-GAAP financial information, including adjusted EBITDAre, adjusted FFO, and hotel adjusted EBITDAre. We are providing this information as a supplement to information prepared in accordance with generally accepted accounting principles. Additional details on our quarterly results have been provided in our earnings release and supplemental, which are available in the Investor Relations section of our website.

With us on the call today are Bryan Giglia, Chief Executive Officer; and Robert Springer, President and Chief Investment Officer. After our remarks, the team will be available to answer your questions.

With that, I would like to turn the call over to Bryan. Please go ahead.

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

Thank you, Aaron, and good morning, everyone. We were pleased with our performance in the first quarter, which came in ahead of our expectations even with some weather-related headwinds across a handful of our markets. The strength was broad based, with continued solid group results and transient performance that was better than anticipated.

Overall, RevPAR in the quarter grew an impressive 14.6%. Excluding Andaz Miami Beach, which continues to ramp nicely, RevPAR grew 5.7%. This strong revenue performance, combined with continued focus on cost controls at the hotels and at the corporate level, allowed us to generate meaningful growth in earnings. The added benefit of our accretive repurchase activity drove even greater growth in earnings per share, with first quarter adjusted FFO nearly 29% higher than last year.

Our resorts once again led the portfolio, with combined comparable RevPAR growth of over 18%. While the rebound at Wailea Beach Resort was expected, it has been impressive, where revenue grew 14% in the quarter, even with significant cancellations from the two weather events that impacted the Hawaiian Islands in March. While we will need to navigate some repair work and disruption following the storms, the outperformance in January and February and the trends that we are seeing for the remainder of the year continue to point to a sustained recovery in Maui.

We were also quite pleased with performance at our Wine Country resorts, which turned in a combined 34% growth in RevPAR, driven by better contributions from both group and transient business. As we shared with you on our last call, we were encouraged with how Andaz Miami Beach performed over the festive period and into the early weeks of this year. That trend has continued, with results exceeding expectations in the first quarter. We are seeing further strength into April, with second quarter benefiting from strong transient and group business with major events like the F1 race last weekend and the World Cup coming this summer.

During the first quarter, the Andaz ran 86% occupancy at a \$564 rate and produced \$6.5 million of EBITDA. The comp set ran a similar occupancy, but at a rate over \$900 per night. Q1 was an absolute success for the Andaz, and we are encouraged with how much opportunity we have to continue to grow rate closer to its peers and build on our multi-year growth story. We've had a solid start to the year, and we are well-positioned to deliver on our earnings expectations in 2026, and we look forward to the resort's next phase of growth into 2027 and beyond.

Our urban hotels had a noisier quarter as we navigated a challenging Super Bowl comp in New Orleans and weather-related headwinds across the East Coast. RevPAR declined 9.3% in the first quarter across our urban portfolio, but out-of-room spend performed better and limited the decline in total RevPAR to only 2.9%. At JW New Orleans, revenue was lower given the benefit of The Super Bowl in the prior year. But despite the challenging comp, our hotel continued to gain share. After picking up nearly 15 points of RevPAR index in 2025, the JW again outperformed the comp set in the first quarter and now sits at over 150% relative to the group, demonstrating the strength of the hotel's location, superior room product, and recently upgraded meeting space.

In addition, our New Orleans hotel had one of its best first quarter production results in years, with group bookings growing over 50% relative to the prior year. In Boston, the quarterly performance was hampered by the severe

winter weather that disrupted travel earlier in the year. Overall, we expect the first quarter to be the toughest quarter for our urban portfolio, with sequential growth in RevPAR through the balance of the year.

Our convention hotels turned in better than expected performance, with RevPAR growth of 5.2%. Performance varied widely, however, as we experienced the push and pull of a few large events. In Washington, D.C., we had a very challenging comp given the inauguration last year. After increasing over 24% in the first quarter of 2025, RevPAR at our Westin DC Downtown was 9.8% lower this year due to the tough comp and higher group attrition from the severe winter storms that occurred in the quarter. Despite this decline, our performance was better than expected as stronger transient demand helped to partially offset the sluggish group backdrop in the market. Additionally, The Westin had a solid booking quarter with transient pace for the next six months, up 11% relative to last year, pointing to a continuation of the current transient trend.

On the flip side, RevPAR increased over 27% in San Francisco, where The Super Bowl added compression to a market that was already on a positive trajectory. In fact, if you look only at January and March, RevPAR was still higher by 14% as the city benefited from an active event calendar and an increased level of commercial activity in the downtown area.

Performance at the Renaissance Orlando at SeaWorld was impacted by isolated group cancellations earlier in the quarter and a shift in the mix of business, which led to a decline in rooms RevPAR, but generally flat total RevPAR given the benefit of strong contribution from out-of-room spend. We expect the balance of the year to be more conducive to growth in Orlando, with particular strength in Q3 and Q4, where second half group pace is up over 40% relative to last year.

Lastly, in San Diego, we were pleased to see better transient performance in the market, which has given us a more optimistic outlook for the year. We are in the final stages of our meeting space renovation at the hotel, and we expect that our second quarter will be the toughest comp of the year with sequential improvement through the third and fourth quarters as we benefit from better group patterns and our new meeting space.

On the expense side, we were particularly pleased to see better productivity in the rooms department, which allowed us to keep comparable departmental expense growth on a per occupied room basis to only 1%. This better cost performance was partially offset by higher utility expenses, property G&A, and sales costs. Overall, our comparable portfolio excluding Andaz saw expense growth for all costs increase 3.4% on an absolute basis during the quarter or 2.4% per occupied room. This was generally consistent with our expectations and allowed us to grow margins by 140 basis points. Given the cadence of our quarterly revenue growth, we expect that the first quarter will be our strongest margin growth performance of the year, but we are continuing to work with our operators to focus on cost controls and drive efficiencies wherever possible.

As part of our last earnings call in February, we noted that we were encouraged by the trends we were seeing in recent operations, but that broader uncertainty gave us reasons to be cautious. This remains the case today, with recent events only reinforcing this view. We continue to monitor events that could impact costs and the demand for travel. While we did not see any measurable impact on our first quarter operations, an elongated period of heightened volatility or sustained increases in fuel prices could present headwinds. That said, performance in the first quarter was meaningfully ahead of our expectations, and based on what we see today, we are comfortable revising our full-year outlook higher to reflect these results.

Given the elevated uncertainty, we will continue to be measured in our expectations for the rest of the year. If more of the momentum from the first quarter carries into the balance of the year or if some of the special events slated for later this year outperform our modest expectations, then we could be positioned to deliver stronger

performance. We are encouraged by the increase in hotel transaction activity and believe the environment may be becoming more conducive to executing our capital recycling strategy and demonstrating the value of our portfolio.

In the interim, we continue to deliver value to shareholders through an additional \$50 million of accretive common and preferred stock repurchase activity so far this year. We expect to continue opportunistic repurchase activity as pricing allows, while we focus on generating profitability growth from our operations and realizing the benefits of our investment projects.

And with that, I'll turn the call over to Robert to give some additional details on our capital investment activity.

Robert C. Springer

President & Chief Investment Officer, Sunstone Hotel Investors, Inc.

Thanks, Bryan. We've gotten off to a busy start on the operations and investment front. As we shared with you last quarter, our planned capital projects for 2026 were concentrated in the first half of the year, and I'm pleased to report that we have made solid progress executing them on schedule and on budget.

In San Diego, we are wrapping up the renovation of the meeting space. The finished product looks great and should help the hotel to maintain its leadership position in the market. Recent trends in the city have been more encouraging. And based on what we see today, we expect better performance in the latter part of this year, and the hotel is pacing ahead for 2027.

In Miami, we are also finishing construction on a Bazaar, and we are very pleased with how the space is coming together. We expect to begin training activities in late summer with the restaurant opening in early fall to take advantage of the full high season in the market. As we shared earlier, our renovated resort is already attracting some great group business, but the addition of Bazaar will round out the property, further increasing its appeal with luxury travelers and higher end groups. We anticipate that Bazaar will not only help drive incremental room night demand at the hotel, but will be a dining destination for guests from nearby properties and local residents as well.

Elsewhere across the portfolio, we will be starting some façade work and a rooms refresh at Oceans Edge Resort & Marina in the middle part of the year as part of a broader effort we are working on to drive incremental revenue and earnings to this resort. We will also be completing some smaller routine projects across the rest of the portfolio. As Bryan noted earlier, our Wailea Beach Resort was impacted by a series of severe storms that came through the Hawaiian Islands in March and brought heavy winds and substantial rainfall. While our resort remained operational during the storms, we did sustain wind and water damage in some of the guestrooms, public spaces, and portions of the roofs.

We are currently working to restore impacted areas and should have most of the public space and guestroom-related work completed in the coming weeks. We will, however, have some additional repair work to do on a few roofs, which will not be done until later this year. We are working closely with our insurers to pursue cost recovery for the repair work and lost business from the storms, but it is too early to share any of those details.

Based on what we see today, we expect that incremental capital expenditures needed at Wailea will likely mean that we will be in the upper half of our existing CapEx guidance range for 2026. We are still working through the details of the approach and timing, the required spend, and cost recovery from our insurance policies, and will share additional information as part of our next call.

With that, I'll turn it over to Aaron. Please go ahead.

Aaron R. Reyes

Executive Vice President & Chief Financial Officer, Sunstone Hotel Investors, Inc.

Thanks, Robert. As we noted at the top of the call, our earnings results for the first quarter came in ahead of expectations, driven by broad-based strength across the portfolio. Rooms RevPAR grew an impressive 14.6% in the quarter, including an 890 basis point benefit from Andaz Miami Beach. Total RevPAR for all hotels increased 13.4%, including an 810 basis point benefit from Andaz. Given our mix of business, we anticipated that rooms' revenue would grow faster than total revenue in the first quarter, which was the case. But ancillary spend performed better than we thought, and the guidance ranges that I will discuss shortly reflect a more optimistic outlook for out-of-room revenue growth than our prior expectation.

A stronger top line performance in the quarter contributed to earnings that were ahead of our expectations, including adjusted EBITDA of \$68 million, an increase of 18% relative to last year. When combined with the added benefit of our accretive repurchase activity, adjusted FFO per diluted share was \$0.27, an increase of nearly 29% from last year.

Our balance sheet remains strong. We have no debt maturities prior to 2028, and net leverage stands at only 3.5 times trailing earnings or 4.6 times including our preferred equity. Since December of last year, we have repurchased over \$19 million in liquidation value of our traded preferred stock at a 21% discount, a positive impact on both FFO and NAV.

Included in our press release this morning are the details of our updated outlook for 2026. Our revised guidance ranges reflect the outperformance we saw in the first quarter, but retain a degree of caution for the balance of the year given the uncertain backdrop. We now expect that rooms RevPAR for all hotels in the portfolio will increase between 5% and 7.5% to a range of \$236 to \$242. This reflects the full-year benefit of Andaz Miami Beach, which is expected to contribute approximately 400 basis points of growth at the midpoint.

Based on what we see today, we now expect total RevPAR to increase between 5% to 7.5%, an increase of 125 basis points at the midpoint, which captures our higher expectations for growth in ancillary spend. This would now imply a range of \$390 to \$400, with a similar 400 basis point benefit from Andaz.

As we noted on our last call, the first quarter will be our strongest revenue growth quarter of the year, with the remaining growth quarters being between the lower end and the midpoint of our RevPAR and total RevPAR guidance ranges. While Andaz will certainly provide a lift to our results all year, the impact will become less pronounced as we get further into the year and begin to lap more of last year's operation, with the revenue growth benefit estimated at approximately 500 basis points in the second quarter and 150 basis points to 200 basis points in each of the third and fourth quarters.

This revised revenue growth is now expected to translate into adjusted EBITDA in the range of \$238 million to \$252 million. Based on where we sit today, we expect our FFO per diluted share to now range from \$0.88 to \$0.96. This updated earnings per share range reflects the benefit of better operations and our recent share repurchase activity.

In terms of the distribution of our earnings by quarter, based on the midpoint of our updated range, the first quarter accounted for roughly 28% of our full-year earnings, with the second quarter expected to comprise approximately 28% to 29% and the balance split more or less evenly across the third and fourth quarters.

Moving to our return of capital. Since the start of the year up to the end of April, we have repurchased \$35 million of common stock at a blended price of \$9.11 per share. In addition, we have also purchased over \$14 million of our preferred stock at a blended price of \$19.84 per share or a 21% discount to its liquidation value. This common and preferred stock repurchase activity has been accretive to both NAV and earnings per share. And while we retain capacity and appetite for additional share repurchases, our revised 2026 outlook does not assume the benefit of additional buyback activity.

In addition to our share repurchases, our board of directors has authorized a \$0.09 per share common dividend for the second quarter and has also declared the routine distributions for our Series G, H, and I preferred securities.

Before we conclude our prepared remarks, I'll turn it back over to Bryan for some additional thoughts.

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

Before we open the call to questions, I want to provide an update on our 2026 objectives. The company remains focused on realizing the value of our portfolio. Over the past few years, we have sold hotels at what have proven to be attractive valuations and redeployed proceeds into the most accretive option available at the time. While most of the proceeds went to repurchase common or preferred stock at a discount, we also acquired assets when our cost of capital became more competitive.

Given the improving transaction market, we expect to recycle capital in 2026 and take advantage of strong private market values for certain assets. This would then allow us to redeploy proceeds into additional share repurchases at a discount to NAV or liquidation preference or potential hotel acquisitions under the right circumstances. We remain focused on executing transactions that will result in the best risk-adjusted returns to our shareholders. The board and management remain committed to maximizing the value for shareholders and are open to pursuing any alternative that would reasonably be expected to result in value creation.

With that, we can now open the call to questions. Operator, please go ahead.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Thank you. Our first question comes from Duane Pfennigwerth from Evercore ISI. Please go ahead. Your line is open.

Q

Yeah. Hi. This is Peter on for Duane. Thanks for taking the question. So, I guess, if we zoom out and think about the 14 hotel portfolio and that portfolio reaching some level of stabilization, what are some of the building blocks left to get there? And I guess, said differently, what are some of the growth drivers beyond what you've provided for 2026?

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

A

Sure. Good morning. Let me start and then, Aaron can provide some more additional detail. When you look at the building blocks, there are several pieces. First, Andaz is a multi-year story. We had an excellent Q1. The resort is ramping up. We started to see this at the end of Q4 last year and into Q1 this year and it's ramping and the group business has been very strong. The transient business continues to grow, and we're very happy with the performance so far.

That said, when we look at Q1 and we look at our rate, which was in the mid-\$500s and we look at the comp set, we still have a lot of room to grow. And so, the comp set was running kind of plus a thousand. So, that's a lot of room for us to expand into next year. Also, fourth quarter last year was kind of the same delta. And so, fourth quarter this year we have room to grow, opening the Bazaar at the end of this year into the high season, the Beach Club just opened, which also serves as additional meeting space for the resort. So, Andaz has a very good two-year plus trajectory on that.

Maui is also another asset where we had room to grow. We talked about this last year of having to have the island stabilize, and we saw that with Kaanapali reaching kind of a stable 70% occupancy in the fourth quarter. Our transient volume started to recapture our index, and our share in the fourth quarter of last year and it has gone into this year. And given where we are relative to prior EBITDA, there's still several millions of dollars of EBITDA growth that we will get into next year.

San Francisco is another market for us that has grown and rebounded very well, but still has quite a ways to go. And everything we're seeing in that market from the group demand, from the transient demand, from the city-wide demand, that's all been very positive, and we'll go into 2027 and beyond. And then, as far as San Francisco's strength, we've also seen that help Wine Country and the two resorts there where as the city-wides and the city of San Francisco does better, it then leads into additional leisure demand up in Wine Country. So, I think that those are the big pieces that we will continue to see grow throughout the next few years.

Aaron R. Reyes

Executive Vice President & Chief Financial Officer, Sunstone Hotel Investors, Inc.

A

Yeah. What I might add to that, I think Bryan hit certainly the broader points of what we have going on across the portfolio. I think on top of that we have the added benefit of the repurchase activity that we've been doing. So, we've been thoughtful in how we've allocated capital, both to our common stock and most recently to our

preferred stock as well. So, as we think about just the potential for not just EBITDA growth, but growth on an earnings per share basis, certainly we have capacity for significant accretion in FFO per share.

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

Thank you.

Aaron R. Reyes

Executive Vice President & Chief Financial Officer, Sunstone Hotel Investors, Inc.

Thanks.

Thank you. Yeah. And then, I guess, you mentioned the transaction markets are getting more active. Could you just quickly expand on that and what sort of assets are you seeing being marketed? What are brokers saying so on and so forth? Thanks for taking the questions.

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

Sure. We see additional equity capital coming into the markets and increasing the number of deals out there and potential transactions, which is good and healthy for the market. Right now, you're seeing more luxury assets out there. And so, I think that that is given where the recovery has been and given where the demand and productivity of those assets, there's a lot more on the luxury side. I would guess that as the year goes on and some of those transactions are announced and closed, we'll start to see more of the higher quality upper upscale assets come to market too.

Operator: Our next question comes from Michael Bellisario from Baird. Please go ahead. Your line is open.

Michael J. Bellisario

Analyst, Robert W. Baird & Co., Inc.

Thanks. Good morning, guys.

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

Good morning, Michael.

Michael J. Bellisario

Analyst, Robert W. Baird & Co., Inc.

Bryan, I just want to follow-up on your acquisition commentary. Maybe high level could you talk about the criteria that you're looking at for potential acquisitions just in terms of markets, brands, initial yields, and then also just the appetite for maybe buying a cash-flowing asset versus doing another deep return renovation project? Thanks.

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

Sure. I think with what we've done in the past and the way we've approached things in the past, I think it's important, especially, for a portfolio our size is to make sure that we have some degree of balance. And so, we have a lot of deeper turns that are coming back online or ramping up assets. So, would we have capacity for that? Yes. That said, look, everything we do we have to look at what the options are available to us and what is the best allocation of capital, whether it be using our balance sheet or recycling an asset on a risk-adjusted basis what makes the most sense for our shareholders.

And up until this point, that has absolutely been share repurchase and repurchasing our preferred at a meaningful discount to liquidation preference. Going forward, that's a balance. That's something that as our cost of capital improves and our stock price improves, then we look to balance that with potential acquisitions mainly coming from recycling capital where we can take advantage of private market values and maybe specific markets where or specific asset types where there is a lot of demand right now.

And we can potentially realize a portion or good portion of the future upside today and then, we go redeploy that in something that has good growth, maybe not quite as good growth, but at a much more compelling initial yield that maybe provides some future opportunities. So, again, it depends. Every day we make the decision of how we're going to allocate additional capital. And I think where we stand right now, our stock and preferred is still very compelling. But as that changes, I think that the preference would probably be more stabilized. If you look at the types of hotels and resorts that we have.

We like assets, usually slightly larger assets that have a good group component to it, and then some secondary, whether it be leisure or business transient. Varying degrees of rebranding activity, whether it be like the Westin DC or the Marriott Long Beach, where different degrees of renovation, but still same game plan where we're able to capture more index through finding a brand that could do better as something else. So, that's our focus. I think where we are today it's still our equity and preferred are very attractive. But as the space improves, I think that gives us more opportunity to deploy into assets.

Michael J. Bellisario

Analyst, Robert W. Baird & Co., Inc.

Okay. Thank you.

Q

Operator: Our next question comes from Smedes Rose from Citi. Please go ahead. Your line is open.

Smedes Rose

Analyst, Citigroup Global Markets, Inc.

Hi, thanks. Maybe just switching to a couple of market questions. I wanted to ask you on the Andaz, I think in the past you had talked about maybe mid- to low-teens EBITDA contribution this year. Are you still comfortable with that and are you seeing any kind of lift from the World Cup helping that property?

Q

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

Sure. Morning, Smedes. Yeah. We feel based on where the asset has performed, and remember when you look at the seasonality of the market, the asset will be a little bit skewed more towards the first quarter this year just as it's ramping up. But first quarter in through kind of April is a big piece of the annual EBITDA. So, based on what we've seen so far, based on the transient bookings going forward, based on our group bookings going forward, we feel very comfortable with the range we've given and probably inching towards the higher side of that and with some opportunity to achieve that this year.

A

As far as the World Cup goes, we've had really good events in the market this year, national championship, F1 last weekend was fantastic. I think World Cup, we continue to be measured in our various markets where we have matches. And at this point, it's a good time in the year for Miami because the summertime tends to be the lower season. So, having additional international travel coming into the market will be good for the market. Again, as we get closer, we'll have a better understanding of the ultimate impact. But right now, we continue to be somewhat measured across our markets for World Cup.

Smedes Rose*Analyst, Citigroup Global Markets, Inc.*

Q

Okay. And then, I just was hoping you could maybe comment on a couple of the larger group markets where you operate. You mentioned a lot of strength, I think, at the JW in New Orleans. Are you seeing strength overall in that market? It seems like it's been kind of weak maybe on the group side. I'm just wondering what you're seeing bigger picture and maybe just kind of touch on if you could touch on Orlando and San Diego as well.

Bryan Albert Giglia*Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.*

A

Yeah. And so, when we look at first quarter and second quarter too, transient has been the strongest segment across the board, and transient at some of our large group hotels has been better than anticipated. The way our group calendars and group bookings laid out this year was always the first half was towards the weaker of the two and that our pace picked up in, depending on the asset, Q2, Q3, Q4.

And so, when we look at like who has good group pace in the second half of the year, that's where we're talking about New Orleans, where pace is up significantly for the second half. Orlando also has a tougher first half comp, first quarter and first half, but has a really good second half. D.C. has stronger citywides and does pick up, and then, there's some events in D.C. that should be helpful.

So, when we look forward, we have a great transient base of business for the next six months that is booking very strong. We didn't have the greatest group bookings in the first half, but when we look at the second half of the year, that's where it really picks up and that's where we start feeling pretty good about what the setup is for the second half. Now, there's also some other variables out there that could impact travel, that could impact fuel costs. And so, again, we like what we see, we like the setup. We are going to remain, I think like others, measured until we get a little bit more time to see what other external impacts there could be.

Smedes Rose*Analyst, Citigroup Global Markets, Inc.*

Q

Yeah, makes sense. Okay. Thank you. Appreciate it.

Operator: Our next question comes from Daniel Politzer from JPMorgan. Please go ahead. Your line is open.

Michael Hirsh*Analyst, JPMorgan Securities LLC*

Q

Hi, this is Michael Hirsh on for Dan today. Thanks for taking my question. Sort of on that last answer there. In the prepared remarks, you had mentioned seeing some group cancellations during the first quarter across the portfolio. Could you provide any additional color on attrition or overall group trends and pacing for this year or next?

Bryan Albert Giglia*Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.*

A

Yeah. I mean, overall attrition is probably down slightly from where we were last year. I mean, there were some other external forces. There was a lot of government cancels last year. So, attrition is down across the board. We're always going to have cancellations throughout the year, and there's always some attrition throughout the year. Some of the storms on the East Coast did impact various groups. There's probably two different weeks of that where we had some groups that either couldn't get to the destination or had to cancel last minute based on some storms.

So, again, I think those were more specific to the weather or specific events and not overall group patterns. I think where we are seeing on the group side is we're seeing the ancillary spend continue to be very strong. We continue to see corporate groups and associations both perform well. And as I said before, our group pace does pick up into the second half of this year, and while it's a little early to start talking about future years, but 2027 pace looks good at this point.

Michael Hirsh*Analyst, JPMorgan Securities LLC*

Q

Thank you. And then, for my follow-up, you touched on World Cup and Miami, but for your broader portfolio, could you remind us what your outlook is for the RevPAR uplift? And what about recent World Cup demand trends are leading to your more measured approach?

Bryan Albert Giglia*Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.*

A

Well, I think our measured approach is how we started the year. We didn't have, and it was too early, to have bookings. There was the expectation that things would be very strong. But again, not having a recent history and not having the business on the books, we felt it didn't make sense to get out over our skis and start anticipating rate increases and major demand. So, I think that we started the year measured. As we get closer, we've seen different data points either through the brands or others saying that it is going to be a shorter-term booking window.

We do have some group business on but it's limited. There's a group in San Francisco, a group in Miami, and so there is some. But if we see international travel very strong during that time period and last-minute bookings pick up, then that will just be additive to our second and third quarter, but not in any of our guidance at this point.

Michael Hirsh*Analyst, JPMorgan Securities LLC*

Q

Thank you.

Operator: Our next question comes from Ken Billingsley from Compass Point. Please go ahead. Your line is open.

Ken Billingsley*Analyst, Compass Point Research & Trading LLC*

Q

Hi, this is Ken. Thank you for taking my question. I wanted to follow up on out-of-room spending. Your Total RevPAR guidance grew faster than the RevPAR. And could you talk about what's driving some of

that? How much of it is a fixed spending and what you have associated with the room and how much of it is discretionary?

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

A

Well, I think even with group – first, good morning, Ken. Even with groups, there's a portion of it is discretionary. You have your have your minimums, you have your contracted amounts, but as you get closer to the event, you see people buying up and groups buying up different things, adding things, and in certain times they subtract things. What we've seen in the first quarter and not just specific to corporate group, we've seen it with association too is we've just seen a better spend. And the contractual amount is there, but the additional add-ons or upgrades, whether it be through AV, through food options, beverage options, what have you is that it was a strong quarter for that. And we don't see that slowing down at this time.

Ken Billingsley

Analyst, Compass Point Research & Trading LLC

Q

And away from just the group specific and out-of-room spending not related to group, I would imagine you're seeing that being stronger as well?

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

A

Yeah. It's also a function of occupancy pickup too, right? So, in Wailea, that's a market where have a significant out-of-room spend for your transient customer as we regain our occupancy share, that was happening during the quarter and will continue throughout the rest of the year. Those customers spend more money at the bars, at the restaurants, at the other events, and amenities at the hotel. So, yes, absolutely, we're seeing that – we're seeing that on the transient side, too. More at the resorts than at a business transient hotel where there's less options to spend.

Ken Billingsley

Analyst, Compass Point Research & Trading LLC

Q

Sure, okay. So, a lot of the uplift there is on the occupancy side, not so much that they're necessarily spending more per room?

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

A

Well, on the group side, we're spending more per occupied room. On the transient side, it's going to depend hotel by hotel. Maui, I would say, is probably a mix of both and that's.. .

Ken Billingsley

Analyst, Compass Point Research & Trading LLC

Q

Right.

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

A

...but at some of the more luxury resorts in Wine Country, there's just generally more spend, whether it be spa, food, occupancy that hasn't – was up a little bit in the quarter, but we're seeing strong spend across.

Ken Billingsley*Analyst, Compass Point Research & Trading LLC*

Great. Thank you.

Q

Operator: Our next question comes from Chris Darling from Green Street. Please go ahead. Your line is open.

Christopher Lee Darling*Analyst, Green Street Advisors LLC*

Thanks, good morning.

Q

Bryan Albert Giglia*Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.*

Morning, Chris.

A

Christopher Lee Darling*Analyst, Green Street Advisors LLC*

So, Bryan, I understand guidance may prove conservative. But if I sort of look at what's implied for the rest of the year, it would seem to suggest sort of flattish, maybe even slightly declining margins for the rest of the year. Hoping you could put that outlook into context and also talk about just generally how you see expenses trending for the rest of the year.

Q

Bryan Albert Giglia*Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.*

Yeah. I mean, in general, we see our expenses are increasing 3.25%, 3.50%. And so, if you look at the RevPAR gain distribution quarter to quarter, first quarter was our biggest growth and will be our biggest growth for the quarter. And so, obviously, we had margin expansion during the first quarter. As we go throughout the rest of the year, luckily, we saw good productivity in the first quarter. We are endeavoring and planning on maintaining productivity or increasing our productivity, especially in the rooms department because that's the most valuable.

A

And so, depending on where RevPAR shakes out for the rest of the year, we can be possibly positive to slightly up to I think or maybe neutral for the rest of the year. So, it'll depend on if we're conservative on the RevPAR side, then we'll absolutely have better flow through and margins will tick up. But right now, given where the implied RevPAR guidance is for the remainder of the year and that expenses are growing in that lowish to mid-3%, we'll revise it when we have another quarter or so under our belt. But right now, we figured that that was the most prudent thing to do.

Christopher Lee Darling*Analyst, Green Street Advisors LLC*

Okay, understood. And I may have missed this earlier, but could you elaborate on some of the recent operating performance at the Wine Country hotels and just your outlook for the rest of the year there?

Q

Bryan Albert Giglia*Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.*

A

Yeah. I mean, first quarter is the low season there. And so, it's the most challenged on occupancy side. And so, the key to that profitability or trying to get to breakeven in the first quarter is really making sure you have the right amount of group business, and that's something we've been talking about for a couple of years now and really having the resorts focus on is try to get that right group base in there. And that group base comes at a lower rate, but comes with a higher ancillary spend.

And so, the hotels or the resorts have worked very hard to get as much group on the books as they can. And quite honestly, they both had great group on the books this year. I mean, this has been in the works for a while. But they've been able to get that good first quarter group base. Transient demand has been better than expected, so that benefited both. And then, while we had bad weather on the East Coast, in Hawaii also, in California and in Wine Country, they had great weather for the first quarter this year. And so, that helped also. So, all those factors kind of came together and gave us a first quarter we're very pleased with.

Going forward, both hotels have continued to have very good transient demand. Four Seasons has very good group pace for the second half of the year. Montage has decent group pace. Montage is maybe a little farther ahead of Four Seasons as far as establishing its group business, which is something that we're doing, more group room nights this year than we've ever done before. It's probably about 55% of total occupancy. We'd like to see that inch up to about 60%, 65%. That would be ideal for that asset. But both, whether it be luxury is outperforming and combine that with the demand we're seeing and the improvements we're seeing from the Bay Area that feeds up there, our outlook for both is very strong for the rest of the year.

Christopher Lee Darling

Analyst, Green Street Advisors LLC

Q

Okay. Thank you for taking the questions. That's it for me.

Operator: Our next question comes from Floris van Dijkum from Ladenburg. Please go ahead. Your line is open.

Floris van Dijkum

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Hey, thanks, guys. Just maybe following up on the Wine Country hotels. I mean, the performance was, even though it's still a loss, it's \$4 million improvement in terms of EBITDA relative to the first quarter of last year, which is pretty meaningful. As you think about your disposition plans, are those potential sale candidates in your view, particularly now that the JW Marriott in Marco Island has sold and the luxury market seems to be unthawing in terms of financing availability?

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

A

Yeah. I don't know if Marco Island is a direct comp for these two. But, look, I think we've been very clear. When we look at our portfolio and we look at potential dispositions, we want to capitalize on private market values. And there are certain types of assets right now, and luxury absolutely being one of them and markets where there's a lot of interest. We don't comment on transactions before we have something to publicly say. But based on our actions in the past and based on the criteria I just highlighted, we're clearly out there exploring various opportunities really at all times.

But to make sure that we can have assets that we can recycle and redeploy those proceeds either into our common, our preferred, or as I said earlier, if things improve, different acquisition targets. But monetizing low-yielding assets is something that could be achievable right now in the current market, and we'll look at doing what

we can. There are a lot of luxury assets out in the market right now. I mean, there are older portfolios that are coming back that so, there's a lot of supply out there. But this is a core tenet of our strategy of redeploying and recycling assets. So, it's something that we're focused on doing.

Floris van Dijkum

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Thanks. Maybe a follow-up. I mean, obviously, operations are definitely trending the right way right now. But your guidance is again, you're like everybody else and all your peers, everybody's staying very cautious. What are the – maybe touch on are there outliers in terms of the World Cup impact that it could have based on what your outlook is today? I mean, what's the upside if the World Cup does pan out to be better than what you're expecting in your view?

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

A

Yeah. I mean, that will add significant compression. Yeah, look, when we look at the state of the industry or at least what we're seeing in our portfolio, Q1 had great transient demand. The next six months bookings of transient bookings are up significantly, and they're not just up at resorts. They're up at our convention hotels, they're up at our urban hotels, and they're also up at our resorts. So, transient's very strong. Our second half group pace is very strong. And so, group business is strong, group contribution is strong, where we see the hotels booking significant current year and future year business. So, all of that is strong.

So, all these positive points, if World Cup comes in stronger, then that's just additional compression and an additional benefit that will accrete to our performance. The conservatism and the caution is that there are events out there that could impact the cost and demand of travel. And so, because of that, we and I think most of our peers in the industry, will remain cautious until we see those potential impacts alleviated.

Floris van Dijkum

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Thanks, guys.

Operator: Our next question comes from Logan Epstein from Wolfe Research. Please go ahead. Your line is open.

Logan Epstein

Analyst, Wolfe Research LLC

Q

Yeah. Thanks for taking the question. Maybe just one for me. Last quarter you guys talked about – staying on the topic of transient demand, you guys talked about government-related was coming back to San Diego in the first two months of the year. Just curious if you saw that trend continue into March and April and then how you expect that to impact both San Diego and D.C. for the rest of the year?

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

A

So, really the largest increase in transient demand was in Long Beach in the first quarter. And there's defense and other businesses in there, government-related businesses. So, we saw a good pickup in Long Beach. San Diego, we saw transient pickup. It was more negotiated and then some discount

also, which the negotiated piece of it could be government related because it could be consultants and contractors and that work.

In D.C., I think we saw a little bit less in D.C., but we saw strong transient. And what the transient in D.C. is really coming from is the rebranding to a Westin. We're picking up more corporate accounts, more retail accounts. And so, when you look at our rate and our occupancy index compared to pre-Westin, we're definitely gaining share on the market. And so, while some of that is – everything in D.C. will be government related, what we're really seeing there is the benefit of the rebranding that we did.

Logan Epstein*Analyst, Wolfe Research LLC*

Q

Thanks, Bryan. I'll leave it there.

Operator: Our last question comes from Chris Woronka from Deutsche Bank. Please go ahead. Your line is open.

Chris Woronka*Analyst, Deutsche Bank Securities, Inc.*

Q

Hey, yeah. Good morning, guys. Thanks for taking the question. Bryan, you covered a lot of ground on Miami, on Andaz, and kind of what still needs to happen to get fully ramped up and seems like you had a good start in Q1. But can you maybe just flush out a few more details on – I know there's still obviously rate story, but is there also kind of a group story to this? And I guess, more ancillary, I don't know how much, like Beach Club you mentioned before will factor in. So, just trying to get a sense for how much is strictly rate, which should have obviously nice flow through versus kind of group and other things that still need to happen. Thanks.

Bryan Albert Giglia*Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.*

A

Sure. Morning, Chris. Our target for group is probably about 25% for the hotel, and this year we'll run 20-ish percent of the business group, which is better than we anticipated going into the year. We've actually seen not only group volume, but the quality of the group continues to improve as we move throughout the year. Miami is a repeat market both for the transient customer and the group customer. So, that quality of group, whether it be at the end of the year for Art Basel or other major events, we didn't really participate in that last year. And so, we'll have groups in this year, and next year we'll probably have even better groups in. And so, while we have some occupancy on the group side, the group side is also will be a rate story.

And then, also at the end of the third quarter, fourth quarter when Bazaar opens, that's going to bring a level of energy and notoriety into the hotel where that's going to be a big catalyst when it comes to the overall rate of the hotel or the resort also. So, everything has accelerated in the first quarter where we've seen the group pick up, the group demand, the quality of the group increase. And so, while there's still occupancy there, there's still ancillary spend there. As we move into next year, it starts to become more of the rate story. And we have a lot of space between our current rate and the market rate, where that will be very meaningful to the cash flow of the hotel.

Chris Woronka*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay, very helpful. Thanks, Bryan.

Operator: We have no further questions. I would like to turn the call back over to Bryan Giglia for closing remarks.

Bryan Albert Giglia

Chief Executive Officer and Director, Sunstone Hotel Investors, Inc.

Thank you, everyone, for your interest, and we look forward to seeing many of you at upcoming conferences and look forward to also anyone that we have the chance to get through the new Andaz. We've had many tours, but always available to show off this really remarkable resort. Thank you.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

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