

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

Current report filing

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FILER

SUNSTONE HOTEL INVESTORS INC

CIK: **930600** | IRS No.: **521891908** | State of Incorpor.: **MD** | Fiscal Year End: **1231**

Type: **8-K** | Act: **34** | File No.: **000-26304** | Film No.: **97701426**

SIC: **6798** Real estate investment trusts

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of Earliest Event Reported): OCTOBER 15, 1997

COMMISSION FILE NUMBER 0-26304

SUNSTONE HOTEL INVESTORS, INC.
(Exact Name of Registrant as Specified in its Charter)

MARYLAND
(State or Other Jurisdiction of
Incorporation or Organization)

52-1891908
(I.R.S. Employer
Identification No.)

115 CALLE DE INDUSTRIAS, SUITE 201, SAN CLEMENTE, CA
(Address of Principal Executive Offices)

92672
(Zip Code)

(714) 361-3900
(Registrant's Telephone Number, Including Area Code)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On October 15, 1997, Sunstone Hotel Investors, Inc., a Maryland corporation (the "Company") completed the acquisition of all of the outstanding shares of the capital stock of Kahler Realty Corporation, a Minnesota corporation ("Kahler") for approximately \$322 million in cash, stock and assumption of indebtedness (the "Kahler Acquisition") from Westbrook Real Estate Fund I, L.P. and Westbrook Real Estate Co-Investment Partnership I, L.P., affiliates of Westbrook Partners, L.L.C., a real estate investment firm. The closing of the acquisition, details concerning the consideration paid by the Company and other aspects of the transaction were reported in the Company's press release of October 16, 1997 filed as an exhibit to this report on Form 8-K. The Company filed a report on Form 8-K on August 14, 1997 (as amended by the Form 8-K/A filed on August 22, 1997) with the Securities and Exchange Commission (the "SEC") to report the execution of a definitive Stock Purchase Agreement for the Kahler Acquisition, as well as financial and other information regarding the transaction. The Stock Purchase Agreement containing the terms of the Kahler Acquisition was an exhibit to the Form 8-K filed on August 14, 1997.

In addition, a description of certain terms of the Kahler Acquisition, the Kahler hotels and other assets of Kahler acquired by the Company, and financial statements related to the acquisition, were included in the Company's Prospectus Supplement and accompanying Prospectus filed on October 10, 1997 with the SEC (Registration No. 333-34377), which was used in connection with the Company's 9,000,000 share public offering of common stock, the proceeds of which financed a portion of the acquisition.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(a) Financial Statements of Businesses Acquired. See the Index to Financial Statements and related financial statements beginning at page F-1 of the Company's Prospectus Supplement filed on October 10, 1997 with the SEC (Registration No. 333-34377) under Rule 424(b)(4) of the Securities Act of 1933, as amended, which are incorporated herein by this reference.

(b) Pro Forma Financial Information. See the Index to Financial Statements and related financial statements beginning at page F-1 of the Company's Prospectus Supplement filed on October 10, 1997 with the SEC (Registration No. 333-34377) under Rule 424(b)(4) of the Securities Act of 1933, as amended, which are incorporated herein by this reference.

99.1 Press Release dated October 16, 1997.

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SIGNATURES

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

Date: October 27, 1997

SUNSTONE HOTEL INVESTORS, INC.

By: /s/ ROBERT A. ALTER

Robert A. Alter, President

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FOR IMMEDIATE RELEASE
OCTOBER 16, 1997

SUNSTONE HOTEL INVESTORS ACQUIRES STOCK OF KAHLER REALTY
CORPORATION, INCREASES LINE OF CREDIT AND
PREVIEWS THIRD QUARTER REVENUES

HIGHLIGHTS:

- o \$322 MILLION PURCHASE
- o 17-HOTEL KAHLER PORTFOLIO INCREASES SUNSTONE'S HOTEL ROOM TOTAL TO 9,545
- o INCREASED UNSECURED LINE OF CREDIT FROM \$100 MILLION TO \$200 MILLION
- o THIRD QUARTER PORTFOLIO REVPAR INCREASE OF 10.4%

SAN CLEMENTE, CA., OCTOBER 16, 1997 - Sunstone Hotel Investors, Inc. (NYSE:SSI), a real estate investment trust (REIT), today announced the closing of their previously announced \$322 million stock purchase of Kahler Realty Corporation from affiliates of Westbrook Partners, L.L.C., a real estate investment firm. In addition, the Company announced an increase in their existing unsecured line of credit from \$100 million to \$200 million and previewed third quarter revenues.

The Company funded the Kahler transaction with proceeds from its recently completed \$155 million public offering and with borrowings under its increased unsecured line of credit with Bank One of Arizona, N.A. together with Credit Lyonnais, Wells Fargo, Dresdner Bank and Societe Generale. The \$322 million purchase consisted of approximately \$95 million in cash, \$25 million in newly issued preferred stock, \$32 million of newly issued common stock and \$170 of debt. In addition, the Company increased its ownership stake in the two Kahler hotels that were not initially slated for 100% ownership by acquiring the remaining 76% and 50% interests in the Salt Lake City, Utah and Provo, Utah Kahler hotels for \$14.3 million in cash.

Sunstone President and Chief Executive Officer Robert A. Alter said, "Today's announcement of the closing of the Kahler transaction is a milestone in Sunstone's corporate history. With this purchase, we have nearly doubled our hotel portfolio. Moreover, the Kahler transaction has forged a strategic alliance between Sunstone and Westbrook Partners which we expect will offer Sunstone another important pipeline leading to further acquisition opportunities."

KAHLER PORTFOLIO

The Kahler portfolio, comprising 17 hotels and 4,255 rooms, brings Sunstone's room total to 9,545. Nine of the 17 hotels are operated independently while the balance is or will be operated under Marriott, Sheraton, Hilton, Holiday Inn and other franchises. Consistent with the Company's strategy of renovating, rebranding and repositioning the hotels in its portfolio, the Company recently announced that four of the hotels acquired from Kahler will be rebranded as Marriott hotels. Further rebranding opportunities for the hotels acquired from Kahler are being considered.

Alter continued, "We are pleased that additional hotels are expected to carry Marriott brand names as well as Holiday Inn and other national franchises. Together with the funds from our recent secondary offering and the increase in our credit facility, we are well positioned to move forward on our growth strategy."

THIRD QUARTER REVPAR

Sunstone also announced strong revenue growth for the third quarter of 1997. Third quarter total room revenue of the Company's hotels increased 159.0%, from \$10.0 million to \$25.9 million over the third quarter of 1996, primarily due to the completion of \$162.4 million of hotel acquisitions during the preceding twelve months. For the entire portfolio, the Company achieved a 10.4% increase in revenue per available room ("REVPAR") for the third quarter of 1997 over the corresponding quarter of 1996.

REVPAR for the non-renovation hotels significantly increased by 10.2%, from \$50.26 to \$56.13, over the third quarter of 1996. Non-renovation hotels consist of 24 of the Company's 34 hotels that were not undergoing renovation either in the third quarter of 1996 or 1997. The 10.2% increase in REVPAR was driven by a 8.6% increase in average daily rate, from \$67.09 to \$73.37, and an approximately one percentage point increase in occupancy, to 76.5%.

LEADING REVPAR PERFORMERS FOR THIRD QUARTER OF 1997 - STABILIZED HOTELS

REVPAR

<TABLE>

<CAPTION>

Hotel	Rooms	1996	1997	% Change
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<S>	<C>	<C>	<C>	<C>
Courtyard by Marriott - Fresno, California	116	\$42.28	\$51.84	22.6%

Doubletree Hotel, Santa Fe, New Mexico	213	\$46.97	\$60.15	28.1%
Holiday Inn - La Mirada, California	289	\$35.74	\$44.22	23.7%
Hampton Inn - Oakland, California	152	\$47.41	\$59.17	24.8%
Hampton Inn - Silverthorne, Colorado	160	\$35.95	\$44.14	22.8%

REVPAR for the third quarter of 1997 for the four 1996-renovation hotels (which were undergoing renovation during the third quarter of 1996) increased 74.9% over the corresponding quarter of 1996.

REVPAR for the third quarter of 1997 for the five 1997-renovation hotels (which were undergoing renovation during the third quarter of 1997) decreased 12.5% over the corresponding quarter of 1996, a period during which these hotels were not undergoing renovation.

Sunstone Hotel Investors, Inc. is a leading self-administered equity real estate investment trust that owns mid-price and upscale hotels located in the western United States. The Company's growth strategy is to maximize shareholder value by (i) acquiring underperforming hotels within the western United States that are in attractive locations with significant barriers to entry and (ii) improving such hotels' financial performance by renovating, redeveloping, rebranding and repositioning the hotels together with the implementation of focused sales and marketing programs. Sunstone Hotel Investors, Inc., the only hotel REIT that currently focuses its acquisition strategy in the western United States, owns, through Sunstone Hotel Investors, L.P., 51 hotels comprising 9,545 rooms. Sunstone's business strategy is to own mid-price and upscale hotels with revenue growth opportunities in strong western U.S. markets.

Statements in this press release which are not strictly historical are "forward-looking" and are subject to the many risks and uncertainties which affect Sunstone's business, and could cause actual results to differ materially from those projected and forecasted. These uncertainties, which include competition within the lodging industry, the balance between supply and demand for hotel rooms, the Company's continued ability to execute acquisitions and renovations, the effect of economic conditions, and the availability of capital to finance planned growth, are described, but are not limited to those disclosed, in the Company's annual report on Form 10-K for the year ended December 31, 1996, and the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1997, each as filed with the Securities and Exchange Commission.

For information on Sunstone Hotel Investors' Dividend Reinvestment Program, please call 1-888-261- 6776. For investor information on Sunstone Hotel Investors via facsimile at no cost, simply call 1- 800-PRO-INFO and dial client code SSI.

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