Sunstone Hotel Investors, Inc.
Form DEF 14A
March 21, 2018
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No. _____)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a 6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material under §240.14a 12

Sunstone Hotel Investors, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

120 Vantis, Suite 350

Aliso Viejo, California 92656

NOTICE OF 2018 ANNUAL MEETING

Hyatt Regency San Francisco

May 3, 2018 at 8:30 a.m. local time

It is a pleasure to invite you to the 2018 annual meeting of stockholders of Sunstone Hotel Investors, Inc., or Sunstone, a Maryland corporation, to be held at the Hyatt Regency San Francisco hotel, located at 5 Embarcadero Center, San Francisco, CA 94111, on Thursday, May 3, 2018 at 8:30 a.m. local time, for the following purposes:

1. Election of eight directors to serve until the next annual meeting and until their successors are elected and qualified;

2. Ratification of the Audit Committee's appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2018;

3. Advisory vote to approve the compensation of Sunstone's Named Executive Officers, as set forth in the proxy statement for Sunstone's 2018 annual meeting of stockholders;

4. Transaction of other business as may properly come before the annual meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or before any adjournment or postponement thereof.

Only stockholders of record of shares of Sunstone common stock, par value $0.01 per share, at the close of business on March 13, 2018 are entitled to notice of and to vote at the 2018 annual meeting or any adjournment or postponement of the meeting.

Whether you own a few or many shares and whether or not you plan to attend in person, it is important that your shares be voted on matters that come before the meeting. You can ensure that your shares are voted at the meeting by submitting your instructions by completing, signing, dating and returning the enclosed proxy card in the envelope provided or, if you own shares through a bank or broker that provides for voting by telephone or over the internet, by submitting your authorization to vote by telephone or over the internet in accordance with your bank's or broker's instructions. If your proxy card is signed and returned without specifying your choices, your shares will be voted on each proposal in accordance with our board's recommendations.

We would like to take this opportunity to thank you for your continued support of Sunstone. We believe that our continued refinement of our compensation and corporate governance practices, coupled with our commitment to building long term value make Sunstone well positioned for a promising future. We continue to focus on improvements to Sunstone's corporate compensation and governance practices, as reflected by the following previously implemented initiatives: Director Holdover Resignation Guidelines; Limitations on Stockholder Rights Plans; Right of Stockholders to Amend Company Bylaws; and Restrictions on Classifying Directors.

Again, we thank you for your continued support and look forward to a promising future.

By Order of the Board of Directors

David M. Klein

Senior Vice President—General Counsel

and Secretary

March 21, 2018

Proxy Statement

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IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE

STOCKHOLDER MEETING TO BE HELD ON MAY 3, 2018

This proxy statement and our Annual Report are available at our Investor Relations website at http://www.sunstonehotels.com/proxy.

PROXY SUMMARY

Your vote is very important. For this reason, our Board of Directors is soliciting the enclosed proxy to allow your shares of common stock, par value $0.01 per share, to be represented and voted, as you direct, by the proxy holders named in the enclosed proxy card at the 2018 annual meeting of stockholders of Sunstone Hotel Investors, Inc. “We,” “our,” “the Company” and “Sunstone” refer to Sunstone Hotel Investors, Inc.

This summary highlights information contained elsewhere in this proxy statement. It does not contain all of the information that you should consider, so please read the entire proxy statement before voting. In addition, for more complete information about our 2017 financial performance, please see our annual report on Form 10-K for the fiscal year ended December 31, 2017 (“Annual Report”), available at www.sunstonehotels.com.

Sunstone Hotel Investors, Inc. Annual Meeting of Stockholders

Time and Date:	8:30 a.m. local time, May 3, 2018
Place:	Hyatt Regency San Francisco 5 Embarcadero Center San Francisco, California 94111
Record Date:	March 13, 2018
Number of Common Shares Eligible to Vote at the Meeting as of the Record Date:	225,617,772
Company Principal Executive Offices:	120 Vantis, Suite 350 Aliso Viejo, California 92656
Date of First Mailing of Proxy Statement and Accompanying Materials to Stockholders:	March 29, 2018

Voting Matters

	Matter	Board Recommendation	Page Reference
Proposal 1:	Election of Eight Directors Identified in this Proxy Statement	FOR each director nominee	8
Proposal 2:	Ratification of Independent Registered Public Accounting Firm for 2018	FOR	13
Proposal 3:	Advisory Vote on Executive Compensation	FOR	14

Director Nominees

Name	Age	Director Since	Primary Occupation	Committee Membership and Other Roles	Other Public Company Boards
John V. Arabia	48	2014	President and Chief Executive Officer, Sunstone Hotel Investors, Inc.	—	Education Realty Trust, Inc.
W. Blake Baird	57	2015	Co-Founder, Chairman of the Board and Chief Executive Officer, Terreno Realty Corporation	Nominating and Corporate Governance	Matson, Inc.
Andrew Batinovich	59	2011	President and Chief Executive Officer, Glenborough, LLC; Chief Executive Officer and Director, Strategic Realty Trust	Audit, Compensation (Chair)	RAIT Financial Trust
Z. Jamie Behar	60	2004	Former Managing Director, Real Estate & Alternative Investments, GM Investment Management Corporation	Audit, Nominating and Corporate Governance (Chair)	Gramercy Property Trust; Forest City Realty Trust; Broadstone Real Estate Access Fund
Thomas A. Lewis, Jr.	65	2006	Former CEO & Vice Chairman, Realty Income Corporation	Compensation	Alexander and Baldwin, Inc.
Murray J. McCabe	50	2015	Managing Partner, Blum Capital Partners, L.P.	Compensation	RREEF Property Trust, Inc.; Columbia Property Trust
Douglas M. Pasquale	63	2011	Founder and Chief Executive Officer, Capstone Enterprises Corporation	Chairman of the Board, Compensation, Nominating and Corporate Governance	Alexander and Baldwin, Inc.; Terreno Realty Corporation; Dine Brands Global, Inc.
Keith P. Russell	72	2004	President, Russell Financial, Inc.	Audit (Chair), Nominating and Corporate Governance	Hawaiian Electric Industries; KBS Growth & Income REIT, Inc.

Corporate Governance Highlights

Our Board of Directors has adopted governance policies that we believe are in the best interests of our stockholders, including:

- Annual election of all Directors.
- Majority vote standard in uncontested elections.
- Independent, involved and informed Board of Directors.
  - All directors currently serving as directors, other than our CEO, are independent.
  - All of our directors who served on the Board during 2017 attended 100% of the meetings of the Board of Directors and committees of the Board of Directors on which they served.
  - Our directors participate in ongoing director education.
- Independent Chairman.

- Independent Board committees.
  - Our three active standing Board committees are comprised solely of independent directors.
- Executive sessions of independent directors are held at each regularly scheduled Board meeting.
- Annual Board and committee self-evaluations.
- Board oversight of risk management.
- Common stock is the only class of voting securities outstanding.

In addition, the members of the Nominating and Corporate Governance Committee continue to improve corporate governance. Examples of past improvements to the Company's compensation and governance programs include the following:

· Director Holdover Resignation Guidelines: Effective February 2017, the Company amended its Corporate Governance Guidelines (the "Guidelines") to establish a policy whereby the Board of Directors will be required to accept a resignation tendered by a nominee who is already serving as a Director if such nominee shall have received more votes "withheld" with respect to that nominee than "for" his or her election at each of two consecutive annual meetings of stockholders.
· Limitations on Stockholder Rights Plans: Effective February 2016, the Company amended its Guidelines to establish a policy prohibiting the Board of Directors from adopting a stockholder rights plan, also known as a "poison pill," without prior stockholder approval, unless the plan provides that it will expire within 12 months of adoption absent ratification by the Company's stockholders prior to expiration. The complete text of the Guidelines is set forth on the Company's investor relations website.
· Right of Stockholders to Amend Company Bylaws: Effective February 2015, the Company amended its bylaws to provide that the bylaws may be amended, altered, repealed or rescinded (a) by the Board of Directors or (b) by the stockholders, by the affirmative vote of a majority of all the votes entitled to be cast generally in the election of directors, except with respect to amendments to the provisions of our bylaws regarding our opt out of the Maryland Business Combination and Control Share Acquisition Acts, which must be approved by the affirmative vote of a majority of votes cast by stockholders entitled to vote generally in the election of directors. The Board of Directors believes this change to the Company's bylaws further demonstrates the Company's commitment to accountability of corporate directors and officers.
· Restrictions on Classifying Directors: Effective April 2013, the Company filed articles supplementary to its charter to prohibit the directors of the Company from being divided into classes pursuant to Title 3, Subtitle 8 of the Maryland General Corporation Law (the "MGCL"). The prohibition on classification may not be repealed unless the repeal of such prohibition, or the classification of the directors pursuant to Section 3 803 of the MGCL, is approved by the affirmative vote of at least a majority of the votes cast on the matter by stockholders of the Company entitled to vote generally in the election of directors.

Our Compensation Practices

Objectives. We seek to attract, motivate and retain our Named Executive Officers ("NEO" or "NEOs") through competitive compensation arrangements that we believe, within appropriate risk parameters, provide strong financial incentives for the executive officers to maximize stockholder value. In order to achieve our objectives and mitigate compensation risks to our stockholders, we utilize the following practices:

What we do:

· We pay for performance. Our executive compensation program is weighed towards variable, rather than fixed, compensation. Specifically, the variable portion of our executive compensation program is designed to reward performance relative to financial, stockholder return, and other metrics that we believe best align management with stockholder interests.
· We hold an annual say-on-pay vote. We conduct an annual "say-on-pay" advisory vote to solicit our stockholders' view on our compensation programs.
· We solicit independent compensation advice. Our Compensation Committee retains FPL Associates L.P., or FPL, an independent compensation consultant, for purposes of advising and consulting with respect to the compensation of

our NEOs.

- We require our CEO and other executives to have a meaningful ownership interest in the Company. Our executive officer stock ownership policy requires that on or before January 1 of the year following the fourth anniversary of the CEO or other executive officer's appointment to such position (i) the CEO will own and retain shares of the Company's common stock having a value equal to at least six times his or her annual base salary, (ii) each Executive Vice President will own and retain shares of the Company's common stock having a value equal to at least three times his or her annual base salary, and (iii) each Senior Vice President will own and retain shares of the Company's common stock having a value equal to at least two times his or her annual base salary. Our Compensation Committee believes that requiring the CEO and other executive officers to maintain a meaningful ownership interest in the Company aligns the interests of the CEO and other executive officers with those of our stockholders.

What we do not do:

- We do not provide guaranteed incentive compensation. There are no minimum payout levels on either our annual incentive bonus plan or our equity incentive award plan.
- We do not allow hedging or significant pledging of Company stock by officers and directors without prior approval. Our officers and directors are prohibited from engaging in hedging transactions designed to offset decreases in the market value of our stock or pledging a significant amount of our stock without prior approval from our Chief Financial Officer at least one month prior to the proposed transaction.
- We do not pay "gross ups" for change in control or severance payments. We do not provide excise or other tax "gross up" payments in connection with any change in control or severance payment made to an NEO.
- We do not make "single trigger" cash payments upon a change in control. The employment and severance agreements with our NEOs require a "double trigger" (requiring both a change in control and termination of employment) for cash and severance payments following a change in control.

Compensation Program Summary. The following is a summary of the key provisions of our NEO compensation program:

Compensation Element	Key Characteristics	2017 Compensation	Percentage of 2017 Target Compensation
Base Salary	Fixed compensation that reflects each executive's position and individual performance. Payable in cash. Reviewed annually and adjusted when appropriate.	Our CEO did not receive an increase in base salary. Our other NEOs received base salary increases of up to 6.35%.	18% of our CEO's total compensation. 25% of our other NEOs total compensation (on average).
Cash Incentive Bonuses	Variable compensation based on performance and responsibility level to compensate each executive officer for achieving our annual and multi-year stockholder return and other corporate goals, and focusing on our long-term plans and strategies. Payable in cash.	Each of our NEOs received a cash incentive bonus due to our achievement of various financial goals and strategic objectives. Our CEO was eligible to receive a cash incentive bonus paid at various thresholds between 100% and 275% of his base salary based on achieving threshold to superior goals. Our other NEOs each were eligible to receive cash incentive bonuses paid at various thresholds between 50% and 175% of their base salaries based on achieving threshold to superior goals.	27% of our CEO's total compensation. 23% of our other NEOs total compensation (on average).
Equity Incentive Awards	Variable compensation designed to award a significant portion of our NEOs annual incentive compensation in equity to further the objectives of fostering executive	Each of our NEOs received an equity incentive award, the size of which was based on our achievement of various financial goals and	49% of our CEO's total compensation.

	ownership and the alignment of each executive's interests with those of our stockholders. Restricted Stock issued under our 2004 Long-Term Incentive Plan, as amended and restated ("LTIP"). Time-based, vesting ratable over three years.	strategic objectives in the preceding year. Our CEO was eligible to receive an equity incentive award valued at various thresholds between 150% and 425% of his base salary. Our other NEOs each were eligible to receive equity incentive awards valued at various thresholds between 100% and 300% of their base salaries.	46% of our other NEOs total compensation (on average).
Benefits and Perquisites	Fixed compensation. Participation in broad-based benefit plans at same cost as other employees.	Our NEOs were eligible to participate in Company-wide health, dental and vision insurance plans, term life insurance, disability coverage, 401(k) safe harbor and profit-sharing contributions.	6% of our CEO's total compensation. 6% of our other NEOs total compensation (on average).

QUESTIONS AND ANSWERS ABOUT HOW TO VOTE YOUR SHARES

What matters will be voted on at the annual meeting?

The annual meeting of stockholders will be held for the following purposes:

1.Election of eight directors to serve until the next annual meeting and until their successors are elected and qualified;

2.Ratification of the Audit Committee's appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2018;

3.Advisory vote to approve the compensation of Sunstone's NEOs, as set forth in this proxy statement; and

4.Transaction of other business as may properly come before the annual meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or before any adjournment or postponement thereof.

With respect to any other matter that properly comes before the meeting or any adjournment or postponement thereof, the representatives holding proxies will vote as recommended by the Board of Directors, or if no recommendation is given, in their own discretion.

Who is entitled to vote?

Stockholders of record of our common stock as of the close of business on March 13, 2018, or the record date, are entitled to vote on matters that properly come before the meeting. Shares of common stock can be voted only if the stockholder is present in person or is represented by proxy. At the close of business on the record date, there were 225,617,772 shares of common stock outstanding and entitled to vote. The holders of common stock will vote together as a single class on all matters that properly come before the meeting.

How many votes do I have?

Each share of common stock has one vote.

How do I vote?

You can ensure that your shares are voted at the meeting by completing, signing, dating and returning the enclosed proxy form in the envelope provided.

If you own your shares through a bank or broker, you may be eligible to authorize a proxy to vote your shares electronically over the internet or by telephone. A large number of banks and brokerage firms are participating in the ADP Investor Communication Services, or ADP, online program. This program provides eligible stockholders who receive a paper copy of the Annual Report and proxy statement the opportunity to authorize a proxy to vote via the internet or by telephone. If your bank or brokerage firm is participating in ADP's online program, your voting form will provide instructions. Stockholders who authorize a proxy to vote through the internet or telephone should be aware that they may incur costs to access the internet, such as usage charges from telephone companies or internet service providers, and that these costs must be borne by the stockholder. Stockholders who authorize a proxy to vote by internet or telephone need not return a proxy card by mail. If your voting form does not reference internet or telephone information, please complete and return the paper proxy card provided by your bank or broker.

If you attend the annual meeting in person, you may request a ballot when you arrive. If your shares are held in the name of your bank, broker or other nominee, prior to attending the meeting you need to request a legal proxy from your bank, broker or nominee as indicated on the back of the Voter Information form you received with your proxy material. The legal proxy must be presented to vote these shares in person at the annual meeting. If you have previously authorized a proxy, you may still vote in person at the annual meeting, which will serve as a revocation of your previous proxy.

Does Sunstone have a policy for confidential voting?

Sunstone has a confidential voting policy. All proxies and other materials, including telephone and internet proxy authorization, are kept confidential and are not disclosed to third parties. Such voting documents are available for examination by the inspector of election and certain personnel associated with processing proxy cards and tabulating the vote. We plan to appoint one inspector of election who will review and confirm the tabulation of votes at the annual meeting.

What if I return my proxy but do not mark it to show how I am voting?

If your proxy card is signed and returned without specifying your choices, your shares will be voted as recommended by the Board of Directors.

What are the Board of Directors' recommendations?

The Board of Directors recommends that you vote FOR each of the nominees for director in Proposal 1; FOR Proposal 2 to ratify the Audit Committee's appointment of Ernst & Young LLP to act as the independent registered public accounting firm for the fiscal year ending December 31, 2018; and FOR Proposal 3 to approve, on a non binding, advisory basis, the compensation of our NEOs as set forth in this proxy statement.

What vote is required to approve each proposal?

Election of Directors: There is no cumulative voting in the election of directors. A director shall be elected by an affirmative vote of a majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present; that is, a nominee will be elected as a director only if the number of votes cast "for" such nominee exceeds the number of votes "withheld" with respect to that nominee. Any shares not voted (whether by abstention, "broker non vote" (i.e., shares held by a broker or nominee which are represented at the meeting, but with respect to which such broker or nominee is not instructed to vote and has not voted on a particular proposal, or otherwise) have no effect on the vote.

Ratification of Appointment of Independent Registered Public Accounting Firm: This proposal requires the affirmative vote of a majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present. Any shares not voted (whether by abstention, "broker non vote" or otherwise) have no effect on the vote.

Advisory Vote on Executive Compensation: This proposal requires the affirmative vote of a majority of the votes cast at a meeting of stockholders duly called and at which a quorum is present. Any shares not voted (whether by abstention, "broker non vote" or otherwise) have no effect on the vote.

What constitutes a quorum?

The presence of the owners of at least a majority (greater than 50%) of the aggregate number of shares of common stock entitled to vote at the annual meeting constitutes a quorum. Presence may be in person or by proxy. You will be considered part of the quorum if you return a signed and dated proxy card, if you authorize a proxy to vote by telephone or the internet, or if you attend the annual meeting.

Abstentions and "broker non votes" are counted as present and entitled to vote for purposes of determining a quorum. A "broker non vote" occurs when the broker or other entity is unable to vote on a proposal because the proposal is non routine and the owner does not provide instructions. Rules of the New York Stock Exchange, or NYSE, determine whether proposals presented at stockholder meetings are "routine" or "non routine." If a proposal is routine, a broker or other entity holding shares for an owner in street or beneficial name may vote on the proposal without voting instructions from the owner. If a proposal is non routine, the broker or other entity may vote on the proposal only if the owner has provided voting instructions. The ratification of independent public accountants is generally a routine matter whereas the election of directors is not considered a routine matter. There are no rights of appraisal or similar dissenters' rights with respect to any matter to be acted upon pursuant to this proxy statement.

What if other items come up at the annual meeting and I am not there to vote?

We are not now aware of any matters to be presented at the annual meeting other than those described in this proxy statement. When you return a signed and dated proxy card or provide your voting instructions by telephone or the internet, you give the proxy holders (the names of whom are listed on your proxy card) the discretionary authority to vote on your behalf on any other matter that is properly brought before the annual meeting.

Can I change my vote?

You can change your vote by revoking your proxy at any time before it is exercised in one of four ways:

- Notify Sunstone's Secretary (David M. Klein, c/o Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656) in writing before the annual meeting that you are revoking your proxy;
- Submit another proxy with a later date;
- If you own shares through a bank or broker that provides for voting by telephone or the internet, submit your voting instructions again by telephone or the internet; or
- Vote in person at the annual meeting.

What does it mean if I receive more than one proxy card?

Some of your shares are likely registered differently or are in more than one account. You should vote each of your accounts by mail, or if such service is provided by a bank or broker that holds your shares, by telephone or the internet. If you mail proxy cards, please sign, date and return each proxy card to ensure that all of your shares are voted.

If you hold your shares in registered form and wish to combine your stockholder accounts in the future, you should contact our transfer agent, American Stock Transfer and Trust Company, LLC, at 1 800 937 5449. Combining accounts reduces excess printing and mailing costs, resulting in savings for Sunstone, that benefit you as a stockholder.

What if I receive only one set of proxy materials although there are multiple stockholders at my address?

If you and other residents at your mailing address own shares in "street name" (that is, through a broker or other nominee), your broker or bank may have sent you a notice that your household will receive only one Annual Report and proxy statement for each company in which you hold shares through that broker or bank. This practice of sending only one copy of proxy materials is known as "householding." If you did not respond that you did not want to participate in householding, you were deemed to have consented to the process. If the foregoing procedures apply to you, your broker has sent one copy of our Annual Report and proxy statement to your address. You may revoke your consent to householding at any time by contacting your broker or bank. The revocation of your consent to householding will be effective 30 days following its receipt. In any event, if you did not receive an individual copy of this proxy statement or our Annual Report, we will send a copy to you without charge if you address your written request to Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary.

How do I submit a stockholder proposal for inclusion in the proxy statement for next year's annual meeting?

Stockholder proposals may be submitted for inclusion in our 2019 annual meeting proxy statement after the 2018 annual meeting, but must be received no later than November 29, 2018. Proposals should be sent via registered, certified, or express mail to Sunstone Hotel Investors, Inc., 120 Vantis, Suite 350, Aliso Viejo, California 92656, Attention: Secretary. See also "Stockholder Proposals for the 2019 Annual Meeting" later in this proxy statement.

What do I need to do to attend the annual meeting?

If you are a holder of record, you should indicate on your proxy card that you plan to attend the meeting by marking the box on the proxy card provided for that purpose.

For the safety and comfort of our stockholders, admission to the annual meeting will be restricted to:

- Stockholders of record as of the close of business on March 13, 2018 or their duly authorized proxies;
- Beneficial stockholders whose shares are held by a bank, broker or other nominee, and who present proof of beneficial ownership as of the close of business on March 13, 2018;
- Representatives of the press or other news media with proper credentials;
- Financial analysts with proper credentials; and
- Employees and representatives of Sunstone whose job responsibilities require their presence at the meeting.

Please note that space limitations may make it necessary to limit attendance. Admission to the meeting will be on a first come, first served basis. No more than two representatives of any corporate or institutional stockholder will be admitted to the meeting.

You may obtain directions to the Hyatt Regency San Francisco hotel in the Investor Relations section of our website at www.sunstonehotels.com or by calling us at 949 330 4000.

If you attend the meeting, you may be asked to present valid government issued photo identification, such as a driver's license or passport, before being admitted. Cameras, recording devices, and other electronic devices will not be permitted, and attendees may be subject to security inspections or other security precautions.

PROPOSALS

Proposal 1: Election of Directors

Board of Directors. The business and affairs of Sunstone are managed under the direction of our Board of Directors. Our Board of Directors has responsibility for establishing broad corporate policies and for the overall performance of Sunstone, rather than for day to day operating details. Our Board of Directors currently consists of eight directors.

The proxy holders named on the proxy card intend to vote for the election of the eight nominees listed below. The Nominating and Corporate Governance Committee selected these nominees, which selection was ratified by the Board of Directors. If you do not wish your shares to be voted for particular nominees, you can vote “withhold” for the particular nominee provided on the proxy card or, if your shares are held through a bank or broker and you are authorizing a proxy to vote by telephone or the internet, follow the instructions provided when you access the telephone or internet proxy facilities.

If at the time of the meeting one or more of the nominees have become unable to serve, shares represented by proxies will be voted for the remaining nominees and for any substitute nominee or nominees designated by the Nominating and Corporate Governance Committee. If one or more nominees have become unable to serve, the Board of Directors may, in accordance with our bylaws, reduce the size of the Board of Directors or may leave a vacancy until a nominee is identified. Each of the nominees has consented to act as a director if duly elected and qualified and the Nominating and Corporate Governance Committee knows of no reason why any of the nominees will be unable to serve.

Directors elected at the annual meeting will hold office until the next annual meeting and until their successors have been elected and qualified. For each nominee, there follows a brief listing of principal occupation for at least the past five years, other major affiliations, and age as of February 9, 2018. Each of the nominees is currently a director of the Company.

Nominees for Election as Directors.

John V. Arabia Age: 48 Director

Mr. Arabia is our President and Chief Executive Officer, or CEO, and a director. On February 14, 2011, we announced that we hired Mr. Arabia as Executive Vice President of Corporate Strategy and Chief Financial Officer, and on April 4, 2011 his employment began. On February 15, 2013, he was promoted to President, on February 19, 2014, he was appointed to serve as a member of our Board of Directors, and on January 17, 2015 he was promoted to President and Chief Executive Officer. Prior to joining Sunstone, Mr. Arabia served as Managing Director of Green Street Advisors’ (“Green Street”) real estate research team. Mr. Arabia joined Green Street in 1997 and created and managed the firm’s lodging research platform. Prior to joining Green Street, Mr. Arabia was a Consulting Manager at EY Kenneth Leventhal in the firm’s west coast lodging consulting practice. Mr. Arabia also serves on the Board of Directors of Education Realty Trust, Inc. (NYSE:EDR), a publicly traded real estate investment trust, or REIT, and one of America’s largest owners, developers and managers of collegiate housing. Mr. Arabia serves as chair of the nominating and corporate governance committee and as a member of the investment and oversight committee of the Board of Directors of EDR. He also serves as a director of the American Hotel & Lodging Association (AH&LA) and its Real Estate Finance Advisory Council (IREFAC). Mr. Arabia, who earned a CPA certificate from the state of Illinois, holds an M.B.A. degree in Real Estate/Accounting from the University of Southern California and a B.S. degree in Hotel Administration from Cornell University.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Arabia should serve as a director: his professional background and experience, extensive education, previously held senior executive level positions, other public company board experience, and his extensive finance and real estate investment experience.

W. Blake Baird Age: 57 Director

Mr. Baird has served as a director since April 28, 2016. Mr. Baird co founded Terreno Realty Corporation (NYSE: TRNO), and has served as chairman of its board of directors and its Chief Executive Officer since February 2010. Terreno Realty Corporation acquires, owns and operates industrial real estate in six major coastal U.S. markets. Mr. Baird was managing partner and co founder of Terreno Capital Partners LLC, a private real estate investment firm, from September 2007 to February 2010. Mr. Baird served as President of AMB Property Corporation (NYSE:AMB) from January 2000 to December 2006. AMB, now Prologis, Inc. (NYSE: PLD), is a leading global developer, owner and operator of industrial real estate. Mr. Baird also served as a director of AMB from 2001 to 2006 and chairman of its investment committee. Mr. Baird joined AMB as its Chief Investment Officer in 1999. Prior to that, Mr. Baird was a managing director of Morgan Stanley & Co., most recently as head of Real Estate Investment Banking for the Western United States. Mr. Baird spent 15 years at Morgan Stanley and Dean Witter, the last 11 focusing on real estate. Mr. Baird currently serves as a director of Matson, Inc. (NYSE:MATX), a Honolulu headquartered ocean transportation and logistics company.

Mr. Baird is a former member of the Young Presidents' Organization and a former member of the Board of Governors of the National Association of Real Estate Investment Trusts. Mr. Baird holds a B.S. degree in Economics from the Wharton School (magna cum laude) and a B.A. degree in History from the College of Arts and Sciences (magna cum laude) at the University of Pennsylvania. He also holds an M.B.A. degree from New York University.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Baird should serve as a director: his professional background and experience, education, previously held and current senior executive level positions, other public company board experience, his extensive background and experience with REITs and his background and experience in real estate and finance transactions.

Andrew Batinovich Age: 59 Director

Mr. Batinovich has served as a director since November 7, 2011. Mr. Batinovich currently serves as President and Chief Executive Officer of Glenborough, LLC, a privately held full service real estate investment and management company focused on the acquisition, management and leasing of institutional quality commercial properties. In 2010, Mr. Batinovich led a private investor group in acquiring Glenborough, LLC and related real estate assets that were originally part of Glenborough Realty Trust, a NYSE listed REIT, which was sold to affiliates of Morgan Stanley in 2006. From December 2006 to October 2010, Mr. Batinovich served as President and Chief Executive Officer of Glenborough, LLC, a company formed by an affiliate of Morgan Stanley to acquire Glenborough Realty Trust. In 1996, Mr. Batinovich co founded Glenborough Realty Trust and was President and Chief Executive Officer and a director at the time of the sale in 2006. Mr. Batinovich was appointed President of Glenborough Realty Trust in 1997 and Chief Executive Officer in 2003. He also served as Chief Operating Officer and Chief Financial Officer during his tenure at Glenborough Realty Trust.

Prior to founding Glenborough Realty Trust, Mr. Batinovich served as Chief Operating Officer and Chief Financial Officer of Glenborough Corporation until 1996 when it was merged into Glenborough Realty Trust. Glenborough Corporation was a private real estate investment and management company that completed a number of private placements of office, industrial, residential and hotel properties. Prior to joining Glenborough Corporation in 1983, Mr. Batinovich was an officer of Security Pacific National Bank. In August 2013, an affiliate of Glenborough, LLC became the advisor to Strategic Realty Trust, a non traded Securities and Exchange Commission registered REIT that owns a portfolio of shopping centers, and Mr. Batinovich was appointed Chief Executive Officer and a director. He also serves as a director of RAIT Financial Trust (NYSE: RAS) and as a trustee of the American University of Paris. Mr. Batinovich has a B.A. degree in International Business Administration from the American University of Paris.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Batinovich should serve as a director: his professional background and experience, education, previously held senior executive level positions, other public company board experience, his extensive background and experience with REITs and his background and experience in real estate and finance transactions.

Z. Jamie Behar Age: 60 Director

Ms. Behar has served as a director since October 26, 2004. From October 2005 through December 31, 2015, Ms. Behar was Managing Director, Real Estate & Alternative Investments, for GM Investment Management Corporation, or GMIMCo. She managed GMIMCo's clients' real estate investment portfolios, including both private market and publicly traded security investments, as well as their alternative investment portfolios, totaling approximately $12 billion at peak portfolio value. She was a member of GMIMCo's Board of Directors, the Investment Management Committee, the Private Equity Investment Approval Committee and the Risk Management Committee. Ms. Behar also serves on the boards of: Gramercy Property Trust (NYSE: GPT), a publicly traded real estate company that specializes in acquiring and managing single tenant, net leased industrial and office properties located in the U.S. and Europe, where she also serves as a member of the Board's Audit and Investment Committees; Forest City Realty Trust (NYSE: FCE.A), a publicly-traded real estate company focused on acquiring, developing and managing mixed-use office and multi-family assets located across the U.S., where she serves as a member of the Board's Audit and Corporate Governance & Nominating Committees; and Broadstone Real Estate Access Fund, a registered closed-end management investment company, operated as an interval fund, that invests in institutional quality real estate and real estate-related investments, where she serves as a member of the Board's Nominating & Corporate Governance Committee. Ms. Behar holds a Bachelor's of Science in Economics (B.S.E) from the Wharton School, University of Pennsylvania, a Master's in Business Administration (M.B.A) from Columbia University Graduate School of Business, and the Chartered Financial Analyst (CFA) designation.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Ms. Behar should serve as a director: her professional background and experience, extensive education, previously held senior executive level positions, other company board experience, prior Company board experience, domestic and international real estate knowledge, and her extensive experience in investments in hotels and real estate in general.

Thomas A. Lewis, Jr. Age: 65 Director

Mr. Lewis has served as a director since May 2, 2006. Until May 2014, Mr. Lewis served as the Vice Chairman of the Board of Directors of Realty Income Corporation, a NYSE listed REIT, and had served as a member of the Board of Directors of Realty Income Corporation since September 1993. Mr. Lewis joined Realty Income Corporation in 1987 and served as Chief Executive Officer from 1997 until September 3, 2013. In 2000 and 2001, he also held the position of President. Prior to joining Realty Income Corporation, he was an executive with Johnstown Capital, a real estate investment company (1982 to 1987), an investment specialist with Sutro & Co., Inc. (1979 to 1982), and in marketing with Procter & Gamble (1974 to 1979). Mr. Lewis has more than 20 years of experience directing public and private capital markets and real estate transactions. Mr. Lewis serves as a director of Alexander and Baldwin, Inc. (NYSE:ALEX), a Honolulu headquartered real estate, materials & road paving and agribusiness company, where he serves as a member of the Compensation Committee. Mr. Lewis holds a B.A. degree in Business Administration from Chaminade University of Hawaii.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Lewis should serve as a director: his professional background and experience, education, previously held senior executive level positions, other public company board experience, prior Company board experience, his extensive background and experience with REITs and his background and experience in real estate and finance transactions.

Murray J. McCabe Age: 50 Director

Mr. McCabe has served as a director since April 28, 2016. Mr. McCabe is currently a Managing Partner at Blum Capital Partners, L.P. and its affiliate Montgomery Street Partners, L.P., both investment firms, where he serves as a member of the Management Committees. His responsibilities include overseeing and managing real estate-related investment initiatives for Montgomery Street Partners, L.P., focusing on opportunistic equity investments. Prior to joining Blum Capital, Mr. McCabe worked at JPMorgan Chase & Co. from 1992 through August 2012. During his 20-year tenure at JPMorgan, Mr. McCabe held several positions in the Investment Banking Division, including Managing Director and Global Head of Real Estate and Lodging Investment Banking. In addition, Mr. McCabe served as a member of JPMorgan's Mergers and Acquisitions Fairness Opinion Committee from 2001 to 2002, the Investment Banking Coverage Management Committee from 2010 through his departure in August 2012, and on the board of JPMorgan Real Estate Advisors during the same period.

Mr. McCabe is a member of the advisory board for the Fisher Center for Real Estate and Urban Economics at the University of California at Berkeley, and is also an executive council member of the Real Estate Finance and Investment Center and serves on the REIT Investment Funds advisory board for the McCombs School of Business at the University of Texas, Austin. He serves as a director of RREEF Property Trust, Inc., Columbia Property Trust (NYSE:CXP), and RREEF America REIT II Inc. Mr. McCabe holds a B.A. in Finance from the University of Texas at Austin.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. McCabe should serve as a director: his professional background and experience, education, previously held and current senior executive level positions, other public company board experience, his extensive background and experience with REITs and his background and experience in real estate and finance transactions.

Douglas M. Pasquale Age: 63 Chairman of the Board

Mr. Pasquale has served as our Chairman of the Board since May 1, 2015, and as a director since November 7, 2011. Mr. Pasquale is Founder & CEO of Capstone Enterprises Corporation, an investment and consulting firm, since January 1, 2012. With the acquisition of Nationwide Health Properties, Inc. (NYSE: NHP) by Ventas, Inc. (NYSE: VTR) on July 1, 2011, Mr. Pasquale served as Senior Advisor to Ventas's Chairman and CEO from July 1, 2011 to December 31, 2011. He also served on the Ventas Board of Directors from July 1, 2011 to May 18, 2017. Prior to Nationwide Health Properties' acquisition, Mr. Pasquale served as Chairman of the Board of NHP from May 2009 to July 2011, as President and Chief Executive Officer of NHP from April 2004 to July 2011, and as Executive Vice President and Chief Operating Officer of NHP from November 2003 to April 2004. Mr. Pasquale was a director of NHP from November 2003 to July 2011. Mr. Pasquale previously served in various roles (most recently Chairman and Chief Executive Officer) at ARV

Assisted Living, Inc., an owner and operator of assisted living facilities, from June 1998 to September 2003 and concurrently served as President and Chief Executive Officer of Atria Senior Living Group, Inc. from April 2003 to September 2003. Mr. Pasquale also served as President and Chief Executive Officer of Richfield Hospitality Services, Inc. and Regal Hotels International—North America, a hotel ownership and management company, from 1996 to 1998, and as its Chief Financial Officer from 1994 to 1996. Mr. Pasquale serves as a director of: Alexander and Baldwin, Inc. (NYSE:ALEX), a Honolulu headquartered real estate, materials & road paving and agribusiness company, for which he serves as chair of the Audit Committee and a member of the Nominating and Corporate Governance Committee; Terreno Realty Corporation (NYSE: TRNO), an industrial REIT with a focus in six coastal U.S. markets, for which he serves as lead independent director and a member of the Audit, Compensation and Nominating and Corporate Governance committees; and Dine Brand Global, Inc. (NYSE: DIN), which franchises Applebee's and IHOP restaurants, for which he serves as a member of the Audit Committee. He is also Chairman of the Board of Trustees of ExplorOcean and a Director of Discovery Science Center/Discovery Cube/Ocean Quest. Mr. Pasquale is a successful leader in the real estate industry with extensive experience and strong skills in management, mergers and acquisitions and strategic planning. Mr. Pasquale received his B.S. degree in Accounting and his M.B.A. degree with highest honors from the University of Colorado.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Pasquale should serve as a director: his professional background and experience, extensive education, previously held senior executive level positions, other public company board experience, his extensive background and experience with REITs and his background and experience in real estate and finance transactions.

Keith P. Russell Age: 72 Director

Mr. Russell has served as a director since October 26, 2004. Since June 2001, Mr. Russell has been President of Russell Financial, Inc., a strategic and financial consulting firm serving businesses and high net worth individuals. Mr. Russell is retired as the Chairman of Mellon West and the Vice Chairman of Mellon Financial Corporation, in which capacities he served from May 1996 until March 2001. From September 1991 through April 1996, Mr. Russell served in various positions at Mellon, including Vice Chairman and Chief Risk Officer of Mellon Bank Corporation and Chairman of Mellon Bank Corporation's Credit Policy Committee. From 1983 to 1991, Mr. Russell served as President and Chief Operating Officer, and a director, of Glenfed/Glendale Federal Bank. Mr. Russell also serves on the Board of Directors of Hawaiian Electric Industries (NYSE:HE), where he serves as a member of the audit committee, and serves on the Board of Directors of American Savings' Bank, a subsidiary of Hawaiian Electric Industries, where he serves as chair of the risk committee and a member of the audit committee. Mr. Russell also serves as a member of the Board of Directors of KBS Growth & Income REIT, Inc. where he serves as the chair of the audit committee and as a member of the conflicts committee. From 2002 to 2011, Mr. Russell was a director of Nationwide Health Properties, Inc. (for which he also served as chair of the audit committee and a member of the nominating and governance committee). Mr. Russell has been a panelist at various conferences and seminars, addressing topics such as corporate governance and audit committee role. Mr. Russell holds a B.A. degree in Economics from the University of Washington and an M.A. degree in Economics from Northwestern University.

The following experience, qualifications, attributes and/or skills led our Board of Directors to conclude that Mr. Russell should serve as a director: his professional background and experience, extensive education, previously held senior executive level positions, other public company board experience, prior Company board experience, his extensive experience in corporate risk, accounting and finance and general investment experience.

Voting recommendation. Directors will be elected by a majority of the votes cast. Any shares not voted, whether by abstention, "broker non vote" or otherwise, will have no impact on the vote.

Our Corporate Governance Guidelines and Bylaws provide a majority voting standard in uncontested director elections. A director nominee will be elected to the Board only if the number of votes cast "for" such nominee's election exceeds the number of votes cast "withheld" with respect to such nominee's election (with abstentions and broker non-votes not counted as votes cast either for or withheld in such election). If an incumbent nominee for director fails to receive the required majority vote in a director election, he or she will tender his or her resignation as a director for consideration by the Nominating and Corporate Governance Committee, and, ultimately, the Board.

In the event any incumbent nominee for director does not receive the requisite majority vote, our Corporate Governance Guidelines and Bylaws provide that our Nominating and Corporate Governance Committee will evaluate the circumstances of the failed election, and will make a recommendation regarding how to act upon the tendered resignation to the full Board, taking into consideration the best interests of the Company and its stockholders. After considering the recommendation of the Nominating and Corporate Governance Committee, the full Board will then act upon the resignation, and will publicly disclose its decision regarding the tendered resignation and its rationale within 90 days of the certification of the election results. If the Board accepts the resignation, the nominee will no longer serve on the Board. If the Board rejects the resignation, the nominee will continue to serve until his or her successor has been duly elected and qualified or until his or her earlier disqualification, death, resignation or removal. Notwithstanding the foregoing, the Board shall be required to accept any resignation tendered by a nominee who is already serving as a director if such nominee shall have received more votes “against” or “withheld” than “for” his or her election at each of two consecutive annual meetings of stockholders for the uncontested election of directors at which a quorum was present.

The Board of Directors recommends that our stockholders vote FOR each of the nominees.

Proposal 2: Ratification of the Audit Committee's Appointment of Independent Registered Public Accounting Firm

The Audit Committee has selected and appointed the firm of Ernst & Young LLP to act as our independent registered public accounting firm for the year ending December 31, 2018. Ernst & Young LLP has audited the financial statements for us since our initial public offering on October 26, 2004.

Although stockholder ratification of the appointment of our independent auditor is not required by our bylaws or otherwise, we are submitting the selection of Ernst & Young LLP to our stockholders for ratification as a matter of good corporate governance practice. Even if the selection is ratified, the Audit Committee in its discretion may select a different independent registered public accounting firm at any time if it determines that such a change would be in the best interests of the Company. If our stockholders do not ratify the Audit Committee's selection, the Audit Committee will take that fact into consideration, together with such other factors it deems relevant, in determining its next selection of our independent registered public accounting firm.

In selecting Ernst & Young LLP as the Company's independent registered accounting firm, the Audit Committee considered many factors, including the quality of its ongoing discussions with Ernst & Young LLP's representatives, the experience and professional qualifications of Ernst & Young LLP, and Ernst & Young LLP's programs and processes for maintaining its independence. Furthermore, in accordance with Securities and Exchange Commission rules and Ernst & Young LLP's policies, lead engagement partners are subject to rotation requirements to limit the number of consecutive years the lead partner may provide services. For lead audit partners, the maximum number of consecutive years of service in that capacity is five years. We select the Company's lead audit partner pursuant to this rotation policy following meetings between the Chairman of the Audit Committee and candidates for that role, as well as discussions by the full Audit Committee, members of the Board of Directors and management.

Representatives of Ernst & Young LLP are expected to be present at the annual meeting. These representatives will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

You can find more information about our relationship with Ernst & Young LLP on page 50 of this proxy statement.

Voting recommendation. Ratification of the appointment of Ernst & Young LLP requires a majority of the votes cast. Any shares not voted, whether by abstention, "broker non vote" or otherwise, have no impact on the vote.

The Board of Directors recommends that our stockholders vote FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2018.

Proposal 3: Advisory Vote (Non Binding) on Executive Compensation

Section 14A of the Securities Exchange Act of 1934, as enacted as part of the Dodd Frank Wall Street Reform and Consumer Protection Act in July 2010, or the Dodd Frank Act, requires us to submit to our stockholders a non binding advisory vote to approve the compensation of the NEOs listed in the Summary Compensation Table of this proxy statement, commonly referred to as a “say on pay” vote.

The Board of Directors has approved the submission of the following resolution to the Company’s stockholders for approval at the 2018 annual meeting:

“Resolved, that the stockholders hereby approve, on an advisory basis, the compensation of the Company’s Named Executive Officers as disclosed in the Company’s 2018 proxy statement pursuant to the disclosure rules of the Securities and Exchange Commission (which disclosure includes the Compensation Discussion and Analysis, the Summary Compensation Table and the other executive compensation tables and related discussion).”