



2019 Sustainability Report

Sunstone Hotel Investors, Inc.

www.sunstonehotels.com

Corporate Governance, Social Initiatives and Sustainability

Sunstone Hotel Investors (“Company”) is committed to ensuring environmental and social initiatives are part of our long-term operating and investment strategies. Our focus on and investment in Environmental, Social and Governance (“ESG”) programs aims to support our overall Company strategy of owning Long-Term Relevant Real Estate®. We continuously seek opportunities to invest in renovations; implement initiatives intended to reduce energy, water and waste impacts; enhance the overall environment and well-being of guests and employees at our properties, and improve the local communities in which we conduct business or own hotels. As owners of Long-Term Relevant Real Estate®, we take a holistic view in investing in our assets; balancing the best interests of our stockholders, the environment, our employees, the hotel associates and the communities in which we operate.



John V. Arabia
President & Chief Executive Officer

Corporate Governance and ESG

Our corporate governance follows industry best practice to ensure a high level of transparency, accountability and effective management. Our Corporate Governance Guidelines outline the operational procedures of our Board of Directors (“Board”) and its committees, and sets forth a common set of expectations. Three primary committees: the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee (“NCG”), are overseen by the Board to ensure compliance with policies and procedures, including Board composition and executive and management compensation. For additional information, please visit our [Corporate Governance](#) page.

Sunstone’s ESG program and objectives are monitored by the Company’s ESG Committee, composed of executives from our Legal and Financial departments. The ESG Committee meets twice a month internally, with key Company departments on a quarterly basis, and one-on-one meetings for specific projects as necessary. The ESG Committee has direct oversight of our ESG strategy, policies, and procedures. The ESG Committee aims to assess and manage climate-related risks and opportunities by identifying properties with the greatest exposure to risks and implementing strategies to mitigate negative impacts. To ensure compliance and Company-wide transparency, our ESG Committee reports to the Board on a quarterly basis via the NCG and annually to the entire Board. Over the last 12 months, our ESG Committee has reported to the NCG and the Board four times. Through this reporting structure, our Board has direct oversight of our Company’s ESG-related risks and opportunities, including those related to climate change, water scarcity, and human rights.

Our ESG Strategy and Commitment

As part of our Company strategy, we aim to create lasting value through long-term ownership of our hotels. This strategy, combined with focused asset management and a flexible balance sheet, enables us to make meaningful investments to improve the environmental performance of our assets, as well as enhance the quality of the work environment for the hotel employees and the communities in which we own hotels.

Our ESG commitment aims to:

- Maximize low-carbon investment opportunities;
- Reduce the environmental footprint of our hotels and our corporate office;
- Provide our operators with the appropriate resources to ensure hotel employees have a safe and pleasant work environment; and
- Support the communities where we work and own hotels.

Stakeholders and Partnerships

Our Asset Management, Design and Construction, and Engineering teams actively seek to achieve our ESG objectives by engaging with our stakeholders and operators to reduce environmental and social risks.

We also engage with and actively participate in several industry organizations, including the American Hotel & Lodging Association, the National Association of Real Estate Investment Trusts, the Hospitality Asset Managers Association, and the Cornell Institute for Hospitality Labor and Employment Relations.

In 2018, we began supporting the Cornell Hotel Sustainability Benchmarking (CHSB) Index. This index was established to develop common data sets within the lodging industry for benchmarking activities related to energy, water and greenhouse gas emissions, as well as provide a platform for engagement with hotel operators. We will continue to support and engage with CHSB in 2019 and beyond.

ESG Policies

We have adopted three primary Company policies in an effort to achieve our overall Company strategy and ESG program.

Our Environmental Policy is designed to identify environmental impact, drive sustainability within our portfolio, and raise environmental awareness among stakeholders. Our policy and initiatives include managing environmental risks through monitoring, reporting, and investing in efficiency programs and operating procedures.

Our Human Rights and Labor Policy aligns with the principles defined in the UN Universal Declaration of Human Rights, the UN Guiding Principles on Business and Human Rights, and AHLA's 5-Star Promise. We aim to comply with all labor and human rights laws, and encourage our operators, suppliers and business partners to follow the same applicable principles, guidelines, and regulations.

Our Vendor and Business Partner Code of Conduct defines the ESG standards that we expect from our suppliers, vendors and business partners. This includes reducing environmental and social risks, adhering to labor and human rights standards, and operating in an ethical manner.

[View our ESG Policies here](#)

Environmental Targets

Following a carbon, energy, water, and waste assessment, we implemented portfolio-wide environmental reduction targets. The environmental reduction goals use a 2015 baseline year and establish 2025 intensity reduction targets, as well as, interim 2020 progress checks. We aim to have continuous reduction and improvement to achieve our portfolio-wide goals.

Target	2020 Interim Target	2025 Target
Energy Intensity Reduction per Square Foot	-6%	-7.5%
Carbon Emissions Intensity Reduction per Square Foot	-15%	-22%
Water Intensity Reduction per Occupied Room	-9.5%	-13%
Waste Intensity per Occupied Room	-4%	-10%

Sustainability Risks and Opportunities

To further manage ESG risks and opportunities, we conducted Sustainability Risk and Opportunity Assessments for our assets and other geographic locations. The Assessments serve as a valuable tool in forming decisions about property investments for renovations, acquisitions, and new construction projects.

The Sustainability Risk and Opportunity Assessments examined the following topics:

- **Climate Change Adaptation and Natural Hazards** – The current and forecasted variances in weather, temperature, precipitation, hurricanes, and other water-related aspects of climate change, including drought and flooding.
- **Water Supply** – The relative stress of water supply compared to demand, including the risk of increased water utility costs.
- **Health and Well-Being and Socio-economic Risks** – the social determinants of well-being in and around a community, including factors related to poverty, unemployment, crime, youth, and air pollution.
- **Regulatory Risks** – Current proposed regulatory policies or codes relating to sustainability that may affect business.
- **Biodiversity and Habitat** – Risks from adverse impact due to proximity to wildlife and protected areas, and opportunities to support conservation initiatives.

Our ESG Investments and Portfolio Initiatives

Environmental Investments

Our ESG investment strategy begins during the initial due diligence and acquisition phase and continues throughout our ownership of the hotel. During the hotel acquisition process, we utilize both internal and third-party technical experts to assess the infrastructure of each property. Throughout our portfolio, our Engineering and Asset Management teams continuously monitor energy and water consumption and costs, as well as work with our operators to identify areas for improvement. We focus our ESG oriented investments by identifying three primary factors: (i) properties with high energy consumption and/or high utility cost, (ii) dated equipment that is nearing end-of-useful-life, and (iii) available incentives associated with all potential investments.

Over the past four years we have made significant investments in energy, water, and waste management equipment, including:

- LED lighting retrofits that reduce energy consumption and require less frequent replacement;
- Water chiller and boiler replacements that reduce energy consumption;
- Roofing and façade upgrades that reduce energy consumption and protect against climate-related risks;
- Smart thermostats for guest rooms that reduce heating and cooling times when rooms are not occupied;
- Smart thermostats for kitchen walk-in coolers and freezers that reduce energy consumption;
- ORCA waste management systems that divert food waste from landfills; and
- Smart irrigation systems that reduce water consumption.

Efficiency Investments ¹				
	2018	2017	2016	2015
Total Number of Investment Projects	20	23	22	47
Total Amount Invested (USD)	\$3,535,014	\$643,724	\$2,126,124	\$1,620,007
Total Annual Energy Savings (USD)	\$705,039	\$345,544	\$724,689	\$1,350,820
Total Annual Energy Reduction (kWh)	5,643,581	2,358,393	6,344,177	9,851,404
Total Annual Carbon Reduction (kgCO ₂ e)	1,642,622	821,976	1,597,059	2,807,216

Sustainability at Our Properties – Select Case Studies

Renaissance Baltimore Harborplace – The Renaissance Baltimore Harborplace, Baltimore, Maryland underwent a conversion from city-steam to natural gas, resulting in an annual reduction of energy and water consumption. Please refer to the Renaissance Baltimore Harborplace steam to natural gas conversion case study for additional information and metrics.

[View our Renaissance Baltimore Steam Conversion Case Study here.](#)

Boston Park Plaza – The Boston Park Plaza, Boston, Massachusetts, completed phase one of a piping re-insulation project that is expected to result in a material reduction in energy consumption of approximately 71,000 therms annually. Prior to launching the re-insulation project, we successfully partnered with our local utility company to confirm receipt of a significant rebate upon completion of the project.

¹ Efficiency investment project metrics represent financial and environmental planned savings. Savings metrics may be extrapolated.

Wailea Beach Resort – The Wailea Beach Resort, Maui, Hawaii, is in the process of installing solar panels on the buildings of the property. The project is expected to produce approximately 664,000 kWh, and reduce carbon emissions by approximately 200,000 kg CO₂e.

Energy Efficient Lighting – Energy efficient back-of-house lighting was installed at 11 of our properties and is expected to result in an energy savings of over 2.3 million kWh and an annualized reduction of approximately 1,600 tons of carbon.

Clean the World – 16 of our properties participate in the Clean the World Foundation through recycling soap and bottled amenities. These efforts resulted in a reduction of over 12,000 pounds of soap and amenity bottle waste in 2018.

Bulk Amenity Dispensers – Bulk amenity dispensers are being evaluated across our portfolio and are currently in place at the Courtyard Los Angeles Airport, and will be installed at the Hyatt Regency San Francisco in the fourth quarter 2019. The Hyatt Regency San Francisco is planning to significantly reduce their waste output by replacing mini amenity plastic bottles with refillable amenity containers.

Climate Change Adaptation

Our strategy for climate change adaptation includes evaluating both short-term investments and long-term preventative measures to protect our assets. In the short term, we are focused on investments that will protect our assets from the current environmental threat of potential wind and flood events. The recently added removable flood barrier system at the Marriott Boston Long Wharf, JW Marriott New Orleans, and Hilton New Orleans hotels will protect the property, employees and guests in the event of high-water movement in the areas. Many steps were taken at the Ocean's Edge Resort and Marina hotel in Key West to improve safety and asset preservation in the event of a major hurricane. These measures include a full back-up generation system, roof enhancements and storm shutters for all entrance doors to protect buildings from incoming rainwater.

As we continue to evaluate longer-term preventative goals across our portfolio, our focus will also include the impact of potential rising sea levels and its impact on wind and flood events. We intend to develop relationships with sustainability planning committees at the city level in key markets such as Boston, Key West and Maui. Our goal will be to align our own preventative measures with those implemented at other local businesses and city government.

Social Investments at Our Properties

Throughout our portfolio, we aim to protect and promote the health, safety, and well-being of our guests and the hotel employees. We deployed a portfolio-wide emergency preparedness program that requires every hotel to have an emergency protocol and on-hand equipment (e.g. satellite phone, life safety and water remediation equipment, first aid supplies, etc.) to promote the safety of hotel employees and guests and to mitigate loss and damage in the event of a catastrophe.

We fully support and encourage all of our operators to adopt and abide by the principles of the American Hotel & Lodging Association's ("AHLA") 5-Star Promise. The 5-Star Promise is part of an industry-wide commitment to advance safety and security for hotel employees and guests based on the following five important initiatives:

- Build on our industry’s longstanding commitment to hospitality and a People Culture by continuing to provide industry-wide training and materials on safety and security, and retain expert guidance to work with the industry on diversity and safety matters.
- Ensure mandatory anti-sexual harassment policies are in place in multiple languages.
- Provide ongoing training and education for employees on identifying and reporting sexual harassment.
- Provide U.S. hotel employees with employee safety devices to help them feel safe on the job.
- Broaden vital partnerships with wide-ranging national organizations that target sexual violence and assault and trafficking and promote workplace safety.

In addition, we support and recently participated in AHLA’s “No Room for Trafficking” awareness campaign, which is an industry-wide initiative to end human trafficking.



1 Sunstone supports AHLA “No Room for Trafficking” Campaign Awareness Day

We also encourage the health and well-being of hotel employees through investing in hotel employee back-of-house areas, which we call “Heart-of-House”. Heart-of-House investments include upgrading associate cafes and break areas and providing high-quality locker room facilities. Our investments in the back-of-house environments have led to improved hotel employee satisfaction.

- **JW Marriott New Orleans** – The JW Marriott New Orleans, New Orleans, Louisiana, recently completed a Heart-of-House refresh for the associate café, including a new food serving line, updated seating furniture, and floors along with updated artwork. We also refreshed employee locker rooms with updated lockers and new showers, and overhauled an employee only restroom.
- **Wailea Beach Resort** – The Wailea Beach Resort, Maui, Hawaii recently completed a Heart-of-House refresh for the associate café including new kitchen equipment, updated flooring, lighting and lounge area. We also created a new Human Resources training room, and redesigned the laundry area to be more functional with new storage and upgraded eye wash sinks.

We also promote the health and well-being of our hotel guests by investing in high-quality and expanded state-of-the-art guest fitness centers at our hotels. These investments include improved fitness equipment and health-oriented amenities aimed to promote our ESG commitment of providing health and well-being improvements and opportunities for our guests.

To ensure the health, safety, and well-being of guests, employees and surrounding communities, we conduct assessments to ensure safe and sustainable materials are utilized at our properties; and any pre-existing hazardous material are properly removed and disposed of. Additionally, if there is any risk of cultural or biodiversity disturbances during renovation or new construction projects, we adhere to all regulations and protocols. For example, while undergoing renovations at the Wailea Beach Resort, we engaged a cultural survey company to perform archaeological monitoring fieldwork, and provide an assessment of the results to ensure any ground disturbing activities were monitored for potential cultural and community impacts.

Portfolio Overview and Current Environmental Performance

In 2018, we began to structure and formalize our ESG data management strategy to monitor the linkages between our hotel investments, implementation of best practices, and impact on performance over time. As a result of recent efforts, some of our current portfolio accomplishments and highlights are²:

- 57% of our properties have LED lighting throughout at least 90% of the hotel;
- 86% of our properties have occupancy sensors throughout at least 90% of the hotel guestrooms;
- 52% of our properties have a water efficiency program in place on property;
- 100% of our properties track waste and recycling metrics; and
- 11 properties obtained a TripAdvisor Green Leaders Certification (Green Partner, Bronze, Silver, or Gold level).

As part of our ESG data management strategy, we created a Hotel Green Grid, which provides a visual overview of ESG practices throughout our portfolio of properties. The Hotel Green Grid is a resource that allows our properties to proactively benchmark against the full Sunstone portfolio.

In addition, we established a historical performance baseline for energy, water, waste, and carbon emissions from 2015 onward, which we will monitor routinely and use to analyze improvement opportunities and investment decisions. By measuring and monitoring our environmental performance, we aim to increase efficiency throughout our portfolio and mitigate environmental and regulatory risks.

Environmental Performance					
	2018	2017	2016	2015	Percent Achieved Toward 2025 Targets
Carbon Emissions per square foot (kgCO ₂ e)	6.66	6.65	6.99	7.60	55%
Energy usage per square foot (kWh)	23.49	23.64	23.43	24.64	61%
Water usage per occupied room (gallons)	151.34	152.66	160.26	165.42	65%
Waste generated per occupied room (pounds)	13.93	14.22	14.14	14.47	38%

Please refer to our [ESG Performance Tables](#) for additional information.

² Data and information based on 2018 property survey.

Our Social Commitment – Sunstone Employees and Community Involvement

Sunstone Employees

We strive to create a healthy and supportive work environment through establishing a collaborative and accommodating work environment, competitive wages and benefits, and career development opportunities. We provide individualized training for our employees, including programs in real estate investments and negotiation, accounting and reporting systems, CPA test preparation, tax, information technology systems, and engineering (roofing, elevator, and chiller maintenance).

We aim to create an inclusive work environment, free of any form of harassment or discrimination. We provide our employees with Company-wide harassment prevention training to increase awareness and ensure all employees experience a safe workplace.

In 2019, we conducted an employee satisfaction survey to better identify the positive attributes and areas of improvement for our employees and work environment. As a result of the survey, we formalized the Sunstone Community Involvement Program, which aims to provide opportunities throughout the year for the Company and our employees to participate in community giving. We will continue to engage with our employees to provide a platform for continuous feedback and improvement.

Health, Safety and Well-Being

We aim to prioritize the health, safety and well-being of all our employees. We offer all our employees identical benefit options, including medical, dental, vision insurance, life insurance, and employer matched retirement plans. All employees are provided with an employee gym membership and an annual voluntary on-site biometric health screening.

In 2018, we invested in a more cohesive and productive office space to increase collaboration and create a more interactive environment. The improved personnel workspace and functionality elements included ergonomic desk equipment for all workspaces, white noise machines to reduce sound, natural light through floor to ceiling windows and glass doors, a panic button at the front desk, wellness/ lactation room, smaller heating and cooling zones for employees optimal comfort, and several strategic gathering places that allow employees to congregate and collaborate.

In 2018, no employee work-related severe injuries or fatalities occurred.

We also maintain a Sunstone Business Conduct and Ethics Hotline that is available to all Sunstone employees 24/7/365. The Ethics Hotline provides all employees the ability to anonymously report violations of the Company's Code of Business Conduct and Ethics.

Data Security and Corporate Preparedness

Each Sunstone employee is responsible for safeguarding all electronic programs, data, communications, and written materials from inadvertent access by others. All systems are protected by two-factor authentication. Our Corporate Preparedness Disaster Plan ensures our Company has data backup and recovery procedures in

the event of a catastrophic event. In addition, the Company provides quarterly employee training to protect against phishing and malicious emails and phone calls.

Sunstone Community Involvement Program and Donations

At our headquarters in Irvine, California, we actively support local and national charities and organizations through our corporate giving program. In 2018, we donated over \$89,000 to over 50 different charitable organizations, including, American Cancer Society, American Hotel & Lodging Educational Foundation, American Red Cross, Children’s Hospital Los Angeles, Puppies Behind Bars, Pacific Marine Mammal Center, and Orange County Rescue Mission. Our employees also have the opportunity to donate to qualifying organizations through our Matching Gifts Program. Through this program, the Company matches personal gifts on a dollar-for-dollar basis, up to an annual maximum of \$5,000 per employee per year.

We also participate in several local charitable programs through the organization Families Forward. Our employees participate in food drives, school supply donations, and holiday gift giving for underprivileged in our community.



2 Sunstone supports Families Forward by participating in annual school supply donation drive

Our portfolio of hotels similarly engage with their local communities through their community involvement and donation programs.

2020 ESG Commitments and Future Plans

In 2018 and the first half of 2019, we formalized our ESG program to encompass our longstanding commitment to make long-term investments in our assets, reduce our environmental footprint, give back to the community, and operate responsibly. Going forward, we are committed to continuing and expanding these efforts, as well as monitoring and reporting our progress annually.

Additionally, for the remainder of 2019 and 2020, we have set forth a vision to enhance our program through the following initiatives:

- **Evaluate and/or implement** renewable energy projects, waste reduction initiatives, sustainable sourcing opportunities, and health and well-being strategies throughout our portfolio;
- **Benchmark** our Company in the GRESB Real Estate Assessment;
- **Support** the advancement in sustainability for the lodging real estate community by publishing relevant, targeted **case studies with tangible results** from our efficiency investments; and
- Enhance our program to instill ESG focus into our operator engagement and identify opportunities for **collaboration** and **investment**.

Relevant Links

[ESG Performance Tables](#)

[GRI Index](#)

[Environmental Policy](#)

[Human Rights / Labor Policy](#)

[Vendor and Business Partner Code of Conduct](#)