

STRATEGIC HOTELS & RESORTS, INC
Form 10-K
February 27, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from _____ to _____

Commission file number: 001-32223

STRATEGIC HOTELS & RESORTS, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

200 West Madison Street, Suite 1700, Chicago, Illinois

(Address of principal executive offices)

33-1082757

(I.R.S. Employer Identification No.)

60606-3415

(Zip Code)

Registrant's telephone number, including area code: (312) 658-5000

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

Title of each class

Common Stock (\$0.01 par value per share)

8.50% Series A Cumulative Redeemable

Preferred Stock (\$0.01 par value per share)

8.25% Series B Cumulative Redeemable Preferred Stock (\$0.01 par value per share)

8.25% Series C Cumulative Redeemable Preferred Stock (\$0.01 par value per share)

Name of each exchange on which registered

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

No

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant was approximately \$1.58 billion as of June 28, 2013, the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sale price of the common stock on the New York Stock Exchange on such date).

The number of shares of common stock (\$0.01 par value per share) of the registrant outstanding as of February 26, 2014 was 205,582,838.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this annual report on Form 10-K incorporates information by reference from the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the close of the registrant's fiscal year.

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This report contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us, including Fairmont®, Four Seasons®, Hyatt®, InterContinental®, JW Marriott®, Loews®, Marriott®, Michael Jordan's Steak House®, Renaissance®, Ritz-Carlton®, and Westin®. None of the owners of these trademarks, their affiliates or any of their respective officers, directors, agents or employees has or will have any liability or responsibility for any financial statements, projections, other financial information or other information contained in this report.

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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

On one or more occasions, we may make statements regarding our assumptions, projections, expectations, targets, intentions or beliefs about future events. All statements other than statements of historical facts included or incorporated by reference in this annual report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

Words or phrases such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “should,” “targets,” “will,” “will continue,” “will likely result” or other comparable expressions or the negative of these terms identify forward-looking statements. Forward-looking statements reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause actual results or outcomes to differ materially from those expressed in any forward-looking statement. We caution that while we make such statements in good faith and we believe such statements are based on reasonable assumptions, including without limitation, management’s examination of historical operating trends, data contained in records and other data available from third parties, we cannot assure you that our projections will be achieved.

Our actual results may differ significantly from any results expressed or implied by these forward-looking statements. Some, but not all, of the factors that might cause such a difference include, but are not limited to:

- the factors discussed in this report set forth in Item 1A under the section titled “Risk Factors”;
- the effects of economic conditions and disruptions in financial markets upon business and leisure travel and the hotel markets in which we invest;
- our liquidity and refinancing demands;
- our ability to obtain, refinance or extend maturing debt;
- our ability to maintain compliance with covenants contained in our debt facilities;
- stagnation or deterioration in economic and market conditions, particularly impacting business and leisure travel spending in the markets where our hotels and resorts operate and in which we invest, including luxury and upper upscale product;
- general volatility of the capital markets and the market price of our shares of common stock;
- availability of capital;
- our ability to dispose of properties in a manner consistent with our investment strategy and liquidity needs;
- hostilities and security concerns, including future terrorist attacks, or the apprehension of hostilities, in each case that affect travel within or to the United States, Mexico, Germany, England or other countries where we invest;
- difficulties in identifying properties to acquire and completing acquisitions;
- our failure to maintain effective internal control over financial reporting and disclosure controls and procedures;
- risks related to natural disasters;
- increases in interest rates and operating costs, including insurance premiums and real property taxes;
- contagious disease outbreaks, such as the H1N1 virus outbreak;
- delays and cost-overruns in construction and development;
- marketing challenges associated with entering new lines of business or pursuing new business strategies;
- our failure to maintain our status as a real estate investment trust, or REIT;
- changes in the competitive environment in our industry and the markets where we invest;
- changes in real estate and zoning laws or regulations;

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legislative or regulatory changes, including changes to laws governing the taxation of REITs;
changes in generally accepted accounting principles, policies and guidelines; and
litigation, judgments or settlements.

Any forward-looking statement speaks only as of the date on which such statement is made. New factors emerge from time to time and it is not possible for management to predict all such factors. We do not intend, and disclaim any duty or obligation, to update or revise any industry information or forward-looking statements set forth in this annual report on Form 10-K to reflect new information, future events or otherwise, except as required by law. Readers are urged to carefully review and consider the various disclosures made in this annual report on Form 10-K and in our other documents filed with the Securities and Exchange Commission, or the SEC, that attempt to advise interested parties of the risks and other factors that may affect our business, prospects and results of operations and financial condition.

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PART I

ITEM 1. BUSINESS.

Overview

Strategic Hotels & Resorts, Inc., or SHR, was incorporated in Maryland in January 2004 to acquire and asset-manage upper upscale and luxury hotels that are subject to long-term management contracts. The terms upper upscale and luxury are classifications of hotels by brand that are defined by Smith Travel Research, an independent provider of lodging industry statistical data. We completed our initial public offering in June 2004. Our accounting predecessor, Strategic Hotel Capital, L.L.C., was founded in 1997. We own interests in or lease our properties through our investment in Strategic Hotel Funding, L.L.C., our operating partnership, which we refer to herein as SH Funding, and its subsidiaries.

We operate as a self-administered and self-managed real estate investment trust, or REIT, managed by our board of directors and executive officers and conduct our operations through our direct and indirect subsidiaries including SH Funding. We are the managing member of SH Funding and hold approximately 99% of its membership units as of February 26, 2014.

As of February 26, 2014, we:

wholly own or lease 14 hotels, have 53.5% and 51.0% interests in affiliates that each own one hotel where we asset manage such hotels, and have 50.0% and 36.4% interests in, and act as asset manager for, two unconsolidated affiliates that each own one hotel;

own land held for development including:

• 47.5 acres of oceanfront land adjacent to our Four Seasons Punta Mita Resort, Nayarit, Mexico and 50.7 acres of oceanfront land near the Four Seasons Punta Mita Resort; and

• a 20,000 square-foot oceanfront land parcel in Santa Monica, California adjacent to our Loews Santa Monica Beach Hotel entitled for development and residential units.

We do not operate any of our hotels directly; instead we employ internationally known hotel management companies to operate them for us under management contracts or operating leases. Our existing hotels are operated under the widely-recognized upper upscale and luxury brands of Fairmont®, Four Seasons®, Hyatt®, InterContinental®, JW Marriott®, Loews®, Marriott®, Ritz-Carlton® and Westin®. The Hotel del Coronado is operated by a specialty management company, KSL Resorts.

We seek to maximize asset values and operating results through asset management. Although we have no imperative to grow, we will opportunistically seek to acquire additional properties that meet our disciplined investment criteria.

As used in this report, references to “we”, “our”, “us”, and “the Company” are references to SHR together, except as the context otherwise requires, with its consolidated subsidiaries, including SH Funding.

Business Strategy

We have a unique portfolio of high-quality luxury and upper upscale assets with significant embedded growth prospects and a highly regarded asset management platform that delivers industry leading operating results. The key tenets of our strategy include a commitment to the luxury and upper upscale sector; a focus on complex, multi-use properties in urban or resort areas with high barriers to entry; internal growth through operational excellence, expense management, and robust asset management; initiatives to continually elevate the guest experience; conservative balance sheet management; disciplined capital allocation; and opportunistic dispositions of hotels upon completion of our value enhancement and cash flow generating strategies.

Internal Growth Strategy

We have significant embedded growth prospects and extensive opportunities to generate value through internal initiatives and exceptional asset management.

Embedded Growth - Many of our hotels are located in markets with significant barriers to entry, including lack of available land, high development costs and long development and entitlement lead times, which minimize the supply of luxury assets. The implications of limited supply, coupled with sustained economic growth, is significant embedded growth in our portfolio from upside in rate, occupancy, ancillary revenue and continued margin expansion.

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Internal Initiatives - A key component of our strategy is our inherent drive to improve and elevate the guest experience. Each of our hotels is a complex, multi-faceted property that serves sophisticated guests. Our vision is that our properties not only offer luxurious, high-quality accommodations, but also provide a vibrant environment of meetings, dining, recreation, spa, and wellness. We strive to enhance revenue through all components of our mixed-use hotels and resorts. Our goal is to create incremental sources of income and enhance the guest experience through thoughtfully executed initiatives based on consumer market research.

Asset Management - We believe that we can enhance our cash flow and earnings growth through expert asset management, which we expect will ultimately generate increased operating margins and higher investment returns. Our value-added asset management strategy includes working in partnership with the hotel management companies that operate our hotels. We have multi-property relationships with a select group of hotel management companies that, in our opinion, have strong brand recognition, superior marketing capabilities, management depth and an ability to work with our team to create efficient operations. We improve hotel operating performance through the application of value-added programs that include state-of-the-art staffing systems, research-driven guest initiatives, margin-improving food procurement programs, and market-specific enhancements that appeal to our guests. We provide rigorous oversight of our properties and the hotel management companies that operate them to ensure the alignment of the hotel management companies' and our interests and to monitor compliance with the management contracts relating to our properties. This oversight allows us to maximize operating margins and enhance property values.

External Growth Strategy

We continue to review external growth opportunities that meet our rigorous standards both for our strategic and investment criteria.

One of our core competencies is a diligent approach to acquisitions that includes continuous research-based selection of target markets and individual properties. We target upper upscale and luxury hotels in select urban and resort markets located in North America, including major business centers and leisure destinations, with strong growth characteristics and high barriers to entry. We believe that the upper upscale and luxury hotel sector is an extremely attractive sector for long-term investment, especially considering the supply constraints characteristic of that sector. We concentrate our acquisition efforts on complex properties with multiple revenue streams. We target multi-faceted properties because they provide opportunities for our asset management team to maximize returns, provide a more diversified revenue mix, and provide a more complete guest experience that helps sustain the core accommodation business. We identify underperforming properties with substantial upside where we can leverage our asset management skill set to implement value-added programs.

We focus on opportunities where we can generate a return that exceeds our cost of capital. We are committed to being disciplined, prudent acquirers of properties that meet our rigorous standards with respect to quality. We intend to manage any external growth opportunities within the confines of our broader, disciplined balance sheet management and capital allocation strategies.

- Asset Disposition Strategy

We recycle capital for future investments through opportunistic dispositions. We would consider the disposition of all or part of our investment in a property in circumstances where we believe our asset management strategy has maximized the property's value, the proceeds of the disposition are unusually attractive, the market in which the property is located is declining or static, or competition in the market requires substantial capital investment that will not generate returns that meet our criteria.

Proceeds from dispositions would generally be intended to be reinvested in redevelopment activities in our existing portfolio, the acquisition of additional hotel properties where the application of our life cycle-based investment strategy can begin again, or enhancement of our balance sheet.

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Balance Sheet Management Strategy

We are committed to reducing our debt and improving our liquidity. We thoughtfully consider transactions that will reduce excessive leverage and reduce the risk to equity created by credit exposure, which include raising additional equity, refinancing or restructuring property-level mortgage debt to create a well-staggered debt maturity profile with long-date maturities, and disposing of select assets.

Capital Allocation Strategy

Our capital allocation strategy is focused on maintaining a strong and flexible balance sheet while making strategic investments in our business to create shareholder value. We are committed to having a disciplined capital allocation strategy and prudently manage our leverage within stated ranges and intend to consider acquisitions on a leverage-neutral basis. We regularly evaluate our policies to ensure that they reflect our commitment to maximizing shareholder value.

Competition

The hotel industry is highly competitive and the hotels in which we invest are subject to competition from other hotels for guests. Competition is based on a number of factors, most notably convenience of location, brand affiliation, price, range of services, guest amenities or accommodations offered and quality of customer service. Competition is often specific to the individual markets in which our properties are located and includes competition from existing and new hotels operated under brands in the upper upscale and luxury segments. Increased competition could have a material adverse effect on the occupancy rate, average daily room rate and room revenue per available room of our hotels or may require us to make capital improvements that we otherwise would not have to make, which may result in decreases in our profitability.

Because our hotels operate in the upper upscale and luxury segment of the market, we face increased competition from providers of less expensive accommodations, such as limited service hotels or independent owner-managed hotels, during periods of economic downturn when leisure and business travelers become more sensitive to room rates. As a result, there is pressure to lower average daily rates during such periods to compete for these guests. In executing our external growth strategy, we face competition from institutional pension funds, private equity investors, other REITs and numerous local, regional and national owners in each of our markets. Some of these entities may have substantially greater financial resources and may be able to accept more risk than we can prudently manage. Competition may generally reduce the number of suitable investment opportunities offered to us and increase the bargaining power of property owners seeking to sell their properties to us.

Seasonality

For information relating to the seasonality of our business, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Seasonality” on page 53 of this Form 10-K.

Employees

As of February 26, 2014, we had 34 full-time and four part-time corporate employees. We believe that our relations with our employees are good. None of our corporate employees are unionized.

Environmental

Environmental consultants retained by us or our lenders have conducted environmental site assessments on many of our properties. These environmental assessments often relied on older environmental assessments prepared in connection with a prior financing or acquisition. The lenders did not conduct environmental assessments on our European properties, although older environmental assessments or building engineering surveys exist for these properties. The environmental assessments are designed to evaluate the potential for environmental contamination on properties, but these assessments will not necessarily reveal the existence or extent of all environmental conditions, liabilities or compliance concerns at the properties.

Although the environmental assessments that have been conducted with respect to certain of our properties disclose certain conditions on our properties and the use of hazardous substances in operation and maintenance activities that could pose a risk of environmental contamination or liability, we are not aware of any environmental liability that we

believe would have a material adverse effect on our business, financial position, results of operations or cash flows. See “Item 1A. Risk Factors—Environmental and other governmental laws and regulations could increase our compliance costs and liabilities and adversely affect our financial condition and results of operations” and “Item 1A. Risk Factors—The presence of any environmental

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conditions at our properties could result in remediation and other costs and liabilities and adversely affect our financial condition and results of operations.”

Insurance

Our management believes that our properties are adequately covered by insurance, subject to the risks described under “Item 1A. Risk Factors,” including, among others, the factors described under “Uninsured and underinsured losses could adversely affect our financial condition and results of operations, which may affect our ability to make distributions to our stockholders.” We are responsible for arranging the insurance for most of our hotels, although in certain cases, the hotel management companies that operate our hotels assume responsibility for arranging insurance under the relevant management agreement. The majority of our properties are covered by blanket insurance policies, which cover multiple properties. In the event that these blanket policies are drawn on to cover certain losses on certain properties, the amount of insurance coverage available under such policies could thereby be reduced and could be insufficient to cover the remaining properties’ insurable risks.

REIT Structure

Subject to certain limitations, REITs may own, directly or indirectly, up to 100% of the stock of a taxable REIT subsidiary, or TRS, that can engage in businesses prohibited to a REIT. Thus, hotel REITs may own TRSs that lease hotels from the REIT, rather than requiring the lessee to be a separate, unaffiliated party. However, hotels leased to a TRS must be managed by an unaffiliated third party. The TRS provisions are complex and impose several conditions on the use of TRSs. No more than 25% of a REIT’s assets may consist of securities of TRSs, and no more than 25% of a REIT’s assets may consist of non-qualifying assets, including securities of TRSs and other taxable subsidiaries. The rent and the lease terms between the REIT and the TRS must be at arm’s length and comparable to the market. In addition, REITs may generally not own more than 10% of the voting power or value of a corporation that is not treated as a TRS.

Ownership of Hotels

Where we have an ownership interest in a hotel, the entity through which we hold such ownership interest (a Strategic Ownership Entity) will generally lease the hotel to one of our TRSs and the TRS will enter into a management agreement with an independent third party for such party to operate the hotel. A lease between a Strategic Ownership Entity and one of our TRSs (an Affiliate Lease) provides for the TRS to pay to the Strategic Ownership Entity a base rent plus a percentage rent (as more fully described below). An Affiliate Lease must contain economic terms that are similar to a lease between unrelated parties or the Strategic Ownership Entity may have to pay a 100% penalty tax on some of the payments it receives from our TRS under such Affiliate Lease.

Each Affiliate Lease has a non-cancelable term of three to five years, subject to earlier termination upon the occurrence of certain contingencies such as damage or destruction that renders the hotel unsuitable for our TRS’ use and occupancy, condemnation or our sale or disposition of the hotel.

During the term of each Affiliate Lease, our TRS is obligated to pay a fixed annual base rent and a percentage rent to the applicable Strategic Ownership Entity. Percentage rent is calculated by multiplying fixed percentages by gross room revenues and other revenues, subject to certain adjustments. Percentage rent is paid quarterly. Base rent accrues and is paid monthly. Base rents and percentage rents are adjusted annually for changes in the consumer price index or similar indices.

Fixed charges, including real estate and personal property taxes, capital expenditures and a reserve for capital expenditures are obligations of the lessor under our Affiliate Lease. Our TRSs are required to pay rent, all costs and expenses and all utility and other charges incurred in the operation of the hotels we own. The party responsible for maintaining insurance on a property is dependent on the specific lease.

Third Party Lease Agreements

We are the tenant under a lease with a third-party landlord for the Marriott Hamburg. We are also the tenant under ground leases with third-party landlords where we lease the land for the Marriott Lincolnshire Resort and the Marriott London Grosvenor Square hotel. Additionally, an unconsolidated affiliate is a tenant under a ground lease for a parcel of land that is part of the Fairmont Scottsdale Princess hotel property. The remaining life on the initial terms of these third party leases range from 16 to 99 years. These third party lease agreements require us to make annual rental payments comprised of a minimum rental amount (subject to indexation) and may also include additional rent

comprised of a percentage of hotel operating profit, less minimum rent.

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Hotel Management Agreements

Most of our hotels are managed and operated by third parties pursuant to management agreements entered into between our TRSs and hotel management companies. These management agreements generally provide for the payment of base management fees within a range of 1.25% to 4.0% of revenues, as defined in the applicable agreements. In addition, an incentive fee may be paid if certain criteria are met. Certain of the management agreements also provide for the payment by us of advisory fees or license fees. The remaining terms (not including renewal options) of these management agreements range from four years to 29 years and average 13 years. A management agreement with one of our operators typically has the terms described below.

Operational services. The manager has exclusive authority to supervise, direct and control the day-to-day operation and management of the hotel, including establishing all room rates, processing reservations, procuring inventories, supplies and services, and preparing public relations, publicity and marketing plans for the hotel.

Compensation of manager. The manager receives compensation in the form of a base management fee and an incentive management fee, typically calculated as percentages of gross revenues and operating profits, respectively. In some cases, the incentive management fee is paid only after we have received a certain level of income.

Executive supervision and management services. The manager supervises all managerial and other employees for the hotel, reviews the operation and maintenance of the hotel, prepares reports, budgets and projections and provides other administrative and accounting support services to the hotel. In some cases, we maintain authority to approve the appointment of the hotel's general manager.

Chain services. Our management agreements require the managers to furnish chain services that are generally made available to other hotels managed by such operators. Such services include: (1) the development and operation of computer systems and reservation services, (2) management and administrative services, (3) marketing and sales services, (4) human resources training services and (5) such additional services as may from time to time be more efficiently performed on a national, regional or group level.

Working capital. Our management agreements typically require us to maintain working capital for a hotel and to fund the cost of fixed asset supplies such as linens and other similar items. We are also responsible for providing funds to meet the cash needs for the hotel operations if at any time the funds available from hotel operations are insufficient to meet the financial requirements of the hotel.

Furniture, fixtures and equipment replacements. Our management agreements generally provide that once each year the manager will prepare a list of furniture, fixtures and equipment to be acquired and certain routine repairs to be performed in the next year and an estimate of the funds that are necessary, subject to our review and approval. In addition, we are required to provide to the manager all necessary furniture, fixtures and equipment for the operation of a hotel (including funding any required furniture, fixtures and equipment replacements). For purposes of funding the furniture, fixtures and equipment replacements, a specified percentage of the gross revenues of the hotel is deposited by the manager in a separate account (typically 4.0% to 5.0%).

Building alterations, improvements and renewals. Our management agreements generally require the manager to prepare an annual estimate of the expenditures necessary for major repairs, alterations, improvements, renewals and replacements to the structural, mechanical, electrical, heating, ventilating, air conditioning, plumbing and vertical transportation elements of a hotel. In addition to the foregoing, the management agreements generally provide that the manager may propose such changes, alterations and improvements to the hotel as are required by reason of laws or regulations or, in the manager's reasonable judgment, to keep the hotel in a safe, competitive and efficient operating condition.

Sale of the hotel. Most of our management agreements limit our ability to sell, lease, or otherwise transfer a hotel unless the transferee is not a competitor of the manager, and unless the transferee assumes the related management agreement and meets specified other conditions.

Service marks. During the term of our management agreements, the service mark, symbols and logos currently used by the manager may be used in the operation of the hotel. Any right to use the service marks, logo and symbols and related trademarks at a hotel will terminate with respect to that hotel upon termination of the management agreement with respect to such hotel.

JW Marriott Essex House Hotel performance guarantee. A provision of this management agreement, entered into with an affiliate of Marriott, requires that Marriott provide the Company with a limited performance guarantee that

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will ensure, subject to certain limitations, a target level of net operating profit. The guarantee period began on September 17, 2012 and will continue through the earlier of (a) December 31, 2020, (b) the date at which the maximum guarantee has been funded, or (c) the termination of the management agreement.

We lease one of our hotels, the Marriott Hamburg, pursuant to a lease agreement whereby rent is paid by the hotel management company that operates the hotel, as lessee, to us for an amount equal to a fixed base rent plus a specified percentage of profits in excess of the base rent. Otherwise, the terms of the lease are similar to the terms of our management contracts described above.

Code of Business Conduct and Ethics and Corporate Governance Documents

We have adopted a code of business conduct and ethics that applies to all of our employees, directors and officers, including our principal executive officer, principal financial officer and principal accounting officer. This code of business conduct and ethics is designed to comply with SEC regulations and New York Stock Exchange, or NYSE, corporate governance rules related to codes of conduct and ethics and is posted on our corporate website at www.strategichotels.com. We intend to disclose future amendments to certain provisions of our code of business conduct and ethics, or waivers of such provisions granted to directors and specified officers, on our website within four business days following the date of such amendment or waiver. In addition, our corporate governance guidelines and charters for our audit, compensation and corporate governance and nominating committees are also posted on our corporate website. Copies of our code of business conduct and ethics, our corporate governance guidelines and our committee charters are also available free of charge upon request directed to Corporate Secretary, Strategic Hotels & Resorts, Inc., 200 West Madison Street, Suite 1700, Chicago, Illinois 60606.

Geographic and Business Segment Information

For information with respect to revenues from and our long-lived assets located in different geographic areas, refer to “Item 8. Financial Statements and Supplementary Data—19. Geographic and Business Segment Information.”

Where to Find More Information

We maintain a website at www.strategichotels.com. Through our website, we make available, free of charge, our annual proxy statement, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains a website that contains these reports at www.sec.gov.

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ITEM 1A. RISK FACTORS.

In addition to the information and factors discussed elsewhere in this annual report on Form 10-K, including our consolidated financial statements and the related notes, the factors disclosed below could cause our actual results to differ materially from those projected in any forward-looking statements and could affect our future financial performance.

Risks related to our business

Economic conditions and disruptions in the financial markets may effect adversely our business, results of operations and liquidity.

The United States and global equity and credit markets have at times experienced significant price volatility, dislocations and liquidity disruptions since 2008, all of which caused market prices of the stock of many companies to fluctuate substantially and the spreads on prospective and outstanding debt financings to widen considerably. These circumstances led to a decline in business and consumer confidence, resulted in a decline of real estate values, and impacted liquidity in the global financial markets, which made terms for financings less attractive, and, in some cases, resulted in the lack of availability of certain types of financing. Continued uncertainty in the equity and credit markets may impact negatively our ability to access additional short-term and long-term financing on reasonable terms or at all, which would impact negatively our liquidity and financial condition. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing and may impact negatively our ability to enter into derivative contracts in order to hedge risks associated with changes in interest rates. In addition, a downturn and/or uncertainty in U.S. and global financial markets could, directly or indirectly, adversely affect the value of our properties and lodging demand and therefore our business, financial condition and results of operations.

The ultimate impact of these events and the effects they may have on our business, financial condition and liquidity are unpredictable and may not be immediately apparent.

We incurred losses in recent fiscal years due to the recent economic downturn, and we may incur losses in the future. We incurred net losses of \$58.3 million, \$4.9 million, \$230.8 million and \$246.4 million for our 2012, 2011, 2010 and 2009 fiscal years, respectively. The recent economic downturn has negatively impacted business and leisure travel. A further decline in economic conditions will likely produce additional losses. There can be no assurance that we will maintain profitable operations and generate net income for our stockholders in the near term or at all.

Our financial covenants may adversely affect our financial position, results of operations and liquidity.

The agreement governing our bank credit facility and certain other agreements include financial and other covenants that must be met for us to remain in compliance with those agreements. Those agreements also contain customary restrictions, requirements and other limitations, including restrictions on our ability to incur additional indebtedness. Importantly, our bank credit facility contains financial covenants that must be met, including the maintenance of stipulated minimum levels of tangible net worth and fixed charge coverage, and maximum levels of leverage and borrowing base availability. Availability under our bank credit facility is based on, among other factors, the lesser of the calculation of 1.2 times debt service coverage based on the greater of the in-place interest rate or 7.0% debt constant for the borrowing base assets or a 60% advance rate against the appraised value of the borrowing base assets. The actual interest rate on our bank credit facility is LIBOR plus 3.00%, which equates to 3.17% as of December 31, 2013. Our ability to borrow under our bank credit facility is subject to compliance with these financial and other covenants, and our ability to comply with these covenants will be impacted by, among other things, any deterioration in our operations brought on by the recent economic downturn, potential further declines in our property values, additional borrowings to maintain our liquidity and fund our capital and financing obligations, and security concerns impacting travel to Mexico.

Our available capacity under the bank credit facility and compliance with financial covenants in future periods will depend substantially on the financial results of our hotels and resorts, and in particular, the results of the borrowing base assets, which include the Four Seasons Punta Mita Resort, Marriott Lincolnshire Resort, Ritz-Carlton Half Moon Bay and Ritz-Carlton Laguna Niguel hotels. The recent operating results of the Four Seasons Punta Mita Resort in Mexico has been negatively impacted by security concerns impacting travel to Mexico, as well as the recent economic downturn. If these negative conditions persist, the financial results of our hotels and resorts deteriorate, or if our property values decline, the maximum availability under the bank credit facility may decline to a level below our

short-term borrowing needs. If that were to occur, outstanding borrowings exceeding the maximum availability under the bank credit facility would need to be repaid to avoid a default under the bank credit facility, absent an amendment or waiver. If we are unable to borrow under our bank credit facility or to refinance existing indebtedness, we may be prevented from funding our working capital needs.

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In the event that the economic recovery stalls and negative economic conditions return and our business significantly deteriorates, we may be required to take further steps to acquire the funds necessary to satisfy our short-term cash needs, including possibly liquidating some of our assets on terms that would be less attractive than would be obtainable after conditions in the economy, the credit markets and the hotel markets improve. If negative conditions return, our business deteriorates and we do not achieve a successful disposition of assets or increase our liquidity through alternative channels or modify or obtain a waiver to certain terms of our bank credit facility, we may breach one or more of our financial covenants or the maximum availability under the bank credit facility may fall below our short-term borrowing needs. A default under the bank credit facility would allow the lenders to declare all amounts outstanding under the facility to become due and payable. Additionally, such an acceleration event would allow for acceleration of the interest rate swaps (with a termination cost of \$28.9 million as of December 31, 2013).

We have substantial debt, a portion of which is variable-rate debt, and upon maturity, we plan to extend or refinance with new debt, which may not be available when required on optimal terms or at all.

We have a substantial amount of outstanding indebtedness, a portion of which bears interest at a variable-rate, and to the extent available, we may borrow additional variable-rate debt under our bank credit facility. When we seek to refinance our outstanding indebtedness, our interest expense may increase. Increases in interest rates on our existing variable-rate indebtedness, or on new indebtedness we incur when refinancing our existing indebtedness, would increase our interest expense, which could harm our cash flow and our ability to pay distributions. As of December 31, 2013, we had total debt of \$1.27 billion, and, including the effect of interest rate swaps, approximately 68.0% of our total debt had fixed interest rates.

Our significant debt may negatively affect our business and financial results, including:

- requiring us to use a substantial portion of our funds from operations to make required payments on principal and interest, which reduces the amounts available for distributions to our stockholders and funds available for operations, capital expenditures, future business opportunities and other purposes;
- making us more vulnerable to economic and industry downturns and reducing our flexibility in responding to changing business and economic conditions;
- limiting our ability to borrow more money for operations, capital or to finance acquisitions in the future; and
- requiring us to dispose of properties to make required payments of interest and principal.

Since we anticipate that our internally generated cash will be adequate to repay only a portion of our indebtedness prior to maturity, we expect that we will be required to repay debt through refinancings and/or equity offerings. The amount of our existing indebtedness may adversely affect our ability to repay debt through refinancings. See the discussion under the subheading “Debt Maturity:” in Note 10 of the Notes to our Consolidated Financial Statements included in Item 8 of Part II of this annual report on Form 10-K for quantified information regarding our debt maturities as of December 31, 2013. There can be no assurance that we will be able to refinance our debt with new borrowings on favorable terms or at all or raise capital through the sale of equity. If we are unable to refinance or restructure our indebtedness on acceptable terms, or at all, we might be forced to dispose of one or more of our properties on disadvantageous terms, or forfeit the property securing such indebtedness, which might result in losses to us and which might adversely affect cash available for distributions to our stockholders. Alternatively, any debt we may arrange may carry a higher rate of interest or the shares we issue in any equity offering may require a higher rate of dividends or other dilutive terms. As a result, certain growth initiatives could prove more costly or not economically feasible. A failure to retain or refinance our bank credit facility or to add new or replacement debt facilities could have a material adverse effect on our business, financial condition and results of operations.

We also could incur additional debt in connection with future acquisitions of real estate. We may, in some instances, to the extent available, borrow under our bank credit facility or borrow new funds to acquire properties. In addition, we may incur mortgage debt by obtaining loans secured by a portfolio of some or all of the real estate properties we acquire. If necessary or advisable, we may also borrow funds to satisfy the requirement that we distribute to stockholders at least 90% of our annual REIT taxable income or to ensure otherwise that we maintain our qualification as a REIT for U.S. federal income tax purposes.

Our working capital and liquidity reserves may not be adequate to cover all of our cash needs and we may have to obtain financing from either affiliated or unaffiliated sources. If the United States and global financial markets

experience another downturn or turmoil, sufficient financing may not be available or, if available, may not be available on reasonable terms. Additional borrowings for working capital purposes will increase our interest expense, and therefore may harm our financial condition and results of operations.

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Our organizational documents do not limit the amount of indebtedness that we may incur. To the extent we become more leveraged, the resulting increase in our debt service obligations would reduce cash available for distributions to our stockholders and could adversely affect our ability to make payments on our outstanding indebtedness and harm our financial condition.

We own primarily upper upscale and luxury hotels and resorts, and the upper upscale and luxury segments of the lodging market are highly competitive and generally subject to greater volatility than other segments of the market, which could negatively affect our profitability.

The upper upscale and luxury segments of the hotel business are highly competitive. Our hotels and resorts compete on the basis of location, room rates and quality, service levels, reputation and reservations systems, among many other factors. There are many competitors in our hotel chain scale segments, and many of these competitors have substantially greater marketing and financial resources than we have. This competition could reduce occupancy levels and room revenue at our hotels and resorts, which would harm our operations. Over-building in the hotel industry may increase the number of rooms available and may decrease occupancy and room rates. We also face competition from nationally recognized hotel brands with which we are not associated. In addition, in periods of weak demand, profitability is negatively affected by the relatively high fixed costs of operating upper upscale and luxury hotels and resorts when compared to other classes of hotels and resorts.

The illiquidity of real estate investments and the lack of alternative uses of hotel properties could significantly limit our ability to respond to adverse changes in the performance of our properties and harm our financial condition. Because real estate investments are relatively illiquid, our ability to promptly sell one or more of our properties in response to changing economic, financial and investment conditions is limited. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

In addition, hotel properties may not readily be converted to alternative uses if they were to become unprofitable due to competition, age of improvements, decreased demand or other factors. The conversion of a hotel to alternative uses would also generally require substantial capital expenditures.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We may not have funds available to correct those defects or to make those improvements and as a result our ability to sell the property would be limited. These factors and any others that would impede our ability to respond to adverse changes in the performance of our properties could significantly harm our financial condition and results of operations.

Certain of our long-lived assets, intangible assets, investments in unconsolidated affiliates and goodwill have in the past become impaired and may become impaired in the future.

We periodically review each of our hotels and resorts and any related goodwill for possible impairment. Based on the results of these analyses, in fiscal years 2013 and 2012 we wrote off \$0.7 million and \$14.6 million, respectively, to impairment losses to reduce the carrying value of long-lived assets to their estimated fair values. Our other hotels and related goodwill may become impaired, or our hotels which have previously become impaired may become further impaired, in the future, which may adversely affect our financial condition and results of operations.

We rely to a significant extent on our president and chief executive officer, Mr. Raymond L. Gellein, Jr., the loss of whom could have a material adverse effect on our business.

Our continued success will depend to a significant extent on the efforts and abilities of our president and chief executive officer, Mr. Raymond L. Gellein, Jr. Mr. Gellein has served as our president and chief executive officer since November 2012 and has served as our chairman of the board since August 2010. Mr. Gellein is an experienced hotel industry senior executive and operator. As chairman of the board, president and chief executive officer, Mr. Gellein is actively engaged in our management and determines our strategic direction, especially with regard to our operational, financing, acquisition and disposition activities. Mr. Gellein's departure could have a material adverse effect on our operations, financial condition and operating results.

The geographic concentration of our hotels in California makes us more susceptible to an economic downturn or natural disaster in that state.

As of February 26, 2014, seven of the hotels and resorts we own were located in California, the greatest concentration of our portfolio of properties in any state. California has been historically at greater risk to certain acts of nature, such as fire, floods and earthquakes, than other states, and has also been subject to a more pronounced economic downturn than other states.

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It is also possible that a change in California laws applicable to hotels and resorts and the lodging industry may have a greater impact on us than a change in comparable laws in another jurisdiction where we have hotels and resorts. Accordingly, our business, financial condition and results of operations may be particularly susceptible to a natural disaster, downturn or changes in the California economy.

We have suspended the payment of dividends on our common stock and have suspended the payment of dividends on our preferred stock in the past.

In November 2008, we suspended payment of our dividend on our shares of common stock. We can provide no assurance as to when we will resume paying dividends on our common stock, if ever. In addition, in the past, we suspended the quarterly dividend to holders of shares of our 8.50% Series A Cumulative Redeemable Preferred Stock, 8.25% Series B Cumulative Redeemable Preferred Stock and 8.25% Series C Cumulative Redeemable Preferred Stock, which we collectively refer to herein as our Outstanding Preferred Stock. We can provide no assurance that we will not suspend the payment of quarterly dividends on our Outstanding Preferred Stock in the future. Pursuant to the Articles Supplementary governing our Outstanding Preferred Stock, if we do not pay quarterly dividends on our Outstanding Preferred Stock for six quarters, whether or not consecutive, the size of our board of directors will be increased by two and the holders of our Outstanding Preferred Stock will have the right to elect two additional directors to our board.

If we fail to maintain effective internal control over financial reporting and disclosure controls and procedures in the future, we may not be able to accurately report our financial results, which could have an adverse effect on our business.

If our internal control over financial reporting and disclosure controls and procedures are not effective, we may not be able to provide reliable financial information. If we discover deficiencies in our internal controls, we will make efforts to remediate these deficiencies; however, there is no assurance that we will be successful either in identifying deficiencies or in their remediation. Any failure to maintain effective controls in the future could adversely affect our business or cause us to fail to meet our reporting obligations. Such non-compliance could also result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements. In addition, perceptions of our business among customers, suppliers, rating agencies, lenders, investors, securities analysts and others could be adversely affected.

Rising operating expenses and costs of capital improvements could reduce our cash flow, earnings before interest expense, taxes, depreciation and amortization (EBITDA) and funds available for future distributions.

Our properties are subject to operating risks common to the lodging industry in general. If a property's occupancy or room rates drop to the point where its revenues are insufficient to cover its operating expenses, then we could be required to spend additional funds for that property's operating expenses. Our properties are continually subject to increases in real estate and other tax rates, wages and benefits, utility costs, operating expenses, insurance costs, repairs and maintenance and administrative expenses, which may reduce our cash flow, EBITDA and funds available for future distributions to our stockholders.

Our hotel properties have an ongoing need for renovations and other capital improvements, including replacements, from time to time, of furniture, fixtures and equipment. Some of these capital improvements are mandated by health, safety or other regulations. These capital improvements may give rise to (i) a possible shortage of available cash to fund capital improvements, (ii) the possibility that financing for these capital improvements may not be available to us on affordable terms and (iii) uncertainties as to market demand or a loss of market demand after capital improvements have begun. The costs of these capital improvements could adversely affect our financial condition and amounts available for distributions to our stockholders.

Our business and operating results depend in large part upon the performance of third-party hotel management companies that manage our hotels and resorts.

Our hotels and resorts are managed by third-party hotel management companies pursuant to management agreements or, with respect to the Marriott Hamburg hotel, the lease applicable to that property. Therefore, our business and operating results depend in large part upon the performance of these hotel management companies under these management agreements.

Under the terms of these management agreements, the third-party hotel managers control the daily operations of our hotels and resorts. We do not have the authority to require any hotel or resort to be operated in a particular manner or to govern any particular aspect of the daily operations of any hotel (for instance, setting room rates). Thus, even if we believe our hotels and resorts are being operated inefficiently or in a manner that does not result in satisfactory occupancy rates, net revenue per available room or average daily rate, we may not be able to force the hotel management companies in question to change their methods of operation of our hotels and resorts. Additionally, in the event that we need to replace any hotel management company, we may be required by the terms of the applicable management agreement to pay a substantial termination fee and

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may experience disruptions at any affected hotel. The effectiveness of the hotel management companies in managing our hotels and resorts will, therefore, significantly affect the revenues, expenses and value of our hotels and resorts. Occasionally, we have discovered accounting and other errors at some of our properties relating to the improper recording of income statement expenses, misstated inventories and other items apparently caused by poor accounting practices and oversight. In the event our third-party hotel management companies are not able to implement and maintain appropriate accounting or other controls with respect to our properties, our business, results of operations and financial condition could be adversely affected.

Additionally, the hotel management companies that operate our hotels and resorts and their affiliates own, operate, or franchise properties other than our properties, including properties that directly compete with our properties. Therefore, a hotel management company may have different interests than our own with respect to short-term or long-term goals and objectives, including interests relating to the brand under which such hotel management company operates. Such differences may be significant depending upon many factors, including the remaining term of the applicable management agreement, trade area restrictions with respect to competitive practices by the hotel management company or its affiliates or differing policies, procedures or practices. Any of these factors may adversely impact the operation and profitability of a hotel or resort, which could harm our financial condition and results of operations.

All revenues generated at our hotels and resorts, including credit card receivables, are deposited by the payors into accounts maintained and controlled by the relevant hotel management company, which pays operating and other expenses for the relevant hotel (including real and personal property taxes), pays itself management fees in accordance with the terms of the applicable management agreement and makes deposits into any reserve funds required by the applicable management agreement. In the event of a bankruptcy or insolvency involving a hotel management company, there is a risk that the payment of operating and other expenses for the relevant hotel and payment of revenues to us may be delayed or otherwise impaired. The bankruptcy or insolvency of a hotel management company may significantly impair its ability to provide services required under the management agreement.

Certain of the employees at our hotels and resorts are covered by collective bargaining agreements and labor disputes may disrupt operations or increase costs at our hotels and resorts.

Our hotel management companies act as employer of the hotel-level employees. At certain of our hotels, these employees are covered by collective bargaining agreements. At the current time, the collective bargaining agreement at our Loews Santa Monica Beach Hotel has expired. At this time, we cannot predict when or whether a new agreement will be reached and what the impact of prolonged negotiations could be. If an agreement is reached, or if any of our hotels not currently operating under a collective bargaining agreement enters into one, such agreement may cause us to incur additional expenses related to the employees at our hotels, thereby reducing our profits and impacting our financial results negatively. Additionally, if an agreement is not reached and there are labor disputes, including strikes, operations at our hotel could suffer due to the diversion of business to other hotels or increased costs of operating the hotel during such a labor dispute, thereby impacting our financial results negatively.

The outbreak of a pandemic disease, such as the H1N1 virus, has had and may in the future have an adverse impact on our financial results.

An outbreak of a pandemic disease, such as the H1N1 virus, has had and may in the future have a significant adverse impact on travel and the lodging industry. As a consequence, our financial results of operations may be adversely effected.

Our renovation and development activities are subject to timing, budgeting and other risks.

We are in the process of renovating several of our properties and expect to continue similar activities in the future, as well as develop and redevelop certain properties. These renovation, development, and redevelopment activities and the pursuit of acquisition and other corporate opportunities expose us to certain risks, including those relating to:

- construction delays or cost overruns that may increase project costs and, as a result, make the project uneconomical;
- displacement in revenue during the period of renovation;
- defects in design or construction that may result in additional costs to remedy or require all or a portion of a property to be closed during the period required to rectify any such situation;
- the failure to complete construction of a property on schedule;

insufficient occupancy rates at a completed project impeding our ability to pay operating expenses or achieve targeted rates of return on investment;

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the incurrence of acquisition and/or predevelopment costs in connection with projects that are delayed or not pursued to completion;

natural disasters such as earthquakes, hurricanes, floods or fires that could adversely impact a project;

receipt of zoning, occupancy, building, land-use or other required governmental permits and authorizations; and

governmental restrictions on the nature or size of a project or timing of completion.

In the case of an unsuccessful project, we may be required to write off capitalized costs associated with the project and such write-offs may be significant and adversely affect our financial condition and results of operations.

We face competition for the acquisition of real estate properties.

We compete with institutional pension funds, private equity investors, other REITs, owner-operators of hotels and resorts and others who are engaged in real estate investment activities that focus on the acquisition of hotels and resorts. These competitors may drive up the price we must pay for real estate property, other assets or other companies we seek to acquire or may succeed in acquiring those real estate properties, other assets or other companies themselves. In addition, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater resources, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities competing for suitable investment properties may increase in the future. This would result in increased demand for these real estate properties, other assets or other companies and therefore increase the prices required to be paid for them. If we pay higher prices for real estate properties, other assets or other companies, our profitability may be reduced. Also, future acquisitions of real property, other assets or other companies may not yield the returns we expect and, if financed using our equity, may result in stockholder dilution. We also may not be successful in identifying or consummating acquisitions and investments in unconsolidated affiliates on satisfactory terms. In addition, our profitability may suffer because of acquisition-related costs or amortization costs for intangible assets. We also may incur significant expenses in connection with acquisition or other corporate opportunities we pursue but do not consummate.

Investing through partnerships decreases our ability to manage risk.

In addition to acquiring or developing hotels and resorts directly, we have from time to time invested, and expect to continue to invest in hotels and ancillary businesses, as a partner. Partners often have shared control over the operation of the assets. Therefore, investments may involve risks such as the possibility that the partner in an investment might become bankrupt or not have the financial resources to meet its obligations, or have economic or business interests or goals that are inconsistent with our business interests or goals, or be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives. Consequently, actions by a partner might subject hotels, resorts and businesses to additional risk. We may be unable to take action without the approval of our partners, and alternatively, our partners could take actions without our consent. Additionally, should a partner become bankrupt, we could become liable for our partner's share of liabilities.

Our business and operations would suffer in the event of system failures.

Despite system redundancy, the implementation of security measures and the existence of a disaster recovery plan for our internal information technology systems, our systems are vulnerable to damages from any number of sources, including computer viruses, unauthorized access, energy blackouts, natural disasters, terrorism, war and telecommunication failures. Any system failure or accident that causes interruptions in our operations could result in a material disruption to our business. We may also incur additional costs to remedy damages caused by such disruptions.

Cyber security risks and cyber incidents could adversely affect our business and disrupt operations.

The hospitality industry is under increasing attack by cyber-criminals in the United States and other jurisdictions in which we operate. These attacks can be deliberate attacks or unintentional events that could cause interruptions or delays in our business, loss of data, or render our management companies unable to process reservations. Accordingly, an extended interruption in the ability of any system to function could significantly curtail, directly and indirectly, our ability to conduct our business and generate revenue.

While we carry property and business operation interruption insurance, we may not be sufficiently compensated for all losses we may incur. These losses include not only a loss of revenues but also potential reputational damage to the brands which manage our hotels, our brand and litigation, fines or regulatory action against us. Furthermore, we may

also incur substantial remediation costs to repair system damage as well as satisfy liabilities for stolen assets or information that may further reduce our profits.

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Risks related to the lodging and real estate industries

A number of factors, many of which are common to the lodging industry and beyond our control, could affect our business, including those described elsewhere herein as well as the following:

- increased competition from new supply or existing hotel properties in our markets, which would likely adversely affect occupancy and revenues at our hotels and resorts;
- dependence on business, commercial and leisure travelers and tourism;
- dependence on group and meeting/conference business;
- increases in energy costs, airline bankruptcies, airline strikes or other factors that may affect travel patterns and reduce the number of business and commercial travelers and tourists;
- risks generally associated with the ownership of hotel properties and real estate, as we discuss in more detail below;
- general economic and business conditions affecting the lodging and travel industry, both nationally and locally, including a prolonged U.S. recession;
- increases in operating costs due to inflation, labor costs (including the impact of unionization), workers' compensation and health-care related costs (including the impact of the Patient Protection and Affordable Care Act), utility costs, insurance and unanticipated costs such as acts of nature and their consequences and other factors that may not be offset by increased room rates;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and the related costs of compliance with laws and regulations, fiscal policies and ordinances; and
- adverse effects of international market conditions, which may diminish the desire for leisure travel or the need for business travel, as well as national, regional and local economic and market conditions in which our hotels and resorts operate and where our customers live.

These factors could have an adverse effect on our financial condition and results of operations, which may affect our ability to make distributions to our stockholders.

Uninsured and underinsured losses could adversely affect our financial condition and results of operations, which may affect our ability to make distributions to our stockholders.

Various types of catastrophic losses, such as losses due to wars, terrorist acts, earthquakes, floods, hurricanes or pollution or other environmental matters generally are either uninsurable or not economically insurable, or may be subject to insurance coverage limitations, such as large deductibles or co-payments. Although our earthquake insurance coverage is limited, as of February 26, 2014, seven of our hotels and resorts were located in California, which has been historically at a greater risk for certain acts of nature (such as fire, floods and earthquakes) than other states. Our InterContinental Miami hotel and Four Seasons Punta Mita Resort are located in areas that are prone to hurricanes and/or floods.

In the event of a catastrophic loss, our insurance coverage may not be sufficient to cover the full current market value or replacement cost of our lost investment. Should an uninsured loss or a loss in excess of insured limits occur, we could lose all or a portion of the capital we have invested in a property, as well as the anticipated future revenue from the property. In that event, we might nevertheless remain obligated for any mortgage debt or other financial obligations related to the property. In the event of a significant loss that is covered by insurance, our deductible may be high and, as a consequence, it could materially adversely affect our financial condition. Inflation, changes in building codes and ordinances, environmental considerations and other factors might also keep us from using insurance proceeds to replace or renovate a hotel after it has been damaged or destroyed. Under those circumstances, the insurance proceeds we receive might be inadequate to restore our economic position in the damaged or destroyed property.

Certain events, such as Hurricanes Katrina and Rita in 2005, have historically made it more difficult and expensive to obtain property and casualty insurance, including coverage for windstorm, flood and earthquake damage, and such events could occur again. We may encounter difficulty in obtaining or renewing property insurance, including coverage for windstorm, flood and earthquake damage, or casualty insurance on our properties at the same levels of coverage, under similar terms and in a timely manner due to a lack of capacity in the insurance markets or a lack of availability of such insurance at commercially reasonable rates. Insurance we would be able to obtain may be more limited and for some catastrophic risks (e.g., earthquake, flood, windstorm and terrorism) may not be generally

available to fully cover potential losses. Even if we would be able to

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obtain new policies with desired levels and with limitations, we cannot be sure that we would be able to obtain such insurance at premium rates that are commercially reasonable or that there would not be gaps in our coverage. If we did not obtain adequate insurance on our properties for certain risks or in a timely manner, it would expose us to uninsured losses and could cause us to be in default under specific covenants on certain of our indebtedness or other contractual commitments which require us to maintain adequate insurance on our properties to protect against the risk of loss. If this were to occur, or if we were unable to obtain adequate insurance and our properties experienced damage which would otherwise have been covered by insurance, it could materially adversely affect our financial condition and the operations of our properties.

We obtain terrorism insurance to cover any property damage caused by any terrorism act under a separate stand-alone policy of insurance, and also have terrorism insurance under our general liability program and in our program for directors' and officers' coverage. We may not be able to recover fully under our existing terrorism insurance for losses caused by some types of terrorist acts, and federal terrorism legislation does not ensure that we will be able to obtain terrorism insurance in adequate amounts or at acceptable premium levels in the future. Insurers only have to provide terrorism coverage to the extent mandated by the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) effective December 26, 2007. While TRIPRA will reimburse insurers for losses resulting from nuclear, radiological, biological and chemical perils, TRIPRA does not require insurers to offer coverage for these perils and, to date, insurers are not willing to provide this coverage, even with government reinsurance. Any damage related to war and to nuclear, biological and chemical incidents, therefore, is excluded under our policies. TRIPRA is due to expire on December 31, 2014. There is no guaranty that terrorism insurance will be readily available or affordable before or after expiration of the TRIPRA in December 2014 or that TRIPRA will not be modified or repealed. As a result of the above, there remains uncertainty regarding the extent and adequacy of terrorism coverage that will be available to protect our interests in the event of future terrorist attacks that impact our properties.

We derive revenues from outside the United States, which subjects us to different legal, monetary and political risks, as well as currency exchange risks, and may cause unpredictability in our cash flows.

A portion of our investments are in hotel properties located outside the United States. International investments and operations generally are subject to various political and other risks that are different from and in addition to those for U.S. investments and operations, including:

- enactment of laws prohibiting or restricting the foreign ownership of property;
- laws restricting us from removing profits earned from activities within the country to the United States (i.e., nationalization of assets located within a country);
- changes in laws, regulations and policies, including land use, zoning and environmental laws, and in real estate and other tax rates;
- exchange rate fluctuations;
- change in the availability, cost and terms of mortgage funds resulting from varying national economic policies or changes in interest rates;
- high administrative costs; and
- terrorism, war or civil unrest.

Unfavorable legal, regulatory, economic or political changes such as those described above could adversely affect our financial condition and results of operations.

The threat of terrorism has historically adversely affected the lodging industry generally and these adverse effects may worsen if there are further terrorist events.

The threat of terrorism has historically caused a significant decrease in hotel occupancy and average daily rates due to disruptions in business and leisure travel patterns and concerns about travel safety. Future terrorist acts, terrorism alerts or outbreaks of hostilities could have a negative effect on travel and on our business.

Seasonal variations in revenue at our hotels and resorts can be expected to cause quarterly fluctuations in our revenues.

Revenues for hotels and resorts in tourist areas generally are substantially greater during tourist season than other times of the year. To the extent that cash flows from operations are insufficient during any quarter, due to seasonal fluctuations in revenues, we may have to enter into short-term borrowings to fund operations, pay interest expense or

make distributions to our stockholders.

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We consider acquisition opportunities in the ordinary course of our business, which may not perform as anticipated. In the ordinary course of our business and when our liquidity position permits, we consider strategic acquisitions. The acquisition of properties involves risks, including the risk that the acquired property will not perform as anticipated and the risk that any actual costs for rehabilitating, repositioning, renovating and improving identified in the pre-acquisition process will exceed estimates.

Environmental and other governmental laws and regulations could increase our compliance costs and liabilities and adversely affect our financial condition and results of operations.

Our properties are subject to various U.S. federal, state and local environmental laws. Under these laws, courts and government agencies have the authority to require us, as owner of a contaminated property, to clean up the property, even if the contamination pre-dated our ownership of the property or we did not know of or were not responsible for the contamination. These laws may also force a party who owned a property at the time of its contamination, but no longer owns the property, to be responsible for the cleanup. In addition to the costs of clean-up, environmental contamination can affect the value of a property and, therefore, an owner's ability to borrow funds using the property as collateral or to sell the property. These laws can also impose liability on parties that arrange for the disposal of wastes at an offsite property that becomes contaminated.

In addition, some of these environmental laws can restrict the use of a property and place conditions on various activities. An example would be laws that require a business using hazardous substances on a property (such as swimming pool and lawn care chemicals) to manage them carefully and to notify local officials that the chemicals are being used. Failure to comply with these laws could result in fines and penalties or expose us to third-party liability. From time to time, the United States Environmental Protection Agency, or EPA, designates certain sites affected by hazardous substances as Superfund sites. Superfund sites can cover large areas, affecting many different parcels of land. The EPA may choose to pursue parties regardless of their actual contribution to the contamination. The Los Angeles Marriott Burbank Airport hotel, which we sold in September 2006, is located within a Federal Superfund site. The area was designated as a Superfund site because groundwater underneath the area is contaminated. We have not been named, and do not expect to be named, as a party responsible for the clean-up of the groundwater contamination; however, there can be no assurance regarding potential future developments concerning this site.

The presence of any environmental conditions at our properties could result in remediation and other costs and liabilities and adversely affect our financial condition and results of operations.

We have reviewed environmental reports prepared by our consultants and consultants retained by our lenders at various times, which disclose certain conditions on our properties and the use of hazardous substances in operation and maintenance activities that could pose a risk of environmental contamination or impose liability on us. At some facilities these include on-site dry cleaning operations, petroleum storage in underground storage tanks, past tank removals and the known or suspected presence of asbestos, mold or thorium.

The costs to clean up a contaminated property or defend against a related claim or to comply with environmental laws could be material and could adversely affect the funds available for distributions to our stockholders. Future laws or regulations may impose material environmental liabilities on us, the current environmental condition of our properties may be affected by the condition of the properties in the vicinity of our properties (such as the presence of leaking underground storage tanks) or by third parties unrelated to us and currently unknown environmental liabilities related to our properties may be identified.

If we are not in compliance with the Americans with Disabilities Act of 1990, we may face significant costs to modify our properties and/or be subject to fines.

Under the Americans with Disabilities Act of 1990, or ADA, all public accommodations must meet various federal requirements related to access and use by disabled persons. Compliance with the ADA's requirements could require removal of access barriers, and non-compliance could result in the U.S. government imposing fines or in private litigants winning damages. If we are required to make substantial modifications to our hotels and resorts, whether to comply with the ADA or other changes in governmental rules and regulations, our financial condition, results of operations and ability to make distributions to our stockholders could be adversely affected.

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Risks related to our organization and structure

Provisions of our organizational documents may limit the ability of a third party to acquire control of our company and may depress our stock price.

In order for us to maintain our status as a REIT, no more than 50% of the value of outstanding shares of our stock may be owned, actually or constructively, by five or fewer individuals at any time during the last half of each taxable year. To make sure that we will not fail to qualify as a REIT under this test, subject to some exceptions, our charter prohibits any individual from owning beneficially or constructively more than 9.8% of the value of outstanding shares of our stock or more than 9.8% of the value or number of shares, whichever is more restrictive, of the outstanding shares of our common stock. Any attempt to own or transfer shares of our capital stock in excess of the ownership limit without the consent of our board of directors will be void, and could result in the shares being automatically transferred to a charitable trust. This ownership limitation may prevent an acquisition of control of our company by a third party without our board of directors' grant of an exemption from the ownership limitation, even if our stockholders believe the change of control is in their interest.

Our charter authorizes our board of directors to cause us to issue up to 350,000,000 shares of common stock and up to 150,000,000 shares of preferred stock. Additionally, our charter authorizes our board of directors to amend our charter without stockholder approval to increase or decrease the aggregate number of shares of stock or the number of shares of any class or series of our stock that we have authority to issue, to classify or reclassify any unissued shares of common stock or preferred stock and to set the preferences, rights and other terms of the classified or reclassified shares. Issuances of additional shares of stock may have the effect of delaying or preventing a change in control of our company, including transactions at a premium over the market price of our stock, even if stockholders believe that a change of control is in their interest.

Our charter permits the removal of a director only upon the affirmative vote of two-thirds of the votes entitled to be cast, generally in the election of directors, and provides that vacancies may only be filled by a majority of the remaining directors. Our bylaws require advance notice of a stockholder's intention to nominate directors or present business for consideration by stockholders at an annual meeting of our stockholders. These provisions may delay, defer or prevent a transaction or change in control that involves a premium price for our common stock or that for other reasons may be desired by our stockholders.

Provisions of Maryland law may limit the ability of a third party to acquire control of our company.

Certain provisions of the Maryland General Corporation Law, or the MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then prevailing market price of such shares, including:

“business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes special super majority stockholder voting requirements on these combinations;

“control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares; and

“unsolicited takeover” provisions of Maryland law permit our board of directors, without stockholder approval, to implement a classified board as well as impose other restrictions on the ability of a third party to acquire control.

We have opted out of the control share provisions of the MGCL pursuant to a provision in our bylaws. However, we may, by amendment to our bylaws, become subject to the control share provisions of the MGCL in the future.

You have limited control as a stockholder regarding any changes we make to our policies.

Our board of directors approves our major policies, including our investment objectives, financing, growth and distributions. Our board of directors may amend or revise these and other policies without a vote of our stockholders. This means that our stockholders will have limited control over changes in our policies.

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Tax risks

If we fail to maintain our status as a REIT, our distributions will not be deductible by us, and our income will be subject to U.S. federal taxation, reducing our earnings available for distribution.

We currently qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended, which we refer to herein as the Tax Code. The requirements for this qualification, however, are complex and require annual distributions to our stockholders tied to our taxable income (irrespective of available cash from operations), quarterly asset tests and diversity of stock ownership rules. If we fail to meet these requirements, our distributions to our stockholders will not be deductible by us and we will have to pay a corporate U.S. federal level tax on our income. This would substantially reduce our cash available to pay distributions to our stockholders. In addition, such a tax liability might cause us to borrow funds, liquidate some of our investments or take other steps, which could negatively affect our results of operations. Moreover, if our REIT status is terminated because of our failure to meet a technical REIT requirement or if we voluntarily revoke our election, we would be disqualified from electing treatment as a REIT for the four taxable years following the year in which REIT status is lost.

Even if we maintain our status as a REIT, we may become subject to U.S. federal, state, local or foreign taxes on our income or property reducing our earnings available for distribution.

Even if we maintain our status as a REIT, we may become subject to U.S. federal income and other taxes and state and local taxes. For example, if we have net income from a “prohibited transaction,” that income will be subject to a 100% tax. A “prohibited transaction” is, in general, the sale or other disposition of inventory or property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. We may not be able to make sufficient distributions to avoid excise taxes applicable to REITs. We may also decide to retain income we earn from the sale or other disposition of our property and pay U.S. federal income tax directly on that income. In that event, our stockholders would be treated as if they earned that income and paid the tax on it directly. However, stockholders that are tax-exempt, such as charities or qualified pension plans, would have no benefit from their deemed payment of that tax liability. In addition, the REIT rules impose various taxes and penalties on transactions with taxable REIT subsidiaries that are determined not to be priced at an arm’s length, and on a REIT that has to avail itself of certain cure provisions in the Tax Code for the failure to meet all of the REIT qualification requirements. We cannot assure you that we will be able to continue to satisfy the REIT requirements, or that it will be in our best interests to continue to do so.

We may also be subject to state and local taxes on our income or property, either directly or at the level of our operating partnerships or at the level of the other companies through which we indirectly own our assets. Foreign countries impose taxes on our hotels and resorts and our operations within their jurisdictions. We may not fully benefit from a foreign tax credit against our U.S. federal income tax liability for the foreign taxes we pay. As a result, our foreign taxes may reduce our income and available cash flow from our foreign hotels and resorts, which, in turn, could reduce our ability to make distributions to our stockholders.

Certain of our entities, including our foreign entities, are subject to corporate income taxes. Consequently, these entities are subject to potential audit. There can be no assurance that certain tax positions the entities have taken will not be challenged by taxing authorities and if the challenge is successful, could result in increased tax expense, which could be material.

If the leases of our hotels and resorts to our taxable REIT subsidiaries, or Affiliate Leases, are not respected as true leases for federal income tax purposes, we would fail to maintain our status as a REIT.

To continue to qualify as a REIT, we must satisfy two gross income tests under which specified percentages of our gross income must be certain types of passive income, such as rent. The rent paid pursuant to our Affiliate Leases will only qualify for purposes of the gross income tests if such Affiliate Leases are respected as true leases for U.S. federal income tax purposes and are not treated as service contracts, transfers between unconsolidated affiliates or some other type of arrangement. If our Affiliate Leases are not respected as true leases for U.S. federal income tax purposes, we would fail to qualify as a REIT.

Our taxable REIT subsidiaries, or TRSs, are subject to special rules that may result in increased taxes.

The REIT has to pay a 100% penalty tax on certain payments that it receives from a TRS if the economic arrangements between the REIT and the TRS are not comparable to similar arrangements between unrelated parties.

The Internal Revenue Service, or IRS, may successfully assert that the economic arrangements of any of our inter-company transactions, including our Affiliate Leases, are not comparable to similar arrangements between unrelated parties.

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We may be required to pay a penalty tax upon the sale of a hotel.

The U.S. federal income tax provisions applicable to REITs provide that any gain realized by a REIT on the sale of property held as inventory or other property held primarily for sale to customers in the ordinary course of business is treated as income from a “prohibited transaction” that is subject to a 100% penalty tax. Under current laws, unless a sale of real property qualifies for a safe harbor, the question of whether the sale of a hotel (or other property) constitutes the sale of property held primarily for sale to customers is generally a question of the facts and circumstances regarding a particular transaction. We may make sales that do not satisfy the requirements of the safe harbors or the IRS may successfully assert that one or more of our sales are prohibited transactions; consequently, we may be required to pay a penalty tax if we have gains on any such transactions.

Dividends payable by REITs do not qualify for the reduced tax rates applicable to certain dividends.

The maximum federal tax rate for certain dividends payable to domestic stockholders that are individuals, trusts and estates is 20%. Dividends payable by REITs, however, are generally not eligible for this reduced rate. Although this legislation does not directly adversely affect the taxation of REITs or dividends paid by REITs, the more favorable rates applicable to regular qualified corporate dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less competitive than investments in stock of non-REIT corporations that pay dividends, which could adversely affect the comparative value of the stock of REITs, including our common stock.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To remain qualified as a REIT for federal income tax purposes, we must continually satisfy requirements and tests under the tax law concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego or limit attractive business or investment opportunities. For example, we may not lease to our TRS any hotel where gaming or wagering activities are conducted. Therefore, compliance with the REIT requirements may hinder our ability to operate solely to maximize profits.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES.

Offices. We lease our headquarters located at 200 West Madison Street, Suite 1700, Chicago, Illinois 60606.

Property Overview and Performance. The following table presents certain information related to our hotel properties.

All of the hotel properties in the following table relate to our one reportable business segment, hotel ownership.

Hotel	Location	Date Acquired	Number of Rooms	Year Ended December 31, 2013(1)			% Change 2013 – 2012(2)					
				Average Occupancy	Average Daily Rate	RevPAR	Total RevPAR	RevPAR	Total RevPAR			
Fee Simple Property Interest												
Westin St. Francis(*)	San Francisco, CA	6/2006	1,195	87.4 %	\$ 245.48	\$ 214.52	\$ 341.74	12.8 %	11.6 %			
InterContinental Chicago(*)	Chicago, IL	4/2005	792	79.4 %	\$ 196.08	\$ 155.68	\$ 265.75	3.6 %	3.6 %			
Hotel del Coronado(3)	Coronado, CA	1/2006	757	66.1 %	\$ 384.11	\$ 253.88	\$ 537.38	2.1 %	6.2 %			
Fairmont Chicago(*)	Chicago, IL	9/2005	687	69.3 %	\$ 213.71	\$ 148.11	\$ 236.27	0.1 %	(2.9)%			
Fairmont Scottsdale Princess(4)	Scottsdale, AZ	9/2006	649	70.4 %	\$ 237.72	\$ 167.27	\$ 393.16	15.1 %	20.8 %			
InterContinental Miami(*)	Miami, FL	4/2005	641	80.7 %	\$ 189.11	\$ 152.68	\$ 272.32	15.1 %	16.3 %			
JW Marriott Essex House Hotel(5)(*)	New York, NY	9/2012	510	81.2 %	\$ 441.95	\$ 358.74	\$ 526.30	11.6 %	18.3 %			
Hyatt Regency La Jolla(6)(*)	La Jolla, CA	7/1999	419	73.3 %	\$ 169.33	\$ 124.15	\$ 223.28	0.1 %	(2.8)%			
Ritz-Carlton Laguna Niguel(7)	Dana Point, CA	7/2006	396	67.0 %	\$ 398.30	\$ 266.82	\$ 575.13	11.5 %	12.2 %			
Loews Santa Monica Beach Hotel(*)	Santa Monica, CA	3/1998	342	85.1 %	\$ 343.20	\$ 291.99	\$ 429.72	5.0 %	6.1 %			
Ritz-Carlton Half Moon Bay(7)	Half Moon Bay, CA	8/2004	261	68.1 %	\$ 417.81	\$ 284.46	\$ 651.78	10.6 %	7.3 %			
Four Seasons Washington, D.C.(*)	Washington, D.C.	3/2006	222	72.1 %	\$ 577.88	\$ 416.63	\$ 848.53	13.2 %	12.7 %			
Four Seasons Silicon Valley	East Palo Alto, CA	3/2011	200	79.0 %	\$ 341.43	\$ 269.74	\$ 493.70	14.6 %	11.3 %			
Four Seasons Punta Mita Resort(7)(8)	Punta Mita, Mexico	2/2001	173	45.2 %	\$ 694.68	\$ 314.02	\$ 601.23	16.5 %	15.0 %			
Four Seasons Jackson Hole	Teton Village, WY	3/2011	124	59.0 %	\$ 614.39	\$ 362.55	\$ 899.21	12.2 %	17.1 %			
Ground Lease Property Interest												
Marriott Lincolnshire Resort(7)	Lincolnshire, IL	9/1997	389	52.6 %	\$ 131.47	\$ 69.14	\$ 225.49	(7.8)%	(1.8)%			
Marriott London Grosvenor Square(*)	London, England	8/2006	237	83.2 %	\$ 369.78	\$ 307.66	\$ 418.54	(6.0)%	(5.1)%			
Leasehold Property Interest												

Marriott Hamburg(9)	Hamburg, Germany	6/2000	278	83.5	%	\$ 191.41	\$ 159.81	\$ 219.32	6.2	%	5.7	%
Total			8,272	74.7	%	\$ 288.75	\$ 215.78	\$ 395.93	8.0	%	9.4	%

(1) The table includes statistical information only for our period of ownership.

(2) The year-over-year comparisons are calculated using full year results which may include prior ownership periods.

We indirectly have a 36.4% interest in the unconsolidated affiliate that owns this property, which is subject to a

(3) mortgage. See “Item 8. Financial Statements and Supplementary Data—7. Investment in Unconsolidated Affiliates” for further detail.

We indirectly have a 50.0% interest in the unconsolidated affiliate that owns this property, which is subject to a

(4) mortgage. The unconsolidated affiliate has a ground lease interest in one land parcel at this property. See “Item 8. Financial Statements and Supplementary Data—7. Investment in Unconsolidated Affiliates” for further detail.

(5) We own a 51.0% controlling interest in an affiliate that owns this property. See “Item 8. Financial Statements and Supplementary Data—6. Variable Interest Entity” for further detail.

(6) We own a 53.5% controlling interest in an affiliate that owns this property. See “Item 8. Financial Statements and Supplementary Data—11. Equity and Distribution Activity” for further detail.

(7) These properties are borrowing base assets under our bank credit facility, which are subject to mortgages.

(8) On December 12, 2013, the Company entered into an agreement to sell this property.

This property was originally acquired on the date indicated in the table but was subsequently sold to a third party

(9) and leased back to us in a transaction that is more fully described under “Item 8. Financial Statements and Supplementary Data—9. Operating Lease Agreements.”

(*) These properties are subject to mortgages as more fully described under “Item 8. Financial Statements and Supplementary Data—10. Indebtedness.”

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Principal Terms of Management Agreements. Of our hotel properties, 17 are subject to management agreements with third party hotel managers and one is subject to a lease agreement with a third party hotel manager. For the management agreements, the principal terms are described below:

• **Base Management Fees.** Our agreements generally provide for the payment of base management fees between 1.25% and 4.0% of the applicable hotel's revenues, as determined in the agreements.

• **Incentive Management Fees.** Our agreements generally provide the opportunity for the hotel manager to earn incentive management fees, which are typically a percentage of a hotel's profit for the year. In certain instances, a level of return to us or performance of the hotel is required before a hotel manager is entitled to an incentive fee.

• Additionally, notwithstanding the specific formulas for the incentive fee calculations in the agreements, in certain instances, the incentive management fee to be earned by the hotel manager is capped.

• **Terms.** As of December 31, 2013, the remaining terms of the management agreements, not including renewal options, range from four years to 29 years and average 13 years. Generally, we do not have the right to exercise renewal options for the agreements. Instead, the term of an agreement either renews automatically, unless the hotel manager provides notice of termination, or is otherwise renewable within the discretion of the hotel manager.

• **Services.** The agreements require the hotel managers to furnish the hotels with certain services, which include on-site management and may include central training, advertising and promotion, national reservations systems, payroll and accounting services and such additional services as needed. We are responsible for payment of the operating expenses related to the hotel.

• **Annual Budget.** The agreements require the hotel manager to prepare and implement annual budgets, subject to our review and approval.

• **Ability to Terminate.** The agreements generally are not subject to early termination by us unless certain conditions exist, including the failure of the hotel manager to satisfy yearly performance-related criteria in 14 of our agreements.

• **Working Capital.** Our agreements typically require us to maintain working capital for the related hotel. We are also responsible for providing funds to meet the cash needs for the hotel operations if at any time the funds available from the hotel operations are insufficient to meet the financial requirements of the hotel.

• **Furniture, Fixtures and Equipment Reserves.** We are required to provide to the hotel manager all of the necessary furniture, fixtures and equipment for the operations of the hotel. Our agreements generally provide that between 4.0% and 5.0% of revenues of the hotel be reserved by the manager or deposited into a separate account held by us each year.

• **Sale of Hotel.** Generally, our agreements limit our ability to sell, lease or otherwise transfer each hotel unless the transferee is not a competitor of the manager, assumes the management agreement, and meets other specified conditions.

• **JW Marriott Essex House Hotel Performance Guarantee.** A provision of this management agreement, entered into with an affiliate of Marriott, requires that Marriott provide the Company with a limited performance guarantee that will ensure, subject to certain limitations, a target level of net operating profit. The guarantee period began on September 17, 2012 and will continue through the earlier of (a) December 31, 2020, (b) the date at which the maximum guarantee has been funded, or (c) the termination of the management agreement.

• **Mortgage Debt Pertaining to Our Properties.** For information relating to the mortgage debt pertaining to our properties, refer to "Item 8. Financial Statements and Supplementary Data—10. Indebtedness—Mortgages and Other Debt Payable."

ITEM 3. LEGAL PROCEEDINGS.

We are not involved in any material litigation, and, to our knowledge, there is no material litigation threatened against us, other than routine litigation arising in the ordinary course of business or which is expected to be covered by insurance.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

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PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is listed and traded on the NYSE under the symbol "BEE". As of February 26, 2014, the number of registered holders of record of our common stock was 68. However, because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we believe that there are considerably more beneficial holders of our common stock than record holders.

The following table sets forth the high and low sale prices for our common stock as reported on the NYSE composite transaction tape and the per share cash dividends declared on our common stock for the period January 1, 2012 through December 31, 2013.

	2013 Per Share of Common Stock			2012 Per Share of Common Stock		
	Market Price		Dividend	Market Price		Dividend
	High	Low	Paid	High	Low	Paid
First Quarter	\$8.55	\$6.44	\$—	\$6.83	\$5.38	\$—
Second Quarter	9.69	7.63	—	7.01	5.68	—
Third Quarter	9.20	8.09	—	6.70	5.68	—
Fourth Quarter	9.61	8.19	—	6.58	5.44	—
Year	\$9.69	\$6.44	\$—	\$7.01	\$5.38	\$—

We generally intend to distribute each year substantially all of our taxable income (which does not necessarily equal net income as calculated in accordance with generally accepted accounting principles) to our stockholders to comply with REIT provisions of the Tax Code. If necessary for REIT qualification purposes, we may need to distribute any taxable income in cash or by a special dividend. Our dividend policy is subject to revision at the discretion of our board of directors. All distributions will be made at the discretion of our board of directors and will depend on our taxable income, our financial condition, our maintenance of REIT status and other factors as our board of directors deems relevant.

On November 4, 2008, our board of directors elected to suspend the quarterly dividend to holders of shares of common stock. Our board of directors has continued the suspension of the quarterly dividend to holders of shares of our common stock as a measure to preserve liquidity and due to the bank credit facility covenant restrictions. Our board of directors will continue to evaluate the dividend policy in light of the REIT provisions of the Tax Code, restrictions under the bank credit facility, the overall economic climate, and our improving financial results.

For a description of restrictions on the payment of dividends, see "Item 8. Financial Statements and Supplementary Data—10. Indebtedness—Bank Credit Facility."

Equity Compensation Plan Information

There are 9,700,000 shares of common stock authorized for issuance under our Second Amended and Restated 2004 Incentive Plan (the Amended and Restated Plan). As of December 31, 2013, there have been 2,908,947 securities issued into common stock. The following table sets forth certain information with respect to securities authorized and available for issuance under the Amended and Restated Plan as of December 31, 2013.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under the Amended and Restated Plan (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders:			4,625,378
Restricted stock units	3,075,239	N/A	
Total	3,075,239		4,625,378

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ITEM 6. SELECTED FINANCIAL DATA.

The following sets forth our selected consolidated financial and operating information on a historical basis. The following information should be read together with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and notes thereto, which are included in “Item 8. Financial Statements and Supplementary Data.”

	Years Ended December 31,				
	2013 (1)	2012(1)	2011(1)	2010(1)	2009(1)
	(In thousands, except per share data)				
Operating Data:					
Revenue:					
Rooms	\$506,348	\$429,689	\$392,058	\$341,884	\$321,504
Food and beverage	294,969	264,893	257,880	228,484	208,144
Other hotel operating revenue	93,535	75,857	74,686	72,006	80,892
Lease revenue	5,161	4,778	5,422	4,991	4,858
Total revenues	900,013	775,217	730,046	647,365	615,398
Operating costs and expenses:					
Rooms	144,464	121,794	111,062	102,171	97,620
Food and beverage	225,213	193,431	185,628	164,725	154,537
Other departmental expenses	220,523	200,219	195,955	187,880	182,060
Management fees	27,126	23,085	22,705	20,022	20,517
Other hotel expenses	60,618	53,117	50,038	44,517	48,908
Lease expense	4,818	4,580	4,865	4,566	4,752
Depreciation and amortization	101,943	99,458	106,695	124,835	125,198
Impairment losses and other charges	728	18,406	—	141,858	88,374
Corporate expenses	25,807	31,578	39,539	34,349	23,545
Total operating costs and expenses	811,240	745,668	716,487	824,923	745,511
Operating income (loss)	88,773	29,549	13,559	(177,558)	(130,113)
Interest expense	(84,276)	(75,489)	(86,447)	(86,285)	(93,929)
Equity in earnings (losses) of unconsolidated affiliates	2,987	(13,485)	(9,215)	13,025	1,718
Income (loss) from continuing operations	6,716	(59,450)	(106,478)	(268,766)	(223,170)
Income (loss) from discontinued operations, net of tax	3,171	1,189	101,626	37,966	(23,263)
Net income (loss)	9,887	(58,261)	(4,852)	(230,800)	(246,433)
Net (income) loss attributable to the noncontrolling interests in SHR’s operating partnership	(38)	184	29	1,687	3,129
Net loss (income) attributable to the noncontrolling interests in consolidated affiliates	1,126	2,771	(383)	(1,938)	(641)
Preferred shareholder dividends	(24,166)	(24,166)	(18,482)	(30,886)	(30,886)
Net loss attributable to SHR common shareholders	(13,191)	(79,472)	(23,688)	(261,937)	(274,831)
Loss from continuing operations attributable to SHR common shareholders per share—basic	(0.08)	(0.40)	(0.70)	(2.44)	(3.35)
Loss from continuing operations attributable to SHR common shareholders per share—diluted	(0.08)	(0.40)	(0.70)	(2.44)	(3.35)

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	As of the Years Ended December 31,					
	2013(1)	2012(1)	2011(1)	2010(1)	2009(1)	
	(In thousands, except statistical data)					
Balance Sheet Data:						
Total assets	\$2,337,151	\$2,406,417	\$2,086,689	\$2,162,316	\$2,598,143	
Long-term debt obligations	1,273,696	1,322,297	1,050,385	1,146,281	1,648,197	
Total liabilities	1,526,749	1,597,969	1,419,686	1,511,922	2,003,258	
Noncontrolling interests in SHR's operating partnership	7,534	5,463	4,583	5,050	2,717	
Noncontrolling interests in consolidated affiliates	92,355	95,657	8,222	25,082	23,188	
SHR's shareholders' equity	710,513	707,328	654,198	620,262	568,980	
Statistical Data:						
Number of hotels at the end of the year excluding unconsolidated affiliates	16	16	15	15	16	
Number of rooms at the end of the year excluding unconsolidated affiliates	6,866	6,865	6,356	6,873	7,245	
Average occupancy rate	76.9	% 74.1	% 72.2	% 69.5	% 66.8	%

We classified one hotel property as held for sale as of December 31, 2013. We sold one hotel property in 2011, one (1) hotel property in 2010, and two hotel properties in 2009. The operations of these hotels are included as discontinued operations in the operating data above for all years presented.

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
7. OPERATIONS.

The following discussion and analysis is based primarily on the consolidated financial statements of Strategic Hotels & Resorts, Inc. (SHR) and its subsidiaries for the years presented and should be read together with the notes thereto contained in this annual report on Form 10-K. Terms employed herein as defined terms, but without definition, have meanings set forth in the notes to the consolidated financial statements (see "Item 8. Financial Statements and Supplementary Data").

Overview

We were incorporated in Maryland in January 2004 to acquire and asset-manage upper upscale and luxury hotels (as defined by Smith Travel Research). Our accounting predecessor, Strategic Hotel Capital, L.L.C. (SHC LLC), was founded in 1997. We made an election to be taxed as a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Tax Code). On June 29, 2004, we completed our initial public offering (IPO) of our common stock. Prior to the IPO, 21 hotel interests were owned by SHC LLC. Concurrent with and as part of the transactions relating to the IPO, a reverse spin-off distribution to shareholders separated SHC LLC into two companies, a new, privately-held SHC LLC, with interests, at that time, in seven hotels and SHR, a public entity with interests, at that time, in 14 hotels. See "Item 8. Financial Statements and Supplementary Data—1. General" for the hotel interests owned or leased by us as of December 31, 2013.

We operate as a self-administered and self-managed REIT, which means that we are managed by our board of directors and executive officers. A REIT is a legal entity that holds real estate interests and, through payments of dividends to stockholders, is permitted to reduce or avoid federal income taxes at the corporate level. To continue to qualify as a REIT, we cannot operate hotels; instead we employ internationally known hotel management companies to operate our hotels under management contracts. We conduct our operations through our direct and indirect subsidiaries including our operating partnership, Strategic Hotel Funding, L.L.C. (SH Funding), which currently holds substantially all of our assets. We are the managing member of SH Funding and hold approximately 99% of its membership units as of December 31, 2013. We manage all business aspects of SH Funding, including the sale and purchase of hotels, the investment in such hotels and the financing of SH Funding and its assets.

Throughout this "Management's Discussion and Analysis of Financial Condition and Results of Operations" section, references to "we", "our", "us", and "the Company" are references to SHR together, except as the context otherwise requires, with its consolidated subsidiaries, including SH Funding.

When presenting the U.S. dollar equivalent amount for any amounts expressed in a foreign currency, the U.S. dollar equivalent amount has been computed based on the exchange rate on the date of the transaction or the exchange rate prevailing on December 31, 2013, as applicable, unless otherwise noted.

Key Indicators of Operating Performance

We evaluate the operating performance of our business using a variety of operating and other information that includes financial information prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) such as total revenues, operating income (loss), net income (loss), and earnings per share, as well as non-GAAP financial information. In addition, we use other information that may not be financial in nature, including statistical information and comparative data. We use this information to measure the performance of individual hotels, groups of hotels, and/or our business as a whole. Key indicators that we evaluate include average daily occupancy, average daily rate (ADR), revenue per available room (RevPAR), and Total RevPAR, which are more fully discussed under "—Factors Affecting Our Results of Operations—Revenues." We also evaluate Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), Comparable EBITDA, Funds from Operations (FFO), FFO-Fully Diluted, and Comparable FFO as supplemental non-GAAP measures to GAAP performance measures. We provide a more detailed discussion of the non-GAAP financial measures under "—Non-GAAP Financial Measures."

Outlook

The lodging industry began its recovery in the first quarter of 2010, after one of the worst downturns in its history. Luxury demand, in which our portfolio has the highest concentration of assets, has experienced positive RevPAR growth since that time. RevPAR gains continued in the fourth quarter of 2013, driven by improved demand in transient business and increases in average room rates.

The fourth quarter of 2013 represented the fifteenth consecutive quarter of RevPAR growth and profit margin expansion for our Same Store United States portfolio. Same Store Assets (see “- Total Portfolio and Same Store Assets Definitions”

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below) located in the United States, which excludes hotels owned through unconsolidated affiliates and those owned for less than five quarters, increased 2.3 percentage points in occupancy, primarily driven by a 5.3% increase in transient room nights, partially offset by a 2.9% decrease in group room nights compared to the quarter ended December 31, 2012. ADR at our United States Same Store Assets increased 6.5% in the fourth quarter of 2013 as a result of a 4.8% increase in transient rate and a 6.8% increase in group rate, compared to the fourth quarter of 2012. For the quarter ended December 31, 2013, RevPAR in this portfolio increased 9.8% and Total RevPAR increased 15.8%, compared to the quarter ended December 31, 2012.

Our total United States portfolio of 15 hotels includes our unconsolidated affiliates at the Hotel del Coronado and Fairmont Scottsdale Princess hotel and the consolidated JW Marriott Essex House Hotel, which we acquired on September 14, 2012. We believe that providing the operating results on this portfolio, as well as the results of our Same Store Assets, is a better reflection of the operating trends of our business. For the year ended December 31, 2013, RevPAR for our total United States portfolio increased 8.6%, driven by a 5.9% increase in ADR and a 1.8 percentage point increase in occupancy, compared to the year ended December 31, 2012.

As we assess lodging supply and demand dynamics looking forward, we are optimistic about the long-term prospects for a sustained recovery, particularly in the product niche and markets in which we own assets. Group bookings pace remains our best forward indicator of demand. For our total United States portfolio of hotels, definite group room nights for 2014 as of January 31, 2014 are up 6.0% compared to the same time last year and are booked at 3.1% higher rates. New supply in the luxury and upper upscale segments remains very well contained in our markets and the current significant gap between hotel trading values and replacement costs bodes favorably for very limited supply growth into the future.

During the lodging downturn we implemented hotel specific contingency plans designed to reduce costs and maximize efficiency at each hotel. These include, but are not limited to, adjusting variable labor, eliminating certain fixed labor, and reducing the hours of room service operations and other food and beverage outlets. We believe the cost structures of our hotels have been fundamentally redesigned to sustain many of the cost reductions, even during periods of rising lodging demand. Therefore, we are optimistic that improving lodging demand will lead to increases in ADR and drive significant profit margin expansion throughout our portfolio.

European Strategy

We previously announced our intention to exit our assets in Europe in an orderly process designed to maximize proceeds. Since that time, we sold the Renaissance Paris Hotel LeParc Trocadero (Renaissance Paris), the InterContinental Prague hotel and our leasehold interest in the Paris Marriott hotel. Our remaining European assets are the Marriott London Grosvenor Square hotel and our leasehold interest in the Marriott Hamburg hotel. We continue to opportunistically explore options to exit these investments, including hiring a hotel brokerage and investment firm to advise us on the marketing and sale of the Marriott London Grosvenor Square hotel, and still intend to be North American-centric with respect to any new acquisitions.

Factors Affecting Our Results of Operations

The table below summarizes the changes to our consolidated hotel properties and rooms as of December 31, 2013, 2012 and 2011 and includes assets held for sale as of December 31, 2013:

	2013	2012	2011
Hotels			
Number of hotels, beginning of year	16	15	15
Acquisitions	—	1	2
Dispositions	—	—	(1
Recapitalization of property(a)	—	—	(1
Number of hotels, end of year	16	16	15
Rooms			
Number of rooms, beginning of year	6,865	6,356	6,873
Acquisitions	—	509	324
Room expansions	1	—	—
Dispositions	—	—	(192

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Recapitalization of property(a)	—	—	(649)
Number of rooms, end of year	6,866	6,865	6,356	

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On June 9, 2011, we completed a recapitalization transaction that changed our ownership interest in the Fairmont (a)Scottsdale Princess hotel. See“—Off-Balance Sheet Arrangements—Fairmont Scottsdale Princess Venture” for further description of this transaction.

Acquisition of Interests in Consolidated Properties. During the years ended December 31, 2013, 2012 and 2011, we acquired interests in the following consolidated properties and paid net purchase prices, including proration adjustments related to assets and liabilities of the hotels, as shown below:

Hotel	Date Acquired	Net Purchase Price (in millions)
JW Marriott Essex House Hotel(a)	September 14, 2012	\$350.3
Four Seasons Silicon Valley and Four Seasons Jackson Hole(b)	March 11, 2011	\$92.4
InterContinental Chicago(c)	June 24, 2011	\$90.2

(a) In connection with the closing of the hotel acquisition, we entered into joint venture agreements with affiliates of KSL Capital Partners, LLC (Essex House Hotel Venture) to fund the equity portion of the purchase price. We have a 51% controlling interest in the Essex House Hotel Venture and serve as managing member and asset manager.

(b) We acquired the Four Seasons Silicon Valley and the Four Seasons Jackson Hole hotels in exchange for an aggregate of 15.2 million shares of our common stock at a price of \$6.08 per share based on our March 11, 2011 common stock closing price.

(c) We acquired the remaining 49.0% interest in the InterContinental Chicago hotel, previously owned by our partner in the consolidated affiliate, giving us 100% ownership of the InterContinental Chicago hotel. As part of the transaction, we also acquired an additional 2.5% ownership interest in the Hyatt Regency La Jolla hotel, increasing our controlling interest in the hotel to 53.5%. Total consideration included the issuance of approximately 10.8 million shares of our common stock at a price of \$6.51 per share based on the June 24, 2011 common stock closing price, \$19.4 million of cash, which includes working capital, and post-closing adjustments of \$0.5 million.

Sale of Interests in Consolidated Properties. During the years ended December 31, 2013, 2012, and 2011, we sold our interests in the following consolidated property and received net sales proceeds, after proration adjustments related to assets and liabilities of the hotel and closing costs, as shown below:

Hotel	Date Sold	Net Sales Proceeds (in millions)
Paris Marriott(a)	April 6, 2011	\$60.0

We sold our leasehold interest in the Paris Marriott hotel for consideration of €29.2 million (\$41.6 million). As part (a) of the transaction, we received an additional €13.5 million (\$18.9 million) related to the release of the security deposit and other closing adjustments, of which €1.6 million (\$2.0 million) was received in the second quarter of 2012.

On December 12, 2013, we entered into an agreement to sell the Four Seasons Punta Mita Resort and the adjacent La Solana land parcel for \$200.0 million. The sale, subject to certain closing conditions and regulatory approval, is expected to close in the first quarter of 2014. This property and the adjacent land parcel have been classified as held for sale as of December 31, 2013, and the results of operations have been classified as discontinued operations for all periods presented.

Unconsolidated Affiliates. On December 20, 2013, the Fairmont Scottsdale Princess Venture (as defined below) entered into an amendment to the \$133.0 million mortgage loan secured by the Fairmont Scottsdale Princess hotel. The amendment extended the maturity date of the loan to April 9, 2015 and reduced the principal amount of the loan to \$117.0 million.

On June 14, 2013, we entered into an amended and restated venture agreement with an unaffiliated third party, forming the Lot H5 Venture. The Lot H5 Venture owns the Lot H5 land parcel, an undeveloped, oceanfront land parcel in Punta Mita, Nayarit, Mexico. We have a preferred position in the Lot H5 Venture that entitles us to receive the first \$12.0 million of distributions generated from the Lot H5 Venture, with any excess distributions split equally between the partners. We jointly control the Lot H5 Venture with our partner and account for our interest in the Lot H5 Venture as an equity method investment.

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On February 4, 2011, we completed a recapitalization transaction that changed our ownership interest in the Hotel del Coronado. See “—Off-Balance Sheet Arrangements – Hotel del Coronado Venture” for further description of this transaction. On December 17, 2012, we increased our ownership interest in the Hotel del Coronado to 36.4%. On June 9, 2011, we completed a recapitalization transaction that changed our ownership interest in the Fairmont Scottsdale Princess hotel. See “—Off-Balance Sheet Arrangements – Fairmont Scottsdale Princess Venture” for further description of this transaction.

On January 21, 2011, we sold our 50.0% interest in BuyEfficient for \$9.0 million and recognized a gain of \$2.6 million.

Total Portfolio and Same Store Asset Definitions. We define our Total Portfolio as properties that we wholly or partially own or lease and whose operations are included in our consolidated operating results. The Total Portfolio excludes all sold properties and assets held for sale, if any, included in discontinued operations.

We present certain information about our hotel operating results on a comparable hotel basis, which we refer to as our Same Store analysis. We define our Same Store Assets as those hotels (a) that are owned or leased by us, and whose operations are included in our consolidated operating results and (b) for which we reported operating results throughout the entire reporting periods presented.

Our Same Store Assets for purposes of the comparison of the years ended December 31, 2013 and 2012 exclude the JW Marriott Essex House Hotel, unconsolidated affiliates, and all sold properties and assets held for sale, if any, included in discontinued operations. Our Same Store Assets for purposes of the comparison of the years ended December 31, 2012 and 2011 exclude the JW Marriott Essex House Hotel, the Four Seasons Silicon Valley hotel, the Four Seasons Jackson Hole hotel, unconsolidated affiliates, and all sold properties and assets held for sale, if any, included in discontinued operations.

We present these results of Same Store Assets because we believe that doing so provides useful information for evaluating the period-to-period performance of our hotels and facilitates comparisons with other hotel REITs and hotel owners. In particular, these measures assist in distinguishing whether increases or decreases in revenues and/or expenses are due to operations of the Same Store Assets or from acquisition or disposition activity.

Revenues. Substantially all of our revenue is derived from the operation of our hotels. Specifically, our revenue for the years ended December 31, 2013, 2012 and 2011 consisted of:

	Total Portfolio			Same Store Assets		
	% of Total Revenues			% of Total Revenues		
	2013	2012	2011	2013	2012	
Revenues:						
Rooms	56.3	% 55.4	% 53.7	% 54.8	% 54.8	%
Food and beverage	32.8	% 34.2	% 35.3	% 34.7	% 34.7	%
Other hotel operating revenue	10.3	% 9.8	% 10.2	% 9.9	% 9.9	%
Lease revenue	0.6	% 0.6	% 0.8	% 0.6	% 0.6	%
Total revenues	100.0	% 100.0	% 100.0	% 100.0	% 100.0	