FORM SC 13D/A

Schedule filed to report acquisition of beneficial ownership of 5% or more of a class of equity securities [amend]

Filing Date: **1999-07-14**
SEC Accession No. 0000950123-99-006500

SUBJECT COMPANY

SUNSTONE HOTEL INVESTORS INC

CIK:**930600**| IRS No.: **521891908** | State of Incorp.:**MD** | Fiscal Year End: **1231**
Type: **SC 13D/A** | Act: **34** | File No.: **005-48477** | Film No.: **99663922**
SIC: **6798** Real estate investment trusts

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D/A

Under the Securities Exchange Act of 1934
(Amendment No. 4)*

SUNSTONE HOTEL INVESTORS, INC.
(Name of Issuer)

COMMON STOCK, par value $0.01 per share
(Title of Class of Securities)

867933 10 3
(CUSIP Number)

Robert A. Alter
Sunstone Hotel Properties, Inc.
903 Calle Amanecer
San Clemente, California 92673-6212

With a copy to:

Steven L. Lichtenfeld, Esq.
Battle Fowler LLP
Park Avenue Tower
75 East 55th Street
New York, New York 10022
(212) 856-7000

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

July 13, 1999
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Sections 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box / /.

NOTE: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Section 240.13d-7(b) for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

This Amendment No. 4 to Schedule 13D amends the Schedule 13D filed on April 15, 1999 (the "Schedule 13D") which relates to the shares of common stock, par value $0.01 per share (the "Common Stock") of Sunstone Hotel Investors, Inc., a Maryland corporation (the "Company"). Capitalized terms used herein but not defined shall have the meanings attributed to them in the Schedule 13D.

Subsection (f) of Item 2 of the Schedule 13D is hereby amended and supplemented by deleting the first sentence of the third paragraph thereof and adding the following paragraph after the second paragraph thereof:

As described in Item 4 below, SHP Acquisition, L.L.C. a Delaware limited liability company ("SHP Acquisition") and its subsidiary, SHP Investors Sub, Inc., a Maryland corporation ("Buyer"), have entered into an Agreement and Plan of Merger with the Company dated as of July 12, 1999 (the "Merger Agreement") pursuant to which, on the terms and conditions set forth therein, SHP Acquisition would acquire the Company, and holders of the Common Stock (other than certain holders described in Item 4 below) would receive consideration of $10.35 per share (as adjusted as provided in the Merger Agreement) in cash (the "Cash Price") in exchange for their shares. In addition, as described in Item 4 below, SHP Acquisition and its subsidiary, SHP OP, L.L.C., a Delaware limited liability company ("Buyer OP"), have entered into an Agreement and Plan of Merger with Sunstone Hotel Investors, L.P. ("Sunstone OP") dated as of July 12, 1999 (the "Partnership Merger Agreement") pursuant to which, on the terms and conditions set forth therein, SHP Acquisition would acquire Sunstone OP and holders of outstanding partnership units in Sunstone OP ("OP Units") would receive in exchange for their OP Units consideration equal to the Cash Price or, at the election of eligible holders as provided in the Partnership Merger Agreement, preferred units or common units of SHP

Acquisition in a face amount per OP Unit equal to the Cash Price.

Item 3 of the Schedule 13D is hereby amended and supplemented by deleting in their entirety all of the paragraphs thereto and adding the following paragraphs hereof:

SHP Acquisition estimates that it will require approximately $900 million of funds to finance the transactions contemplated by the Merger Agreement and Partnership Merger Agreement. SHP Acquisition expects to obtain such funds from equity contributions from its members and debt financing as further described below. Pursuant to the terms of the Contribution and Sale Agreement among Westbrook SHP L.L.C. ("Westbrook LLC"), a Delaware limited liability company, WREF III, WRECIP III, Mr. Alter, Riverside Hotel Partners, Inc., a California corporation ("Riverside"), Alter Investment Group Ltd., a Colorado limited partnership ("Alter Investment Group"), Mr. Biederman, Regina Biederman ("Mrs. Biederman"), Sunstone Hotel Management, Inc., a Colorado corporation ("Management"), Management Sub SHP L.L.C., a Delaware limited liability company ("Management Sub"), Lessee, SHP Acquisition and WREF I, dated as of July 12, 1999 (the "Contribution Agreement") (attached hereto as Exhibit 3), certain of the parties to the Contribution Agreement have agreed to contribute assets, equity interests and cash to SHP Acquisition. The Contribution Agreement provides that, subject to the terms and conditions thereof, Westbrook LLC, WREF III, WREF I and WRECIP I will make aggregate cash contributions to SHP Acquisition such that, after giving effect to the proceeds under the Commitment Letter (as defined below), SHP Acquisition and its subsidiaries shall have an amount of cash that is sufficient to consummate the transactions contemplated by the Merger Agreement and the Partnership Merger Agreement. The Contribution Agreement further provides that Mr. Alter will contribute to SHP Acquisition certain of the capital stock and other interests in Lessee held by him and that Mr. Alter, Riverside and Alter Investment Group will contribute all the OP Units owned by each of them to SHP Acquisition. Pursuant to the Contribution Agreement, Mr. Biederman will sell all of his shares of capital stock of Lessee and contribute all of his OP Units to SHP Acquisition.

In addition to the equity financing discussed above, PW Real Estate Investments Inc. ("PW"), a wholly-owned subsidiary of Paine Webber Real Estate Securities Inc., has provided WREF III with a commitment letter dated July 12, 1999 (the "Commitment Letter") (attached hereto as Exhibit G to the Merger Agreement) with respect to debt financing for the transactions

contemplated by the Merger Agreement and the Partnership Merger Agreement.

Subject to the terms and conditions of the Commitment Letter, PW has agreed to provide a loan to fund a portion of the consideration required for the consummation of the transactions contemplated by the Merger Agreement and the Partnership Merger Agreement. The proposed loan (the "Mortgage Loan") will be secured by (i) first mortgage liens on certain properties, (ii) a first priority assignment of all leases and rents attributable to such properties, (iii) a first priority assignment of all security accounts and other reserves and escrows for such properties and (iv) a first priority assignment of all rights of the borrowers or the operating lessee, as applicable, under operating leases, management agreements, franchise agreements, licensing agreements and other licenses, permits and agreements relating to the ownership and/or operation of such properties.

Subject to the terms and conditions set forth in the Commitment Letter, PW has committed to provide at least $454,600,000 of debt financing (subject to reduction as provided in the Commitment Letter) and may provide as much as $502,000,000 of debt financing. PW's financing commitment is subject to execution of definitive financing agreements and other conditions set forth in the Commitment Letter.

The information set forth in response to this Item 3 is qualified in its entirety by reference to the Contribution Agreement, the Commitment Letter, the Merger Agreement and the Partnership Merger Agreement.

None of the Reporting Persons has contributed any funds or other consideration toward the purchase of the shares of Common Stock that may be deemed to be beneficially owned by the Westbrook Affiliates as described in Item 5.

Item 4. Purpose of Transaction.

Item 4 of the Schedule 13D is hereby amended and supplemented by deleting in their entirety all the first, second, third, fifth and sixth paragraphs thereof and adding the following paragraphs hereof:

On the morning of July 13, 1999 SHP Acquisition, Buyer and the Company entered into the Merger Agreement (attached hereto as Exhibit 4) pursuant to which, on the terms and subject to the conditions set forth therein, among other things, Buyer will be merged with and into the Company, each share of the Common Stock (other than the Common Stock held by SHP Acquisition, Buyer or any wholly-owned subsidiary of SHP Acquisition or Buyer) will be converted into the right to receive the Cash Price and each share of Preferred Stock (other than Preferred Stock held by SHP Acquisition, Buyer or any wholly-owned subsidiary of SHP Acquisition or Buyer) shall be converted into the right to receive the "Liquidation Preference" (as such term is defined in the Articles Supplementary). Consummation of the transactions contemplated by the Merger Agreement are subject to, among other things, the affirmative approval of (i) the Merger Agreement by holders of a majority of the outstanding Common Stock and Preferred Stock and (ii) certain amendments

(attached hereto as Exhibit D to the Merger Agreement) to the Company's articles of incorporation by holders of two-thirds of the outstanding Common Stock and Preferred Stock.

Concurrently with the execution and delivery of the Merger Agreement, SHP Acquisition, Buyer OP, SHP Properties Corp., a Delaware corporation ("SHP Properties"), and Sunstone OP entered into the Partnership Merger Agreement (attached hereto as Exhibit 5), pursuant to which, on the terms and subject to the conditions set forth therein, among other things, Buyer OP will be merged with and into Sunstone OP and each holder of common OP Units other than the Company will be offered the option of receiving, for each such OP Unit held by such holder, either (A) an amount equal to the Cash Price or (B) one Class A Preferred Unit of SHP Acquisition or (C) one Class B Common Unit of SHP Acquisition (in the case of (B) and (C) having the terms set forth in the LLC Agreement referred to in Item 6) (provided that such holder must be an "accredited investor" as defined in Rule 501 under the Securities Act of 1933, as amended, to elect the option described in clause (B) or (C) and satisfy certain other conditions). Immediately prior to the

Partnership Merger, Sunstone OP shall redeem certain of the common and preferred OP Units held by the Company in exchange for certain assets held by Sunstone OP in accordance with the terms set forth in the Partnership Merger Agreement. Each common OP Unit held by the Company after this redemption shall be converted into the right to receive the Cash Price. Consummation of the transactions contemplated by the Partnership Merger Agreement is subject to, among other things, the affirmative approval of (i) the Partnership Merger Agreement by the Company, in its capacity as general partner of Sunstone OP, and limited partners of Sunstone OP holding more than fifty percent of the partnership interests of the partners of Sunstone OP and (ii) certain amendments (attached hereto as Exhibit F to the Merger Agreement) to Sunstone OP's partnership agreement by holders of two-thirds of the outstanding OP Units (excluding any OP Units held by the Company or its affiliates).

To secure certain obligations of SHP Acquisition and Buyer under the Merger Agreement, SHP Acquisition has entered into an escrow agreement, entered into on the morning of July 13, 1999 and dated as of July 12, 1999, with the Company, Sunstone OP and Fidelity National Title Insurance Company, as escrow agent (the "Escrow Agent") (attached hereto as Exhibit 7), pursuant to which WREF III has deposited a letter of credit (the "Letter of Credit") (attached hereto as Exhibit H to the Merger Agreement) in the amount of $25,000,000 in favor of the Escrow Agent which may, subject to the terms of the Merger Agreement, be drawn upon to pay certain amounts to the Issuer if the Merger Agreement is terminated in certain

circumstances.

Concurrently with the execution of the Contribution Agreement, Mr. Alter, Mr. Biederman, the Lessee, the Management Company, Mrs. Biederman, the Company and Sunstone OP entered into the Lessee/Manager Agreement (the "Lessee/Manager Agreement") entered into on the morning of July 13, 1999 and dated as of July 12, 1999 (attached hereto as Exhibit B to the Merger Agreement) pursuant to which upon termination of the Merger Agreement and the Company entering into an agreement constituting a Superior Acquisition Proposal (as defined in the Lessee/Manager Agreement), on the terms and subject to the conditions set forth therein, among other things, the Company and Sunstone OP shall have the right to acquire all of the common stock of the Lessee and Management Company from Messrs. Alter and Biederman for an aggregate purchase price of $30 million dollars.

Other than as described above in Item 3 and this Item 4, none of the Reporting Persons has, and the Reporting Persons have been advised that none of the Westbrook Affiliates have, any plans or proposals which relate to or would result in any of the matters described in subparagraphs (a) through (j) of Item 4 of Schedule 13D (although they reserve the right to develop such plans).

The information set forth in response to this Item 4 is qualified in its entirety by reference to the Merger Agreement, the Partnership Merger Agreement, the Lessee/Manager Agreement the LLC Agreement (as defined in Item 6), the Escrow Agreement and the Letter of Credit, each of which is incorporated herein by reference.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

Item 6 of the Schedule 13D is hereby amended and supplemented by deleting the first and second paragraphs thereof and inserting the following paragraphs before the third paragraph thereof:

As described in Item 3 hereof, on the morning of July 13, 1999, Westbrook LLC, WREF III, WRECIP III, Mr. Alter, Riverside, Alter Investment Group, Mr. Biederman, Mrs. Biederman, Management, Management Sub, Lessee, SHP Acquisition and WREF I entered into the Contribution Agreement, which sets forth certain understandings among the parties thereto with respect to certain contributions of assets, equity interests and cash to be made to SHP Acquisition in connection with the consummation of the transactions under the Merger Agreement and the Partnership Merger Agreement. In addition, on the morning of July 13, 1999, each of Westbrook LLC, WREF III, WRECIP III, Alter SHP LLC, a Delaware limited liability company,

and Biederman SHP LLC, a Delaware limited liability company, as members of SHP Acquisition, and Mr. Alter and WF III, as withdrawing members of SHP Acquisition, on the morning of July 13, 1999, entered into the Amended and Restated Limited Liability Company Agreement of SHP Acquisition dated as of July 12, 1999 (the "LLC Agreement") (attached hereto as Exhibit 12), which sets forth the terms of the equity interests in SHP Acquisition to be issued at consummation of the transactions contemplated by the Contribution Agreement, Merger Agreement and Partnership Merger Agreement as well as certain agreements among the members of SHP Acquisition with respect to their respective rights and obligations with respect to their interests therein, including without limitation as to structure, capitalization, distributions, liquidations, governance, transfers of interests, call rights, rights of first offer, restrictions on sale of assets and exclusivity.

As described in Item 4 hereof, on the morning of July 13, 1999, SHP Acquisition, Buyer and the Company has entered into the Merger Agreement providing for the merger of Buyer with and into the Company. The agreements entered into contemporaneously with the Merger Agreement include a Voting Agreement and Proxy (attached hereto as Exhibit C to the Merger Agreement) (the "Proxy") among the Company, WREF I, Mr. Alter, Mr. Biederman and SHP Acquisition pursuant to which each of WREF I, Mr. Alter and Mr. Biederman agrees to vote each of the shares of Common Stock held by such shareholder to approve the transactions contemplated by the Merger Agreement and the amendments to the articles of incorporation of Company relating thereto and to vote against any merger, consolidation, sale of assets or other business combination involving the Company other than the transactions contemplated by the Merger Agreement, and grants a voting proxy to the Company to vote the shares held by each such shareholder accordingly.

Other agreements entered into contemporaneously with the Merger Agreement include the Partnership Merger Agreement described in Item 4 hereof among SHP Acquisition, Buyer OP, SHP Properties and Sunstone OP, pursuant to which Buyer OP will be merged with and into Sunstone OP, and the Voting Agreements and Consents (attached hereto as Exhibit E to the Merger Agreement) (the "Partner Consents") of certain holders of OP Units consenting to the Partnership Merger, the Lessee/Manager Agreement described in Item 4 hereto pursuant to which, upon the termination of the Merger Agreement and the execution of an agreement for a Superior Acquisition Proposal (as defined in the Merger Agreement) and other conditions, the Company has the right to acquire all of Messrs. Alter's, and Biederman's common stock in the Lessee and Management Company and the amendments to the partnership agreement of Sunstone OP relating thereto and agreeing to vote against any merger, consolidation, sale of assets or other business combination involving Sunstone OP other than the transactions contemplated by the Partnership Merger Agreement.

The descriptions of the LLC Agreement, Merger Agreement, Proxy,

Partnership Merger Agreement, the Lessee/Manager Agreement and the Partner Consents contained in this Item 6 are qualified in their entirety by reference to the LLC Agreement, Merger Agreement, Proxy, Partnership Merger Agreement, the Lessee/Manager Agreement and the Partner Consents, each of which is incorporated herein by reference.

Item 7. Material to be Filed as Exhibits.

Item 7 of the Schedule 13D is amended and supplemented by deleting exhibits 2, 3, 4, 6, 7 and 8; renumbering the remaining exhibits accordingly and adding the following exhibits thereto:

3. Contribution and Sale Agreement among Westbrook LLC, WREF III, WRECIP III, Mr. Alter, Riverside, Alter Investment Group, Mr. Biederman, Mrs. Biederman, Management, Management Sub, Lessee, SHP Acquisition and WREF I, dated as of July 12, 1999

4. Agreement and Plan of Merger, dated as of July 12, 1999, by and among SHP Acquisition, Buyer and the Company

5. Agreement and Plan of Merger, dated as of July 12, 1999, by and among SHP Acquisition, Buyer OP, Sunstone OP and SHP Properties

6. Amended and Restated Limited Liability Company Agreement of SHP Acquisition, dated as of July 12, 1999

7. Escrow Agreement, dated as of July 12, 1999, by and among SHP Acquisition, the Company, Sunstone OP and the Escrow Agent

CUSIP NO. 867933 10 3

SIGNATURES

After reasonable inquiry and to the best of our knowledge and belief, the undersigned certify that the information set forth in this statement is true, correct and complete.

Dated: July 13, 1999

/s/ Robert A Alter

Robert A. Alter

*

Charles L. Biederman

*

Randy C. Hulce

*

Douglas C. Sutten

*By: /s/ Robret A. Alter

Robert A. Alter, Pro Se and
Attorney-in-Fact

INDEX TO EXHIBITS

Exhibit Number	Description of Exhibits
3.	Contribution and Sale Agreement among Westbrook LLC, WREF III, WRECIP III, Mr. Alter, Riverside, Alter Investment Group, Mr. Biederman, Mrs. Biederman, Management, Management Sub, Lessee, SHP Acquisition and WREF I, dated as of July 12, 1999
4.	Agreement and Plan of Merger, dated as of July 12, 1999, by and among SHP Acquisition, Buyer and the Company
5.	Agreement and Plan of Merger, dated as of July 12, 1999, by and among SHP Acquisition, Buyer OP, Sunstone OP and SHP Properties
6.	Amended and Restated Limited Liability Company Agreement of SHP Acquisition, dated as of July 12, 1999

7. Escrow Agreement, dated as of July 12, 1999, by and among SHP Acquisition, the Company, Sunstone OP and the Escrow Agent

Exhibit 3

CONTRIBUTION AND SALE AGREEMENT

among

WESTBROOK SHP L.L.C.,

WESTBROOK REAL ESTATE FUND III, L.P.

WESTBROOK REAL ESTATE CO-INVESTMENT PARTNERSHIP III, L.P.,

ROBERT A. ALTER,

RIVERSIDE HOTEL PARTNERS, INC.,

ALTER INVESTMENT GROUP LTD.,

CHARLES L. BIEDERMAN,

REGINA BIEDERMAN

SUNSTONE HOTEL MANAGEMENT, INC.,

MANAGEMENT SUB SHP L.L.C.,

SUNSTONE HOTEL PROPERTIES, INC.,

SHP ACQUISITION, L.L.C.,

and

WESTBROOK REAL ESTATE FUND I, L.P.

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CONTRIBUTION AND SALE AGREEMENT

This Contribution and Sale Agreement (hereinafter, this "Agreement") is made as of July 12, 1999, by and among Westbrook SHP L.L.C., a Delaware limited liability company ("Westbrook LLC"), Westbrook Real Estate Fund III, L.P., a Delaware limited partnership ("WREF III"), Westbrook Real Estate Co-Investment Partnership III, L.P., a Delaware limited partnership ("Westbrook Co-Investment"), Robert A. Alter ("Alter"), Riverside Hotel Partners, Inc., a California corporation ("Riverside"), Alter Investment Group Ltd., a Colorado limited partnership ("Alter Investment Group"), Charles L. Biederman ("Biederman"), Sunstone Hotel Management, Inc., a Colorado corporation ("Management"), Management Sub SHP L.L.C., a Delaware limited liability company ("Management Sub"), Sunstone Hotel Properties, Inc., a Colorado corporation ("Lessee"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and, solely for purposes of Section 4.2(c) hereof, Westbrook Real Estate Fund I, L.P., a Delaware limited partnership ("WREF I"), and, solely for the purposes of Section 9.14, Regina Biederman.

W I T N E S S E T H:

WHEREAS, concurrently with the execution and delivery of this Agreement, SHP has entered into a Merger Agreement (the "Merger Agreement") dated as of the date hereof with Sunstone Hotel Investors, Inc., a Maryland corporation ("Sunstone"), SHP Investors Sub, Inc., a Maryland corporation and a subsidiary of SHP ("Investors Sub") and Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Sunstone OP"), pursuant to which and subject to the terms and conditions thereof, Investors Sub shall merge into Sunstone (the "Merger");

WHEREAS, concurrently with the execution and delivery of this Agreement, SHP has entered into a Merger Agreement (the "Partnership Merger Agreement") dated as of the date hereof with Sunstone OP and SHP OP, L.L.C., a Delaware limited liability company and a subsidiary of SHP ("SHP OP") pursuant to which and subject to the terms and conditions thereof, SHP OP shall merge into Sunstone OP (the "Partnership Merger");

WHEREAS, concurrently with the execution and delivery of this Agreement, Westbrook LLC, WREF III, Alter, Westbrook Fund III Acquisitions, L.L.C., a Delaware limited liability company ("WF III"), and certain other Persons have entered into an Amended and Restated Limited Liability Company Agreement (the "LLC Agreement") dated as of the date hereof pursuant to which, among other things, (i) Westbrook LLC will cause WF III to withdraw from SHP, (ii) Alter will withdraw from SHP and (iii) Westbrook LLC, Alter SHP LLC (as herein defined) and certain other Persons will become members of SHP in accordance with the provisions of the LLC Agreement;

WHEREAS, concurrently with the execution and delivery of this Agreement, SHP and Alter have entered into an Employment Agreement (the "Employment Agreement") dated as of the date hereof pursuant to which and subject to the

terms and conditions thereof, SHP shall employ Alter as Chief Executive Officer of SHP effective as of the Closing;

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WHEREAS, prior to the execution of this Agreement, Management transferred the Basis Assets (as defined below) to Management Sub, an entity owned by Management and Alter; and

WHEREAS, the parties hereto desire to make certain agreements, representations, warranties and covenants in connection with the transactions contemplated hereby;

NOW, THEREFORE, in consideration of the premises and the mutual promises contained herein, the parties hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1 Definitions. (a) Capitalized terms used and not defined in this Agreement shall have the meanings set forth in the Merger Agreement. The following terms shall have the following meanings:

"Advance Booking Agreement" means any agreement relating to advance reservations and bookings of the Real Property or any facilities therein taken from guests, groups, conventions or others.

"Affiliate" means with respect to a specified Person, any Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, the specified Person.

"Alter Entities" means Alter, Riverside and Alter Investment Group.

"Basis Assets" means assets of Management Sub set forth on Schedule 1.1(a) that have previously been contributed by Management.

"Business Day" means a day, other than Saturday or Sunday, on which commercial banks in New York City are open for the general transaction of business.

"Capital Accounts" has the meaning set forth in Section 6.3 of the LLC Agreement.

"Closing Date" means the date of the Closing hereunder.

"Code" means the Internal Revenue Code of 1986, as amended.

"Common Merger Consideration" has the meaning set forth in the Merger Agreement.

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"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, as trustee or executor, by contract or credit arrangement or otherwise.

"Environmental Laws" means any and all laws, rules, orders, regulations, statutes, ordinances, guidelines, codes, decrees, or other legally enforceable requirement (including, without limitation, common law) of any foreign government, the United States, or any state, local, municipal or other governmental authority, regulating, relating to or imposing liability or standards of conduct concerning protection of the environment or of human health, or employee health and safety.

"Equipment Lease" means any lease or rental agreement relating to the equipment, services, vehicles, furniture or any other type of personal property of Management or Lessee together with all supplements, amendments and modifications thereto.

"GAAP" means generally accepted accounting principles in the United States.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to such government.

"Hotel Management Agreement" means any hotel management agreement relating to the management and operation of the Real Property together with all supplements, amendments and modifications thereto.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"Implementing Agreements" means the Merger Agreement, the Partnership Merger Agreement, the LLC Agreement and the Employment Agreement.

"Knowledge" means (i) as to Biederman, that Biederman has actual knowledge without due inquiry, (ii) as to Alter and the Alter Investment Group, that Alter has actual knowledge without due inquiry, (iii) as to Riverside, that either Alter or Biederman has actual knowledge without due inquiry; (iv) as to Lessee, that either Alter, Biederman, Douglas Sutten, Randy Hulce or Evan Studer has actual knowledge without due inquiry, (v) as to Management and Management Sub, that Alter, Biederman, Douglas Sutten, Randy Hulce or Evan Studer has actual knowledge without due inquiry and (vi) as to the Westbrook Entities, that Paul Kazilionis, Jonathan Paul or Mark Mance has actual knowledge without due inquiry.

"Leased Real Property" means all real property which is leased or subleased by Management or Lessee.

"Lessee Class A Voting Stock" has the meaning set forth on Exhibit A hereto.

"Lessee Class B Non-Voting Stock" has the meaning set forth on Exhibit A hereto.

"Lessee Stock" means (i) prior to the Recapitalization (as herein defined), the common stock, par value $.01 per share, of Lessee; and (ii) following the Recapitalization, the Lessee Class A Voting Stock and the Lessee Class B Non-Voting Stock.

"Liability" means, as to any Person, all debts, liabilities and obligations, direct, indirect, absolute or contingent of such Person, whether accrued, vested or otherwise, whether known or unknown and whether or not actually reflected, or required in accordance with GAAP to be reflected, in such Person's balance sheets.

"Lien" means any mortgage, pledge, security interest, claim, encumbrance, lien or charge of any kind.

"Liquor License" means any alcoholic beverage license relating to the use and/or operation of the Real Property.

"Losses" means any and all damages, claims, losses, expenses, costs and Liabilities including, without limiting the generality of the foregoing, Liabilities for all reasonable attorneys' fees and expenses (including reasonable attorney and expert fees and expenses incurred to enforce the terms of this Agreement).

"Management Agreement" means any agreement relating to the management of any of the Real Property.

"Management Assets" means all the properties, assets and other rights of Management owned or used by Management in the conduct of its business excluding the Basis Assets.

"Management Newco" means SHP Management, Inc., a Delaware corporation and a wholly-owned subsidiary of SHP.

"Management Stock" means the common stock, par value $0.01 per share, of Management.

"Material Adverse Effect" means (x) a material adverse effect on (i) the assets, Liabilities, business, results of operations or condition (financial or otherwise) of Lessee and Management, taken as a whole, or (ii) the ability of the Alter Entities, Biederman, Management, Management Sub or Lessee to perform his or its obligations hereunder or under the Implementing Agreements to which he or it is a party or (y) the effect of preventing or delaying beyond December 31, 1999 of the consummation of the Transactions.

"Materials of Environmental Concern" means any gasoline or petroleum (including, without limitation, crude oil or any fraction thereof) or petroleum products,

polychlorinated biphenyls, urea-formaldehyde insulation, asbestos, pollutants,

contaminants, radioactivity, and any other substances of any kind, whether or not any such substance is defined as hazardous or toxic under any Environmental Law, that is regulated pursuant to or could give rise to liability under any Environmental Law.

"OP Units" means the common limited partnership units in Sunstone OP.

"Permitted Liens" means (i) Liens for Taxes that (x) are not yet due or delinquent or (y) are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with GAAP; (ii) statutory Liens or landlords', carriers', warehousemen's, mechanics', suppliers', materialmen's, repairmen's or other like Liens arising in the ordinary course of business with respect to amounts not yet overdue for a period of 45 days or amounts being contested in good faith by appropriate proceedings if a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor; (iii) Liens incurred or deposits made in connection with workers' compensation, unemployment insurance and other types of social security or similar benefits; (iv) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of like nature; (v) any installment not yet due and payable of assessments of any Governmental Authority imposed after the date hereof; (vi) the rights and interests held by tenants under any Space Leases or subleases of the Real Property Leases; and (vii) any other Liens imposed by operation of law that do not, individually or in the aggregate, materially affect the relevant entity or business, taken as a whole.

"Person" means any individual, corporation, partnership, joint venture, trust, incorporated organization, limited liability company, other form of business or legal entity or Governmental Authority.

"Real Property" means the Leased Real Property and real property, if any, owned by Management or Lessee.

"Securities" means (i) shares of Lessee Stock, (ii) any capital stock of Lessee other than Lessee Stock, (iii) any stock, warrants, rights, calls, options or other securities exchangeable or exercisable for or convertible into Lessee Stock or any other capital stock of Lessee and (iv) any warrants, rights, calls, options or other securities exchangeable for or exercisable or convertible into any securities referenced in clause (iii), in each case whether owned on the date hereof or hereafter acquired.

"Service Contract" means any contract and/or agreement relating to the operation and maintenance of the Real Property, including service agreements, brokerage commission agreements, maintenance contracts, contracts for purchase of delivery of services, materials, goods, inventory or supplies, cleaning contracts, equipment rental agreements, equipment leases or leases of personal property (other than franchise agreements and Management Agreements), together with all supplements, amendments and modifications thereto.

"Space Lease" means any lease or other agreement demising space in or providing for the use or occupancy of all or any portion of the Real Property and all guaranties thereof.

"Subsidiary" or "Subsidiaries" of any Person means any corporation, partnership, limited liability company, joint venture or other legal entity of which such Person (either alone or through or together with any other subsidiary), owns, directly or indirectly, more than 50% of the stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity and any partnership of which such Person serves as general partner.

"Sunstone Stock" means the common shares of Sunstone, $0.01 par value per share.

"Tax Return" means any return, report or statement required to be filed with any governmental authority with respect to Taxes, including any schedule or attachment thereto or amendment thereof.

"Taxes" means any taxes of any kind, including but not limited to those on or measured by or referred to as income, gross receipts, capital, sales, use, ad valorem, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, value added, property or windfall profits taxes, customs, duties or similar fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any governmental authority, domestic or foreign.

"Transfer" means, directly or indirectly, assign, sell, exchange, transfer, pledge, mortgage, hypothecate or otherwise dispose or encumber.

"Transactions" means all of the transactions contemplated hereby and by the Implementing Agreements, including the Recapitalization and the exercise of the Option.

"Westbrook Entities" means Westbrook LLC, WREF III, WREF I and Westbrook Co-Investment.

(b) As used in this Agreement, each of the following capitalized terms shall have the meaning ascribed to them in the Section set forth opposite such term:

<TABLE>
<CAPTION>

Term	Section
<S>	<C>
Aggregate Westbrook Capital	2.1(a)
Agreement	Preamble
Alter	Preamble
Alter/Biederman Parties	4.15(b)
Alter Director	6.2(a)
Alter Investment Group	Preamble

</TABLE>

<TABLE>

<CAPTION>

Term	Section
<S>	<C>
Alter SHP LLC	2.1(c)
Assumed Management Liabilities	2.1(d)
Biederman	Preamble
Biederman LLC	2.1(h)
Business Intellectual Property	3.1(m)
Closing	2.1
Contributors	4.13(a)
Controlled Group Member	3.1(p)
December 31 Balance Sheets	3.1(f)(i)
December 31 Financial Statements	3.1(f)(i)
Employee Plan	3.1(p)
Employment Agreement	Recitals
ERISA	3.1(p)
Exercise Notice	6.4
Expenses	7.2(a)
Failure to Approve	6.4
Insurance Policies	3.1(u)
Intellectual Property	3.1(m)
Investors Sub	Recitals
Lease Termination	9.16
Lessee	Preamble
Lessee Board	6.2(a)
Lessee Line of Credit	4.1(o)
Lessee/Manager Agreement	3.7
Lessee Stockholders	6.2
Lessee Subsidiary	3.1(e)(ii)
LLC Agreement	Recitals
Management	Preamble
Management Sub	Preamble
March 31 Balance Sheets	3.1(f)(ii)
March 31 Financial Statements	3.1(f)(ii)
Merger	Recitals
Merger Agreement	Recitals
Merger Agreement Payment	7.2(a)
Multiemployer Plan	3.1(p)
Option	6.4
Option Price	6.4
Partnership Merger	Recitals
Partnership Merger Agreement	Recitals
Pension Plan	3.1(p)
Real Property Leases	3.1(j)(ii)
Recapitalization	6.1
Retained Management Liabilities	2.1(d)

</TABLE>

<TABLE>
<CAPTION>

Term	Section

<S>	<C>
Riverside	Preamble
Section (v) Contract	3.1(j)(v)
Section 7.2 Percentage	7.2(b)
Section 7.2 Price	7.2(b)
Section 7.2 Purchase	7.2(b)
Securities Act	3.2(g)
SHP	Preamble
SHP Directors	6.2(a)
SHP OP	Recitals
Straddle Period	8.4(b)
Sunstone	Recitals
Sunstone OP	Recitals
Technology	3.1(m)
Termination	6.4
Term Sheet Letter	9.2
Vacation Policy	4.8(c)
Welfare Plan	3.1(p)
Wells Fargo	2.1(s)
Wells Fargo Lien	3.2(g)
Westbrook Co-Investment	Preamble
Westbrook LLC	Preamble
Westbrook Payment	7.2(a)
WF III	Recitals
WREF I	Preamble
WREF III	Preamble

</TABLE>

1.2 Other Interpretive Provisions. The words "include", "includes and "including" shall be deemed to be followed by the phrase "without limitation". The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified. The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

ARTICLE II

CONTRIBUTIONS AND SALE TO SHP AND OTHER CLOSING EVENTS

2.1 Time and Place of Closing. Subject to the satisfaction (or waiver by the parties entitled to the benefit thereof) of the conditions set forth in Article V, the closing of the transactions contemplated hereby (the "Closing") shall take place at the offices of Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, New York 10017, immediately prior to

the closings under the Partnership Merger Agreement and the Merger Agreement, all as set forth more fully in the Merger Agreement.

At the Closing, the following actions will take place in the following order:

(a) Contribution by the Westbrook Entities. Westbrook LLC, WREF III and Westbrook Co-Investment will make aggregate cash contributions to SHP such that, after giving effect to at least $454,600,000 of proceeds under the Financing Commitment, SHP, the Surviving Company and the Surviving Operating Partnership shall have an amount of cash that is sufficient to consummate the transactions contemplated by the Merger Agreement (including paying the Merger Consideration and related expenses), and each will receive a credit to its respective Capital Account equal to the amount contributed by it; provided, however, that (i) the aggregate cash contributions by the Westbrook Entities (the "Aggregate Westbrook Capital") is currently estimated not to exceed $375 million and (ii) the capital contribution of Westbrook LLC shall be at least the greater of (x) 10% of the Aggregate Westbrook Capital and (y) the Aggregate Westbrook Capital less $310 million.

In connection with such contributions, Westbrook LLC, WREF III and Westbrook Co-Investment will receive an amount of Class B Units as described in Section 3.4 of the LLC Agreement.

(b) Sale by Management Sub. Management Sub will transfer the Basis Assets to SHP in exchange for a payment of $3.0 million in cash (less cash retained by Management Sub). Management Sub shall deliver to SHP at Closing an executed bill of sale in form and substance reasonably satisfactory to SHP and Management to evidence such transfer of the Basis Assets;

(c) Contribution by Management. Management will contribute the Management Assets (subject to the Assumed Management Liabilities) to SHP as a capital contribution and will receive a credit to its Capital Account in the amount of $500,000 for such capital contribution (which Capital Account it will assign to Alter SHP L.L.C., a Delaware limited liability company ("Alter SHP LLC"), at the Closing);

(d) Transfer to Management Newco. SHP will transfer the Management Assets and the Basis Assets to Management Newco, and SHP will cause Management Newco to assume from Management and Management Sub and agree to pay, perform and discharge when due, all Liabilities of Management and Management Sub with respect to: (i) the ownership or use of the Management Assets and the Basis Assets after the Closing; (ii) Liabilities disclosed on the March 31, 1999 Balance Sheet of Management; (iii) Liabilities under all contracts and agreements of Management set forth on the schedules hereto (provided that the amount of any Liability as of the Closing Date in respect of indebtedness for borrowed money under any such contract or agreement shall be specifically identified on Schedule 2.1(d)); (iv) Liabilities incurred by Management subsequent to March 31, 1999 in the ordinary course of business consistent with past practice; (v) Liabilities arising from litigation related to the Transactions; (vi) Liabilities to employees of Management to be assumed by SHP under Section 4.8; (vii) Liabilities otherwise

specifically identified in Schedule 2.1(d) (all Liabilities described in clauses (i) through (vii), collectively, the "Assumed Management Liabilities"; all other Liabilities of Management, the "Retained Management Liabilities"). Except for Liabilities explicitly assumed in this Section 2.1(d), neither Management Newco nor SHP nor any of SHP's other Subsidiaries will assume any Liabilities of Alter, Biederman, Management or Management Sub. Management Newco shall deliver

to Management and Alter at Closing an executed assignment and assumption agreement in form and substance reasonably satisfactory to Management and Alter to evidence the assumption of the Assumed Management Liabilities assumed by Management Newco.

(e) Sale by Biederman of Lessee Stock. Biederman will transfer to SHP 200 shares of Lessee Class A Voting Stock and 200 shares of Lessee Class B Non-Voting Stock (which shall constitute all of Biederman's right, title and interest in Lessee Stock), free and clear of all Liens, in exchange for a payment of $2.15 million in cash;

(f) Contribution by Alter of Lessee Stock. Alter will contribute 470 shares of Lessee Class A Voting Stock and 290 shares of Lessee Class B Non-Voting Stock plus all rights to dividends and other distributions with respect to any Securities owned by Alter (as described in Section 6.3(c)) and any consideration paid or payable (except as provided in this Section 2.1(f)) with respect to any Transfer of the Securities by Alter or any of his Affiliates (as described in Section 6.3(a)) to SHP as a capital contribution and will receive a credit to his Capital Account in the amount of $8.6 million for such capital contribution (which Capital Account he will assign to Alter SHP LLC at the Closing);

(g) Purchase by Alter of Biederman's Interest in Riverside. Biederman will transfer to Alter Biederman's 18% interest in Riverside in exchange for a payment of an amount in cash equal to the product of (i) 14,400 multiplied by (ii) the Common Merger Consideration;

(h) Contribution by Biederman of OP Units. Biederman will contribute his 382,647 OP Units to SHP as a capital contribution and Biederman will receive a credit to his Capital Account in an amount equal to the product of (i) 382,647 multiplied by (ii) the Common Merger Consideration for such capital contribution (which Capital Account he will assign to Biederman SHP L.L.C., a Delaware limited liability company wholly-owned by Biederman ("Biederman LLC"), at the Closing). The Capital Account of Biederman SHP LLC will be represented by an amount of Class B Units as described in Section 3.4 of the LLC Agreement;

(i) Contribution by Alter Investment Group of OP Units. Alter Investment Group will contribute its 99,251 OP Units to SHP as a capital contribution and will receive a credit to its Capital Account in an amount equal to the product of (i) 99,251 multiplied by (ii) the Common Merger Consideration. At the Closing, Alter Investment Group will contribute its Capital Account to Alter SHP LLC in exchange for an interest therein;

(j) Contribution by Alter of OP Units. Alter will contribute his 318,961 OP Units to SHP as a capital contribution and Alter will receive a credit to his Capital Account in an amount equal to the product of (i) 318,961 multiplied by (ii) the Common Merger Consideration.

At the Closing, Alter will contribute his Capital Account to Alter SHP LLC in exchange for an interest therein.

(k) Contribution by Riverside. Riverside will contribute its 80,000 OP Units to SHP as a capital contribution and will receive a credit to its Capital Account in an amount equal to the product of (i) 80,000 multiplied by (ii) the

Common Merger Consideration. At the Closing, Riverside will contribute its Capital Account to Alter SHP LLC in exchange for an interest therein. The Capital Account of Alter SHP LLC created by the contributions described in Sections 2.1(c), 2.1(f), 2.1(i), 2.1(j) and 2.1(k) will be represented by an amount of Class B Units as described in Section 3.4 of the LLC Agreement; and

(l) Issuance of Class C Units and Class D Units.

(i) Alter SHP LLC will receive an amount of Class C Units of SHP as provided in Section 3.5 of the LLC Agreement and as set forth on Schedule 2.1(1)(i) hereto and 90% of the Class D Units, as described in Section 3.5 of the LLC Agreement and as set forth on Schedule 2.1(1)(i) hereto;

(ii) Biederman SHP LLC will receive an amount of Class C Units of SHP as provided in Section 3.5 of the LLC Agreement and as set forth on Schedule 2.1(1)(ii) hereto and 10% of the Class D Units as described in Section 3.5 of the LLC Agreement and as set forth on Schedule 2.1(1)(ii) hereto; and

(m) Additional Consideration for Services. As additional consideration, Biederman will receive a payment of $2.25 million in cash and the employees identified on Schedule 2.1(m) will receive an aggregate payment of $1 million in cash from Lessee (or from SHP on behalf of Lessee) as set forth on Schedule 2.1(m).

(n) Sunstone OP Transactions. Pursuant to the Partnership Merger Agreement, Sunstone OP will distribute certain assets to Sunstone as provided in the Partnership Merger Agreement. The Partnership Merger will be consummated in accordance with the terms of the Partnership Merger Agreement. Immediately after consummation of the Partnership Merger, Sunstone OP will be a wholly-owned Subsidiary of SHP.

(o) Purchase of WREF I Preferred Stock. Prior to the Merger, SHP will purchase from WREF I all of WREF I's shares of Sunstone's 7.9% Class A Cumulative Convertible Preferred Shares, $0.01 par value per share, in exchange for a payment of the "Liquidation Preference" for such shares (as such term is defined in the Articles Supplementary of Sunstone's 7.9% Class A Cumulative Convertible Preferred Shares).

(p) Sunstone Merger. The Merger will be consummated in accordance with the terms of the Merger Agreement. After consummation of the Merger, Sunstone will be a wholly-owned Subsidiary of SHP.

(q) Rescission. If the Merger shall not have been consummated on or prior to the second business day following the Closing, all of the transactions described in Section 2.1 (other than Sections 2.1(n) and (p)) shall be rescinded and the consideration and documents delivered at the Closing shall be returned by the applicable receiving party to the applicable delivering party.

(r) Transfer of Leases. Immediately following the Closing, Lessee shall transfer all its leases to a new special purpose subsidiary and Lessee shall enter into management contracts to manage the properties subject to the leases.

(s) Wells Fargo Payoff. If, immediately prior to the Closing, the OP

Units to be contributed by Alter or his Affiliates pursuant to Section 2.1(i), 2.1(j) or 2.1(k) remain subject to the Wells Fargo Lien, the parties hereto agree that Alter may direct all or any part of the cash consideration to be paid to any Alter Entity under this Agreement to be paid instead to Wells Fargo Bank, N.A. ("Wells Fargo") or its designee in order to terminate the Wells Fargo Lien, and Alter will obtain releases from Wells Fargo of the pledge with respect to such OP Units, together with evidence of the filing of the appropriate Uniform Commercial Code release termination statements fully executed by Alter and such secured parties relating to the OP Units (such releases and statements to be in form and substance reasonably satisfactory to the Westbrook Entities).

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE PARTIES

3.1 Representations and Warranties of the Alter Entities, Management, Management Sub, Lessee and Biederman. The Alter Entities jointly and severally represent and warrant to SHP and the Westbrook Entities with respect to each of Management, Management Sub, Lessee and each Lessee Subsidiary (as defined below), Management and Management Sub jointly and severally represent and warrant to SHP and the Westbrook Entities with respect to Management and Management Sub only, Biederman represents and warrants to SHP and the Westbrook Entities with respect to Lessee and each Lessee Subsidiary only, and Lessee severally represents and warrants to SHP and the Westbrook Entities with respect to Lessee and each Lessee Subsidiary only, as follows:

(a) Due Organization; Power and Good Standing. Each of Management, Management Sub and Lessee is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has the requisite power and authority to own, lease and operate its properties and to conduct its business as now conducted by it. Each of Management, Management Sub and Lessee has all requisite power and authority to enter into this Agreement and the Implementing Agreements to which it is a party and to perform its obligations hereunder and thereunder. Each of Management, Management Sub and Lessee is qualified to do business and is in good standing as a foreign corporation in all jurisdictions in which it conducts its business, except where the failure to be so qualified would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Complete and correct copies of the Certificate of

Incorporation and Bylaws of Management and Lessee and the Certificate of Formation and limited liability company agreement of Management Sub are set forth in Schedule 3.1(a) hereto.

(b) Authorization and Validity of Agreement. The execution, delivery and performance by each of Management, Management Sub and Lessee of this Agreement and the Implementing Agreements to which it is a party and the consummation by it of the Transactions have been duly authorized by all necessary corporate or limited liability company action on the part of it. The Agreement, and each of the Implementing Agreements to which either Management, Management Sub or Lessee is a party have been duly executed and delivered by Management, Management Sub or Lessee, as the case may be, and constitute a valid and legally binding obligation of Management, Management Sub or Lessee, as the case may be, enforceable against it in accordance with its terms.

(c) No Government Approvals or Notices Required; No Conflict with Instruments. Except as described in Schedule 3.1(c), the execution, delivery and performance of this Agreement by Management, Management Sub and Lessee and the consummation by each of them of the Transactions will not (i) violate, conflict with or result in a breach of any provision of the Certificate of Incorporation, Bylaws or limited liability company agreement of such Person, as applicable, (ii) except for any filings required under the HSR Act, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, (iii) require the consent or approval of any Person (other than a Governmental Authority), violate, conflict with or result in a breach of any provision of, constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to any Person any right of termination, cancellation, amendment, purchase, sale or acceleration under, or result in the creation of a Lien on any of the assets, properties or stock of Management, Management Sub, Lessee, any Lessee Subsidiary, Sunstone or any of Sunstone's Subsidiaries under, any of the provisions of any contract, lease, note, permit, franchise, license or other instrument or agreement to which such Person is a party or by which it or its assets or properties are bound, or (iv) violate or conflict with any order, writ, injunction, decree, statute, rule or regulation of any Governmental Authority or arbitrator applicable to Management, Management Sub, Lessee, any Lessee Subsidiary, Sunstone or any of Sunstone's Subsidiaries, or any of their respective assets or properties; other than any consents and approvals the failure of which to obtain and any violations, conflicts, breaches and defaults set forth pursuant to clauses (ii), (iii) and (iv) above which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

(d) Capitalization. The authorized, issued and outstanding capital stock of Management, Management Sub and Lessee (both before and after giving effect to the Recapitalization), and the ownership thereof, is described on Schedule 3.1(d). All such issued shares of Management, Management Sub and Lessee have been duly authorized and validly issued, are fully paid and non-assessable and have not been issued in violation of any preemptive rights. With respect to Lessee, after giving effect to the Recapitalization, all issued shares of Lessee will be duly authorized and validly issued, will be fully paid and non-assessable and will not have been issued in violation of any preemptive rights. There are no equity interests in Management, Management Sub or Lessee reserved for issuance, and there are (i) no options,

warrants or rights of any
kind to acquire any equity interests in, or any other securities that are convertible into or exchangeable for any equity interest in, Management, Management Sub or Lessee and (ii) except for the Recapitalization, no agreements, commitments or arrangements relating to the sale, issuance, redemption, purchase, acquisition or voting of or the granting of a right to acquire any capital stock of Management, Management Sub or Lessee or any options, warrants, rights or securities described in clause (i) other than the Lessee/Manager Agreement (as defined).

(e) Subsidiaries.

(i) There is no corporation, partnership or other entity,

other than Management Sub, in which Management directly or indirectly owns any equity or other interest.

(ii) (A) Schedule 3.1(e) sets forth (x) each Subsidiary of Lessee ("Lessee Subsidiary"), (y) the ownership interest therein of Lessee and (z) if not wholly owned by Lessee, the identity and ownership interest of each of the other owners of such Lessee Subsidiary.

(B) (1) All the outstanding shares of capital stock owned by Lessee of each Lessee Subsidiary that is a corporation have been validly issued and are (x) fully paid, nonassessable and free of any preemptive rights, (y) owned by Lessee or by another Lessee Subsidiary and (z) owned free and clear of all Liens or any other limitation or restriction (including any contractual restriction on the right to vote or sell the same) other than restrictions under applicable securities laws; and (2) all equity interests in each Lessee Subsidiary that is a partnership, joint venture, limited liability company or trust which are owned by Lessee, by another Lessee Subsidiary or by Lessee and another Lessee Subsidiary are owned free and clear of all Liens or any other limitation or restriction (including any contractual restriction on the right to vote or sell the same) other than restrictions under applicable securities laws. Each Lessee Subsidiary that is a corporation is duly incorporated and validly existing under the Laws of its jurisdiction of incorporation and has the requisite corporate power and authority to carry on its business as now being conducted, and each Lessee Subsidiary that is a partnership, limited liability company or trust is duly organized and validly existing under the laws of its jurisdiction of organization and has the requisite power and authority to carry on its business as now being conducted. Each Lessee Subsidiary is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a Material Adverse Effect. True and correct copies of the charter, by-laws, organizational documents and partnership, joint venture and operating agreements of each Lessee Subsidiary, and all amendments to the date of this Agreement, have been made available to the Westbrook Entities and SHP at the data room established by Sunstone and examined by representatives of the Westbrook Entities and SHP on or prior to June 15, 1999.

(f) Financial Information, Liabilities.

(i) Attached as Schedule 3.1(f)(i) are the audited consolidated balance sheets of each of (i) Management and (ii) Lessee and its Subsidiaries as at December 31, 1998 (the "December 31 Balance Sheets") and the accompanying audited consolidated statements of operations and cash flows, and, with respect to the Lessee, stockholder's equity, for the year then ended audited By Ernst & Young LLP (together with the December 31 Balance Sheets, the "December 31 Financial Statements"). The December 31 Financial Statements have been prepared in accordance with GAAP (except as may be indicated in the

notes thereto) and fairly present in all material respects the consolidated financial position of each of Management and Lessee as at December 31, 1998 and the results of operations of each of Management and Lessee for the year then ended.

(ii) Attached as Schedule 3.1(f)(ii) are the unaudited consolidated balance sheets of each of (i) Management and Management Sub, and (ii) Lessee and its Subsidiaries as at March 31, 1999 (the "March 31 Balance Sheets") and the accompanying unaudited consolidated statements of operations and cash flows for the three months then ended (together with the March 31 Balance Sheet, the "March 31 Financial Statements"). The March 31 Financial Statements have been prepared in a manner consistent with that employed in the December 31 Financial Statements except as disclosed in the notes to such financial statements. The March 31 Financial Statements have been prepared in accordance with GAAP and fairly present (subject to normal year-end adjustments, which adjustments are not material) in all material respects the financial positions of each of Management and Lessee as at March 31, 1999 and the results of operations of each of Management and Lessee for the three months then ended.

(iii) None of Management, Management Sub, Lessee or any of the Lessee Subsidiaries has any Liabilities except: (A) as set forth on Schedule 3.1(f)(iii); (B) Liabilities disclosed on the applicable March 31, 1999 Balance Sheet; (C) Liabilities under all contracts and agreements set forth on the schedules hereto, other than any such Liabilities in respect of indebtedness for borrowed money; (D) Liabilities incurred subsequent to March 31, 1999 in the ordinary course of business consistent with past practice and in compliance with the provisions of this Agreement; (E) Liabilities arising from litigation relating to the Transactions; (F) Liabilities under all contracts and agreements entered into by such Person after the date of this Agreement so long as such contract or agreement was entered into in compliance with this Agreement; and (G) Liabilities in connection with bonuses contemplated by the proviso in clause (i) of Section 4.1.

(iv) As of March 31, 1999 except as set forth on the March 31, 1999 Balance Sheet or reserved against on such balance sheet, Lessee and its Subsidiaries do not have Liabilities of the type required to be reflected as Liabilities on a balance sheet prepared in accordance with GAAP.

(g) Absence of Certain Changes or Events. Since December 31, 1998, Lessee, the Lessee Subsidiaries, Management and Management Sub have conducted their respective businesses, taken as a whole, in all material respects in the ordinary course of business consistent with past practice, and there has not been any material adverse change in the assets, Liabilities, business, results of operations or condition (financial or otherwise) of Management, Management Sub, Lessee or any Lessee Subsidiary or any damage, destruction, loss, conversion, condemnation or taking by eminent domain related to any material Management Asset or Basis Asset. In addition, except as disclosed on Schedule 3.1(g) or in the March 31 Financial Statements, from December 31, 1998 to the date hereof, none of Lessee, any Lessee Subsidiary, Management or Management Sub has other than as expressly contemplated by this

Agreement or the Implementing Agreements:

(i) increased the compensation or benefits payable by it to its Employees except for increases in compensation or benefits in the ordinary course of business consistent with past practice;

(ii) incurred, assumed or guaranteed any (i) indebtedness for borrowed money or (ii) other than in the ordinary course of business consistent with past practice, any other indebtedness;

(iii) made any loan or advance to any Person, except in the ordinary course of business consistent with past practice;

(iv) made any capital expenditure or commitment for any capital expenditure in excess of $20,000 individually or $200,000 in the aggregate;

(v) merged or consolidated with, or acquired an interest in, any Person or otherwise acquired any material assets, except for acquisitions in the ordinary course of business consistent with past practice;

(vi) sold or otherwise disposed of any material properties or assets, except for dispositions in the ordinary course of business consistent with past practice;

(vii) mortgaged, pledged or encumbered any material assets, other than pursuant to Permitted Liens;

(viii) issued, sold or redeemed any capital stock or other equity interests, notes, bonds or other securities, or any option, warrant or other right to acquire the same;

(ix) amended its Certificate of Incorporation or Bylaws;

(x) made any change in the financial or accounting practices or policies customarily followed by it (other than changes required by GAAP); or

(xi) entered into any contract or other agreement to do any of the foregoing.

(h) Title; Absence of Liens. Each of Management Sub and Management has, and at the Closing SHP and Management Newco will, acquire good and valid title interests in all properties, assets and other rights included in the Management Assets and the Basis Assets, respectively, free and clear of all Liens except for Permitted Liens or as set forth on Schedule 3.1(h).

(i) Contracts, Permits and Other Data. Schedule 3.1(i) lists all of the following to which either Management, Lessee or any Lessee Subsidiary is a party as of the date hereof:

(i) contracts containing covenants limiting the freedom of Management, Lessee or any Lessee Subsidiary after the date hereof (A) to engage in any line of business or to compete with any Person or (B)

to incur indebtedness for borrowed money;

(ii) partnership, limited liability company, or joint venture or shareholder agreements;

(iii) hotel franchise agreements;

(iv) Equipment Leases (excluding any such agreements providing for payment of less than $20,000 per annum on an individual basis or terminable without penalty upon 90 days or less prior written notice);

(v) Service Contracts (excluding any such agreements providing for payment of less than $20,000 per annum on an individual basis or terminable without penalty of more than $5,000 upon 90 days or less prior written notice);

(vi) Management Agreements;

(vii) any Advance Booking Agreements (excluding any such agreements providing for payment of less than $600,000 per annum on an individual basis or terminable without penalty of more than $60,000 upon 90 days or less prior written notice);

(viii) employment agreements;

(ix) contracts which provide for payments after the date hereof in excess of $100,000 during any one-year period and which are not otherwise listed on Schedule 3.1(i) or Schedules 3.1(j)(ii) through (vi);

(x) mortgages, pledges, security agreements, deeds of trust or other instruments creating or, to the Knowledge of Lessee, Management or Management Sub, as applicable, purporting to create Liens; or

(xi) contracts (other than this Agreement and the Implementing Agreements) for the sale or other Transfer of any material assets of Management, Management Sub, Lessee or any Lessee Subsidiary after the date hereof.

Except as specified in Schedule 3.1(i) hereto, all instruments listed on Schedule 3.1(i) and all other rights, licenses, leases, registrations, applications, contracts, commitments and other agreements of Lessee, any Lessee Subsidiary, Management or Management Sub which are necessary to the operation of their respective businesses or by which Lessee, any Lessee Subsidiary, the Management Assets or the Basis Assets are bound to the extent they are necessary to the operation of their respective businesses are legal, valid and binding obligations of Lessee, each Lessee Subsidiary, Management or Management Sub, as applicable, and to the Knowledge of Lessee, Management or Management Sub, as applicable, each other party thereto, enforceable in accordance with their terms, except for such failures to be enforceable that would not, individually or in the aggregate, have a Material Adverse Effect. None of Lessee, any Lessee Subsidiary, Management or Management Sub or, to the Knowledge of Lessee,

Management or Management Sub, any other party, is in breach or default in the performance of any obligation thereunder and no event has occurred or has failed to occur whereby any of the other parties thereto have been or will be released therefrom or will be entitled to refuse to perform thereunder, in any case which would have, either individually or in the aggregate, a Material Adverse Effect.

(j) Properties.

(i) Owned Real Property. None of Management, Management Sub, Lessee or any Lessee Subsidiary owns a fee interest in any real property, and none Management, Management Sub or Lessee has owned a fee interest in any real property since April 1, 1989.

(ii) Leased Real Property. Schedule 3.1(j)(ii) sets forth as of the date hereof, by address, each Leased Real Property, all of which are leased from Sunstone OP or its Subsidiaries (collectively, the "Real Property Leases"). Except as set forth on Schedule 3.1(i), as of the date hereof, none of Lessee, any Lessee Subsidiary, Management or Management Sub is a lessor under any ground lease or Space Lease. Pursuant to the Real Property Leases, Management, Management Sub or Lessee holds good and valid leasehold title to the Leased Real Property, in each case in accordance with the provisions of the applicable Real Property Lease and free of all Liens except for Permitted Liens. Other than such exceptions which would not, individually or in the aggregate, have a Material Adverse Effect, all Real Property Leases (i) are legal, valid and binding obligations of Lessee, Management or Management Sub, as applicable, and to the Knowledge of Lessee, Management or Management Sub, as applicable, each other party thereto, enforceable in accordance with their terms, and (ii) to the Knowledge of Lessee, Management or Management Sub, grant in all respects the leasehold estates or rights of occupancy or use they purport to grant. Except as set forth on Schedule 3.1(j)(ii), as of the date hereof, there are no existing defaults (either on the part of Management, Management Sub or Lessee or, to the Knowledge of Management, Management Sub or Lessee, as applicable, any other party thereto) under any Real Property Lease and no

event has occurred which, with notice or the lapse of time, or both, would constitute a default (either on the part of Management, Management Sub or Lessee or, to the Knowledge of Management, Management Sub or Lessee, as applicable, any other party thereto) under any of the Real Property Leases, except for any of the foregoing which, individually or in the aggregate, would not have a Material Adverse Effect. The consummation of the Transactions will not result in any payment obligations under any of the Real Property Leases (whether pursuant to a "change in control" provision in the Real Property Leases or otherwise) to any Person other than Sunstone OP or its Subsidiaries, except as set forth on Schedule 3.1(j)(ii).

(iii) No Transfer Agreements. Except as set forth on Schedule 3.1(j)(iii), as of the date hereof, none of Management, Lessee or any Lessee Subsidiary has entered into any agreement to sell, transfer, mortgage, lease, grant any preferential right to purchase (including but not limited to any option, right of first refusal or right of first negotiation) with respect to, or otherwise dispose of or encumber all

or any portion of their respective interest in, the Leased Real Property.

(iv) Space Leases. Except as set forth on Schedule 3.1(j)(iv), as of the date hereof, there are no Space Leases, nor are there any other tenants or occupants (other than transient guests and as otherwise contemplated in the Hotel Management Agreements) with rights to occupy all or any portion of the Real Property. A copy of each Space Lease described on Schedule 3.1(j)(iv) has been provided to SHP and is a true and accurate copy, including all amendments to date, and constitutes the entire agreement between Management, Management Sub or Lessee, as the case may be, and the other party or parties named therein. Each such Space Lease is a legal, valid and binding obligation of Lessee, Management or Management Sub, as applicable, and to the Knowledge of Lessee, Management or Management Sub, as applicable, each other party thereto, enforceable in accordance with its terms, and, to the Knowledge of Management, Management Sub or Lessee, as applicable, free of any default by any party thereto, nor has Management, Management Sub or Lessee received any written or verbal notice or other communication of any alleged breach or default thereunder. As of the date hereof, none of Management, Management Sub, Lessee or any Lessee Subsidiary is required to pay for any alterations in excess of $20,000 for any tenant which alterations have not been completed as required pursuant to the relevant lease, except as set forth on Schedule 3.1(j)(iv). To the Knowledge of Lessee, Management or Management Sub, as applicable, no brokerage commissions or finder's fees that Lessee, Management or Management Sub is required to pay in excess of $20,000 with respect to the negotiation, renewal, extension or modification of any Space Lease set forth on Schedule 3.1(i)(iv) will be owing on the Closing Date. To the Knowledge of Lessee, Management or Management Sub, as applicable, there are no pending actions or proceedings instituted against Management, Management Sub, Lessee or any Lessee Subsidiary by any tenant under any Space Lease.

(v) Equipment Leases, Service Contracts, Advance Booking Agreements. Schedule 3.1(j)(v), as of the date hereof, sets forth a list of all of the Equipment Leases, Service Contracts and Advance Booking Agreements which involve the payment or

receipt of more than $20,000, in any individual case, or which may not be canceled on ninety (90) days notice or less without payment of any penalty in excess of $5,000 and all amendments thereto, and the expiration date of each such Equipment Lease, Service Contract and Advance Booking Agreement and, in the case of the Advanced Booking Agreements, the rates applicable thereunder (each, a "Section (v) Contract"). Each Section (v) Contract is a legal, valid and binding obligation of Lessee, Management or Management Sub, as applicable, and to the Knowledge of Lessee, Management or Management Sub, as applicable, each other party thereto, enforceable in accordance with its terms, all amounts due thereunder have been paid, to the Knowledge of Management, Management Sub or Lessee, as applicable, no default except for defaults that would not have a Material Adverse Effect by any Person exists under any Section (v) Contract and none of Management, Management Sub or Lessee has received any written notice from any party to any Section (v) Contract claiming the existence of

any default under such Section (v) Contract and no such Section (v) Contract has been assigned, transferred, hypothecated, pledged or encumbered by Management, Management Sub, Lessee or any Lessee Subsidiary. None of Management, Management Sub, Lessee, any Lessee Subsidiary or any of their Affiliates has any direct or indirect ownership interests in any Person providing goods or services under the Section (v) Contracts. To the Knowledge of Management, Management Sub or Lessee, as applicable, there are no pending actions or proceedings instituted against Management, Management Sub, Lessee or any Lessee Subsidiary by any party under any Section (v) Contracts. Each Section (v) Contract to be transferred to SHP and Management Newco pursuant to this Agreement is transferable without consent, other than as set forth on Schedule 3.1(j)(v) attached hereto.

(vi) Liquor Licenses. Schedule 3.1(j)(vi) sets forth, as of the date hereof, the Liquor Licenses for the businesses conducted by Management, Management Sub, Lessee and any Lessee Subsidiary, all of which are held in the names as set forth on Schedule 3.1(j)(vi). The Liquor Licenses are legal, valid and binding obligations of Lessee, each Lessee Subsidiary, Management and Management Sub, as applicable, and to the Knowledge of Lessee, Management or Management Sub, as applicable, each other party thereto, enforceable in accordance with their terms. To the Knowledge of Management, Management Sub or Lessee, as applicable, no default except for defaults that would not have a Material Adverse Effect by any Person exists under the Liquor Licenses, and none of Management, Management Sub or Lessee has received any written notification of any material violation or alleged material violation of any applicable laws or regulations relating to the sale and service of alcoholic beverages which are outstanding and which have not been remedied. The Liquor Licenses are adequate for the operation of the business conducted by Management, Management Sub, Lessee and each Lessee Subsidiary consistent with past practice. All applicable state and federal liquor stamp taxes have been paid in full or will be paid in full on or prior to the Closing Date.

(vii) Other Matters. Schedule 3.1(j)(vii), as of the date hereof, is a true, correct and complete list of (A) all properties which Management, Management Sub, Lessee or any Lessee Subsidiary are obligated, or have the right, to purchase or lease, which are now not owned or leased by Management, Management Sub, Lessee or any Lessee Subsidiary,

(B) all Real Property which Management, Management Sub, Lessee or any Lessee Subsidiary are obligated to sell or assign, (C) all Real Property which Management, Management Sub, Lessee or any Lessee Subsidiary are in the process of constructing or which are otherwise not yet fully constructed and operational and (D) all Real Property subject to purchase options, rights of first offer, rights of first refusal or similar agreements or arrangements.

(k) Legal Proceedings. Except as described in Schedule 3.1(k), as of the date hereof, there is no litigation, claim, arbitration, proceeding or investigation to which Management, Management Sub, Lessee or any Lessee

Subsidiary is a party pending or, to the Knowledge of Management, Management Sub or Lessee, as applicable, threatened against Management, Management Sub, Lessee or any Lessee Subsidiary or relating to any of the assets of Management, Management Sub, Lessee or any Lessee Subsidiary or the Transactions which, either individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect or which seeks to restrain or enjoin the consummation of any of the Transactions. None of Management, Management Sub, Lessee or any Lessee Subsidiary as of the date hereof is party to nor are any of the assets of Management, Management Sub, Lessee or any Lessee Subsidiary subject to any judgment, writ, decree, injunction or order entered by any court, governmental authority or arbitrator.

(l) Labor Controversies. Except as set forth on Schedule 3.1(l), as of the date hereof, (i) there have been no labor strikes, slow-downs, work stoppages, lock-outs or other material labor controversies or disputes during the past two years, nor is any such strike, slow-down, work stoppage or other material labor controversy or dispute pending or, to the Knowledge of Management, Management Sub or Lessee, as applicable, threatened, in each case with respect to the current or former employees of Management, Management Sub, Lessee or any Lessee Subsidiary, (ii) none of Management, Management Sub, Lessee or any Lessee Subsidiary is a party to any labor contract, collective bargaining agreement, contract, letter of understanding or, to the Knowledge of Management, Management Sub or Lessee, as applicable, any other agreement, formal or informal, with any labor union or organization, nor are any of the employees of Management, Management Sub, Lessee or any Lessee Subsidiary represented by any labor union or organization, and (iii) none of Management, Management Sub, Lessee or any Lessee Subsidiary has closed any facility, effectuated any layoffs of employees or implemented any early retirement, separation or window program within the past three years nor has Management, Management Sub or Lessee planned or announced any such action or program for the future except for any of the foregoing which, individually or in the aggregate, would not have a Material Adverse Effect.

(m) Intellectual Property and Technology. Management, Management Sub, Lessee and each Lessee Subsidiary own, or are licensed or otherwise have the right to use in the manner currently being used, all patents, patent registrations, patent applications, trademarks, trademark registrations, trademark applications, tradenames, copyrights, copyright applications, copyright registrations, franchises, URLs, domain names, permits and licenses ("Intellectual Property") used by Management, Management Sub and Lessee and necessary to the operation of their respective businesses (the "Business Intellectual Property"), subject to the terms of the

respective franchise, license and other agreements. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (i) none of Management, Management Sub, Lessee or any Lessee Subsidiary has infringed upon or is in conflict with the Intellectual Property of any third party, except with respect to off-the-shelf software and with respect to Intellectual Property licensed under franchise agreements, such exception being applicable only if Management, Management Sub, Lessee or such Lessee Subsidiary, as the case may be, shall not be in violation of the Intellectual Property license provisions of the applicable franchise agreement, (ii) nor has Management, Management Sub, Lessee or any Lessee Subsidiary received any written notice of any claim that Management, Management Sub, Lessee

or any Lessee Subsidiary has infringed upon or is in conflict with any Intellectual Property of any third party. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, all trademark registrations of each of Management, Management Sub, Lessee and Lessee Subsidiary are valid and subsisting and in full force and effect. Each of Management, Management Sub, Lessee or each Lessee Subsidiary owns or is licensed or otherwise has the right to use all of the processes, formulae, proprietary technology, inventions, trade secrets, know-how, product descriptions and specifications ("Technology") in the manner currently used by Management, Management Sub, Lessee or each Lessee Subsidiary, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, there have been no written claims (whether private or governmental) against Management, Management Sub or Lessee asserting the invalidity or unenforceability of its ownership, license or other right to use any of the Technology. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, none of the rights of Management, Management Sub, Lessee or any Lessee Subsidiary to the Business Intellectual Property or the Technology will be impaired in any way by any of the Transactions, except with respect to off-the-shelf software and with respect to Intellectual Property licensed under franchise agreements, such exception being applicable only if Management, Management Sub, Lessee or such Lessee Subsidiary, as the case may be, shall not be in violation of the Intellectual Property provisions of the applicable franchise agreement, and all of the rights of Management and Management Sub to the Business Intellectual Property and Technology included in the Management Assets and the Basis Assets will be fully enforceable by Management Newco after the Closing Date to the same extent as such rights would have been enforceable by Management or Management Sub, as the case may be, before the Closing.

(n) Conduct of Business in Compliance with Laws.

(i) Each of Management, Management Sub, Lessee and each Lessee Subsidiary has complied with all applicable laws, ordinances, regulations or orders or other requirements of any Governmental Authority applicable to it, except where the failure to be in such compliance would not have, either individually or in the aggregate, a Material Adverse Effect.

(ii) Each of Management, Management Sub, Lessee and each Lessee Subsidiary has all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Authorities required for the conduct of its respective businesses

as presently conducted, except where failure would not, individually or in the aggregate, have a Material Adverse Effect.

(o) Environmental Matters. Except as set forth on Schedule 3.1(o) and except for matters that, individually or in the aggregate, would not have a Material Adverse Effect, (i) each of Management, Management Sub, Lessee and each Lessee Subsidiary complies and has complied with all Environmental Laws applicable to it, and has possessed and complied with all permits required under Environmental Laws for its respective businesses; (ii) to Management's,

Management Sub's and Lessee's Knowledge, there are and have been no Materials of Environmental Concern at any property currently or formerly owned, operated or leased by Management, Management Sub, Lessee or any Lessee Subsidiary that could reasonably be expected to give rise to any liability under any Environmental Law or result in costs arising out of any Environmental Law; (iii) no judicial, administrative, or arbitral proceeding (including any notice of violation or alleged violation) under any Environmental Law to which Management, Management Sub, Lessee or any Lessee Subsidiary is, or to the Knowledge of Management, Management Sub or Lessee, as applicable, will be, named as a party is pending or, to the Knowledge of Management, Management Sub or Lessee, as applicable, threatened, with respect to Management, Management Sub, Lessee or any Lessee Subsidiary nor to the Knowledge of Management, Management Sub or Lessee, as applicable, is Management, Management Sub, Lessee or any Lessee Subsidiary the subject of any investigation in connection with any such proceeding or potential proceeding; (iv) to Management's, Management Sub's and Lessee's Knowledge, there are no past, present, or anticipated future events, conditions, circumstances, practices, plans, or legal requirements that could be expected to prevent, or materially increase the burden on Management, Management Sub, Lessee or any Lessee Subsidiary of complying with applicable Environmental Laws or of obtaining, renewing, or complying with all permits required under Environmental Laws required under such laws; and (v) Management, Management Sub, Lessee, Alter and Biederman have provided to SHP true and complete copies of all reports with respect to Environmental Laws relating to Management, Management Sub, Lessee or each Lessee Subsidiary or the Real Property in their possession or control.

(p) Employee Benefits. As used herein, the term "Employee Plan" includes any pension, retirement, savings, disability, medical, dental, health, life, death benefit, group insurance, profit sharing, deferred compensation, stock option, bonus, incentive, vacation pay, tuition reimbursement, severance pay, or other material employee benefit plan, trust, employment agreement, contract, agreement, policy, program or arrangement (including, without limitation, any pension plan, as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended and the rules and regulations promulgated thereunder ("ERISA") ("Pension Plan"), any multiemployer plan, as defined in Section 3(37) of ERISA (a "Multiemployer Plan") and any welfare plan as defined in Section 3(1) of ERISA ("Welfare Plan")), whether or not any of the foregoing is funded, insured or self-funded, written or oral, (i) sponsored or maintained by Management, Management Sub, Lessee, any Lessee Subsidiary, or any entity which, together with Management, Management Sub or Lessee, would be treated as a single employer under Section 414 of the Code (each a "Controlled Group Member") and covering any Controlled Group Member's active or former employees (or their beneficiaries), (ii) to which any Controlled Group Member is a party or by which any Controlled Group Member (or any of the rights, properties or

assets thereof) is bound or (iii) with respect to which any current Controlled Group Member may otherwise have any material liability (whether or not such Controlled Group Member still maintains such Employee Plan). Each Employee Plan is listed in Schedule 3.1(p). With respect to the Employee Plans:

(i) Except as disclosed in Schedule 3.1(p), no Controlled Group Member has any continuing liability under any Welfare Plan which provides for continuing benefits or coverage for any participant or any beneficiary of a participant after such participant's termination of

employment, except as may be required by Section 4980B of the Code, or Section 601 (et seq.) of ERISA, or under any applicable state law, and at the expense of the participant or the beneficiary of the participant.

(ii) Except as disclosed in Schedule 3.1(p), each Employee Plan which is not a Multiemployer Plan (and, to the Knowledge of Management, Management Sub or Lessee, as applicable, each Multiemployer Plan) complies in all material respects with the applicable requirements of ERISA and any other applicable law governing such Employee Plan, and each Employee Plan which is not a Multiemployer Plan (and, to the Knowledge of Management, Management Sub or Lessee, as applicable, each Multiemployer Plan) has at all times been administered in all material respects in accordance with all such requirements of law, and in accordance with its terms and the terms of any applicable collective bargaining agreement to the extent consistent with all such requirements of law. Each Employee Plan which is intended to be qualified has (A) received a favorable determination letter from the Internal Revenue Service stating that such Employee Plan meets the requirements of and is qualified under Section 401(a) of the Code, and that the trust associated with such Employee Plan is tax exempt under Section 501(a) of the Code, (B) an application for such determination is pending or (C) the remedial amendment period during which an application for such determination may be timely filed has not expired and such application will be timely filed before the expiration of such remedial amendment period, and to the Knowledge of Management, Management Sub or Lessee, as applicable, no event has occurred which would jeopardize the qualified status of any such plan or the tax exempt status of any such trust under Sections 401(a) and Section 501(a) of the Code, respectively, except in circumstances in which, individually or in the aggregate, the failure to so qualify or be tax exempt would not have a Material Adverse Effect.

(iii) No lawsuits, claims (other than routine claims for benefits) or complaints to, or by, any Person or Governmental Authority have been filed or are pending which, individually or in the aggregate, would have a Material Adverse Effect and, to the Knowledge of Management, Management Sub or Lessee, as applicable, there is no fact or contemplated event which would be expected to give rise to any such lawsuit, claim (other than routine claims for benefits) or complaint with respect to any Employee Plan that would have a Material Adverse Effect. Without limiting the foregoing, except in the case of the following clauses (1) through (6) as would not individually or in the aggregate have a Material Adverse Effect, the following are true with respect to each Employee Plan:

(1) all Controlled Group Members have filed or caused to be filed every material return, report statement, notice, declaration and other document required by any law or governmental agency, federal, state and local (including, without limitation, the Internal Revenue Service and the Department of Labor) with respect to each such Employee Plan, other than a Multiemployer Plan, each of such filings has been complete and accurate in all material respects and no Controlled Group

Member has incurred any material liability in connection with such filings;

(2) all Controlled Group Members have delivered or caused to be delivered to every participant, beneficiary and other party entitled to such material, all material plan descriptions, returns, reports, schedules, notices, statements and similar materials, including, without limitation, summary plan descriptions and summary annual reports, as are required under Title I of ERISA, the Code, or both, and no Controlled Group Member has incurred any material liability in connection with such deliveries;

(3) all contributions and payments with respect to Employee Plans that are required to be made by a Controlled Group Member with respect to periods ending on or before the Closing Date (including periods from the first day of the current plan or policy year to the Closing Date) have been, or will be, made or accrued before the Closing Date in accordance with the appropriate plan document, actuarial report, collective bargaining agreements or insurance contracts or arrangements or as otherwise required by ERISA or the Code;

(4) with respect to each such Employee Plan, to the extent applicable, Management, Management Sub and Lessee have delivered to or have made available to Westbrook LLC true and complete copies of (i) plan documents, or any and all other documents that establish the existence of the plan, trust, arrangement, contract, policy, program or arrangement and all amendments thereto, (ii) the most recent determination letter, if any, received from the Internal Revenue Service, (iii) the three most recent Form 5500 Annual Reports (and all schedules and reports relating thereto) and actuarial reports (if required to be prepared) and (iv) all related trust agreements, insurance contract or other funding agreements that implement each such Employee Plan;

(5) no payment made or to be made to an officer, director or employee pursuant to an Employee Plan either before, on, or after consummation of the Transactions and contingent on or related to such transactions shall constitute an "excess parachute payment" within the meaning of Section 280G of the Code; and

(6) consummation of the Transactions shall not (i) give rise to a severance pay obligation with respect to those employees of Management, Management Sub or Lessee who continue employment with Management Newco

or Lessee or (ii) enhance or trigger (including acceleration of vesting, payment or funding) any benefits under any Employee Plan.

(iv) With respect to each Employee Plan which is not a Multiemployer Plan (and to the Knowledge of Management, Management Sub or Lessee, as applicable, with respect to each Multiemployer Plan), there has not occurred, and no Person or entity is contractually bound to enter into, any "prohibited transaction" within the meaning of Section 4975(c) of the Code or Section 406 of ERISA, which transaction is not exempt under Section 4975(d) of the Code or Section 408 of ERISA

which, individually or in the aggregate, would have a Material Adverse Effect.

(v) Except as disclosed on Schedule 3.1(p) hereto, no Controlled Group Member has maintained or been obligated to contribute to any plan subject to Code Section 412 or Title IV of ERISA (other than a Multiemployer Plan).

(vi) As of the date hereof, Management, Management Sub, Lessee and the Lessee Subsidiaries have approximately 4,700 employees in the aggregate, and no demand for recognition made by any labor organization is pending with respect to any such employees. Schedule 3.1(p)(vi) sets forth all collective bargaining agreements to which the Company is a party as of the date hereof and any pending grievances thereunder. None of Management, Management Sub or Lessee has at any time during the last two years (A) had, nor, to the Knowledge of Management, Management Sub or Lessee, as applicable, is there now threatened, a material strike, picketing, work stoppage, work slowdown, lockout or other labor trouble or dispute or grievance under any collective bargaining agreement or (B) engaged in any unfair labor practice or discriminated on the basis of age or other discrimination prohibited by applicable law in their employment conditions or practices. There are no representation petitions, unfair labor practice or age discrimination charges or complaints, or other charges or complaints alleging illegal discriminatory practices by Management, Management Sub, Lessee or any Lessee Subsidiary, pending or, to the Knowledge of Management, Management Sub or Lessee, as applicable, threatened before the National Labor Relations Board or any other governmental body. Neither Management, Management Sub, Lessee nor any ERISA Affiliate has incurred any liability or obligation under the Worker Adjustment and Retaining Notification Act or similar state laws which remains unpaid or unsatisfied.

(vii) All insurance premiums required to be paid with respect to Employee Plans as of the Effective Time have been or will be paid prior thereto and adequate reserves have been provided for on the balance sheets of Management and Lessee for any premiums (or portions thereof) attributable to service on or prior to the Closing Date.

(q) Entire Business. The properties, assets and other rights of Lessee constitute all of the properties, assets and other rights necessary for the conduct of the business of Lessee as currently conducted. As of the Closing, Management and Management Sub will have transferred or caused to be transferred to SHP all of the properties, assets and other rights of Management and Management Sub used in the conduct of their business as currently conducted.

(r) Tax Matters.

(i) Management, Management Sub, Lessee and each Lessee Subsidiary have filed all Tax Returns required to be filed in the manner prescribed by law, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, and have paid all Taxes due (whether or not shown on such Tax Returns), except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as would not,

individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, all Taxes that Lessee, each Lessee Subsidiary, Management or Management Sub are or were required to withhold or collect have been duly withheld or collected and, to the extent required, have been paid to the appropriate governmental authority.

(ii) Except as set forth on Schedule 3.1(r)(ii), as of the date hereof, to the Knowledge of Lessee, Management or Management Sub, as applicable, no action, suit, proceeding, investigation, claim or audit has been commenced, or is threatened in writing, with respect to Lessee, any Lessee Subsidiary, Management or Management Sub in respect of any Taxes. Any deficiency proposed as a result of such action, suit, proceeding, investigation, claim or audit has been paid or, as described on Schedule 3.1(r)(ii), are being contested in good faith by appropriate proceedings.

(iii) Except as set forth on Schedule 3.1(r)(iii) or as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, none of Lessee, any Lessee Subsidiary, Management or Management Sub will be required to include any amount in income for any taxable period ending after the Closing Date by reason of a change in method of accounting, any closing or similar agreement with a governmental authority, any installment sale or any other item which economically accrued prior to the Closing Date.

(iv) Lessee and Management have at all times qualified as, and have elected to be treated as, "S Corporations" as defined in section 1361 of the Code and no assets of Lessee or Management are subject to section 1374 of the Code.

(v) None of Lessee, any Lessee Subsidiary, Management or Management Sub could be responsible to pay the Taxes of any other Person under any agreement or otherwise.

(s) Year 2000 Compliance. To the Knowledge of Lessee, Management or Management Sub, as applicable, all of the computer programs, computer firmware, computer hardware (whether general or special purpose) and other similar or related items of automated, computerized and/or software system(s) that are used or relied on by Management, Management Sub Lessee or any Lessee Subsidiary in the conduct of their respective businesses will not malfunction, will not cease to function, will not generate incorrect data, and will not provide incorrect results when processing, providing, and/or receiving date-related data into and between

the twentieth and twenty-first centuries in a manner that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect.

(t) Contracts with Certain Persons. Schedule 3.1(t) sets forth each agreement or arrangement between Lessee, any Lessee Subsidiary, Management and Management Sub, on the one hand, and Alter, Biederman, Sunstone, Sunstone OP, or any other Affiliate of Lessee, any Lessee Subsidiary, Management or Management Sub, or any officers, directors, or holders of more than a 10% equity interest in any of the foregoing, on the other hand in excess of $100,000.

(u) Insurance. Each of Management, Management Sub, Lessee and each Lessee Subsidiary maintain policies of fire, flood and casualty, liability and other forms of insurance in such amounts, with such deductibles and against such risks and losses as are reasonable for the businesses, properties and assets of Management, Management Sub, Lessee and the Lessee Subsidiaries. As of the date hereof, the insurance policies maintained with respect to each of Management, Management Sub, Lessee and each Lessee Subsidiary and their respective businesses, assets and properties (the "Insurance Policies") are listed in Schedule 3.1(u). All such Insurance Policies are in full force and effect, and all premiums due and payable thereon have been paid except for any of the foregoing which, individually or in the aggregate, would not have a Material Adverse Effect. To the Knowledge of Lessee, Management or Management Sub, as applicable, no insurer under any such policy has canceled or generally disclaimed liability under any such policy or indicated any intent to do so or to materially increase the premiums payable under or not renew any such policy except for any of the foregoing which, individually or in the aggregate, would not have a Material Adverse Effect.

(v) Certain Fees. Except as set forth on Schedule 3.1(v), none of Management, Management Sub, Lessee or any Lessee Subsidiary nor the officers, directors or employees thereof have employed any broker or finder or incurred any other Liability for any brokerage fees, commissions or finders' fees in connection with the Transactions.

3.2 Additional Representations and Warranties of the Alter Entities. Each of the Alter Entities jointly and severally represents and warrants to Biederman, SHP and the Westbrook Entities as follows:

(a) Due Organization; Power and Good Standing. Each Alter Entity that is an entity is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has the requisite power and authority to own, lease and operate its properties and to conduct its business as now conducted by it. Each Alter Entity that is an entity has all requisite power and authority, and Alter has the legal capacity, power and authority, to enter into this Agreement and the Implementing Agreements to which it is a party and to perform its obligations hereunder and thereunder. Each Alter Entity that is an entity is qualified to do business and is in good standing as a foreign corporation, partnership or other entity, as applicable, in all jurisdictions in which it conducts its business, except where the failure to be so qualified would not, individually or in the aggregate, materially adversely affect its ability to perform its obligations hereunder or under the Implementing Agreements to which it is a party. Alter is not married as of the date of this Agreement and agrees that if he becomes married prior

to the Closing Date, his spouse shall execute and deliver an acknowledgment to the other parties hereto to the effect of the consent set forth in Section 9.14.

(b) Authorization and Validity of Agreement. The execution, delivery and performance by each Alter Entity of this Agreement and the Implementing Agreements to which it is a party and the consummation by such Alter Entity of the Transactions have been duly authorized by all necessary action on the part of such Alter Entity. This Agreement and each of the Implementing Agreements to which each Alter Entity is a party have been duly executed and delivered by such Alter Entity and constitutes a valid and legally binding obligation of such Alter Entity, enforceable against it in accordance with its terms.

(c) No Government Approvals or Notices Required; No Conflict with Instruments. Except as described in Schedule 3.2(c), the execution, delivery and performance of this Agreement and the Implementing Agreements to which each Alter Entity is a party and the consummation by each Alter Entity of the Transactions will not (i) with respect to each Alter Entity that is an entity, violate, conflict with or result in a breach of any provision of the Certificate of Incorporation, Bylaws or limited partnership agreement of such Person, as applicable, (ii) except for any filings required under the HSR Act, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, (iii) require the consent or approval of any Person (other than a Governmental Authority), violate, conflict with or result in a breach of any provision of, constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to any Person any right of termination, cancellation, amendment, purchase, sale or acceleration under, or result in the creation of a Lien on any of the assets, properties or stock of any of the Alter Entities, Management, Management Sub, Lessee, any Lessee Subsidiary, Sunstone or any of Sunstone's Subsidiaries under, any of the provisions of any contract, lease, note, permit, franchise, license or other instrument or agreement to which such Person is a party or by which it or its assets or properties are bound or (iv) violate or conflict with any order, writ, injunction, decree, statute, rule or regulation of any Governmental Authority or arbitrator applicable to any Alter Entity, Management, Management Sub, Lessee, any Lessee Subsidiary, Sunstone or any of Sunstone's Subsidiaries, or any of their respective assets or properties; other than any consents and approvals the failure of which to obtain and any violations, conflicts, breaches and defaults set forth pursuant to clauses (ii), (iii) and (iv) above which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

(d) Legal Proceedings. Except as described in Schedule 3.2(d), as of the date hereof, there is no litigation, claim, arbitration, proceeding or investigation to which any Alter Entity is a party pending or, to the Knowledge of each Alter Entity, threatened against such Alter Entity or relating to any of the assets of such Alter Entity or the Transactions which, either individually or in the aggregate, would reasonably be expected to restrain or enjoin the consummation of any of the Transactions.

(e) Certain Fees. Except as set forth on Schedule 3.2(e), no Alter Entity has employed any broker or finder or incurred any other Liability for any brokerage fees, commissions or finders' fees in connection with the Transactions.

(f) Investment Intent. The Alter Entities are acquiring their interests in SHP for their own account for investment, without a view to, or for a resale in connection with, the distribution thereof in violation of U.S. Federal or state or applicable foreign securities laws and with no present intention of distributing or reselling any part thereof. The Alter Entities will not so distribute or resell any of such interest in violation of any such law.

(g) Equity Ownership. (i) Alter owns, beneficially and of record, and has good title to 318,961 OP Units and 100 shares of Lessee Stock (provided that upon the effect of the Recapitalization, Alter shall own, beneficially and of record and shall have good title to, 800 shares of Lessee Class A Voting Stock and 800 shares of Lessee Class B Non-Voting Stock); (ii) Alter Investment Group

owns, beneficially and of record, and has good title to 99,251 OP Units; and (ii) Riverside owns, beneficially and of record, and has good title to 80,000 OP Units, in each case free and clear of any Liens (other than the Lien set forth on Schedule 3.2(g) (the "Wells Fargo Lien"), which shall be released at or prior to Closing, and the Lien in favor of Sunstone OP created pursuant to the Agreement set forth on Schedule 3.2(h)), agreements or limitations on voting rights of any nature whatsoever other than restrictions imposed by the Securities Act of 1933, as amended (the "Securities Act"), applicable state securities and "Blue Sky" laws and, with respect to OP Units, the Partnership Agreement.

(h) Title; Absence of Liens. At the Closing, SHP will acquire from the Alter Entities good title to 418,292 OP Units, 800 shares of Lessee Class A Voting Stock and 800 shares of Lessee Class B Non-Voting Stock, free and clear of all Liens (other than Liens created, imposed or granted by SHP and the Lien in favor of Sunstone OP created pursuant to the Agreement set forth on Schedule 3.2(h)), agreements or limitations on voting rights of any nature whatsoever other than restrictions imposed by the Securities Act and applicable state securities and "Blue Sky" laws.

3.3 Additional Representations and Warranties of Biederman. Biederman represents and warrants to the Alter Entities, SHP and the Westbrook Entities as follows:

(a) Power and Authority. Biederman has all requisite power and authority to enter into this Agreement and the Implementing Agreements to which he is a party and to perform his obligations hereunder and thereunder.

(b) Validity of Agreement. This Agreement has been, and each of the Implementing Agreements to which Biederman is a party will on the Closing Date be, duly executed and delivered by Biederman, and constitutes or, in the case of the Implementing Agreements, upon execution thereof will constitute, a valid and legally binding obligation of Biederman, enforceable against him in accordance with its terms.

(c) No Government Approvals or Notices Required; No Conflict with Instruments. Except as described in Schedule 3.3(c), the execution, delivery and performance of this Agreement and the Implementing Agreements to which Biederman is a party in his individual capacity by him, and the consummation by Biederman of the Transactions will not (i) except for any filings required under the HSR Act, require any consent, approval, authorization or permit of,

or filing with or notification to, any Governmental Authority, (ii) require the consent or approval of any Person (other than a Governmental Authority), violate, conflict with or result in a breach of any provision of, constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to any Person any right of termination, cancellation, amendment, purchase, sale or acceleration under, or result in the creation of a Lien on any of the assets, properties or stock of Management, Management Sub, Lessee, any Lessee Subsidiary, Sunstone or any of Sunstone's Subsidiaries under, any of the provisions of any contract, lease, note, permit, franchise, license or other instrument or agreement to which such Person is a party or by which it or its assets or properties are bound or (iii) violate or conflict with any order, writ, injunction, decree, statute, rule or regulation of any Governmental Authority or arbitrator applicable to Biederman, Management, Management Sub,

Lessee, any Lessee Subsidiary, Sunstone or any of Sunstone's Subsidiaries, or any of their respective assets or properties; other than any consents and approvals the failure of which to obtain and any violations, conflicts, breaches and defaults set forth pursuant to clauses (ii), (iii) and (iv) above which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

(d) Legal Proceedings. Except as described in Schedule 3.3(d), as of the date hereof, there is no litigation, claim, arbitration, proceeding or investigation to which Biederman is a party pending or, to the Knowledge of Biederman, threatened against Biederman which, either individually or in the aggregate, would reasonably be expected to restrain or enjoin the consummation of any of the Transactions.

(e) Certain Fees. Except as set forth on Schedule 3.3(e), Biederman has not employed any broker or finder or incurred any other Liability for any brokerage fees, commissions or finders' fees in connection with the Transactions.

(f) Investment Intent. Biederman is acquiring his interest in SHP for his own account for investment, without a view to, or for a resale in connection with, the distribution thereof in violation of U.S. Federal or state or applicable foreign securities laws and with no present intention of distributing or reselling any part thereof. Biederman will not so distribute or resell any of such interest in violation of any such law.

(g) Equity Ownership. Biederman owns, beneficially and of record, and has good title to 38,680 shares of Sunstone Stock, 382,647 OP Units and 25 shares of Lessee Stock (provided that upon the effect of the Recapitalization, Biederman shall own, beneficially and of record and shall have good title to, 200 shares of Lessee Class A Voting Stock and 200 shares of Lessee Class B Non-Voting Stock), in each case free and clear of any Liens (other than the Lien in favor of Sunstone OP created pursuant to the Agreement set forth on Schedule 3.2(h)), agreements or limitations on voting rights of any nature whatsoever other than restrictions imposed by the Securities Act and applicable state securities and "Blue Sky" laws and, with respect to OP Units, the Partnership Agreement.

(h) Title; Absence of Liens. At the Closing, SHP will acquire from Biederman good title to 382,647 OP Units, 200 shares of Lessee Class A Voting Stock and 200 shares of Lessee Class B Non-Voting Stock, free and clear of all Liens (other than Liens created, imposed

or granted by SHP and the Lien in favor of Sunstone OP created pursuant to the Agreement set forth on Schedule 3.2(h)), agreements or limitations on voting rights of any nature whatsoever other than restrictions imposed by the Securities Act and applicable state securities and "Blue Sky" laws.

3.4 Representations and Warranties of the Westbrook Entities. Each of the Westbrook Entities jointly and severally represents and warrants to SHP, the Alter Entities, Biederman, Management and Management Sub as follows:

(a) Due Organization; Power and Good Standing. Each Westbrook Entity is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has the requisite power and authority to own,

lease and operate its properties and to conduct its business as now conducted by it. Each Westbrook Entity has all requisite power and authority to enter into this Agreement and the Implementing Agreements to which it is a party and to perform its obligations hereunder and thereunder. Each Westbrook Entity is qualified to do business and is in good standing as a foreign corporation, partnership or other entity, as applicable, in all jurisdictions in which it conducts its business, except where the failure to be so qualified would not, individually or in the aggregate, materially adversely affect its ability to perform its obligations hereunder or under the Implementing Agreements to which it is a party.

(b) Authorization and Validity of Agreement. The execution, delivery and performance by each Westbrook Entity of this Agreement and the Implementing Agreements to which it is a party and the consummation by such Westbrook Entity of the Transactions have been duly authorized by all necessary action on the part of such Westbrook Entity. This Agreement and each of the Implementing Agreements to which each Westbrook Entity is a party have been duly executed and delivered by such Westbrook Entity and constitutes a valid and legally binding obligation of such Westbrook Entity, enforceable against it in accordance with its terms.

(c) No Government Approvals or Notices Required; No Conflict with Instruments. The execution, delivery and performance of this Agreement and the Implementing Agreements to which each Westbrook Entity is a party and the consummation by each Westbrook Entity of the Transactions will not (i) violate, conflict with or result in a breach of any provision of the limited liability company agreement or partnership agreement of such party, as applicable, (ii) except for any filings required under the HSR Act, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, (iii) require the consent or approval of any Person (other than a Governmental Authority), violate, conflict with or result in a breach of any provision of, constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to any Person any right of termination, cancellation, amendment or acceleration under, or result in the creation of a Lien on any of the assets, properties or limited liability interests of such Westbrook Entity, under, any of the provisions of any contract, lease, note, permit, franchise, license or other instrument or agreement to which such Westbrook Entity is a party or by which it or its assets or properties are bound, or (iv) violate or conflict with any order, writ, injunction, decree, statute, rule or regulation of any Governmental Authority or arbitrator applicable to such Westbrook Entities or its assets or properties; other than any consents and approvals the failure of which to obtain and

any violations, conflicts, breaches and defaults set forth pursuant to clauses (ii), (iii) and (iv) above which, individually or in the aggregate, would not materially adversely affect the ability of such Westbrook Entity to perform its obligations hereunder or under the Implementing Agreements to which it is a party.

(d) Legal Proceedings. Except as described in Schedule 3.4(d), as of the date hereof, there is no litigation, claim, arbitration, proceeding or investigation to which any Westbrook Entity is a party pending or, to the Knowledge of each Westbrook Entity, threatened against such Westbrook Entity or relating to any of the assets of such Westbrook Entity or the Transactions which, either individually or in the aggregate, would reasonably be expected to

restrain or enjoin the consummation of any of the Transactions.

(e) Certain Fees. None of the Westbrook Entities nor any of their members or partners, nor the officers, directors or employees thereof have employed any broker or finder or incurred any other Liability for any brokerage fees, commissions or finders' fees in connection with the Transactions.

(f) Investment Intent. Westbrook LLC is acquiring its interest in SHP for its own account for investment, without a view to, or for a resale in connection with, the distribution thereof in violation of U.S. Federal or state or applicable foreign securities laws and with no present intention of distributing or reselling any part thereof. Westbrook LLC will not so distribute or resell any of such interest in violation of any such law.

(g) Control. Westbrook Real Estate Partners III, L.L.C. controls each of the Westbrook Entities.

3.5 Representations and Warranties of SHP. SHP represents and warrants to the Alter Entities, the Westbrook Entities, Biederman, Management and Management Sub as follows:

(a) Due Organization; Power and Good Standing. SHP is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has the requisite power and authority to own, lease and operate its properties and to conduct its business as now conducted by it. SHP has all requisite power and authority to enter into this Agreement and the Implementing Agreements to which it is a party and to perform its obligations hereunder and thereunder. SHP is qualified to do business and is in good standing as a foreign corporation, partnership or other entity, as applicable, in all jurisdictions in which it conducts its business, except where the failure to be so qualified would not, individually or in the aggregate, materially adversely affect its ability to perform its obligations hereunder or under the Implementing Agreements to which it is a party.

(b) Authorization and Validity of Agreement. The execution, delivery and performance by SHP of this Agreement and the Implementing Agreements to which it is a party and the consummation by SHP of the Transactions have been duly authorized by all necessary action on the part of SHP. This Agreement and each of the Implementing Agreements to which

SHP is a party have been duly executed and delivered by SHP and constitutes a valid and legally binding obligation of SHP, enforceable against it in accordance with its terms.

(c) No Government Approvals or Notices Required; No Conflict with Instruments. Except as described in Schedule 3.5(c), the execution, delivery and performance of this Agreement and the Implementing Agreements to which it is a party by SHP and the consummation by SHP of the Transactions will not (i) violate, conflict with or result in a breach of any provision of the limited liability company agreement of such party, (ii) except for any filings required under the HSR Act, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, (iii) require the consent or approval of any Person (other than a Governmental Authority), violate, conflict with or result in a breach of any provision of, constitute a

default (or an event which with notice or lapse of time or both would become a default) under, or give to any Person any right of termination, cancellation, amendment or acceleration under, or result in the creation of a Lien on any of the assets, properties or limited liability interests of SHP, under, any of the provisions of any contract, lease, note, permit, franchise, license or other instrument or agreement to which SHP is a party or by which it or its assets or properties are bound, or (iv) violate or conflict with any order, writ, injunction, decree, statute, rule or regulation of any Governmental Authority or arbitrator applicable to SHP or its assets or properties; other than any consents and approvals the failure of which to obtain and any violations, conflicts, breaches and defaults set forth pursuant to clauses (ii), (iii) and (iv) above which, individually or in the aggregate, would not materially adversely affect the ability of SHP to perform its obligations hereunder or under the Implementing Agreements to which it is a party.

(d) Legal Proceedings. Except as described in Schedule 3.5(d), as of the date hereof, there is no litigation, claim, arbitration, proceeding or investigation to which SHP is a party pending or, to the Knowledge of SHP, threatened against SHP or relating to any of the assets of SHP or the Transactions which, either individually or in the aggregate, would reasonably be expected to restrain or enjoin the consummation of any of the Transactions beyond December 31, 1999. As of the date hereof, SHP is not party to nor are any of the assets of SHP subject to any judgment, writ, decree, injunction or order entered by any court, governmental authority or arbitrator.

3.6 Survival of Representations and Warranties. Each of the representations and warranties given by the parties in Article III shall be deemed repeated and remade at the Closing as if made at such time and shall, notwithstanding any investigation on the part of any other party, survive the Closing until the two year anniversary thereof, at which time such representations and warranties will terminate, provided that the representations and warranties contained in Sections 3.1(d), 3.1(h), 3.2(g), 3.2(h), 3.3(g) and 3.3(h) shall survive the Closing and shall not terminate, and the representations and warranties contained in Sections 3.1(p) and 3.1(r) shall survive until the expiration of the statute of limitations with respect thereto.

3.7 Exclusion of Lessee/Manager Agreement. The parties hereto acknowledge that Alter, Biederman, Lessee and Management are parties to the Lessee/Manager Agreement, dated the date hereof (the "Lessee/Manager Agreement"), which, among other things, grants Sunstone, Sunstone OP and certain other parties the right, under certain circumstances, following the

termination of the Merger Agreement, to acquire all of the Lessee Stock and Management Stock owned by Alter and Biederman and waive any claims of breach of representations, warranties or covenants arising out of or in connection with the transactions contemplated by the Lessee/Manager Agreement.

ARTICLE IV

COVENANTS

4.1 Conduct of Business Pending the Closing. Except with the prior written consent of Westbrook LLC and except as may be expressly permitted by this Agreement, prior to the Closing, each of Management, Management Sub and Lessee shall, and Lessee shall cause each Lessee Subsidiary, and Alter and Biederman shall, and shall cause Lessee and each Lessee Subsidiary and, in the case of Alter, Management and Management Sub to, operate its business only in the usual, regular and ordinary manner, on a basis consistent with past practice and, to the extent consistent with such operation, use its reasonable best efforts to preserve its present business organization intact, keep available the services of its present employees, preserve its present business relationships and maintain all rights, privileges and franchises necessary or desirable in the normal conduct of those businesses. Without limitation of the foregoing, prior to the Closing, except as expressly permitted by this Agreement, each of Management, Management Sub and Lessee shall not, and Lessee shall cause each Lessee Subsidiary, and Alter and Biederman shall not, and shall cause Lessee and each Lessee Subsidiary and, in the case of Alter, Management and Management Sub not to:

(a) amend its Certificate of Incorporation or Bylaws;

(b) issue, purchase or redeem, or authorize or propose the issuance, purchase or redemption of, or declare or pay any dividend with respect to, any shares of its capital stock or any class of securities convertible into, or rights, warrants or options to acquire, any such shares of other convertible securities, except for dividends on the capital stock of Management and Lessee which do not exceed $500,000 in the aggregate since December 31, 1998;

(c) form any partnership, limited liability company or other joint venture (other than in the ordinary course consistent with past practice of such business), acquire or dispose of any business (whether by merger, purchase or otherwise) or of any assets (other than in the ordinary course consistent with past practice of such business) or acquire or dispose of any investment in any Person;

(d) make or incur any capital expenditures other than in the ordinary course of business consistent with past practice and in no event in excess of $20,000 individually or $200,000 in the aggregate;

(e) enter into any transaction involving the incurrence, assumption or guarantee of indebtedness other than in the ordinary course of business consistent with past practice;

(f) enter into any agreement of the type described in Sections 3.1(i), 3.1(j)(ii) through (v) or 3.1(t) which contemplates payments in excess of $200,000 during any one year or $600,000 over the term of the contract; provided, however, that Lessee or Management may enter into any agreement or amend any existing agreement in connection with the acquisition or development of hotels by Sunstone or any Subsidiary thereof but only to the extent that (x) such acquisition or development is in compliance with the Merger Agreement and (y) any such agreement is of the type and contains terms that are in the

ordinary course of business consistent with past practice of Lessee or Management, as applicable; provided further, that Lessee may pay reasonable legal fees and expenses incurred in connection with the Transactions;

(g) except as provided in Section 4.1(f), terminate or amend in any material respect any agreement listed or required to be listed on Schedule 3.1(i), 3.1(j)(ii) through (v) or 3.1(t)

(h) file any voluntary petition for bankruptcy or receivership or fail to oppose any other Person's petition for bankruptcy of, or action to appoint a receiver regarding, it;

(i) except as required by applicable law or to the extent required under existing employee benefit plans, agreements or arrangements as in effect on the date of this Agreement, (A) increase the compensation or fringe benefits of any employee, except for increases, in the ordinary course of business, in salary or wages of employees who are not directors or officers, (B) grant any severance or termination pay to any employee or (C) enter into or amend or terminate any collective bargaining, bonus, profit sharing, thrift, compensation, pension, retirement, deferred compensation, employment, termination, severance or other plan, agreement, trust, fund, policy or arrangement for the benefit of any employee; provided that Lessee (on behalf of SHP) shall be permitted to make or agree to make payments as described on Schedule 2.1(m) hereto;

(j) change any accounting principle except as required by GAAP;

(k) make any election with respect to Taxes;

(l) cancel any indebtedness payable to it in excess of $10,000;

(m) make any loan or other advance to any Person other than advances to wholly-owned Subsidiaries in existence on the date hereof;

(n) take any willful action which would cause any representation or warranty of Alter or Biederman contained in this Agreement to be or become untrue at Closing in any material respect; or

(o) authorize any of, or commit or agree to take any of, the foregoing actions.

Notwithstanding anything to the contrary herein, Management, Management Sub and Lessee shall have the unrestricted right but not the obligation to pay off Liabilities under the loan agreement set forth on Schedule 4.1(o) (the "Lessee Line of Credit").

4.2 Transfers and Voting of Equity Interests. (a) From the date hereof until the Closing, the Alter Entities and Biederman each agree not to Transfer any capital stock of Management, Management Sub, Lessee or Sunstone or any interest in Sunstone OP owned by it except for the Transfers contemplated by this Agreement or otherwise in connection with the Merger.

(b) The Alter Entities and Biederman each (i) agree to vote (including by proxy or written consent) all Sunstone Stock and OP Units and any other interests in Sunstone or Sunstone OP owned or controlled by it in favor of the Merger Agreement, the Partnership Merger Agreement, the Merger, the Partnership Merger and the Transactions at any meeting of stockholders of Sunstone or unitholders of Sunstone OP called for that purpose; and (ii) covenant not to enter into any agreement or instrument restricting or transferring its right to vote such shares and units or which otherwise conflicts with its obligations under this Section 4.2.

(c) WREF I (i) agrees to vote (including by proxy or written consent) all Sunstone Stock and OP Units and any other interests in Sunstone or Sunstone OP owned or controlled by it in favor of the Merger Agreement, the Partnership Merger Agreement, the Merger, the Partnership Merger and the Transactions at any meeting of stockholders of Sunstone or unitholders of Sunstone OP called for that purpose and (ii) covenants not to enter into any agreement or instrument restricting or transferring its right to vote such shares and units or which otherwise conflicts with its obligations under this Section 4.2; provided that notwithstanding anything to the contrary in this Section 4.2(c), WREF I shall be permitted to transfer its Sunstone Stock and OP Units and any other interests in Sunstone or Sunstone OP to any general or limited partner of WREF I provided that the transferee expressly assumes WREF I's obligations hereunder.

4.3 Access to Information. From the date hereof to the Closing, each of Management and Lessee shall, and Lessee shall cause each Lessee Subsidiary, and Alter and Biederman shall, and shall cause Lessee and, in the case of Alter, Management to, upon prior reasonable notice, afford the officers, employees, auditors and other agents of the Westbrook Entities reasonable access during normal business hours to the officers, employees, properties, offices, plants and other facilities of Management, Lessee and the Lessee Subsidiaries and to the contracts, commitments, books and records relating thereto, and shall use commercially reasonable efforts to furnish such Persons all such documents and such financial, operating and other data and information regarding such businesses and Persons that are in the possession of such Person as the Westbrook Entities, through their officers, employees or agents, may from time to time reasonably request. All such information will be provided subject to the confidentiality provisions contained in the letter agreement dated April 5, 1999 between Alter and WF III.

4.4 Agreement to Cooperate; Further Assurances. Subject to the terms and conditions of this Agreement, each of the parties hereto shall use all reasonable best efforts to take, or cause

to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the Transactions, including providing information and using reasonable best efforts to obtain all necessary or appropriate waivers, consents and approvals, and effecting all necessary registrations and filings; provided, however, that, without the prior written consent of Westbrook LLC, no party shall pay any cash or other consideration, make any commitments or incur any liability or other obligation in an aggregate amount in excess of $200,000 in connection with the obtaining of all consents required to effect the Transactions. In case at any time after the Closing Date any further action is

necessary or desirable to transfer any of the Management Assets, Basis Assets, Sunstone Stock or OP Units pursuant to the terms of this Agreement, or to otherwise to carry out the terms of this Agreement, the parties hereto and their respective Affiliates shall execute such further documents (including assignments, acknowledgments and consents and other instruments of transfer) and shall take such further action as shall be necessary or desirable to effect such transfer and to otherwise carry out the terms of this Agreement, in each case to the extent not inconsistent with applicable law provided that Alter, Management and Management Sub are not required to make any payments thereby and are reimbursed for all expenses and costs incurred.

4.5 Consents. Notwithstanding anything to the contrary contained in this Agreement, to the extent that the sale, conveyance, transfer, assignment or delivery or attempted sale, conveyance, transfer, assignment or delivery to SHP or Management Newco of any Management Asset (including any assumed contract, license or other agreement) is prohibited by applicable law or would require any governmental or third-party authorization, approval, consent or waiver and such authorization, approval, consent or waiver shall not have been obtained prior to the Closing, this Agreement shall not constitute a sale, conveyance, transfer, assignment or delivery, or an attempted sale, conveyance, transfer, assignment or delivery thereof if any of the foregoing would constitute a breach of applicable law or the rights of any third party; provided, however, that, except to the extent that a condition to closing set forth herein, if any, relating to the foregoing shall not be satisfied (in which case the Closing shall not occur unless waived by Westbrook LLC), the Closing shall occur notwithstanding the foregoing on account of such required authorization. Following the Closing, Alter and Management shall use all reasonable best efforts to obtain promptly such authorizations, approvals, consents or waivers provided, however, that neither Alter nor Management shall be required to make any payments to obtain such authorizations, approvals, consents or waivers. Pending or in the absence of such authorization, approval, consent or waiver, Alter and Management shall enter into reasonable and lawful arrangements which do not conflict with the terms of any agreements relating to the Management Assets or the Basis Assets in existence as of the date of this Agreement with SHP and/or Management Newco designed to provide to SHP and/or Management Newco the benefits and liabilities of use of such Management Assets and Basis Assets provided that Alter and Management are not required to make any payments thereby and are reimbursed for all expenses and costs incurred.

4.6 Public Statements. Before any party to this Agreement or any Affiliate of such party shall release any statements concerning this Agreement or the matters contemplated hereby which is intended for or may result in public dissemination thereof, such party shall cooperate with the other parties and provide the other parties the reasonable opportunity to review and comment

upon any such statements and shall not release or permit release of any such information without the consent of the other parties, which shall not be unreasonably withheld.

4.7 Notification of Certain Matters. Each party to this Agreement shall give prompt notice to each other party of (i) the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of such party contained in this Agreement to be untrue or inaccurate at or prior to the Closing Date and (ii) any failure of

such party to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 4.7 shall not limit or otherwise affect any remedies available to the party receiving such notice. No disclosure by any party pursuant to this Section 4.7 shall be deemed to amend or supplement the disclosures set forth on the Schedules hereto or prevent or cure any misrepresentations, breach of warranty or breach of covenant.

4.8 Employee Matters. (a) SHP shall cause Management Newco and Lessee to promptly pay or provide when due all compensation and benefits earned or accrued through or prior to the Closing Date as provided pursuant to the terms of any compensation arrangements, employment agreements and employee or director pension, welfare benefit or employee benefit plans, programs, arrangements and policies in existence as of the date hereof for all employees (and former employees) and directors (and former directors) of Management Newco and Lessee and listed on any Schedule to this Agreement. SHP shall cause Management Newco and Lessee to pay promptly or provide when due all compensation and benefits required to be paid pursuant to the terms of any individual agreement with any current or former employee or director in effect and listed on Schedule 4.8(a) to this Agreement. Nothing in this Agreement shall require the continued employment of any Person or prevent SHP and/or Management Newco or Lessee from taking any action or refraining from taking any action which Management or Lessee could take or refrain from taking prior to the Closing Date. Notwithstanding the above, except as set forth on Schedule 4.8(a), SHP shall cause Management Newco and Lessee to pay compensation to any key employee in accordance with compensation parameters agreed to by Alter and Westbrook LLC and as provided in the LLC Agreement and this Agreement.

(b) After the Closing Date, all employees of Management or Lessee who continue employment with SHP and/or Management Newco or Lessee shall, at the option of SHP, either continue to be eligible to participate in an "employee benefit plan," as defined in Section 3(3) of ERISA, of Management or Lessee which is, at the option of SHP, continued by SHP, Management Newco or Lessee, or alternatively shall be eligible to participate in any "employee benefit plan," as defined in Section 3(3) of ERISA, established, sponsored or maintained by SHP, Management Newco or Lessee after the Closing Date; provided that the employee benefits immediately after the Closing shall be no less favorable to the employees of Management and Lessee in the aggregate than the employee benefits immediately prior to the Closing; and provided further that nothing contained in this Section 4.8(b) shall in any way limit the ability of SHP, Management Newco or Lessee to modify any employee benefits in any respect following the Closing. With respect to each such employee benefit plan not formerly maintained by Management or Lessee, service with Management, Lessee or any Controlled Group Member (as applicable) shall be included for purposes of determining eligibility to participate, vesting (if

applicable) and entitlement to and level of benefits (other than accrual of benefits under any defined benefit plan) and all pre-existing condition exclusions and waiting periods shall be waived and expenses incurred by any employee for deductibles and copayments in the portion of the year prior to the date employee first becomes a participant in such employee benefit plan shall be credited to the benefit of such employee under such employee benefit plan for the year in which the employee's participation commences.

(c) With respect to any accrued but unused vacation time to which any Transferred Employee is entitled pursuant to the vacation policy applicable to such Employee immediately prior to the Closing (the "Vacation Policy"), SHP shall cause Management Newco and Lessee to allow such Employee to use such accrued vacation; provided, however, that if SHP deems it necessary to disallow such employee from taking such accrued vacation, SHP shall cause Management Newco and Lessee to be liable for and pay in cash to each such Employee an amount equal to such vacation time in accordance with terms of the Vacation Policy.

4.9 Transfer Taxes. SHP shall bear all share transfer taxes, recording fees and other sales, transfer, use, purchase, stamp or similar taxes resulting or arising out of the Transactions.

4.10 Injunctions or Restraints. In the event that there exists at or prior to Closing (i) any injunction, restraining order or other decree of any nature of any court of competent jurisdiction or other Governmental Authority that is in effect that restrains or prohibits the consummation of any of the Transactions or (ii) any action taken, or any statute, rule, regulation or order enacted, entered or enforced, which makes the consummation of the Transactions illegal, each party to this Agreement shall use their reasonable commercial efforts to have any such injunction, order, decree, action, statute, rule or regulation vacated or declared inapplicable.

4.11 Certification of United States Status of Alter and Biederman. Each of Alter and Biederman shall deliver as of Closing to SHP a certificate, duly executed and acknowledged, certifying that each is not a foreign person, as defined in Treasury regulation section 1.1445-2(b)(2)(i), such certification in the form similar to that described in Treasury regulation section 1.1445-2(b)(2)(iii)(A) or otherwise meeting the requirements of Treasury regulation section 1.1445-2(b)(2).

4.12 Spousal Claims. Alter agrees to maintain all Lessee Stock, OP Units and other property to be contributed to SHP pursuant to Section 2.1 hereof free from all potential spousal claims including election share, community property interest or otherwise.

4.13 Tax Matters. (a) Guaranty or Indemnity. To enable Riverside, Management, Alter and Biederman (the "Contributors") at their election to defer the recognition of gain for federal income tax purposes resulting from their contribution to SHP pursuant to Section 2.1 hereof at Closing, or at any time subsequent thereto in accordance with the terms hereof, SHP agrees to permit, and to cause its Subsidiaries to permit, the Contributors to guarantee at the Contributors' option (or indemnify SHP or its Affiliates at the Contributors' option) at or any time after the Closing, upon the request of any Contributor, indebtedness of SHP or its Subsidiaries in an amount not to exceed $10.5 million to be allocated among such Contributors as

set forth in Schedule 4.13. Such guarantee or indemnity will be with respect to debt chosen by the Contributors, subject to the consent of the Westbrook Entities with respect to which debt shall be guaranteed or indemnified, which consent shall not be unreasonably withheld, and shall guarantee or indemnify the bottom portion of such debt. The Westbrook Entities hereby consent to the guarantee by the Contributors of the debt to be provided by PaineWebber in

connection with the Merger and any indebtedness that replaces such indebtedness.

(b) Representatives. For purposes of this Section 4.13(b), the Contributors shall designate Alter as their representative and if Alter is unavailable, Biederman as their representative, for purposes of coordinating any guarantees, indemnities, or other items set forth in such sections.

(c) Allocation Method. SHP covenants that the "traditional method" (without curative allocations), as defined in Treas. Reg. Section 1-704-3(b), of allocating income, gain, loss and deduction to account for the variation between the fair market value and adjusted basis of the property for federal income tax purposes, shall be used with respect to (i) the contribution of any property (other than cash) that has been contributed by a member to SHP, and (ii) any revaluation of such property, pursuant to Treas. Reg. Sections 1.704-1(b)(2)(iv)(f), 1.704-1(b)(2)(iv)(g) and 1.704-3(a)(6).

4.14 Tax Filing. The parties to this Agreement agree to report the Transactions in the manner described in Section 2.1 hereto for purposes of filing any and all Tax and information returns and to take and defend positions consistent therewith in all dealings with the Internal Revenue Service, and all other government authorities (except upon a decision by a final taxing authority in which case any returns shall be amended to be consistent with such decision and any future returns shall be filed consistently with such decision).

4.15 Certain Obligations. (a) SHP will use its reasonable best efforts to secure the release of each of Alter and Biederman from their respective obligations incurred following the Closing under the guarantees and indemnities listed in Schedule 4.15(a), which release may be accomplished (at SHP's election) by issuances of guarantees or indemnities by SHP with respect to such obligations or the assumption by SHP of such obligations. To the extent Alter and Biederman are not released from such post-Closing obligations, SHP and Management Newco shall, jointly and severally, indemnify and hold Alter and Biederman, and their respective Affiliates, heirs, executors, successors and assigns, harmless for all Losses suffered or incurred by either of them under such obligations.

(b) Effective as of the Closing, all arrangements between any of the Alter Entities, Biederman, Lessee, Management or Management Sub or any Affiliate of the foregoing, other than Sunstone and Sunstone's Subsidiaries (collectively the "Alter/Biederman Parties"), on the one hand, and Sunstone or any of Sunstone's Subsidiaries, on the other hand, shall be terminated with no further obligations or Liabilities by Sunstone or any of Sunstone's Subsidiaries thereunder, except for the agreements listed on Schedule 4.15(b) (which shall not be terminated) and the obligations or liabilities incurred thereunder following the Closing. Each of the Alter/Biederman Parties severally represents to SHP that no amounts are owing or payable by it or him to Sunstone

or any Sunstone Subsidiary under any agreement or arrangement between any of the Alter/Biederman Parties, on the one hand, and Sunstone or any of Sunstone's Subsidiaries, on the other hand, whether or not such agreement or arrangement shall be terminated pursuant to this section. Notwithstanding the termination of the agreements and arrangements referred to in the second preceding sentence, the Alter/Biederman Parties shall retain all obligations and Liabilities to Sunstone and its Subsidiaries under all agreements and arrangements between the

Alter/Biederman Parties, on the one hand, and Sunstone and its Subsidiaries, on the other hand, incurred before the Closing, and shall indemnify SHP for all Losses incurred by it in connection with such obligations and Liabilities. Except with respect to obligations or Liabilities incurred following the Closing under the agreements listed on Schedule 4.15(a) or Schedule 4.15(b), any obligations or Liabilities under this Agreement or the Implementing Agreements or payment obligations under the Lessee Line of Credit, the Alter/Biederman Parties hereby release and discharge and indemnify and hold harmless SHP, on behalf of Sunstone and Sunstone's Subsidiaries, and their successors and assigns from all actions, causes of action, suits, debts, dues, sums of money, accounts, claims and demands owed by Sunstone or any of Sunstone's Subsidiaries to any of the Alter/Biederman Parties, by reason of any matter, cause, contract, course of dealing or thing whatsoever arising during, or in respect of, the period on or before the Closing.

(c) All amounts due and payable by Management and Lessee under the agreement set forth on Schedule 3.1(v) will be Assumed Management Liabilities (in the case of amounts due and payable by Management) or a Liability of Lessee after the Closing (in the case of amounts due and payable by Lessee), and Alter agrees to reimburse Management and Lessee for 44.5% of such amounts at or prior to the Closing.

ARTICLE V

CONDITIONS TO CLOSING

5.1 Conditions Precedent to Obligations of Each Party. The respective obligations of each party to this Agreement to consummate the transactions contemplated hereby shall be subject to the satisfaction (or waiver by the party entitled to the benefit of such condition) of each of the following conditions at or prior to the Closing:

(a) No Injunctions or Restraints. There shall not be (i) any injunction, restraining order or other decree of any nature of any court of competent jurisdiction or other Governmental Authority that is in effect that restrains or prohibits the consummation of any of the Transactions or (ii) any action taken, or any statute, rule, regulation or order enacted, entered or enforced, which makes the consummation of the Transactions illegal.

(b) HSR Act. Any waiting period (and any extension thereof) under the HSR Act applicable to the Transactions shall have expired or been terminated.

(c) Merger Conditions. All conditions to the Merger set forth in Article 6 of the Merger Agreement (other than the consummation of the Partnership Merger) shall have been satisfied or waived.

(d) Partnership Merger Conditions. All conditions to the Partnership Merger set forth in Article 5 of the Partnership Merger Agreement shall have been satisfied or waived.

5.2 Conditions Precedent to Obligation of the Westbrook Entities. The obligation of each of the Westbrook Entities to consummate the Transactions shall be subject to the satisfaction of each of the following conditions (unless

waived by Westbrook LLC) at or prior to the Closing:

(a) Accuracy of Representations and Warranties. The representations and warranties of Management, Management Sub, Lessee, the Alter Entities and Biederman contained in this Agreement shall be true and correct in all material respects (except for representations having a materiality or Material Adverse Effect qualification, which shall be correct in all respects), in each case on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of such time, except to the extent such representations and warranties by their terms speak as of a specified date, in which case they shall be so true and correct as of such date; and Westbrook LLC shall have received from each of Alter and Biederman, both in their individual capacities and in their capacities as officers of Lessee and, in the case of Alter, Management, Management Sub and the Alter Entities, a certificate to such effect dated as of the Closing Date and signed by each such Person.

(b) Covenants. Each of Management, Management Sub, Lessee, the Alter Entities and Biederman shall have complied in all material respects with each covenant contained in this Agreement to be performed by him or it on or prior to the Closing; and Westbrook LLC shall have received from each of Alter and Biederman, both in their individual capacities and in their capacities as officers of Lessee and, in the case of Alter, Management, Management Sub and the Alter Entities, a certificate to such effect dated as of the Closing and signed by each such Person.

(c) Material Adverse Change. Since the date of this Agreement through and including the Closing Date, there shall have been no Material Adverse Effect and Westbrook LLC shall have received from each of Alter and Biederman, both in their individual capacities and in their capacities as officers of Lessee and, in the case of Alter, Management and the Alter Entities, a certificate to such effect dated as of the Closing and signed by each such Person.

(d) Consents. All consents and waivers (including, without limitation, waivers of rights of first refusal) from Governmental Authorities and third parties necessary in connection with the consummation of the Transactions shall have been obtained and not subsequently been revoked as of the Closing Date other than such consents and waivers from third parties, which, if not obtained, would not result, individually or in the aggregate, in a Material Adverse Effect.

5.3 Conditions Precedent to Obligations of the Alter Entities. The obligation of each Alter Entity to consummate the Transactions shall be subject to the satisfaction of each of the following conditions (unless waived by Alter) at or prior to the Closing:

(a) Accuracy of Representations and Warranties. The representations and warranties of each Westbrook Entity and Biederman contained in this Agreement shall be true and correct in all material respects (except for representations having a materiality or Material Adverse Effect qualification, which shall be correct in all respects), in each case on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of such time,

except to the extent such representations and warranties by their terms speak as of a specified date, in which case they shall be so true and correct as of such date; and Alter shall have received from each the Westbrook Entities and Biederman a certificate to such effect dated as of the Closing Date and signed by an officer thereof in the case of each Westbrook Entity and by Biederman in the case of Biederman.

(b) Covenants. Each of the Westbrook Entities and Biederman shall have complied in all material respects with each covenant contained in this Agreement to be performed by it or him on or prior to the Closing; and Alter shall have received from each of the Westbrook Entities and Biederman a certificate to such effect dated as of the Closing Date and signed by an officer thereof in the case of each Westbrook Entity and by Biederman in the case of Biederman.

5.4 Conditions Precedent to Obligations of Biederman. The obligation of Biederman to consummate the Transactions shall be subject to the satisfaction of each of the following conditions (unless waived by Biederman) at or prior to the Closing:

(a) Accuracy of Representations and Warranties. The representations and warranties of each Westbrook Entity and each Alter Entity in this Agreement shall be true and correct in all material respects (except for representations having a materiality or Material Adverse Effect qualification, which shall be correct in all respects), in each case on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of such time, except to the extent such representations and warranties by their terms speak as of a specified date, in which case they shall be so true and correct as of such date; and Biederman shall have received from each of the Westbrook Entities and the Alter Entities a certificate to such effect dated as of the Closing Date and signed by an officer thereof in the case of the Westbrook Entities, and by Alter in the case of the Alter Entities.

(b) Covenants. Each of the Westbrook Entities and the Alter Entities shall have complied in all material respects with each covenant contained in this Agreement to be performed by it or him on or prior to the Closing; and Biederman shall have received from each of the Westbrook Entities and the Alter Entities a certificate to such effect dated as of the Closing Date and signed by an officer thereof in the case of the Westbrook Entities and by Alter in the case of the Alter Entities.

5.5 Conditions Precedent to Obligations of Management, Management Sub and Lessee.

(a) Accuracy of Representations and Warranties. The representations and warranties of the Westbrook Entities, the Alter Entities and Biederman shall be true and correct in all material respects (except for representations having a materiality or Material Adverse Effect qualification, which shall be correct in all respects), in each case on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of such time, except to the extent such representations and warranties by their terms speak as of a specified date, in which case they shall be so true and correct as of such date; and Management and Lessee shall have received from each of the Westbrook Entities, the Alter Entities and Biederman a certificate to

such effect dated as of the Closing Date and signed by an officer thereof in the case of the Westbrook Entities, by Alter in the case of the Alter Entities and by Biederman in the case of Biederman.

(b) Covenants. Each of the Westbrook Entities, the Alter Entities and Biederman shall have complied in all material respects with each covenant contained in this Agreement to be performed by it or him on or prior to the Closing; and Management, Management Sub and Lessee shall have received from each of the Westbrook Entities, the Alter Entities and Biederman a certificate to such effect dated as of the Closing Date and signed by an officer thereof in the case of the Westbrook Entities, by Alter in the case of the Alter Entities and by Biederman in the case of Biederman.

ARTICLE VI

COVENANTS AND AGREEMENTS WITH RESPECT TO LESSEE

6.1 Recapitalization of Lessee. (a) Lessee hereby agrees to take all necessary action required to be taken by it to recapitalize its capital structure (the "Recapitalization") so that immediately prior to the Closing the outstanding capital stock of Lessee shall consist of 1,000 shares of Lessee Class A Voting Stock and 1,000 shares of Lessee Class B Non-Voting Stock, 800 shares of each such class to be held by Alter and 200 shares of each such class to be held by Biederman. All such actions (and documentation related thereto) shall be reasonably satisfactory to the Westbrook Entities.

(b) Each of Alter and Biederman hereby agrees to take all necessary action required to be taken by such Person, and to cause Lessee to take all necessary action to effect the Recapitalization. All such actions (and documentation related thereto) shall be reasonably satisfactory to the Westbrook Entities.

(c) To the extent the Recapitalization shall not be effected on terms and in a manner reasonably satisfactory to the Westbrook Entities, (i) Lessee shall not effect the Recapitalization and (ii) all of the outstanding Lessee Stock shall be contributed to SHP by the Alter Entities and Biederman pursuant to Section 2.1 (without receipt of any additional consideration (including any additional Capital Account credit)).

6.2 Governance. Each of Alter, any of his Affiliates who owns Securities and SHP (collectively, the "Lessee Stockholders"), hereby covenants and agrees, from and after the Closing until exercise of the Option, to comply with the following provisions related to the governance of Lessee:

(a) Election of Directors. Each Lessee Stockholder hereby agrees that such Lessee Stockholder will vote all of the Securities beneficially owned by it entitled to vote in the election of members of the board of directors of Lessee (the "Lessee Board") so as to elect and to continue in office a Lessee Board consisting of three designees of SHP ("SHP Directors") and one designee of Alter (the "Alter Director"). For so long as Alter is employed by SHP, Alter shall

be the Alter Director. If Alter is no longer an employee of SHP, another

individual acceptable to SHP may be selected by Alter to serve as the Alter Director instead of Alter. SHP agrees to vote all of the voting Securities beneficially owned by it so as to elect the Alter Director to the Lessee Board. If at any time SHP shall notify Alter it desires to remove any SHP Director, with or without cause, Alter agrees to vote all of such voting Securities beneficially owned or held by him as to remove such SHP Director.

(b) Lessee Board Meetings. Meetings of the Lessee Board, annual, regular and special, shall be held at the principal office of Lessee or other place as may from time to time be fixed by resolution of the Lessee Board. Regular meetings of the Lessee Board shall be held at such times as may from time to time be fixed by resolution of the Lessee Board, and no notice (other than the resolution) need be given as to any regular meeting. Special meetings may be held at any time upon the call of any two members of the Lessee Board, by oral, telephonic or facsimile notice (or notice given by other means of electronic transmission (including electronic mail)) duly given or sent at least one day, or by written notice sent by express mail at least two days, before the meeting to each member of the Lessee Board. Any action required or permitted to be taken at any meeting of the Lessee Board may be taken without a meeting if a written consent thereto is signed by all members of the Lessee Board. Lessee shall reimburse each member of the Lessee Board for his or her reasonable expenses in connection with attending any meeting of the Lessee Board.

(c) Lessee Board Voting. A majority of incumbent members of the Lessee Board shall be necessary to constitute a quorum for the transaction of business at any Lessee Board meeting. The Lessee Board shall have the general powers and duties typically vested in the board of directors of a corporation. All actions or decisions of the Lessee Board shall require approval of a majority of the members of the Lessee Board; provided that, so long as Lessee is a Subsidiary of SHP, it will remain subject to the provisions of the LLC Agreement applicable to Subsidiaries of SHP.

6.3 Restrictions on Transfers and Issuances.

(a) Limitations on Transfer. Alter hereby agrees that he will not, and will not permit or cause any of his Affiliates (including Alter SHP LLC) to, from and after the Closing, without the prior written consent of SHP, Transfer or agree to Transfer record or beneficial ownership of any Securities. To the extent SHP consents to a Transfer of Securities by Alter or any of his Affiliates (including Alter SHP LLC) who holds Securities, Alter agrees that all consideration paid or payable to him or such Affiliate with respect to any such Transfer shall be paid directly to SHP, and Alter will direct any purported transferee of such Securities to pay such proceeds or consideration directly to SHP. To the extent any such proceeds or consideration are paid directly to Alter or any of his Affiliates, Alter agrees to immediately forward any such consideration to SHP.

(b) Effect of Void Transfers. In the event of any purported Transfer of any Securities in violation of the provisions of this Article VI, such purported Transfer shall be void and of no effect and Lessee shall not give effect to such Transfer.

(c) Rights to Dividends and Distributions. Alter agrees that Lessee shall pay, and Lessee agrees to pay, directly to SHP all dividends and

other distributions after the Closing and prior to the exercise of the Option, whether cash or non-cash, with respect to any Securities beneficially owned by it. To the extent any such dividends or other distributions are paid directly to Alter or any of his Affiliates (including Alter SHP LLC), Alter agrees to, or to direct any such Affiliate to, immediately forward any such dividends and distributions to SHP.

6.4 Option. In the event that (a) the Alter Director fails to vote in favor of any action approved by a majority of the Lessee Board (a "Failure to Approve") or (b) Alter ceases to be an employee of SHP for any reason (a "Termination"), SHP shall have the right, at any time to require Alter or any of Alter's Affiliates holding Securities to sell to SHP all of the Securities owned by him or it, as the case may be, and Alter shall have the obligation to sell, or cause such Affiliate to sell, such Securities to SHP, free and clear of all Liens (the "Option") for an aggregate cash purchase price of $1 (the "Option Price"). The Option may be exercised by SHP at any time after a Failure to Approve or a Termination by delivery of written notice to Alter (the "Exercise Notice"). Unless otherwise agreed upon by SHP and Alter, the closing of the purchase of the Securities shall occur at the offices of SHP on the third business day after delivery of the Exercise Notice. At the closing, Alter shall, or shall cause his Affiliate to, deliver to Lessee all stock certificates representing the Securities together with blank stock powers or such other assignments as reasonably requested by SHP, and SHP shall pay Alter or his designee the Option Price. In addition, in the event Alter or his Affiliate fails to deliver the stock certificates, stock powers or assignments reasonably requested by SHP as set forth herein, SHP may deliver the Option Price to Alter and upon such delivery, execute and deliver, as the attorney in fact for the Alter Member, such stock powers and required assignments, as well as documentation instructing Lessee to issue replacement stock certificates. Such power of attorney is coupled with an interest and shall survive the insolvency, bankruptcy and dissolution of Alter or his Affiliate. SHP, on the one hand, and Alter and his Affiliates on the other hand, shall each pay their own expenses in connection with the exercise of the Option.

6.5 Additional Securities Subject to Agreement. Each Lessee Stockholder agrees that any other Securities which it shall hereafter acquire by means of a stock split, stock dividend, distribution, exercise of stock options, or otherwise shall be subject to the provisions of this Article VI to the same extent as if held on the date hereof.

6.6 No Conflicting Agreements. Neither of the Lessee Stockholders shall enter into, nor shall they permit Lessee or any Affiliate thereof to enter into, directly or indirectly, any stockholder agreement or other arrangement of any kind with any Person with respect to any Securities which is inconsistent with the provisions of this Article VI or which may impair its ability to comply with this Agreement.

6.7 Survival. The provisions of this Article VI shall survive the Closing and continue until terminated by exercise of the Option by SHP.

ARTICLE VII

TERMINATION

7.1 Termination Events. This Agreement may be terminated and the

Transactions may be abandoned at any time prior to the Closing:

(a) by mutual written consent of Alter and Westbrook LLC;

(b) by Westbrook LLC, upon a breach of any representation, warranty, covenant, obligation or agreement on the part of Management, Lessee, any Alter Entity or Biederman set forth in this Agreement, in any case such that the conditions set forth in Section 5.2(a) or 5.2(b), as the case may be, are not satisfied or would be incapable of being satisfied within 30 days after the giving of written notice to Alter;

(c) by Alter, upon a breach of any representation, warranty, covenant, obligation or agreement on the part of any of the Westbrook Entities such that the conditions set forth in Section 5.3(a) or 5.3(b) are not satisfied or would be incapable of being satisfied within 30 days after the giving of written notice to Westbrook LLC; or by Biederman, upon a breach of any representation, warranty, covenant, obligation or agreement on the part of any of the Westbrook Entities, such that the conditions set forth in 5.4(a) or 5.4(b) are not satisfied or would be incapable of being satisfied within 30 days after the giving of written notice to Westbrook LLC;

(d) by any of Alter or Westbrook LLC if any court of competent jurisdiction in the United States shall have issued a final and unappealable permanent injunction, order, judgment or other decree (other than a temporary restraining order) restraining, enjoining or otherwise prohibiting the consummation of the Transactions, provided that the party seeking to terminate this Agreement under this clause (d) is not then in material breach of this Agreement and provided, further, that the right to terminate this Agreement under this clause (d) shall not be available to any party who shall not have used reasonable commercial efforts to avoid the issuance of such order, decree or ruling; and

(e) by any of Alter, Biederman or Westbrook LLC if the Merger Agreement or the Partnership Merger Agreement shall have been terminated in accordance with its terms.

7.2 Fees and Expenses.

(a) In the event that this Agreement is terminated by any party prior to Closing, all documented out-of-pocket fees and expenses (including reasonable attorney's fees and costs relating thereto) incurred by each of the Alter Entities, Biederman, the Westbrook Entities and their respective Affiliates (including SHP) in connection with this Agreement and the Transactions (the "Expenses") shall be paid by SHP, but only to the extent SHP receives any payments pursuant to Section 7.2 of the Merger Agreement (the "Merger Agreement Payment"). To the extent the Merger Agreement Payment is not sufficient to pay all the Expenses incurred by the parties hereto, Westbrook LLC and its Affiliates, on the one hand, and Alter and his Affiliates, on the other hand, shall receive a pro rata portion of the Merger Agreement Payment based on the

actual Expenses incurred by the Westbrook Entities and the Alter Entities, respectively. To the extent the Merger Agreement Payment exceeds all Expenses, any remaining portion of the Merger Agreement Payment will be distributed 88.5%

to the Westbrook Entities (the "Westbrook Payment") and 11.5% to Alter.

(b) Subject to the terms and conditions of this Section 7.2(b), to the extent the Westbrook Entities receive a Westbrook Payment, the Westbrook Entities, jointly and severally, agree to use 30% of the Westbrook Payment (the "Section 7.2 Price") in cash to purchase, and Alter agrees to sell, or to cause one or more of his Affiliates to sell, a number of shares of Lessee Stock representing the Section 7.2 Percentage (as defined below) of all issued and outstanding Lessee Stock as soon as practicable following receipt of the Westbrook Payment by the Westbrook Entities (the "Section 7.2 Purchase"). The Section 7.2 Purchase shall be subject to the terms and conditions hereof, other than the provisions of Article II, Sections 3.3, 3.5, 4.13, 4.14, 4.15, 5.1(c), 5.1(d), 5.4, 5.5, Article VI and Sections 8.3, 8.5, 8.8(d) and 8.9 and such other modifications to this Agreement as may be necessary to reflect the Section 7.2 Purchase rather than the closing of all the transactions contemplated by this Agreement. In addition, (i) references to "Biederman" in Sections 5.2, 5.3, 8.1 and 8.2 shall be disregarded in connection with the Section 7.2 Purchase, (ii) each dollar amount referenced in Sections 8.8(a) and 8.8(b) shall be deemed to be replaced by the Section 7.2 Percentage multiplied by such amount and (iii) the consummation of a Section 7.2 Purchase shall be conditioned on the Recapitalization having not been consummated or, if consummated, the Recapitalization having been rescinded. As used herein, the "Section 7.2 Percentage" shall be equal to the Section 7.2 Price divided by $16 million, but in no event shall the Section 7.2 Percentage exceed 37.5%, and in no event shall the Section 7.2 Price exceed $6 million.

(c) Notwithstanding anything to the contrary contained herein, in the event a transaction is consummated with respect to an Acquisition Proposal and Management and Lessee are Transferred to any Person who is not an Affiliate of Westbrook LLC, (i) any Merger Agreement Payment will be distributed entirely to Westbrook LLC, except to the extent Alter is entitled to receive payment for his Expenses in accordance with the first two sentences of 7.2(a) and (ii) Section 7.2(b) shall not be applicable.

(d) If SHP breaches the Merger Agreement as a result of the fault of WREF III or any other entity controlled by Westbrook Real Estate Partners, L.L.C. and such breach results in a termination of the Merger Agreement by Sunstone, then WREF III agrees to reimburse or cause the reimbursement of the Expenses of Alter, Biederman, Management and Lessee (such Expenses to include the reasonable fees and expenses of only one counsel to all of the foregoing). If the Closing has not occurred, except as provided in the foregoing sentence, no Westbrook Entity shall have any Liability to any of the Alter Entities, Biederman, Management, Management Sub or Lessee for any breach of any representation, warranty or covenant contained herein or otherwise.

7.3 Effect of Termination. In the event of any termination of the Agreement as provided in Section 7.1 hereto, this Agreement shall forthwith become wholly void and of no further force or effect (except Sections 7.2 and 7.3 and Article IX (other than Sections 9.15 and 9.16)) and there shall be no liability on the part of any parties hereto or their respective officers or

directors, except as provided in such Sections and Article. Notwithstanding the foregoing, no party hereto shall be relieved from liability for any willful breach of this Agreement.

ARTICLE VIII

INDEMNIFICATION

8.1 Indemnification by Westbrook LLC. From and after the Closing, Westbrook LLC shall indemnify and hold harmless each of the Alter Entities, Biederman, Management, Management Sub and their respective Affiliates, agents, heirs, executors, successors and assigns from and against any and all Losses suffered or incurred by any such indemnified Person arising from, relating to or otherwise in respect of (a) any breach of, or inaccuracy in, any representation or warranty of any Westbrook Entity contained in this Agreement and (b) any breach of any covenant of any Westbrook Entity contained in this Agreement.

8.2 Indemnification by Alter, Management and Management Sub. From and after the Closing, Alter, Management and Management Sub shall, jointly and severally, indemnify and hold harmless each of the Westbrook Entities, SHP and Biederman and their Affiliates and respective directors, officers, employees, agents, heirs, executors, successors and assigns of any of the foregoing from and against any and all Losses suffered or incurred by any such indemnified Person arising from, relating to or otherwise in respect of (a) any breach of, or inaccuracy in, any representation or warranty of any Alter Entity, Management or Management Sub contained in this Agreement; (b) any breach of any covenant of any Alter Entity, Management or Management Sub contained in this Agreement; and (c) any Retained Management Liabilities;

8.3 Indemnification by Biederman. From and after the Closing, Biederman shall indemnify and hold harmless each of the Alter Entities and the Westbrook Entities and their respective Affiliates and each of the foregoing's respective agents, directors, officers, employees, agents, heirs, executors, successors and assigns from and against any and all Losses suffered or incurred by any such indemnified Person arising from, relating to or otherwise in respect of, (a) any breach of, or inaccuracy in, any representation or warranty of Biederman contained in this Agreement or (b) any breach of any covenant of Biederman contained in this Agreement.

8.4 Tax Indemnification. (a) Notwithstanding any other provision of this Agreement (but subject to Section 8.8), following the Closing, the Alter Entities and Biederman shall indemnify and hold harmless each of the Westbrook Entities, SHP and their Affiliates and respective directors, officers, employees, agents, heirs, executors, successors and assigns of any of the foregoing from and against any and all Losses suffered or incurred by any such indemnified Person arising from, relating to or otherwise in respect of (a) any breach of, or inaccuracy in, any representation or warranty in Section 3.1(r)(iv), and (b) any and all income taxes of Lessee or Management for any taxable period or year ending before the Closing Date and with respect to any Straddle Period (as defined), for the portion of such Taxes determined pursuant to Section 8.4(b).

(b) With respect to any Taxes for any taxable period that includes but does not end as of the day prior to the Closing Date (a "Straddle Period"), the amount of income taxes subject to indemnification under this Section 8.4 attributable to pre-Closing and post-Closing tax periods shall be calculated as if such taxable period ended as of the close of business on the

day prior to the Closing Date.

8.5 Indemnification by SHP and Management Newco. From and after the Closing, SHP and Management Newco shall, jointly and severally, (i) indemnify and hold harmless Management, Alter and their respective Affiliates, heirs, executors, successors and assigns from and against any and all Losses suffered or incurred by any such indemnified Person arising from, relating to or otherwise in respect of, any Assumed Management Liabilities and (ii) provide the indemnity set forth in Section 4.15(a).

8.6 Third-Party Claims. If a claim by a third party is made against an indemnified Person hereunder, and if such indemnified Person intends to seek indemnity with respect thereto under this Article, such indemnified Person shall promptly notify the indemnifying Person in writing of such claims setting forth such claims in reasonable detail, provided that failure of such indemnified Person to give prompt notice as provided herein shall not relieve the indemnifying Person of any of its obligations hereunder, except to the extent that the indemnifying Person is materially prejudiced by such failure. If the indemnifying Person acknowledges in writing its obligation to indemnify the indemnified Person against any Losses that may result from such third party claim, then the indemnifying Person shall have 20 days after receipt of such notice to undertake, through counsel of its own choosing, subject to the reasonable approval of such indemnified Person, and at its own expense, the settlement or defense thereof, and the indemnified Person shall cooperate with it in connection therewith; provided, however, that the indemnified Person may participate in such settlement or defense through counsel chosen by such indemnified Person, provided that the fees and expenses of such counsel shall be borne by such indemnified Person. The indemnifying Person shall not settle any claim or consent to the entry of any judgment without the prior written consent of the indemnified Person, unless (i) such settlement or judgement includes as an unconditional term thereof the giving by the claimant of a release of the indemnified Person from all Liability with respect to such claim and (ii) such settlement or judgement does not involve the imposition of equitable remedies or the imposition of any material obligations on such indemnified Person other than financial obligations for which such indemnified Person will be indemnified hereunder. If the indemnifying Person shall assume the defense of a claim, the fees of any separate counsel retained by the indemnified Person shall be borne by such indemnified Person unless there exists or is reasonably likely to exist a conflict of interest between them as to their respective legal defenses (other than one that is of a monetary nature) in the reasonable judgment of the indemnified Person, in which case the indemnified Person shall be entitled to retain one law firm as its separate counsel, the reasonable fees and expenses of which shall be reimbursed as they are incurred by the indemnifying Person. If the indemnifying Person does not notify the indemnified Person within 20 days after the receipt of the indemnified Person's notice of a claim of indemnity hereunder that it elects to undertake the defense thereof and that it acknowledges its obligation to indemnify the indemnified Person against any Losses that may result from such claim, the indemnified Person shall have the right to contest, settle or compromise the claim in a reasonable manner, and the indemnifying Person shall cooperate with in

connection therewith, but the indemnified Person shall not thereby waive any right to indemnity therefor pursuant to this Agreement.

8.7 Termination of Indemnification. The obligations to indemnify and hold harmless a party hereto pursuant to Sections 8.1, 8.2 (other than 8.2(c)), 8.3 and 8.4 shall terminate upon the termination of the relevant representation, warranty or pre-closing agreement pursuant to Section 3.6; provided, however, that such obligation to indemnify and hold harmless shall not terminate with respect to any item as to which the Person to be indemnified shall have, before the expiration of the applicable period, previously made a claim by delivering a written notice (stating in reasonable detail the basis of such claim) to the indemnifying party.

8.8 Limitations on Indemnity Obligations. (a) Notwithstanding any contrary provision of this Agreement, (i) the maximum liability of Westbrook LLC pursuant to its indemnification obligation under Section 8.1(a) is $30,000,000, (ii) except as otherwise provided in clause (iii) below or in the last sentence of this Section 8.8(a), the maximum liability of the Alter Entities, Biederman, Management and Management Sub, in the aggregate, pursuant to their indemnification obligations under Sections 8.2(a) and 8.3 and with respect to any breach of a representation or warranty set forth in clause 3.1(c), 3.2(c) and 3.3(c) is $10,000,000, and (iii) the maximum liability of the Alter Entities, Biederman, Management and Management Sub, in the aggregate, pursuant to their indemnification obligations under Section 8.2(a) and 8.3 with respect to any breach of a representation or warranty set forth in clauses (i), (ii) or (iii) of Section 3.1(f), Sections 3.1(a), 3.1(b), 3.1(o), 3.1(p), 3.1(q), 3.1(r), 3.1(t), 3.1(v), 3.2(a), 3.2(b), 3.3(a) and 3.3(b) is $30,000,000. These limitations do not apply to any indemnification obligations under Sections 8.2 and 8.3 relating to a breach of any representation or warranty set forth in clause (iv) of Section 3.1(f), Sections 3.1(d), 3.1(h), 3.2(g), 3.2(h), 3.3(g) or 3.3(h) or any other section of this Article VIII.

(b) No amount shall be payable:

(i) under Section 8.1(a) unless and until the aggregate amount of Losses indemnifiable under Section 8.1(a) exceeds $500,000 (and if such amount is so exceeded, then only those Losses under such Section 8.1(a) shall then be payable in accordance with this Article VIII to the extent such Losses exceed $500,000);

(ii) under Section 8.2(a) unless and until the aggregate amount of Losses indemnifiable under Section 8.2(a) exceeds $500,000 (and if such amount is so exceeded, then only those Losses under such Section 8.2(a) shall then be payable in accordance with this Article VIII to the extent such Losses exceed $500,000);

(iii) under Section 8.3 unless and until the aggregate amount of Losses indemnifiable under Section 8.3 exceeds $500,000 (and if such amount is so exceeded, then only those Losses under such Section 8.3 shall then be payable in accordance with this Article VIII to the extent such Losses exceed $500,000).

(iv) under Section 8.2(c) unless and until the aggregate amount of Losses indemnifiable under Section 8.2(c) exceeds $500,000 (and if such amount is so exceeded, then only those Losses under such Section 8.2(a) shall then be payable in accordance with this Article VIII to the extent such Losses exceed $500,000); and

(v) no amount shall be payable under clause (a) of Sections 8.1, 8.2 or 8.3 for any breach the Losses arising from which in any individual case amount to $10,000 or less, and such Losses shall not be included in establishing the thresholds established in clauses (i), (ii) and (iii) of Section 8.8(b) and, in connection with the foregoing, the parties agree that any breach of any representation in clause (i) of Section 3.1(r) which relates to sales taxes shall be determined also on an individual basis, subject to the $10,000 threshold, and on a hotel by hotel basis for any particular taxable year;

(c) References in Article III to Material Adverse Effect and material adverse effect qualifiers shall be disregarded for purposes of determining whether a party has incurred Losses pursuant to Section 8.1(a), 8.2(a), 8.2(c) and 8.3.

(d) Any indemnification obligations for Losses owed by Alter or Biederman under this Agreement shall be satisfied only to the extent that Alter or Biederman, as the case may be, has received cash payments pursuant to Section 2.1 or has received or receives cash distributions from SHP, it being understood that to the extent that any indemnification obligation is not satisfied as a result of the foregoing provisions of this Section 8.8(d), such accrued but unpaid payment obligations shall be satisfied to the extent of future cash distributions from SHP to Alter or Biederman, as the case may be, until all such accrued but unpaid indemnification obligations are satisfied.

8.9 Allocation of Certain Indemnity Obligations. Westbrook LLC, Alter, Biederman and SHP agree as follows: with respect to any indemnification obligations arising from, relating to or otherwise in respect of any breach of, or inaccuracy in, any representation or warranty with respect to Lessee contained in Section 3.1 of this Agreement or any other indemnification obligations hereunder arising from, relating to or otherwise in respect of the acts or omissions of Lessee, Alter and Biederman shall not be responsible for more than 80% and 20%, respectively, of such indemnified Losses.

8.10 Exclusive Remedy. The indemnification provided in this Article VIII shall be the exclusive post-Closing remedy available to any party for any breach of any representation, warranty or covenant contained herein, except in circumstances involving fraud.

ARTICLE IX

MISCELLANEOUS AGREEMENTS OF THE PARTIES

9.1 Notices. Any notice in connection with this Agreement shall be in writing and shall be delivered personally by overnight courier or by facsimile at the addresses or facsimile numbers given below. If notice is given by: (a) overnight courier, notice shall be deemed given

when recorded on the records of the air courier as received by the receiving party; or (b) facsimile, notice shall be deemed given upon transmission, if on a business day and during business hours in the city of receipt; otherwise, notice shall be deemed to have been given at 9:00 A.M. on the next Business Day in the city of receipt.

If to Westbrook LLC, WREF III or Westbrook Co-Investment:

c/o Westbrook Real Estate Partners, L.L.C.
599 Lexington Avenue, Suite 3800
New York, New York 10022
Attn.: Jonathan Paul
Facsimile: (212) 849-8801

c/o Westbrook Real Estate Partners, L.L.C.
345 California Street, Suite 3450
San Francisco, California 94104
Attn.: Mark Mance
Facsimile: (415) 438-7921

c/o Westbrook Real Estate Partners, L.L.C.
13155 Noel Road
Dallas, Texas 75240
Attn.: Patrick Fox
Facsimile: (972) 934-8333

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017
Attn.: Richard Capelouto
Brian M. Stadler
Facsimile: (212) 455-2502

If to Alter, Riverside or Alter Investment Group:

c/o Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, California 92673-6212
Attn.: Robert A. Alter
Facsimile: (949) 369-4210

with a copy to:

Battle Fowler LLP
75 East 55th Street
New York, New York 10022
Attn.: Steven Lichtenfeld
Facsimile: (212) 856-7823

If to Biederman:

c/o Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, California 92673-6212
Attn.: Robert A. Alter
Facsimile: (949) 369-4210

with a copy to:

Battle Fowler LLP
75 East 55th Street
New York, New York 10022
Attn.: Steven Lichtenfeld
Facsimile: (212) 856-7823

If to SHP:

c/o Westbrook Real Estate Partners, L.L.C.
599 Lexington Avenue, Suite 3800
New York, New York 10022
Attn.: Jonathan Paul
Facsimile: (212) 849-8801

c/o Westbrook Real Estate Partners, L.L.C.
345 California Street, Suite 3450
San Francisco, California 94104
Attn.: Mark Mance
Facsimile: (415) 438-7921

with copies to:

Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, California 92673-6212
Attn.: Robert A. Alter
Facsimile: (949) 369-4210

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017
Attn.: Richard Capelouto
Brian M. Stadler
Facsimile: (212) 455-2502

Battle Fowler LLP
75 East 55th Street
New York, New York 10022
Attn.: Steven Lichtenfeld
Facsimile: (212) 856-7823

or to such other address as any such party shall designate by written notice to the other parties hereto.

9.2 Integration; Amendments. This Agreement (including the Schedules and Exhibits hereto) contains the entire agreement and understanding of the parties with regard to the matters contained herein and supercedes any prior written or oral agreement with respect to the subject matter hereto, except for paragraph 20 of the term sheet letter between Alter and WF III, dated as of April 5, 1999 (the "Term Sheet Letter"), which shall continue in full force and effect. This Agreement (including the Schedules and Exhibits hereto) may not be amended or modified except in a writing signed by all parties hereto.

9.3 Waiver. No waiver by any of the parties hereto of any of the provisions hereof shall be effective unless explicitly set forth in writing and executed by the party so waiving. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants, or agreements contained herein, and in any documents delivered or to be delivered pursuant to this Agreement and in connection with the Closing hereunder. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

9.4 No Assignment; Successors and Assigns. The parties' respective rights and obligations hereunder may not be assigned, transferred, pledged, or encumbered, in any manner, direct or indirect, contingent or otherwise, in whole or in part, voluntarily or by operation of law, without the prior written consent of the other parties, provided that any of the Westbrook Entities may assign, in whole or in part, any of its rights and obligations hereunder and under the Implementing Agreements to one or more of its Affiliates without the consent of the other parties hereto, but Westbrook LLC and WREF III will remain liable for their obligations hereunder and under each of the Implementing Agreements to which they are a party. Subject to the preceding sentence, and subject to the restrictions contained in Section 6.3, this Agreement shall be binding on the parties hereto and their respective successors and permitted assigns. In the event of the

death, disability or incapacity of Alter or Biederman, such party's executors, administrators, testamentary trustees or personal representatives shall be bound by all the terms and conditions of this Agreement and, in addition, such party's legatees or beneficiaries shall be bound by the provisions of Article VI.

9.5 Expenses. Except as set forth in this Agreement, whether or not the Transactions are consummated, all costs and expenses incurred in connection with this Agreement and the Transactions shall be paid by the party incurring such costs.

9.6 Severability. If any provision of this Agreement shall be declared by any court of competent jurisdiction to be illegal, void or unenforceable, all other provisions of this Agreement shall not be affected and shall remain in full force and effect, and the parties hereto shall negotiate in good faith to replace such illegal, void or unenforceable provision with a provision that corresponds as closely as possible to the intentions of the parties as expressed by such illegal, void or unenforceable provision.

9.7 Section Headings; Table of Contents. The section headings contained in this Agreement and the table of contents to this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

9.8 Third Parties. Except for the beneficiaries of the indemnification provided in Article VII, this Agreement does not create any rights, claims or benefits inuring to any Person that is not a party hereto nor create or establish any third party beneficiary hereto.

9.9 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICT OF LAWS THEREOF.

9.10 Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed by any of Lessee, Management, Management Sub, the Alter Entities or Biederman in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Westbrook Entities and SHP shall be entitled to an injunction or injunctions to prevent breaches of this Agreement by any of Lessee, Management, Management Sub, the Alter Entities or Biederman and to enforce specifically the terms and provisions of this Agreement in any federal court located in Delaware or in Chancery Court in Delaware, this being in addition to any other remedy to which Westbrook Entities or SHP is entitled at law or in equity. In addition, each of Lessee, Management, Management Sub, the Alter Entities and Biederman (a) consents to submit itself (without making such submission exclusive) to the personal jurisdiction of any federal court located in Delaware or Chancery Court located in Delaware in the event any dispute arises out of this Agreement or any of the Transactions and (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court.

In the event any dispute or difference of opinion arises under this Agreement, the parties hereto shall endeavor to resolve such dispute or difference of opinion by negotiation or mediation. If, for any reason, such mediation or negotiation fails to result in a mutually acceptable resolution, the parties agree to be bound by their consent to the jurisdiction of any federal court located in Delaware or Chancery Court located in Delaware. The parties hereby irrevocably and unconditionally waive trial by jury.

9.11 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

9.12 Cumulative Remedies. All rights and remedies of either party hereto are cumulative of each other and of every other right or remedy such party may otherwise have at law or in equity, and the exercise of one or more rights or remedies shall not prejudice or impair the concurrent or subsequent exercise of other rights or remedies.

9.13 Bulk Sales Law Waiver. Each party hereto agrees to waive compliance by the other with the provisions of the bulk sales law or comparable law of any jurisdiction to the extent that the same may be applicable to the Transactions. SHP agrees to indemnify and hold harmless Alter and Management from and against any and all claims that may be asserted against Alter and Management as a result of any failure to comply with any such bulk sales law or comparable law of any jurisdiction to the extent that the same may be applicable to the Transactions.

9.14 Consent of Regina Biederman. Regina Biederman hereby consents to all of the Transactions, and waives any and all right to contest or prevent the consummation of such transactions.

9.15 Alternative Transaction. In the event the death or incapacity of Alter delays the consummation of the Transactions, Lessee and the other parties hereto agree that, in lieu of the contributions of Lessee Stock to SHP contemplated by Section 2.1, Lessee shall transfer all of its assets and liabilities to SHP at the Closing in exchange for the consideration contemplated to be received by the Alter Entities and Biederman in exchange for Lessee Stock pursuant to Section 2.1.

9.16 Operating Leases. Notwithstanding anything to the contrary in this Agreement, if (w) all the conditions to Closing shall have been satisfied or waived except for the conditions set forth in Section 5.2(a) or 5.2(b), (x) the Closing does not occur, (y) (i) it shall have been determined by a court of competent jurisdiction that the Losses that would have been suffered or incurred by the Westbrook Entities arising from, relating to or otherwise in respect of any breach of, or inaccuracy in, any representation or warranty or any breach of any covenant of any Alter Entity, Management, Management Sub or Biederman if the Closing had occurred at the time such other conditions were satisfied or waived would have exceeded $30 million in the aggregate or (ii) any Alter Entity, Management, Management Sub or Biederman willfully shall fail to make the contributions contemplated to be made by them pursuant to Article II, and (z) the Merger shall have been consummated, then, the Alter Entities, Management, Management Sub and Biederman

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agree that the Westbrook Entities shall have the right to cause Sunstone OP and its Affiliates to terminate any or all of the operating leases and related agreements between them and Lessee and Management without any payment or other Liability to any Alter Entity, Management, Management Sub or Biederman (such event, the "Lease Termination"). In connection with a Lease Termination, the provisions of Section 4.15 shall be applicable as if the Closing had occurred.

9.17 Exclusivity. Upon execution of this Agreement and until 30 days after the termination of the Merger Agreement in accordance with its terms, none of the Westbrook Entities and none of the Alter Entities (in their respective individual capacities and not in any capacity they have at Sunstone) will engage in discussions or enter into agreements or understandings with any person or group, including Sunstone, concerning a business combination involving, or the acquisition of a material portion of the assets or equity of, Sunstone, Sunstone OP, Lessee or Management, other than the other of them concerning the Transactions (provided, however, that the foregoing shall not prohibit (x) any of the Westbrook Entities from discussing or entering into agreements or understandings regarding the Transactions with their internal or co-investors, subject to their respective agreement to comply with the confidentiality and other provisions set forth in the Term Sheet Letter or (y) Alter or Biederman from selling their respective interests in Lessee and Management (or their assets) in any transaction contemplated by the Lessee/Manager Agreement (or any derivative or modification thereof approved by the board of directors of Sunstone).

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IN WITNESS WHEREOF, the parties have caused this Agreement to

be duly executed as of the date first above written.

WESTBROOK SHP L.L.C.

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Person

WESTBROOK REAL ESTATE FUND III, L.P.

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Person

WESTBROOK REAL ESTATE CO-
INVESTMENT PARTNERSHIP III

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Person

/s/ Robert A. Alter

Robert A. Alter

RIVERSIDE HOTEL PARTNERS

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: President

ALTER INVESTMENT GROUP LTD.

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: General Partner

/s/ Charles L. Biederman

Charles L. Biederman

SUNSTONE HOTEL MANAGEMENT, INC.

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: Chairman

SUNSTONE HOTEL PROPERTIES, INC.

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: Chairman

MANAGEMENT SUB SHP L.L.C.

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: Manager

SHP ACQUISITION, L.L.C.

By: /s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: Manager

Solely with respect to Section 4.2(c):

WESTBROOK REAL ESTATE FUND I, L.P.

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Person

Solely with respect to Section 9.14:

/s/ REGINA BIEDERMAN

REGINA BIEDERMAN

Exhibit 4

AGREEMENT AND PLAN OF MERGER

BY AND AMONG

SHP ACQUISITION, L.L.C.,

SHP INVESTORS SUB, INC.

AND

SUNSTONE HOTEL INVESTORS, INC.

DATED AS OF JULY 12, 1999

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THIS AGREEMENT AND PLAN OF MERGER (this "Agreement") dated as of July 12, 1999, is by and among SHP Acquisition, L.L.C., a Delaware limited liability company ("Parent"), SHP Investors Sub, Inc., a Maryland corporation and an indirect subsidiary of Parent ("Buyer"), and Sunstone Hotel Investors, Inc., a Maryland corporation ("Seller").

RECITALS:

A. The Board of Directors of Seller ("Seller Board"), based upon the recommendation of a duly appointed special committee thereof of independent directors ("Special Committee"), and the Board of Directors of Buyer have each determined it to be advisable and in the best interests of their respective stockholders, subject to the conditions and other provisions contained herein, that Buyer merge with and into Seller ("Merger").

B. The members of Parent have approved this Agreement and the Merger.

C. The Special Committee and the Seller Board have received a fairness opinion relating to the transactions contemplated hereby as more fully described herein.

D. Parent, Buyer and Seller desire to make certain representations, warranties and agreements in connection with the transactions contemplated hereby.

E. Contemporaneously with the execution of this Agreement, Westbrook SHP L.L.C., a Delaware limited liability company ("Westbrook SHP"), Robert A. Alter ("Alter"), Riverside Hotel Partners, Inc., a California corporation ("Riverside"), Alter Investment Group Ltd., a Colorado limited partnership, ("Alter Investment Group"), Charles L. Biederman ("Biederman"), Sunstone Hotel Management, Inc., a Colorado corporation ("Manager"), Management Sub SHP L.L.C., a Delaware limited liability company ("Management Sub"), Sunstone Hotel Properties, Inc., a Colorado corporation ("Lessee"), Parent, Westbrook Real Estate Fund III, L.P., a Delaware limited partnership ("Westbrook Fund III"), Westbrook Real Estate Co-Investment Partnership III, L.P., a Delaware limited partnership ("Westbrook Co-Investment"), and, solely for purposes of Section 4.2(c) of the Contribution Agreement (as defined), Westbrook Real Estate Fund I, L.P., a Delaware limited partnership ("Westbrook Fund I"), and, solely for the purposes of Section 9.14 of the Contribution Agreement, Regina Biederman have entered into a Contribution Agreement (the "Contribution Agreement") pursuant to which and subject to the terms and conditions thereof, Westbrook SHP, Alter, Biederman, Manager, Westbrook Fund III, Westbrook Co-Investment, Management Sub, Riverside and Alter Investment Group shall contribute certain assets, equity interests and cash to Parent as described therein (the "Contribution") immediately prior to the Seller Partnership Redemption (as defined below).

F. Immediately prior to the Partnership Merger (as defined below) Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), will redeem from Seller certain outstanding units of Seller Partnership held by Seller in exchange for certain assets held by Seller Partnership ("Seller Partnership Redemption") in accordance with the terms set forth on Exhibit A attached hereto.

G. Contemporaneously with the execution of this Agreement, SHP OP, L.L.C., a Delaware limited liability company ("Buyer Operating Partnership"), Seller Partnership and Parent are entering into a Merger Agreement ("Partnership Merger Agreement") pursuant to which, and subject to the terms and conditions thereof, immediately after the Seller Partnership Redemption and immediately prior to the Merger, Buyer Operating Partnership will be merged with and into Seller Partnership (the "Partnership Merger") with Seller Partnership as the surviving entity ("Surviving Operating Partnership").

H. To effect the Partnership Merger and the Partnership Agreement Amendment (as defined below), (i) approval by the General Partner (as defined in the Seller Partnership Agreement) (the "General Partner") and Limited Partners (as defined in the Seller Partnership Agreement, "Limited Partners") who own more than 50% of the Percentage Interests (as defined in the Seller Partnership Agreement) ("Percentage Interests") of the Partners (as defined in the Seller Partnership Agreement) of the Partnership Merger and the Partnership Merger Agreement and (ii) approval by Limited Partners holding more than 66-2/3% of the

Percentage Interests of the Limited Partners (excluding the Percentage Interests held by Seller or any entity controlled by Seller) of the Partnership Agreement Amendment ((i) and (ii) collectively, the "Seller Partner Approval") must be obtained as of the date hereof, and copies of such approvals as have been obtained as a result of the delivery to the Seller Partnership of certain voting agreements and consents are attached as Exhibit E.

I. Contemporaneously with the execution of this Agreement, Alter, Biederman, Seller, Seller Partnership, Lessee and Manager have entered into a drag-along agreement (the "Lessee/Manager Agreement"), a copy of which is attached as Exhibit B, pursuant to which, under certain circumstances, Seller and the Seller Partnership have the right to require Alter and Biederman or Lessee and Manager, and Alter and Biederman or Lessee or Manager have the obligation, to sell all of their equity interest in Lessee and Manager, as the case may be, to certain third parties.

J. Contemporaneously with the execution of this Agreement, Seller, Alter, Biederman, Westbrook Fund I and Parent have entered into a voting agreement (the "Voting Agreement") and a limited irrevocable proxy (the "Irrevocable Proxy"), a copy of which is attached as Exhibit C.

NOW, THEREFORE, in consideration of the premises and the representations, warranties, covenants and agreements contained herein, the parties hereto hereby agree as follows:

ARTICLE 1

THE MERGER

1.1 The Merger. Upon the terms and subject to the conditions of this Agreement, and in accordance with Subtitle 1 of Title 3 of the Maryland General Corporation Law ("MGCL"), Buyer shall be merged with and into Seller, with Seller as the surviving entity (the entity surviving the Merger, the "Surviving Company"). The Merger shall have the effects specified in Section 3-114 of the MGCL and this Agreement.

1.2 Closing. On the terms and subject to the conditions of this Agreement and provided that this Agreement has not been terminated pursuant to Article 7, the closing of the Merger ("Closing") will take place at 10:00 a.m., local time in New York, New York, on the date which is the third business day following

satisfaction (or waiver by the parties entitled to the benefit thereof) of the conditions set forth in Article 6 (other than conditions that by their terms, cannot be satisfied until the Closing Date), at the offices of Simpson Thacher & Bartlett, 425 Lexington Avenue, New York, NY 10017-3954, unless another date or place is agreed to in writing by the parties; provided however that without the written consent of Parent and Buyer, the Closing shall not occur prior to October 30, 1999 unless the Lender Consent (as herein defined) has been obtained under that certain loan facility dated May 7, 1999 in the original principal amount of $16,135,000. The date on which the Closing occurs is referred to herein as the "Closing Date."

1.3 Effective Time. On the Closing Date, the parties shall execute and file articles of merger (the "Articles of Merger"), executed in accordance with Maryland law, and shall make all other filings and recordings required under Maryland law. The Merger shall become effective at the time ("Effective Time") the Articles of Merger are accepted for record by the Maryland State Department of Assessments and Taxation (the "Maryland Department"), or at such time as Buyer and Seller shall agree should be specified in the Articles of Merger (not to exceed 30 days after the Articles of Merger are filed with the Maryland Department). Unless otherwise agreed, the parties shall cause the Effective Time to occur on the Closing Date.

1.4 Effect of Merger on Charter and Bylaws. The Articles of Incorporation, as amended and restated ("Charter"), as further amended by the amendments discussed below, of Seller and the bylaws, as amended and restated, of Seller, as in effect immediately prior to the Effective Time, shall constitute the Charter and bylaws, respectively, of the Surviving Company, from and after the Effective Time, until further amended in accordance with

applicable Maryland law.

1.5 Directors and Officers. The directors and officers of the Surviving Company shall be the Persons who were the directors and officers, respectively, of Buyer immediately prior to the Effective Time. Such directors and officers shall continue to serve for the balance of their unexpired terms or their earlier death, resignation or removal.

1.6 Effect on Shares. The effect of the Merger on the shares of Seller shall be as provided in this Article 1. Each share of common stock of Buyer outstanding immediately prior to the Merger shall be converted, without any action on the part of the holder thereof, into one share of the common stock of the Surviving Company.

1.7 Merger Consideration.

(a) At the Effective Time, by virtue of the Merger and without any action on the part of Parent, Buyer, Seller or the holders of the following securities:

(i) each Seller Common Share (as defined in Section 2.3(a)) issued and outstanding immediately prior to the Effective Time shall be converted into the right to receive $10.35 in cash as adjusted pursuant to Section 1.7(c) ("Common Merger Consideration"), without interest thereon, upon surrender of the certificate formerly representing such Share; and

(ii) each Seller Preferred Share (as defined in Section 2.3(a)) issued and outstanding immediately prior to the Effective Time (other than Seller Preferred Shares held by Parent, Buyer or any wholly-owned Subsidiary of Parent or Buyer, which shares by virtue of the Merger and without any action

on the part of the holder thereof, shall be canceled and shall cease to exist with no payment being made with respect thereto and Parent and Buyer hereby consent to such treatment) shall be converted into the right to receive the "Liquidation Preference" (as such term is defined in the Articles Supplementary of the Seller Preferred Shares) (the "Preferred Merger Consideration"), without interest thereon, upon surrender of the certificate formerly representing such share.

The Preferred Merger Consideration, together with the Common Merger Consideration, is hereinafter referred to as the "Merger Consideration."

(b) Each outstanding Seller Option (as defined in Section 2.3(b)) shall be subject to the terms of this Agreement. As of the Effective Time, each outstanding Seller Option, whether or not then vested or exercisable, shall have the expiration date thereof accelerated to the Closing Date, and Seller shall use its reasonable best efforts to cause each such Seller Option to be converted into the right to receive from the Surviving Company an amount of cash equal to the product of (i) the number of Seller Common Shares subject to the Seller Option and (ii) the excess, if any, of the Common Merger Consideration over the exercise price per Seller Common Share of such option (the "Option Consideration"). Each outstanding agreement for the issuance of warrants ("Warrants") and the shares which would be issuable upon the exercise of such warrants (such shares, "Warrant Shares") shall be subject to the terms of this Agreement. Seller shall use its reasonable best efforts to cause each Warrant to be converted into the right to receive from the Surviving Company an amount of cash equal to the product of (i) the number of Warrant Shares and (ii) the excess, if any, of the Common Merger Consideration over the exercise price per Warrant Share of such Warrants (the "Warrant Consideration"). Prior to the Effective Time, Seller shall take all steps necessary to give written notice to each holder of a Seller Option and Warrant that all Seller Options and Warrants shall expire effective as of the Effective Time and be converted into the right to receive the Option Consideration or Warrant Consideration, as the case may be. The Surviving Company shall cause the Paying Agent (as defined below) to pay each holder of Seller Options and Warrants, promptly following the Effective Time, the Option Consideration or Warrant Consideration, as the case may be, for all Seller Options and of Warrant Shares held by such holder. The Seller Board or any committee thereof responsible for the administration of Seller's stock option plans or warrant plans shall take any and all action necessary to effectuate the matters described in this Section 1.7(b) on or before the

Effective Time. Any amounts payable pursuant to this Section 1.7(b) shall be subject to any required withholding of taxes and shall be paid without interest. Parent agrees to provide the Surviving Company with sufficient funds to permit the Surviving Company to satisfy its obligations under this Section 1.7(b).

(c) The Common Merger Consideration shall be decreased to the extent and in the circumstances described in Section 5.3 (a)(ii)(y) and (z), Section 5.3(c), Section 5.3(d), the last sentence of Section 5.8 or the last sentence of Section 6.2(f). The Common Merger Consideration shall be increased by an amount (the "Closing Adjustment Amount") equal to: 50% of (i) consolidated cash, cash equivalents and marketable securities (valued equal to their market value) of Seller and its Subsidiaries, determined by Ernst & Young, LLP in accordance with GAAP, as of the close of business on the fifth business day prior to Closing (the "Measurement Date") minus (ii) consolidated cash, cash equivalents and marketable securities (valued equal to their market value) of Seller and its Subsidiaries, determined by Ernst & Young LLP in accordance with GAAP, as of June 30, 1999; minus (iii) the aggregate proceeds received by Seller and its Subsidiaries during the period after June 30, 1999 and on or prior to the Measurement Date of (x) any sales or other dispositions of assets of Seller or any of its Subsidiaries, (y) any incurrence of indebtedness or other non-equity financing by Seller or any of its Subsidiaries or (z) any issuances of equity interests by Seller or

any of its Subsidiaries, except in each case to the extent such proceeds were utilized to pay down debt (other than scheduled amortization payments or payments at scheduled maturity); plus (iv) expenses not exceeding $11,500,000 described in Section 6.2(f) and paid in cash by Seller after June 30, 1999 and on or prior to the Measurement Date, plus (v) the amount by which accrued property taxes of Seller as of the Measurement Date are less than the amount at June 30, 1999; minus (vi) the amount by which accrued property taxes of Seller as of the Measurement Date exceed the amount at June 30, 1999; plus (vii) any amounts overdue from Lessee as of the Measurement Date; minus (viii) the amount of insurance and condemnation proceeds received by Seller that have not been applied (x) to purchase or repair the assets giving rise to such proceeds or (y) to the repayment of debt (other than scheduled amortization payments or payments at scheduled maturity); provided however that the Closing Adjustment Amount will equal not less than $2,500,000. The determination of Ernst & Young LLP with respect to the Closing Adjustment Amount pursuant to this Section 5.8(b) will be binding on the parties except in the case of fraud or gross negligence by Ernst & Young LLP.

1.8 Transactions Relating to Seller Partnership. Contemporaneously with the execution of this Agreement, Buyer Operating Partnership and Seller Partnership are entering into the Partnership Merger Agreement pursuant to which and subject to the terms and conditions thereof, among other things, (i) on the Closing Date and prior to the Effective Time Buyer Operating Partnership will be merged with and into Seller Partnership (the "Partnership Merger") with Seller Partnership surviving as the Surviving Operating Partnership and (ii) each holder ("Seller Common Unit Holder") other than Seller of common units in the Seller Partnership ("Seller Common OP Units") will be offered the option of receiving either (A) an amount per Seller Common OP Unit equal to the Common Merger Consideration or (B) one Class A Unit (as defined in the limited liability company agreement of Parent, as amended) for each Seller Common OP Unit held by such holder, or (C) one Class B Unit (as defined in the Limited Liability Company Agreement of Parent, as amended) for each Seller Common OP Unit held by such holder, provided that such holder must be an "accredited investor" as defined in Rule 501 under the Securities Act (as defined below) and not an "interested stockholder" of Seller or an "affiliate" of an interested stockholder of Seller (both as defined in Section 3-601 of the MGCL) to elect the option described in the clause (B) or (C). Each Seller Common OP Unit held by Seller shall be converted into the right to receive an amount equal to the Common Merger Consideration. Immediately prior to the Partnership Merger, Seller Partnership shall redeem all of the Seller OP Preferred Units (as defined in Section 2.3(e)) and certain of the Seller Common OP Units held by Seller in exchange for certain assets held by the Seller Partnership in accordance with the terms set forth on Exhibit A attached hereto.

1.9 Exchange of Certificates.

(a) Prior to the Effective Time, Buyer shall appoint a paying agent reasonably acceptable to Seller to act as agent (the "Paying Agent") for

the payment of the Merger Consideration upon surrender of certificates formerly representing issued and outstanding Seller Common Shares or Seller Preferred Shares and cash payable in respect of Seller Common OP Units, Seller Options and Warrants.

(b) Parent and Buyer shall provide to the Paying Agent on or before the Effective Time, for the benefit of the holders of Seller Common Shares, Seller Preferred Shares and Seller Common OP Units, cash payable in exchange for the issued and outstanding Seller Common Shares and Seller Preferred Shares and cash payable in respect of Seller Common OP Units.

(c) Promptly after the Effective Time, the Surviving Company shall cause the Paying Agent to mail to each holder of record of a certificate or certificates which immediately prior to the Effective Time represented outstanding Seller Common Shares or Seller Preferred Shares (the "Certificates") (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Paying Agent and shall be in such form and have such other provisions as Buyer may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for the Merger Consideration. Upon surrender of a Certificate for cancellation to the Paying Agent, together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, the holder of such Certificate shall be entitled to receive in exchange therefor the applicable Merger Consideration, and the Certificate so surrendered shall forthwith be canceled. In the event of a transfer of ownership of Seller Common Shares or Seller Preferred Shares which is not registered in the transfer records of Seller, payment may be made to a Person (as defined in Section 2.2(a)) other than the Person in whose name the Certificate so surrendered is registered if such Certificate shall be properly endorsed or otherwise be in proper form for transfer and the Person requesting such payment either shall pay any transfer or other Taxes (as defined in Section 2.14(a)) required by reason of such payment being made to a Person other than the registered holder of such Certificate or establish to the satisfaction of the Surviving Company that such Tax or Taxes have been paid or are not applicable. Until surrendered as contemplated by this Section 1.9, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive upon such surrender the Merger Consideration, without interest. No interest will be paid or will accrue on the Merger Consideration upon the surrender of any Certificate. Consideration payable in respect of Seller Common OP Units will be paid as provided in the Partnership Merger Agreement.

(d) All Merger Consideration paid upon the surrender of Certificates in accordance with the terms of this Section 1.9 shall be deemed to have been paid in full satisfaction of all rights pertaining to the Seller Common Shares or Seller Preferred Shares formerly represented by such Certificates; provided, however, that Seller shall transfer to the Paying Agent cash sufficient to pay any dividends or make any other distributions with a record date on or prior to the Effective Time which may have been declared or made by Seller on such Seller Common Shares or Seller Preferred Shares, including without limitation any dividends permitted by the second paragraph of Section 5.8 hereof, in accordance with the terms of this Agreement or prior to the date of this Agreement and which remain unpaid at the Effective Time and have not been paid prior to such surrender, and there shall be no further registration of transfers on the stock transfer books of Seller of the Seller Common Shares or Seller Preferred Shares which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Company for any reason, they shall be canceled and exchanged as provided in this Section 1.9.

(e) None of Parent, Seller, Buyer, the Surviving Company or the Paying Agent shall be liable to any Person in respect of any Merger Consideration delivered to a public official pursuant to any applicable abandoned property, escheat or similar law. Any portion of the Merger Consideration delivered to the Paying Agent pursuant to this Agreement that remains unclaimed for 12 months after the Effective Time shall be redelivered by the Paying Agent to the Surviving Company, upon demand, and any holders of Certificates who have not theretofore complied with Section 1.9(c) shall thereafter look only to the Surviving Company for delivery of the Merger Consideration and any unpaid dividends, subject to applicable escheat and other

similar Laws (as defined below).

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1.10 Further Assurances. If, at any time after the Effective Time, the Surviving Company shall determine or be advised that any deeds, bills of sale, assignments, assurances or any other actions or things are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Company the right, title or interest in, to or under any of the rights, properties or assets of Seller acquired or to be acquired by the Surviving Company as a result of, or in connection with, the Merger or otherwise to carry out this Agreement, the Surviving Company shall be authorized to execute and deliver, in the name and on behalf of each of Parent, Buyer and Seller, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of each of Parent, Buyer and Seller or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties or assets in the Surviving Company or otherwise to carry out this Agreement.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Parent and Buyer, except (i) as set forth in Seller SEC Documents (as defined below) to the extent it is reasonably clear from a reading of the disclosure in such Seller SEC Document that such disclosure is applicable to the relevant representation and warranty contained herein, (ii) with respect to events, facts, or circumstances or conditions known to Alter as of the date of this Agreement or existing because of acts or omissions by Alter since April 6, 1999, but solely with respect to the representations and warranties set forth in Sections 2.4(b)(ii) and (iii), 2.6(f), and 2.8(e), (g) and (h) or (iii) the letter of even date herewith delivered to Buyer prior to the execution hereof (the "Seller Disclosure Letter") (it being understood that the Seller Disclosure Letter shall be arranged in sections corresponding to the sections contained in this Article 2, and the disclosures in any section of the Seller Disclosure Letter shall qualify all of the representations in the corresponding section of this Article 2 and, in addition, all other sections in this Article 2 to the extent it is reasonably clear from a reading of the disclosure that such disclosure is applicable to such other sections) as follows:

2.1 Organization, Standing and Power of Seller. Seller is a corporation duly organized and validly existing under the Laws of Maryland. Seller has the requisite corporate power and authority to carry on its business as now being conducted. Seller is duly qualified or licensed to do business as a foreign corporation and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a Seller Material Adverse Effect. Seller has delivered to Buyer complete and correct copies of Seller's Charter and bylaws, in each case, as amended to the date of this Agreement. As used in this Agreement, "Seller Material Adverse Effect" shall mean a material adverse effect on the business, properties, assets, financial condition, or results of operations of Seller and its Subsidiaries, taken as a whole, including the prevention of the ability of Seller or Seller Partnership to consummate timely any of the Transactions (as defined below); provided that adverse effects on the business, properties, assets, financial condition or results of operation of Seller or its Subsidiaries resulting from (A) the fact that Seller and Seller Partnership have entered into this Agreement or Seller's and Seller Partnership's compliance with the terms of this Agreement, including consummating the Merger or the Partnership Merger, (B) general economic or market conditions or (C) the real estate or hotel and lodging industry generally, shall not individually or in the aggregate constitute a Seller Material Adverse Effect.

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2.2 Seller Subsidiaries/Investments.

(a) Section 2.2(a) of the Seller Disclosure Letter sets forth as of the date hereof (i) each Subsidiary (as defined below) of Seller (the "Seller Subsidiaries"), (ii) the ownership interest therein of Seller, (iii) if

not wholly-owned by Seller, the identity and ownership interest of each of the other owners of such Seller Subsidiary (it being understood that such representation with respect to securities held by any entity other than Seller or a Seller Subsidiary is made only to the Knowledge of Seller (as defined below)) and (iv) each real property owned or leased by such Subsidiary, and identifies whether such property is owned or leased and if leased, the name of the lessor. As used in this Agreement, "Subsidiary" of any Person (as defined below) means any corporation, partnership, limited liability company, joint venture, trust or other legal entity of which such Person (either directly or through or together with another Subsidiary of such Person) owns 50% or more of the capital stock or other equity interests of such corporation, partnership, limited liability company, joint venture or other legal entity, including, without limitation, the Seller Partnership, but does not include short-term money market investments and other participation interests in short-term investments. As used herein, "Person" means an individual, corporation, partnership, limited liability company, joint venture, association, trust, unincorporated organization or other entity.

(b) (i) All the outstanding shares of capital stock owned by Seller or a Seller Subsidiary of each Seller Subsidiary that is a corporation have been validly issued and are (A) fully paid, nonassessable and free of any preemptive rights, (B) owned by Seller or by another Seller Subsidiary and (C) owned free and clear of all pledges, claims, liens, charges, encumbrances and security interests of any kind or nature whatsoever (collectively, "Liens") or any other limitation or restriction (including any contractual restriction on the right to vote or sell the same) other than restrictions under applicable securities laws; and (ii) all equity interests in each Seller Subsidiary that is a partnership, joint venture, limited liability company or trust which are owned by Seller, by another Seller Subsidiary or by Seller and another Seller Subsidiary are owned free and clear of all Liens or any other limitation or restriction (including any contractual restriction on the right to vote or sell the same) other than restrictions under applicable securities laws. Each Seller Subsidiary that is a corporation is duly incorporated and validly existing under the Laws of its jurisdiction of incorporation and has the requisite corporate power and authority to carry on its business as now being conducted, and each Seller Subsidiary that is a partnership, limited liability company or trust is duly organized and validly existing under the Laws of its jurisdiction of organization and has the requisite power and authority to carry on its business as now being conducted. Each Seller Subsidiary is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a Seller Material Adverse Effect. True and correct copies of the certificate or articles of incorporation, By-laws, organization documents and partnership, joint venture and operating agreements of each Seller Subsidiary, and all amendments to the date of this Agreement, have been made available or previously delivered to Buyer.

(c) Neither Seller nor any Seller Subsidiary owns, directly or indirectly, any interest or investment (whether equity or debt) in any corporation, partnership, joint venture, business, trust or entity (other than investments in the Seller Subsidiaries and short-term investment securities).

2.3 Capital Structure.

(a) The authorized shares of capital stock of Seller consist of 150,000,000 shares of common stock, $0.01 par value per share, of which 37,929,477 shares are issued and outstanding as of June 30, 1999 (the "Seller Common Shares"), and 10,000,000 shares of preferred stock, $0.01 par value per share, of which 250,000 are issued and outstanding as of the date hereof and are designated as Class A Cumulative Convertible Preferred Stock (the "Seller Preferred Shares"). Since June 30, 1999, no Seller Common Shares have been issued. As of the date hereof, (i) 2,400,000 Seller Common Shares have been reserved for issuance under the 1994 Stock Incentive Plan of Seller (the "Seller 1994 Incentive Plan"), under which options in respect of 1,690,640 Seller Common Shares have been granted and are outstanding as of the date hereof, (ii) 150,900 Seller Common Shares have been reserved for issuance under the 1994 Directors Plan of Seller (the "Seller Director Plan"), under which options in respect of 30,000 Seller Common Shares have been granted and are outstanding on the date hereof, (iii) 15,900 Seller Common Shares have been reserved for issuance under

the 1997 Supplemental Stock Option Plan of Seller (the "Seller 1997 Supplemental Plan"), under which options in respect of 9,300 Seller Common Shares have been granted and are outstanding on the date hereof, (iv) 2,072,250 Seller Common Shares are reserved for issuance upon conversion of Seller Common OP Units, (v) 1,699,605 Seller Common Shares are reserved for issuance upon conversion of the Seller Preferred Shares, and (vi) 464,042 Seller Common Shares are reserved for issuance upon exercise of warrants of Seller of which warrants for the purchase of 17,042 Seller Common Shares have been issued and are outstanding.

(b) Set forth in Section 2.3(b) of the Seller Disclosure Letter is a true and complete list of the following: (i) each qualified or nonqualified option to purchase Seller Common Shares granted under the Seller 1994 Incentive Plan, Seller Director Plan and Seller 1997 Supplemental Plan (collectively, the "Seller Plans") or any other formal or informal arrangement ("Seller Options"); (ii) each grant of Seller Common Shares to employees which are subject to any risk of forfeiture; (iii) all agreements for the issuance of warrants or to purchase Seller Common Shares and the number of shares which would be issuable upon the exercise of such warrants or agreements, and (iv) all other rights to acquire stock, all limited stock appreciation rights, phantom stock, dividend equivalents, performance units and performance shares granted under the Seller Plans which are outstanding as of the date hereof. On the date of this Agreement, except as set forth in this Section 2.3, no shares of capital stock of Seller were outstanding or reserved for issuance.

(c) All outstanding shares of capital stock of Seller are duly authorized, validly issued, fully paid and nonassessable, and not subject to preemptive rights. There are no bonds, debentures, notes or other indebtedness of Seller having the right under applicable law or Seller's Charter or bylaws to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which stockholders of Seller may vote.

(d) There are no outstanding securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which Seller or any Seller Subsidiary is a party or by which any such entity is bound, obligating Seller or any Seller Subsidiary to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock, voting securities or other ownership interests of Seller or any Seller Subsidiary or obligating Seller or any Seller Subsidiary to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking (other than to Seller or a Seller Subsidiary). There are no outstanding obligations of Seller or any Seller Subsidiary to repurchase, redeem or otherwise acquire any shares of stock of Seller or shares of stock or other ownership interests of any Seller Subsidiary.

(e) As of the date hereof, 40,001,727 Seller Common OP Units are validly issued and outstanding, fully paid and nonassessable, except to the extent provided by applicable law, of which 37,929,477 are owned by Seller. As of the date hereof, 250,000 preferred units of the Seller Partnership are designated 7.9% Class A Cumulative Convertible Preferred Partnership Units (the "Seller OP Preferred Units" (and each holder thereof, a "Seller OP Preferred Unit Holder"), and together with the Seller OP Common Units, the "Seller OP Units") and are validly issued and outstanding, fully paid and nonassessable, all of which are owned by Seller. Section 2.3(e) of the Seller Disclosure Letter sets forth the name of each Seller OP Common Unit Holder and the number of Seller OP Units owned by each such Seller Unit Holder as of the date of this Agreement. The Seller OP Units are not subject to any restriction established by Seller or under applicable law (other than restrictions on sale imposed by applicable securities laws) except as set forth in the Second Amended and Restated Agreement of Limited Partnership of the Seller Partnership (the "Seller Partnership Agreement") and Seller Contribution Agreements (as defined below). Seller Partnership has not issued or granted and is not a party to any outstanding commitments of any kind relating to, or any presently effective agreements or understandings with respect to, issuing interests in Seller Partnership or securities convertible into interests in Seller Partnership.

(f) All dividends on Seller Common Shares and distributions on Seller OP Units which have been declared prior to the date of this Agreement have been paid in full.

2.4 Authority; Noncontravention; Consents.

(a) Seller has the requisite corporate power and corporate authority to enter into this Agreement and, subject to the approval (i) of the amendments to Seller's Charter as set forth on Exhibit D hereto ("Charter Amendments") and the recommendation by Seller Board that Seller should terminate its status as a real estate investment trust, in each case, by the affirmative vote of two-thirds of all votes entitled to be cast by the holders of the issued and outstanding Seller Common Shares and Seller Preferred Shares (voting on an "as converted" basis), voting as a single class, and (ii) of this Agreement and the Merger by the affirmative vote of a majority of all votes entitled to be cast by the holders of the issued and outstanding Seller Common Shares and Seller Preferred Shares (voting on an "as converted" basis), voting as a single class ((i) and (ii) collectively, the "Seller Stockholder Approvals"), and ratification and approval of the matters described in (i) and (ii) by Seller Board following stockholder approval ("Seller Board Approval") and the Seller Partner Approval to consummate the transactions contemplated by this Agreement to which Seller is a party. The execution and delivery of this Agreement by Seller and the consummation by Seller of the transactions contemplated by this Agreement to which Seller is a party have been duly authorized by all necessary corporate action on the part of Seller, except for and subject to the Seller Stockholder Approvals, Seller Partner Approval and Seller Board Approval. This Agreement has been duly executed and delivered by Seller and constitutes a valid and binding obligation of Seller, enforceable against Seller in accordance with and subject to its terms, subject to applicable bankruptcy, insolvency, moratorium or other similar Laws relating to creditors' rights and general principles of equity. The Seller Board, based upon the recommendation of the Special Committee, has duly and validly approved, and taken all corporate action required to be taken by it for the consummation of the Transactions (other than the Seller Board Approval), including, assuming the accuracy of the representations and warranties of Parent and Buyer in Section 3.12, all actions required to render inapplicable to the Merger and this Agreement (and the transactions provided for herein) the restrictions on "business combinations" (as defined in Subtitle 6 of Title 3 of the MGCL) between Seller (or any affiliate thereof) and Buyer (or any affiliate thereof) set forth in Subtitle 6 of Title

3 of the MGCL and the limitations on voting rights of shares of stock acquired in a "control share acquisition" (as defined in Subtitle 7 of Title 3 of the MGCL) set forth in Subtitle 7 of Title 3 of the MGCL.

(b) The execution and delivery of this Agreement by Seller do not, and the consummation of the transactions contemplated by this Agreement to which Seller is a party and compliance by Seller with the provisions of this Agreement will not, require any consent, approval or notice under, or conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under, or result in the creation of any Lien upon any of the properties or assets of Seller or any Seller Subsidiary under, (i) the Charter or the bylaws of Seller, or subject to the Seller Partner Approval, the comparable articles or certificate of incorporation or organizational documents or partnership or similar agreement (as the case may be) of any Seller Subsidiary, each as amended or supplemented to the date hereof, (ii) any material loan or credit agreement, note, bond, mortgage or indenture to which Seller or any Seller Subsidiary is a party, (iii) any reciprocal easement agreement, lease, joint venture agreement, development agreement, benefit plan or other agreement, instrument, permit, concession, franchise or license applicable to Seller or any Seller Subsidiary or (iv) subject to the governmental filings and other matters referred to in the following sentence, any judgment, order, decree, statute, law, ordinance, rule or regulation (collectively, "Laws") applicable to Seller or any Seller Subsidiary, provided no representation or warranty is made in this sentence as to any agreement with Lessee, Manager or any of their affiliates, and in the case of clause (iii) or (iv), any such conflicts, violations, defaults, rights, loss or Liens that individually or in the aggregate would not reasonably be expected to (x) have a Seller Material Adverse Effect or (y) prevent or delay beyond December 31, 1999 (the "Outside Date") the consummation of the transactions contemplated by this Agreement. No consent, approval, order or authorization of, or registration, declaration or filing with, any federal, state or local government or any court, administrative or regulatory agency or commission or other governmental authority or agency, domestic or foreign (a "Governmental Entity"), is required by or with respect to Seller or any Seller

Subsidiary in connection with the execution and delivery of this Agreement by Seller or the consummation by Seller of the transactions contemplated by this Agreement, except for (i) the filing with the Securities and Exchange Commission (the "SEC") and the New York Stock Exchange of the Proxy Statement (as defined in Section 5.1(a)) and any filings required by the Exchange Act (including Schedule 13E-3), (ii) the filing of the Articles of Merger with the Maryland Department, (iii) the filing of a certificate of merger with the Secretary of State of the State of Delaware with respect to the Partnership Merger, (iv) any filings required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (v) the filing of a Form D with the SEC with respect to the transaction contemplated by the Partnership Merger Agreement and (vi) such other consents, approvals, orders, authorizations, registrations, declarations and filings (A) as are set forth in Section 2.4 of the Seller Disclosure Letter, (B) as may be required under (y) federal, state or local environmental Laws or (z) the "blue sky" laws of various states, to the extent applicable or (C) which, if not obtained or made, would not prevent or delay beyond the Outside Date the consummation of any of the transactions contemplated by this Agreement or otherwise prevent or delay beyond the Outside Date Seller from performing its obligations under this Agreement in any material respect or have, individually or in the aggregate, a Seller Material Adverse Effect.

2.5 SEC Documents; Financial Statements; Undisclosed Liabilities.

(a) Seller has filed all Seller SEC Documents (as defined below) on a timely basis. Section 2.5(a) of the Seller Disclosure Letter contains a complete list of all Seller SEC Documents filed by

Seller or Seller Partnership with the SEC since January 1, 1999 and on or prior to the date of this Agreement. All of the Seller SEC Documents (other than preliminary material and, if amended or superseded by a filing prior to the date of this Agreement or of the Closing Date, then on the date of such filing), as of their respective filing dates, did or, if not yet filed, will (i) comply as to form in all material respects with all applicable requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in each case, the rules and regulations promulgated thereunder applicable to such Seller SEC Documents and (ii) not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The consolidated financial statements of Seller included in the Seller SEC Documents did (or, if not yet filed, upon filing will) comply as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto, have been (or, if not yet filed, upon filing will be) prepared in accordance with generally accepted accounting principles ("GAAP") (except, in the case of unaudited statements, as permitted by the applicable rules and regulations of the SEC) applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly presented (or, if not yet filed, upon filing will fairly present) in all material respects, in accordance with the applicable requirements of GAAP and the applicable rules and regulations of the SEC, the consolidated financial position of Seller and its Subsidiaries, as of the dates thereof and the consolidated results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). Seller has no Subsidiaries which are not consolidated for accounting purposes.

(b) Except (i) for liabilities or obligations incurred in the ordinary course of business, (ii) for liabilities or obligations incurred in connection with the transactions contemplated by this Agreement, or (iii) as disclosed in the Seller SEC Documents filed after July 1, 1996 or in the Seller Disclosure Letter, Seller and its Subsidiaries have no liabilities or obligations (whether absolute, accrued, contingent or otherwise) which would have a Seller Material Adverse Effect other than those resulting from any lawsuits or other claims filed with respect to the Merger and the other transactions completed hereby. As used herein, "Seller SEC Documents" shall mean all reports, schedules, forms, statements and other documents required to be filed by the Seller with the SEC since July 1, 1996; provided that with respect to all representations and warranties of Seller contained in this Article 2 (except those contained in Section 2.5(a)), references to Seller SEC Documents shall refer only to those filings made prior to the date hereof.

2.6 Absence of Certain Changes or Events. Except as disclosed in the Seller SEC Documents, since the date of the most recent audited financial statements included in the Seller SEC Documents (the "Seller Financial Statement Date") through the date of this Agreement, Seller and its Subsidiaries have conducted their business only in the ordinary course (taking into account prior practices, including the acquisition and disposition of properties and issuance of securities) and, except as disclosed in the Seller SEC Documents or the Seller Disclosure Letter, there has not been (a) any Seller Material Adverse Change (as defined below), (b) except for regular quarterly distributions not in excess of $0.285 per Seller Common Share or Seller Common OP Unit and dividends on the Seller Preferred Shares in accordance with the terms of Seller's Articles Supplementary of Incorporation, respectively (or as necessary to maintain REIT status) and Seller Preferred OP Units, in each case subject to rounding adjustments as necessary and with customary record and payment dates, and any authorization, declaration, setting aside or payment of any dividend or other distribution (whether in cash, stock or property) with respect to the Seller Common Shares, the Seller OP Units or the Seller Preferred Shares, (c) any split, combination or reclassification of the Seller Common Shares, the Seller OP Units or the Seller Preferred Shares or any issuance or the authorization of any issuance

of any other securities in respect of, in lieu of or in substitution for, or giving the right to acquire by exchange or exercise, shares of stock of Seller or partnership interests in Seller partnerships or any issuance of an ownership interest in, any Seller Subsidiary, (d) any damage, destruction or loss, whether or not covered by insurance, that has or would reasonably be likely to have a Seller Material Adverse Effect, (e) any change in financial or tax accounting methods, principles or practices by Seller or any Seller Subsidiary materially affecting its assets, liabilities or business, except insofar as may have been required by a change in GAAP, (f) (x) any granting by Seller or any of its Subsidiaries to any officer or other key employee of Seller or any of its Subsidiaries of any increase in compensation, except for normal increases in the ordinary course of business consistent with past practice or as required under employment agreements in effect as of the date hereof, (y) any granting by Seller or any of its Subsidiaries to any such officer or key employee of any increase in severance or termination pay, except as was required under any employment, severance or termination agreements in effect as of December 31, 1998 or (z) any entry by Seller or any of its Subsidiaries into any employment, severance or termination agreement with any such officer or key employee except in the ordinary course of business consistent with past practice, (g) any acquisition or disposition of any real property, or any commitment to do so, made by Seller or any of its Subsidiaries or (h) any making or revocation of any material tax election. As used in this Agreement, "Seller Material Adverse Change" shall mean (i) any material adverse change in the business, properties, assets, financial condition or results of operations of Seller and its Subsidiaries, taken as a whole, or (ii) any other change that would prevent or delay beyond the Outside Date the ability of Seller or the Seller Partnership from consummating any of the Transactions; provided that in no event shall any change, circumstance or effect relating to or arising out of (A) the fact that Seller and Seller Partnership have entered into this Agreement or Seller's and Seller Partnership's compliance with the terms of this Agreement including, consummating the Merger or the Partnership Merger, (B) general economic or market conditions, or (C) the real estate or hotel and lodging industry generally, individually or in the aggregate, constitute a Seller Material Adverse Change.

2.7 Litigation. Except as disclosed in the Seller SEC Documents, and other than personal injury and other routine tort litigation arising from the ordinary course of operations of Seller and its Subsidiaries which are covered by adequate insurance, as of the date hereof, there are no suits, actions or proceedings pending (in which service of process has been received by Seller or a Seller Subsidiary) or, to the Knowledge of Seller, threatened in writing against or affecting Seller or any Seller Subsidiary that, individually or in the aggregate, would reasonably be expected to (i) have a Seller Material Adverse Effect or (ii) prevent or delay beyond the Outside Date the consummation of the material transactions contemplated by this Agreement, nor, as of the date of this Agreement, is there any judgment, decree, injunction, rule or order of any Governmental Entity or arbitrator outstanding against Seller or any Seller Subsidiaries having, or which insofar as can reasonably be foreseen, in future will have, any such effect. No claim is pending or has been made within the

two-year period ending on the date of this Agreement under any director's or officer's liability insurance policy maintained at any time by Seller or any of its Subsidiaries.

2.8 Properties.

(a) Each Seller Subsidiary set forth in Section 2.2(a) of the Seller Disclosure Letter owns marketable fee simple or leasehold title to the real properties identified opposite it in Section 2.2(a) of the Seller Disclosure Letter (collectively with all buildings, structures and other improvements thereon, the "Seller Properties" and each, collectively with all buildings, structures and other improvements thereon, a "Seller Property"), which are all of the real properties owned or leased by Seller and the Seller Subsidiaries as of the date hereof. Except as set forth in the existing title reports identified in clause (iii) below or in

Section 2.2(a) of the Seller Disclosure Letter and except for any easements granted in the ordinary course of business since the date of such title reports which do not have a material adverse effect on the operation of any of the Seller Properties, no other Person has any real property ownership interest in any of the Seller Properties. The Seller Properties are not subject to any rights of way, written agreements, Laws, ordinances and regulations affecting building use or occupancy, or reservations of an interest in title (collectively, "Property Restrictions") or Liens (including Liens for Taxes), mortgages or deeds of trust, claims against title, charges which are Liens, security interests or other encumbrances on title (the "Encumbrances"), except for (i) Property Restrictions and Encumbrances set forth in Section 2.8(a)(i) of the Seller Disclosure Letter, (ii) Property Restrictions imposed or promulgated by law or any governmental body or authority with respect to real property, including zoning regulations, which, individually or in the aggregate, would not have a Seller Material Adverse Effect, (iii) Property Restrictions and Encumbrances disclosed on existing title reports or existing surveys (in either case copies of which title reports and surveys have been made available to Buyer's representatives at the data room established by Seller and examined by representatives of Buyer (the "Data Room")), and referenced on Seller's Data Room index dated June 15, 1999 or provided to Parent or Buyer prior to the date hereof, and (iv) mechanics', carriers', workmen's, repairmen's Liens and other Encumbrances and Property Restrictions, if any, which, individually or in the aggregate, would not have a Seller Material Adverse Effect.

(b) Seller has obtained title insurance insuring Seller's or the applicable Seller Subsidiary's fee simple title to each of the Seller Properties owned by it and leasehold title to each of the Seller Properties leased by it, in each case, subject only to the matters disclosed in such policies, in clause (a) above and in Section 2.8(b) of the Seller Disclosure Letter. Seller has not received any written notice that any such policy is not in full force and effect. No claim has been made against any such policy in excess of $50,000.

(c) Section 2.8(c) of the Seller Disclosure Letter sets forth Seller's and each Seller Subsidiary's capital expenditure budget and schedule for each Seller Property, which describes the capital expenditures which the Seller or any Subsidiary has budgeted for such Seller Property for the period running through December 31, 1999 (the "CapEx Budget"). Section 2.8(c) of the Seller Disclosure Letter, sets forth a complete list of each Seller Property that is currently under development or subject to any agreement with respect to development; provided, however, that "development" shall not include capital improvements made in the ordinary course of business to existing Seller Properties and repairs made to existing Seller Properties.

(d) The ground leases underlying the leased Seller Properties referenced in Section 2.2(a) of the Seller Disclosure Letter (collectively, the "Seller Ground Leases") are listed, by property, in Section 2.8(d) of the Seller Disclosure Letter. Each of the Seller Ground Leases is valid, binding and in full force and effect as against Seller or its Subsidiaries and, to Seller's Knowledge, as against the other party thereto, except to the extent the failure to be binding and in full force and effect would not reasonably be expected to have a Seller Material Adverse Effect. Seller has not received written notice under any of the Seller Ground Leases of any default, and, to Seller's Knowledge, no event has occurred which, with notice or lapse of time or both, would constitute such a default by Seller, except as would not, individually or in the aggregate, be reasonably expected to result in a Seller Material Adverse Effect.

(e) Section 2.8(e) to the Seller Disclosure Letter sets forth a list of the hotel franchise agreements (the "Seller Franchise Agreements") pursuant to which each of the Seller Properties is being operated by Lessee and Manager. Each of the Seller Franchise Agreements is in full force and effect with respect to Seller or the applicable Seller Subsidiary and there are no defaults thereunder by Seller or a Seller

Subsidiary and, to the Knowledge of Seller, or by any other party thereto. To the Knowledge of Seller, no events have occurred which with the giving notice or the passage time or both would constitute a default or event of default thereunder, except for those which either singly or in the aggregate would not constitute a Seller Material Adverse Effect.

(f) Neither Seller nor any Seller Subsidiary has received written notice of any violation of any federal, state or municipal law, ordinance, order, regulation or requirement issued by any governmental authority which, individually or in the aggregate, would have a Seller Material Adverse Effect. There has been no physical damage to any Seller Properties which, individually or in the aggregate, would have a Seller Material Adverse Effect for which there is no insurance in effect covering the cost of the restoration (less applicable deductibles).

(g) Neither Seller nor any of the Seller Subsidiaries has received any written notice with respect to any Seller Property to the effect that any condemnation or rezoning proceedings are pending or threatened which, individually or in the aggregate, would have a Seller Material Adverse Effect.

(h) To the Knowledge of Seller, no Governmental Entity having jurisdiction over any Seller Property under development has denied or rejected any applications by Seller for a certificate, permit or license with respect to such Seller Property, which denial or rejection, individually or in the aggregate, would have a Seller Material Adverse Effect.

(i) There are no structural defects in any of the Seller Properties that would, individually or in the aggregate, have a Seller Material Adverse Effect.

(j) Seller or Seller Partnership has marketable title to all material furniture, fixtures equipment, operating supplies and other personal property necessary for the operation of the Seller Properties, subject to no Liens which, individually or in the aggregate, would have a Seller Material Adverse Effect.

2.9 Environmental Matters.

(a) Except as disclosed in the Seller SEC Documents and Seller's Environmental Reports (as defined below) previously made available to Buyer, none of Seller, any of the Seller Subsidiaries or any other Person has caused or permitted (i) the presence of any hazardous substances, hazardous materials, toxic substances or waste materials, pollutants, contaminants, and materials regulated or defined or designated as hazardous, extremely or imminently hazardous, dangerous, or toxic pursuant to any local, county, state, territorial or federal governmental authority or with respect to which such a governmental authority otherwise requires environmental investigation, monitoring, reporting or remediation (collectively, "Hazardous Materials") on any of the Seller Properties except to the extent such presence would, individually or in the aggregate, not have a Seller Material Adverse Effect or (ii) any spills, releases, discharges or disposal of Hazardous Materials to have occurred or be presently occurring on or from the Seller Properties as a result of any construction on or operation and use of the Seller Properties, which presence or occurrence would, individually or in the aggregate, have a Seller Material Adverse Effect; and in connection with the construction on or operation and use of the Seller Properties, Seller and the Seller Subsidiaries have complied with all applicable local, state and federal Environmental Laws, including all regulations, ordinances and administrative and judicial orders relating to the generation, recycling, reuse, sale, storage, handling,

transport and disposal of any Hazardous Materials, except to the extent such failure to comply, individually or in the aggregate, would not have a Seller

Material Adverse Effect. With respect to each Seller Property, since the date of the most recent Seller's Environmental Report relating to such Seller Property, except where the failure of any of the following to be true individually or in the aggregate would not have a Seller Material Adverse Effect, (i) the assets, properties, businesses and operations of Seller and its Subsidiaries are and have been in compliance with applicable Environmental Laws, (ii) Seller and its Subsidiaries have obtained, currently maintain and, as currently operating, are in compliance with all Seller Permits necessary under any Environmental Law for the conduct of the business and operations of Seller and its Subsidiaries in the manner now conducted, and there are no actions or proceedings pending or threatened to revoke or materially modify such Seller Permits, (iii) no Hazardous Materials have been used, stored, manufactured, treated, processed or transported to or from any such Seller Property except as necessary to the customary conduct of business and in compliance with law and in a manner that does not result in liability under applicable Environmental Laws; (iv) there have been no spills, releases, discharges or disposals of Hazardous Materials on or from such Seller Property of any type or quantity as would require reporting to a Governmental Entity under the Environmental Laws; and (v) Seller and Seller Subsidiaries have not received any written notice of potential responsibility, letter of inquiry or written notice of alleged liability from any Person regarding such Seller Property or the business conducted thereon. For the purposes of this Section 2.9 only, "Seller Properties" shall be deemed to include all property formerly owned, operated or leased by Seller or Seller Subsidiaries; solely, however, as to the period of time when such property was so owned, operated or leased by Seller or the Seller Subsidiaries. Seller has previously made available to Buyer complete copies of all final versions of environmental investigations and testing or analysis (other than those which have been superseded by more recent investigations, testing or analyses) that are in the possession, custody or control of any of Seller or any of the Seller Subsidiaries with respect to the environmental condition of the Seller Properties, all of which are listed in Section 2.9 of the Seller Disclosure Letter ("Seller's Environmental Reports").

(b) Except as set forth in Seller's Environmental Reports, (i) there are no friable asbestos-containing materials, lead-based paints, or radon at, in or part of any facility owned, operated or leased by Seller or any of its Subsidiaries, and (ii) there are no underground storage tanks owned, operated or controlled by Seller or its Subsidiaries on any real property owned, operated or leased by Seller, the presence of which, in the case of items described in clauses (i) and (ii) individually or in the aggregate, would be reasonably expected to result in Seller incurring Environmental Liabilities and Costs aggregating $30 million or more.

(c) For purposes of this Agreement, the terms below shall have the following meanings:

"Environmental Law" means any law (including, without limitation, common law), regulation, ordinance, guideline, code, decree, judgment, order, permit or authorization or other legally enforceable requirement of any Governmental Entity relating to or imposing liability with respect to worker or public safety or the indoor or outdoor environment or natural resources, including, without limitation, pollution, contamination, Hazardous Materials, cleanup, regulation and protection of the air, natural resources, water or soils in the indoor or outdoor environment; and

"Environmental Liabilities and Costs" means all losses, liabilities, damages, fines, penalties, obligations, costs or expenses (including, without limitation, fees, disbursements, expenses of legal

counsel, experts and engineers and the costs of investigation and cleanup studies and to remove, treat or clean up Hazardous Materials) incurred, assessed or levied pursuant to any Environmental Law.

2.10 Related Party Transactions. Set forth in Section 2.10 of the Seller Disclosure Letter is a list of all written arrangements, agreements and contracts entered into by Seller or any of the Seller Subsidiaries with any Person who is an officer, director or Affiliate (as defined below) of Seller, or any entity of which any of the foregoing is an Affiliate, except those of a type available to Seller employees generally or are with Parent or an Affiliate of Parent. Such documents, copies of all of which have previously been delivered or

made available to Buyer, are listed in Section 2.10 of the Seller Disclosure Letter. As used in this Agreement, the term "Affiliate" shall have the same meaning as such term is defined in Rule 405 promulgated under the Securities Act.

2.11 Employee Benefits. As used herein, the term "Employee Plan" includes any pension, retirement, savings, disability, medical, dental, health, life, death benefit, group insurance, profit sharing, deferred compensation, stock option, bonus, incentive, vacation pay, tuition reimbursement, severance pay, or other material employee benefit plan, trust, employment agreement, contract, agreement, policy or commitment (including, without limitation, any pension plan, as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended and the rules and regulations promulgated thereunder ("ERISA") ("Pension Plan"), and any welfare plan as defined in Section 3(1) of ERISA ("Welfare Plan")), whether any of the foregoing is funded, insured or self-funded, written or oral, (i) sponsored or maintained by Seller or its Subsidiaries (each a "Controlled Group Member") and covering any Controlled Group Member's active or former employees (or their beneficiaries), (ii) to which any Controlled Group Member is a party or by which any Controlled Group Member (or any of the rights, properties or assets thereof) is bound or (iii) with respect to which any current Controlled Group Member may otherwise have any material liability (whether or not such Controlled Group Member still maintains such Employee Plan). Each Employee Plan is listed in Section 2.11 of the Seller Disclosure Letter. With respect to the Employee Plans:

(a) No Controlled Group Member has any continuing liability under any Welfare Plan which provides for continuing benefits or coverage for any participant or any beneficiary of a participant after such participant's termination of employment, except as may be required by Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code"), or Section 601 (et seq.) of ERISA, or under any applicable state law, and at the expense of the participant or the beneficiary of the participant.

(b) Each Employee Plan complies in all material respects with the applicable requirements of ERISA and any other applicable law governing such Employee Plan, and each Employee Plan has at all times been properly administered in all material respects in accordance with all such requirements of law, and in accordance with its terms and the terms of any applicable collective bargaining agreement to the extent consistent with all such requirements of law. Each Pension Plan which is intended to be qualified is qualified under Section 401(a) of the Code, has received a favorable determination letter from the IRS stating that such Plan meets the requirements of Section 401(a) of the Code and that the trust associated with such Plan is tax exempt under Section 501(a) of the Code and to the Knowledge of Seller no event has occurred which would jeopardize the qualified status of any such plan or the tax exempt status of any such trust under Sections 401(a) and Section 501(a) of the Code, respectively, except in circumstances in which, individually or in the aggregate, the failure to so qualify or be tax exempt would not have a Seller Material Adverse Effect. No lawsuits, claims (other than routine claims for benefits) or complaints to, or by, any Person or Governmental Entity have been filed or are pending which, individually or in the

aggregate, would have a Seller Material Adverse Effect and, to the Knowledge of Seller, there is no fact or contemplated event which would be expected to give rise to any such lawsuit, claim (other than routine claims for benefits) or complaint with respect to any Employee Plan that would have a Seller Material Adverse Effect. Without limiting the foregoing, except in the case of the following clauses (i) through (iv) which have not and would not individually or in the aggregate have a Seller Material Adverse Effect, the following are true with respect to each Employee Plan:

(i) all Controlled Group Members have filed or caused to be filed every material return, report statement, notice, declaration and other document required by any law or governmental agency, federal, state and local (including, without limitation, the Internal Revenue Service and the Department of Labor) with respect to each such Employee Plan, each of such filings has been complete and accurate in all material respects and no Controlled Group Member has incurred any material liability in connection with such filings;

(ii) all Controlled Group Members have delivered or caused to be delivered to every participant, beneficiary and other party entitled to such material, all material plan descriptions, returns, reports, schedules, notices, statements and similar materials, including, without limitation, summary plan descriptions and summary annual reports, as are required under Title I of ERISA, the Code, or both, and no Controlled Group Member has incurred any material liability in connection with such deliveries;

(iii) all contributions and payments with respect to Employee Plans that are required to be made by a Controlled Group Member with respect to periods ending on or before the Closing Date (including periods from the first day of the current plan or policy year to the Closing Date) have been, or will be, made or accrued before the Closing Date in accordance with the appropriate plan document, actuarial report, collective bargaining agreements or insurance contracts or arrangements or as otherwise required by ERISA or the Code;

(iv) with respect to each such Employee Plan, to the extent applicable, Seller has delivered to or has made available to Buyer true and complete copies of (A) plan documents, or any and all other documents that establish the existence of the plan, trust, arrangement, contract, policy or commitment and all amendments thereto, (B) the most recent determination letter, if any, received from the Internal Revenue Service, (C) the three most recent Form 5500 Annual Reports (and all schedules and reports relating thereto) and actuarial reports and (D) all related trust agreements, insurance contract or other funding agreements that implement each such Employee Plan; and

(v) no payment made or to be made to an officer, director or employee, whether or not pursuant to an Employee Plan, either before, on, or after consummation of the transactions contemplated by this Agreement shall constitute an "excess parachute payment" within the meaning of Section 280G of the Code; and consummation of the transactions contemplated by this Agreement shall not (A) give rise to a severance pay obligation with respect to those employees who continue employment with the Surviving Corporation or (B) enhance or trigger (including acceleration of vesting, payment or funding) any benefits under any Employee Plan.

(c) With respect to each Employee Plan, there has not occurred, and no Person or entity is contractually bound to enter into, any "prohibited transaction" within the meaning of Section 4975(c) of the Code of Section 406 of ERISA, which transaction is not exempt under Section 4975(d) of the Code or Section 408 of ERISA which, individually or in the aggregate, would have a Seller Material Adverse Effect.

(d) No Controlled Group Member has maintained or been obligated to contribute to any Employee Plan subject to Section 412 of the Code or Title IV of ERISA.

2.12 Employee Matters. Neither Seller nor any of the Seller Subsidiaries is a party to, or bound by, any collective bargaining agreement, contract or other agreement or understanding with a labor union or other labor organization, nor has Seller or any of the Seller Subsidiaries agreed that any unit of its employees is appropriate for collective bargaining. No union or other labor organization has been certified as bargaining representative for any employees of Seller or any of its Subsidiaries. To the Knowledge of Seller, there are no organizational efforts with respect to the formation of a collective bargaining unit presently being made or threatened involving employees of Seller or any of the Seller Subsidiaries.

2.13 Taxes.

(a) Each of Seller and the Seller Subsidiaries and any consolidated,

combined, unitary or aggregate group for tax purposes of which Seller or any Seller Subsidiary is or has been a member has timely filed all Tax Returns (as defined below) required to be filed by it (after giving effect to any extension properly granted by a Tax Authority (as defined below) having authority to do so) and has timely paid (or Seller has timely paid on its behalf) all Taxes (as defined below) required to be paid by it (whether or not shown on such Tax Returns) except (i) Taxes that are being contested in good faith by appropriate proceedings and for which Seller or the applicable Seller Subsidiary shall have set aside on its books adequate reserves or (ii) where the failure to file such Tax Returns or pay such Taxes would not have a Seller Material Adverse Effect. Each such Tax Return is complete and accurate except where any failure to be complete and accurate would not have a Seller Material Adverse Effect. The most recent audited financial statements contained in the Seller SEC Documents reflect an adequate reserve for all Taxes payable by Seller and the Seller Subsidiaries for all taxable periods and portions thereof through the date of such financial statements except where any failure would not have a Seller Material Adverse Effect. Since the Seller Financial Statement Date, Seller has incurred no liability for Taxes under Sections 857(b), 857(f), 860(c) or 4981 of the Code, including without limitation any Tax arising from a prohibited transaction described in Section 857(b)(6) of the Code, and neither Seller nor any Seller Subsidiary has incurred any material liability for Taxes other than in the ordinary course of business. No event has occurred, and no condition or circumstance exists, which, in the absence of the Transactions (as defined below), would present a risk that any Tax described in the preceding sentence will be imposed upon Seller or any Seller Subsidiary except where any failure would not have a Seller Material Adverse Effect. No material deficiencies for any Taxes have been proposed, asserted or assessed in writing against Seller or any Seller Subsidiary, and no requests for waivers of the time to assess any such Taxes are pending and no extensions of time to assess any such Taxes are in effect. All Taxes required to be withheld, collected and paid over to any Tax Authority by the Seller and any Seller Subsidiary have been timely withheld, collected and paid over to the proper Tax Authority except where failure to do so would not have a Seller Material Adverse Effect. No Tax Authority has imposed a Lien against any Seller Property for any Taxes payable by Seller except for Taxes not yet due and payable. There are no material pending actions or proceedings by any Taxing Authority for assessment or collection of any Tax. Complete copies of all federal, state and local income or franchise Tax Returns that have been filed by Seller and each Seller Subsidiary for all taxable years beginning on or after January 1, 1995, all extensions filed with any Tax Authority that are currently in effect and all written communications with a Taxing Authority relating thereto, have been made available to the Buyer and the representatives of the Buyer. No written claim has been made by a Taxing Authority in a jurisdiction where Seller or any Seller Subsidiary does not file Tax Returns that it is or may be subject to taxation by the jurisdiction except where the failure to file such Tax Return would not have a Seller Material Adverse Effect. Neither the Seller nor any Seller Subsidiary holds any material asset (A) the disposition of which would be subject to rules similar to Section 1374 of the Code as a result of an election under Internal Revenue Service Notice 88-19 other than as set forth in Section 2.13 of the Seller Disclosure Letter or (B) that is subject to a consent filed pursuant to Section 341(f) of the Code and the regulations thereunder. Neither the Seller, nor any Seller Subsidiary is obligated to make after the Closing any payment that would be not deductible under Section 162(m) of the Code except where the lack of such deduction would not have a Seller Material Adverse Effect. Neither Seller nor any Seller Subsidiary is party to, nor has any liability under (including liability with respect to any predecessor entity), any indemnification, allocation or sharing agreement with respect to Taxes. As used in this Agreement, "Tax" or "Taxes" shall include all federal, state, local and foreign income, property, sales, use, occupancy, transfer, recording, withholding, franchise, employment, excise and other taxes, tariffs or governmental charges of any nature whatsoever, together with penalties, interest or additions to tax with respect thereto. As used in this Agreement, "Tax Return" or "Tax Returns"

shall include all original and amended returns and reports (including elections, claims, declarations, disclosures, schedules, estimates, computations and information returns) required to be supplied to a Tax Authority in any jurisdiction. As used in this Agreement, "Tax Authority" shall mean the Internal Revenue Service and any other domestic or foreign bureau, department, entity, agency or other Governmental Entity responsible for the administration of any Tax.

(b) Seller (i) for all taxable years commencing with its initial taxable year through December 31, 1998 has been properly subject to taxation as a real estate investment trust (a "REIT") within the meaning of Section 856 of the Code and has qualified as a REIT for such years, (ii) has operated since December 31, 1998, and will continue to operate to the Closing, in such a manner as to qualify as a REIT (determined without regard to the dividends paid deduction requirements for the current year) for the taxable year beginning January 1, 1999 determined as if the taxable year of the REIT ended as of the Closing and (iii) has not taken or omitted to take any action which would reasonably be expected to result in a challenge to its status as a REIT, and no such challenge is pending or to Seller's Knowledge threatened. Each Seller Subsidiary which is a partnership, joint venture or limited liability company (i) has been since its formation and continues to be treated for federal income tax purposes as a partnership or disregarded as a separate entity, as the case may be, and has not been treated for federal income tax purposes as a corporation or an association taxable as a corporation and (ii) has not since the later of its formation or the acquisition by Seller of a direct or indirect interest therein owned any assets (including, without limitation, securities) that would cause Seller to violate Section 856(c)(4) of the Code. The nature of the assets of the Seller and the Seller Subsidiaries is such that the sale of all of the assets owned by them would not cause the Seller to be disqualified as a REIT under Code Section 856(c)(2) or 856(c)(3) or otherwise. Seller has not elected to pay Tax on any capital gain recognized on or after January 1, 1999. Each Seller Subsidiary which is a corporation has been since it became a Subsidiary a qualified REIT subsidiary under Section 856(i) of the Code. Seller Partnership is not a publicly traded partnership within the meaning of Section 7704 of the Code, and the interests in the Seller Partnership are not considered to be (i) traded on an established securities market or (ii) readily tradable on a secondary market or the substantial equivalent thereof under either Internal Revenue Service Notice 88-75 or Treasury Regulations Section 1.7704-1. In the case of a partner of Seller Partnership that is a Flow-Through Entity (as defined below), no Person owning an interest in such Flow-Through Entity (directly or through another Flow-Through Entity) is treated as a partner of the Seller Partnership under either Internal Revenue Service Notice 88-75 or Treasury Regulation Section 1.7704-1(h)(3). For purposes of this Section 2.13(b), "Flow-Through Entity" means an entity classified as a partnership, a grantor trust or an S corporation for federal income tax purposes.

2.14 No Payments to Employees, Officers or Directors. Section 2.14 of the Seller Disclosure Letter contains a true and complete list of all material cash and non-cash payments, rights to property or other contract rights which will become payable, accelerated or vested to or in each employee, officer or director of Seller or any Seller Subsidiary as a result of the Merger other than Alter and Biederman. There is no employment or severance contract, or other agreement requiring payments or an increase in existing payments, cancellation of indebtedness or other obligation to be made on a change of control or otherwise as a result of the consummation of any of the transactions contemplated by this Agreement, with respect to any employee, officer or director of Seller or any Seller Subsidiary (other than Alter and Biederman) in an aggregate amount in excess of $50,000.

2.15 Brokers. No broker, investment banker, financial advisor or other Person, other than Goldman, Sachs & Co. ("Goldman Sachs"), the fees and expenses of which are as described in the

engagement letter dated April 14, 1999, a true and correct copy of which has previously been given to Buyer, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of Seller or any Seller Subsidiary.

2.16 Compliance With Laws. (i) Neither Seller nor any of the Seller Subsidiaries has violated or failed to comply with any statute, law, ordinance, regulation, rule, judgment, decree or order of any Governmental Entity applicable to its business, properties or operations (excluding any violation or failure by Lessee or Manager), except to the extent that such violation or failure has not had or would not reasonably be expected to have a Seller Material Adverse Effect; (ii) Seller and its Subsidiaries have, and are in compliance with, all permits, licenses, certificates, franchises, registrations,

variances, exemptions, orders and approvals of all Governmental Entities which are material to the operation of their businesses, taken as a whole ("Seller Permits"), except where the failure to comply has not had or would not reasonably be expected to have a Seller Material Adverse Effect; and (iii) no investigation by any Governmental Entity with respect to the Seller or the Seller Subsidiaries is pending or, to the Knowledge of the Seller, threatened, other than investigations which, individually or in the aggregate, would not reasonably be expected to have a Seller Material Adverse Effect.

2.17 Contracts; Debt Instruments.

(a) Except as disclosed in the Seller SEC Documents, neither Seller nor any Seller Subsidiary is a party to any contract or agreement that purports to limit in any material respect the geographic location in which Seller or any Seller Subsidiary may conduct its business. Neither Seller nor any Seller Subsidiary (i) is in violation of or in default under any material loan or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise, license or any other material contract, agreement, arrangement or understanding, to which it is a party or by which it or any of its properties or assets is bound (excluding primarily as a result of any action or inaction of Lessee or Manager and excluding any of the foregoing with Lessee or Manager) (each, a "Material Contract"), nor (ii) to the Knowledge of Seller does such a violation or default exist, except to the extent that such violation or default referred to in clauses (i) or (ii), individually or in the aggregate, would not have a Seller Material Adverse Effect. Each Material Contract as of the date hereof which has not been filed as an Exhibit to any of the Seller SEC Documents has been or made available to Buyer's representatives at the Data Room, is listed on Seller's Data Room index dated June 15, 1999 or has been provided to Parent or Buyer prior to the date hereof. Seller has made available at the Data Room on or prior to June 15, 1999 or has provided to Parent or Buyer prior to the date hereof all contracts and other agreements relating to the contribution of assets to Seller Partnership in exchange for Seller OP Units (the "Seller Contribution Agreements") and all such agreements are listed on Seller's Data Room index dated June 15, 1999 or have been provided to Parent or Buyer prior to the date hereof.

(b) Section 2.17(b) of the Seller Disclosure Letter sets forth a list as of the date hereof of each loan or credit agreement, note, bond, mortgage, indenture and any other agreement and instrument pursuant to which any Indebtedness (as defined below) of Seller or any of Seller Subsidiaries, other than Indebtedness payable to Seller or a Seller Subsidiary, is outstanding or may be incurred in an amount in excess of $2,000,000, together with the amount outstanding thereunder as of the date hereof. For purposes of this Section 2.17, "Indebtedness" shall mean (i) indebtedness for borrowed money, whether secured or unsecured, (ii) obligations under conditional sale or other title retention agreements relating to property

purchased by such Person, (iii) capitalized lease obligations, (iv) obligations under interest rate cap, swap, collar or similar transaction or currency hedging transactions (valued at the termination value thereof) and (v) guarantees of any such indebtedness of any other Person.

(c) Neither Seller nor any of the Seller Subsidiaries is a party to any agreement relating to the management of any of the Seller Properties by any Person other than Manager. Section 2.17(c) to the Seller Disclosure Letter lists as of the date hereof all service agreements, brokerage commission agreements, maintenance contracts, contracts for purchase of delivery of services, materials, goods, inventory or supplies, cleaning contracts, equipment rental agreements, equipment leases or leases of personal property (other than the Seller Franchise Agreements) (but excluding any such agreements providing for payment of less than $100,000 per annum or which are terminable by Seller or a Seller Subsidiary without penalty upon 90 days or less prior written notice) to which Seller or any Seller Subsidiary is a party (the foregoing, collectively the "Service Agreements"). Section 2.17(c) to the Seller Disclosure Letter lists as of the date hereof all proposed material Service Agreements being negotiated except for proposed Service Agreements known to Alter as of the date hereof. To Seller's Knowledge, (i) the Service Agreements are in full force and effect and constitute legal, valid, binding and enforceable obligations as against Seller or its Subsidiaries and, to Seller's Knowledge, as against the other party thereto, and (ii) there exists no default of any party thereto, nor has any

event or circumstances occurred that, with notice or lapse of time or both, would constitute any default thereunder, except for any defaults that would not reasonably be expected to have a Seller Material Adverse Effect.

(d) Section 2.17(d) of the Seller Disclosure Letter lists all agreements entered into by Seller or any of the Seller Subsidiaries providing for the sale or exchange of, or option to sell or exchange, any Seller Properties or the purchase of or exchange, or option to purchase or exchange, any real estate which are currently in effect.

(e) Neither Seller nor any Seller Subsidiary has any continuing contractual liability (i) for indemnification under any agreement relating to the sale of real estate previously owned by Seller or any Seller Subsidiary, (ii) to pay any additional purchase price for any of the Seller Properties, or (iii) to make any reprorations or adjustments to prorations involving an amount in excess of $500,000 that may previously have been made with respect to any property currently or formerly owned by Seller.

(f) Neither Seller nor any Seller Subsidiary has entered into or is subject, directly or indirectly, to any Tax Protection Agreements. As used herein, a "Tax Protection Agreement" is an agreement, oral or written, other than with Parent or an Affiliate of Parent (A) that has as one of its purposes to permit a Person to take the position that such Person could defer federal taxable income that otherwise might have been recognized upon a transfer of property to Seller Partnership or any other Seller Subsidiary that is treated as a partnership for federal income tax purposes, and (B) that (i) prohibits or restricts in any manner the disposition of any assets of Seller or any Seller Subsidiary, (ii) requires that Seller or any Seller Subsidiary maintain, or put in place, or replace, indebtedness, secured by one or more of the Seller Properties, or (iii) requires that Seller or any Seller Subsidiary offer to any Person at any time the opportunity to guarantee or otherwise assume, directly or indirectly, the risk of loss for federal income tax purposes for indebtedness or other liabilities of Seller or any Seller Subsidiary.

(g) Except for obligations to provide funds to the Seller Partnership or to Seller Subsidiaries owned entirely by Seller and/or Seller Partnership, there are no material outstanding contractual obligations of Seller or its Subsidiaries to provide any funds to, or make investments in, any other Person.

(h) Neither Seller nor any of the Seller Subsidiaries is party to any agreement other than with Parent or, in the case of clause (ii), with an affiliate of Parent which (i) would restrict any of them from prepaying any of their Indebtedness without penalty or premium at any time or (ii) requires any of them to maintain any amount of Indebtedness with respect to any of the Seller Properties.

(i) To the extent not set forth in response to the requirements of Section 2.17(b), Section 2.17 of the Seller Disclosure Letter sets forth as of the date hereof each interest rate cap, interest rate collar, interest rate swap, currency hedging transaction, and any other agreement relating to a similar transaction, in each case involving $50,000 or more, to which Seller or any Seller Subsidiary is a party or an obligor with respect thereto.

(j) Neither Seller nor any of the Seller Subsidiaries is a party to any agreement pursuant to which Seller or any Seller Subsidiary manages any real properties.

2.18 Opinion of Financial Advisor. The Seller Board and Special Committee have received the opinion of Goldman Sachs dated July 12, 1999 with respect to the fairness from a financial point of view of the consideration to be received by the holders (other than Parent and its Subsidiaries and Affiliates) of Seller Common Shares in connection with the Merger.

2.19 State Takeover Statutes. Assuming the accuracy of the representations and warranties of Parent and Buyer set forth in Section 3.12, Seller has taken all action necessary to exempt the transactions contemplated by this Agreement, including without limitation the Merger, among Parent, Buyer and Seller and their respective Affiliates from the operation of any "business combination," "fair price," "moratorium," "control share acquisition" or any other anti-takeover statute or similar statute of any state (a "Takeover Statute") and (ii) the action of the Seller Board and Special Committee in approving the

Merger and this Agreement (and the transactions provided for herein) is sufficient to render inapplicable to the Merger and this Agreement (and the transactions provided for herein) the restrictions on "business combinations" (as defined in Subtitle 6 of Title 3 of the MGCL) set forth in Subtitle 6 of Title 3 of the MGCL and the limitations on the voting rights of shares of stock acquired in a "control share acquisition" (as defined in Subtitle 7 of Title 3 of the MGCL) set forth in Subtitle 7 of Title 3 of the MGCL.

2.20 Proxy Statement and Information Statement. The information relating to Seller and the Seller Subsidiaries included in the Proxy Statement (as defined in Section 5.1(a)) and the Information Statement (as defined in Section 5.1(a)) will not, as of the date of mailing of the Proxy Statement and the Information Statement, respectively, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

2.21 Investment Company Act of 1940. Neither Seller nor any of Seller Subsidiaries is, or at the Effective Time will be, required to be registered under the Investment Company Act of 1940, as amended (the "1940 Act").

2.22 Definition of Knowledge of Seller. As used in this Agreement, the phrase "Knowledge of Seller" or "Seller's Knowledge" (or words of similar import) means the actual knowledge, without any duty of investigation or inquiry, of only those individuals identified in Section 2.22 of the Seller Disclosure Letter. Without limiting the generality of the foregoing, in no event will the knowledge of Alter or Biederman by itself be deemed the "Knowledge of Seller" or "Seller's Knowledge."

2.23 Insurance. Seller and Seller Subsidiaries maintain insurance coverage for Seller and Seller Subsidiaries and their respective properties and assets of a type and in amounts typical of similar companies engaged in the respective businesses in which Seller and Seller Subsidiaries are engaged. All such insurance policies (a) are in full force and effect, and with respect to all policies neither of Seller nor any Seller Subsidiary is delinquent in the payment of any premiums thereon, and no notice of cancellation or termination has been received with respect to any such policy, and (b) are sufficient for compliance with all requirements of law and of all agreements to which Seller or the Seller Subsidiaries are a party or otherwise bound and are valid, outstanding, collectible, and enforceable policies, subject to any exception in the case of either clause (a) or (b), as would not, alone or in the aggregate, be reasonably expected to have a Seller Material Adverse Effect or prevent or materially delay the ability of Seller to consummate the transactions contemplated by this Agreement. Neither Seller nor any Seller Subsidiary has received written notice within the last 12 months from any insurance company or board of fire underwriters of any defects or inadequacies that would materially adversely affect the insurability of, or cause any material increase in the premiums for, insurance covering either Seller or any Seller Subsidiary or any of their respective properties or assets that have not been cured or repaired to the satisfaction of the party issuing the notice, except as would not have a Seller Material Adverse Effect.

2.24 Board Recommendation. Seller Board, at a meeting duly called and held on July 12, 1999, at which all of the incumbent directors were present and acting throughout, based upon the unanimous recommendation and approval of the Special Committee, unanimously adopted resolutions which, among other things, (a) declared that the Merger and the other transactions contemplated by this Agreement are advisable on substantially the terms set forth in this Agreement, (b) set forth the Charter Amendments and declared that the Charter Amendments are advisable, (c) directed that the Charter Amendments, the Merger and the other transactions contemplated by this Agreement be submitted for consideration by the stockholders of Seller, (d) recommended that the Seller terminate its status as a real estate investment trust and (e) authorized and approved the Partnership Merger Agreement and the transactions contemplated thereby, including the Partnership Merger (such transactions, together with the transactions contemplated by this Agreement, including, without limitation, the Merger, are hereinafter collectively referred to as the "Transactions"). Seller Board has recommended that (y) Seller's stockholders approve this Agreement, the Merger, the Charter Amendments, the termination of Seller's status as a real estate investment trust and the other transactions contemplated by this Agreement, and (z) on behalf of Seller as the sole general partner of Seller

Partnership, that the Seller Unit Holders adopt the Partnership Merger Agreement and approve the Partnership Merger and the amendment (the "Partnership Agreement Amendment") to the Seller Partnership Agreement attached hereto as Exhibit F. Such recommendations shall not be withdrawn, modified or amended, other than as expressly permitted under Section 4.1.

2.25 Representations in Partnership Merger Agreement. The representations and warranties of the Seller and the Seller Partnership set forth in the Partnership Merger Agreement are true and correct.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF PARENT AND BUYER

Parent and Buyer, jointly and severally, represent and warrant to Seller, except as set forth in the letter of even date herewith and delivered to Seller prior to the execution hereof (the "Buyer Disclosure Letter") (it being understood that the Buyer Disclosure Letter shall be arranged in sections corresponding to the sections contained in this Article 3, and the disclosures in any section of the Buyer Disclosure Letter shall qualify all of the representations in the corresponding section of this Article 3 and, in addition, other sections in this Article 3 to the extent it is reasonably clear from a reading of the disclosure that such disclosure is applicable to such other sections) as follows:

3.1 Organization, Standing and Power of Parent and Buyer.

(a) Parent is a limited liability company duly organized and validly existing under the Laws of Delaware and has the requisite power and authority to carry on its business as now being conducted. Parent is duly qualified or licensed to do business as a foreign limited liability company and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a material adverse effect on the ability of Parent and Buyer to timely consummate the transactions contemplated by this Agreement or the Partnership Merger Agreement ("Parent Material Adverse Effect"). Parent has delivered to Seller complete and correct copies of its organizational documents (including the certificate of formation and limited liability company agreement of Parent) as amended or supplemented to the date of this Agreement.

(b) Each of Buyer and SHP Investors, Inc. ("Holdings") is a corporation duly organized and validly existing under the Laws of Maryland, in the case of Buyer, or Delaware, in the case of Holdings, and has the requisite corporate power and authority to carry on its business as now being conducted. Each of Buyer and Holdings is duly qualified or licensed to do business as a foreign corporation and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualifications or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a material adverse effect on the ability of Buyer and Holdings to timely consummate the transactions contemplated by this Agreement or the Partnership Merger Agreement (a "Buyer Material Adverse Effect"). Complete and correct copies of the organizational documents as amended or supplemented to the date of this Agreement of Buyer and Holdings have been delivered to Seller.

(c) Each of Parent, Buyer and Holdings are newly formed and, except for activities incident to the acquisition of Seller, none of Parent, Buyer or Holdings has (i) engaged in any business activities of any type or kind whatsoever or (ii) acquired any property of any type or kind whatsoever.

3.2 Ownership of Parent, Buyer and Holdings. As of the date hereof, all of Parent's membership interests are owned by Westbrook Fund III and Alter. Holdings is a wholly-owned Subsidiary of Parent, and Buyer is a wholly-owned Subsidiary of Holdings. As of the Closing Date, at least 75% of the voting interests and 75% of the equity interest of Parent will be owned, directly or indirectly by Westbrook Fund III, Westbrook SHP and Westbrook Co-Investment. Parent has delivered to Seller a true and complete copy of

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the Contribution Agreement which is being executed contemporaneously with the execution of this Agreement.

3.3 Authority; Noncontravention; Consents.

(a) Each of Parent and Buyer has the requisite power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement to which it is a party. The execution and delivery of this Agreement by Parent and Buyer and the consummation by Parent and Buyer of the transactions contemplated by this Agreement to which Parent and/or Buyer is a party have been duly authorized by all necessary limited liability company or corporate action on the part of Parent, Buyer and Holdings. The Merger has been approved by Holdings as the sole stockholder of Buyer. This Agreement has been duly executed and delivered by Parent and Buyer and constitutes a valid and binding obligation of each of Parent and Buyer, enforceable against each of Parent and Buyer in accordance with and subject to its terms, subject to applicable bankruptcy, insolvency, moratorium or other similar Laws relating to creditors' rights and general principles of equity. The Contribution Agreement has been duly executed and delivered by the parties thereto and constitutes a valid and binding obligation of each party thereto, enforceable against each party thereto in accordance with and subject to its terms, subject to applicable bankruptcy, insolvency, moratorium or other similar laws relating to creditors' rights and general principles of equity.

(b) The execution and delivery of this Agreement by each of Parent and Buyer does not, and the consummation of the transactions contemplated by this Agreement to which Parent and/or Buyer is a party and compliance by each of Parent and Buyer with the provisions of this Agreement will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any material obligation or to loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Parent or any of its Subsidiaries under, (i) the organizational documents of Parent or Buyer or the comparable certificate of incorporation or organizational documents or partnership or similar agreement (as the case may be) of any other Subsidiary of the Parent, each as amended or supplemented to the date of this Agreement, (ii) any loan or credit agreement, note, bond, mortgage, indenture, reciprocal easement agreement, lease or other agreement, instrument, permit, concession, franchise or license applicable to Parent or any of its Subsidiaries or their respective properties or assets or (iii) subject to the governmental filings and other matters referred to in the following sentence, any Laws applicable to Parent or any of its Subsidiaries or their respective properties or assets, other than, in the case of clause (ii) or (iii), any such conflicts, violations, defaults, rights, loss or Liens that individually or in the aggregate would not reasonably be expected to (x) have a Parent Material Adverse Effect or a Buyer Material Adverse Effect or (y) prevent the consummation of the transactions contemplated by this Agreement. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to Parent or any of its Subsidiaries in connection with the execution and delivery of this Agreement by Parent or Buyer or the consummation by Parent or Buyer of any of the transactions contemplated by this Agreement, except for (i) any filings required under the Exchange Act (including Schedule 13E-3), (ii) the filing of the Articles of Merger with the Maryland Department, (iii) the filing of a certificate of merger with the Secretary of State of the State of Delaware with respect to the Partnership Merger, (iv) such filings as may be required in connection with the payment of any Transfer Taxes (as defined in Section 5.6), (v) any filings required under the HSR Act, (vi) the filing of a Form D with the SEC with respect to the transaction contemplated by the Partnership Merger Agreement and (vii) such other consents, approvals, orders, authorizations, registrations,

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declarations and filings (A) as may be required under federal, state or local environmental Laws, (B) as may be required under the "blue sky" laws of various states, to the extent applicable, or (C) which, if not obtained or made, would not prevent or delay beyond December 31, 1999 the consummation of any of the transactions contemplated by this Agreement or otherwise prevent Parent or Buyer

from timely performing its obligations under this Agreement in any material respect or have, individually or in the aggregate, a Parent Material Adverse Effect.

3.4 Litigation. As of the date of this Agreement, there is no suit, action or proceeding pending (in which service of process has been received by Parent or any of its Subsidiaries) or, to the Knowledge of Parent (as defined in Section 3.13), threatened in writing against or affecting Parent or any of its Subsidiaries that, individually or in the aggregate, would reasonably be expected to (i) have a Parent Material Adverse Effect or (ii) prevent or delay beyond the Outside Date the consummation of any of the material transactions contemplated by this Agreement, nor, as of the date of this transaction, is there any judgment, decree, injunction, rule or order of any Governmental Entity or arbitrator outstanding against Parent of any of its Subsidiaries having, or which, insofar as reasonably can be foreseen, in the future would have, any such effect.

3.5 Undisclosed Liability. As of the date hereof, neither Parent nor Buyer has any liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) whether or not required by GAAP to be set forth on a consolidated balance sheet of Parent or Buyer or in the notes thereto which, individually or in the aggregate, would have a Parent Material Adverse Effect or Buyer Material Adverse Effect other than those resulting from any lawsuits or other claims filed with respect to the Merger and the other transactions contemplated hereby.

3.6 Brokers. No broker, investment banker, financial advisor or other Person, the fees and expenses of which will be paid by Parent or Buyer, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of Parent or any of its Subsidiaries other than as set forth in Section 3.6 of the Buyer Disclosure Letter.

3.7 Compliance With Laws. Neither Parent nor any of its Subsidiaries has violated or failed to comply with any statute, law, ordinance, regulation, rule, judgment, decree or order of any Governmental Entity applicable to its business, properties or operations, except to the extent that such violation or failure would not reasonably be expected to have a Parent Material Adverse Effect or Buyer Material Adverse Effect.

3.8 Contracts; Debt Instruments. Neither Parent nor any of its Subsidiaries (i) has received a written notice that Parent or any of its Subsidiaries is in violation of or in default under any material loan or credit agreement, note, bond, mortgage, indenture, lease, permit, concession, franchise, license or any other material contract, agreement, arrangement or understanding, to which it is a party or by which it or any of its properties or assets is bound, nor (ii) to the Knowledge of Buyer (as defined in Section 3.15) does such a violation or default exist, except to the extent such violation or default referred to in clauses (i) or (ii), individually or in the aggregate, would not have a Parent Material Adverse Effect or a Buyer Material Adverse Effect.

3.9 Solvency. Immediately after giving effect to the Transactions and the closing of the Financing (as herein defined) and the Contribution, the Surviving Company and the Surviving Operating Partnership shall (a) be able to pay their respective debts as they become due and shall each own property having a fair market value greater than the amounts required to pay its debts (including a reasonable estimate of the amount of all contingent liabilities) and (b) have adequate capital to carry on their respective businesses. No transfer of property is being made and no obligation is being incurred in connection with the transactions contemplated by this Agreement and the Partnership Merger Agreement and the closing of any financing to be obtained by Parent, Buyer or Buyer Operating Partnership in order to effect the transactions contemplated by this Agreement and the Partnership Merger Agreement or with the intent to hinder, delay or defraud either present or future creditors of Parent, Buyer, Buyer Operating Partnership, the Surviving Company or the Surviving Operating Partnership.

3.10 Proxy Statement and Information Statement. The information provided by Parent or Buyer with respect to Parent and its Subsidiaries and the Surviving Company for inclusion in the Proxy Statement and the Information Statement will not, as of the date of mailing of the Proxy Statement and the Information

Statement, respectively, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

3.11 Investment Company Act of 1940. Neither Parent nor any of its Subsidiaries is, or at the Effective Time will be, required to be registered under the 1940 Act.

3.12 Ownership of Stock in Seller.

(a) The beneficial ownership of Seller Common Shares (excluding any Seller Common Shares issuable upon exercise of the options for 845,362 Seller Common Shares issued to Alter and Biederman that were not exercisable within 60 days of April 15, 1999), Seller Preferred Shares and Seller OP Units by Parent, Buyer, Buyer Operating Partnership and the parties to the Contribution Agreement and certain other affiliated persons and entities listed in the Schedule 13Ds are as set forth in the Schedule 13D filed by Westbrook Fund I and the other parties named therein with the SEC on October 24, 1997, as amended through the date hereof, and the Schedule 13D filed by Alter and the other parties named therein with the SEC on April 15, 1999, as amended through the date hereof.

(b) Parent, Holdings, Buyer, and Buyer Operating Partnership are "affiliates" or "associates" (as such terms are defined in Section 3-601 of the MGCL) of Alter.

(c) Of Parent, Holdings, Buyer, Buyer Operating Partnership, the parties to the Contribution Agreement and the other direct and indirect beneficial owners of stock and affiliates (as such terms are defined in Section 3-601 of the MGCL) of Buyer, only (i) Westbrook Fund I, (ii) Westbrook Co-Investment Partnership I, L.P., a Delaware limited partnership ("Westbrook Co-Investment I"), and (iii) each other beneficial owner of the securities of Seller beneficially owned by Westbrook Fund I or Westbrook Co-Investment I is or was at any time within the 2 years prior to the date hereof the beneficial owner (as such term is defined in Section 3-601 of the MGCL) directly or indirectly of 10 percent or more of the voting power of the outstanding voting stock of Seller.

3.13 Definition of Knowledge. As used in this Agreement, the phrase "Knowledge of Parent" or "Knowledge of Buyer" (or words of similar import) means the actual knowledge without any duty of investigation or inquiry of those individuals identified in Section 3.13 of the Buyer Disclosure Letter.

3.14 Sufficient Funds. After giving effect to the contribution of cash and assets to Parent pursuant to, and in accordance with, the Contribution Agreement, and borrowings (the "Financing") under Parent's financing commitment attached as Exhibit G (the "Financing Commitment"), which Contribution Agreement and Financing Commitment are in full force and effect, the Surviving Company and the Surviving Operating Partnership will have sufficient funds available to:

(a) refinance or repay in cash all indebtedness for borrowed money of Seller or any Seller Subsidiary that will become due as a result of the transactions contemplated by this Agreement or the Partnership Merger Agreement, plus unpaid interest accrued thereon, and any prepayment, breakage or other costs associated with the repayment or refinancing, as the case may be, in each case as set forth in Section 3.14(a) of the Seller Disclosure Letter;

(b) pay all amounts required to be paid pursuant to this Agreement and the Partnership Merger Agreement;

(c) pay all fees, costs and expenses incurred by Seller and the Seller Partnership in connection with this Agreement, the Partnership Merger Agreement and the transactions contemplated herein and therein assuming such fees, costs and expenses (including severance costs) are not in excess of $11,500,000; and

(d) pay all fees, costs and expenses incurred by Parent, Buyer and Buyer Operating Partnership in connection with this Agreement, the Partnership Merger Agreement and the other transactions contemplated herein and therein.

3.15 Representations in Partnership Merger Agreement. The representations and warranties of Parent and the Buyer Operating Partnership and its

Subsidiaries set forth in the Partnership Merger Agreement are true and correct.

ARTICLE 4

COVENANTS

4.1 Acquisition Proposals. During the period from the date hereof and continuing through the Effective Time or the earlier termination of this Agreement in accordance with its terms, Seller agrees that:

(a) neither it nor any of the Seller Subsidiaries shall initiate, solicit or knowingly encourage, directly or indirectly, any inquiries or the making or implementation of any proposal or offer (including, without limitation, any proposal or offer to its stockholders) with respect to a merger, acquisition, tender offer, exchange offer, consolidation, share exchange, sale of assets or similar transaction involving all or any significant portion of the assets or any equity securities of, Seller and its Subsidiaries, taken as a whole, other than the transactions contemplated by this Agreement (any such proposal or offer being hereinafter referred to as an "Acquisition Proposal") or engage in any negotiations concerning or provide any

confidential information or data to, or have any discussions with, any Person relating to an Acquisition Proposal, or otherwise facilitate any effort or attempt to make or implement an Acquisition Proposal (for the avoidance of doubt, responding to an unsolicited inquiry by informing such inquiror that Seller is subject to this Section 4.1 and instructing such inquiror to review this Agreement shall not be a violation of this Section 4.1);

(b) it shall direct and use its reasonable best efforts to cause its officers, directors, employees, agents or financial advisors not to engage in any of the activities restricted by Section 4.1(a);

(c) it will immediately cease and cause to be terminated any existing activities, discussions or negotiations theretofore conducted with any Person with respect to any Acquisition Proposal and will take the necessary steps to inform the individuals or entities referred to in Section 4.1(b) of the obligations undertaken in this Section 4.1; and

(d) it will notify Buyer promptly if Seller receives any such inquiries or proposals, or any requests for such information, or if any such negotiations or discussions are sought to be initiated or continued with it;

provided, however, that nothing contained in this Agreement shall restrict Seller Board or Special Committee (and the officers, directors, employees, agents and financial advisors of Seller acting at the direction of Seller Board or Special Committee) from (i) prior to the Seller Stockholders Meeting (as defined below), furnishing information to, or entering into discussions or negotiations with, any Person that makes an unsolicited Acquisition Proposal, if (A) Seller Board or Special Committee determines in good faith that the failure to take such action would reasonably be expected to violate its duties under applicable law and such proposal is, or is reasonably likely to be, a Superior Acquisition Proposal (as defined below), (B) prior to furnishing such information to, or entering into discussions or negotiations with, such Person, Seller provides written notice to Buyer to the effect that it is furnishing information to, or entering into discussions with, such Person and (C) subject to any confidentiality agreement with such Person, Seller keeps Buyer informed of the status (not the terms or identity of parties) of any such discussions or negotiations (Seller agreeing that it will not enter into any confidentiality agreement with any Person subsequent to the date hereof which prohibits Seller from providing such information to Buyer); and (ii) to the extent applicable, taking and disclosing to the Seller stockholders a position contemplated by Rules 14d-9 and 14e-2 promulgated under the Exchange Act with regard to an Acquisition Proposal; provided, however, that Seller Board or Special Committee may not approve or recommend an Acquisition Proposal, or withdraw or modify in a manner adverse to Buyer its approval or recommendation of this Agreement and the Merger, unless such Acquisition Proposal is a Superior Acquisition Proposal. Nothing in this Section 4.1 shall (x) permit Seller to terminate this Agreement (except as specifically provided in Article 7 hereof) or (y) permit Seller to enter into an agreement with respect to an Acquisition Proposal during the term of this Agreement (other than a confidentiality agreement in customary form

executed as provided above); provided, however, that the Seller Board or Special Committee may approve and recommend a Superior Acquisition Proposal and, in connection therewith, withdraw or modify its approval or recommendation of this Agreement and the Merger. As used herein, "Superior Acquisition Proposal" means a bona fide Acquisition Proposal made by a third party which Seller Board or Special Committee determines in good faith (after consultation with its financial advisor) to be more favorable to Seller's stockholders than the Merger and which Seller Board or Special Committee determines is reasonably capable of being consummated.

4.2 Conduct of Seller's Business Pending Merger. During the period from the date hereof and continuing through the Effective Time, except (i) as consented to in writing by Buyer or as contemplated by this Agreement and (ii) as set forth on Section 4.2 of the Seller Disclosure Letter, Seller shall, and shall cause each of the Seller Subsidiaries to:

(a) conduct its business only in the usual, regular and ordinary course and in substantially the same manner as heretofore conducted and, except as contemplated by this Agreement and the transactions contemplated hereby, take all action necessary to continue to qualify as a REIT;

(b) use its reasonable efforts to (i) preserve intact its business (corporate or otherwise) organizations and goodwill and (ii) keep available the services of its officers and key employees other than those employed by Parent, Lessee or Manager or any of Affiliate thereof;

(c) confer on a regular basis upon reasonable request with one or more representatives of Buyer to report on material operational matters and, subject to Section 4.1, any proposals to engage in material transactions;

(d) promptly notify Buyer of any material adverse change in its condition (financial or otherwise), business, properties, assets or liabilities, or of any material governmental complaints, investigations or hearings adverse to it (or written threats thereof) which could reasonably be expected to have a Seller Material Adverse Effect;

(e) promptly deliver to Buyer true and correct copies of any report, statement or schedule filed with the SEC subsequent to the date of this Agreement and prior to the Closing Date;

(f) maintain its books and records in accordance with GAAP consistently applied and not change in any material manner any of its methods, principles or practices of accounting in effect at the Seller Financial Statement Date, except as may be required by the SEC, applicable law or GAAP;

(g) duly and timely file all material Tax Returns and other documents required to be filed with federal, state, local and other Tax Authorities, subject to timely extensions permitted by law, and provided such extensions do not adversely affect Seller's status as a qualified REIT under the Code;

(h) except as set forth in this Agreement, not make, rescind or revoke any material express or deemed election relative to Taxes (unless required by law or necessary to preserve Seller's status as a REIT or the status of any Seller Subsidiary as a partnership for federal income tax purposes or as a qualified REIT subsidiary under Section 856(i) of the Code, as the case may be);

(i) except as contemplated in the CapEx Budget previously made available to Buyer, not acquire, enter into any option to acquire, or exercise an option or contract to acquire, additional real property, incur additional indebtedness except for working capital under its revolving lines of credit, encumber assets or commence construction of, or enter into any agreement or commitment to develop or construct, other real estate projects, except with respect to projects described in the Seller SEC Documents or the Seller Disclosure Letter as being under development in accordance with the agreements in existence on the date of this Agreement and previously furnished to Buyer (the "Development Agreements");

(j) not (except as contemplated by this Agreement and the Partnership

Merger Agreement) amend its Charter or bylaws, or the articles or certificate of incorporation, bylaws, code of regulations, partnership agreement, operating agreement or joint venture agreement or comparable charter or organization document of any Seller Subsidiary;

(k) except as contemplated by this Agreement and the Seller Partnership Redemption and for issuances under Seller's dividend reinvestment plan in accordance with past practice, make no change in the number of its shares of capital stock, membership interests or units of limited partnership interest (as the case may be) issued and outstanding or reserved for issuance, other than pursuant to (i) the exercise of options or other rights disclosed in Section 2.3 of the Seller Disclosure Letter, (ii) the conversion of Seller Preferred Shares, or (iii) the exchange or redemption of Seller OP Units pursuant to the Seller Partnership Agreement for Seller Common Shares or cash, at Seller's option;

(l) except as set forth in Section 4.2(l) of the Seller Disclosure Letter or without the consent of Parent, grant no options or other rights or commitments relating to its shares of capital stock, membership interests or units of limited partnership interest or any security convertible into its shares of capital stock, membership interests or units of limited partnership interest, or any security the value of which is measured by shares of capital stock, or any security subordinated to the claim of its general creditors and, except as contemplated by this Agreement, not amend or waive any rights under any of the Seller Options;

(m) except as provided in this Agreement (including the Seller Partnership Redemption and Section 5.8), the Partnership Merger Agreement and in connection with the use of Seller Common Shares to pay the exercise price or tax withholding in connection with equity-based employee benefit plans by the participants therein, not (i) authorize, declare, set aside or pay any dividend or make any other distribution or payment with respect to any Seller Common Shares, Seller Preferred Shares or Seller OP Units or (ii) directly or indirectly redeem, purchase or otherwise acquire any shares of capital stock, membership interests or units of partnership interest or any option, warrant or right to acquire, or security convertible into, shares of capital stock, membership interests, or units of partnership interest, except for (A) redemptions of Seller Common Shares required under Section 2 of Article V of Seller's Charter in order to preserve the status of Seller as a REIT under the Code and (B) conversions or redemptions of Seller OP Units, whether or not outstanding on the date of this Agreement, for cash or Seller Common Shares in accordance with the terms of the Seller Partnership Agreement;

(n) not sell, lease (other than to Lessee), exchange or otherwise dispose of any Seller Property outside the ordinary course of business or as set forth on Section 4.2(n) of the Seller Disclosure Letter;

(o) not make any loans, advances or capital contributions to, or investments in, any other Person, other than regular advances to employees in the ordinary course of business and loans, advances and capital contributions to Seller Subsidiaries in existence on the date hereof;

(p) not pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) which are material to Seller and its Subsidiaries taken as a whole, other than the payment, discharge or satisfaction, in the ordinary course of business consistent with past practice or in accordance with their terms, of liabilities reflected or reserved against in, or contemplated

by, the most recent consolidated financial statements (or the notes thereto) furnished to Buyer or incurred in the ordinary course of business consistent with past practice (collectively, "Ordinary Course Liabilities");

(q) except as provided in Section 4.2(i) above, not enter into any commitment, contractual obligation or transaction (each, a "Commitment") for the purchase of any real estate; provided that expansion or improvements made in the ordinary course of business to existing real property shall not be considered a purchase of real property;

(r) not guarantee the indebtedness of another Person, enter into any "keep well" or other agreement to maintain any financial statement condition of

another Person or enter into any arrangement having the economic effect of any of the foregoing;

(s) not enter into any contractual obligation with any officer, director or Affiliate of Seller except as set forth in this Agreement;

(t) not increase any compensation or enter into or amend any employment, severance or other agreement with any of its officers, directors or employees earning a base salary of more than $100,000 per annum, other than as required by any contract or Employee Plan or pursuant to waivers by employees of benefits under such agreements;

(u) except as provided in Section 4.2(l) of this Agreement, not adopt any new employee benefit plan or amend or terminate or increase the benefits under any existing plans or rights, not grant any additional options, warrants, rights to acquire stock, stock appreciation rights, phantom stock, dividend equivalents, performance units or performance stock to any officer, employee or director, or accelerate vesting with respect to any grant of Seller Common Shares to employees which are subject to any risk of forfeiture, except for changes which are required by law and changes which are not more favorable to participants than provisions presently in effect;

(v) not change the ownership of any of its Subsidiaries, except changes which arise as a result of the conversion of Seller OP Units into Seller Common Shares or cash or the Seller Partnership Redemption;

(w) not accept a promissory note in payment of the exercise price payable under any option to purchase Seller Common Shares;

(x) not enter into or amend or otherwise modify or waive any material rights under any agreement or arrangement for the Persons that are executive officers or directors of Seller or any Seller Subsidiary (other than Alter and Biederman in their capacities as such);

(y) not directly or indirectly or through a subsidiary, merge or consolidate with, acquire all or substantially all of the assets of, or acquire the beneficial ownership of a majority of the outstanding capital stock or a majority of any other equity interest in, any Person other than any of the foregoing (other than a merger or consolidation) in connection with a transaction permitted pursuant to Section 4.2(i);

(z) not settle or compromise any material tax liability;

(aa) perform all actions required to consummate the Seller Partnership Redemption on the Closing Date prior to the Effective Time;

(bb) perform all agreements required to be performed by the Seller and its Subsidiaries (including the Seller Partnership) under the Partnership Merger Agreement; and

(cc) not agree, commit or arrange to take any action prohibited under this Section.

4.3 Conduct of Parent's and Buyer's Business Pending Merger. Prior to the Effective Time, except as (i) contemplated by this Agreement, or (ii) consented to in writing by Seller, Parent shall, and shall cause Buyer to:

(a) use its reasonable efforts to preserve intact its business organizations and goodwill and keep available the services of its officers and employees;

(b) promptly notify Seller of any material emergency or other material change in the condition (financial or otherwise), business, properties, assets, liabilities, prospects or the normal course of its businesses or in the operation of its properties, or of any material governmental complaints, investigations or hearings (or communications indicating that the same may be contemplated);

(c) not directly or indirectly, through a subsidiary or otherwise, merge or consolidate with, or acquire all or substantially all of the assets of, or the beneficial ownership of a majority of the outstanding capital stock or

other equity interests in any Person whose securities are registered under the Exchange Act unless such transaction has been approved by Seller;

(d) except as contemplated by this Agreement, not issue or commit to issue or change the ownership of any Buyer or Buyer Operating Partnership securities unless such issuance or change in ownership has been approved by Seller;

(e) use reasonable best efforts to do all necessary things required to obtain and to close the funding contemplated by the Contribution Agreement and the borrowings contemplated by the Financing Commitment or if the Financing Commitment is terminated or such funds shall not otherwise be available, to obtain alternate financing, in each case on financial and other terms no less favorable than those set forth in the Financing Commitment or to the extent not set forth therein, on terms reasonably acceptable to Parent, and to cause such equity funding and such borrowings to be made available to Parent, Buyer, Buyer Operating Partnership and Seller Partnership or the other borrowers thereunder, as applicable as and subject to the conditions provided in the Contribution Agreement and the Financing Commitment. Parent and Buyer will not amend or otherwise modify in any material respect, or waive any material rights under the Contribution Agreement or Financing Commitment, in each case to the extent such action could reasonably be expected to materially and adversely affect the likelihood of obtaining such funding. Parent agrees to use its reasonable best efforts so that representatives of Seller shall have reasonable access to the lender under the Financing Commitment and use its reasonable best efforts to cause such lender to respond to Seller's reasonable request regarding the status of such financing;

(f) not agree, commit or arrange to take any action prohibited under this Section; and

(g) except as contemplated by the Contribution Agreement, not acquire ownership, beneficially or of record, of any Seller Common Shares or Seller Preferred Shares.

4.4 Other Actions. Each of Seller on the one hand, and Parent and Buyer on the other hand, shall not knowingly take, and shall use commercially reasonable efforts to cause their Subsidiaries not to take, any action that would result in (i) any of the representations and warranties of such party (without giving effect to any "knowledge" qualification) set forth in this Agreement that are qualified as to materiality becoming untrue, (ii) any of such representations and warranties (without giving effect to any "knowledge" qualification) that are not so qualified becoming untrue in any material respect or (iii) except as contemplated by Section 4.1, any of the conditions to the Merger set forth in Article 6 not being satisfied.

4.5 Private Placement. Parent shall take all actions necessary to offer and sell interests in Parent to holders of Seller OP Units in the manner contemplated by the Partnership Merger Agreement and Sections 1.8 and 5.1 hereof and as shall be required for the offering and sale of such units of limited partnership interest to be exempt from the registration requirements of the Securities Act pursuant to Rule 506 of Regulation D.

4.6 Escrow Arrangement. Parent has delivered to Fidelity National Title Insurance Company, as escrow agent (the "Escrow Agent") $25,000,000 (the "Cash Collateral") in cash or an irrevocable letter of credit in the amount of the Cash Collateral, substantially in the form attached hereto as Exhibit H, with such changes as shall be reasonably satisfactory to Seller and from a bank reasonably satisfactory to Seller (the "Letter of Credit") to secure the obligation of Parent and Buyer to pay certain fees and expenses pursuant to Section 7.2 and to be held in accordance with the terms of an Escrow Agreement dated as of the date hereof among the Escrow Agent, Seller, Seller Partnership and Parent (the "Escrow Agreement").

4.7 Seller Partnership Actions. Seller shall use its reasonable best efforts to cause Seller Partnership to (a) obtain the Seller Partner Approval and (b) redeem from Seller, Seller OP Units in exchange for assets of Seller Partnership as set forth on Exhibit A. Parent will cooperate with Seller in obtaining the Seller Partner Approval.

4.8 Pro Formas. Set forth on Exhibit J is the current estimated sources and

uses of funds in connection with the Contribution, the Financing Commitment and the consummation of the transactions contemplated by this Agreement and the Partnership Merger Agreement, which reflects the current assumptions regarding sources and uses of funds for such purposes, and Parent will promptly notify Seller of any material changes in such estimated sources and uses of funds and provide Seller a revised statement reflecting such changes.

ARTICLE 5

ADDITIONAL COVENANTS

5.1 Preparation of the Proxy Statement; Seller Stockholders Meeting.

(a) The parties shall cooperate and promptly prepare, and Seller shall file with the SEC as soon as practicable a proxy statement with respect to the meeting of the stockholders of Seller in connection with the Merger and Charter Amendments (the "Proxy Statement"). The parties shall cooperate

and promptly prepare and the appropriate party shall file with the SEC as soon as practicable any other filings required under the Exchange Act ("Additional Filings"), including a Rule 13e-3 Transaction Statement on Schedule 13E-3 with respect to the Merger to be filed jointly by Seller, Parent and Buyer, together with any required amendments thereto. To the extent the Seller Partnership has received the Seller Partner Approval in the form of valid written consents executed by partners of the Seller Partnership promptly after the date hereof, Seller Partnership and Parent shall jointly promptly prepare an Information Statement of Seller Partnership and Parent for use in connection with the offering of units of limited liability company interest in Parent (the "Information Statement). To the extent the Seller Partnership has not received the Seller Partner Approval in the form of valid written consents executed by partners of the Seller Partnership promptly after the date hereof, Seller Partnership and Parent shall jointly and promptly prepare a Consent Solicitation Statement soliciting the written consent of the holders of Seller OP Units to the adoption of this Agreement and the approval of the Partnership Merger (the "Consent Solicitation Statement"), which Consent Solicitation Statement shall contain a description of the terms of the Class A Preferred Units and the Class B Units and the recommendation of Seller General Partner's Board of Directors that the holders of Seller OP Units consent to the adoption of this Agreement and the approval of the Partnership Merger. Each of Seller, Seller Partnership, Parent, Buyer and Buyer Operating Partnership agrees that the information provided by it for inclusion in the Proxy Statement, the Additional Filings, the Information Statement, Consent Solicitation Statement and each amendment or supplement thereto, at the time of mailing thereof and at the time of the meeting of stockholders of Seller and at the time of the taking of consent in respect of the Seller Partner Approval, will not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Parent, Buyer and Buyer Operating Partnership shall, with respect to the Seller Partner Approval and the offering of units of limited liability interests in Parent to holders of Seller OP Units, comply with Regulation D of the Securities Act, as applicable. Seller will use its reasonable best efforts, and Parent, Buyer and Buyer Operating Partnership will cooperate with Seller to (i) file a preliminary Proxy Statement with the SEC and (ii) cause the Proxy Statement to be mailed to Seller's stockholders, in each case, as promptly as practicable (including clearing the Proxy Statement with the SEC) following receipt by Seller of written certification from the lender under the Financing Commitment that it has received and reviewed the environmental reviews, engineering reports, title reports, surveys and appraisal reports with respect to substantially all (based on the aggregate value of the Seller Properties) of the Seller Properties for which it desires such reports (collectively, the "Property Reports"), provided that the termination date of the Financing Commitment shall be later than 12 days from the date the Proxy Statement was otherwise to be mailed to Seller's stockholders; and provided, further, that the parties acknowledge that any of such reports may be updated or supplemented from time to time prior to Closing. Seller will use its reasonable best efforts, and Parent, Buyer and Buyer Operating Partnership will cooperate with Seller, to cause the Information Statement or Consent Solicitation Statement, as applicable, to be mailed to the Seller Unit Holders as promptly as practicable after the SEC has cleared the Proxy Statement and it has been mailed to Seller's stockholders. Seller will notify Buyer promptly of the receipt of

any comments from the SEC and of any request by the SEC for amendments or supplements to the Proxy Statement or the Additional Filings or for additional information and will supply Buyer with copies of all correspondence between such party or any of its representatives and the SEC, with respect to the Proxy Statement or the Additional Filings. The parties shall cooperate to cause the Proxy Statement, the Information Statement, Consent Solicitation Statement and any Additional Filings to comply in all material respects with all applicable requirements of law. Whenever any event occurs which is required to be set forth in an amendment or supplement to the Proxy Statement, the Additional Filings, or the Information Statement or Consent Solicitation Statement, Seller on the one hand, and Parent and Buyer on the other hand, shall

promptly inform the other of such occurrence and cooperate in filing with the SEC and/or mailing to the stockholders of Seller or holders of Seller OP Units, as applicable, such amendment or supplement to the Proxy Statement or the Information Statement or Consent Solicitation Statement.

(b) It shall be a condition to the mailing of the Proxy Statement and the Information Statement that if they so request, Buyer and Buyer Operating Partnership shall have received a "comfort" letter or an "agreed upon procedures" letter from Ernst & Young LLP, independent public accountants for Seller and Seller Partnership, of the kind contemplated by the Statement of Auditing Standards with respect to Letters to Underwriters promulgated by the American Institute of Certified Public Accountants (the "AICPA Statement"), dated as of the date on which the Proxy Statement is to be mailed to the stockholders of Seller, addressed to Parent, Buyer and Buyer Operating Partnership, in form and substance reasonably satisfactory to Buyer and Buyer Operating Partnership, concerning the procedures undertaken by Ernst & Young, LLP with respect to the financial statements and information of Seller, Seller Partnership and their Subsidiaries contained in the Proxy Statement and the other matters contemplated by the AICPA Statement and otherwise customary in scope and substance for letters delivered by independent public accountants in connection with transactions such as those contemplated by this Agreement.

(c) Seller will, as soon as practicable following the date of this Agreement, duly call, give notice of, convene and hold a meeting of its stockholders, such meeting to be held no sooner than 20 business days nor later than 45 days following the date the Proxy Statement is mailed to the stockholders of Seller (the "Seller Stockholders Meeting") for the purpose of obtaining the Seller Stockholder Approvals. Seller shall be required to hold the Seller Stockholders Meeting, regardless of whether the Seller Board has withdrawn, amended or modified its recommendation that its stockholders adopt this Agreement and approve the Merger, unless this Agreement has been terminated pursuant to the provisions of Section 7.1. Seller will, through its Seller Board, recommend that its stockholders adopt this Agreement and approve the transactions contemplated hereby, including the Merger and Charter Amendments; provided, that prior to the Seller Stockholders Meeting, such recommendation may be withdrawn, modified or amended only to the extent expressly permitted under Section 4.1.

(d) If on the date for the Seller Stockholders Meeting established pursuant to Section 5.1(c) of this Agreement, Seller has not received duly executed proxies which, when added to the number of votes represented in person at the meeting by Persons who intend to vote to adopt this Agreement, will constitute a sufficient number of votes to adopt the Seller Stockholder Approvals (but less than one-third of the outstanding Seller Common Shares and Seller Preferred Shares (voting on an "as-converted basis"), voting as a single class have indicated their intention to vote against, or have submitted duly executed proxies voting against, the adoption of the Seller Stockholder Approvals), then Seller shall recommend the adjournment of its stockholders meeting until the date 10 business days after the originally scheduled date of the stockholders meeting.

5.2 Access to Information; Confidentiality. Subject to the requirements of confidentiality agreements with third parties, each of Seller, Parent and Buyer shall, and shall cause each of its Subsidiaries to, afford to the other party and to the officers, employees, accountants, counsel, financial advisors, sources of financing and other representatives of such other party, reasonable access during normal business hours prior to the Effective Time to all their respective properties, books, contracts, commitments, personnel and records and,

during such period, each of Seller, Parent and Buyer shall, and shall cause each of its Subsidiaries to, furnish promptly to the other party and its financing sources all other information concerning

its business, properties and personnel as such other party may reasonably request. Parent, Buyer and their financing sources shall have the right to conduct non-intrusive environmental and engineering inspections at the Seller Properties, provided that in no event shall Parent or Buyer have the right to conduct so-called "Phase II" environmental tests without Seller's prior consent, which shall not be unreasonably withheld. Notwithstanding anything in this Section 5.2 to the contrary, all of Parent's and Buyer's activities pursuant to this Section 5.2 must be conducted in a manner that does not unreasonably interfere with the ongoing operations of Seller and Seller Subsidiaries.

5.3 Reasonable Best Efforts; Notification.

(a) Subject to the terms and conditions herein provided, Seller, Parent and Buyer shall: (i) use all reasonable best efforts to cooperate with one another in (A) determining which filings are required to be made prior to the Effective Time with, and which consents, approvals, permits or authorizations are required to be obtained prior to the Effective Time from, governmental or regulatory authorities of the United States, the several states and foreign jurisdictions and any third parties in connection with the execution and delivery of this Agreement, and the consummation of the transactions contemplated hereby, including without limitation any required filings and consents under the HSR Act, and (B) timely making all such filings and timely seeking all such consents, approvals, permits and authorizations (the parties acknowledge that all consents under each of the Seller Franchise Agreements shall comply with the provisions of Section 5.3(a) of the Buyer Disclosure Letter unless otherwise mutually agreed by Seller and Parent); (ii) use all reasonable best efforts to obtain, in writing, the consents listed in Section 5.3(a)(1) of the Seller Disclosure Letter (the "Lender Consents") in the manner set forth in Section 5.3(c) and the consents listed in Section 5.3(a)(3) of the Seller Disclosure Letter (the "Ground Lessor Consents"), and the parties shall use all reasonable best efforts to cause Lessee to obtain, in writing, the consents listed in Section 5.3(a)(2) of the Seller Disclosure Letter (the "Franchise Consents") in the manner set forth in Section 5.3(d) (such Lender Consents, Ground Lessor Consents and Franchise Consents referred to herein collectively as the "Required Consents") in form reasonably satisfactory to Seller and Buyer, provided however, that, without the prior written consent of Parent, neither Seller, the Seller Partnership nor any other Seller Subsidiary shall pay any cash or other consideration, make any commitments or incur any liability or other obligation except (x) in the case of obtaining Lender Consents and consents under the Seller Franchise Agreements, as set forth in clause (y) below and Sections 5.3(c) and 5.3(d), (y) in the case of obtaining Ground Lessor Consents and Lender Consents, in an aggregate amount of $1,500,000 or less for the payment of all Ground Lessor Amounts and Prepayment Amounts (provided that such amount may exceed $1,500,000 if the aggregate cash consideration payable to holders of Seller Common Shares in the Merger and Seller Partnership Units in the Partnership Merger is reduced by the aggregate amount of such excess, and the Merger Consideration and Partnership Merger Consideration per share or unit, as the case may be, is reduced accordingly) and (z) for all other consents required to effect the Transactions, in an aggregate amount of $100,000 or less (provided that such amount may exceed $100,000 if the aggregate cash consideration payable to holders of Seller Common Shares in the Merger and Seller Partnership Units in the Partnership Merger is reduced by the aggregate amount of such excess, and the Merger Consideration and Partnership Merger Consideration per share or unit, as the case may be, is reduced accordingly); and (iii) use all reasonable best efforts to take, or cause to be taken, all other action and do, or cause to be done, all other things necessary, proper or appropriate to consummate and make effective the transactions contemplated by this Agreement, subject in the case of Seller to the exercise by the Seller Board or Special Committee prior to the Outside Date of its duties under applicable law; provided however, that nothing in this Section 5.3 shall require Parent or Buyer to pay or commit to pay any money or other consideration or to incur any liability or other obligation (except

as described in clause (i) of Section 5.3(c)). In furtherance thereof, Seller agrees to vote in favor of, or at Buyer's request deliver a written consent with respect to, the transactions contemplated by the Partnership Merger Agreement in its capacity as a limited partner of the Seller Partnership, and in its capacity as a general partner of the Seller Partnership. If at any time after the Effective Time any further action is necessary or desirable to carry out the purpose of this Agreement, Parent and the Surviving Company shall take all such necessary action.

(b) Seller shall give prompt notice to Parent and Buyer, and Parent and Buyer shall give prompt notice to Seller, (i) if any representation or warranty made by it or them contained in this Agreement that is qualified as to Seller Material Adverse Effect, Parent Material Adverse Effect or Buyer Material Adverse Effect, as the case may be, becomes untrue or incorrect in any respect or any such representation or warranty that is not so qualified becomes untrue or incorrect in any material respect or (ii) of the failure by it or them to comply with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement; provided, however, that no such notification shall affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement.

(c) With respect to securing the Lender Consents, Buyer and Seller shall cooperate with each other and use all reasonable best efforts to secure each of the Lender Consents, including taking the actions set forth in Section 5.3(d) of the Seller's Disclosure Schedule. Each party shall update the other on its progress at the request of the other:

(i) In the event some or all of the Lender Consents are not obtained, to the extent the Original Loan Amounts (as defined in the Financing Commitment), as such Original Loan Amount may be increased pursuant to the terms of the Financing Commitment, exceed $454,600,000 less the amount, if any, by which the proceeds under the Financing Commitment are reduced as a result of any defect or loss referred to in clause (i)(A) of Section 7.1(j) (whether or not a Lender Property Determination (as defined below) shall have occurred) (a "Financing Overage"), the Financing Overage shall be used as a source of funds to prepay as of the Closing Date, in whole or in part, the outstanding amounts under all of the loans for which a Lender Consent is required (any such loan, an "Underlying Loan") which have not been received and any prepayment penalty with respect thereto. To the extent an Underlying Loan and any related prepayment penalty will be paid as of the Closing Date with the proceeds of a Financing Overage, the Lender Consent with respect to such Underlying Loan shall be deemed to have been obtained;

(ii) In the event that at any time after July 15, 1999, Seller reasonably believes that (A) some or all of the Lender Consents will not be obtained or waived or (B) the Financing Overage will be an insufficient source of funds for the prepayment in full of all the Underlying Loans (together with all prepayment penalties) or (C) Buyer will not be able to obtain additional financing to prepay in full all the Underlying Loans (together with all prepayment penalties), Seller may seek to obtain new financing in an amount equal to such excess upon terms materially similar to market terms for similar loans on the date hereof. The proceeds of such financings shall be used solely to prepay as of the Closing Date in whole or in part one or more of the Underlying Loans for which Lender Consents have not been received or waived and any prepayment penalty with respect thereto. To the extent an Underlying Loan and any related prepayment penalty will be paid as of the Closing Date with the proceeds of any such financing, together with any Financing Overage, the

Lender Consent with respect to such Underlying Loan shall be deemed to have been obtained. With respect to Underlying Loans that are not prepayable in accordance with their respective terms, all amounts paid or required to be paid pursuant to clause (i) above or this clause (ii) to obtain Lender Consents that exceed the amount of principal and accrued interest on the applicable Underlying Loan are referred to

herein as the "Prepayment Amounts" and the parties shall use all reasonable best efforts to minimize the Prepayment Amounts;

(iii) In the event that, following the operation of clauses (i) and (ii) above, all of the Lender Consents have not been obtained or deemed waived, Seller may, at its sole option, agree to have the Common Merger Consideration reduced by the aggregate amount necessary to pay at Closing all remaining amounts under the Underlying Loans in full, and Buyer shall agree to waive the condition that it receive any of the Lender Consents.

(d) Seller, Buyer and Parent shall use all reasonable best efforts to minimize (i) the amounts of so-called Property Improvement Plan costs and termination fees paid or payable by Seller, Seller Partnership or any other Seller Subsidiary or Lessee in cash or other consideration (including by making commitments or incurring any liability or obligation) in connection with obtaining consent of the franchisors (including the Franchise Consents) under each of the Seller Franchise Agreements with respect to any Seller Property (collectively and in the aggregate, "Franchise Fees") and (ii) the amounts paid or required to be paid by Seller, Seller Partnership or any other Seller Subsidiary in cash or other consideration (including by making commitments or incurring any liability or obligation) in connection with obtaining the Ground Lessor Consents (the "Ground Lessor Amounts"), in each case in connection with transactions contemplated hereby and by the Contribution Agreement. If the Franchise Fees are equal to or less than $12,500,000, the aggregate cash consideration payable to the holders of Seller Common Shares in the Merger and Seller Partnership Units in the Partnership Merger shall not be adjusted pursuant to this Section 5.3(d). If the Franchise Fees exceed $12,500,000 but are less than $25,000,000 the aggregate cash consideration payable to holders of Seller Common Shares in the Merger and Seller Partnership Units in the Partnership Merger shall be reduced by one-half of the amount by which the Franchise Fees exceed $12,500,000, and the Merger Consideration and Partnership Merger Consideration per share or unit, as the case may be, shall be reduced accordingly. If the Franchise Fees exceed $25,000,000, at the option of Seller, Seller may or any Seller Subsidiary may pay or commit to pay or Seller may consent to Lessee paying or committing to pay such excess, and the aggregate cash consideration payable to holders of Seller Common Shares in the Merger and Seller Partnership Units in the Partnership Merger shall be reduced by the sum of (x) $6,250,000 as required by the preceding sentence and (y) the amount by which the Franchise Fees exceed $25,000,000, and the Merger Consideration and Partnership Merger Consideration per share or unit, as the case may be, shall be reduced accordingly. The Special Committee (or its representatives) shall be provided reasonable advance notice of all meetings with and copies of all correspondence with any franchisors under each of the Seller Franchise Agreements and be given the opportunity to attend and participate in all such meetings.

(e) For purposes of the last two sentences of Section 5.3(d), no Franchise Fees that are paid or payable by Parent, Buyer or Lessee shall be included in determining the dollar thresholds in such sentences unless Seller shall have been consulted by Parent, Buyer or Lessee, as applicable, prior to the incurrence of such Franchise Fees.

5.4 Public Announcements. Parent, Buyer and Seller will consult with each other before issuing, and provide each other the opportunity to review and comment upon, any press release or other

written public statements with respect to the transactions contemplated by this Agreement, and shall not issue any such press release or make any such written public statement prior to such consultation, except as may be required by applicable law, court process or by obligations pursuant to any listing agreement with any national securities exchange. The parties agree that the initial press release to be issued with respect to the transactions contemplated by this Agreement will be in the form agreed to by the parties hereto prior to the execution of this Agreement.

5.5 Transfer Taxes. Buyer and Seller shall cooperate in the preparation, execution and filing of all returns, questionnaires, applications or other documents regarding any real property transfer, sales, use, transfer, value added, stock transfer and stamp taxes, any transfer, recording,

registration and other fees and any similar taxes which become payable in connection with the transactions contemplated by this Agreement (together with any related interests, penalties or additions to tax, "Transfer Taxes"). From and after the Effective Time, the Surviving Company shall pay, or shall cause the Surviving Operating Partnership, as appropriate, to pay or cause to be paid, without deduction or withholding from any amounts payable to the holders of Seller Common Shares or Seller OP Units, all Transfer Taxes.

5.6 Benefit Plans. After the Effective Time, all employees of Seller who are employed by the Surviving Company shall, at the option of the Surviving Company, either continue to be eligible to participate in an "employee benefit plan," as defined in Section 3(3) of ERISA, of Seller which is, at the option of the Surviving Company, continued by the Surviving Company, or alternatively shall be eligible to participate in any "employee benefit plan," as defined in Section 3(3) of ERISA, established, sponsored or maintained by the Surviving Company after the Effective Time. With respect to each such employee benefit plan not formerly maintained by Seller, service with Seller or any Seller Subsidiary (as applicable) shall be included for purposes of determining eligibility to participate, vesting (if applicable) and entitlement to benefits and all pre-existing condition exclusions shall be waived and expenses incurred by any employee for deductibles and copayments in the portion of the year prior to the date such employee first becomes a participant in such employee benefit plan shall be credited to the benefit of such employee under such employee benefit plan for the year in which the employee's participation commences.

5.7 Indemnification.

(a) From and after the Effective Time, the Surviving Company shall provide exculpation and indemnification for each Person who is now or has been at any time prior to the date hereof or who becomes prior to the Effective Time, an officer, employee or director of Seller or any Seller Subsidiary (the "Indemnified Parties") which is the same as the exculpation and indemnification provided to the Indemnified Parties by Seller and the Seller Subsidiaries immediately prior to the Effective Time in their respective articles or certificate of incorporation and bylaws or other organizational documents, as in effect on the date hereof; provided, that such exculpation and indemnification covers actions on or prior to the Effective Time, including, without limitation, all transactions contemplated by this Agreement and the Financing.

(b) In addition to the rights provided in Section 5.7(a) above, in the event of any threatened or actual claim, action, suit, proceeding or investigation, whether civil, criminal or administrative, including without limitation, any action by or on behalf of any or all security holders of Seller, Parent or Buyer, or any Subsidiary of the Seller or Parent, or by or in the right of Seller, Parent or Buyer, or any Subsidiary of the Seller or Parent, or any claim, action, suit, proceeding or investigation (collectively,

"Claims") in which any Indemnified Party is, or is threatened to be, made a party based in whole or in part on, or arising in whole or in part out of, or pertaining to (i) the fact that he is or was an officer, employee or director of Seller or any of the Seller Subsidiaries or any action or omission or alleged action or omission by such Person in his capacity as an officer, employee or director, or (ii) this Agreement or the Partnership Merger Agreement or the transactions contemplated by this Agreement, the Partnership Merger Agreement or the Financing, whether in any case asserted or arising before or after the Effective Time, Parent and the Surviving Company (the "Indemnifying Parties") shall from and after the Effective Time jointly and severally indemnify and hold harmless the Indemnified Parties from and against any losses, claims, liabilities, expenses (including reasonable attorneys' fees and expenses), judgments, fines or amounts paid in settlement arising out of or relating to any such Claims. Parent, the Surviving Company and the Indemnified Parties hereby agree to use their reasonable best efforts to cooperate in the defense of such Claims. In connection with any such Claim, the Indemnified Parties shall have the right to select and retain one counsel, at the cost of the Indemnifying Parties, subject to the consent of the Indemnifying Parties (which consent shall not be unreasonably withheld or delayed). In addition, after the Effective Time, in the event of any such threatened or actual Claim, the Indemnifying Parties shall promptly pay and advance reasonable expenses and costs incurred by each Indemnified Person as they become due and payable in advance of the final disposition of the Claim to the fullest extent and in the manner permitted by

law. Notwithstanding the foregoing, the Indemnifying Parties shall not be obligated to advance any expenses or costs prior to receipt of an undertaking by or on behalf of the Indemnified Party, such undertaking to be accepted without regard to the creditworthiness of the Indemnified Party, to repay any expenses advanced if it shall ultimately be determined that the Indemnified Party is not entitled to be indemnified against such expense. Notwithstanding anything to the contrary set forth in this Agreement, the Indemnifying Parties (i) shall not be liable for any settlement effected without their prior written consent (which consent shall not be unreasonably withheld or delayed), and (ii) shall not have any obligation hereunder to any Indemnified Party to the extent that a court of competent jurisdiction shall determine in a final and non-appealable order that such indemnification is prohibited by applicable law. In the event of a final and non-appealable determination by a court that any payment of expenses is prohibited by applicable law, the Indemnified Party shall promptly refund to the Indemnifying Parties the amount of all such expenses theretofore advanced pursuant hereto. Any Indemnified Party wishing to claim indemnification under this Section 5.7, upon learning of any such Claim, shall promptly notify the Indemnifying Parties of such Claim and the relevant facts and circumstances with respect thereto; provided however, that the failure to provide such notice shall not affect the obligations of the Indemnifying Parties except to the extent such failure to notify materially prejudices the Indemnifying Parties' ability to defend such Claim; and provided, further, however, that no Indemnified Party shall be obligated to provide any notification pursuant to this Section 5.7(b) prior to the Effective Time.

(c) At or prior to the Effective Time, Buyer shall purchase directors' and officers' liability insurance policy coverage for Seller's and each Seller Subsidiary's directors and officers with at least $20,000,000 of coverage for a period of six years which will provide the directors and officers with coverage on substantially similar terms as currently provided by Seller and the Seller Subsidiaries to such directors and officers. At or prior to the Effective Time, Seller shall have the right to reasonably review and approve any such policy, which approval shall not be unreasonably withheld.

(d) This Section 5.7 is intended for the irrevocable benefit of, and to grant third-party rights to, the Indemnified Parties and their successors, assigns and heirs and shall be binding on all successors and assigns of Parent and Buyer, including without limitation the Surviving Company. Each of

the Indemnified Parties shall be entitled to enforce the covenants contained in this Section 5.7 and Parent and Buyer acknowledge and agree that each Indemnified Party would suffer irreparable harm and that no adequate remedy at law exists for a breach of such covenants and such Indemnified Party shall be entitled to injunctive relief and specific performance in the event of any breach of any provision in this Section 5.7.

(e) In the event that the Surviving Company or any of its respective successors or assigns (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers all or substantially all of its properties and assets to any Person, then, and in each such case, the successors and assigns of such entity shall assume the obligations set forth in this Section 5.7, which obligations are expressly intended to be for the irrevocable benefit of, and shall be enforceable by, each director and officer covered hereby.

Parent guarantees, unconditionally and absolutely, the performance of Surviving Company's and Buyer's obligations under this Section 5.7.

5.8 Declaration of Dividends and Distributions. From and after the date of this Agreement, Seller shall not make any dividend or distribution to its stockholders without the prior written consent of Buyer; provided, however, the written consent of Buyer shall not be required for the authorization and payment of, and Seller shall make quarterly distributions with respect to the Seller Preferred Shares in the amounts provided for in the Articles Supplementary in respect of the Seller Preferred Shares. From and after the date of this Agreement, Seller Partnership shall not make any distribution to the holders of Seller OP Units except a distribution per Seller OP Unit in the same amount as a dividend per Seller Common Share, with the same record and payment dates as such dividend on the Seller Common Shares, and the Seller Partnership

shall not make any distribution to Seller OP Preferred Unit Holders except a distribution per Seller OP Preferred Unit in the same amount as a dividend per Seller Preferred Share. The foregoing restrictions, and Section 4.2(m)(i), shall not apply, however, to the extent a distribution by Seller is necessary for Seller to maintain REIT status or to prevent Seller from having to pay federal income or excise tax; provided that in the event of such a necessary distribution, the aggregate cash consideration payable to holders of Seller Common Shares in the Merger and Seller Partnership Units in the Partnership Merger shall be reduced by the aggregate amount of such distribution, and the Merger Consideration and Partnership Merger Consideration per share or unit, as the case may be, shall be reduced accordingly.

5.9 Resignations. On the Closing Date, Seller shall use its best efforts to cause the directors and officers of Seller or any of the Seller Subsidiaries to submit their resignations from such positions as may be requested by Buyer, effective immediately after the Effective Time; provided, however, that by resigning, such officers and directors will not lose the benefit of any "change of control" provisions of any employment agreement or other instruments to which they would otherwise be entitled.

5.10 Stockholder Claims. Seller shall not settle or compromise any claim relating to the Transactions brought by any current, former or purported holder of any securities of Seller or the Seller Partnership without the prior written consent of Buyer, which consent will not be unreasonably withheld.

5.11 Seller Franchise Agreements and Leases. Except as (i) permitted pursuant to Section 5.3 or (ii) approved by Buyer (which approval shall not be unreasonably withheld or delayed), Seller will not, and will not permit any of its Subsidiaries to, amend in any material respect any of the Seller Franchise Agreements or Seller Ground Leases, or renew any Seller Franchise Agreement or Seller Ground Lease.

5.12 Cooperation with Proposed Financings. At the request of the Buyer, Seller will, at the Buyer's expense, reasonably cooperate with the Buyer in connection with the proposed financing of the Transactions by the Parent and its Subsidiaries (including causing Seller Partnership and other Seller Subsidiaries who are identified as borrowers in the Financing Commitment to execute and deliver at the Closing the definitive financing agreements as contemplated under the Financing Commitment), provided that such requested actions do not unreasonably interfere with the ongoing operations of Seller and Seller Subsidiaries. Solely in order to permit Parent and Buyer to consummated the Financing, Seller shall immediately prior to the Effective Time cause to be (i) created a special committee of the Seller Board whose sole authority and purpose shall be to authorize the execution of definitive finance documents to effect the Financing at the Closing and (ii) appointed to such special committee 2 designees of Parent who are reasonably acceptable to Seller. It is expressly agreed and understood that no action or inaction of such special committee shall be treated as action or inaction of Seller or any of its Subsidiaries for purposes of this Agreement.

ARTICLE 6

CONDITIONS

6.1 Conditions to Each Party's Obligation to Effect the Merger. The obligations of each party to effect the Merger and to consummate the other transactions contemplated by this Agreement to occur on the Closing Date shall be subject to the fulfillment at or prior to the Closing Date of the following conditions:

(a) Stockholder Approval. The (i) Seller Stockholder Approvals and (ii) Seller Board Approval shall have been obtained.

(b) No Injunctions or Restraints. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Merger, the Partnership Merger, the Seller Partnership Redemption or any of the other transactions contemplated hereby (other than the Contribution) shall be in effect.

(c) HSR. All applicable waiting periods (and any extensions thereof) under the HSR Act shall have expired or otherwise been terminated.

6.2 Conditions to Obligations of Parent and Buyer. The obligations of Parent and Buyer to effect the Merger and to consummate the other transactions contemplated to occur on the Closing Date are further subject to the following conditions, any one or more of which may be waived in writing by Buyer (provided that the failure of any condition set forth in Section 6.2(a) and (c) as a result of any action taken or not taken by Seller as contemplated by Section 4.2 of the Seller Disclosure Letter, as otherwise agreed to by Parent or as a result of the consummation of the transactions contemplated by this Agreement and the Partnership Merger Agreement shall not cause or result in any such condition not being satisfied):

(a) Representations and Warranties. The representations and warranties of Seller set forth in this Agreement (i) that are qualified as to Seller Material Adverse Effect shall be true and correct and (ii) that are not so qualified shall be true and correct in all material respects, as of the date of this

Agreement and as of the Closing Date, in each case as though made on and as of the Closing Date, except to the extent the representation or warranty is expressly limited by its terms to another date, in which case such representation or warranty shall be true and correct (if qualified as to Seller Material Adverse Effect) or true and correct in all material respects (if not so qualified) only as of such specific date, and Parent and Buyer shall have received a certificate (which certificate may be qualified by Knowledge to the same extent as the representations and warranties of Seller contained herein are so qualified) signed on behalf of Seller by the chief operating officer of Seller, in such capacity, to such effect.

(b) Performance of Obligations of Seller. Seller shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Effective Time, and Parent and Buyer shall have received a certificate signed on behalf of Seller by an executive officer of Seller, in such capacity, to such effect.

(c) Material Adverse Change. Since the date of this Agreement through and including the Closing Date, (i) there shall have been no Seller Material Adverse Change and (ii) Parent and Buyer shall have received a certificate of an executive officer of Seller, in such capacity, certifying to such effect. For purposes of this Section 6.2(c), it is understood and agreed that a Seller Material Adverse Change shall be deemed to have occurred, without regard to any certificate provided pursuant to clause (ii) of the first sentence of this Section 6.2(c), if, as a result of a "change of law" after the date hereof, at the Effective Time Seller would not qualify (at or prior to the Effective Time) as a REIT. For this purpose, the term "change in law" shall mean any amendment to or change (including any announced prospective change having a proposed effective date at or prior to the Effective Time) in the federal tax laws of the United States, including any statute, regulation or proposed regulation or any official administrative pronouncement (consisting of the issuance or revocation of any revenue ruling, revenue procedure, notice, private letter ruling or technical advice memorandum) or any judicial decision interpreting such federal tax laws (whether or not such pronouncement or decision is issued to, or in connection with, a proceeding involving the Seller or a Seller Subsidiary or is subject to review or appeal).

(d) Tax Opinions Relating to REIT Status of Seller And Partnership Status of Seller Partnership. Parent and Buyer shall have received an opinion of Brobeck, Phleger and Harrison LLP, or other counsel to Seller reasonably acceptable to Parent and Buyer, dated as of the Effective Time, in the form attached hereto as Exhibit J. Such opinion may be based on certificates in the form of Section 6.2(d) of the Seller Disclosure Letter.

(e) Consents. All Required Consents shall have been obtained, and not subsequently been revoked, as of the Closing Date. In addition, the Franchise Fees shall not exceed $25 million (unless Seller shall have exercised its option described in the last sentence of Section 5.3(d)).

(f) Seller Expenses. All (i) investment banking, (ii) legal

and accounting, (iii) advisory, consulting and severance, (iv) printing and SEC filing and (v) other fees and expenses incurred, paid or accrued by Seller and the Seller Subsidiaries in connection with the Transactions shall not exceed $11,500,000. Parent and Buyer shall have received a certificate signed on behalf of Seller by the chief operating officer of Seller setting forth in reasonable detail the amount of each such fees and expenses. In the event the aggregate of such fees and expenses exceed $11,500,000, the aggregate cash consideration payable to holders of Seller Common Shares in the Merger and Seller Partnership Units in the Partnership

Merger shall be reduced by the aggregate amount of such excess, and the Common Merger Consideration and Partnership Merger Consideration per share or unit, as the case may be, shall be reduced accordingly.

(g) Partnership Redemption. The Partnership Redemption shall have occurred.

(h) Partnership Merger. The Partnership Merger shall have been consummated.

(i) Financing. Parent and its Subsidiaries shall have obtained funds under the Financing Commitment on terms and conditions consistent with Exhibit G hereto and otherwise reasonably acceptable to Parent and Buyer and the Original Loan Amount equals or exceeds $454,600,000 less any reduction resulting from a Lender Property Determination up to the Defect Amount (as defined below).

Notwithstanding anything to the contrary in this Agreement, none of the initiation, threat or existence of any legal action of any kind with respect to this Agreement or the Partnership Merger Agreement or any transaction contemplated hereby or thereby, including without limitation any action initiated, threatened or maintained by any stockholder of Seller or any partner in the Seller Partnership, whether alleging rights with respect to claims under any Federal or state securities law, contract or tort claims, claims for breach of fiduciary duty or otherwise, will constitute a failure of any of the conditions set forth in Sections 6.2 and 6.3 (and no such action shall cause the chief operating officer of Seller or of Parent or Buyer to be unable to deliver a certificate attesting to compliance with such conditions) unless that action has resulted in the granting of injunctive relief that prevents the consummation of the Merger and the other transactions contemplated hereby or thereby, and such injunctive relief has not been dissolved or vacated.

6.3 Conditions to Obligations of Seller. The obligation of Seller to effect the Merger and to consummate the other transactions contemplated to occur on the Closing Date is further subject to the following conditions, any one or more of which may be waived in writing by Seller:

(a) Representations and Warranties. The representations and warranties of Parent and Buyer set forth in this Agreement (i) that are qualified as to Parent Material Adverse Effect or Buyer Material Adverse Effect shall be true and correct and (ii) that are not so qualified shall be true and correct in all material respects, as of the date of this Agreement and as of the Closing Date, in each case as though made on and as of the Closing Date, except to the extent the representation or warranty is expressly limited by its terms to another date, in which case such representation or warranty shall be true and correct (if qualified as to Parent Material Adverse Effect or Buyer Material Adverse Effect) or true and correct in all material respects (if not so qualified) only as of such specific date, and Seller shall have received a certificate (which certificate may be qualified by Knowledge to the same extent as the representations and warranties of Parent and Buyer contained herein are so qualified) signed on behalf of Parent and Buyer by the chief executive officer or the chief financial officer of such party, in such capacity, to such effect.

(b) Performance of Obligations of Buyer. Each of Parent and Buyer shall have performed in all material respects all obligations required to be performed by them, respectively under this Agreement at or prior to the Effective Time, and Seller shall have received a certificate of Parent and Buyer signed on behalf of Parent and Buyer by the chief executive officer or the chief financial officer of Parent and Buyer, in such capacity, to such effect.

(c) Material Adverse Change. Since the date of this Agreement, there shall have been no change in the business, financial condition or results of operations of Parent and its Subsidiaries, taken

as a whole, or of Buyer and the Buyer Subsidiaries, taken as a whole, that has had or would reasonably be expected to have a material adverse effect on the ability of Parent, Buyer or Buyer Operating Partnership to consummate the transactions contemplated by this Agreement and the Partnership Merger Agreement, and Seller shall have received a certificate of the chief executive officer or chief financial officer of Parent and Buyer, in such capacity, certifying to such effect.

(d) Solvency Opinion. Seller and Seller Partnership shall have received an opinion, by a nationally recognized firm selected by Parent and reasonably acceptable to Seller, in a customary form for transactions of this type as to the solvency and adequate capitalization of the Seller and Seller Partnership immediately before and of the Surviving Company and the Surviving Operating Partnership immediately after giving effect to the Transactions, which opinion shall be reasonably satisfactory to Seller.

(e) Payment of Expenses. Expenses, to the extent incurred and not exceeding $11,500,000, described in Section 6.2(f) shall have been paid in full or a reasonably satisfactory arrangement exists to pay in full such amounts at Closing.

(f) Partnership Merger. The Partnership Merger shall have been consummated.

ARTICLE 7

TERMINATION, AMENDMENT AND WAIVER

7.1 Termination. This Agreement may be terminated at any time prior to the Effective Time, (in the case of Seller, upon the direction of the Special Committee) whether before or after the Seller Stockholder Approvals are obtained:

(a) by mutual written consent duly authorized by Parent, Buyer and Seller;

(b) by Parent or Buyer, upon a breach of any (i) representation or warranty, or (ii) covenant, obligation or agreement on the part of Seller set forth in this Agreement, in any case such that the conditions set forth in Section 6.2(a) or Section 6.2(b), as the case may be, are not satisfied or would be incapable of being satisfied within 30 days after the giving of written notice to Seller (or, if sooner, the date the Closing would otherwise occur);

(c) by Seller, upon a breach of any (i) representation or warranty, or (ii) covenant obligation or agreement on the part of Parent or Buyer set forth in this Agreement, in either case such that the conditions set forth in Section 6.3(a) or Section 6.3(b), as the case may be, are not satisfied or would be incapable of being satisfied within 30 days after the giving of written notice to Parent or Buyer (or, if sooner, the date the Closing would otherwise occur);

(d) by Parent, Buyer or Seller, if any judgment, injunction, order, decree or action by any Governmental Entity of competent authority preventing the consummation of the Merger shall have become final and nonappealable (an "Injunction");

(e) by Parent, Buyer or Seller, if the Merger shall not have been consummated on or before the Outside Date; provided, however, that a party may not terminate pursuant to this clause (e) if the terminating party shall have breached in any material respect its representations or warranties or its

obligations under this Agreement in any manner that shall have proximately contributed to the occurrence of the failure referred to in this clause;

(f) by either Seller (unless Seller is in breach of its obligations under Section 5.1(c)) or Parent and Buyer (unless Parent or Buyer is in breach of its obligations under Section 4.3(e)) if, upon a vote at a duly held Seller Stockholders Meeting or any adjournment thereof, Seller Stockholder Approvals shall not have been obtained as contemplated by Section 5.1 or the Seller Partner Approval shall not have been obtained within 5 business days of receipt of the Seller Stockholder Approvals;

(g) by Seller, prior to the Seller Stockholders Meeting, if Seller Board or Special Committee shall have withdrawn or modified its approval or recommendation of the Merger or this Agreement in connection with, or approved or recommended, a Superior Acquisition Proposal; provided, however, that no termination shall be effective pursuant to this Section 7.1(g) under circumstances in which a Break-Up Fee (as defined in Section 7.2(b)) is payable pursuant to Section 7.2(a)(vii), unless simultaneous with such termination, such Break-Up Fee is paid in full by Seller or Seller Partnership in accordance with Section 7.2(a)(vii);

(h) by Parent or Buyer if (i) prior to the Seller Stockholders Meeting, Seller Board shall have withdrawn or modified in any manner adverse to Buyer its approval or recommendation of the Merger or this Agreement, or approved or recommended any Acquisition Proposal; or (ii) Seller shall have entered into an agreement with respect to any Acquisition Proposal other than a confidentiality agreement that was entered into in compliance with Section 4.1;

(i) by Seller, unless a Lender Property Determination (as defined below) shall have occurred, if (x) the borrowings contemplated by the Financing Commitment have not been closed on or prior to the date the Closing would otherwise have occurred (except if the failure of the Closing to occur is due to the failure of the condition set forth in Section 6.2(i) to be satisfied) or (y) the Financing Commitment shall have terminated in accordance with its terms or been terminated for any reason whatsoever;

(j) by Parent or Buyer, if (i) the lender under the Financing Commitment does not provide the funds specified in the Financing Commitment on or prior to the date the Closing would otherwise have occurred because (A) the aggregate amount of the sum of (x) the amount of the estimated expenditures necessary to remedy defects which are identified in the Property Reports, as such may have been amended or supplemented, at or with respect to the Seller Properties and, in the case of any defects at or with respect to the Seller Properties which are identified in the Property Reports, as such may have been amended or supplemented, which cannot be remedied, the difference between the value of such Seller Property with such defect and its value without such defect plus (y) the sum of all losses with respect to which there is not insurance and which occur following the date hereof at the Seller Properties exceeds the Defect Amount or (B) the Bench Mark Cash Flow Amount (as defined in the Financing Commitment) is more than 1.5% less than the Bench Mark Cash Flow Amount at May 31, 1999 (a circumstance described in either clause (A) or (B), a "Lender Property Determination"). As used in the prior sentence, "Defect Amount" means $25,000,000;

(k) by Parent or Buyer if an Acquisition Proposal shall have been publicly announced and (i) Seller shall not have rejected such proposal within 10 business days after the date of the receipt thereof by Seller or after the date of its existence first becomes publicly announced, if sooner, or (ii) Seller shall have failed to confirm its recommendation described in Section 2.24 within 10 business days after being requested by Buyer to do so;

(l) by Parent or Buyer if the Franchise Fees exceed $25,000,000 and Seller does not, within five business days of a request by Parent, notify Parent in writing that Seller has exercised Seller's option described in the last sentence of Section 5.3(d); and

(m) by Parent or Buyer in the event the condition set forth in Section 6.1(a)(ii) is not satisfied by the first business day following receipt of the Seller Stockholder Approvals.

7.2 Certain Fees and Expenses.

(a) If this Agreement shall be terminated:

(i) pursuant to Section 7.1(b)(i), then Seller and Seller Partnership will pay Parent an aggregate amount equal to the Break-Up Fee plus the Break-Up Expenses (provided that, in the case of a termination by Parent or Buyer pursuant to Section 7.1(b)(i) on the basis of a breach of (A) the representation in Section 2.9(b) that was not willful or (B) any representation which Alter had actual knowledge (without any duty of investigation or inquiry) as of the date hereof was not true and correct, then Seller and Seller Partnership will pay Parent an aggregate amount equal to the Break-Up Expenses plus $7,500,000;

(ii) pursuant to Section 7.1(b)(ii), then Seller and Seller Partnership will pay Parent an aggregate amount equal to the Break-Up Fee plus the Break-Up Expenses;

(iii) pursuant to Section 7.1(c)(i), then Parent and Buyer will pay Seller an aggregate amount equal to the Break-Up Fee plus the Break-Up Expenses;

(iv) pursuant to Section 7.1(c)(ii), then Parent and Buyer will pay Seller an aggregate amount equal to the Break-Up Fee plus Break-Up Expenses;

(v) pursuant to Section 7.1(f) and at the time of the Seller Stockholders Meeting, (A) Parent and Buyer are not in material breach of this Agreement, and (B) the Financing Commitment and Contribution Agreement are then in full force and effect, then Seller and Seller Partnership will pay Parent an aggregate amount equal to the Break-Up Expenses;

(vi) pursuant to Section 7.1(f) and (A) at or prior to the time of the termination of this Agreement, an Acquisition Proposal has been received by Seller or publicly announced, (B) Parent and Buyer are not then in material breach of this Agreement, (C) the Financing Commitment and Contribution Agreement are then in full force and effect, and (D) either prior to the termination of this Agreement or within 12 months thereafter an Acquisition Proposal is consummated or Seller, Seller Partnership or any other Seller Subsidiary enters into any written agreement, other than a confidentiality agreement (which confidentiality agreement shall have been

entered into in compliance with Section 4.1 if entered into prior to the termination of this Agreement), related to any Acquisition Proposal which is subsequently consummated, in each case with any Person (or any Affiliate thereof) who shall have made an Acquisition Proposal prior to the termination of this Agreement, then Seller and Seller Partnership will pay Parent upon consummation of such Acquisition Proposal an aggregate amount equal to the Break-Up Fee plus Break-Up Expenses (to the extent not already paid);

(vii) pursuant to Section 7.1(g), 7.1(h) or 7.1(k) and at the time of such termination (A) Parent and Buyer are not in material breach of this Agreement and (B) the Financing Commitment and Contribution Agreement are in full force and effect, then Seller and Seller Partnership will pay Parent an aggregate amount equal to the Break-Up Fee plus the Break-Up Expenses;

(viii) pursuant to Section 7.1(i)(x) then Parent will pay Seller an aggregate amount equal to the Break-Up Fee plus the Break-Up Expenses; provided, however, that Parent shall not be obligated to pay Seller any amount if the lender terminates the Financing Commitment because of a Lender Property Determination;

(ix) pursuant to Section 7.1(e) by Seller and Seller had not mailed the Proxy Statement to its stockholders as permitted by Section 5.1 due to the failure of the lender under the Financing Commitment to deliver the certification to Seller contemplated by such

Section when Seller was otherwise prepared to mail the Proxy Statement, then the terminating party will pay the non-terminating party an aggregate amount equal to the Break-Up Expenses; and

(x) pursuant to Section 7.1(m) by Parent or Buyer then Seller will pay Parent an aggregate amount equal to the Break-Up Fee plus the Break-Up Expenses.

Notwithstanding anything in this Agreement to the contrary, the right of a party to receive payment of the Break-Up Fee, Break-Up Expenses or other amounts in accordance with this Section 7.2 shall be the exclusive remedy of such party for the loss suffered by such party as a result of the failure of the Merger and the Partnership Merger to be consummated, any breach of this Agreement or otherwise, and no party shall have any other liability to any other party after the payment of the Break-Up Fee, Break-Up Expenses or other amounts (as applicable) as a result of the failure of the Merger and the Partnership Merger to be consummated, any breach of this Agreement or otherwise. The Break-Up Fee, Break-Up Expenses or other amounts payable by Seller and Seller Partnership in accordance with this Section 7.2 shall be paid by Seller and Seller Partnership to Parent, in immediately available funds within 15 days after the date the event giving rise to the obligation to make such payment occurred unless a different time is expressly provided. Except as provided in Section 7.2(b), the Break-Up Fee, the Break-Up Expenses or other amounts payable by Parent and Buyer to Seller in accordance with this Section 7.2 shall be paid by Parent or Buyer to Seller, in immediately available funds within 15 days after the day the event giving rise to the obligation to make such payment occurred except as otherwise specifically provided in Section 7.2.

(b) As used in this Agreement, the "Break-Up Fee" payable to Parent shall be an amount equal to $17,500,000. The "Break-Up Fee" payable to Seller shall be an amount equal to the lesser of: (i) $17,500,000, (the "Base Amount"); and (ii) the maximum amount that can be paid to Seller without causing it to fail to meet the requirements of Sections 856(c)(2) and (3) of the Code (the "REIT Income

Requirements") determined as if the payment of such amount did not constitute income described in Sections 856(c)(2) and 856(c)(3) of the Code ("Qualifying Income"), as determined by independent accountants to Seller. Notwithstanding the foregoing, in the event Seller receives a letter from outside counsel (the "BreakUp Fee Tax Opinion") or a ruling from the Internal Revenue Service ("IRS") to the effect that Seller's receipt of the Base Amount would either constitute Qualifying Income or would otherwise not cause Seller to fail to meet the REIT Income Requirements, the Break-Up Fee shall be an amount equal to the Base Amount. The obligation of Parent and Buyer to pay any unpaid portion of the Break-Up Fee not payable by reason of the foregoing provisions shall terminate five years from the date of this Agreement. In the event that Seller is not able to receive the full Base Amount, Parent and Buyer shall place the unpaid amount in escrow by wire transfer within three days of termination (except as otherwise provided in Section 7.1(c)), and the Escrow Agent shall not release any portion thereof to Seller, and such portion shall not be payable, except in accordance with, and unless and until the other party receives, either one or a combination of the following: (i) a letter from Seller's independent accountants indicating the maximum amount that can be paid at that time to Seller without causing Seller to fail to meet the REIT Income Requirements or (ii) a Break-Up Fee Tax Opinion, in either of which events the escrow agent or the other party shall pay to Seller the lesser of the unpaid Base Amount or the maximum amount stated in the letter referred to in (i) above. Parent and Buyer agree to amend this Section 7.2 at the reasonable request of Seller solely in order to (x) maximize the portion of the Base Amount that may be paid to Seller hereunder without causing Seller to fail to meet the REIT Income Requirements or (y) improve Seller's chances of securing a favorable ruling described in this Section 7.2(b), provided that no such amendment may result in any additional cost or expense to the other party. Amounts remaining in escrow after the obligation of a party to pay the Break-Up Fee is satisfied or otherwise terminates shall be released to the party making such escrow deposit. The amounts described in Sections 7.2(a)(iii) and (iv) shall be subject to the conditional limitations of clause (ii) of this Section 7.2(b) as if it were a Break-Up Fee payable to Seller.

(c) As used in this Agreement, the "Break-Up Expenses" payable

to Seller or Parent, as the case may be, shall be an amount, not to exceed $7,500,000, equal to the documented out-of-pocket expenses of such party (and, in the case of Parent, including Buyer's and Parent's respective stockholders and members) incurred in connection with this Agreement and the transactions contemplated hereby and any litigation associated therewith (including, without limitation, all fees and expenses payable to financing sources or hedging counterparties, environmental and structural consultants, attorneys', accountants', and investment bankers' fees and expenses); provided that the Break-Up Expenses payable to Seller shall not exceed the maximum amount that can be paid to Seller without causing it to fail to meet the REIT Income Requirements determined as if the payment of such amount did not constitute Qualifying Income, as determined by independent accountants to Seller. Notwithstanding the foregoing, in the event Seller receives a letter from outside counsel (the "Break-Up Expenses Tax Opinion") or a ruling from the IRS to the effect that Seller's receipt of the Break-Up Expenses would either constitute Qualifying Income or would otherwise not cause Seller to fail to meet the REIT Income Requirements, the Break-Up Expenses shall be determined without regard to foregoing provisions. The obligation of Buyer, as applicable, to pay any unpaid portion of the Break-Up Expenses not payable by reason of foregoing proviso shall terminate five years from the date of this Agreement. In the event that Seller is not able to receive the full Break-Up Expenses determined without regard to foregoing proviso, Parent and Buyer shall place the unpaid amount in escrow, and the escrow agent shall not release any portion thereof to Seller, and such portion shall not be payable, except in accordance with, and unless and until the Buyer receives any one or a combination of the following: (i) a letter from Seller's independent accountants indicating the maximum amount that can be paid at that time to Seller without causing Seller to fail to meet the REIT Income Requirements or (ii) a Break-Up Expense

Tax Opinion, in either of which events the escrow agent or the Buyer shall pay to Seller the lesser of the unpaid Break-Up Expenses or the maximum amount stated in the letter referred to in (i) above. Amounts remaining in escrow after the obligation of a party to pay the Break-Up Expenses is satisfied or otherwise terminates shall be released to the party making such escrow deposit. Such Break-Up Expenses shall be reflected on invoices or other means verifying the incurrence of such Break-Up Expenses. Buyer agrees to amend this Section 7.2 at the reasonable request of Seller solely in order to (x) maximize the portion of Break-Up Expenses that may be paid to Seller hereunder without causing Seller to fail to meet the REIT Income Requirements or (y) improve Seller's chances of securing a favorable ruling described in this Section 7.2(c), provided that no such amendment may result in any additional cost or expense to the other party.

(d) If this Agreement shall be terminated by Seller and, as provided in Section 7.2(a), Parent and Buyer are required to pay to Seller a Break-Up Fee or Break-Up Expenses, then Seller shall be entitled to enforce its rights under the Escrow Agreement to receive the Cash Collateral or to draw on the Letter of Credit in accordance with the terms thereof. Except as described in the preceding sentence, in no other circumstances shall Seller have any right to receive any part of the Cash Collateral or to draw on the Letter of Credit. If this Agreement is terminated in any circumstance other than as described in the first sentence of this Section 7.2(d), Seller shall direct the Escrow Agent to return the Cash Collateral of Letter of Credit, as applicable, to Parent within one business day of any such termination. Notwithstanding anything in this Agreement to the contrary, the receipt by Seller of amounts under the Escrow Agreement shall be the exclusive remedy of Seller, and its stockholders, the Seller Partnership and the OP Unit Holders for any and all losses suffered as a result of the failure of the Merger and the Partnership Merger to be consummated and upon payment of such amounts neither Parent nor Buyer shall have any other liability to Seller hereunder (including under Section 7.2(a)). Any amounts which Seller has the right to receive pursuant to this Section 7.2(d) shall be applied as set forth in the Escrow Agreement.

(e) In the event either party is required to file suit to seek all or a portion of the BreakUp Fee and/or Break-Up Expenses, and it ultimately succeeds, it shall be entitled to all expenses, including attorneys' fees and expenses, which it has incurred in enforcing its rights hereunder. Except as specifically provided in this Section 7.2, each party shall bear its own expenses in connection with this Agreement and the Transactions.

(f) Notwithstanding anything else to the contrary herein, if

Seller or Seller Partnership shall be required to make a payment to Parent or Buyer pursuant to (i) Section 7.2(a), then the amount of such payment shall be increased by $12,500,000 if, on or prior to the termination of this Agreement, Seller has committed a willful violation of the provisions of Section 4.1 and (ii) Section 7.2(a)(ix), then the maximum amount of Break-Up Expenses pursuant to Section 7.2(c) shall be limited to $3,000,000.

(g) If Seller and Seller Partnership shall be required to make a payment to Parent pursuant to Section 7.2(a)(i) and there is a dispute, as the case may be, whether a breach of Section 2.9(b) was willful or Alter had actual knowledge then Seller and Seller Partnership shall, no later than the time that they were required to make such payment to Parent, deliver to the Escrow Agent $10,000,000 or a letter of credit for such amount to be held and disbursed pursuant to the terms of an escrow agreement substantially in the form of the Escrow Agreement, except that such agreement shall secure the obligations of Seller and Seller Partnership described in Section 7.2(g) rather than the obligations of Parent secured under the Escrow Agreement, and if such dispute is ultimately resolved in favor of Parent, in addition to the $10,000,000 held under such escrow, Parent shall be entitled to receive interest from Seller and Seller Partnership on such

$10,000,000 at a rate of 5.5% per annum from the date of termination of the Merger Agreement until Parent receives such $10,000,000.

7.3 Effect of Termination. In the event of termination of this Agreement by Seller, Buyer or Parent as provided in Section 7.1, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Parent, Buyer, or Seller, other than in accordance with or as provided in Section 7.2, this Section 7.3 and Article 8.

7.4 Amendment. This Agreement may be amended by Parent, Buyer and Seller in writing by action of their respective Boards of Directors at any time before or after any Seller Stockholder Approvals are obtained and prior to the Effective Time; provided, however, that, after the Seller Stockholder Approvals are obtained, no such amendment, modification or supplement shall be made which by law requires the further approval of stockholders without obtaining such further approval. The parties agree to amend this Agreement in the manner provided in the immediately preceding sentence to the extent required to continue the status of Seller as a REIT.

7.5 Extension; Waiver. At any time prior to the Effective Time, the parties may (a) extend the time for the performance of any of the obligations or other acts of any other party, (b) waive any inaccuracies in the representations and warranties of any other party contained in this Agreement or in any document delivered pursuant to this Agreement or (c) subject to the proviso of Section 7.4, waive compliance with any of the agreements or conditions of any other party contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

ARTICLE 8

GENERAL PROVISIONS

8.1 Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement, the Partnership Merger Agreement or in any instrument delivered pursuant to this Agreement or the Partnership Merger Agreement confirming the representations and warranties in this Agreement shall survive the Effective Time. This Section 8.1 shall not limit any covenant or agreement of the parties which by its terms contemplates performance after the Effective Time.

8.2 Notices. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be delivered personally, sent by overnight courier (providing proof of delivery) to the parties or sent by telecopy (providing confirmation of transmission) at the following addresses or telecopy numbers (or at such other address or telecopy number for a party as shall be specified by like notice):

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(a) if to Parent or Buyer, to:

SHP Acquisition, L.L.C.
c/o Sunstone Hotel Properties, Inc.
903 Calle Amanecer
San Clemente, CA 92673
Attention: Robert A. Alter
Fax: (949) 369-4210

and to:

SHP Acquisition, L.L.C.
c/o Westbrook Real Estate Partners
599 Lexington Avenue
Suite 3800
New York, NY 10022
Attention: Jonathan Paul

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto, Esq.
Brian M. Stadler, Esq.
Fax: (212) 455-2502

and

Battle Fowler LLP
75 East 55th Street
New York, NY 10022
Attention: Steve Lichtenfeld, Esq.
Fax: (212) 856-7823

(b) if to Seller, to:

Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, CA 92673
Attention: Chief Operating Officer
Fax: (949) 369-4230

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with a copy to:

Altheimer & Gray
10 South Wacker Drive
Chicago, IL 60606
Attention: Phillip Gordon, Esq.
Fax: (312) 715-4800

All notices shall be deemed given only when actually received.

8.3 Interpretation. When a reference is made in this Agreement to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

8.4 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

8.5 Entire Agreement; No Third-Party Beneficiaries. This Agreement, the Seller Disclosure Letter, the Buyer Disclosure Letter, the Partnership Merger Agreement and the other agreements entered into in connection with the Merger (a) constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement and (b) except as provided in Section 5.7 (the "Third Party Provisions") are not intended to confer upon any Person other than the parties hereto any rights or remedies. The Third Party Provisions may be enforced by the beneficiaries thereof or on behalf of the beneficiaries thereof by the directors of Seller who had been members of the Seller Board prior to the Effective Time.

8.6 Governing Law. EXCEPT TO THE EXTENT THAT THE MGCL SHALL GOVERN THE MERGER AND THE CHARTER AMENDMENTS, THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICT OF LAWS THEREOF.

8.7 Assignment. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned or delegated, in whole or in part, by operation of law or otherwise by any of the parties without the prior written consent of the other parties. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

8.8 Enforcement. The parties agree that irreparable harm would occur in the event that any of the provisions of this Agreement were not performed by any party in accordance with their specific terms or were otherwise breached. It is accordingly agreed that any party shall be entitled to an injunction or injunctions to prevent or redress breaches of this Agreement by any other party and to enforce specifically the terms and provisions of this Agreement in any federal court located in Delaware or in Chancery Court

in Delaware, this being in addition to any other remedy to which they are entitled at law or in equity. Notwithstanding the foregoing, the parties agree that no party shall be entitled to a judgment specifically enforcing the obligations of any other party to consummate the Merger or the Partnership Merger. The parties agree that the provisions of Section 7.2 constitute the exclusive remedy of any party for the loss suffered by such party as a result of the failure of the Merger and the Partnership Merger to be consummated. In addition, each of the parties hereto (a) consents to submit itself (without making such submission exclusive) to the personal jurisdiction of any federal court located in Delaware or Chancery Court located in Delaware in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement and (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court.

8.9 Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

* * * * * *

IN WITNESS WHEREOF, Parent, Buyer and Seller have caused this Agreement to be signed by their respective officers thereunto duly authorized all as of the date first written above.

SHP ACQUISITION, L.L.C.,
a Delaware limited liability company

By: /s/ Paul Kazilionis

Name: Paul Kazilionis

Title: Manager

SHP INVESTORS SUB, INC.,
a Maryland corporation

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul

Title: Authorized Person

SUNSTONE HOTEL INVESTORS, INC.,
a Maryland corporation

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley

Title: Chief Operating Officer

SUNSTONE HOTEL INVESTORS, L.P., a Delaware limited partnership, joins in this Agreement solely with respect to Section 7.2

By: Sunstone Hotel Investors, L.P.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley

Title: Authorized Person

Exhibit A

TERMS OF REDEMPTION

Capitalized terms used in this Exhibit A but not defined herein shall have the meaning set forth in the Agreement and Plan of Merger dated as of July 12, 1999 by and among SHP Acquisition, L.L.C., a Delaware limited liability company, SHP Investors Sub, Inc., a Maryland corporation, and Sunstone Hotel Investors, Inc., a Maryland corporation, or if not defined herein or therein, shall have the meaning set forth in the Second Amended and Restated Agreement of Limited Partnership of Sunstone Hotel Investors, L.P. dated as of October 14, 1997.

To effect the Seller Partnership Redemption, Seller will form a new wholly owned subsidiary, SHP Kahler LLC, a Delaware limited liability company ("SHP Kahler"), and will cause SHP Kahler to form (a) a wholly-owned subsidiary, SHP General, Inc., a Delaware corporation ("SHP General") and (b) a subsidiary, SHP Limited, LP, a Delaware limited partnership ("SHP Limited") in which SHP Kahler will hold a 99% limited partnership interest and SHP General will hold a 1% general partnership interest.

The redemptions and distributions set forth in paragraphs 1 through 8 below shall occur immediately prior to the Partnership Merger

1. Seller Partnership Interests to be Redeemed. As consideration and in exchange for the distributions of the equity interests and assets described in items 2 through 7 below (collectively, the "Kahler Assets"), Seller Partnership will redeem that portion of the Partnership Interest held by Seller which is equal in value at Market Price to the fair market value of the Kahler Assets, in each case determined as of the Business Day immediately preceding such distributions. The Seller Partnership will redeem such portion of the Partnership Interest held by Seller in the following order: (i) first, all the Partnership Interest held by Seller in the form of Seller OP Preferred Units and (ii) such portion as is necessary of the Partnership Interest held by Seller in the form of OP Common Units, provided that in no event shall any redemption pursuant to this paragraph 1 cause Seller to lose its status as a General Partner or a Limited Partner.

2. Distribution of Kahler E&P Partners L.P. I: Seller Partnership will make an in-kind distribution to SHP Limited, as designated recipient of such distribution on behalf of Seller, of the 99% limited partnership interest in Kahler E&P Partners L.P. I held by Sunstone Hotels, LLC.

3. Distribution of University Inn Associates: Seller Partnership will make an in-kind distribution to SHP General, as designated recipient of such distribution on behalf of Seller, of a 1% general partnership interest in University Inn Associates held by Seller Partnership.

   Seller Partnership will make an in-kind distribution to SHP Limited, as designated recipient of such distribution on behalf of Seller, of each of (i) the remaining 74% general partnership interest in University Inn Associates held by Seller Partnership (which will be converted into a 74% limited partnership interest in University Inn Associates), (ii) the 1%

   limited partnership interest in University Inn Associates held by Seller Partnership, and (iii) the 24% general partnership interest in University Inn Associates held by Sunstone Hotels, LLC (which will be converted into a 24% limited partnership interest in University Inn Associates).

4. Distribution of Rochester and Chandler Properties: Seller Partnership will make an in-kind distribution to SHP Limited, as designated recipient of such distribution on behalf of Seller, of the Laundry, Rochester, Minnesota property and the Sheraton San Marcos, Chandler, Arizona property held by Sunstone Hotels, LLC.

5. Distribution of Santa Monica Property: Seller Partnership will make an in-kind distribution to SHP Limited, as designated recipient of such distribution on behalf of Seller, of the leasehold interest in the Pacific Shore Hotel, Santa Monica, California property held by Seller Partnership.

6. Distribution of Sunstone Hotels, LLC and Park Hotels, L.C.: Seller Partnership will make an in-kind distribution to Seller of all of the outstanding equity interests of each of Sunstone Hotels, LLC and Park Hotels, L.C..

7. Distribution of Ogden Property: Seller Partnership will form a new subsidiary, SHP Ogden LLC, a Delaware limited liability company ("SHP Ogden") and contribute the Marriott Hotel, Ogden, Utah property (the "Ogden Marriott") to SHP Ogden. Seller Partnership will make an in-kind distribution to SHP Limited and SHP General, as designated recipients of such distribution on behalf of Seller, collectively, of that percentage interest in SHP Ogden equal to the percentage of ownership interests in the Ogden Marriott corresponding to the contribution with respect to such

property made by Kahler Realty Corporation. SHP General will receive approximately a 1% interest in SHP Ogden and SHP Limited will receive the remaining portion of such distribution. Seller Partnership will retain ownership of that portion of the ownership interest in SHP Ogden which is not distributed to SHP Limited and SHP General.

8. Other Transfer. Seller will cause SSIE & P Corp. I to transfer its 1% general partnership interest in Kahler E&P Partners L.P. I to SHP General.

Notwithstanding the foregoing, the Seller Redemption may be effected in any alternative manner mutually agreed upon by Seller and Parent, provided that such alternative is acceptable to the lenders under the Financing Commitment and will not result in the Merger or the Partnership Merger causing the disposition of any asset subject to rules similar to Section 1374 of the Code as a result of an election under Internal Revenue Service Notice 88-19.

Exhibit B

LESSEE/MANAGER AGREEMENT

AMONG

SUNSTONE HOTEL INVESTORS, INC.

SUNSTONE HOTEL INVESTORS, L.P.

ROBERT A. ALTER

CHARLES L. BIEDERMAN

SUSNTONE HOTEL PROPERTIES, INC.

AND

SUNSTONE HOTEL MANAGEMENT, INC.

DATED AS OF JULY 12, 1999

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LESSEE/MANAGER AGREEMENT

This LESSEE/MANAGER AGREEMENT (the "Agreement"), dated as of July 12, 1999, among SUNSTONE HOTEL INVESTORS, INC., a Maryland corporation ("Sunstone"), SUNSTONE HOTEL INVESTORS, L.P., a Delaware limited partnership ("Sunstone OP"; Sunstone and Sunstone OP sometimes hereinafter collectively referred to as "Sunstone Parties"), ROBERT A. ALTER ("Alter"), CHARLES L. BIEDERMAN ("Biederman"; Alter and Biederman sometimes hereinafter collectively referred to as the "Stockholders"), SUNSTONE HOTEL PROPERTIES, INC., a Colorado corporation ("Lessee") and SUNSTONE HOTEL MANAGEMENT, INC., a Colorado corporation ("Management").

R E C I T A L S:

WHEREAS, the Lessee is the lessee of hotels owned by Sunstone OP;

WHEREAS, Management has entered into management agreements with the Lessee for each of the hotels the Lessee has leased from Sunstone OP;

WHEREAS, Alter is the beneficial owner of eighty percent (80%)(the "Alter Lessee Stock") of the issued and outstanding shares of $0.01 par value per share of common stock of the Lessee (the "Lessee Common Stock") and Biederman is the beneficial owner of twenty percent (20%) (the "Biederman Lessee Stock") of the issued and outstanding Lessee Common Stock;

WHEREAS, Alter is the beneficial owner of one hundred percent (100%) of the issued and outstanding shares of $0.01 par value per share of common stock of Management (the "Management Common Stock," and together with the Lessee Common Stock, the "Lessee and Management Equity");

WHEREAS, concurrently with the execution and delivery of this Agreement, Parent has entered into a Merger Agreement (the "Merger Agreement") dated as of the date hereof with Sunstone, SHP Investors Sub, Inc., a Maryland corporation ("Buyer") and subsidiary of SHP Acquisition, L.L.C., a Delaware limited liability company ("Parent") and certain other parties pursuant to which, and subject to the terms and conditions thereof, Buyer shall merge with and into Sunstone (the "Merger");

WHEREAS, concurrently with the execution and delivery of this Agreement, Parent has entered into a merger agreement (the "Partnership Merger Agreement") dated as the date hereof with Sunstone OP, and certain other parties pursuant to which and subject to the terms and conditions thereof, SHP Properties, L.L.C., a Delaware limited liability company and a subsidiary of Parent ("SHP Properties"), shall merge with and into Sunstone OP (the "Partnership Merger"); and

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WHEREAS, concurrently with the execution and delivery of the Merger Agreement, Alter and Biederman and Sunstone Parties desire to enter into this Agreement pursuant to which, under certain circumstances, Sunstone Parties shall have the right to require the Stockholders, and such Stockholders shall have the obligation, to sell all of their respective interests in the Lessee and Management Equity to certain third parties.

NOW, THEREFORE, in consideration of the premises, mutual covenants and agreements contained herein, the sufficiency of which is hereby acknowledged and intending to be legally bound, the parties hereto hereby agree as follows:

ARTICLE 1
DEFINITIONS

SECTION 1.1 DEFINITIONS. (a) Capitalized terms used and not defined in this Agreement shall have the meanings set forth in the Merger Agreement. For the purposes of this Agreement, the following terms shall have the meanings set forth below:

"ADVANCE BOOKING AGREEMENT" means any agreement relating to advance reservations and bookings of the Real Property or any facilities therein taken from guests, groups, conventions or others.

"AFFILIATE" means with respect to a specified Person, any Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, the specified Person.

"ALTER LESSEE STOCK" shall have such meaning ascribed to such term in the recitals hereto.

"ASSUMPTION AGREEMENT" shall have such meaning ascribed to such term in Section 4.4 hereof.

"BIEDERMAN" shall have the meaning ascribed to such term in the preamble hereto.

"BIEDERMAN LESSEE STOCK" shall have such meaning ascribed to such term in the recitals hereto.

"BUSINESS DAY" means a day, other than Saturday or Sunday, on which commercial banks in New York City are open for the general transaction of business.

"BUYER" shall have the meaning described to such term in the recitals hereto.

"CLOSING" shall mean the consummation of the purchase and sale of the Lessee and Management Equity as contemplated by this Agreement.

"CLOSING DATE" means the date of the Closing hereunder, as provided in Section 2.3 hereof.

"CODE" means the Internal Revenue Code of 1986, as amended.

"CONTROL" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, as trustee or executor, by contract or credit arrangement or otherwise.

"EFFECTIVE DATE OF THIS AGREEMENT" shall mean the date on which Sunstone Parties and Stockholders execute this Agreement, or if Sunstone Parties and Stockholders do not execute this Agreement on the same day, the later of the dates on which Sunstone Parties and Stockholders execute this Agreement.

"ENVIRONMENTAL LAWS" means any and all laws, rules, orders, regulations, statutes, ordinances, guidelines, codes, decrees, or other legally enforceable requirement (including, without limitation, common law) of any foreign government, the United States, or any state, local, municipal or other governmental authority, regulating, relating to or imposing liability or standards of conduct concerning protection of the environment of human health, or employee health and safety.

"EQUIPMENT LEASE" means any lease or rental agreement relating to the equipment, services, vehicles, furniture or any other type of personal property of Management or Lessee together with all supplements, amendments and modifications thereto.

"GAAP" means generally accepted accounting principles in the United States.

"GOVERNMENTAL AUTHORITY" means any nation or government, any state or other

political subdivision thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to such government.

"HOTEL MANAGEMENT AGREEMENT" means any hotel management agreement relating to the management and operation of the Real Property together with all supplements, amendments and modifications thereto.

"HSR ACT" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"KNOWLEDGE" shall mean (i) as to Alter or Biederman, that such individual, as applicable, has actual knowledge without due inquiry, and (ii) as to Sunstone Parties, that R. Terrence Crowley, Daniel Lutz, Kenneth Coatsworth and Gary Stougaard have actual knowledge without due inquiry, without imputing to any such party any knowledge of any other party, including, without limitation, any agents, managing agents or other representatives of such party.

"LEASED REAL PROPERTY" shall mean hotels or other property subject to a lease between Sunstone OP and the Lessee.

"LESSEE" shall have the meaning ascribed to such term in the preamble hereto.

"LESSEE AND MANAGEMENT EQUITY" shall have the meaning ascribed to such term in the recitals hereto.

"LESSEE COMMON STOCK" shall have the meaning ascribed to such term in the recitals hereto.

"LIABILITY" means, as to any Person, all debts, liabilities and obligations, direct, indirect, absolute or contingent of such Person, whether accrued, vested or otherwise, whether known or unknown and whether or not actually reflected, or required in accordance with GAAP to be reflected, in such Person's balance sheets.

"LIEN" means any mortgage, pledge, security interest, claim, encumbrance, lien or charge of any kind.

"LIQUOR LICENSE" means any alcoholic beverage license relating to the use and/or operation of the Real Property.

"LOSSES" means any and all damages, claims, losses, expenses, costs and Liabilities including, without limiting the generality of the foregoing, Liabilities for all reasonable attorneys' fees and expenses (including reasonable attorney and expert fees and expenses incurred to enforce the terms of this Agreement).

"MANAGEMENT" shall have the meaning ascribed to such term in the preamble hereto.

"MANAGEMENT AGREEMENT" means any agreement relating to the management of any of the Real Property.

"MANAGEMENT ASSETS" means all the properties, assets and other rights of Management owned or used by Management in the conduct of its business.

"MATERIAL ADVERSE EFFECT" means (x) a material adverse effect on (i) the assets, Liabilities, business, results of operations or condition (financial or otherwise) of Lessee and Management, taken as a whole, or (ii) the ability of Alter or Biederman to perform his obligations hereunder or (y) the effect of preventing or delaying beyond December 31, 1999 the consummation of the Transactions.

"MATERIALS OF ENVIRONMENTAL CONCERN" means any gasoline or petroleum (including, without limitation, crude oil or any fraction thereof) or petroleum products, polychlorinated biphenyls, urea-formaldehyde insulation, asbestos, pollutants, contaminants, radioactivity, and any other substances of any kind, whether or not any such substance is defined as hazardous or toxic under any Environmental Law, that is regulated pursuant to or could give rise to liability under any Environmental Law.

"MERGER" shall have the meaning ascribed to such term in the recitals hereto.

"MERGER AGREEMENT" shall have the meaning ascribed to such term in the recitals hereto.

"PARENT" shall have the meaning ascribed to such term in the recitals hereto.

"PARTNERSHIP MERGER AGREEMENT" shall have the meaning ascribed to such term in the recitals hereto.

"PERMITTED LIENS" means (i) Liens for Taxes that (x) are not yet due or delinquent or (y) are being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with GAAP; (ii) statutory Liens or landlords', carriers', warehousemen's, mechanics', suppliers', materialmen's, repairmen's or other like Liens arising in the ordinary course of business with respect to amounts not yet overdue for a period of 45 days or amounts being contested in good faith by appropriate proceedings if a reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made therefor; (iii) Liens incurred or deposits made in connection with workers' compensation, unemployment insurance and other types of social security or similar benefits; (iv) Liens incurred or deposits made to secure the performance of tenders, bids, leases, statutory obligations, surety and appeal bonds, government contracts, performance and return-of-money bonds and other obligations of like nature; (v) any installment not yet due and payable of assessments of any Governmental Authority imposed after the date hereof; (vi) the rights and interests held by tenants under any Space Leases or subleases of the Real Property Leases; and (vii) any other Liens imposed by operation of law that do not, individually or in the aggregate, materially affect the relevant entity or business, taken as a whole.

"PERSON" means any individual, corporation, partnership, joint venture, trust, incorporated organization, limited liability company, other form of business or legal entity or Governmental Authority.

"PURCHASE PRICE" shall have the meaning given such term in Section 2.1 of this Agreement.

"REAL PROPERTY" means the Leased Real Property and real property, if any, owned by Management or Lessee.

"SERVICE CONTRACT" means any contract and/or agreement relating to the operation and maintenance of the Real Property, including service agreements, brokerage commission agreements, maintenance contracts, contracts for purchase of delivery of services, materials, goods, inventory or supplies, cleaning contracts, equipment rental agreements, equipment leases or leases of personal property (other than franchise agreements and Management Agreements), together with all supplements, amendments and modifications thereto.

"SHP PROPERTIES" shall have the meaning ascribed to such term in the recitals hereto.

"SPACE LEASE" means any lease or other agreement demising space in or providing for the use or occupancy of all or any portion of the Real Property and all guaranties thereof.

"SUBSIDIARY" or "SUBSIDIARIES" of any Person means any corporation, partnership,

limited liability company, joint venture or other legal entity of which such Person (either alone or through or together with any other subsidiary), owns, directly or indirectly, more than 50% of the stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity and any partnership of which such Person serves as general partner.

"SUPERIOR ACQUISITION PROPOSAL" shall have such meaning ascribed to such term in the Merger Agreement.

"SUNSTONE" shall have the meaning ascribed to such term in the recitals hereto.

"SUNSTONE OP" shall have the meaning ascribed to such term in the recitals hereto.

"TAX RETURN" means any return, report or statement required to be filed with any governmental authority with respect to Taxes, including any schedule or attachment thereto or amendment thereof.

"TAXES" means any taxes of any kind, including but not limited to those on or measured by or referred to as income, gross receipts, capital, sales, use, ad valorem, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, value added, property or windfall profits taxes, customs, duties or similar fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any governmental authority, domestic or foreign.

"THIRD PARTY ACQUIROR" shall mean all parties other than Parent, Buyer or the Sunstone Parties who are a party to a Superior Proposal Transaction and shall include all Persons which Control such parties.

"TRANSFER" means, directly or indirectly, assign, sell, exchange, transfer, pledge, mortgage, hypothecate or otherwise dispose or encumber.

"TRANSACTIONS" means all of the transactions contemplated hereby.

(b) The terms used in this Agreement which are defined in (a) the introductory paragraphs of this Agreement, (b) in the further Articles of this Agreement, and (c) in the Schedules and Exhibits attached to this Agreement, shall have the respective definitions there ascribed to them.

(c) As used in this Agreement, each of the following capitalized terms shall have the meaning ascribed to them in the Section set forth opposite such term:

Term	Section
Agreement	Preamble
Alter	Preamble
Alter Purchase Price	2.2(b)
Biederman	Preamble
Business Intellectual Property	4.1(l)
Biederman Lessee Stock	Recitals
Biederman Purchase Price	2.2(a)
Closing	2.3
Controlled Group Member	4.1(o)
December 31 Balance Sheets	4.1(f)(i)
December 31 Financial Statements	4.1(f)(i)
Drag-Along Right	3.1
Employee Plan	4.1(o)
ERISA	4.1(o)
Expenses	7.2
Execution Notice	3.2
Insurance Policies	4.1(t)

Intellectual Property	4.1(l)
Lessee	Recitals
Lessee Line of Credit	5.1(o)
Lessee Subsidiary	4.1(e)(ii)
Management	Recitals
March 31 Balance Sheets	4.1(f)(ii)
March 31 Financial Statements	4.1(f)(ii)
Merger	Recitals
Merger Agreement	Recitals
Multiemployer Plan	4.1(o)
Partnership Merger	Recitals

Term	Section
Partnership Merger Agreement	Recitals
Pension Plan	4.1(o)
Real Property Leases	4.1(j)(ii)
SAP Purchase Agreement	3.2
Section (v) Contract	4.1(i)(v)
Term	Section
Term	Section
Securities Act	4.1(v)
Straddle Period	8.4(b)
Sunstone	Recitals
Sunstone OP	Recitals
Sunstone Stock	Recitals
Superior Proposal Transaction	3.1
Technology	4.1(l)
Vacation Policy	5.8(c)
Welfare Plan	4.1(o)

SECTION 1.2 OTHER INTERPRETIVE PROVISIONS. The words "include", "includes and "including" shall be deemed to be followed by the phrase "without limitation." The words "hereof", "herein," "hereby" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section, Schedule and Exhibit references are to this Agreement unless otherwise specified. The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

ARTICLE 2
SALE OF LESSEE AND MANAGEMENT EQUITY, PAYMENT AND CLOSING

SECTION 2.1 PURCHASE PRICE. The aggregate consideration for the sale of the Lessee and Management Equity shall be Thirty Million and No/100 Dollars ($30,000,000.00) (the "Purchase Price"). The Purchase Price shall be paid by Sunstone Parties at the Closing by wire transfer of immediately available federal funds to an account as designated by the Stockholders in writing not less than two days prior to the Closing Date.

SECTION 2.2 CLOSING EVENTS.

(a) Deliveries by Biederman. At Closing Biederman will transfer to Sunstone Parties or their designee the Biederman Lessee Stock (which Biederman Lessee Stock shall constitute 20% of the issued and outstanding Lessee Common Stock as of the Closing Date), and Sunstone Parties will pay Biederman cash in consideration for such Biederman Lessee Stock 18.33% of the Purchase Price (such amount, the "Biederman Purchase Price").

(b) Deliveries by Alter. At Closing Alter will transfer to Sunstone Parties or their designee the Alter Lessee Stock (which Alter Lessee Stock shall constitute 80% of the issued and outstanding Lessee Common Stock as of the Closing Date) and the Management Common Stock (which Management Common Stock shall constitute 100% of the issued and outstanding Management Common Stock as of the Closing Date), and Sunstone Parties will pay Alter cash in consideration for such Alter Lessee Stock and Management Common Stock 81.67% of the Purchase Price (such amount, the "Alter Purchase Price").

SECTION 2.3 TIME AND PLACE OF CLOSING. Subject to the satisfaction (or waiver by the parties entitled to the benefit thereof) of the conditions set forth in Article VI, the closing of the transactions contemplated hereby (the "Closing") shall take place at the offices of Battle Fowler LLP, 75 East 55th Street, New York, New York 10022 concurrently with the closing of the Superior Proposal Transaction.

ARTICLE 3
DRAG-ALONG RIGHT OF SUNSTONE PARTIES

SECTION 3.1 DRAG-ALONG. The Stockholders agree that concurrently with the consummation of any Superior Acquisition Proposal (such a transaction, a "Superior Proposal Transaction"), Sunstone Parties shall have the right (the "Drag-Along Right") to require Alter and Biederman, and Alter and Biederman shall have the obligation, to sell to Sunstone Parties or the Third Party Acquiror in such Superior Proposal Transaction all, but not less than all, of the Lessee and Management Equity in consideration of the Purchase Price.

SECTION 3.2 NOTICE. If Sunstone Parties enter into a definitive agreement constituting a Superior Acquisition Proposal (such an agreement, the "SAP Purchase Agreement"), then Sunstone Parties shall promptly deliver written notice in the form of Exhibit 3.2 hereof (such notice, the "Execution Notice") no later than five (5) days after entering into such agreement to the Stockholders, attaching thereto (1) a true, correct, complete and originally executed copy of the SAP Agreement together with all exhibits and schedules thereto and all related ancillary agreements executed and delivered in connection therewith by the parties thereto, (2) an originally executed copy of the Assumption Agreement (as defined below), and (3) an originally executed copy of the Drag-Along Notice (as defined below).

SECTION 3.3 EXERCISE. If Sunstone Parties decide to exercise their Drag-Along Right; provided that the Merger Agreement shall have been terminated in accordance with its terms, then Sunstone Parties shall exercise the Drag-Along Right by delivery of written notice in the form of Exhibit 3.3 (the "Drag Along Notice") to each of Alter and Biederman simultaneously with the delivery of the Execution Notice. The Drag-Along Right must be exercised for all of the Lessee and Management Equity and must be executed and delivered within five (5) days after entering into a SAP Agreement.

SECTION 3.4 THIRD PARTY ACQUIROR AGREEMENT AND TERMINATION OF MERGER AGREEMENT. Concurrently with the delivery of the Drag-Along Notice and as a condition precedent to the Drag-Along Right, Sunstone Parties shall cause the Third Party Acquiror to execute and deliver an Assumption Agreement pursuant to which the Third Party Acquiror shall assume and guarantee the performance of all of the obligations of Sunstone Parties under this Agreement. If the Third Party Acquiror fails to execute and deliver an assumption agreement in the form attached hereto as Exhibit 3.4 (the "Assumption Agreement") or the Merger Agreement shall not have terminated, then Sunstone Parties shall be prohibited from exercising the Drag- Along Right and any obligations of the Stockholders hereunder shall immediately terminate. The execution and delivery of the Assumption Agreement by the Third Party Acquiror shall not relieve, discharge or otherwise release the Sunstone Parties from any of their obligations under this Agreement.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF THE PARTIES

SECTION 4.1 REPRESENTATIONS AND WARRANTIES OF THE STOCKHOLDERS. Alter and Biederman jointly and severally represent and warrant to Sunstone Parties with respect to the Lessee and Lessee Common Stock, and Alter severally represents and warrants with respect to Management and the Management Common Stock, as follows:

(a) Due Organization; Power and Good Standing. Each of Management and Lessee is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has the requisite power and authority to own, lease and operate its properties and to conduct its business as now conducted by it. Each of Management and Lessee is qualified to do business and is in good standing as a foreign corporation in all jurisdictions in which it conducts its business, except where the failure to be so qualified would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Complete and correct copies of the Certificate of Incorporation and Bylaws of Management and Lessee are set forth in Schedule 4.1(a) hereto.

(b) Authorization and Validity of Agreement. Each of the Stockholders has all requisite power and authority to enter into this Agreement and to perform his obligations hereunder. This Agreement has been duly executed and delivered by each of the Stockholders, as the case may be, and constitutes a valid and legally binding obligation of each of the Stockholders enforceable against each Stockholder in accordance with its terms. Alter is not married as of the date of this Agreement and agrees that if he becomes married prior to the Closing Date, his spouse shall execute and deliver an acknowledgment to the other parties hereto to the effect of the consent set forth in Section 9.13.

(c) No Government Approvals or Notices Required; No Conflict with Instruments. Except as described in Schedule 4.1(c), the execution, delivery and performance of

this Agreement by the Stockholders and the consummation by each of them of the Transactions will not (i) violate, conflict with or result in a breach of any provision of the Certificate of Incorporation or Bylaws of the Lessee or Management, (ii) except for any filings required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, (iii) require the consent or approval of any Person (other than a Governmental Authority), violate, conflict with or result in a breach of any provision of, constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to any Person any right of termination, cancellation, amendment, purchase, sale or acceleration under, or result in the creation of a Lien on any of the assets, properties or stock of Management, Lessee, any Lessee Subsidiary, Sunstone or any of Sunstone's Subsidiaries under, any of the provisions of any contract, lease, note, permit, franchise, license or other instrument or agreement to which such Person is a party or by which it or its assets or properties are bound, or (iv) violate or conflict with any order, writ, injunction, decree, statute, rule or regulation of any Governmental Authority or arbitrator applicable to Management, Lessee, any Lessee Subsidiary, Sunstone or any of Sunstone's Subsidiaries, or any of their respective assets or properties; other than any consents and approvals the failure of which to obtain and any violations, conflicts, breaches and defaults set forth pursuant to clauses (ii), (iii) and (iv) above which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect.

(d) Capitalization. The authorized, issued and outstanding capital stock of Management and Lessee, and the ownership thereof, is described on Schedule 4.1(d). All such issued shares of Management and Lessee have been duly authorized and validly issued, are fully paid and non-assessable and have not been issued in violation of any preemptive rights. There are no equity interests in Management or Lessee reserved for issuance, and there are (i) no options, warrants or rights of any kind to acquire any equity interests in, or any other securities that are convertible into or exchangeable for any equity interest in,

Management or Lessee and (ii) no agreements, commitments or arrangements relating to the sale, issuance, redemption, purchase, acquisition or voting of or the granting of a right to acquire any capital stock of Management or Lessee or any options, warrants, rights or securities described in clause (i) other than this Agreement.

(e) Subsidiaries.

(i) There is no corporation, partnership or other entity in which Management directly or indirectly owns any equity or other interest.

(ii) (A) Schedule 4.1(e) sets forth (x) each Subsidiary of Lessee ("Lessee Subsidiary"), (y) the ownership interest therein of Lessee and (z) if not wholly owned by Lessee, the identity and ownership interest of each of the other owners of such Lessee Subsidiary.

(B) (1) All the outstanding shares of capital stock owned by Lessee of each Lessee Subsidiary that is a corporation have been validly issued and are (x) fully paid, nonassessable and free of any preemptive rights, (y) owned by Lessee or by another Lessee Subsidiary and (z) owned free and clear of all Liens or any other limitation or restriction (including any contractual restriction on the right to vote or sell the same) other than restrictions under applicable securities laws; and (2) all equity interests in each Lessee Subsidiary that is a partnership, joint venture, limited liability company or trust which are owned by Lessee, by another Lessee Subsidiary or by Lessee and another Lessee Subsidiary are owned free and clear of all Liens or any other limitation or restriction (including any contractual restriction on the right to vote or sell the same) other than restrictions under applicable securities laws. Each Lessee Subsidiary that is a corporation is duly incorporated and validly existing under the Laws of its jurisdiction of incorporation and has the requisite corporate power and authority to carry on its business as now being conducted, and each Lessee Subsidiary that is a partnership, limited liability company or trust is duly organized and validly existing under the laws of its jurisdiction of organization and has the requisite power and authority to carry on its business as now being conducted. Each Lessee Subsidiary is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a Material Adverse Effect. True and correct copies of the charter, by-laws, organizational documents and partnership, joint venture and operating agreements of each Lessee Subsidiary, and all amendments to the date of this Agreement, have been made available to Sunstone Parties and examined by Sunstone Parties on or prior to the date hereof.

(f) Financial Information, Liabilities.

(i) Attached as Schedule 4.1(f)(i) are the audited consolidated balance sheets of each of (i) Management and (ii) Lessee and its Subsidiaries as at December 31, 1998 (the "December 31 Balance Sheets") and the accompanying audited consolidated statements of operations and cash flows and, with respect to the Lessee, stockholder's equity for the year then ended audited by Ernst & Young LLP (together with the December 31 Balance Sheets, the "December 31 Financial Statements"). The December 31 Financial Statements have been prepared in accordance with GAAP (except as may be indicated in the notes thereto) and fairly present in all material respects the consolidated financial position of each of Management and Lessee as at December 31, 1998 and the results of operations of each of Management and Lessee for the year then ended.

(ii) Attached as Schedule 4.1(f)(ii) are the unaudited consolidated balance sheets of each of (i) Management and (ii) Lessee and its Subsidiaries as at March 31, 1999 (the "March 31 Balance Sheets") and the accompanying unaudited consolidated statements of operations and cash flows for the three months then ended (together with the March 31

Balance Sheet, the "March 31 Financial Statements"). The March 31 Financial Statements have been prepared in a manner consistent with that employed in the December 31 Financial Statements except as disclosed in the notes to such financial statements. The March 31 Financial Statements have been prepared in accordance with GAAP and fairly present (subject to normal year-end adjustments, which adjustments are not material) in all material respects the financial positions of each of Management and Lessee as at March 31, 1999 and the results of operations of each of Management and Lessee for the three months then ended.

(iii) None of Management, Lessee or any of the Lessee Subsidiaries has any Liabilities except: (A) as set forth on Schedule 4.1(f)(iii); (B) Liabilities disclosed on the applicable March 31, 1999 Balance Sheet; (C) Liabilities under all contracts and agreements set forth on the schedules hereto, other than any such Liabilities in respect of indebtedness for borrowed money; and (D) Liabilities incurred subsequent to March 31, 1999 in the ordinary course of business consistent with past practice and in compliance with the provisions of this Agreement; (E) Liabilities arising from litigation relating to the Transaction; and (F) Liabilities under all contracts and agreements entered into by such Person after the date of this Agreement so long as such contract or agreement was entered into in compliance with this Agreement.

(iv) As of March 31, 1999 except as set forth on the March 31, 1999 Balance Sheet or reserved against on such balance sheet, Lessee and its Lessee Subsidiaries do not have Liabilities of the type required to be reflected as Liabilities on a balance sheet prepared in accordance with GAAP.

(g) Absence of Certain Changes or Events. Since December 31, 1998, Lessee, the Lessee Subsidiaries and Management have conducted their respective businesses, taken as a whole, in all material respects in the ordinary course of business consistent with past practice, and there has not been any material adverse change in the assets, Liabilities, business, results of operations or condition (financial or otherwise) of Management, Lessee or any Lessee Subsidiary or any damage, destruction, loss, conversion, condemnation or taking by eminent domain related to any material asset of Management or Lessee. In addition, except as disclosed on Schedule 4.1(g) or in the March 31 Financial Statements, from December 31, 1998 to the date hereof, none of Lessee, any Lessee Subsidiary or Management has other than as expressly contemplated by this Agreement:

(i) increased the compensation or benefits payable by it to its Employees except for increases in compensation or benefits in the ordinary course of business consistent with past practice;

(ii) incurred, assumed or guaranteed any (i) indebtedness for borrowed money or (ii) other than in the ordinary course of business consistent with past practice, any other indebtedness;

(iii) made any loan or advance to any Person, except in the ordinary course of business consistent with past practice;

(iv) made any capital expenditure or commitment for any capital expenditure in excess of $20,000 individually or $200,000 in the aggregate;

(v) merged or consolidated with, or acquired an interest in, any Person or otherwise acquired any material assets, except for acquisitions in the ordinary course of business consistent with past practice;

(vi) sold or otherwise disposed of any material properties or assets, except for dispositions in the ordinary course of business consistent with past practice;

(vii) mortgaged, pledged or encumbered any material assets, other than pursuant to Permitted Liens;

(viii) issued, sold or redeemed any capital stock or other equity interests, notes, bonds or other securities, or any option, warrant or other right to acquire the same;

(ix) amended its Certificate of Incorporation or Bylaws;

(x) made any change in the financial or accounting practices or policies customarily followed by it (other than changes required by GAAP); or

(xi) entered into any contract or other agreement to do any of the foregoing.

(h) Contracts, Permits and Other Data. Schedule 4.1(h) lists all of the following to which either Management, Lessee or any Lessee Subsidiary is a party as of the date hereof:

(i) contracts containing covenants limiting the freedom of Management, Lessee or any Lessee Subsidiary after the date hereof (A) to engage in any line of business or to compete with any Person or (B) to incur indebtedness for borrowed money;

(ii) partnership, limited liability company, or joint venture or shareholder agreements;

(iii) hotel franchise agreements;

(iv) Equipment Leases (excluding any such agreements providing for payment of less than $20,000 per annum on an individual basis or terminable without penalty upon 90 days or less prior written notice);

(v) Service Contracts (excluding any such agreements providing for payment of less than $20,000 per annum on an individual basis or terminable without penalty of more than $5,000 upon 90 days or less prior written notice);

(vi) Management Agreements;

(vii) any Advance Booking Agreements (excluding any such agreements providing for payment of less than $600,000 per annum on an individual basis or terminable without penalty of more than $60,000 upon 90 days or less prior written notice);

(viii) employment agreements;

(ix) contracts which provide for payments after the date hereof in excess of $100,000 during any one-year period and which are not otherwise listed on Schedule 4.1(h) or Schedules 4.1(i)(ii) through (vi);

(x) mortgages, pledges, security agreements, deeds of trust or other instruments creating or, to the Knowledge of Alter or Biederman, as applicable, purporting to create Liens; or

(xi) contracts for the sale or other Transfer of any material assets of Management, Lessee or any Lessee Subsidiary after the date hereof.

Except as specified in Schedule 4.1(h) hereto, all instruments listed on Schedule 4.1(h) and all other rights, licenses, leases, registrations, applications, contracts, commitments and other agreements of Lessee, any Lessee

Subsidiary or Management which are necessary to the operation of their respective businesses or by which Lessee, any Lessee Subsidiary or Management are bound to the extent they are necessary to the operation of their respective businesses are legal, valid and binding obligations of Lessee, each Lessee Subsidiary or Management, as applicable, and to the Knowledge of Alter or Biederman, as applicable, each other party thereto, enforceable in accordance with their terms, except for such failures to be enforceable that would not, individually or in the aggregate, have a Material Adverse Effect. None of Lessee, any Lessee Subsidiary or Management or, to the Knowledge of Alter or Biederman, any other party, is in breach or default in the performance of any obligation thereunder and no event has occurred or has failed to occur whereby any of the other parties thereto have been or will be released therefrom or will be entitled to refuse to perform thereunder, in any case which would have, either individually or in the aggregate, a Material Adverse Effect.

(i) Properties.

(i) Owned Real Property. None of Management, Lessee or any Lessee Subsidiary owns a fee interest in any real property, and neither Management nor Lessee has owned a fee interest in any real property since April 1, 1989.

(ii) Leased Real Property. Schedule 4.1(i)(ii) sets forth as of the date hereof, by address, each Leased Real Property, all of which are leased from Sunstone OP or its Subsidiaries (collectively, the "Real Property Leases"). Except as set forth on Schedule 4.1(h), as of the date hereof, none of Lessee, any Lessee Subsidiary or Management is a lessor under any ground lease or Space Lease. Pursuant to the Real Property Leases, Management or Lessee holds good and valid leasehold title to the Leased Real Property, in each case in accordance with the provisions of the applicable Real Property Lease and free of all Liens except for Permitted Liens. Other than such exceptions which would not, individually or in the aggregate, have a Material Adverse Effect, all Real Property Leases (i) are legal, valid and binding obligations of Lessee or Management, as applicable, and to the Knowledge of Alter or Biederman, as applicable, each other party thereto, enforceable in accordance with their terms, and (ii) to the knowledge of Alter and Biederman, grant in all respects the leasehold estates or rights of occupancy or use they purport to grant. Except as set forth on Schedule 4.1(i)(ii), as of the date hereof, there are no existing defaults (either on the part of Management or Lessee or, to the Knowledge of Alter or Biederman, as applicable, any other party thereto) under any Real Property Lease and no event has occurred which, with notice or the lapse of time, or both, would constitute a default (either on the part of Management or Lessee or, to the Knowledge of Alter or Biederman, as applicable, any other party thereto) under any of the Real Property Leases, except for any of the foregoing which, individually or in the aggregate, would not have a Material Adverse Effect. The consummation of the Transactions will not result in any payment obligations under any of the Real Property Leases (whether pursuant to a "change in control" provision in the Real Property Leases or otherwise) to any Person other than Sunstone OP or its Subsidiaries, except as set forth on Schedule 4.1(i)(ii).

(iii) No Transfer Agreements. Except as set forth on Schedule 4.1(i)(iii), as of the date hereof, none of Management, Lessee or any Lessee Subsidiary has entered into any agreement to sell, transfer, mortgage, lease, grant any preferential right to purchase (including but not limited to any option, right of first refusal or right of first negotiation) with respect to, or otherwise dispose of or encumber all or any portion of their respective interest in, the Leased Real Property.

(iv) Space Leases. Except as set forth on Schedule 4.1(i)(iv), as of the date hereof, there are no Space Leases, nor are there any other tenants or occupants (other than transient guests and as otherwise contemplated in the Hotel Management Agreements) with rights to occupy all or any portion of the Real Property. A copy of each Space Lease described on Schedule 4.1(i)(iv) has been provided to Sunstone Parties and is a true and accurate

copy, including all amendments to date, and constitutes the entire agreement

between Management or Lessee, as the case may be, and the other party or parties named therein. Each such Space Lease is a legal, valid and binding obligation of Lessee or Management, as applicable, and to the Knowledge of Alter or Biederman, as applicable, each other party thereto, enforceable in accordance with its terms, and, to the Knowledge of Alter or Biederman, as applicable, free of any default by any party thereto, nor has Management or Lessee received any written or verbal notice or other communication of any alleged breach or default thereunder. As of the date hereof, none of Management, Lessee or any Lessee Subsidiary is required to pay for any alterations in excess of $20,000 for any tenant which alterations have not been completed as required pursuant to the relevant lease, except as set forth on Schedule 4.1(j)(iv). To the Knowledge of Alter or Biederman, as applicable, no brokerage commissions or finder's fees that Lessee or Management is required to pay in excess of $20,000 with respect to the negotiation, renewal, extension or modification of any Space Lease set forth on Schedule 4.1(i)(iv) will be owing on the Closing Date. To the Knowledge of Alter or Biederman, as applicable, there are no pending actions or proceedings instituted against Management, Lessee or any Lessee Subsidiary by any tenant under any Space Lease.

(v) Equipment Leases, Service Contracts, Advance Booking Agreements. Schedule 4.1(i)(v), as of the date hereof, sets forth a list of all of the Equipment Leases, Service Contracts and Advance Booking Agreements which involve the payment or receipt of more than $20,000, in any individual case, or which may not be canceled on ninety (90) days notice or less without payment of any penalty in excess of $5,000 and all amendments thereto, and the expiration date of each such Equipment Lease, Service Contract and Advanced Booking Agreement and, in the case of the Advance Booking Agreements, the rates applicable thereunder (each, a "Section (v) Contract"). Each Section (v) Contract is a legal, valid and binding obligation of Lessee or Management, as applicable, and to the Knowledge of Alter or Biederman, as applicable, each other party thereto, enforceable in accordance with its terms, all amounts due thereunder have been paid, to the Knowledge of Alter or Biederman, as applicable, no default except for defaults that would not have a Material Adverse Effect by any Person exists under any Section (v) Contract and neither Management nor Lessee has received any written notice from any party to any Section (v) Contract claiming the existence of any default under such Section (v) Contract and no such Section (v) Contract has been assigned, transferred, hypothecated, pledged or encumbered by Management, Lessee or any Lessee Subsidiary. None of Management, Lessee, any Lessee Subsidiary or any of their Affiliates has any direct or indirect ownership interests in any Person providing goods or services under the Section (v) Contracts. To the Knowledge of Alter or Biederman, as applicable, there are no pending actions or proceedings instituted against Management, Lessee or any Lessee Subsidiary by any party under any Section (v) Contracts. Each Section (v) Contract to be transferred to Sunstone Parties pursuant to this Agreement is transferable without consent, other than as set forth on Schedule 4.1(i)(v) attached hereto.

(vi) Liquor Licenses. Schedule 4.1(i)(vi) sets forth, as of the date hereof, the Liquor Licenses for the businesses conducted by Management, Lessee and any Lessee Subsidiary, all of which are held in the names set forth on Schedule 4.1(i)(vi). The Liquor Licenses are legal, valid and binding obligations of Lessee, each Lessee Subsidiary and Management, as applicable, and to the Knowledge of Alter or Biederman, as applicable, each other party thereto, enforceable in accordance with their terms. To the

Knowledge of Alter or Biederman, as applicable, no default except for defaults that would not have a Material Adverse Effect by any Person exists under the Liquor Licenses, and neither Management nor Lessee has received any written notification of any material violation or alleged material violation of any applicable laws or regulations relating to the sale and service of alcoholic beverages which are outstanding and which have not been remedied. The Liquor Licenses are adequate for the operation of the business conducted by Management, Lessee and each Lessee Subsidiary consistent with past practice. All applicable state and federal liquor stamp taxes have been paid in full or will be paid in full on or prior to the Closing Date.

(vii) Other Matters. Schedule 4.1(i)(vii), as of the date hereof, is a true, correct and complete list of (A) all properties which Management, Lessee or any Lessee Subsidiary are obligated, or have the right, to purchase or lease, which are now not owned or leased by Management, Lessee or any Lessee Subsidiary, (B) all Real Property which Management, Lessee or any Lessee Subsidiary are obligated to sell or assign, (C) all Real Property which Management, Lessee or any Lessee Subsidiary are in the process of constructing or which are otherwise not yet fully constructed and operational and (D) all Real Property subject to purchase options, rights of first offer, rights of first refusal or similar agreements or arrangements.

(j) Legal Proceedings. Except as described in Schedule 4.1(j), as of the date hereof, there is no litigation, claim, arbitration, proceeding or investigation to which Management, Lessee or any Lessee Subsidiary is a party pending or, to the Knowledge of Alter or Biederman, as applicable, threatened against Management, Lessee or any Lessee Subsidiary or relating to any of the assets of Management, Lessee or any Lessee Subsidiary or the Transactions which, either individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect or which seeks to restrain or enjoin the consummation of any of the Transactions. None of Management, Lessee or any Lessee Subsidiary as of the date hereof is party to nor are any of the assets of Management, Lessee or any Lessee Subsidiary subject to any judgment, writ, decree, injunction or order entered by any court, governmental authority or arbitrator.

(k) Labor Controversies. Except as set forth on Schedule 4.1(k), as of the date hereof, (i) there have been no labor strikes, slow-downs, work stoppages, lock-outs or other material labor controversies or disputes during the past two years, nor is any such strike, slow- down, work stoppage or other material labor controversy or dispute pending or, to the Knowledge of Alter or Biederman, as applicable, threatened, in each case with respect to the current or

former employees of Management, Lessee or any Lessee Subsidiary, (ii) none of Management, Lessee or any Lessee Subsidiary is a party to any labor contract, collective bargaining agreement, contract, letter of understanding or, to the Knowledge of Alter or Biederman, as applicable, any other agreement, formal or informal, with any labor union or organization, nor are any of the employees of Management, Lessee or any Lessee Subsidiary represented by any labor union or organization, and (iii) none of Management, Lessee or any Lessee Subsidiary has closed any facility, effectuated any layoffs of employees or implemented any early retirement, separation or window program within the past three years nor has Management or Lessee planned or announced any such action or program for the future except for any of the foregoing which, individually or in the aggregate, would not have a Material Adverse Effect.

(l) Intellectual Property and Technology. Management, Lessee and each Lessee Subsidiary own, or are licensed or otherwise have the right to use in the manner currently being used, all patents, patent registrations, patent applications, trademarks, trademark registrations, trademark applications, tradenames, copyrights, copyright applications, copyright registrations, franchises, URLs, domain names, permits and licenses ("Intellectual Property") used by Management and Lessee and necessary to the operation of their respective businesses (the "Business Intellectual Property"), subject to the terms of the respective franchise, license and other agreements. Except as would not,

individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, (i) none of Management, Lessee or any Lessee Subsidiary has infringed upon or is in conflict with the Intellectual Property of any third party, except with respect to off-the-shelf software and with respect to Intellectual Property licensed under franchise agreements, such exception being applicable only if Management, Lessee or such Lessee Subsidiary, as the case may be, shall not be in violation of the Intellectual Property license provisions of the applicable franchise agreement, (ii) nor has Management, Lessee or any Lessee Subsidiary received any written notice of any claim that Management, Lessee or any Lessee Subsidiary has infringed upon or is in conflict with any Intellectual Property of any third party. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, all trademark registrations of each of Management, Lessee and Lessee Subsidiary are valid and subsisting and in full force and effect. Each of Management, Lessee or each Lessee Subsidiary owns or is licensed or otherwise has the right to use all of the processes, formulae, proprietary technology, inventions, trade secrets, know-how, product descriptions and specifications ("Technology") in the manner currently used by Management, Lessee or each Lessee Subsidiary, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, there have been no written claims (whether private or governmental) against Management or Lessee asserting the invalidity or unenforceability of its ownership, license or other right to use any of the Technology. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, none of the rights of Management, Lessee or any Lessee Subsidiary to the Business Intellectual Property or the Technology will be impaired in any way by any of the Transactions, except with respect to off-the-shelf software and with respect to Intellectual Property licensed under franchise agreements, such exception being applicable only if Management, Lessee or such

Lessee Subsidiary, as the case may be, shall not be in violation of the Intellectual Property provisions of the applicable franchise agreement, and all of the rights of Management to the Business Intellectual Property and Technology included in the Management Assets will be fully enforceable by Management Newco after the Closing Date to the same extent as such rights would have been enforceable by Management before the Closing.

(m) Conduct of Business in Compliance with Laws.

(i) Each of Management, Lessee and each Lessee Subsidiary has complied with all applicable laws, ordinances, regulations or orders or other requirements of any Governmental Authority applicable to it, except where the failure to be in such compliance would not have, either individually or in the aggregate, a Material Adverse Effect.

(ii) Each of Management, Lessee and each Lessee Subsidiary has all licenses, permits, consents, approvals, authorizations, qualifications and orders of Governmental Authorities required for the conduct of its respective businesses as presently conducted, except where failure would not, individually or in the aggregate, have a Material Adverse Effect.

(n) Environmental Matters. Except as set forth on Schedule 4.1(n) and except for matters that, individually or in the aggregate, would not have a Material Adverse Effect, (i) each of Management, Lessee and each Lessee Subsidiary complies and has complied with all Environmental Laws applicable to it, and has possessed and complied with all permits required under Environmental Laws for its respective businesses; (ii) to Management's and Lessee's Knowledge, there are and have been no Materials of Environmental Concern at any property currently or formerly owned, operated or leased by Management, Lessee or any Lessee Subsidiary that could reasonably be expected to give rise to any liability under any Environmental Law or result in costs arising out of any Environmental Law; (iii) no judicial, administrative, or arbitral proceeding (including any notice of violation or alleged violation) under any Environmental Law to which Management, Lessee or any Lessee Subsidiary is, or to the Knowledge of Alter or Biederman, as applicable, will be, named as a party is pending or,

to the Knowledge of Alter or Biederman, as applicable, threatened, with respect to Management, Lessee or any Lessee Subsidiary nor to the Knowledge of Alter or Biederman, as applicable, is Management, Lessee or any Lessee Subsidiary the subject of any investigation in connection with any such proceeding or potential proceeding; (iv) to Management's and Lessee's Knowledge, there are no past, present, or anticipated future events, conditions, circumstances, practices, plans, or legal requirements that could be expected to prevent, or materially increase the burden on Management, Lessee or any Lessee Subsidiary of complying with applicable Environmental Laws or of obtaining, renewing, or complying with all permits required under Environmental Laws required under such laws; and (v) Management, Lessee, Alter and Biederman have provided to Sunstone Parties true and complete copies of all reports with respect to Environmental Laws relating to Management, Lessee or each Lessee Subsidiary or the Real Property in their possession or control.

(o) Employee Benefits. As used herein, the term "Employee Plan" includes any pension, retirement, savings, disability, medical, dental, health, life, death benefit, group insurance, profit sharing, deferred compensation, stock option, bonus, incentive, vacation pay, tuition reimbursement, severance pay, or other material employee benefit plan, trust, employment agreement, contract, agreement, policy, program or arrangement (including, without limitation, any pension plan, as defined in Section 3(2) of the Employee Retirement Income Security Act of 1974, as amended and the rules and regulations promulgated thereunder ("ERISA") ("Pension Plan"), any multiemployer plan, as defined in Section 3(37) of ERISA (a "Multiemployer Plan") and any welfare plan as defined in Section 3(1) of ERISA ("Welfare Plan")), whether or not any of the foregoing is funded, insured or self-funded, written or oral, (i) sponsored or maintained by Management, Lessee, any Lessee Subsidiary, or any entity which, together with Management or Lessee, would be treated as a single employer under Section 414 of the Code (each a "Controlled Group Member") and covering any Controlled Group Member's active or former employees (or their beneficiaries), (ii) to which any Controlled Group Member is a party or by which any Controlled Group Member (or any of the rights, properties or assets thereof) is bound or (iii) with respect to which any current Controlled Group Member may otherwise have any material liability (whether or not such Controlled Group Member still maintains such Employee Plan). Each Employee Plan is listed in Schedule 4.1(o). With respect to the Employee Plans:

(i) Except as disclosed in Schedule 4.1(o), no Controlled Group Member has any continuing liability under any Welfare Plan which provides for continuing benefits or coverage for any participant or any beneficiary of a participant after such participant's termination of employment, except as may be required by Section 4980B of the Code, or Section 601 (et seq.) of ERISA, or under any applicable state law, and at the expense of the participant or the beneficiary of the participant.

(ii) Except as disclosed in Schedule 4.1(o), each Employee Plan which is not a Multiemployer Plan (and, to the Knowledge of Alter or Biederman, as applicable, each Multiemployer Plan) complies in all material respects with the applicable requirements of ERISA and any other applicable law governing such Employee Plan, and each Employee Plan which is not a Multiemployer Plan (and, to the Knowledge of Alter or Biederman, as applicable, each Multiemployer Plan) has at all times been administered in all material respects in accordance with all such requirements of law, and in accordance with its terms and the terms of any applicable collective bargaining agreement to the extent consistent with all such requirements of law. Each Employee Plan which is intended to be qualified, has (A) received a favorable determination letter from the Internal Revenue Service stating that such Employee Plan meets the requirements of and is qualified under Section 401(a) of the Code and that the trust associated with such Employee Plan is tax exempt under Section 501(a) of the Code, (B) an application for such determination is pending, or (C) the remedial amendment period during which an application for such determination may be timely filed has not expired and such application will be timely filed before the expiration of such remedial amendment period, and to the Knowledge of Alter or Biederman, as applicable, no event has occurred which would jeopardize the qualified status of any such plan or the tax exempt status of any such trust under Sections 401(a) and Section 501(a) of the Code,

respectively, except in circumstances in which, individually or in the aggregate, the failure to so qualify or be tax exempt would not have a Material Adverse Effect.

(iii) No lawsuits, claims (other than routine claims for benefits) or complaints to, or by, any Person or Governmental Authority have been filed or are pending which, individually or in the aggregate, would have a Material Adverse Effect and, to the Knowledge of Alter or Biederman, as applicable, there is no fact or contemplated event which would be expected to give rise to any such lawsuit, claim (other than routine claims for benefits) or complaint with respect to any Employee Plan that would have a Material Adverse Effect.

Without limiting the foregoing, except in the case of the following clauses (1) through (6) as would not individually or in the aggregate have a Material Adverse Effect, the following are true with respect to each Employee Plan:

(1) all Controlled Group Members have filed or caused to be filed every material return, report statement, notice, declaration and other document required by any law or governmental agency, federal, state and local (including, without limitation, the Internal Revenue Service and the Department of Labor) with respect to each such Employee Plan other than a Multiemployer Plan, each of such filings has been complete and accurate in all material respects and no Controlled Group Member has incurred any material liability in connection with such filings;

(2) all Controlled Group Members have delivered or caused to be delivered to every participant, beneficiary and other party entitled to such material, all material plan descriptions, returns, reports, schedules, notices, statements and similar materials, including, without limitation, summary plan descriptions and summary annual reports, as are required under Title I of ERISA, the Code, or both, and no Controlled Group Member has incurred any material liability in connection with such deliveries;

(3) all contributions and payments with respect to Employee Plans that are required to be made by a Controlled Group Member with respect to periods ending on or before the Closing Date (including periods from the first day of the current plan or policy year to the Closing Date) have been, or will be, made or accrued before the Closing Date in accordance with the appropriate plan document, actuarial report, collective bargaining agreements or insurance contracts or arrangements or as otherwise required by ERISA or the Code;

(4) with respect to each such Employee Plan, to the extent applicable, Management and Lessee have delivered to or have made available to Sunstone Parties true and complete copies of (i) plan documents, or any and all other documents that establish the existence of the plan, trust, arrangement, contract, policy, program or arrangement and all amendments thereto, (ii) the most recent determination letter, if any, received from the Internal Revenue Service, (iii) the three most recent Form 5500 Annual Reports (and all

schedules and reports relating thereto) and actuarial reports (if required to be prepared) and (iv) all related trust agreements, insurance contract or other funding agreements that implement each such Employee Plan;

(5) no payment made or to be made to an officer, director or employee pursuant to an Employee Plan either before, on, or after consummation of

the Transactions and contingent on or related to such transactions shall constitute an "excess parachute payment" within the meaning of Section 280G of the Code; and

(6) consummation of the Transactions shall not (i) give rise to a severance pay obligation with respect to those employees of Management or Lessee who continue employment with Management Newco or Lessee or (ii) enhance or trigger (including acceleration of vesting, payment or funding) any benefits under any Employee Plan.

(iv) With respect to each Employee Plan which is not a Multiemployer Plan (and to the Knowledge of Alter or Biederman, as applicable, with respect to each Multiemployer Plan), there has not occurred, and no Person or entity is contractually bound to enter into, any "prohibited transaction" within the meaning of Section 4975(c) of the Code or Section 406 of ERISA, which transaction is not exempt under Section 4975(d) of the Code or Section 408 of ERISA which, individually or in the aggregate, would have a Material Adverse Effect on Management or Lessee.

(v) Except as disclosed on Schedule 4.1(o) hereto, no Controlled Group Member has maintained or been obligated to contribute to any plan subject to Code Section 412 or Title IV of ERISA (other than a Multiemployer Plan).

(vi) As of the date hereof, Management, Lessee and the Lessee Subsidiaries have approximately 4,700 employees in the aggregate, and no demand for recognition made by any labor organization is pending with respect to any such employees. Schedule 4.1(o)(vi) sets forth all collective bargaining agreements to which the Company is a party as of the date hereof and any pending grievances thereunder. Neither Management nor Lessee has at any time during the last two years (A) had, nor, to the Knowledge of Alter or Biederman, as applicable, is there now threatened, a material strike, picketing, work stoppage, work slowdown, lockout or other labor trouble or dispute or grievance under any collective bargaining agreement or (B) engaged in any unfair labor practice or discriminated on the basis of age or other discrimination prohibited by applicable law in their employment conditions or practices. There are no representation petitions, unfair labor practice or age discrimination charges or complaints, or other charges or complaints alleging illegal discriminatory practices by Management, Lessee or any Lessee Subsidiary, pending or, to the Knowledge of Alter or Biederman, as applicable, threatened before the National Labor Relations Board or any other governmental body. Neither Management, Lessee nor any ERISA Affiliate has incurred any liability or obligation under the Worker Adjustment and Retaining Notification Act or similar state laws which remains unpaid or unsatisfied.

(vii) All insurance premiums required to be paid with respect to Employee Plans as of the Effective Time have been or will be paid prior thereto and adequate reserves have been provided for on the balance sheets of Management and Lessee for any premiums (or portions thereof) attributable to service on or prior to the Closing Date.

(p) Entire Business. The properties, assets and other rights of Lessee and Management constitute all of the properties, assets and other rights necessary for the conduct of the business of Lessee and Management, respectively, as currently conducted.

(q) Tax Matters.

(i) Management, Lessee and each Lessee Subsidiary have filed all Tax Returns required to be filed in the manner prescribed by law, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, and have paid all Taxes due (whether or not shown on such Tax Returns), except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, all Taxes that Lessee, each Lessee Subsidiary or Management are or were required to withhold or collect have

been duly withheld or collected and, to the extent required, have been paid to the appropriate governmental authority.

(ii) Except as set forth on Schedule 4.1(q)(ii), as of the date hereof, to the Knowledge of Alter or Biederman, as applicable, no action, suit, proceeding, investigation, claim or audit has been commenced, or is pending or threatened, with respect to Lessee, any Lessee Subsidiary or Management in respect of any Taxes. Any deficiency proposed as a result of such action, suit, proceeding, investigation, claim or audit has been paid or, as described on Schedule 4.1(q)(ii), are being contested in good faith by appropriate proceedings.

(iii) Except as set forth on Schedule 4.1(q)(iii) or as would not individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, none of Lessee, any Lessee Subsidiary or Management will be required to include any amount in income for any taxable period ending after the Closing Date by reason of a change in method of accounting, any closing or similar agreement with a governmental authority, any installment sale or any other item which economically accrued prior to the Closing Date.

(iv) Lessee and Management have at all times qualified as, and have elected to be treated as, "S Corporations" as defined in section 1361 of the Code and no assets of either Lessee or Management are subject to section 1374 of the Code.

(v) None of Alter, Biederman, Lessee, any Lessee Subsidiary or Management could be responsible to pay the Taxes of any other Person under any agreement or otherwise.

(r) Year 2000 Compliance. To the Knowledge of Alter or Biederman, as applicable, all of the computer programs, computer firmware, computer hardware (whether general or special purpose) and other similar or related items of automated, computerized and/or software system(s) that are used or relied on by Management, Lessee or any Lessee Subsidiary in the conduct of their respective businesses will not malfunction, will not cease to function, will not generate incorrect data, and will not provide incorrect results when processing, providing, and/or receiving date-related data into and between the twentieth and twenty-first centuries in a manner that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect on Management, Lessee or any Lessee Subsidiary.

(s) Contracts with Certain Persons. Schedule 4.1(s) sets forth each agreement or arrangement between Lessee, any Lessee Subsidiary and Management, on the one hand, and Alter, Biederman, Sunstone, Sunstone OP, or any other Affiliate of Lessee, any Lessee Subsidiary or Management, or any officers, directors, or holders of more than a 10% equity interest in any of the foregoing, on the other hand in excess of $100,000.

(t) Insurance. Each of Management, Lessee and each Lessee Subsidiary maintain policies of fire, flood and casualty, liability and other forms of insurance in such amounts, with such deductibles and against such risks and losses as are reasonable for the businesses, properties and assets of Management, Lessee and the Lessee Subsidiaries. As of the date hereof, the insurance policies maintained with respect to each of Management, Lessee and each Lessee Subsidiary and their respective businesses, assets and properties (the "Insurance Policies") are listed in Schedule 4.1(t). All such Insurance Policies are in full force and effect, and all premiums due and payable thereon have been paid except for any of the foregoing which, individually or in the aggregate, would not have a Material Adverse Effect. To the Knowledge of Alter or Biederman, as applicable, no insurer under any such policy has canceled or generally disclaimed liability under any such policy or indicated any intent to do so or to materially increase the premiums payable under or not renew any such policy except for any of the foregoing which, individually or in the aggregate, would not have a Material Adverse Effect.

(u) Certain Fees. Except as set forth on Schedule 4.1(u), neither Alter

nor Biederman, nor any of Management, Lessee or any Lessee Subsidiary nor the officers, directors or employees thereof have employed any broker or finder or incurred any other Liability for any brokerage fees, commissions or finders' fees in connection with the Transactions.

(v) Equity Ownership. Alter owns, beneficially and of record, and has good title to, 100 shares of Lessee Common Stock and 100 shares of Management Common Stock in each case free and clear of any Liens, rights, options, agreements or limitations on voting rights

of any nature whatsoever other than restrictions imposed by the Securities Act of 1933, as amended (the "Securities Act"), applicable state securities and "Blue Sky" laws.

(w) Title; Absence of Liens. At the Closing, Sunstone Parties or its designee will acquire from Alter good title to 100 shares of Lessee Stock and 100 shares of Management Common Stock, free and clear of all Liens, rights, options, agreements or limitations on voting rights of any nature whatsoever other than restrictions imposed by the Securities Act and applicable state securities and "Blue Sky" laws.

(x) Equity Ownership. Biederman owns, beneficially and of record, and has good title to, 25 shares of Lessee Common Stock, in each case free and clear of any Liens, rights, options, agreements or limitations on voting rights of any nature whatsoever other than restrictions imposed by the Securities Act and applicable state securities and "Blue Sky" laws.

(y) Title; Absence of Liens. At the Closing, Sunstone Parties will acquire from Biederman good title to 25 shares of Lessee Common Stock, free and clear of all Liens, rights, options, agreements or limitations on voting rights of any nature whatsoever other than restrictions imposed by the Securities Act and applicable state securities and "Blue Sky" laws.

SECTION 4.2 REPRESENTATIONS AND WARRANTIES OF THE SUNSTONE PARTIES. Each of the Sunstone Parties jointly and severally represents and warrants to Stockholders as follows:

(a) Due Organization; Power and Good Standing. Each Sunstone Party is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has the requisite power and authority to own, lease and operate its properties and to conduct its business as now conducted by it. Each Sunstone Party has all requisite power and authority to enter into this Agreement and to perform its obligations hereunder and thereunder. Each Sunstone Party is qualified to do business and is in good standing as a foreign corporation, partnership or other entity, as applicable, in all jurisdictions in which it conducts its business, except where the failure to be so qualified would not, individually or in the aggregate, materially adversely affect its ability to perform its obligations hereunder.

(b) Authorization and Validity of Agreement. The execution, delivery and performance by each Sunstone Party of this Agreement and the consummation by such Sunstone Party of the Transactions have been duly authorized by all necessary action on the part of such Sunstone Party. This Agreement has been duly executed and delivered by such Sunstone Party and constitutes a valid and legally binding obligation of such Sunstone Party, enforceable against it in accordance with its terms.

(c) No Government Approvals or Notices Required; No Conflict with Instruments. Except as described in Schedule 4.2(c), which Schedule shall be delivered by the Sunstone Parties on or prior to the 15th day following the date of this Agreement, the execution, delivery and performance of this Agreement by each Sunstone Party and the consummation by

each Sunstone Party of the Transactions will not (i) violate, conflict with or result in a breach of any provision of the limited liability company agreement of such party, (ii) except for any filings required under the HSR Act, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Authority, (iii) require the consent or approval of any Person (other than a Governmental Authority), violate, conflict with or result in a breach of any provision of, constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to any Person any right of termination, cancellation, amendment or acceleration under, or result in the creation of a Lien on any of the assets, properties or limited liability interests of such Sunstone Party, under, any of the provisions of any contract, lease, note, permit, franchise, license or other instrument or agreement to which such Sunstone Party is a party or by which it or its assets or properties are bound, or (iv) violate or conflict with any order, writ, injunction, decree, statute, rule or regulation of any Governmental Authority or arbitrator applicable to such Sunstone Parties or its assets or properties; other than any consents and approvals the failure of which to obtain and any violations, conflicts, breaches and defaults set forth pursuant to clauses (ii), (iii) and (iv) above which, individually or in the aggregate, would not materially adversely affect the ability of such Sunstone Party to perform its obligations hereunder.

(d) Legal Proceedings. Except as described in Schedule 4.2(d), as of the date hereof, there is no litigation, claim, arbitration, proceeding or investigation to which any Sunstone Party is a party pending or, to the Knowledge of each Sunstone Party, threatened against such Sunstone Party or relating to any of the assets of such Sunstone Party or the Transactions which, either individually or in the aggregate, would reasonably be expected to restrain or enjoin the consummation of any of the Transactions.

(e) Certain Fees. None of the Sunstone Parties nor any of their members or partners, nor the officers, directors or employees thereof have employed any broker or finder or incurred any other Liability for any brokerage fees, commissions or finders' fees in connection with the Transactions.

SECTION 4.3 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. Each of the representations and warranties given by the parties in Article IV shall be deemed repeated and remade at the Closing as if made at such time and shall, notwithstanding any investigation on the part of any other party, survive the Closing until the two year anniversary thereof, at which time such representations and warranties will terminate, provided that the representations and warranties contained in Sections 4.1(d), 4.1(v), 4.1(w), 4.1(x) and 4.1(y) shall survive the Closing and shall not terminate, and the representations and warranties contained in Sections 4.1(o) and 4.1(q) shall survive until the expiration of the statute of limitations with respect thereto.

SECTION 4.4 EXCLUSION OF CONTRIBUTION AGREEMENT. The parties hereto acknowledge that Alter, Biederman, Lessee and Management are parties to the Contribution and Sale Agreement, dated the date hereof (the "Contribution Agreement"), which among other things, grants certain other parties thereto the right, under certain circumstances, to acquire all of the

Lessee Common Stock and the assets of Management and upon receipt of a Drag-Along Notice, Alter and Biederman will cause the Contribution Agreement to be terminated in accordance with its terms.

ARTICLE 5
COVENANTS

SECTION 5.1 CONDUCT OF BUSINESS PENDING THE CLOSING. Except with the prior written consent of Sunstone Parties and except as may be expressly permitted by this Agreement, prior to the Closing, each of Management and Lessee shall, and Lessee shall cause each Lessee Subsidiary, and Alter and Biederman

shall, and shall cause Lessee and each Lessee Subsidiary and, in the case of Alter, Management to, operate its business only in the usual, regular and ordinary manner, on a basis consistent with past practice and, to the extent consistent with such operation, use its reasonable best efforts to preserve its present business organization intact, keep available the services of its present employees, preserve its present business relationships and maintain all rights, privileges and franchises necessary or desirable in the normal conduct of those businesses. Without limitation of the foregoing, prior to the Closing, except as expressly permitted by this Agreement, each of Management and Lessee shall not, and Lessee shall cause each Lessee Subsidiary, and Alter and Biederman shall not, and shall cause Lessee and each Lessee Subsidiary and, in the case of Alter, Management not to:

(a) amend its Certificate of Incorporation or Bylaws;

(b) issue, purchase or redeem, or authorize or propose the issuance, purchase or redemption of, or declare or pay any dividend with respect to, any shares of its capital stock or any class of securities convertible into, or rights, warrants or options to acquire, any such shares of other convertible securities, except for dividends on the capital stock of Management and Lessee which do not exceed $500,000 in the aggregate since December 31, 1998;

(c) form any partnership, limited liability company or other joint venture (other than in the ordinary course consistent with past practice of such business), acquire or dispose of any business (whether by merger, purchase or otherwise) or of any assets (other than in the ordinary course consistent with past practice of such business) or acquire or dispose of any investment in any Person;

(d) make or incur any capital expenditures other than in the ordinary course of business consistent with past practice and in no event in excess of $20,000 individually or $200,000 in the aggregate;

(e) enter into any transaction involving the incurrence, assumption or guarantee of indebtedness other than in the ordinary course of business consistent with past practice;

(f) enter into any agreement of the type described in Sections 4.1(i), 4.1(j)(ii) through (v) or 4.1(t) which contemplates payments in excess of $200,000 during any one year or $600,000 over the term of the contract; provided, however, that Lessee or Management may enter into any agreement or amend any existing agreement in connection with the acquisition or development of hotels by Sunstone or any Subsidiary thereof but only to the extent that (x) such acquisition or development is in compliance with the Merger Agreement and (y) any such agreement is of the type and contains terms that are in the ordinary course of business consistent with past practice of Lessee or Management, as applicable; provided further, that Lessee may pay reasonable legal fees and expenses incurred in connection with the Transactions;

(g) except as provided in Section 5.1(f), terminate or amend in any material respect any agreement listed or required to be listed on Schedule 4.1(h), 4.1(i)(ii) through (v) or 4.1(s)

(h) file any voluntary petition for bankruptcy or receivership or fail to oppose any other Person's petition for bankruptcy of, or action to appoint a receiver regarding, it;

(i) except as required by applicable law or to the extent required under existing employee benefit plans, agreements or arrangements as in effect on the date of this Agreement, (1) increase the compensation or fringe benefits of any employee, except for increases, in the ordinary course of business, in salary or wages of employees who are not directors or officers, (2) grant any severance or termination pay to any employee or (3) enter into or amend or terminate any collective bargaining, bonus, profit sharing, thrift, compensation, pension, retirement, deferred compensation, employment, termination, severance or other plan, agreement, trust, fund, policy or arrangement for the benefit of any employee;

(j) change any accounting principle except as required by GAAP;

(k) make any election with respect to Taxes;

(l) cancel any indebtedness payable to it in excess of $10,000;

(m) make any loan or other advance to any Person other than advances to wholly-owned Subsidiaries in existence on the date hereof;

(n) take any willful action which would cause any representation or warranty of Alter or Biederman contained in this Agreement to be or become untrue at Closing in any material respect; or

(o) authorize any of, or commit or agree to take any of, the foregoing actions.

Notwithstanding anything to the contrary herein, Management and Lessee shall have the unrestricted right but not the obligation to pay off Liabilities under the loan agreement set forth on Schedule 5.1(o) (the "Lessee Line of Credit").

SECTION 5.2 TRANSFERS OF EQUITY INTERESTS. From the date hereof until the Closing, Alter and Biederman each agree not to Transfer any capital stock of Management or Lessee except for the Transfers contemplated by this Agreement.

SECTION 5.3 ACCESS TO INFORMATION. From the date hereof to the Closing, each of Management and Lessee shall, and Lessee shall cause each Lessee Subsidiary, and Alter and Biederman shall, and shall cause Lessee and, in the case of Alter, Management to, upon prior reasonable notice, afford the officers, employees, auditors and other agents of Sunstone Parties or the Third Party Acquiror reasonable access during normal business hours to the officers, employees, properties, offices, plants and other facilities of Management, Lessee and the Lessee Subsidiaries and to the contracts, commitments, books and records relating thereto, and shall use commercially reasonable efforts to furnish such Persons all such documents and such financial, operating and other data and information regarding such businesses and Persons that are in the possession of such Person as Sunstone Parties, through their officers, employees or agents, may from time to time reasonably request.

SECTION 5.4 AGREEMENT TO COOPERATE; FURTHER ASSURANCES. Subject to the terms and conditions of this Agreement, each of the parties hereto shall use all reasonable best efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the Transactions, including providing information and using reasonable best efforts to obtain all necessary or appropriate waivers, consents and approvals, and effecting all necessary registrations and filings; provided, however, that, without the prior written consent of Sunstone Parties, no party shall pay any cash or other consideration, make any commitments or incur any liability or other obligation in an aggregate amount in excess of $200,000 in connection with the obtaining of all consents required to effect the Transactions. In case at any time after the Closing Date any further action is necessary or desirable to transfer any of the Lessee and Management Equity pursuant to the terms of this Agreement, or to otherwise to carry out the terms of this Agreement, the parties hereto and their respective Affiliates shall execute such further documents (including assignments, acknowledgments and consents and other instruments of transfer) and shall take such further action as shall be necessary or desirable to effect such transfer and to otherwise carry out the terms of this Agreement, in each case to the extent not inconsistent with applicable law provided that Alter and Biederman are not required to make any payments thereby and are reimbursed for all expenses and costs incurred.

SECTION 5.5 CONSENTS. Notwithstanding anything to the contrary contained in this Agreement, to the extent that the sale, conveyance, transfer, assignment or delivery or attempted sale, conveyance, transfer, assignment or delivery to Sunstone Parties or the Third Party Acquiror of any Lessee and

Management Equity is prohibited by applicable law or would

require any governmental or third-party authorization, approval, consent or waiver and such authorization, approval, consent or waiver shall not have been obtained prior to the Closing, this Agreement shall not constitute a sale, conveyance, transfer, assignment or delivery, or an attempted sale, conveyance, transfer, assignment or delivery thereof if any of the foregoing would constitute a breach of applicable law or the rights of any third party; provided, however, that, except to the extent that a condition to closing set forth herein, if any, relating to the foregoing shall not be satisfied (in which case the Closing shall not occur unless waived by Sunstone Parties), the Closing shall occur notwithstanding the foregoing on account of such required authorization. Following the Closing, Alter and Biederman shall use all reasonable best efforts to obtain promptly such authorizations, approvals, consents or waivers provided, however, that neither Alter nor Biederman shall be required to make any payments to obtain such authorizations, approvals, consents or waivers.

SECTION 5.6 PUBLIC STATEMENTS. Before any party to this Agreement or any Affiliate of such party shall release any statements concerning this Agreement or the matters contemplated hereby which is intended for or may result in public dissemination thereof, such party shall cooperate with the other parties and provide the other parties the reasonable opportunity to review and comment upon any such statements and shall not release or permit release of any such information without the consent of the other parties, which shall not be unreasonably withheld.

SECTION 5.7 NOTIFICATION OF CERTAIN MATTERS. Each party to this Agreement shall give prompt notice to each other party of (i) the occurrence or non-occurrence of any event, the occurrence or non-occurrence of which is likely to cause any representation or warranty of such party contained in this Agreement to be untrue or inaccurate at or prior to the Closing Date and (ii) any failure of such party to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 5.7 shall not limit or otherwise affect any remedies available to the party receiving such notice. No disclosure by any party pursuant to this Section 5.7 shall be deemed to amend or supplement the disclosures set forth on the Schedules hereto or prevent or cure any misrepresentations, breach of warranty or breach of covenant.

SECTION 5.8 INTENTIONALLY OMITTED

SECTION 5.9 TRANSFER TAXES. Sunstone Parties shall bear all share transfer taxes, recording fees and other sales, transfer, use, purchase, stamp or similar taxes resulting or arising out of the Transactions.

SECTION 5.10 INJUNCTIONS OR RESTRAINTS. In the event that there exists at or prior to Closing (i) any injunction, restraining order or other decree of any nature of any court of competent jurisdiction or other Governmental Authority that is in effect that restrains or prohibits the consummation of any of the Transactions or (ii) any action taken, or any statute, rule, regulation or order enacted, entered or enforced, which makes the consummation of the

Transactions illegal, each party to this Agreement shall use their reasonable commercial efforts to have any such injunction, order, decree, action, statute, rule or regulation vacated or declared inapplicable.

SECTION 5.11 CERTIFICATION OF UNITED STATES STATUS OF ALTER AND BIEDERMAN. Each of Alter and Biederman shall deliver as of Closing to Sunstone Parties a certificate, duly executed and acknowledged, certifying that each is

not a foreign person, as defined in Treasury regulation section 1.1445-2(b)(2)(i), such certification in the form similar to that described in Treasury regulation section 1.1445-2(b)(2)(iii)(A) or otherwise meeting the requirements of Treasury regulation section 1.1445-2(b)(2).

SECTION 5.12 SPOUSAL CLAIMS. Alter agrees to maintain all Lessee Stock to be sold to Sunstone Parties or the Third Party Acquiror hereunder free from all potential spousal claims including election share, community property interest or otherwise.

SECTION 5.13 CERTAIN OBLIGATIONS. (a) Sunstone Parties will use its reasonable best efforts to secure the release of each of Alter and Biederman from their respective obligations incurred following the Closing under the guarantees and indemnities listed in Schedule 5.13(a), which release may be accomplished (at Sunstone Parties' election) by issuances of guarantees or indemnities by Sunstone Parties with respect to such obligations or the assumption by Sunstone Parties of such obligations. To the extent Alter and Biederman are not released from such post- Closing obligations, Sunstone Parties and Management and Lessee shall, jointly and severally, indemnify and hold Alter and Biederman, and their respective Affiliates, heirs, executors, successors and assigns, harmless for all Losses suffered or incurred by either of them under such obligations.

(b) Effective as of the Closing, all arrangements between any of Alter, Biederman or any Affiliate of the foregoing, other than Sunstone and Sunstone's Subsidiaries (collectively the "Alter/Biederman Parties"), on the one hand, and Sunstone or any of Sunstone's Subsidiaries, on the other hand, shall be terminated with no further obligations or Liabilities by Sunstone or any of Sunstone's Subsidiaries thereunder, except for the agreements listed on Schedule 5.13(b) (which shall not be terminated) and the obligations or liabilities incurred thereunder following the Closing. Each of the Alter/Biederman Parties severally represents to Sunstone Parties that no amounts are owing or payable by it or him to Sunstone or any Sunstone Subsidiary under any agreement or arrangement between any of the Alter /Biederman Parties, on the one hand, and Sunstone or any of Sunstone's Subsidiaries, on the other hand, whether or not such agreement or arrangement shall be terminated pursuant to this section. Notwithstanding the termination of the agreements and arrangements referred to in the second preceding sentence, the Alter/Biederman Parties shall retain all obligations and Liabilities to Sunstone and its Subsidiaries under all agreements and arrangements between the Alter/Biederman Parties, on the one hand, and Sunstone and its Subsidiaries, on the other hand, incurred before the Closing, and shall indemnify Sunstone Parties for all Losses incurred by it in connection with such obligations and Liabilities. Except with respect to obligations or Liabilities incurred following the Closing under

the agreements listed on Schedule 5.13(a) or Schedule 5.13(b), any obligations or Liabilities under this Agreement or payment obligations under the Lessee Line of Credit, the Alter/Biederman Parties hereby release and discharge and indemnify and hold harmless Sunstone Parties, on behalf of Sunstone and Sunstone's Subsidiaries, and their successors and assigns from all actions, causes of action, suits, debts, dues, sums of money, accounts, claims and demands owed by Sunstone or any of Sunstone's Subsidiaries to any of the Alter/Biederman Parties, by reason of any matter, cause, contract, course of dealing or thing whatsoever arising during, or in respect of, the period on or before the Closing.

ARTICLE 6
CONDITIONS TO CLOSING

SECTION 6.1 CONDITIONS PRECEDENT TO OBLIGATIONS OF EACH PARTY. The respective obligations of each party to this Agreement to consummate the transactions contemplated hereby shall be subject to the satisfaction (or waiver by the party entitled to the benefit of such condition) of each of the following conditions at or prior to the Closing:

(a) No Injunctions or Restraints. There shall not be (i) any

injunction, restraining order or other decree of any nature of any court of competent jurisdiction or other Governmental Authority that is in effect that restrains or prohibits the consummation of any of the Transactions or (ii) any action taken, or any statute, rule, regulation or order enacted, entered or enforced, which makes the consummation of the Transactions illegal.

(b) HSR Act. Any waiting period (and any extension thereof) under the HSR Act applicable to the Transactions shall have expired or been terminated.

(c) Merger Agreement. The Merger Agreement shall have been terminated in accordance with its terms.

SECTION 6.2 CONDITIONS PRECEDENT TO OBLIGATION OF THE SUNSTONE PARTIES. The obligation of each of the Sunstone Parties to consummate the Transactions shall be subject to the satisfaction of each of the following conditions (unless waived by Sunstone Parties) at or prior to the Closing:

(a) Accuracy of Representations and Warranties. The representations and warranties of Alter and Biederman contained in this Agreement shall be true and correct in all material respects (except for representations having a materiality or Material Adverse Effect qualification, which shall be correct in all respects), in each case on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of such time, except to the extent such representations and warranties by their terms speak as of a specified date, in which case they shall be so true and correct as of such date; and Sunstone Parties shall have received from each of Alter and Biederman a certificate to such effect dated as of the Closing Date and signed by each such Person.

(b) Covenants. Each of Alter and Biederman shall have complied in all material respects with each covenant contained in this Agreement to be performed by him or it on or prior to the Closing; and Sunstone Parties shall have received from each of Alter and Biederman a certificate to such effect dated as of the Closing and signed by each such Person.

(c) Material Adverse Change. Since the date of this Agreement through and including the Closing Date, there shall have been no Material Adverse Effect and Sunstone Parties shall have received from each of Alter and Biederman a certificate to such effect dated as of the Closing and signed by each such Person.

(d) Consents. All consents and waivers (including, without limitation, waivers of rights of first refusal) from Governmental Authorities and third parties necessary in connection with the consummation of the Transactions shall have been obtained and not subsequently been revoked as of the Closing Date other than such consents and waivers from third parties, which, if not obtained, would not result, individually or in the aggregate, in a Material Adverse Effect.

SECTION 6.3 CONDITIONS PRECEDENT TO OBLIGATIONS OF ALTER. The obligation of Alter to consummate the Transactions shall be subject to the satisfaction of each of the following conditions (unless waived by Alter) at or prior to the Closing:

(a) Accuracy of Representations and Warranties. The representations and warranties of Sunstone Parties contained in this Agreement shall be true and correct in all material respects (except for representations having a materiality or Material Adverse Effect qualification, which shall be correct in all respects), in each case on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of such time, except to the extent such representations and warranties by their terms speak as of a specified date, in which case they shall be so true and correct as of such date; and Alter shall have received from each of Sunstone Parties a certificate to such effect dated as of the Closing Date and signed by an officer thereof in the case of Sunstone Party.

(b) Covenants. Each of Sunstone Parties shall have complied in all

material respects with each covenant contained in this Agreement to be performed by it or him on or prior to the Closing; and Alter shall have received from each of Sunstone Parties a certificate to such effect dated as of the Closing Date and signed by an officer thereof in the case of Sunstone Party.

(c) Assumption Agreement. The Assumption Agreement shall have been executed and delivered by the Third Party Acquiror and shall be a valid and binding obligation of the Third Party Acquiror enforceable against it in accordance with its terms.

SECTION 6.4 CONDITIONS PRECEDENT TO OBLIGATIONS OF BIEDERMAN. The obligation of Biederman to consummate the Transactions shall be subject to the satisfaction of each of the following conditions (unless waived by Biederman) at or prior to the Closing:

(a) Accuracy of Representations and Warranties. The representations and warranties each of Sunstone Party in this Agreement shall be true and correct in all material respects (except for representations having a materiality or Material Adverse Effect qualification, which shall be correct in all respects), in each case on and as of the date of this Agreement and on and as of the Closing Date as though made on and as of such time, except to the extent such representations and warranties by their terms speak as of a specified date, in which case they shall be so true and correct as of such date; and Biederman shall have received from each of Sunstone Parties a certificate to such effect dated as of the Closing Date and signed by an officer thereof in the case of Sunstone Parties.

(b) Covenants. Each of Sunstone Parties shall have complied in all material respects with each covenant contained in this Agreement to be performed by it or him on or prior to the Closing; and Biederman shall have received from each of Sunstone Parties a certificate to such effect dated as of the Closing Date and signed by an officer thereof in the case of Sunstone Parties.

(c) Assumption Agreement. The Assumption Agreement shall have been executed and delivered by the Third Party Acquiror and shall be a valid and binding obligation of the Third Party Acquiror enforceable against it in accordance with its terms.

ARTICLE 7
TERMINATION

SECTION 7.1 TERMINATION EVENTS. This Agreement may be terminated and the Transactions may be abandoned at any time prior to the Closing:

(a) by mutual written consent of Alter, Biederman and Sunstone Parties;

(b) by Sunstone Parties, upon a breach of any representation, warranty, covenant, obligation or agreement on the part of Alter or Biederman set forth in this Agreement, in any case such that the conditions set forth in Section 6.2(a) or 6.2(b), as the case may be, are not satisfied or would be incapable of being satisfied within 30 days after the giving of written notice to Alter;

(c) by Alter, upon a breach of any representation, warranty, covenant, obligation or agreement on the part of any of Sunstone Parties such that the conditions set forth in Section 6.3(a) or 6.3(b) are not satisfied or would be incapable of being satisfied within 30 days after the giving of written notice to Sunstone Parties; or by Biederman, upon a breach of any representation, warranty, covenant, obligation or agreement on the part of any of Sunstone Parties, such that the conditions set forth in 6.4(a) or 6.4(b) are not satisfied or would be incapable of being satisfied within 30 days after the giving of written notice to Sunstone Parties;

(d) by any of Alter, Biederman or Sunstone Parties if any court of competent jurisdiction in the United States shall have issued a final and unappealable permanent injunction, order, judgment or other decree (other than a temporary restraining order) restraining, enjoining or otherwise prohibiting the consummation of the Transactions, provided that the party seeking to terminate this Agreement under this clause (d) is not then in material breach of this Agreement and provided, further, that the right to terminate this Agreement under this clause (d) shall not be available to any party who shall not have used reasonable commercial efforts to avoid the issuance of such order, decree or ruling; and

(e) by any of Alter, Biederman or Sunstone Parties if the Superior Proposal Transaction shall have been terminated in accordance with its terms.

SECTION 7.2 EFFECT OF TERMINATION. In the event of any termination of the Agreement as provided in Section 7.1 hereto, this Agreement shall forthwith become wholly void and of no further force or effect (except Sections 7.2 and 7.3 and Article IX hereof) and there shall be no liability on the part of any parties hereto or their respective officers or directors, except as provided in such Sections and Articles. Notwithstanding the foregoing, no party hereto shall be relieved from liability for any willful breach of this Agreement.

ARTICLE 8
INDEMNIFICATION

SECTION 8.1 INDEMNIFICATION BY SUNSTONE PARTIES. From and after the Closing, Sunstone Parties and Third Party Acquiror shall indemnify and hold harmless each of Alter, Biederman and their respective Affiliates, agents, heirs, executors, successors and assigns from and against any and all Losses suffered or incurred by any such indemnified Person arising from, relating to or otherwise in respect of (a) any breach of, or inaccuracy in, any representation or warranty of any Sunstone Party contained in this Agreement, (b) any breach of any covenant of any Sunstone Party contained in this Agreement, and (c) any breach of any covenant or representation or warranty pursuant to the Assumption Agreement. In addition, the Sunstone Parties and Third Party Acquiror shall provide the indemnity set forth in Section 5.13(a).

SECTION 8.2 INDEMNIFICATION BY ALTER. From and after the Closing, Alter shall indemnify and hold harmless each of Sunstone Parties and Third Party Acquiror and their Affiliates and respective directors, officers, employees, agents, heirs, executors, successors and assigns of any of the foregoing from and against any and all Losses suffered or incurred by any such indemnified Person arising from, relating to or otherwise in respect of (a) any breach of, or inaccuracy in, any representation or warranty of Alter contained in this Agreement; and (b) any breach of any covenant of Alter contained in this Agreement.

SECTION 8.3 INDEMNIFICATION BY BIEDERMAN. From and after the Closing, Biederman shall indemnify and hold harmless each of Sunstone Parties and Third Party Acquiror

and their respective Affiliates and each of the foregoing's respective agents, directors, officers, employees, agents, heirs, executors, successors and assigns from and against any and all Losses suffered or incurred by any such indemnified Person arising from, relating to or otherwise in respect of, (a) any breach of, or inaccuracy in, any representation or warranty of Biederman contained in this Agreement or (b) any breach of any covenant of Biederman contained in this Agreement. In addition, Alter shall provide the indemnity set forth in Section 5.13(b).

SECTION 8.4 TAX INDEMNIFICATION. (a) Notwithstanding any other provision of this Agreement (but subject to Section 8.7), following the Closing, Alter and Biederman shall indemnify and hold harmless each of Sunstone Parties

and their Affiliates and respective directors, officers, employees, agents, heirs, executors, successors and assigns of any of the foregoing from and against any and all Losses suffered or incurred by any such indemnified Person arising from, relating to or otherwise in respect of (a) any breach of, or inaccuracy in, any representation or warranty in Section 4.1(q)(iv), and (b) any and all income taxes of Lessee or Management for any taxable period or year ending before the Closing Date and with respect to any Straddle Period (as defined), for the portion of such Taxes determined pursuant to Section 8.4(b). In addition, Biederman shall provide the indemnity set forth in Section 5.13(b).

(b) With respect to any Taxes for any taxable period that includes but does not end as of the day prior to the Closing Date (a "Straddle Period"), the amount of income taxes subject to indemnification under this Section 8.4 attributable to pre-Closing and post-Closing tax periods shall be calculated as if such taxable period ended as of the close of business on the day prior to the Closing Date.

SECTION 8.5 THIRD-PARTY CLAIMS. If a claim by a third party is made against an indemnified Person hereunder, and if such indemnified Person intends to seek indemnity with respect thereto under this Article, such indemnified Person shall promptly notify the indemnifying Person in writing of such claims setting forth such claims in reasonable detail, provided that failure of such indemnified Person to give prompt notice as provided herein shall not relieve the indemnifying Person of any of its obligations hereunder, except to the extent that the indemnifying Person is materially prejudiced by such failure. If the indemnifying Person acknowledges in writing its obligation to indemnify the indemnified Person against any Losses that may result from such third party claim, then the indemnifying Person shall have 20 days after receipt of such notice to undertake, through counsel of its own choosing, subject to the reasonable approval of such indemnified Person, and at its own expense, the settlement or defense thereof, and the indemnified Person shall cooperate with it in connection therewith; provided, however, that the indemnified Person may participate in such settlement or defense through counsel chosen by such indemnified Person, provided that the fees and expenses of such counsel shall be borne by such indemnified Person. The indemnifying Person shall not settle any claim or consent to the entry of any judgment without the prior written consent of the indemnified Person, unless (i) such settlement or judgement includes as an unconditional term thereof the giving by the claimant of a release of the indemnified Person from all Liability with respect to such claim and (ii) such settlement or judgement does not involve the imposition of equitable remedies or the imposition

of any material obligations on such indemnified Person other than financial obligations for which such indemnified Person will be indemnified hereunder. If the indemnifying Person shall assume the defense of a claim, the fees of any separate counsel retained by the indemnified Person shall be borne by such indemnified Person unless there exists or is reasonably likely to exist a conflict of interest between them as to their respective legal defenses (other than one that is of a monetary nature) in the reasonable judgment of the indemnified Person, in which case the indemnified Person shall be entitled to retain one law firm as its separate counsel, the reasonable fees and expenses of which shall be reimbursed as they are incurred by the indemnifying Person. If the indemnifying Person does not notify the indemnified Person within 20 days after the receipt of the indemnified Person's notice of a claim of indemnity hereunder that it elects to undertake the defense thereof and that it acknowledges its obligation to indemnify the indemnified Person against any Losses that may result from such claim, the indemnified Person shall have the right to contest, settle or compromise the claim in a reasonable manner, and the indemnifying Person shall cooperate with in connection therewith, but the indemnified Person shall not thereby waive any right to indemnity therefor pursuant to this Agreement.

SECTION 8.6 TERMINATION OF INDEMNIFICATION. The obligations to indemnify and hold harmless a party hereto pursuant to Sections 8.1, 8.2, 8.3 and 8.4 shall terminate upon the termination of the relevant representation, warranty or pre-closing agreement pursuant to Section 4.3; provided, however, that such obligation to indemnify and hold harmless shall not terminate with

respect to any item as to which the Person to be indemnified shall have, before the expiration of the applicable period, previously made a claim by delivering a written notice (stating in reasonable detail the basis of such claim) to the indemnifying party.

SECTION 8.7 LIMITATIONS ON INDEMNITY OBLIGATIONS. (a) Notwithstanding any contrary provision of this Agreement, (i) the maximum liability of Sunstone Parties pursuant to its indemnification obligation under Section 8.1(a) is $30,000,000, (ii) except as otherwise provided in clause (iii) below or in the last sentence of this Section 8.7(a), the maximum liability of Alter and Biederman, in the aggregate, pursuant to their indemnification obligations under Sections 8.2(a) and 8.3(a) with respect to any breach of a representation or warranty set forth in clause 4.1(c) is $10,000,000, and (iii) the maximum liability of Alter and Biederman, in the aggregate, pursuant to their indemnification obligations under Section 8.2(a) and 8.3(a) with respect to any breach of a representation or warranty set forth in clauses (i), (ii) or (iii) of Section 4.1(f), Sections 4.1(a), 4.1(b), 4.1(n), 4.1(o), 4.1(p), 4.1(q), 4.1(s), 4.1(u) is $30,000,000. These limitations do not apply to any indemnification obligations under Sections 8.2 and 8.3 relating to a breach of any representation or warranty set forth in clause (iv) of Section 4.1(f), Sections 4.1(d), 4.1(v), 4.1(w), 4.1(x), 4.1(y) or any other section of this Article 8.

(b) No amount shall be payable:

(i) under Section 8.1(a) unless and until the aggregate amount of Losses exceeds $500,000 (and if such amount is so exceeded, then only those Losses shall then

be payable in accordance with this Article VIII to the extent such Losses exceed $500,000);

(ii) under Section 8.2(a) unless and until the aggregate amount of Losses exceeds $500,000 (and if such amount is so exceeded, then only those Losses shall then be payable in accordance with this Article VIII to the extent such Losses exceed $500,000);

(iii) under Section 8.3(a) unless and until the aggregate amount of Losses exceeds $500,000 (and if such amount is so exceeded, then only those Losses shall then be payable in accordance with this Article VIII to the extent such Losses exceed $500,000).

(iv) no amount shall be payable under clause (a) of Sections 8.1, 8.2 or 8.3 for any breach the Losses arising from which in any individual case amount to $10,000 or less, and such Losses shall not be included in establishing the thresholds established in clauses (i), (ii) and (iii) of Section 8.8(b) and, in connection with the foregoing, the parties agree that any breach of any representation in clause (i) of Section 4.1(q) which relates to sales taxes shall be determined also on an individual basis, subject to the $10,000 threshold, and on a hotel by hotel basis for any particular taxable year;

(c) References in Article 4 to Material Adverse Effect and material adverse effect qualifiers shall be disregarded for purposes of determining whether a party has incurred Losses pursuant to Section 8.1(a), 8.2(a) and 8.3.

SECTION 8.8 ALLOCATION OF CERTAIN INDEMNITY OBLIGATIONS. Sunstone Parties, Alter and Biederman agree as follows: with respect to any indemnification obligations arising from, relating to or otherwise in respect of any breach of, or inaccuracy in, any representation or warranty with respect to Lessee contained in Section 4.1 of this Agreement or any other indemnification obligations hereunder arising from, relating to or otherwise in respect of the acts or omissions of Alter and Biederman shall not be responsible for more than 80% and 20%, respectively, of such indemnified Losses.

SECTION 8.9 EXCLUSIVE REMEDY. The indemnification provided in this

Article 8 and Sections 5.13(a) and 5.13(b) shall be the exclusive post-Closing remedy available to any party for any breach of any representation, warranty or covenant contained herein, except in circumstances involving fraud.

ARTICLE 9
MISCELLANEOUS AGREEMENTS OF THE PARTIES

SECTION 9.1 NOTICES. Any notice in connection with this Agreement shall be in writing and shall be delivered personally by overnight courier or by facsimile at the addresses or facsimile numbers given below. If notice is given by: (a) overnight courier, notice shall be deemed given when recorded on the records of the air courier as received by the receiving party; or (b) facsimile, notice shall be deemed given upon transmission, if on a business day and during business hours in the city of receipt; otherwise, notice shall be deemed to have been given at 9:00 A.M. on the next Business Day in the city of receipt.

If to Alter:

c/o Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, California 92673-6212
Attn.: Robert A. Alter
Facsimile: (949) 369-4210

with a copy to:

Battle Fowler LLP
75 East 55th Street
New York, New York 10022
Attn.: Steven Lichtenfeld
Facsimile: (212) 856-7823

If to Biederman:

c/o Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, California 92673-6212
Attn.: Robert A. Alter
Facsimile: (949) 369-4210

with a copy to:

Battle Fowler LLP
75 East 55th Street
New York, New York 10022
Attn.: Steven Lichtenfeld
Facsimile: (212) 856-7823

If to any Sunstone Entity to:

Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, California 92673-6212
Attn.: R. Terrence Crowley
Facsimile: (949) 369-4210

with copies to:

Altheimer & Gray

10 South Wacker Drive
Chicago, Illinois 60606-7482
Attn: Mark Kindelin
Facsimile: (312) 715-4800

or to such other address as any such party shall designate by written notice to the other parties hereto.

SECTION 9.2 INTEGRATION; AMENDMENTS. This Agreement (including the Schedules and Exhibits hereto) contains the entire agreement and understanding of the parties with regard to the matters contained herein and supercedes any prior written or oral agreement with respect to the subject matter hereto. This Agreement (including the Schedules and Exhibits hereto) may not be amended or modified except in a writing signed by all parties hereto.

SECTION 9.3 WAIVER. No waiver by any of the parties hereto of any of the provisions hereof shall be effective unless explicitly set forth in writing and executed by the party so waiving. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants, or agreements contained herein, and in any documents delivered or to be delivered pursuant to this Agreement and in connection with the Closing hereunder. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

SECTION 9.4 NO ASSIGNMENT; SUCCESSORS AND ASSIGNS. The parties' respective rights and obligations hereunder may not be assigned, transferred, pledged, or encumbered, in any manner, direct or indirect, contingent or otherwise, in whole or in part, voluntarily or by operation of law, without the prior written consent of the other parties, provided that any of Sunstone Parties may assign, in whole or in part, any of its rights and obligations under this Agreement to the Third Party Acquiror without the consent of the other parties hereto, and such assignee shall have all of the rights and obligations of a "Sunstone Party" hereunder but Sunstone Parties will remain liable for their obligations hereunder. Subject to the preceding sentence, this Agreement shall be binding on the parties hereto and their respective successors and permitted assigns. In the event of the death, disability or incapacity of Alter or Biederman, such party's executors, administrators, testamentary trustees or personal representatives shall be bound by all the terms and conditions of this Agreement.

SECTION 9.5 EXPENSES. Except as set forth in this Agreement, whether or not the Transactions are consummated, all costs and expenses incurred in connection with this Agreement and the Transactions shall be paid by the party incurring such costs.

SECTION 9.6 SEVERABILITY. If any provision of this Agreement shall be declared by any court of competent jurisdiction to be illegal, void or unenforceable, all other provisions of this Agreement shall not be affected and shall remain in full force and effect, and the parties hereto shall negotiate in good faith to replace such illegal, void or unenforceable provision with a provision that corresponds as closely as possible to the intentions of the parties as expressed by such illegal, void or unenforceable provision.

SECTION 9.7 SECTION HEADINGS; TABLE OF CONTENTS. The section headings contained in this Agreement and the table of contents to this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

SECTION 9.8 THIRD PARTIES. Except for the beneficiaries of the indemnification provided in Article VII, this Agreement does not create any rights, claims or benefits inuring to any Person that is not a party hereto nor create or establish any third party beneficiary hereto.

SECTION 9.9 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND

CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICT OF LAWS THEREOF.

SECTION 9.10 ENFORCEMENT. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed by Alter or Biederman in accordance with their specific terms or were otherwise breached. It is accordingly agreed that Sunstone Parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement by Alter or Biederman and to enforce specifically the terms and provisions of this Agreement in any federal court located in Delaware or in Chancery Court in Delaware, this

being in addition to any other remedy to which Sunstone Parties is entitled at law or in equity. In addition, each of Alter and Biederman (a) consents to submit himself (without making such submission exclusive) to the personal jurisdiction of any federal court located in Delaware or Chancery Court located in Delaware in the event any dispute arises out of this Agreement or any of the Transactions and (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court.

In the event any dispute or difference of opinion arises under this Agreement, the parties hereto shall endeavor to resolve such dispute or difference of opinion by negotiation or mediation. If, for any reason, such mediation or negotiation fails to result in a mutually acceptable resolution, the parties agree to be bound by their consent to the jurisdiction of any federal court located in Delaware or Chancery Court located in Delaware.

SECTION 9.11 COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

SECTION 9.12 CUMULATIVE REMEDIES. All rights and remedies of either party hereto are cumulative of each other and of every other right or remedy such party may otherwise have at law or in equity, and the exercise of one or more rights or remedies shall not prejudice or impair the concurrent or subsequent exercise of other rights or remedies.

SECTION 9.13 CONSENT OF REGINA BIEDERMAN. Regina Biederman hereby consents to all of the Transactions, and waives any and all right to contest or prevent the consummation of such transactions.

[SIGNATURES APPEAR ON FOLLOWING PAGES]

IN WITNESS WHEREOF, each of the parties has signed its name to this Agreement, authorized as of the day and year first above written.

SUNSTONE HOTEL INVESTORS, INC.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Chief Operating Officer

SUNSTONE HOTEL INVESTORS, L.P.

By: Sunstone Hotel Investors, Inc., its general partner

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Chief Operating Officer

ROBERT A. ALTER

/s/ Robert A. Alter

Robert A. Alter

CHARLES L. BIEDERMAN

/s/ Charles L. Biederman

Charles L. Biederman

SUNSTONE HOTEL PROPERTIES, INC.

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: Chairman

SUNSTONE HOTEL MANAGEMENT, INC.

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: Chairman

REGINA BIEDERMAN

/s/ Regina Biederman

Regina Biederman

EXHIBIT 3.2

EXECUTION NOTICE

Mr. Robert A. Alter
Mr. Charles L. Biederman
c/o Robert A. Alter
Sunstone Hotel Properties, Inc.
903 Calle Amanecer
San Clemente, California 92673

Re: Execution Notice

Attention: Robert A. Alter

In accordance with the terms and conditions of the Lessee/Manager Agreement among the undersigned and you, dated July ___, 1999, you are hereby notified that the Sunstone Parties have entered into a SAP Purchase Agreement on ____, 1999 (which was entered into within five days of the date of this notice). The undersigned hereby certify to you that attached is a true, correct and complete (i) originally executed copy of the SAP Agreement together with all exhibits and schedules thereto and all ancillary related agreements, executed and delivered in connection therewith by the parties thereto (ii) an originally executed copy of the Assumption Agreement and (iii) an originally executed copy of the Drag-Along Notice.

Unless otherwise defined herein, all defined terms herein shall have such meaning ascribed such terms in the Lessee/Manager Agreement.

Dated , 1999

SUNSTONE HOTEL INVESTORS, INC.

By:

Name:
Title:

SUNSTONE HOTEL INVESTORS, L.P.

By: Sunstone Hotel Investors, Inc., its general partner

By:

Name:
Title:

cc: Steven L. Lichtenfeld
Battle Fowler LLP

EXHIBIT 3.3

DRAG-ALONG NOTICE

Mr. Robert A. Alter
Mr. Charles L. Biederman
c/o Robert A. Alter
Sunstone Hotel Properties, Inc.
903 Calle Amanecer
San Clemente, California 92673

Re: Drag-Along Notice

Attention: Robert A. Alter

You are hereby notified in accordance with Section 3.3 of the Lessee/Manager Agreement, dated July ___, 1999, among the undersigned and you (the "Lessee/Manager Agreement") that the undersigned hereby exercises, in accordance with the terms and conditions of the Lessee/Manager Agreement, its Drag-Along Right to the fullest extent provided pursuant to the Lessee Manager Agreement for all of the Stockholders' right title and interest in the Lessee and Management Equity.

Unless otherwise defined herein, all defined terms herein shall have such meaning ascribed such terms in the Lessee/Manager Agreement.

Dated , 1999

SUNSTONE HOTEL INVESTORS, INC.

By: ----------
Name:
Title:

SUNSTONE HOTEL INVESTORS, L.P.

By: Sunstone Hotel Investors, Inc., its general partner

By: ----------
Name:
Title:

cc: Steven L. Lichtenfeld
Battle Fowler LLP

EXHIBIT 3.4

ASSUMPTION AGREEMENT

THIS ASSUMPTION AGREEMENT, dated as of _____, 1999, by and among [_____].

W I T N E S S E T H:
- - - - - - - - - -

WHEREAS, Sunstone Hotel Investors, Inc., a Maryland corporation (the "REIT") and Sunstone Hotel Investors, L.P., a Delaware limited partnership (the "Operating Partnership," and together with the REIT the "Sunstone Parties") and Robert A. Alter("Alter") and Charles L. Biederman ("Biederman") are parties to a Lessee/Manager Agreement, dated as of July __, 1999 (the "Lessee/Manager Agreement"), which provides, among other things, the Sunstone Parties with the right to require Alter and Biederman to sell to the Sunstone Parties or the Third Party Acquiror, under certain circumstances, all of the Lessee and Management Equity owned by Alter and Biederman;

WHEREAS, the Lessee/Manager Agreement provides, among other things, that as a condition precedent with the Sunstone Parties exercising their Drag-Along Right, the Third Party Acquiror must assume and guarantee the performance of all of the obligations of the Sunstone Parties under the Lessee/Manager Agreement;

WHEREAS, the Sunstone Parties desire to exercise the Drag-Along Right;

NOW, THEREFORE, in consideration of the premises, the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

(i) The Third Party Acquiror hereby assumes, guarantees, and undertakes to pay, perform and otherwise discharge, as the same shall become due in accordance with their respective terms, all of the liabilities, duties, terms, conditions, indemnities and obligations of the Sunstone Parties under the Lessee/Manager Agreement;

(ii) The Third Party Acquiror on behalf of itself makes the same representations and warranties and covenants as made by Sunstone Parties under the Lessee/Manager Agreement;

(iii) The persons set forth on the attached Exhibit A are the persons who have actual knowledge without due inquiry on behalf of the Third Party

Acquiror; and

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(iv) The undersigned agree and acknowledge that this Assumption Agreement does not relieve, discharge or otherwise release the Sunstone Parties from any of their obligations existing and arising under the Lessee/Manager Agreement.

IN WITNESS WHEREOF, the undersigned has caused this instrument to be duly executed this __th day of _____, 1999.

THIRD PARTY ACQUIROR:

Name:
Title:

[Controlling Persons]

Name:
Title:

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EXHIBIT C

VOTING AGREEMENT

VOTING AGREEMENT, dated as of July 12, 1999 ("Agreement"), by and among Westbrook Real Estate Fund I, L.P., a Delaware limited partnership ("Westbrook"), Robert A. Alter ("Alter") and Charles L. Biederman ("Biederman") in their respective capacities as stockholders ("Stockholders") of Sunstone Hotel Investors, Inc., a Maryland corporation (the "Company"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and the Company.

WHEREAS, concurrently herewith, SHP, SHP Investors Sub, Inc., a Maryland corporation, and the Company are entering into an Agreement and Plan of Merger dated July 12, 1999 (the "Merger Agreement"; capitalized terms used without definition herein having the meanings ascribed thereto in the Merger Agreement);

WHEREAS, Stockholders are as of the date hereof the beneficial owners of 2,088,815 shares of common stock, $0.01 par value per share, of the Company ("Common Stock") and 250,000 shares of 7.9% Class A Cumulative Convertible Preferred Stock of the Company (collectively with the Common Stock, but excluding any shares of Common Stock issuable (but not yet issued) upon conversion of units in Sunstone Hotel Investors, L.P. or other securities convertible into Common Stock or upon exercise of stock options, the "Shares");

WHEREAS, approval of the Merger Agreement by the Company's stockholders is a condition to the consummation of the Merger;

WHEREAS, as a condition to its entering into the Merger Agreement, each of the Company and SHP has required that Stockholders agree, and Stockholders have agreed, to enter into this Agreement; and

WHEREAS, Stockholders have been informed that the Board of Directors of the Company has approved the Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. Agreement to Vote, Restrictions on Dispositions, Etc.

a. Each Stockholder hereby agrees to attend any stockholders meeting of the Company, in person or by proxy, and to vote (or cause to be voted) all Shares, and any other voting securities of the Company, owned by such Stockholder whether issued heretofore or hereafter, that such person owns or has the right to vote, for approval and adoption of the Merger Agreement and the Merger, and the transactions contemplated by the Merger Agreement, such agreement to vote to apply also to any adjournment of such stockholder meeting of the Company. Each Stockholder agrees not to grant any proxies or enter into any voting agreement or arrangement inconsistent with this Agreement or the Limited Irrevocable Proxy of even date herewith executed by Stockholders in favor of the Company ("Irrevocable Proxy").

b. Each Stockholder hereby agrees that, without the prior written consent of the

Company, except as provided in the Contribution Agreement, such Stockholder shall not, directly or indirectly, sell, offer to sell, grant any option for the sale of or otherwise transfer or dispose of, or enter into any agreement to sell, any Shares and any other voting securities of the Company that such Stockholder owns beneficially or otherwise. Each Stockholder agrees that the Company may enter stop transfer orders with the transfer agent(s) and the registrar(s) of the Shares against the transfer of Shares and any other voting securities of the Company that Stockholder owns beneficially or otherwise.

c. Each Stockholder agrees to vote (or cause to be voted) all Shares, and any other voting securities of the Company, owned by such Stockholder whether issued heretofore or hereafter, that such person owns or has the right to vote, against (i) any recapitalization, merger, consolidation, sale of assets or other business combination or similar transaction involving the Company or any of its Subsidiaries, securities or assets other than the Merger or other transaction with SHP and (ii) any other action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Company under the Merger Agreement or which could result in any of the conditions to the Company's obligations under the Merger Agreement not being fulfilled.

d. Each Stockholder agrees not, directly or indirectly, to solicit or authorize any person to solicit, any inquiries or proposals from any person other than SHP relating to the merger or consolidation of the Company with any person other than SHP or its Affiliates, or the acquisition of the Company's or any of its significant subsidiaries' voting securities by, or the direct or indirect acquisition or disposition of a significant amount of assets of the Company or any of its significant subsidiaries otherwise than in the ordinary course of business of the Company or such significant subsidiary, from or to any person other than SHP or its Affiliates or directly or indirectly enter into or continue any discussions, negotiations or agreements relating to, or vote (or cause to be voted) in favor of, any such transaction. Nothing contained herein shall be construed to limit or otherwise affect each Stockholder, any Affiliate or representative of Stockholder who shall serve as a director of the Company from taking any action permitted by Section 4.1 of the Merger Agreement in his or her capacity as such director.

e. Each Stockholder agrees to promptly notify the Company and SHP in writing of the nature and amount of any acquisition by Stockholder after the date hereof of any voting securities of the Company.

Section 2. Additional Representations and Warranties of Stockholder. Each Stockholder represents and warrants, severally and not jointly, to the Company and SHP as follows: Stockholder has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly

executed and delivered by Stockholder. Assuming the due authorization, execution and delivery of this Agreement by the Company, this Agreement constitutes the valid and binding agreement of Stockholder enforceable against Stockholder in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Shares of Stockholder are the only voting securities of the Company owned (beneficially or of record) by Stockholder and are owned free and clear of all liens, charges, encumbrances, restrictions and commitments of any kind other than the Contribution Agreement, this Agreement and shares pledged as margin stock. Other than the Irrevocable Proxy, Stockholder has not appointed or granted any irrevocable proxy, which appointment or grant is still effective, with respect to the Shares. The

execution and delivery of this Agreement by Stockholder does not (a) conflict with or violate any agreement, law, rule, regulation, order, judgment or decision or other instrument binding upon it, nor require any consent, notification, regulatory filing or approval which has not been obtained or (b) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the Shares owned by Stockholder pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Stockholder is a party or by which Stockholder or the Shares owned by Stockholder are bound or affected. Stockholder acknowledges that the restrictions imposed upon it are so imposed only in Stockholder's capacity as a stockholder of the Company.

Section 3. Representations and Warranties of the Company. The Company represents and warrants to the Stockholders as follows: each of this Agreement and the Merger Agreement has been approved by the Board of Directors of the Company. Each of this Agreement and the Merger Agreement has been duly executed and delivered by a duly authorized officer of the Company. Assuming the due authorization, execution and delivery of this Agreement by the Stockholders, each of this Agreement and the Merger Agreement constitutes a valid and binding agreement of the Company, enforceable against the Company in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

Section 4. Further Assurances. Each party shall execute and deliver such additional instruments and other documents and shall take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of their obligations under this Agreement. Without limiting the generality of the foregoing, neither of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of either party to effectuate, carry out or comply with all the terms of this Agreement.

Section 5. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Merger Agreement shall have been executed and delivered and be in full force and effect. This Agreement shall automatically terminate and be of no further force or effect upon the earlier termination of the Merger Agreement in accordance with its terms. Upon any termination of this Agreement, except for any rights either party may have in respect of any breach by either party of its obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder. The provisions of Section 1 of this Agreement shall terminate and be of no further force or effect from and after the Effective Time of the Merger.

Section 6. Covenants of Stockholder Not to Enter Into Inconsistent Agreements. Each Stockholder hereby agrees that, except as contemplated by this Agreement, the Irrevocable Proxy and the Merger Agreement, each Stockholder shall not enter into any voting agreement or grant an irrevocable proxy or power of attorney with respect to the Shares which is inconsistent with this Agreement.

Section 7. Miscellaneous.

a. Notices, Etc. All notices, requests, demands or other communications required by or otherwise given with respect to this Agreement shall be in

writing and shall be deemed to have been duly given to either party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or seven days after being mailed by first-class mail, postage

prepaid in each case to the applicable addresses set forth below:

If to the Company:
Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, CA 92673-6212
Attention: Chief Operating Officer
Facsimile: 949-369-4230

with a copy to:

Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Attention: Phillip Gordon
Facsimile: 312-715-4800

If to Westbrook or SHP:

Westbrook Real Estate Partners L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan H. Paul
Facsimile: 212-849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto
Brian Stadler
Facsimile: 212-455-2502

If to Alter and Biederman:

c/o Sunstone Hotel Properties, Inc.
903 Calle Amanecer
San Clemente, California 92673-6212
Attention: Robert A. Alter
Facsimile: 949-369-4210

with a copy to:

Battle Fowler LLP
Park Avenue Tower
75 East 55th Street

New York, NY 10022
Attention: Steven L. Lichtenfeld
Facsimile: 212-856-7808

or to such other address as such party shall have designated by notice so given to each other party.

b. Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Company, SHP and the affected Stockholder.

c. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation any corporate successor by merger or otherwise. Notwithstanding any transfer of Shares, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

d. Entire Agreement. This Agreement (together with the Merger Agreement and the documents referred to therein and the Irrevocable Proxy dated July 12, 1999) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement, the Merger Agreement and the documents referred to therein and the Irrevocable Proxy.

e. Severability. If any term of this Agreement or the application thereof to either party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law; provided that in such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

f. Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that either party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunction or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

g. Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by either party shall not preclude the simultaneous or later exercise of any other such rights, power or remedy by such party.

h. No Waiver. The failure of either party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by the other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

i. No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

j. Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the Court of Chancery in the State of Delaware in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein) provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be in general submission to the jurisdiction of said Court or in the State of Delaware other than for such purposes. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

k. Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

l. Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

m. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

n. Expenses. Each party shall bear its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

o. Beneficial Ownership. For purposes of this Voting Agreement, beneficial ownership shall be determined as set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

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IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

WESTBROOK REAL ESTATE FUND I, L.P.

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Signatory

/s/ Robert A. Alter

Robert A. Alter

/s/ Charles L. Biederman

Charles L. Biederman

SHP ACQUISITION, L.L.C.

By: /s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

SUNSTONE HOTEL INVESTORS, INC.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Chief Operating Officer

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LIMITED IRREVOCABLE PROXY

The undersigned stockholders of Sunstone Hotel Investors, Inc., a Maryland corporation (the "Company"), hereby irrevocably appoint the Company, the attorney-in-fact and proxy of the undersigned, within the limitations of this Proxy, with respect to shares of common stock, $0.01 par value per share, of the Company and 250,000 shares of 7.9% Class A Cumulative Convertible Preferred Stock of the Company owned of record or beneficially by the undersigned (but excluding any shares of Common Stock issuable (but not yet issued) upon conversion of units in Sunstone Hotel Investors, L.P. or other securities convertible into Common Stock of exercise of stock options, the "Shares"). Upon the execution hereof, all prior proxies given by the undersigned with respect to the Shares are hereby revoked and no subsequent proxies will be given. This Proxy is irrevocable (to the extent permitted under Maryland law), and coupled with an interest and is granted in consideration of the Company entering into the Agreement and Plan of Merger dated July 12, 1999 among SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), SHP Investors Sub, Inc., a Maryland corporation, and the Company (the "Merger Agreement"). The attorney and proxy named above will be empowered at any time prior to the earliest of (i) the effectiveness of the Merger as defined in the Merger Agreement or (ii) the termination of the Voting Agreement among the Company, SHP and the undersigned in accordance with its terms, to exercise all voting and other rights to the extent specified in the succeeding paragraph. Upon the occurrence of the earliest of the foregoing events described in clauses (i) or (ii) above, this Proxy shall expire and be of no further force or effect.

The attorney and proxy named above may only exercise this proxy to vote

the Shares subject hereto as set forth in Section 1(a) and 1(c) of the Voting Agreement at any annual, special or other meeting of the holders of capital stock of the Company and any adjournments thereof (including, without limitation, the power to execute and deliver written consents with respect to the Shares) and may not exercise this Proxy on any other matters. The undersigned stockholder may vote the Shares on all other matters. The undersigned will, upon request, execute and deliver any additional documents deemed by the above-named attorney-in-fact and proxy to be necessary or desirable to effect the limited irrevocable proxy created hereby.

Dated: July 12, 1999

/s/ Robert A. Alter

Robert A. Alter
Shares Owned: Zero (0)

/s/ Charles L. Biederman

Charles L. Biederman
Shares Owned: 39,680

WESTBROOK REAL ESTATE FUND I, L.P.

By: /s/ Jonathan Paul

Name: Jonathan Paul
Title: Authorized Signatory
Shares Owned: 2,049,135

Exhibit D

SUNSTONE HOTEL INVESTORS, INC.

CHARTER AMENDMENTS

1. Article III of the Charter is to be amended by deleting in its entirety the second sentence of said Article III.

2. The words "Section 5 of Article V" at the end of the first sentence of Section 1(a) of Article V are to be deleted in their entirety and "Section 3 of Article V" inserted in lieu thereof.

3. The words "Section 6 of Article V" at the end of the third sentence of Section 1(a) of Article V are to be deleted in their entirety and "Section 4 of Article V" inserted in lieu thereof.

4. Sections 2, 4 and 7 of Article V of the Charter are to be deleted in their entirety.

5. The initial phrase of the first sentence of Section 3 of Article V of the Charter is to be deleted in its entirety and the following inserted in lieu thereof:

> Subject to the provisions of Sections 3 and 4 of this Article V, the Common Shares shall have the following preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of the redemption and such other rights as may be afforded by law:.

6. The initial phrase of the first sentence of Section 6 of Article V of the Charter is to be deleted in its entirety and the following inserted in lieu thereof:

> The power of the Board of Directors to classify and reclassify

any of the shares of capital stock shall include, without limitation, subject to the provisions of the Charter, authority to classify or reclassify any unissued shares of such stock into a class or classes of preferenced stock, special stock or other stock, by determining, fixing or altering one or more of the following:.

7. Section 1 of Article VII of the Charter is to be deleted in its entirety and the following inserted in lieu thereof:

The Corporation shall be authorized to act as the general partner of the Partnership. In addition, the Corporation shall be permitted to exchange Common Shares for partnership interests in the Partnership pursuant to the provisions contained in the Partnership Agreement and without any action by the stockholders.

8. Section 3 of Article VII of the Charter is to be deleted in its entirety and the following inserted in lieu thereof:

Except as provided by the Board of Directors in authorizing the issuance of

Preferred Shares pursuant to Section 3 of Article V, no holder of any stock or any securities of the Corporation, whether now or hereafter authorized, shall have any preemptive right to subscribe to or purchase (i) any shares of capital stock of the Corporation, (ii) any warrants, rights or options to purchase any such shares, or (iii) any other securities of the Corporation or obligations convertible into any shares of capital stock of the Corporation or such other securities or into warrants, rights or options to purchase any such shares or other securities.

9. Section 3 of Article IX of the Charter is to be amended by deleting in its entirety the last sentence of subsection (a) of said Section 3 of Article IX.

10. Section 3 of Article IX of the Charter is to be amended by deleting in its entirety subsection (b) of said Section 3 of Article IX and by redesignating subsection (c) of said Section 3 of Article IX as subsection (b) of said Section 3.

11. Sections 3, 5 and 6 of Article V of the Charter are to be renumbered as Sections 2, 3 and 4, respectively of Article V of the Charter.

Exhibit E

PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned partner of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the Agreement and Plan of Merger, dated as of July 12, 1999 (the "Merger Agreement"), among Seller Partnership, SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and SHP OP, L.L.C., an indirect wholly-owned subsidiary of SHP, a copy of which has been furnished to the undersigned partner, and the transactions contemplated

thereunder, be, and hereby are, adopted and approved by the undersigned partner.

Sunstone Hotel Investors, Inc.

(Print Name)

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley

Title: Chief Operating Officer

Partnership Interest: 37,929,477 Units

Address of the partner:

Date of Execution:

PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned partner of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership, dated as of October 14, 1997, attached as Exhibit A hereto, be, and hereby are, adopted and approved by the undersigned partner.

Sunstone Hotel Investors, Inc.

(Print Name)

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley

Title: Chief Operating Officer

Partnership Interest: 37,929,477 Units

Address of the partner:

Date of Execution:

135

PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned partner of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the Agreement and Plan of Merger, dated as of July 12, 1999 (the "Merger Agreement"), among Seller Partnership, SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and SHP OP, L.L.C., an indirect wholly-owned subsidiary of SHP, a copy of which has been furnished to the undersigned partner, and the transactions contemplated thereunder, be, and hereby are, adopted and approved by the undersigned partner.

ALTER INVESTMENT GROUP, LTD.

By: /s/ Robert A. Alter

Robert A. Alter, as general partner

Partnership Interest: 99,251 Units

Address of the partner:

_____

_____

_____

Date of Execution: July 12, 1999

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PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned partner of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership, dated as of October 14, 1997, attached as Exhibit A hereto, be, and hereby are, adopted and approved by the undersigned partner.

RIVERSIDE HOTEL PARTNERS, INC.

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: President

Partnership Interest: 80,000 Units

Address of the partner:

_____

_____

_____

Date of Execution: July 12, 1999

137

PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned partner of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the Agreement and Plan of Merger, dated as of July 12, 1999 (the "Merger Agreement"), among Seller Partnership, SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and SHP OP, L.L.C., an indirect wholly-owned subsidiary of SHP, a copy of which has been furnished to the undersigned partner, and the transactions contemplated thereunder, be, and hereby are, adopted and approved by the undersigned partner.

/s/ Robert A. Alter

Robert A. Alter

Partnership Interest: 318,961 Units

Address of the partner:

_____

_____

_____

Date of Execution: July 12, 1999

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PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned partner of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership, dated as of October 14, 1997, attached as Exhibit A hereto, be, and hereby are, adopted and approved by the undersigned partner.

/s/ Charles L. Biederman

Charles L. Biederman

Partnership Interest: 382,647

Address of the partner:

_____

_____

_____

Date of Execution: July 12, 1999

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PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned partner of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the Agreement and Plan of Merger, dated as of July 12, 1999 (the "Merger Agreement"), among Seller Partnership, SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and SHP OP, L.L.C., an indirect wholly-owned subsidiary of SHP, a copy of which has been furnished to the undersigned partner, and the transactions contemplated thereunder, be, and hereby are, adopted and approved by the undersigned partner.

/s/ Audrey Enever

Audrey Enever

Partnership Interest: 20,799 Units

Address of the partner:

_____

_____

_____

Date of Execution: July 12, 1999

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PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned partner of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership, dated as of October 14, 1997, attached as Exhibit A hereto, be, and hereby are, adopted and approved by the undersigned partner.

ENEVER ROUTT INVESTMENT GROUP LTD

By: /s/ Robert Enever

Name: Robert Enever

Title: General Partner

Partnership Interest: 100,254

Address of the partner:

_____

_____

_____

Date of Execution: July 12, 1999

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PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned partner of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the Agreement and Plan of Merger, dated as of July 12, 1999 (the "Merger Agreement"), among Seller Partnership, SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and SHP OP, L.L.C., an indirect wholly-owned subsidiary of SHP, a copy of which has been furnished to the undersigned partner, and the transactions contemplated thereunder, be, and hereby are, adopted and approved by the undersigned partner.

/s/ Robert Enever

Robert Enever

Partnership Interest: 26,148 Units

Address of the partner:

_____

_____

_____

Date of Execution: July 12, 1999

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PARTNER CONSENT
Action Taken by the Written Consent of
Partners of Sunstone Hotel Investors, L.P.

July 12, 1999

The undersigned joint partners of Sunstone Hotel Investors, L.P., a Delaware limited partnership ("Seller Partnership"), acting by written consent in lieu of a meeting pursuant to Section 17-302(e) of the Delaware Revised Uniform Limited Partnership Act, as amended, hereby irrevocably consents to the adoption of and adopts the following resolution with respect to the partnership units in Seller Partnership owned of record by such partner on the date hereof:

RESOLVED, that the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership, dated as of October 14, 1997, attached as Exhibit A hereto, be, and hereby are, adopted and approved by the undersigned partner.

/s/ Robert Enever

Robert Enever

/s/ Audrey Enever

Audrey Enever

Partnership Interest: 34,901 Units

Address of the partner:

_____

_____

_____

Date of Execution: July 12, 1999

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VOTING AGREEMENT

VOTING AGREEMENT, dated as of July 12, 1999 ("Agreement"), by and among Robert A. Alter in his capacity as a partner ("Partner") of Sunstone Hotel Investors, L.P., a Delaware partnership (the "Seller Partnership"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and the Seller Partnership.

WHEREAS, concurrently herewith, SHP, SHP OP, LLC, a Delaware limited liability company, and the Seller Partnership are entering into an Agreement and Plan of Merger dated July 12, 1999 (the "Partnership Merger Agreement"; capitalized terms used without definition herein having the meanings ascribed thereto in the Partnership Merger Agreement);

WHEREAS, Partner is as of the date hereof the beneficial owner of 318,961 common partnership units of Seller Partnership ("Common Units") and 0 units of 7.9% Class A Cumulative Convertible Preferred Partnership Units of the Seller Partnership ("Preferred Units" and, collectively with the Common Units, but excluding any Common Units or Preferred Units issuable (but not yet issued) upon conversion of any securities convertible into Common Units or Preferred Units, the "Units");

WHEREAS, approval of the Partnership Merger Agreement by the Seller Partnership's partners is a condition to the consummation of the Partnership Merger;

WHEREAS, as a condition to its entering into the Partnership Merger Agreement, each of the Seller Partnership and SHP has required that Partner agrees, and Partner has agreed, to enter into this Agreement; and

WHEREAS, Partner has been informed that the Board of Directors of the general partner of Seller Partnership has approved the Partnership Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. Agreement to Vote, Restrictions on Dispositions, Etc.

a. Partner hereby agrees to attend any partners meeting of the Seller Partnership, in person or by proxy, and to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, (i) for approval and adoption of the Partnership Merger Agreement and the Partnership Merger, and the transactions contemplated by the Partnership Merger Agreement and (ii) for approval and adoption of the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership attached as Exhibit A to the Consents (as defined below) (the "Amendments"), such agreements to vote to apply also to any adjournment of such partner meeting of the Seller Partnership.

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Partner agrees not to grant any proxies or enter into any voting agreement or

arrangement inconsistent with this Agreement or the two consents of even date herewith executed by Partner (the "Consents"). Partner agrees to deliver the executed Consents to SHP, at the request of SHP, and Partner agrees not to rescind, modify or withdraw the Consents.

b. Partner hereby agrees that, without the prior written consent of the Seller Partnership, except as provided in the Contribution Agreement, Partner shall not, directly or indirectly, sell, offer to sell, grant any option for the sale of or otherwise transfer or dispose of, or enter into any agreement to sell, any Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees that the Seller Partnership may enter stop transfer orders with the transfer agent(s) and the registrar(s) of the Units against the transfer of Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, against (i) any recapitalization, merger, consolidation, sale of assets or other business combination or similar transaction involving the Seller Partnership or any of its Subsidiaries, securities or assets other than the Partnership Merger or other transaction with SHP and (ii) any other action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Seller Partnership under the Partnership Merger Agreement or which could result in any of the conditions to the Seller Partnership's obligations under the Partnership Merger Agreement not being fulfilled.

c. Partner agrees not, directly or indirectly, to solicit or authorize any person to solicit, any inquiries or proposals from any person other than SHP relating to the merger or consolidation of the Seller Partnership with any person other than SHP or its Affiliates, or the acquisition of the Seller Partnership's or any of its significant subsidiaries' voting securities by, or the direct or indirect acquisition or disposition of a significant amount of assets of the Seller Partnership or any of its significant subsidiaries otherwise than in the ordinary course of business of the Seller Partnership or such significant subsidiary, from or to any person other than SHP or its Affiliates or directly or indirectly enter into or continue any discussions, negotiations or agreements relating to, or vote (or cause to be voted) in favor of, any such transaction.

d. Partner agrees to promptly notify the Seller Partnership and SHP in writing of the nature and amount of any acquisition by Partner after the date hereof of any voting securities of the Seller Partnership.

Section 2. Additional Representations and Warranties of Partner. Partner represents and warrants to the Seller Partnership and SHP as follows: Partner has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Partner. Assuming the due authorization,

execution and delivery of this Agreement by the Seller Partnership, this Agreement constitutes the valid and binding agreement of Partner enforceable against Partner in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Units of Partner are the only voting securities of the Seller Partnership owned (beneficially or of record) by Partner and are owned free and clear of all liens, charges, encumbrances, restrictions and commitments of any kind other than the Contribution Agreement, this Agreement and the Consents. Partner has not appointed or granted any irrevocable proxy, which appointment or grant is still effective, with respect to the Units. The execution and delivery of this Agreement by Partner does not (a) conflict with or violate any agreement, law, rule, regulation, order, judgment or decision or other instrument binding upon it, nor require any consent, notification, regulatory filing or approval which has not been obtained or (b) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the Units owned by Partner pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Partner is a party or by which Partner or the Units owned by

Partner are bound or affected. Partner acknowledges that the restrictions imposed upon it are so imposed only in Partner's capacity as a partner of the Seller Partnership.

Section 3. Representations and Warranties of the Seller Partnership. The Seller Partnership represents and warrants to Partner as follows: each of (i) this Agreement, (ii) the Partnership Merger Agreement and (iii) the Amendments has been approved by the Board of Directors of the general partner of Seller Partnership. Each of this Agreement and the Partnership Merger Agreement has been duly executed and delivered by a duly authorized officer of the Seller Partnership. Assuming the due authorization, execution and delivery of this Agreement by Partner, each of this Agreement and the Partnership Merger Agreement constitutes a valid and binding agreement of the Seller Partnership, enforceable against the Seller Partnership in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

Section 4. Further Assurances. Each party shall execute and deliver such additional instruments and other documents and shall take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of their obligations under this Agreement. Without limiting the generality of the foregoing, neither of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of either party to effectuate, carry out or comply with all the terms of this Agreement.

Section 5. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Partnership Merger Agreement shall have been executed and delivered and be in full force and effect. This Agreement shall automatically terminate and be of no further force or effect upon the earlier termination of the Partnership Merger Agreement in accordance with its terms. Upon any termination of this Agreement, except for any rights either party may have in respect of any breach by either party of its obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder. The provisions of Section 1 of this Agreement shall terminate and be of no further force or effect from and after the Effective Time of the Partnership Merger.

Section 6. Covenants of Partner Not to Enter Into Inconsistent Agreements. Partner hereby agrees that, except as contemplated by this Agreement, the Consents and the Partnership Merger Agreement, Partner shall not enter into any voting agreement or grant an irrevocable proxy or power of attorney with respect to the Units which is inconsistent with this Agreement.

Section 7. Miscellaneous.

a. Notices, Etc. All notices, requests, demands or other communications required by or otherwise given with respect to this Agreement shall be in writing and shall be deemed to have been duly given to either party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or seven days after being mailed by first-class mail, postage prepaid in each case to the applicable addresses set forth below:

If to the Seller Partnership:

Sunstone Hotel Investors, L.P.
903 Calle Amanecer
San Clemente, CA 92673-6212
Attention: Chief Operating Officer
Facsimile: 949-369-4230

with a copy to:

Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Attention: Phillip Gordon
Facsimile: 312-715-4800

If to Westbrook or SHP:

Westbrook Real Estate Partners L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan H. Paul
Facsimile: 212-849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto
Brian Stadler
Facsimile: 212-455-2502

If to Partner, at its address set forth on the unitholder ledger maintained by the transfer agent of Seller Partnership with respect to the Seller Partnership;

or to such other address as such party shall have designated by notice so given to each other party.

b. Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Seller Partnership, SHP and Partner.

c. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation any corporate successor by merger or otherwise. Notwithstanding any transfer of Units, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

d. Entire Agreement. This Agreement (together with the Partnership Merger Agreement and the documents referred to therein and the Consents) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement, the Partnership Merger Agreement and the documents referred to therein.

e. Severability. If any term of this Agreement or the application thereof to either party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law; provided that in such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

f. Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that either party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunction or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

g. Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by either party shall not preclude the simultaneous or later exercise of any other such rights, power or remedy by such party.

h. No Waiver. The failure of either party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by the other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand

such compliance.

i. No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

j. Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the Court of Chancery in the State of Delaware in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein) provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be in general submission to the jurisdiction of said Court or in the State of Delaware other than for such purposes. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

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k. Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

l. Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

m. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

n. Expenses. Each party shall bear its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

o. Beneficial Ownership. For purposes of this Voting Agreement, beneficial ownership shall be determined as set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

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IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

/s/ Robert A. Alter

Robert A. Alter

SHP ACQUISITION, L.L.C.

By: /s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

SUNSTONE HOTEL INVESTORS, L.P.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Authorized Signatory

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VOTING AGREEMENT, dated as of July 12, 1999 ("Agreement"), by and among Charles L. Biederman in his capacity as a partner ("Partner") of Sunstone Hotel Investors, L.P., a Delaware partnership (the "Seller Partnership"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and the Seller Partnership.

WHEREAS, concurrently herewith, SHP, SHP OP, LLC, a Delaware limited liability company, and the Seller Partnership are entering into an Agreement and Plan of Merger dated July 12, 1999 (the "Partnership Merger Agreement"; capitalized terms used without definition herein having the meanings ascribed thereto in the Partnership Merger Agreement);

WHEREAS, Partner is as of the date hereof the beneficial owner of 382,647 common partnership units of Seller Partnership ("Common Units") and 0 units of 7.9% Class A Cumulative Convertible Preferred Partnership Units of the Seller Partnership ("Preferred Units" and, collectively with the Common Units, but excluding any Common Units or Preferred Units issuable (but not yet issued) upon conversion of any securities convertible into Common Units or Preferred Units, the "Units");

WHEREAS, approval of the Partnership Merger Agreement by the Seller Partnership's partners is a condition to the consummation of the Partnership Merger;

WHEREAS, as a condition to its entering into the Partnership Merger Agreement, each of the Seller Partnership and SHP has required that Partner agrees, and Partner has agreed, to enter into this Agreement; and

WHEREAS, Partner has been informed that the Board of Directors of the general partner of Seller Partnership has approved the Partnership Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. Agreement to Vote, Restrictions on Dispositions, Etc.

a. Partner hereby agrees to attend any partners meeting of the Seller Partnership, in person or by proxy, and to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, (i) for approval and adoption of the Partnership Merger Agreement and the Partnership Merger, and the transactions contemplated by the Partnership Merger Agreement and (ii) for approval and adoption of the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership attached as Exhibit A to the Consents (as defined below) (the "Amendments"), such agreements to vote to apply also to any adjournment of such partner meeting of the Seller Partnership.

Partner agrees not to grant any proxies or enter into any voting agreement or arrangement inconsistent with this Agreement or the two consents of even date herewith executed by Partner (the "Consents"). Partner agrees to deliver the executed Consents to SHP, at the request of SHP, and Partner agrees not to rescind, modify or withdraw the Consents.

b. Partner hereby agrees that, without the prior written consent of the Seller Partnership, except as provided in the Contribution Agreement, Partner shall not, directly or indirectly, sell, offer to sell, grant any option for the sale of or otherwise transfer or dispose of, or enter into any agreement to sell, any Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees that the Seller Partnership may enter stop transfer orders with the transfer agent(s) and the registrar(s) of the Units against the transfer of Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, against (i) any recapitalization, merger, consolidation, sale of assets or other business combination or similar transaction involving the Seller Partnership or any of its Subsidiaries, securities or assets other than the Partnership Merger or other transaction with SHP and (ii) any other action or agreement that would result in a breach of any covenant, representation or warranty or any other

obligation or agreement of the Seller Partnership under the Partnership Merger Agreement or which could result in any of the conditions to the Seller Partnership's obligations under the Partnership Merger Agreement not being fulfilled.

c. Partner agrees not, directly or indirectly, to solicit or authorize any person to solicit, any inquiries or proposals from any person other than SHP relating to the merger or consolidation of the Seller Partnership with any person other than SHP or its Affiliates, or the acquisition of the Seller Partnership's or any of its significant subsidiaries' voting securities by, or the direct or indirect acquisition or disposition of a significant amount of assets of the Seller Partnership or any of its significant subsidiaries otherwise than in the ordinary course of business of the Seller Partnership or such significant subsidiary, from or to any person other than SHP or its Affiliates or directly or indirectly enter into or continue any discussions, negotiations or agreements relating to, or vote (or cause to be voted) in favor of, any such transaction.

d. Partner agrees to promptly notify the Seller Partnership and SHP in writing of the nature and amount of any acquisition by Partner after the date hereof of any voting securities of the Seller Partnership.

Section 2. Additional Representations and Warranties of Partner. Partner represents and warrants to the Seller Partnership and SHP as follows: Partner has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Partner. Assuming the due authorization,

execution and delivery of this Agreement by the Seller Partnership, this Agreement constitutes the valid and binding agreement of Partner enforceable against Partner in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Units of Partner are the only voting securities of the Seller Partnership owned (beneficially or of record) by Partner and are owned free and clear of all liens, charges, encumbrances, restrictions and commitments of any kind other than the Contribution Agreement, this Agreement and the Consents. Partner has not appointed or granted any irrevocable proxy, which appointment or grant is still effective, with respect to the Units. The execution and delivery of this Agreement by Partner does not (a) conflict with or violate any agreement, law, rule, regulation, order, judgment or decision or other instrument binding upon it, nor require any consent, notification, regulatory filing or approval which has not been obtained or (b) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the Units owned by Partner pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Partner is a party or by which Partner or the Units owned by Partner are bound or affected. Partner acknowledges that the restrictions imposed upon it are so imposed only in Partner's capacity as a partner of the Seller Partnership.

Section 3. Representations and Warranties of the Seller Partnership. The Seller Partnership represents and warrants to Partner as follows: each of (i) this Agreement, (ii) the Partnership Merger Agreement and (iii) the Amendments has been approved by the Board of Directors of the general partner of Seller Partnership. Each of this Agreement and the Partnership Merger Agreement has been duly executed and delivered by a duly authorized officer of the Seller Partnership. Assuming the due authorization, execution and delivery of this Agreement by Partner, each of this Agreement and the Partnership Merger Agreement constitutes a valid and binding agreement of the Seller Partnership, enforceable against the Seller Partnership in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

Section 4. Further Assurances. Each party shall execute and deliver such additional instruments and other documents and shall take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of their obligations under this Agreement. Without limiting the

generality of the foregoing, neither of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of either party to effectuate, carry out or comply with all the terms of this Agreement.

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Section 5. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Partnership Merger Agreement shall have been executed and delivered and be in full force and effect. This Agreement shall automatically terminate and be of no further force or effect upon the earlier termination of the Partnership Merger Agreement in accordance with its terms. Upon any termination of this Agreement, except for any rights either party may have in respect of any breach by either party of its obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder. The provisions of Section 1 of this Agreement shall terminate and be of no further force or effect from and after the Effective Time of the Partnership Merger.

Section 6. Covenants of Partner Not to Enter Into Inconsistent Agreements. Partner hereby agrees that, except as contemplated by this Agreement, the Consents and the Partnership Merger Agreement, Partner shall not enter into any voting agreement or grant an irrevocable proxy or power of attorney with respect to the Units which is inconsistent with this Agreement.

Section 7. Miscellaneous.

a. Notices, Etc. All notices, requests, demands or other communications required by or otherwise given with respect to this Agreement shall be in writing and shall be deemed to have been duly given to either party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or seven days after being mailed by first-class mail, postage prepaid in each case to the applicable addresses set forth below:

If to the Seller Partnership:

Sunstone Hotel Investors, L.P.
903 Calle Amanecer
San Clemente, CA 92673-6212
Attention: Chief Operating Officer
Facsimile: 949-369-4230

with a copy to:

Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Attention: Phillip Gordon
Facsimile: 312-715-4800

If to Westbrook or SHP:

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Westbrook Real Estate Partners L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan H. Paul

Facsimile: 212-849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto
Brian Stadler
Facsimile: 212-455-2502

If to Partner, at its address set forth on the unitholder ledger maintained by the transfer agent of Seller Partnership with respect to the Seller Partnership;

or to such other address as such party shall have designated by notice so given to each other party.

b. Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Seller Partnership, SHP and Partner.

c. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation any corporate successor by merger or otherwise. Notwithstanding any transfer of Units, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

d. Entire Agreement. This Agreement (together with the Partnership Merger Agreement and the documents referred to therein and the Consents) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement, the Partnership Merger Agreement and the documents referred to therein.

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e. Severability. If any term of this Agreement or the application thereof to either party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law; provided that in such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

f. Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that either party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunction or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

g. Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by either party shall not preclude the simultaneous or later exercise of any other such rights, power or remedy by such party.

h. No Waiver. The failure of either party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by the other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

i. No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

j. Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the Court of Chancery in the State of Delaware in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein) provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be in general submission to the jurisdiction of said Court or in the State of Delaware other than for such purposes. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

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k. Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the laws of the State

of Delaware.

l. Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

m. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

n. Expenses. Each party shall bear its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

o. Beneficial Ownership. For purposes of this Voting Agreement, beneficial ownership shall be determined as set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

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IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

/s/ Charles L. Biederman

Charles L. Biederman

SHP ACQUISITION, L.L.C.

By: /s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

SUNSTONE HOTEL INVESTORS, L.P.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Authorized Signatory

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VOTING AGREEMENT

VOTING AGREEMENT, dated as of July 12, 1999 ("Agreement"), by and among Riverside Hotel Partners, Inc., a California corporation, in its capacity as a partner ("Partner") of Sunstone Hotel Investors, L.P., a Delaware partnership (the "Seller Partnership"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and the Seller Partnership.

WHEREAS, concurrently herewith, SHP, SHP OP, LLC, a Delaware limited liability company, and the Seller Partnership are entering into an Agreement and Plan of Merger dated July 12, 1999 (the "Partnership Merger Agreement"; capitalized terms used without definition herein having the meanings ascribed thereto in the Partnership Merger Agreement);

WHEREAS, Partner is as of the date hereof the beneficial owner of 80,000 common partnership units of Seller Partnership ("Common Units") and 0

units of 7.9% Class A Cumulative Convertible Preferred Partnership Units of the Seller Partnership ("Preferred Units" and, collectively with the Common Units, but excluding any Common Units or Preferred Units issuable (but not yet issued) upon conversion of any securities convertible into Common Units or Preferred Units, the "Units");

WHEREAS, approval of the Partnership Merger Agreement by the Seller Partnership's partners is a condition to the consummation of the Partnership Merger;

WHEREAS, as a condition to its entering into the Partnership Merger Agreement, each of the Seller Partnership and SHP has required that Partner agrees, and Partner has agreed, to enter into this Agreement; and

WHEREAS, Partner has been informed that the Board of Directors of the general partner of Seller Partnership has approved the Partnership Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. Agreement to Vote, Restrictions on Dispositions, Etc.

a. Partner hereby agrees to attend any partners meeting of the Seller Partnership, in person or by proxy, and to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, (i) for approval and adoption of the Partnership Merger Agreement and the Partnership Merger, and the transactions contemplated by the Partnership Merger Agreement and (ii) for approval and adoption of the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership attached as Exhibit A to the Consents (as defined below) (the "Amendments"), such agreements to vote to apply also to any adjournment of such partner meeting of the Seller Partnership.

Partner agrees not to grant any proxies or enter into any voting agreement or arrangement inconsistent with this Agreement or the two consents of even date herewith executed by Partner (the "Consents"). Partner agrees to deliver the executed Consents to SHP, at the request of SHP, and Partner agrees not to rescind, modify or withdraw the Consents.

b. Partner hereby agrees that, without the prior written consent of the Seller Partnership, except as provided in the Contribution Agreement, Partner shall not, directly or indirectly, sell, offer to sell, grant any option for the sale of or otherwise transfer or dispose of, or enter into any agreement to sell, any Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees that the Seller Partnership may enter stop transfer orders with the transfer agent(s) and the registrar(s) of the Units against the transfer of Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, against (i) any recapitalization, merger, consolidation, sale of assets or other business combination or similar transaction involving the Seller Partnership or any of its Subsidiaries, securities or assets other than the Partnership Merger or other transaction with SHP and (ii) any other action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Seller Partnership under the Partnership Merger Agreement or which could result in any of the conditions to the Seller Partnership's obligations under the Partnership Merger Agreement not being fulfilled.

c. Partner agrees not, directly or indirectly, to solicit or authorize any person to solicit, any inquiries or proposals from any person other than SHP relating to the merger or consolidation of the Seller Partnership with any person other than SHP or its Affiliates, or the acquisition of the Seller

Partnership's or any of its significant subsidiaries' voting securities by, or the direct or indirect acquisition or disposition of a significant amount of assets of the Seller Partnership or any of its significant subsidiaries otherwise than in the ordinary course of business of the Seller Partnership or such significant subsidiary, from or to any person other than SHP or its Affiliates or directly or indirectly enter into or continue any discussions, negotiations or agreements relating to, or vote (or cause to be voted) in favor of, any such transaction.

d. Partner agrees to promptly notify the Seller Partnership and SHP in writing of the nature and amount of any acquisition by Partner after the date hereof of any voting securities of the Seller Partnership.

Section 2. Additional Representations and Warranties of Partner. Partner represents and warrants to the Seller Partnership and SHP as follows: Partner has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Partner. Assuming the due authorization,

execution and delivery of this Agreement by the Seller Partnership, this Agreement constitutes the valid and binding agreement of Partner enforceable against Partner in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Units of Partner are the only voting securities of the Seller Partnership owned (beneficially or of record) by Partner and are owned free and clear of all liens, charges, encumbrances, restrictions and commitments of any kind other than the Contribution Agreement, this Agreement and the Consents. Partner has not appointed or granted any irrevocable proxy, which appointment or grant is still effective, with respect to the Units. The execution and delivery of this Agreement by Partner does not (a) conflict with or violate any agreement, law, rule, regulation, order, judgment or decision or other instrument binding upon it, nor require any consent, notification, regulatory filing or approval which has not been obtained or (b) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the Units owned by Partner pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Partner is a party or by which Partner or the Units owned by Partner are bound or affected. Partner acknowledges that the restrictions imposed upon it are so imposed only in Partner's capacity as a partner of the Seller Partnership.

Section 3. Representations and Warranties of the Seller Partnership. The Seller Partnership represents and warrants to Partner as follows: each of (i) this Agreement, (ii) the Partnership Merger Agreement and (iii) the Amendments has been approved by the Board of Directors of the general partner of Seller Partnership. Each of this Agreement and the Partnership Merger Agreement has been duly executed and delivered by a duly authorized officer of the Seller Partnership. Assuming the due authorization, execution and delivery of this Agreement by Partner, each of this Agreement and the Partnership Merger Agreement constitutes a valid and binding agreement of the Seller Partnership, enforceable against the Seller Partnership in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

Section 4. Further Assurances. Each party shall execute and deliver such additional instruments and other documents and shall take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of their obligations under this Agreement. Without limiting the generality of the foregoing, neither of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of either party

to effectuate, carry out or comply with all the terms of this Agreement.

Section 5. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Partnership Merger Agreement shall have been executed and delivered and be in full force and effect. This Agreement shall automatically terminate and be of no further force or effect upon the earlier termination of the Partnership Merger Agreement in accordance with its terms. Upon any termination of this Agreement, except for any rights either party may have in respect of any breach by either party of its obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder. The provisions of Section 1 of this Agreement shall terminate and be of no further force or effect from and after the Effective Time of the Partnership Merger.

Section 6. Covenants of Partner Not to Enter Into Inconsistent Agreements. Partner hereby agrees that, except as contemplated by this Agreement, the Consents and the Partnership Merger Agreement, Partner shall not enter into any voting agreement or grant an irrevocable proxy or power of attorney with respect to the Units which is inconsistent with this Agreement.

Section 7. Miscellaneous.

a. Notices, Etc. All notices, requests, demands or other communications required by or otherwise given with respect to this Agreement shall be in writing and shall be deemed to have been duly given to either party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or seven days after being mailed by first-class mail, postage prepaid in each case to the applicable addresses set forth below:

If to the Seller Partnership:

Sunstone Hotel Investors, L.P.
903 Calle Amanecer
San Clemente, CA 92673-6212
Attention: Chief Operating Officer
Facsimile: 949-369-4230

with a copy to:

Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Attention: Phillip Gordon
Facsimile: 312-715-4800

If to Westbrook or SHP:

Westbrook Real Estate Partners L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan H. Paul

Facsimile: 212-849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto
Brian Stadler
Facsimile: 212-455- 2502

If to Partner, at its address set forth on the unitholder ledger maintained by the transfer agent of Seller Partnership with respect to the Seller Partnership;

or to such other address as such party shall have designated by notice so given to each other party.

b. Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Seller Partnership, SHP and Partner.

c. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation any corporate successor by merger or otherwise. Notwithstanding any transfer of Units, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

d. Entire Agreement. This Agreement (together with the Partnership Merger Agreement and the documents referred to therein and the Consents) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement, the Partnership Merger Agreement and the documents referred to therein.

e. Severability. If any term of this Agreement or the application thereof to either party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law; provided that in such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

f. Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that either party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunction or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

g. Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by either party shall not preclude the simultaneous or later exercise of any other such rights, power or remedy by such party.

h. No Waiver. The failure of either party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by the other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

i. No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

j. Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the Court of Chancery in the State of Delaware in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein) provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be in general submission to the jurisdiction of said Court or in the State of Delaware other than for such purposes. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

k. Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

l. Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

m. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

n. Expenses. Each party shall bear its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

o. Beneficial Ownership. For purposes of this Voting Agreement, beneficial ownership shall be determined as set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

RIVERSIDE HOTEL PARTNERS, INC.

By:/s/ Robert A. Alter

Name: Robert A. Alter
Title: President

SHP ACQUISITION, L.L.C.

By:/s/ Paul Kazilionis

Name: Paul Kazilionis

Title: Manager

SUNSTONE HOTEL INVESTORS, L.P.

By:/s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Authorized Signatory

VOTING AGREEMENT

VOTING AGREEMENT, dated as of July 12, 1999 ("Agreement"), by and among Enever Routt Investment Group Ltd., a Colorado limited partnership, in its capacity as a partner ("Partner") of Sunstone Hotel Investors, L.P., a Delaware partnership (the "Seller Partnership"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and the Seller Partnership.

WHEREAS, concurrently herewith, SHP, SHP OP, LLC, a Delaware limited liability company, and the Seller Partnership are entering into an Agreement and Plan of Merger dated July, 12, 1999 (the "Partnership Merger Agreement"; capitalized terms used without definition herein having the meanings ascribed thereto in the Partnership Merger Agreement);

WHEREAS, Partner is as of the date hereof the beneficial owner of 100,254 common partnership units of Seller Partnership ("Common Units") and 0 units of 7.9% Class A Cumulative Convertible Preferred Partnership Units of the Seller Partnership ("Preferred Units" and, collectively with the Common Units, but excluding any Common Units or Preferred Units issuable (but not yet issued) upon conversion of any securities convertible into Common Units or Preferred Units, the "Units");

WHEREAS, approval of the Partnership Merger Agreement by the Seller Partnership's partners is a condition to the consummation of the Partnership Merger;

WHEREAS, as a condition to its entering into the Partnership Merger Agreement, each of the Seller Partnership and SHP has required that Partner agrees, and Partner has agreed, to enter into this Agreement; and

WHEREAS, Partner has been informed that the Board of Directors of the general partner of Seller Partnership has approved the Partnership Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. Agreement to Vote, Restrictions on Dispositions, Etc.

a. Partner hereby agrees to attend any partners meeting of the Seller Partnership, in person or by proxy, and to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, (i) for approval and adoption of the Partnership Merger Agreement and the Partnership Merger, and the transactions contemplated by the Partnership Merger Agreement and (ii) for approval and adoption of the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership attached as Exhibit A to the Consents (as defined below) (the "Amendments"), such agreements to vote to apply also to any adjournment of such partner meeting of the Seller Partnership.

Partner agrees not to grant any proxies or enter into any voting agreement or arrangement inconsistent with this Agreement or the two consents of even date herewith executed by Partner (the "Consents"). Partner agrees to deliver the executed Consents to SHP, at the request of SHP, and Partner agrees not to rescind, modify or withdraw the Consents.

b. Partner hereby agrees that, without the prior written consent of the Seller Partnership, except as provided in the Contribution Agreement, Partner shall not, directly or indirectly, sell, offer to sell, grant any option for the sale of or otherwise transfer or dispose of, or enter into any agreement to sell, any Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees that the Seller Partnership may enter stop transfer orders with the transfer agent(s) and the registrar(s) of the Units against the transfer of Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, against (i) any recapitalization, merger, consolidation, sale of assets or other business combination or similar transaction involving the Seller Partnership or any of its Subsidiaries, securities or assets other than the Partnership Merger or other transaction with SHP and (ii) any other action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Seller Partnership under the Partnership Merger Agreement or which could result in any of the conditions to the Seller Partnership's obligations under the Partnership Merger Agreement not being fulfilled.

c. Partner agrees not, directly or indirectly, to solicit or authorize any person to solicit, any inquiries or proposals from any person other than SHP relating to the merger or consolidation of the Seller Partnership with any person other than SHP or its Affiliates, or the acquisition of the Seller Partnership's or any of its significant subsidiaries' voting securities by, or the direct or indirect acquisition or disposition of a significant amount of assets of the Seller Partnership or any of its significant subsidiaries otherwise than in the ordinary course of business of the Seller Partnership or such significant subsidiary, from or to any person other than SHP or its Affiliates or directly or indirectly enter into or continue any discussions, negotiations or agreements relating to, or vote (or cause to be voted) in favor of, any such transaction.

d. Partner agrees to promptly notify the Seller Partnership and SHP in writing of the nature and amount of any acquisition by Partner after the date hereof of any voting securities of the Seller Partnership.

Section 2. Additional Representations and Warranties of Partner. Partner represents and warrants to the Seller Partnership and SHP as follows: Partner has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Partner. Assuming the due authorization,

execution and delivery of this Agreement by the Seller Partnership, this Agreement constitutes the valid and binding agreement of Partner enforceable against Partner in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Units of Partner are the only voting securities of the Seller Partnership owned (beneficially or of record) by Partner and are owned free and clear of all liens, charges, encumbrances, restrictions and commitments of any kind other than the Contribution Agreement, this Agreement and the Consents. Partner has not appointed or granted any irrevocable proxy, which appointment or grant is still

effective, with respect to the Units. The execution and delivery of this Agreement by Partner does not (a) conflict with or violate any agreement, law, rule, regulation, order, judgment or decision or other instrument binding upon it, nor require any consent, notification, regulatory filing or approval which has not been obtained or (b) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the Units owned by Partner pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Partner is a party or by which Partner or the Units owned by Partner are bound or affected. Partner acknowledges that the restrictions imposed upon it are so imposed only in Partner's capacity as a partner of the Seller Partnership.

Section 3. Representations and Warranties of the Seller Partnership. The Seller Partnership represents and warrants to Partner as follows: each of (i) this Agreement, (ii) the Partnership Merger Agreement and (iii) the Amendments has been approved by the Board of Directors of the general partner of Seller Partnership. Each of this Agreement and the Partnership Merger Agreement has been duly executed and delivered by a duly authorized officer of the Seller Partnership. Assuming the due authorization, execution and delivery of this Agreement by Partner, each of this Agreement and the Partnership Merger Agreement constitutes a valid and binding agreement of the Seller Partnership, enforceable against the Seller Partnership in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

Section 4. Further Assurances. Each party shall execute and deliver such additional instruments and other documents and shall take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of their obligations under this Agreement. Without limiting the generality of the foregoing, neither of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of either party to effectuate, carry out or comply with all the terms of this Agreement.

Section 5. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Partnership Merger Agreement shall have been executed and delivered and be in full force and effect. This Agreement shall automatically terminate and be of no further force or effect upon the earlier termination of the Partnership Merger Agreement in accordance with its terms. Upon any termination of this Agreement, except for any rights either party may have in respect of any breach by either party of its obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder. The provisions of Section 1 of this Agreement shall terminate and be of no further force or effect from and after the Effective Time of the Partnership Merger.

Section 6. Covenants of Partner Not to Enter Into Inconsistent Agreements. Partner hereby agrees that, except as contemplated by this Agreement, the Consents and the Partnership Merger Agreement, Partner shall not enter into any voting agreement or grant an irrevocable proxy or power of attorney with respect to the Units which is inconsistent with this Agreement.

Section 7. Miscellaneous.

a. Notices, Etc. All notices, requests, demands or other communications required by or otherwise given with respect to this Agreement shall be in writing and shall be deemed to have been duly given to either party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or seven days after being mailed by first-class mail, postage prepaid in each case to the applicable addresses set forth below:

If to the Seller Partnership:

Sunstone Hotel Investors, L.P.
903 Calle Amanecer
San Clemente, CA 92673-6212
Attention: Chief Operating Officer
Facsimile: 949-369-4230

with a copy to:

Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Attention: Phillip Gordon
Facsimile: 312-715-4800

If to Westbrook or SHP:

Westbrook Real Estate Partners L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan H. Paul

Facsimile: 212-849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto
Brian Stadler
Facsimile: 212-455- 2502

If to Partner, at its address set forth on the unitholder ledger maintained by the transfer agent of Seller Partnership with respect to the Seller Partnership;

or to such other address as such party shall have designated by notice so given to each other party.

b. Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Seller Partnership, SHP and Partner.

c. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation any corporate successor by merger or otherwise. Notwithstanding any transfer of Units, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

d. Entire Agreement. This Agreement (together with the Partnership Merger Agreement and the documents referred to therein and the Consents) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement, the Partnership Merger Agreement and the documents referred to therein.

e. Severability. If any term of this Agreement or the application thereof to either party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law; provided that in such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

f. Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that either party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunction or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

g. Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by either party shall not preclude the simultaneous or later exercise of any other such rights, power or remedy by such party.

h. No Waiver. The failure of either party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by the other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

i. No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

j. Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the Court of Chancery in the State of Delaware in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein) provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be in general submission to the jurisdiction of said Court or in the State of Delaware other than for such purposes. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

k. Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

l. Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

m. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

n. Expenses. Each party shall bear its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

o. Beneficial Ownership. For purposes of this Voting Agreement, beneficial ownership shall be determined as set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

ENEVER ROUTT INVESTMENT GROUP LTD

By:/s/ Robert Enever

Name: Robert Enever
Title: General Partner

SHP ACQUISITION, L.L.C.

By:/s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

SUNSTONE HOTEL INVESTORS, L.P.

By:/s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Authorized Signatory

VOTING AGREEMENT

VOTING AGREEMENT, dated as of July 12, 1999 ("Agreement"), by and among Robert Enever and Audrey Enever jointly in their capacity as a partner ("Partner") of Sunstone Hotel Investors, L.P., a Delaware partnership (the "Seller Partnership"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and the Seller Partnership.

WHEREAS, concurrently herewith, SHP, SHP OP, LLC, a Delaware limited liability company, and the Seller Partnership are entering into an Agreement and Plan of Merger dated July, 12, 1999 (the "Partnership Merger Agreement"; capitalized terms used without definition herein having the meanings ascribed thereto in the Partnership Merger Agreement);

WHEREAS, Partner is as of the date hereof the beneficial owner of 34,901 common partnership units of Seller Partnership ("Common Units") and 0 units of 7.9% Class A Cumulative Convertible Preferred Partnership Units of the Seller Partnership ("Preferred Units" and, collectively with the Common Units, but excluding any Common Units or Preferred Units issuable (but not yet issued)

upon conversion of any securities convertible into Common Units or Preferred Units, the "Units");

WHEREAS, approval of the Partnership Merger Agreement by the Seller Partnership's partners is a condition to the consummation of the Partnership Merger;

WHEREAS, as a condition to its entering into the Partnership Merger Agreement, each of the Seller Partnership and SHP has required that Partner agrees, and Partner has agreed, to enter into this Agreement; and

WHEREAS, Partner has been informed that the Board of Directors of the general partner of Seller Partnership has approved the Partnership Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. Agreement to Vote, Restrictions on Dispositions, Etc.

a. Partner hereby agrees to attend any partners meeting of the Seller Partnership, in person or by proxy, and to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, (i) for approval and adoption of the Partnership Merger Agreement and the Partnership Merger, and the transactions contemplated by the Partnership Merger Agreement and (ii) for approval and adoption of the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership attached as Exhibit A to the Consents (as defined below) (the "Amendments"), such agreements to vote to apply also to any adjournment of such partner meeting of the Seller Partnership.

Partner agrees not to grant any proxies or enter into any voting agreement or arrangement inconsistent with this Agreement or the two consents of even date herewith executed by Partner (the "Consents"). Partner agrees to deliver the executed Consents to SHP, at the request of SHP, and Partner agrees not to rescind, modify or withdraw the Consents.

b. Partner hereby agrees that, without the prior written consent of the Seller Partnership, except as provided in the Contribution Agreement, Partner shall not, directly or indirectly, sell, offer to sell, grant any option for the sale of or otherwise transfer or dispose of, or enter into any agreement to sell, any Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees that the Seller Partnership may enter stop transfer orders with the transfer agent(s) and the registrar(s) of the Units against the transfer of Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, against (i) any recapitalization, merger, consolidation, sale of assets or other business combination or similar transaction involving the Seller Partnership or any of its Subsidiaries, securities or assets other than the Partnership Merger or other transaction with SHP and (ii) any other action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Seller Partnership under the Partnership Merger Agreement or which could result in any of the conditions to the Seller Partnership's obligations under the Partnership Merger Agreement not being fulfilled.

c. Partner agrees not, directly or indirectly, to solicit or authorize any person to solicit, any inquiries or proposals from any person other than SHP relating to the merger or consolidation of the Seller Partnership with any person other than SHP or its Affiliates, or the acquisition of the Seller Partnership's or any of its significant subsidiaries' voting securities by, or the direct or indirect acquisition or disposition of a significant amount of assets of the Seller Partnership or any of its significant subsidiaries

otherwise than in the ordinary course of business of the Seller Partnership or such significant subsidiary, from or to any person other than SHP or its Affiliates or directly or indirectly enter into or continue any discussions, negotiations or agreements relating to, or vote (or cause to be voted) in favor of, any such transaction.

d. Partner agrees to promptly notify the Seller Partnership and SHP in writing of the nature and amount of any acquisition by Partner after the date hereof of any voting securities of the Seller Partnership.

Section 2. Additional Representations and Warranties of Partner. Partner represents and warrants to the Seller Partnership and SHP as follows: Partner has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Partner. Assuming the due authorization,

execution and delivery of this Agreement by the Seller Partnership, this Agreement constitutes the valid and binding agreement of Partner enforceable against Partner in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Units of Partner are the only voting securities of the Seller Partnership owned (beneficially or of record) by Partner and are owned free and clear of all liens, charges, encumbrances, restrictions and commitments of any kind other than the Contribution Agreement, this Agreement and the Consents. Partner has not appointed or granted any irrevocable proxy, which appointment or grant is still effective, with respect to the Units. The execution and delivery of this Agreement by Partner does not (a) conflict with or violate any agreement, law, rule, regulation, order, judgment or decision or other instrument binding upon it, nor require any consent, notification, regulatory filing or approval which has not been obtained or (b) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the Units owned by Partner pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Partner is a party or by which Partner or the Units owned by Partner are bound or affected. Partner acknowledges that the restrictions imposed upon it are so imposed only in Partner's capacity as a partner of the Seller Partnership.

Section 3. Representations and Warranties of the Seller Partnership. The Seller Partnership represents and warrants to Partner as follows: each of (i) this Agreement, (ii) the Partnership Merger Agreement and (iii) the Amendments has been approved by the Board of Directors of the general partner of Seller Partnership. Each of this Agreement and the Partnership Merger Agreement has been duly executed and delivered by a duly authorized officer of the Seller Partnership. Assuming the due authorization, execution and delivery of this Agreement by Partner, each of this Agreement and the Partnership Merger Agreement constitutes a valid and binding agreement of the Seller Partnership, enforceable against the Seller Partnership in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

Section 4. Further Assurances. Each party shall execute and deliver such additional instruments and other documents and shall take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of their obligations under this Agreement. Without limiting the generality of the foregoing, neither of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of either party to effectuate, carry out or comply with all the terms of this Agreement.

Section 5. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Partnership Merger Agreement shall have been executed and delivered and be in full force and effect. This Agreement shall automatically terminate and be of no further force or effect upon the earlier termination of the Partnership Merger Agreement in accordance with its terms. Upon any termination of this Agreement, except for any rights either party may have in respect of any breach by either party of its obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder. The provisions of Section 1 of this Agreement shall terminate and be of no further force or effect from and after the Effective Time of the Partnership Merger.

Section 6. Covenants of Partner Not to Enter Into Inconsistent Agreements. Partner hereby agrees that, except as contemplated by this Agreement, the Consents and the Partnership Merger Agreement, Partner shall not enter into any voting agreement or grant an irrevocable proxy or power of attorney with respect to the Units which is inconsistent with this Agreement.

Section 7. Miscellaneous.

a. Notices, Etc. All notices, requests, demands or other communications required by or otherwise given with respect to this Agreement shall be in writing and shall be deemed to have been duly given to either party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or seven days after being mailed by first-class mail, postage prepaid in each case to the applicable addresses set forth below:

If to the Seller Partnership:

Sunstone Hotel Investors, L.P.
903 Calle Amanecer
San Clemente, CA 92673-6212
Attention: Chief Operating Officer
Facsimile: 949-369-4230

with a copy to:

Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Attention: Phillip Gordon
Facsimile: 312-715-4800

If to Westbrook or SHP:

Westbrook Real Estate Partners L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan H. Paul

Facsimile: 212-849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue

New York, NY 10017-3954
Attention: Richard Capelouto
Brian Stadler
Facsimile: 212-455- 2502

If to Partner, at its address set forth on the unitholder ledger maintained by the transfer agent of Seller Partnership with respect to the Seller Partnership;

or to such other address as such party shall have designated by notice so given to each other party.

b. Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Seller Partnership, SHP and Partner.

c. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation any corporate successor by merger or otherwise. Notwithstanding any transfer of Units, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

d. Entire Agreement. This Agreement (together with the Partnership Merger Agreement and the documents referred to therein and the Consents) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement, the Partnership Merger Agreement and the documents referred to therein.

e. Severability. If any term of this Agreement or the application thereof to either party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law; provided that in such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

f. Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that either party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunction or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

g. Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by either party shall not preclude the simultaneous or later exercise of any other such rights, power or remedy by such party.

h. No Waiver. The failure of either party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by the other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

i. No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

j. Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the Court of Chancery in the State of Delaware in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein) provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be in general submission to the jurisdiction of said Court or in the State of Delaware other than for such purposes. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

k. Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

l. Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

m. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

n. Expenses. Each party shall bear its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

o. Beneficial Ownership. For purposes of this Voting Agreement, beneficial ownership shall be determined as set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

/s/ Robert Enever

Robert Enever

/s/ Audrey Enever

Audrey Enever

SHP ACQUISITION, L.L.C.

By:/s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

SUNSTONE HOTEL INVESTORS, L.P.

By:/s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Authorized Person

VOTING AGREEMENT

VOTING AGREEMENT, dated as of July 12, 1999 ("Agreement"), by and among Robert Enever in his capacity as a partner ("Partner") of Sunstone Hotel Investors, L.P., a Delaware partnership (the "Seller Partnership"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and the Seller Partnership.

WHEREAS, concurrently herewith, SHP, SHP OP, LLC, a Delaware limited liability company, and the Seller Partnership are entering into an Agreement and Plan of Merger dated July 12, 1999 (the "Partnership Merger Agreement"; capitalized terms used without definition herein having the meanings ascribed thereto in the Partnership Merger Agreement);

WHEREAS, Partner is as of the date hereof the beneficial owner of 26,148 common partnership units of Seller Partnership ("Common Units") and 0 units of 7.9% Class A Cumulative Convertible Preferred Partnership Units of the Seller Partnership ("Preferred Units" and, collectively with the Common Units, but excluding any Common Units or Preferred Units issuable (but not yet issued) upon conversion of any securities convertible into Common Units or Preferred Units, the "Units");

WHEREAS, approval of the Partnership Merger Agreement by the Seller Partnership's partners is a condition to the consummation of the Partnership Merger;

WHEREAS, as a condition to its entering into the Partnership Merger Agreement, each of the Seller Partnership and SHP has required that Partner agrees, and Partner has agreed, to enter into this Agreement; and

WHEREAS, Partner has been informed that the Board of Directors of the general partner of Seller Partnership has approved the Partnership Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. Agreement to Vote, Restrictions on Dispositions, Etc.

a. Partner hereby agrees to attend any partners meeting of the Seller Partnership, in person or by proxy, and to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, (i) for approval and adoption of the Partnership Merger Agreement and the Partnership Merger, and the transactions contemplated by the Partnership Merger Agreement and (ii) for approval and adoption of the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership attached as Exhibit A to the Consents (as defined below) (the "Amendments"), such agreements to vote to apply also to any adjournment of such partner meeting of the Seller Partnership.

Partner agrees not to grant any proxies or enter into any voting agreement or arrangement inconsistent with this Agreement or the two consents of even date herewith executed by Partner (the "Consents"). Partner agrees to deliver the executed Consents to SHP, at the request of SHP, and Partner agrees not to rescind, modify or withdraw the Consents.

b. Partner hereby agrees that, without the prior written consent of the Seller Partnership, except as provided in the Contribution Agreement, Partner shall not, directly or indirectly, sell, offer to sell, grant any option for the sale of or otherwise transfer or dispose of, or enter into any agreement to sell, any Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees that the Seller Partnership may enter stop transfer orders with the transfer agent(s) and the registrar(s) of the Units against the transfer of Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, against (i) any recapitalization, merger, consolidation, sale of assets or other business combination or similar transaction involving the Seller Partnership or any of its Subsidiaries, securities or assets other than the Partnership Merger or other transaction with SHP and (ii) any other action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Seller Partnership under the Partnership Merger Agreement or which could result in any of the conditions to the Seller Partnership's obligations under the Partnership Merger Agreement not being fulfilled.

c. Partner agrees not, directly or indirectly, to solicit or authorize any person to solicit, any inquiries or proposals from any person other than SHP relating to the merger or consolidation of the Seller Partnership with any person other than SHP or its Affiliates, or the acquisition of the Seller Partnership's or any of its significant subsidiaries' voting securities by, or the direct or indirect acquisition or disposition of a significant amount of assets of the Seller Partnership or any of its significant subsidiaries otherwise than in the ordinary course of business of the Seller Partnership or such significant subsidiary, from or to any person other than SHP or its Affiliates or directly or indirectly enter into or continue any discussions, negotiations or agreements relating to, or vote (or cause to be voted) in favor of, any such transaction.

d. Partner agrees to promptly notify the Seller Partnership and SHP in writing of the nature and amount of any acquisition by Partner after the date hereof of any voting securities of the Seller Partnership.

Section 2. Additional Representations and Warranties of Partner. Partner represents and warrants to the Seller Partnership and SHP as follows: Partner has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Partner. Assuming the due authorization,

execution and delivery of this Agreement by the Seller Partnership, this Agreement constitutes the valid and binding agreement of Partner enforceable against Partner in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Units of Partner are the only voting securities of the Seller Partnership owned (beneficially or of record) by Partner and are owned free and clear of all liens, charges, encumbrances, restrictions and commitments of any kind other than the Contribution Agreement, this Agreement and the Consents. Partner has not appointed or granted any irrevocable proxy, which appointment or grant is still effective, with respect to the Units. The execution and delivery of this Agreement by Partner does not (a) conflict with or violate any agreement, law,

rule, regulation, order, judgment or decision or other instrument binding upon it, nor require any consent, notification, regulatory filing or approval which has not been obtained or (b) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the Units owned by Partner pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Partner is a party or by which Partner or the Units owned by Partner are bound or affected. Partner acknowledges that the restrictions imposed upon it are so imposed only in Partner's capacity as a partner of the Seller Partnership.

Section 3. Representations and Warranties of the Seller Partnership. The Seller Partnership represents and warrants to Partner as follows: each of (i) this Agreement, (ii) the Partnership Merger Agreement and (iii) the Amendments has been approved by the Board of Directors of the general partner of Seller Partnership. Each of this Agreement and the Partnership Merger Agreement has been duly executed and delivered by a duly authorized officer of the Seller Partnership. Assuming the due authorization, execution and delivery of this Agreement by Partner, each of this Agreement and the Partnership Merger Agreement constitutes a valid and binding agreement of the Seller Partnership, enforceable against the Seller Partnership in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

Section 4. Further Assurances. Each party shall execute and deliver such additional instruments and other documents and shall take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of their obligations under this Agreement. Without limiting the generality of the foregoing, neither of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of either party to effectuate, carry out or comply with all the terms of this Agreement.

Section 5. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Partnership Merger Agreement shall have been executed and delivered and be in full force and effect. This Agreement shall automatically terminate and be of no further force or effect upon the earlier termination of the Partnership Merger Agreement in accordance with its terms. Upon any termination of this Agreement, except for any rights either party may have in respect of any breach by either party of its obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder. The provisions of Section 1 of this Agreement shall terminate and be of no further force or effect from and after the Effective Time of the Partnership Merger.

Section 6. Covenants of Partner Not to Enter Into Inconsistent Agreements. Partner hereby agrees that, except as contemplated by this Agreement, the Consents and the Partnership Merger Agreement, Partner shall not enter into any voting agreement or grant an irrevocable proxy or power of attorney with respect to the Units which is inconsistent with this Agreement.

Section 7. Miscellaneous.

a. Notices, Etc. All notices, requests, demands or other communications required by or otherwise given with respect to this Agreement shall be in writing and shall be deemed to have been duly given to either party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or seven days after being mailed by first-class mail, postage prepaid in each case to the applicable addresses set forth below:

If to the Seller Partnership:

Sunstone Hotel Investors, L.P.
903 Calle Amanecer
San Clemente, CA 92673-6212
Attention: Chief Operating Officer
Facsimile: 949-369-4230

with a copy to:

Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Attention: Phillip Gordon
Facsimile: 312-715-4800

If to Westbrook or SHP:

Westbrook Real Estate Partners L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan H. Paul

Facsimile: 212-849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto
Brian Stadler
Facsimile: 212-455- 2502

If to Partner, at its address set forth on the unitholder ledger maintained by the transfer agent of Seller Partnership with respect to the Seller Partnership;

or to such other address as such party shall have designated by notice so given to each other party.

b. Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Seller Partnership, SHP and Partner.

c. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation any corporate successor by merger or otherwise. Notwithstanding any transfer of Units, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

d. Entire Agreement. This Agreement (together with the Partnership Merger Agreement and the documents referred to therein and the Consents) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement, the Partnership Merger Agreement and the documents referred to therein.

e. Severability. If any term of this Agreement or the application thereof to either party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law; provided that in such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

f. Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that either party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunction or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

g. Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by either party shall not preclude the simultaneous or later exercise of any other such rights, power or remedy by such party.

h. No Waiver. The failure of either party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by the other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

i. No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

j. Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the Court of Chancery in the State of Delaware in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein) provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be in general submission to the jurisdiction of said Court or in the State of Delaware other than for such purposes. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

k. Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

l. Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

m. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

n. Expenses. Each party shall bear its own expenses incurred in

connection with this Agreement and the transactions contemplated hereby.

o. Beneficial Ownership. For purposes of this Voting Agreement, beneficial ownership shall be determined as set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

/s/ Robert Enever

Robert Enever

SHP ACQUISITION, L.L.C.

By:/s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

SUNSTONE HOTEL INVESTORS, L.P.

By:/s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Authorized Signatory

VOTING AGREEMENT

VOTING AGREEMENT, dated as of July 12, 1999 ("Agreement"), by and among Audrey Enever in her capacity as a partner ("Partner") of Sunstone Hotel Investors, L.P., a Delaware partnership (the "Seller Partnership"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and the Seller Partnership.

WHEREAS, concurrently herewith, SHP, SHP OP, LLC, a Delaware limited liability company, and the Seller Partnership are entering into an Agreement and Plan of Merger dated July, 12, 1999 (the "Partnership Merger Agreement"; capitalized terms used without definition herein having the meanings ascribed thereto in the Partnership Merger Agreement);

WHEREAS, Partner is as of the date hereof the beneficial owner of 20,799 common partnership units of Seller Partnership ("Common Units") and 0 units of 7.9% Class A Cumulative Convertible Preferred Partnership Units of the Seller Partnership ("Preferred Units" and, collectively with the Common Units, but excluding any Common Units or Preferred Units issuable (but not yet issued) upon conversion of any securities convertible into Common Units or Preferred Units, the "Units");

WHEREAS, approval of the Partnership Merger Agreement by the Seller

Partnership's partners is a condition to the consummation of the Partnership Merger;

WHEREAS, as a condition to its entering into the Partnership Merger Agreement, each of the Seller Partnership and SHP has required that Partner agrees, and Partner has agreed, to enter into this Agreement; and

WHEREAS, Partner has been informed that the Board of Directors of the general partner of Seller Partnership has approved the Partnership Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. Agreement to Vote, Restrictions on Dispositions, Etc.

a. Partner hereby agrees to attend any partners meeting of the Seller Partnership, in person or by proxy, and to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, (i) for approval and adoption of the Partnership Merger Agreement and the Partnership Merger, and the transactions contemplated by the Partnership Merger Agreement and (ii) for approval and adoption of the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership attached as Exhibit A to the Consents (as defined below) (the "Amendments"), such agreements to vote to apply also to any adjournment of such partner meeting of the Seller Partnership.

Partner agrees not to grant any proxies or enter into any voting agreement or arrangement inconsistent with this Agreement or the two consents of even date herewith executed by Partner (the "Consents"). Partner agrees to deliver the executed Consents to SHP, at the request of SHP, and Partner agrees not to rescind, modify or withdraw the Consents.

b. Partner hereby agrees that, without the prior written consent of the Seller Partnership, except as provided in the Contribution Agreement, Partner shall not, directly or indirectly, sell, offer to sell, grant any option for the sale of or otherwise transfer or dispose of, or enter into any agreement to sell, any Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees that the Seller Partnership may enter stop transfer orders with the transfer agent(s) and the registrar(s) of the Units against the transfer of Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, against (i) any recapitalization, merger, consolidation, sale of assets or other business combination or similar transaction involving the Seller Partnership or any of its Subsidiaries, securities or assets other than the Partnership Merger or other transaction with SHP and (ii) any other action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Seller Partnership under the Partnership Merger Agreement or which could result in any of the conditions to the Seller Partnership's obligations under the Partnership Merger Agreement not being fulfilled.

c. Partner agrees not, directly or indirectly, to solicit or authorize any person to solicit, any inquiries or proposals from any person other than SHP relating to the merger or consolidation of the Seller Partnership with any person other than SHP or its Affiliates, or the acquisition of the Seller Partnership's or any of its significant subsidiaries' voting securities by, or the direct or indirect acquisition or disposition of a significant amount of assets of the Seller Partnership or any of its significant subsidiaries otherwise than in the ordinary course of business of the Seller Partnership or such significant subsidiary, from or to any person other than SHP or its Affiliates or directly or indirectly enter into or continue any discussions, negotiations or agreements relating to, or vote (or cause to be voted) in favor

of, any such transaction.

d. Partner agrees to promptly notify the Seller Partnership and SHP in writing of the nature and amount of any acquisition by Partner after the date hereof of any voting securities of the Seller Partnership.

Section 2. Additional Representations and Warranties of Partner. Partner represents and warrants to the Seller Partnership and SHP as follows: Partner has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by Partner. Assuming the due authorization,

execution and delivery of this Agreement by the Seller Partnership, this Agreement constitutes the valid and binding agreement of Partner enforceable against Partner in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Units of Partner are the only voting securities of the Seller Partnership owned (beneficially or of record) by Partner and are owned free and clear of all liens, charges, encumbrances, restrictions and commitments of any kind other than the Contribution Agreement, this Agreement and the Consents. Partner has not appointed or granted any irrevocable proxy, which appointment or grant is still effective, with respect to the Units. The execution and delivery of this Agreement by Partner does not (a) conflict with or violate any agreement, law, rule, regulation, order, judgment or decision or other instrument binding upon it, nor require any consent, notification, regulatory filing or approval which has not been obtained or (b) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the Units owned by Partner pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Partner is a party or by which Partner or the Units owned by Partner are bound or affected. Partner acknowledges that the restrictions imposed upon it are so imposed only in Partner's capacity as a partner of the Seller Partnership.

Section 3. Representations and Warranties of the Seller Partnership. The Seller Partnership represents and warrants to Partner as follows: each of (i) this Agreement, (ii) the Partnership Merger Agreement and (iii) the Amendments has been approved by the Board of Directors of the general partner of Seller Partnership. Each of this Agreement and the Partnership Merger Agreement has been duly executed and delivered by a duly authorized officer of the Seller Partnership. Assuming the due authorization, execution and delivery of this Agreement by Partner, each of this Agreement and the Partnership Merger Agreement constitutes a valid and binding agreement of the Seller Partnership, enforceable against the Seller Partnership in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

Section 4. Further Assurances. Each party shall execute and deliver such additional instruments and other documents and shall take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of their obligations under this Agreement. Without limiting the generality of the foregoing, neither of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of either party to effectuate, carry out or comply with all the terms of this Agreement.

Section 5. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Partnership Merger Agreement shall have been executed and delivered and be in full force and effect. This Agreement shall automatically terminate and be of no further force or effect upon the earlier termination of the Partnership Merger Agreement in accordance with its terms. Upon any termination of this Agreement, except for any rights either party may have in respect of any breach by either party of its obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder. The provisions of Section 1 of this Agreement shall terminate and be of no further force or effect from and after the Effective Time of the Partnership Merger.

Section 6. Covenants of Partner Not to Enter Into Inconsistent Agreements. Partner hereby agrees that, except as contemplated by this Agreement, the Consents and the Partnership Merger Agreement, Partner shall not enter into any voting agreement or grant an irrevocable proxy or power of attorney with respect to the Units which is inconsistent with this Agreement.

Section 7. Miscellaneous.

a. Notices, Etc. All notices, requests, demands or other communications required by or otherwise given with respect to this Agreement shall be in writing and shall be deemed to have been duly given to either party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or seven days after being mailed by first-class mail, postage prepaid in each case to the applicable addresses set forth below:

If to the Seller Partnership:

Sunstone Hotel Investors, L.P.
903 Calle Amanecer
San Clemente, CA 92673-6212
Attention: Chief Operating Officer
Facsimile: 949-369-4230

with a copy to:

Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Attention: Phillip Gordon
Facsimile: 312-715-4800

If to Westbrook or SHP:

Westbrook Real Estate Partners L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan H. Paul

Facsimile: 212-849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto
Brian Stadler

Facsimile: 212-455- 2502

If to Partner, at its address set forth on the unitholder ledger maintained by the transfer agent of Seller Partnership with respect to the Seller Partnership;

or to such other address as such party shall have designated by notice so given to each other party.

b. Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Seller Partnership, SHP and Partner.

c. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation any corporate successor by merger or otherwise. Notwithstanding any transfer of Units, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

d. Entire Agreement. This Agreement (together with the Partnership Merger Agreement and the documents referred to therein and the Consents) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement, the Partnership Merger Agreement and the documents referred to therein.

e. Severability. If any term of this Agreement or the application thereof to either party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law; provided that in such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

f. Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that either party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunction or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

g. Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by either party shall not preclude the simultaneous or later exercise of any other such rights, power or remedy by such party.

h. No Waiver. The failure of either party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by the other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

i. No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

j. Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the Court of Chancery in the State of Delaware in any action,

suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein) provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be in general submission to the jurisdiction of said Court or in the State of Delaware other than for such purposes. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

k. Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

l. Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

m. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

n. Expenses. Each party shall bear its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

o. Beneficial Ownership. For purposes of this Voting Agreement, beneficial ownership shall be determined as set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

/s/ Audrey Enever

Audrey Enever

SHP ACQUISITION, L.L.C.

By: /s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

SUNSTONE HOTEL INVESTORS, L.P.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Authorized Signatory

VOTING AGREEMENT

VOTING AGREEMENT, dated as of July 12, 1999 ("Agreement"), by and among Alter Investment Group, Ltd. in its capacity as a partner ("Partner") of Sunstone Hotel Investors, L.P., a Delaware partnership (the "Seller Partnership"), SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP"), and the Seller Partnership.

WHEREAS, concurrently herewith, SHP, SHP OP, LLC, a Delaware limited liability company, and the Seller Partnership are entering into an Agreement and Plan of Merger dated July, 12, 1999 (the "Partnership Merger Agreement"; capitalized terms used without definition herein having the meanings ascribed thereto in the Partnership Merger Agreement);

WHEREAS, Partner is as of the date hereof the beneficial owner of 99,251 common partnership units of Seller Partnership ("Common Units") and 0 units of 7.9% Class A Cumulative Convertible Preferred Partnership Units of the Seller Partnership ("Preferred Units" and, collectively with the Common Units, but excluding any Common Units or Preferred Units issuable (but not yet issued) upon conversion of any securities convertible into Common Units or Preferred Units, the "Units");

WHEREAS, approval of the Partnership Merger Agreement by the Seller Partnership's partners is a condition to the consummation of the Partnership Merger;

WHEREAS, as a condition to its entering into the Partnership Merger Agreement, each of the Seller Partnership and SHP has required that Partner agrees, and Partner has agreed, to enter into this Agreement; and

WHEREAS, Partner has been informed that the Board of Directors of the general partner of Seller Partnership has approved the Partnership Merger Agreement.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein, the parties hereto agree as follows:

Section 1. Agreement to Vote, Restrictions on Dispositions, Etc.

a. Partner hereby agrees to attend any partners meeting of the Seller Partnership, in person or by proxy, and to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, (i) for approval and adoption of the Partnership Merger Agreement and the Partnership Merger, and the transactions contemplated by the Partnership Merger Agreement and (ii) for approval and adoption of the amendments to the Second Amended and Restated Agreement of Limited Partnership of Seller Partnership attached as Exhibit A to the Consents (as defined below) (the "Amendments"), such agreements to vote

to vote to apply also to any adjournment of such partner meeting of the Seller Partnership. Partner agrees not to grant any proxies or enter into any voting agreement or arrangement inconsistent with this Agreement or the two consents of even date herewith executed by Partner (the "Consents"). Partner agrees to deliver the executed Consents to SHP, at the request of SHP, and Partner agrees not to rescind, modify or withdraw the Consents.

b. Partner hereby agrees that, without the prior written consent of the Seller Partnership, except as provided in the Contribution Agreement, Partner shall not, directly or indirectly, sell, offer to sell, grant any option for the sale of or otherwise transfer or dispose of, or enter into any agreement to sell, any Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees that the Seller Partnership may enter stop transfer orders with the transfer agent(s) and the registrar(s) of the Units against the transfer of Units and any other voting securities of the Seller Partnership that Partner owns beneficially or otherwise. Partner agrees to vote (or cause to be voted) all Units, and any other voting securities of the Seller Partnership, owned by Partner whether issued heretofore or hereafter, that such person owns or has the right to vote, against (i) any recapitalization, merger, consolidation, sale of assets or other business combination or similar transaction involving the Seller Partnership or any of its Subsidiaries, securities or assets other than the Partnership Merger or other transaction with SHP and (ii) any other action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Seller Partnership under the Partnership Merger Agreement or which could result in any of the conditions to the Seller Partnership's obligations under the Partnership Merger Agreement not being fulfilled.

c. Partner agrees not, directly or indirectly, to solicit or authorize any person to solicit, any inquiries or proposals from any person other than SHP relating to the merger or consolidation of the Seller Partnership with any person other than SHP or its Affiliates, or the acquisition of the Seller Partnership's or any of its significant subsidiaries' voting securities by, or the direct or indirect acquisition or disposition of a significant amount of assets of the Seller Partnership or any of its significant subsidiaries otherwise than in the ordinary course of business of the Seller Partnership or such significant subsidiary, from or to any person other than SHP or its Affiliates or directly or indirectly enter into or continue any discussions, negotiations or agreements relating to, or vote (or cause to be voted) in favor of, any such transaction.

d. Partner agrees to promptly notify the Seller Partnership and SHP in writing of the nature and amount of any acquisition by Partner after the date hereof of any voting securities of the Seller Partnership.

Section 2. Additional Representations and Warranties of Partner. Partner represents and warrants to the Seller Partnership and SHP as follows: Partner has all necessary power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This

Agreement has been duly executed and delivered by Partner. Assuming the due authorization, execution and delivery of this Agreement by the Seller Partnership, this Agreement constitutes the valid and binding agreement of Partner enforceable against Partner in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles. The Units of Partner are the only voting securities of the Seller Partnership owned (beneficially or of record) by Partner and are owned free and clear of all liens, charges, encumbrances, restrictions and commitments of any kind other than the Contribution Agreement, this Agreement and the Consents. Partner has not appointed or granted any irrevocable proxy, which appointment or grant is still effective, with respect to the Units. The execution and delivery of this Agreement by Partner does not (a) conflict with or violate any agreement, law, rule, regulation, order, judgment or decision or other instrument binding upon it, nor require any consent, notification, regulatory filing or approval which has not been obtained or (b) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of the Units owned by Partner pursuant to, any note, bond, mortgage, indenture,

contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Partner is a party or by which Partner or the Units owned by Partner are bound or affected. Partner acknowledges that the restrictions imposed upon it are so imposed only in Partner's capacity as a partner of the Seller Partnership.

Section 3. Representations and Warranties of the Seller Partnership. The Seller Partnership represents and warrants to Partner as follows: each of (i) this Agreement, (ii) the Partnership Merger Agreement and (iii) the Amendments has been approved by the Board of Directors of the general partner of Seller Partnership. Each of this Agreement and the Partnership Merger Agreement has been duly executed and delivered by a duly authorized officer of the Seller Partnership. Assuming the due authorization, execution and delivery of this Agreement by Partner, each of this Agreement and the Partnership Merger Agreement constitutes a valid and binding agreement of the Seller Partnership, enforceable against the Seller Partnership in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws of general application which may affect the enforcement of creditors' rights generally and by general equitable principles.

Section 4. Further Assurances. Each party shall execute and deliver such additional instruments and other documents and shall take such further actions as may be necessary or appropriate to effectuate, carry out and comply with all of their obligations under this Agreement. Without limiting the generality of the foregoing, neither of the parties hereto shall enter into any agreement or arrangement (or alter, amend or terminate any existing agreement or arrangement) if such action would materially impair the ability of either party to effectuate, carry out or comply with all the terms of this Agreement.

Section 5. Effectiveness and Termination. It is a condition precedent to the effectiveness of this Agreement that the Partnership Merger Agreement shall have been executed and delivered and be in full force and effect. This Agreement shall automatically terminate and be of no further force or effect upon the earlier termination of the Partnership Merger Agreement in accordance with its terms. Upon any termination of this Agreement, except for any rights either party may have in respect of any breach by either party of its obligations hereunder, none of the parties hereto shall have any further obligation or liability hereunder. The provisions of Section 1 of this Agreement shall terminate and be of no further force or effect from and after the Effective Time of the Partnership Merger.

Section 6. Covenants of Partner Not to Enter Into Inconsistent Agreements. Partner hereby agrees that, except as contemplated by this Agreement, the Consents and the Partnership Merger Agreement, Partner shall not enter into any voting agreement or grant an irrevocable proxy or power of attorney with respect to the Units which is inconsistent with this Agreement.

Section 7. Miscellaneous.

a. Notices, Etc. All notices, requests, demands or other communications required by or otherwise given with respect to this Agreement shall be in writing and shall be deemed to have been duly given to either party when delivered personally (by courier service or otherwise), when delivered by telecopy and confirmed by return telecopy, or seven days after being mailed by first-class mail, postage prepaid in each case to the applicable addresses set forth below:

If to the Seller Partnership:

Sunstone Hotel Investors, L.P.
903 Calle Amanecer
San Clemente, CA 92673-6212
Attention: Chief Operating Officer
Facsimile: 949-369-4230

with a copy to:

Altheimer & Gray
10 South Wacker Drive
Suite 4000
Chicago, Illinois 60606
Attention: Phillip Gordon
Facsimile: 312-715-4800

If to Westbrook or SHP:

Westbrook Real Estate Partners L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan H. Paul

Facsimile: 212-849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto
Brian Stadler
Facsimile: 212-455- 2502

If to Partner, at its address set forth on the unitholder ledger maintained by the transfer agent of Seller Partnership with respect to the Seller Partnership;

or to such other address as such party shall have designated by notice so given to each other party.

b. Amendments, Waivers, Etc. This Agreement may not be amended, changed, supplemented, waived or otherwise modified or terminated except by an instrument in writing signed by the Seller Partnership, SHP and Partner.

c. Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns, including without limitation any corporate successor by merger or otherwise. Notwithstanding any transfer of Units, the transferor shall remain liable for the performance of all obligations of the transferor under this Agreement.

d. Entire Agreement. This Agreement (together with the Partnership Merger Agreement and the documents referred to therein and the Consents) embodies the entire agreement and understanding among the parties relating to the subject matter hereof and supersedes all prior agreements and understandings relating to such subject matter. There are no representations, warranties or covenants by the parties hereto relating to such subject matter other than those expressly set forth in this Agreement, the Partnership Merger Agreement and the documents referred to therein.

e. Severability. If any term of this Agreement or the application thereof to either party or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such term to the other parties or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by applicable law; provided that in

such event the parties shall negotiate in good faith in an attempt to agree to another provision (in lieu of the term or application held to be invalid or unenforceable) that will be valid and enforceable and will carry out the parties' intentions hereunder.

f. Specific Performance. The parties acknowledge that money damages are not an adequate remedy for violations of this Agreement and that either party may, in its sole discretion, apply to a court of competent jurisdiction for specific performance or injunction or such other relief as such court may deem just and proper in order to enforce this Agreement or prevent any violation hereof and, to the extent permitted by applicable law, each party waives any objection to the imposition of such relief.

g. Remedies Cumulative. All rights, powers and remedies provided under this Agreement or otherwise available in respect hereof at law or in equity shall be cumulative and not alternative, and the exercise or beginning of the exercise of any thereof by either party shall not preclude the simultaneous or later exercise of any other such rights, power or remedy by such party.

h. No Waiver. The failure of either party hereto to exercise any right, power or remedy provided under this Agreement or otherwise available in respect hereof at law or in equity, or to insist upon compliance by the other party hereto with its obligations hereunder, and any custom or practice of the parties at variance with the terms hereof, shall not constitute a waiver by such party of its right to exercise any such or other right, power or remedy or to demand such compliance.

i. No Third Party Beneficiaries. This Agreement is not intended to be for the benefit of and shall not be enforceable by any person or entity who or which is not a party hereto.

j. Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the Court of Chancery in the State of Delaware in any action, suit or proceeding arising in connection with this Agreement, and agrees that any such action, suit or proceeding shall be brought only in such court (and waives any objection based on forum non conveniens or any other objection to venue therein) provided, however, that such consent to jurisdiction is solely for the purpose referred to in this paragraph (j) and shall not be deemed to be in general submission to the jurisdiction of said Court or in the State of Delaware other than for such purposes. Each party hereto waives any right to a trial by jury in connection with any such action, suit or proceeding.

k. Governing Law. This Agreement and all disputes hereunder shall be governed by and construed and enforced in accordance with the laws of the State of Delaware.

l. Name, Captions, Gender. The name assigned this Agreement and the section captions used herein are for convenience of reference only and shall not affect the interpretation or construction hereof. Whenever the context may require, any pronoun used herein shall include the corresponding masculine, feminine or neuter forms.

m. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies each signed by less than all, but together signed by all, the parties hereto.

n. Expenses. Each party shall bear its own expenses incurred in connection with this Agreement and the transactions contemplated hereby.

o. Beneficial Ownership. For purposes of this Voting Agreement, beneficial ownership shall be determined as set forth in Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

ALTER INVESTMENT GROUP, LTD.

By: /s/ Robert A Alter

Robert A. Alter, as general partner

SHP ACQUISITION, L.L.C.

By: /s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

SUNSTONE HOTEL INVESTORS, L.P.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Authorized Person

EXHIBIT F

Amendments Effective Immediately. The following amendment of the Second Amended and Restated Agreement of Limited Partnership (the "Original Agreement") of Sunstone Hotel Investors, L.P. (the "Partnership") shall be effective as of the date of approval:

(a) The Original Agreement is hereby amended to add a new Section 8.5(i) reading as follows:

"(i) Notwithstanding any other provision or this Section 8.5 to the contrary, or any other provision of this Agreement to the contrary, but subject to Section 17-607 of the Act, the Partnership, acting by and through the General Partner (who shall act in its sole discretion on behalf of the Partnership), may at any time and from time to time redeem from the General Partner any or all of the Preferred Units or Common Units held by the General Partner in its capacity as a Preferred Unitholder or Common Unitholder, as the case may be, in exchange for the Partnership's distributing to the General Partner certain assets of the Partnership consisting of any or all of the assets of the Partnership the disposition of which would be subject to rules similar to Section 1374 of the Internal Revenue Code of 1986, as amended, as a result of an election under Internal Revenue Service Notice 88-19 (the "Kahler Assets"). The Kahler Assets

distributed to the General Partner pursuant to this Section 8.5(i) shall be valued, as of the Business Day immediately preceding such distribution, at fair market value, and such number of the Preferred Units and Common Units held by the General Partner as are equal in value, as of the Business Day immediately preceding such distribution, at Market Price to the Kahler Assets to be conveyed to the General Partner in consideration of the Preferred Units and Common Units to be redeemed from the General Partner, shall be redeemed by the Partnership from the General Partner in exchange for such distribution and shall upon any such redemption be canceled. In no event shall any redemption by the Partnership pursuant to this Section 8.5(i) cause the General Partner to lose its status as a general partner and as a limited partner of the Partnership."

Amendments Effective Upon Merger Approval. The following amendments of the Second Amended and Restated Agreement of Limited Partnership (the "Original Agreement") of Sunstone Hotel Investors, L.P. (the "Partnership") shall be effective as of the date that the merger of SHP Acquisition Sub, L.P., a Delaware limited partnership, with and into the Partnership is approved by the Limited Partners or, following such Limited Partner approval, when implemented by the General Partner, in its sole discretion, pursuant to authority granted to the General Partner as part of the Limited Partner approval vote:

(a) The introductory paragraph of the Original Agreement is hereby amended by deleting the words ", in its individual capacity (the "Company") and in its capacity as the general partner of the Partnership (the "General Partner")", and by inserting in lieu thereof the words "(the "General Partner"),".

(b) Article I of the Original Agreement is hereby amended by deleting the term "Company" and the definition thereof in its entirety from the DEFINED TERMS of Article I.

(c) Article I of the Original Agreement is hereby amended by adding the following words immediately prior to the period at the end of the definition of "REIT PREFERRED SHARE" in the DEFINED TERMS of Article I:

", but shall not mean a share of preferred stock of any substitute general partner of the Partnership admitted pursuant to Section 7.1(e) of this Agreement"

(d) Article I of the Original Agreement is hereby amended by adding the following words immediately prior to the period at the end of the definition of "REIT SHARE" in the DEFINED TERMS of Article I:

", but shall not mean a share of common stock of any substitute general partner of the Partnership admitted pursuant to Section 7.1(e) of this Agreement"

(e) The Original Agreement is hereby amended by deleting the word "Company" wherever it appears in the Original Agreement, and by inserting in lieu thereof the words "General Partner", so that all references to the "Company" in the Original Agreement shall now refer to the "General Partner".

(f) The first and second sentences of Section 2.4(a) of the Original Agreement are hereby deleted in their entirety.

(g) The second sentence of Section 4.3 of the Original Agreement is hereby deleted in its entirety.

(h) Section 6.1(b) of the Original Agreement is hereby deleted and replaced in its entirety by the following:

"[Intentionally omitted.]"

(i) Section 6.6 of the Original Agreement is hereby amended by deleting the words "Subject to Section 6.8 hereof, the Articles of Incorporation and any agreements entered into by the General Partner or its Affiliates with the Partnership or a Subsidiary," from the first sentence of Section 6.6, and by inserting in lieu thereof the words "The General Partner and".

(j) Section 6.8 of the Original Agreement is hereby deleted in its entirety.

(k) Section 7.1(a) of the Original Agreement is hereby amended by adding the following words immediately prior to the period at the end of Section 7.1(a):

"or Section 7.1(e)"

(l) Section 7.1(b) of the Original Agreement is hereby deleted and replaced in its entirety by the following:

"[Intentionally omitted.]"

(m) Section 7.1(c) of the Original Agreement is hereby amended by deleting the words "or Section 7.1(d)" from the first clause of Section 7.1(c), and by inserting in lieu thereof the words "Section 7.1(d) or Section 7.1(e)".

(n) The Original Agreement is hereby amended to add a new Section 7.1(e) reading as follows:

"(e) Notwithstanding Section 7.1(c) or Section 7.1(d) or any other provision of this Agreement to the contrary, SHP Investors Sub, Inc., a Maryland corporation, and Sunstone Hotel Investors, Inc., a Maryland corporation, may merge, with Sunstone Hotel Investors, Inc. surviving the said merger. In connection with such merger, Sunstone Hotel Investors, Inc., may transfer any or all of the Partnership Interests held by Sunstone Hotel Investors, Inc., in any capacity, to any Person, including to SHP Properties Corp., a Delaware corporation, and may withdraw as a Partner of the Partnership, including as the general partner of the Partnership. Upon the occurrence of any of the

events described above in this Section 7.1(e), and upon the satisfaction by SHP Properties Corp. of the conditions for becoming a substitute general partner as set forth in Section 7.2(b) below, including its filing of an amendment of the Certificate, SHP Properties Corp. shall be, and hereby is deemed, admitted to the Partnership as a substitute general partner of the Partnership, effective immediately prior to the withdrawal of Sunstone Hotel Investors, Inc., from the Partnership as the general partner of the Partnership, and SHP Properties Corp. shall have the rights and duties of a Surviving General Partner as described in the second, third and fourth full sentences of Section 7.1(d)(ii) above, along with any other rights and duties of a general partner of the Partnership under this Agreement. To the fullest extent permitted by law, all of the mergers, transfers, withdrawals, admissions, activities and events described in this Section 7.1(e), and anything contemplated thereby and related thereto, may, and shall, take place without any further act, vote or approval of any Partner or other Person, notwithstanding any other provision of this Agreement to the contrary, the Act or other applicable law, rule or regulation."

(o) Section 7.2 of the Original Agreement is hereby amended by deleting the word "A" as the first word of the opening sentence of Section 7.2, and by inserting in lieu thereof the words "Except as provided in Section 7.1(e) above, a".

PW REAL ESTATE INVESTMENTS INC.
1285 Avenue of the Americas
New York, New York 10019

July 12, 1999

WESTBROOK REAL ESTATE FUND III, L.P.
c/o Westbrook Real Estate Partners, L.L.C.
599 Lexington Avenue
Suite 3800
New York, New York 10022

Attention: Jonathan H. Paul, Managing Principal

re Senior Mortgage Financing

Gentlemen:

You have requested that PW Real Estate Investments Inc. ("PWREI") provide the Mortgage Loan defined and described in Exhibit A (the "Term Sheet") attached to this letter (this "Commitment") and made a part hereof. All capitalized terms used in this Commitment without definition shall have the respective meanings ascribed to them in the Term Sheet. You have requested that PWREI provide the Mortgage Loan to finance a portion of the purchase price to be paid by your affiliates to acquire the assets, business and operations (including the management company and interests in the operating lessee) of Sunstone Hotel Investors, Inc. and its affiliates (whether such transaction is effected through a merger, stock acquisition, asset acquisition or other acquisition transaction, the "Acquisition"). PWREI hereby commits to provide the Mortgage Loan in accordance with this Commitment and the Term Sheet, subject to satisfaction of all conditions set forth in this Commitment and the Term Sheet. You, on behalf of the Borrower (as defined in the Term Sheet), hereby agree to accept the Mortgage Loan in accordance with this Commitment and the Term Sheet.

As a material inducement for PWREI to provide the Mortgage Loan, you hereby agree:

(a) to indemnify PWREI and any other Indemnified Person (as hereinafter defined) and hold each Indemnified Person harmless against any and all losses, claims, damages, liabilities or expenses (including any and all investigative, legal and other expenses reasonably incurred in connection with any action, suit or proceeding or any claim asserted) to which PWREI or any other Indemnified Person may become subject insofar as such losses, claims, damages, liabilities or expenses (A) are related to or arise in any manner out of or in connection

with (i) actions taken or omitted to be taken (including without limitation any untrue statements made or any statements omitted to be made in a preliminary or final prospectus circulated with respect to the Securitization) by you or any of your affiliates or (ii) actions taken or omitted to be taken by any Indemnified Person with the consent of, or in conformity with the instruction, action or omission of, you or any of your affiliates, in each case, in connection with matters contemplated by this Commitment or the Term Sheet or (B) are otherwise related to, or arise in any manner out of or in connection with the transactions contemplated by this Commitment or the Term Sheet or the rendering of services by PWREI hereunder and thereunder, unless and to the extent it is finally judicially determined that such losses, claims, damages, liabilities or expenses resulted solely and directly from the gross negligence, willful misconduct or breach of this Commitment by such Indemnified Person; and

(b) subject to the provisions of the following paragraph, to reimburse PWREI and each other Indemnified Person promptly for any reasonable legal or other expenses incurred by it in connection with investigating, preparing to defend or defending, or providing evidence in or preparing to serve or serving as a witness with respect to, any lawsuits, investigations, claims or other proceedings related to or arising in any manner out of or in connection with the transactions contemplated by this Commitment or the Term Sheet or the

rendering of services by PWREI hereunder and thereunder (including, without limitation, in connection with the enforcement of this Commitment and the indemnification obligations set forth herein) whether or not any Indemnified Person is named as a party in a proceeding and whether or not any liability results therefrom. All such legal fees, disbursements and other expenses shall be reimbursed by the indemnifying party promptly as they are incurred. In the event a final judicial determination is made to the effect specified in subparagraph (a) above, PWREI will promptly remit to you any amounts reimbursed under this subparagraph (b).

You also agree that no Indemnified Person shall have any liability to you or any of your affiliates for or in connection with the transactions contemplated by this Commitment or the Term Sheet or the rendering of services by PWREI hereunder and thereunder unless and to the extent that it is finally judicially determined that liability for losses, claims, damages, liabilities or expenses incurred by you or such affiliates resulted from the gross negligence, willful misconduct or breach of this Commitment by such Indemnified Person.

Promptly after receipt by an Indemnified Person of notice of any claim or the commencement of any action, the Indemnified Person shall, if a claim in respect thereof is to be made against you, notify you in writing of the claim or the commencement of that action; provided, however, that the failure to notify you shall not relieve you from any liability which you may have under the indemnification provisions of this Commitment except to the extent that you have been materially prejudiced by such failure; and, provided further, that the failure to notify you shall not relieve you from any liability which you may have to an Indemnified Person otherwise than under the indemnification provisions of this Commitment. If any such claim or action shall be brought against an Indemnified Person, and it shall notify you thereof, you shall be entitled to participate therein and, to the extent that you wish, to assume the defense thereof with counsel reasonably satisfactory to the Indemnified Person. After notice from you to the Indemnified Person of your election to assume the defense of such claim or action, you shall not be liable to the Indemnified Person under the indemnification provisions of this Commitment for

any legal or other expenses subsequently incurred by the Indemnified Person in connection with the defense thereof except as provided in the following sentence. The Indemnified Person shall have the right to employ separate counsel in any such action and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless: (i) the employment thereof has been specifically authorized by you in writing; or (ii) in such claims or action there is, in the opinion of independent counsel, a conflict concerning any material issue between the positions of you and such Indemnified Person, in which case if such Indemnified Person notifies you in writing that it elects to employ separate counsel at your expense, you shall not have the right to assume the defense of such action on behalf of such Indemnified Person; provided, however, that unless an actual or potential conflict exists between two or more Indemnified Persons, you shall not be required to pay the fees and disbursements of more than one separate counsel for all Indemnified Persons. Nothing set forth herein is intended to or shall impair the right of any Indemnified Person to retain separate counsel at its own expense.

Without the prior written consent of PWREI, neither you nor any of your affiliates will settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not any Indemnified Person is an actual or potential party to such claim, action, suit or proceeding) unless (a) you shall have given PWREI reasonable prior written notice thereof and used all reasonable efforts, after consultation with PWREI, to obtain an unconditional release of PWREI and each other Indemnified Person hereunder from all liability arising out of such claim, action, suit or proceedings, or (b) you reaffirm in writing your indemnity and contribution obligations hereunder regardless of any common, federal or state statutory law to the contrary. As long as you have complied with your obligations to defend and indemnify hereunder, you shall not be liable for any settlement made by PWREI or any other Indemnified Person without your consent.

You and PWREI agree that if any indemnification or reimbursement sought pursuant to the foregoing provisions of this Commitment is finally

judicially determined to be unavailable for a reason other than the gross negligence, willful misconduct or breach of the provisions of this Commitment by any Indemnified Person or is otherwise unavailable or insufficient to hold an Indemnified Person harmless, then, whether or not PWREI is the Indemnified Person, you and PWREI shall contribute to the losses, claims, damages, liabilities and expense for which such indemnification or reimbursement is held unavailable: (x) in such proportion as is appropriate to reflect the relative benefits to you, on the one hand, and PWREI, on the other hand, from the transactions to which such indemnification or reimbursement relates; or (y) if the allocation provided by clause (x) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (x) but also the relative faults of you, on the one hand, and all Indemnified Persons, on the other hand, as well as any other equitable considerations. Notwithstanding the provisions of this paragraph, or any other provisions of this Commitment or the Term Sheet, you and PWREI agree that in no event shall the amount to be contributed by PWREI pursuant to this paragraph exceed the amount of the fees actually received by PWREI hereunder.

You agree that the indemnification, contribution and reimbursement obligations

set forth in this Commitment shall apply whether or not PWREI or any other Indemnified Person is a formal party to any such lawsuits, claims or other proceedings, and that such obligations shall extend upon the terms set forth in this Commitment to any controlling person, affiliate (including, without limitation, PaineWebber Incorporated), director, officer, employee, representative or agent of PWREI (each, with PWREI, an "Indemnified Person"). You further agree that your indemnification, contribution and reimbursement obligations set forth in this Commitment shall be in addition to any liability which you may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Indemnified Persons within the meaning of the Securities Act of 1933, as amended. The indemnification, contribution and reimbursement provisions of this Commitment shall survive any termination of this Commitment, but simultaneous with the closing of the Acquisition and the Mortgage Loan, all of your rights and all of your obligations under this Commitment, including without limitation, all of your indemnification, contribution and reimbursement obligations hereunder, may be assigned by you to the Holding Company (as defined in the Term Sheet), provided, that (i) the Holding Company shall have a net worth of not less than $250,000,000 after giving effect to the Acquisition and (ii) the Holding Company shall assume all of your rights and obligations hereunder simultaneous with such assignment. Upon such assignment and assumption, you shall have no further obligations under this Commitment ab initio, and PWREI and all other Indemnified Persons shall look solely to the Holding Company for performance of your obligations hereunder, regardless of the date from which such obligations accrued. The provisions of the two immediately preceding sentences of this paragraph shall survive closing of the Mortgage Loan.

In addition to the fees described in the Term Sheet, and regardless of whether or not the Mortgage Loan is funded, you will promptly pay to PWREI upon request all reasonable out-of-pocket expenses incurred by PWREI in connection with the Mortgage Loan and the performance of its services hereunder or under the Term Sheet, including, without limitation, the costs of title, survey and lien searches, the fees and disbursements of legal counsel, accountants, environmental experts, engineers, appraisers, due diligence contractors and travel expenses and rating agency fees and expenses. PWREI will keep you reasonably informed of its ongoing out-of-pocket expenses, and will advise you as to the estimated cost of any material third party due diligence (including reports prepared by third parties) prior to contracting for services and incurring such costs. Your obligations with respect to expenses set forth in this paragraph shall survive any termination of this Commitment, but may be assigned to, and assumed by, the Holding Company in accordance with the foregoing provisions hereof.

This Commitment and the Term Sheet are delivered to you with the understanding that, whether or not this or any other commitment is accepted from PWREI relating to any aspect of the transactions outlined herein, this Commitment and the terms outlined herein and in the Term Sheet will be kept confidential by you and your affiliates and not disclosed to any third party (including, without limitation, other sources of financing) without the express

prior written consent of PWREI, except that (a) you and your affiliates may disclose this Commitment and the Term Sheet, and the contents hereof and thereof (i) to the seller in the Acquisition and to investors in the Acquisition (including their beneficial owners) on a confidential basis in connection with the Acquisition, (ii) to your respective partners, shareholders, officers, directors, employees, accountants, attorneys and other advisors on a confidential basis in connection with

the transactions contemplated hereby or thereby or (iii) as required by law, and (b) after acceptance of this Commitment by you, you may disclose this Commitment, the Term Sheet and the contents hereof and thereof (as well as a summary of the principal terms and conditions of PWREI's commitments and obligations hereunder or thereunder) in any public filings whether in connection with the transactions contemplated hereby or otherwise (provided that any such summary written disclosure shall be subject to PWREI's reasonable review and approval). The provisions of this paragraph shall survive any termination of this Commitment.

You represent and warrant that neither you nor any person acting on your behalf has employed or used a broker in connection with the transactions contemplated herein, and you agree to indemnify and hold harmless PWREI and each other Indemnified Person from and against all loss, cost, damage or expense arising by reason of any claim made by any such broker. PWREI represents and warrants that neither it nor any person acting on its behalf has employed or used a broker in connection with the transactions contemplated herein, and PWREI agrees to indemnify and hold harmless you and your affiliates from and against all loss, cost, damage or expense arising by reason of any claim made by any such broker. The provisions of this paragraph shall survive any termination of this Commitment.

You are hereby advised (and hereby agree) that other entities with conflicting interests may also be (or become at any time in the future) customers of PWREI or any of its affiliates, and, subject to the section of the Term Sheet entitled "Exclusivity", that PWREI or any of its affiliates may be providing financing or other services to such other customers. PWREI agrees to disclose to you the existence of any such conflicting interests as and when they arise, provided that PWREI shall only be required to make such disclosure if and to the extent (x) that the existence of such conflicting interests is actually known by one of Steven Baum, John Taylor or James Glasgow, (y) such disclosure is not prohibited by law or any rule, regulation or policy of any governmental authority having jurisdiction over PWREI or any of its affiliates, and (z) such disclosure will not cause PWREI or any of its affiliates to be in breach of any agreement (including, without limitation, any confidentiality agreement) to which PWREI or any of its affiliates is a party. The foregoing provisions of this paragraph have been reviewed and approved by your counsel.

You recognize that PWREI has issued this Commitment only for your benefit, and that the agreements set forth herein and in the Term Sheet are not intended to confer rights upon any of your shareholders, owners or partners or any other person not a party hereto as against PWREI or any of its affiliates or the respective directors, officers, agents, employees or representatives of PWREI or its affiliates. No one other than you is authorized to rely upon the agreements set forth herein and in the Term Sheet or any statements or conduct by PWREI.

This Commitment and the rights and obligations of the parties set forth herein and in the Term Sheet shall terminate and be of no further force or effect (other than those obligations set forth in this Commitment which are expressly stated to survive termination of this Commitment) if the Mortgage Loan has not been funded by November 23, 1999.

THIS COMMITMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND

GOVERNED BY THE LAW OF THE STATE OF NEW YORK. THE PARTIES HERETO AGREE NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY JURY, AND WAIVE ANY RIGHT

TO TRIAL BY JURY FULLY TO THE EXTENT THAT ANY SUCH RIGHT SHALL NOW OR HEREAFTER EXIST WITH REGARD TO THIS COMMITMENT, THE TERM SHEET, OR ANY CLAIM, COUNTERCLAIM OR OTHER ACTION ARISING IN CONNECTION HEREWITH OR THEREWITH. THE FOREGOING WAIVER OF RIGHT TO TRIAL BY JURY IS GIVEN KNOWINGLY AND VOLUNTARILY BY EACH PARTY HERETO, AND IS INTENDED TO ENCOMPASS INDIVIDUALLY EACH INSTANCE AND EACH ISSUE AS TO WHICH THE RIGHT TO TRIAL BY JURY WOULD OTHERWISE ACCRUE. EACH PARTY HERETO IS HEREBY AUTHORIZED TO FILE A COPY OF THIS PARAGRAPH IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER BY BOTH PARTIES HERETO.

This Commitment shall be of no force or effect until executed and delivered by both parties hereto. This Commitment may not be amended except by written instrument executed by both parties hereto. This Commitment may be executed in multiple counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one instrument.

This Commitment, the Term Sheet and the letter regarding fees, dated the date hereof (the "Fee Letter"), between you and us contain all of the agreements and understandings of the parties hereto relating to the transactions described herein and therein, and the respective obligations of PWREI and its affiliates and you and your affiliates in connection therewith. All prior negotiations, proposals, agreements and understandings relating to the subject matter of this Commitment, the Term Sheet and the Fee Letter are null and void.

If you are in agreement with the foregoing, please sign and return to PWREI the enclosed copy of each of this Commitment and the Fee Letter by no later than 11:00 p.m., New York time on July 12, 1999. This Commitment shall terminate at such time unless you accept this Commitment as provided above.

Each signatory hereto represents and warrants that he or she is duly authorized and empowered to execute this Commitment and the Fee Letter on behalf of the relevant party hereto.

Very truly yours,

PW REAL ESTATE INVESTMENTS INC.

By: /s/ John A. Taylor

Name: John A. Taylor
Title: President

Agreed to and Accepted this
12 day of July, 1999

WESTBROOK REAL ESTATE FUND III, L.P.,
a Delaware limited partnership

By: Westbrook Real Estate Management III, L.L.C., its
general partner

By: Westbrook Real Estate Partners, L.L.C., its
managing member

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Person

EXHIBIT A

TERM SHEET

FOR
FLOATING RATE SENIOR MORTGAGE FINANCING

This is the Term Sheet referred to in that certain letter agreement dated July 12, 1999 (the "Commitment") between PW Real Estate Investments Inc. and Westbrook Real Estate Fund III, L.P. All capitalized terms used in this Term Sheet without definition shall have the meanings ascribed to them in the Commitment.

CLIENT:	Westbrook Real Estate Fund III, L.P. and its affiliates (collectively, the "Client"), including, without limitation, the surviving holding company following consummation of the Acquisition (such surviving company, the "Holding Company").
BORROWER:	The entities listed in Schedule I attached hereto and the lessee under the operating lease (collectively, the "Borrower"), which entities shall be (i) special purpose and bankruptcy remote, (ii) owned by the Client and Robert A. Alter and other minority owners, (iii) controlled by the Client, (iv) engaged only in the fee or leasehold ownership of the Properties (hereinafter defined) and (v) otherwise reasonably satisfactory to Lender.
LENDER:	PW Real Estate Investments Inc., a wholly-owned subsidiary of Paine Webber Real Estate Securities Inc., or any affiliate.
MORTGAGE LOAN:	The proposed loan (the "Mortgage Loan") will be fully cross-collateralized and cross-defaulted.
SECURITY:	The Mortgage Loan will be secured by (i) first mortgage liens on the properties listed on Exhibit B attached hereto (collectively, the "Properties", and individually, a "Property"), (ii) a first priority assignment of all leases and rents attributable to the Properties, (iii) a first priority assignment of all Security Accounts and other reserves and escrows described below for the Properties, and (iv) a first priority assignment of all rights of the Borrower or the operating lessee, as applicable, under operating leases, management agreements, franchise agreements, licensing agreements and other licenses, permits and agreements relating to the ownership and/or operation of the Properties. The items of security described in clauses (i) through (iv) of the preceding sentence are referred to collectively herein as the

	"Collateral". All management agreements and leases (including operating leases but excluding any land leases which by their terms do not require such subordination) are required to be subordinated to the Mortgage Loan. All franchise agreements and land leases must be satisfactory to Lender and meet rating agency requirements. The Collateral must be free and clear of all liens, claims and encumbrances of any kind or nature whatsoever other than those reasonably approved by Lender.
TERM:	The Mortgage Loan will have a term (the "Term") of four (4) years with one, one (1) year extension option to be granted to Borrower, subject to satisfaction of the extension conditions described below.
EXTENSION CONDITIONS:	The one (1) year extension option will be conditioned upon: (i) no monetary or material non-monetary event of default existing with respect to the Mortgage

Loan at the time of the extension, (ii) Borrower having requested the Term extension not less than 60 days nor more than 150 days prior to the then existing maturity date, (iii) Borrower paying an extension fee at the time of the extension in the amount of 1.0% of the outstanding principal amount of the Mortgage Loan at the time of the extension, and (iv) the debt service coverage ratio for the Mortgage Loan, calculated based on the trailing twelve month Actual Net Cash Flow (subject to a 4% FF&E and replacement reserve) of the Properties and a 10.5% underwriting constant (the "DSCR") being not less than 1.35 times, which DSCR will be calculated 30 days after Lender's receipt of Borrower's extension request. To the extent the DSCR test is not met, Borrower will be permitted to pay down the Mortgage Loan to bring it into compliance. The term "Actual Net Cash Flow" when used herein shall mean, for the relevant calculation period, the aggregate gross revenues of the Properties minus the aggregate operating expenses, fixed expenses and fees attributable to the management and operation of the Properties. For purposes of calculating Actual Net Cash Flow, "gross revenues" shall mean actual revenues received from hotel departments, including but not limited to room rental, food and beverage operations, telecommunications, health club, golf, tennis, business center activities, retail, parking and any other related activities. Non-recurring revenues will not be included in gross revenues. For purposes of calculating Actual Net Cash Flow, "operating expenses", "fixed expenses" and "fees" shall include all expenses paid in connection with the operation and management of

the Properties, and will additionally include all accrued but unpaid expenses associated with real estate taxes and insurance. For purposes of calculating operating expenses, fixed expenses and fees, franchise and management fees will be included at the higher of the actual amount paid or the contractual amount.

LOAN AMOUNT: The original principal amount of the Mortgage Loan (the "Original Loan Amount") is currently estimated to be $502 million. The Original Loan Amount shall in no event exceed $502 million, nor shall it exceed 64.5% of the total purchase price paid in the Acquisition (inclusive of $69.2 million of Existing Debt (as defined below)), including customary closing costs, the purchase price paid to acquire a minimum 49% interest in the operating lessee (together with rights to 100% of the net cash flow from the leasehold interests), and the purchase price paid to acquire the management company. Lender's approval shall be required with respect to (x) Fees (as hereinafter defined) in the event that the actual aggregate amount thereof exceeds $10.8 million; (y) closing costs other than Fees in the event that the actual aggregate amount thereof exceeds $12.5 million; and (z) the aggregate price to acquire the management company and the interests in the operating lessee in the event that such amount exceeds $30 million. The actual Original Loan Amount will be determined by Lender upon the completion of Lender's underwriting analysis and in accordance with the DSCR and LTV Parameters described below. The term "Existing Debt" when used herein refers to $69.2 million of existing first mortgage debt encumbering the properties listed on Exhibit C. The term "Fees" when used herein refers to the structuring fee

payable hereunder to Lender, the fees and disbursements payable by Lender to PriceWaterhouse Coopers in connection herewith, the fees and disbursements payable by Lender to its attorneys in connection herewith, and the purchase price of the interest rate cap described below.

AMORTIZATION: Lender will receive 27% of Actual Net Cash Flow (subject to a 4% FF&E and replacement reserve), determined and payable monthly after the payment of debt service on the Mortgage Loan and other required reserves, to amortize the principal balance of the Mortgage Loan by 3.4% of the Original Loan Amount (the "Amortization Amount"). If the principal balance of the Mortgage Loan is not reduced by the Amortization Amount through application of such Actual Net Cash Flow by March 31, 2001, the Borrower will be

obligated to provide additional funds to reduce the principal balance of the Mortgage Loan by the Amortization Amount at that time. Notwithstanding the foregoing, if the DSCR is less than 1.50 times on the Final Test Date (as defined below), additional amortization in an amount equal to 2.26% of the Original Loan Amount (the "Additional Amortization Amount") will be required by March 31, 2001, and Lender will continue to collect 27% of Actual Net Cash Flow for application to this additional amortization obligation. If the principal balance of the Mortgage Loan is not reduced by the Amortization Amount and, if required, the Additional Amortization Amount through application of such Actual Net Cash Flow by March 31, 2001, the Borrower will be obligated to provide additional funds to reduce the principal balance of the Mortgage Loan by the Amortization Amount and, if required, the Additional Amortization Amount at that time.

If the DSCR is equal to or greater than 1.50 times on the Final Test Date, the Reserved Interest Amount (as defined below) will be applied to amortize the principal balance of the Mortgage Loan as provided in the section hereof entitled "Interest Rate", and such amortization shall be credited toward the foregoing amortization requirements.

Prepayments of the Mortgage Loan made in connection with Property releases or in connection with the occurrence of any casualty or condemnation at a Property will not be deemed to satisfy the Borrower's obligations to amortize the principal balance of the Mortgage Loan set forth in this section; provided, however, in the event of a Property release, the aggregate principal amount of the required amortization under this section shall be reduced in the same proportion as the portion of the Mortgage Loan originally allocated to such Property bears to the Original Loan Amount.

After the principal amortization required by this section has been paid, the Mortgage Loan will be interest only during the remainder of the Term.

INTEREST RATE: The Mortgage Loan will bear interest at a per annum rate determined by Lender which shall be equal to the one month LIBOR rate plus ____%, subject to the provisions of the last paragraph of this section. If, as of _____ (the "First Test Date") or _____ (the "Final

Test Date"), the following DSCR tests are met, the interest rate

spread for the Mortgage Loan will be adjusted prospectively, effective as of the applicable test date, as follows:

<TABLE>
<CAPTION>

Trailing 12-month DSCR ("Test Coverage")	Spread to one (1) month LIBOR
<S>	<C>
____ times up to (but excluding) ____	____%
____ times up to (but excluding) ____	____%
____ times or greater	____%

</TABLE>

Notwithstanding the foregoing, prior to the Final Test Date, a portion of the interest payable by the Borrower equal to ____ basis points (the "Reserved Interest Amount") shall be deposited into a Security Account (as defined below) for application on the Final Test Date in accordance with this section and the section hereof entitled "Amortization". If the DSCR is equal to or greater than ____ times on the First Test Date, (x) the Reserved Interest Amount will no longer be collected and deposited in the Security Account, and (y) the Reserved Interest Amount theretofore collected and deposited in the Security Account will be applied on the Final Test Date to amortize the principal balance of the Mortgage Loan as provided in the section hereof entitled "Amortization". If the DSCR is equal to or greater than ____ times on the Final Test Date, the Reserved Interest Amount will be applied on the Final Test Date to amortize the principal balance of the Mortgage Loan as provided in the section hereof entitled "Amortization". If the foregoing DSCR test is not met on the Final Test Date, then the Reserved Interest Amount shall be released to Lender from the Security Account on the Final Test Date and applied to the payment of interest on the Mortgage Loan for the period for which such Reserve Interest Amount was collected.

INTEREST PAYMENTS: Interest payments will be due monthly on the first business day of each month, in arrears. Interest will be calculated on an actual/360 day basis.

DSCR PARAMETERS: The minimum debt service coverage ratio for the Mortgage Loan at closing will be 1.30 times, calculated based upon Lender's underwriting analysis and an underwriting constant anticipated to be 10.5%.

LTV PARAMETERS: MAI Appraisals of the Properties satisfactory in form and content to the Lender, prepared by duly licensed MAI Appraisers, will be required prior to closing. Once appraisal reports have been received and approved by Lender in its sole discretion, Lender will review the Original Loan Amount to ensure that it does not exceed at closing a loan-to-value ("LTV") of 67%, based upon Lender's underwriting analysis in respect of the Mortgage Loan.

DUE DILIGENCE: Based on the financial due diligence Lender has done to date for the limited purpose of determining compliance with the DSCR Parameters and the LTV Parameters, Lender hereby commits to fund an Original Loan Amount at least equal to $454,600,000 less the Sale Reduction Amount on the Closing Date, subject to (i) satisfaction of all other conditions set forth in the Commitment and this Term Sheet as of the Closing Date, including, without limitation, those set forth in the section hereof entitled "Credit Underwriting" and (ii) there not occurring prior to the Closing Date a material adverse change in the condition, financial or otherwise, of the Borrower, the Client or the Properties; provided, however, that a change or changes in the financial performance of the Properties shall be deemed to be a material adverse change in the financial condition of the Properties only if such change or changes result in the Bench Mark Cash Flow Amount (as defined below) as of the last day of any month after May, 1999 being less than 98.5% of the Bench Mark Cash Flow Amount as of May 31, 1999. In addition to the foregoing, with respect to the DSCR Parameters and LTV Parameters described above, provided that Client and Borrower cooperate in all respects with Lender, Lender shall, not later than July 20, 1999, complete a sufficient amount of its financial due diligence for the limited purpose of determining compliance with the DSCR Parameters and the LTV Parameters, and shall notify Client on July 20, 1999 of the Original Loan Amount that Lender will commit to fund on the Closing Date and the Bench Mark Cash Flow Amount as of May 31, 1999, subject to (i) satisfaction of all other conditions set forth in the Commitment and this Term Sheet as of the Closing Date, including, without limitation, those set forth in the section hereof entitled "Credit Underwriting", (ii) the Bench Mark Cash Flow Amount as of the last day of any month after May, 1999 being not less than the Bench Mark Cash Flow Amount as of May 31, 1999, and (iii) there not occurring prior to the Closing Date a material adverse change in the condition, financial or otherwise, of the

Borrower, the Client or the Properties. Borrower and Client agree that their lack of cooperation will automatically extend the July 20, 1999 date. The term "Bench Mark Cash Flow Amount" when used herein means the trailing 12 month Actual Net Cash Flow for the Properties as determined as of any determination date; provided, however, that in the event that any of the Properties listed on Exhibit D attached hereto are sold prior to a determination date the trailing 12 month Actual Net Cash Flow for such Property shall be excluded from the Bench Mark Cash Flow Amounts as of May 31, 1999 and as of such determination date.

Client shall notify Lender in writing of the anticipated date of the mailing of the Proxy Statement and the Consent Solicitation Statement (as such terms are defined in the Merger Agreement (as defined below)) not more than fourteen (14) days and not less than ten (10) days prior to such anticipated date. Within seven (7) days following receipt of such notice, Lender shall deliver to Client a written report (the "Status Report") with respect to the

status of Lender's due diligence. The Status Report shall describe as of a date three (3) days prior to its date (a) the extent to which Lender has completed its due diligence (the "Completed Due Diligence"); and (b) any issues identified by Lender as a result of the Completed Due Diligence.

PREPAYMENT PROVISION: The Mortgage Loan will be prepayable in whole or in part during its Term in accordance with the provisions of this paragraph. The Mortgage Loan will have a prepayment fee of ____% of the principal amount prepaid in loan years one and two and ____% of the principal amount prepaid in loan years three and four; provided, however, that there will be a right to prepay up to a portion of the principal of the Mortgage Loan equal to $100 million less the Sale Reduction Amount as of the Closing Date within the first nine (9) months of the Term, but in no event later than May 31, 2000, with a prepayment fee of ____% of the principal amount prepaid. No prepayment fee shall be payable in connection with (i) the payments required pursuant to the section hereof entitled "Amortization", (ii) involuntary prepayments due to casualty or condemnation or (iii) prepayments made to obtain an extension of the Term of the Mortgage Loan pursuant to the section hereof entitled "Extension Conditions".

RELEASE: Borrower may obtain the release of a Property from the liens and security interests securing the Mortgage Loan in connection with a sale or refinancing of such Property, subject to the Prepayment Provision set forth above and subject to certain customary release provisions, including, but not limited to, the following:

(i) no monetary or material non-monetary default shall have occurred and be continuing on the date of the release;

(ii) in connection with any release of a Property during the period from the Closing Date to (but excluding) the Final Test Date, the Borrower shall make a prepayment of the Mortgage Loan in an amount not less than the greatest of (a) an amount sufficient to cause the DSCR (after giving effect to the release and prepayment) to equal the DSCR on the Closing Date, (b) an amount sufficient to cause the DSCR (after giving effect to the release and prepayment) to equal the average of the DSCR existing immediately prior to such release and the DSCR on the Closing Date, and (c) an amount equal to (x) ____ times the original principal amount of the Mortgage Loan allocated by Lender to the Property being released if such Property was previously identified and deemed by Lender to be a limited service hotel (which aggregate allocable loan amount shall equal approximately $____ million), (y) ____ times the original principal amount of the Mortgage Loan allocated by Lender to the Property being released if such Property was previously identified and deemed by Lender to be an early disposition hotel (which aggregate allocable loan amount shall equal approximately $____ million), or (z) ____ times the original principal amount of the Mortgage Loan allocated by Lender to any other Property being released;

(iii) in connection with any release of a Property occurring during the Period from the Final Test Date to the Maturity Date, the Borrower shall make a prepayment of the Mortgage Loan in an amount not less than the greatest of (a) an amount sufficient to cause the DSCR (after giving effect to the release and prepayment) to equal the DSCR on the Final Test Date, (b) an amount sufficient to cause the DSCR (after giving effect to the release and prepayment) to equal the average of the DSCR existing immediately prior to such release and the DSCR on the

Final Test Date, (c) an amount sufficient to cause the DSCR (after giving effect to the release and prepayment) to equal the DSCR on the Closing Date, and (d) an amount equal to ____ times the original principal amount of the Mortgage Loan allocated by Lender to the Property being released; and

(iv) if the Property being released is being refinanced, such Property must be transferred to an entity that is not a subsidiary of the Borrower and otherwise satisfies all rating agency requirements.

Notwithstanding the foregoing, the Borrower shall make a prepayment of the Mortgage Loan in connection with each release of any of the Properties identified on Exhibit B as Building Pads or a Development Land in an amount to be agreed by the parties; provided, however, that the aggregate of such prepayment amounts shall equal $1,000,000.

The parties understand that some or all of the Properties listed on Exhibit D attached hereto may be sold prior to the Closing Date. In such event (x) any of such Properties which are sold shall not constitute Collateral, (y) the Original Loan Amount shall be reduced on account of each of such Properties which is sold by an amount equal to the amount specified in clause (ii) (c) above which would be payable in connection with the release of such Property (the aggregate of such reduction amounts as of any relevant date being referred to herein as the "Sale Reduction Amount"), and (z) Lender shall be entitled in its reasonable discretion to reallocate the Original Loan Amount as so reduced among the remaining Properties.

ACQUISITION; EQUITY PORTION OF PURCHASE PRICE:

The Acquisition shall not include a tender offer and shall be consummated on the Closing Date pursuant to a structure which shall be in accordance with the terms of the forms of merger agreement (the "Merger Agreement")and contribution agreement annexed hereto as Exhibits E and F, respectively, and shall otherwise be on terms that do not conflict with the terms hereof and of the Commitment and which are satisfactory to the Lender. The Acquisition shall include, without limitation, acquisition of the management and leasing companies affiliated with Sunstone Hotel Investors, Inc. Prior to the Closing

Date, the Client and Borrower will provide evidence

satisfactory to Lender, in its sole discretion, that the total equity provided by Client and Borrower (without duplication) is not less than 35.5% of an amount equal to the total purchase price paid in the Acquisition less $69.2 million of Existing Debt (or, if greater, the net proceeds of any refinancing of the Existing Debt), including customary closing costs, the purchase price paid to acquire the interests in the operating lessee and the purchase price paid to acquire the management company.

INTEREST RATE CAP: The Borrower shall be obligated to purchase an interest rate cap reasonably satisfactory to Lender from a provider whose identity and credit worthiness are satisfactory to Lender in its sole discretion as soon as one (1) month LIBOR reaches ____% but in no event later than the earlier of _____ or Securitization of the Mortgage Loan. The cap shall have a ____% one (1) month LIBOR strike price. The principal that is required to be repaid by March 31, 2001 under the terms of the first paragraph of the section hereof entitled "Amortization" may have an interest rate cap that expires on March 31, 2001.

SECURITY ACCOUNTS: One or more security accounts shall be established in the name of, and under the sole dominion and control of, the Lender or its designated representatives (the "Security Accounts"), and all income from the Properties shall be deposited directly into such Security Accounts. At the discretion of Lender, such Security Accounts may include (but may not be limited to) the following:

(i) Debt Service Account - A replenishable account in an amount equal to the sum of (a) one month's interest payment, which amount will be collected during the term of the Mortgage Loan over the course of each month and deposited into the debt service account and applied as described more fully in the loan documents; and (b) $2,000,000, which amount will be deposited in the debt service account on the Closing Date and maintained therein at all times in addition to the amount collected monthly;

(ii) Basic Carrying Cost Account - An annual budget for monthly payments to be made on account of the real estate taxes and assessments, insurance premiums and land lease rental payments for the Properties (in an amount sufficient to pay

these costs) shall be submitted to Lender for approval each year. Once such budget is approved, the amounts therein shall be reserved in monthly installments to be mutually agreed from the revenues deposited in the Security Accounts. The budget for each year of the Term will be at least 3% in excess of the actual amount of the previous year's real estate taxes and assessments and insurance premiums for the Properties;

(iii) FF&E Reserve Account/Replacement Reserve

Account - An amount, subject (as to replacement reserves) to an engineering report for each Property, to be escrowed monthly in increments equal to 4.0% of the prior month's total gross revenues for such Property. At closing, such amount will be equal to 1/12th of 4.0% of year-end Pro Forma 1999 gross revenues of the Properties;

(iv) Deferred Maintenance Account and Environmental Remediation Account - Such accounts to be established as recommended in the relevant third party reports and such additional amounts as mutually agreed between the parties;

(v) Reserved Interest Account - An account for purposes of holding the Reserved Interest Amount until its application on the Final Test Date in accordance with the section hereof entitled "Interest Rate"; and

(vi) Net Cash Flow Reserve Account - An account to be established in accordance with the section hereof entitled "Net Cash Flow Reserve Account".

NET CASH FLOW RESERVE ACCOUNT: If the DSCR drops below _____ times for any trailing twelve month period during the Term of the Mortgage Loan, all cash flow after debt service, reserves, income taxes, non-affiliate fees, approved affiliate management fees, and operating expenses will be collected and held in a reserve account (the "Net Cash Flow Reserve Account") as part of the Collateral. Funds will be released from the Net Cash Flow Reserve Account when the DSCR is equal to or greater than _____times for a trailing twelve-month period. In addition to the foregoing, from and after the Final Test Date, if the DSCR is less than ____ times

but greater than or equal to ____ times for any trailing twelve month period, ___% of all cash flow after debt service, reserves, income taxes, non-affiliate fees, approved affiliate management fees, and operating expenses will be collected and held in the Net Cash Flow Reserve Account, and the funds therein will be released when the DSCR is equal to or greater than _____ times for a trailing twelve-month period. Provided no default then exists on the Mortgage Loan, Lender shall, from time to time, release funds from the Net Cash Flow Reserve Account to the Borrower for the purpose of paying operating expenses that have been approved by Lender in its sole discretion, if and to the extent the Borrower has insufficient funds to pay such operating expenses at the time such payment is due. At Borrower's option, funds in the Net Cash Flow Reserve Account may be applied to prepay principal of the Mortgage Loan; provided, however, that such prepayment will be deemed voluntary and will be subject to the prepayment fee described above.

REQUIRED LENDER APPROVALS: Lender's approval, which shall not be unreasonably withheld, is required for changes in a Property flag if (i) there is a proposed flag downgrade, (ii) the Property in question is one

of the largest ten assets in allocated loan amount, or (iii) if, after giving effect to such flag change there have been flag changes in respect of more than seven (7) Properties during the Term. Lender's approval is required for the management agreement and the operating lease and any change in the property manager or operating lessee , as well as any change in the form and content of the management agreement or the operating lease.

PROPERTY MANAGEMENT REPLACEMENT: Lender reserves the right to replace the property manager if (i) the Actual Net Cash Flow (adjusted for a 4% FF&E and replacement reserve) for any trailing 12-month period during the Term of the Mortgage Loan is insufficient to cause the debt service coverage ratio for the Mortgage Loan to be at least equal to 1.10 times (using the then current interest rate on the Mortgage Loan), (ii) there is a material default under the management agreement by the property manager, or (iii) the property manager becomes insolvent.

RECOURSE: The Mortgage Loan will be non-recourse to the Borrower and the Holding Company, except for losses sustained by Lender with regard to (i) fraud, (ii) misappropriation of funds, (iii) breach of

representations or warranties, provided such breach is intentional or if unintentional, involved information that a similarly situated borrower in similar circumstances should have known assuming due inquiry, (iv) violation of restrictions against transfer and/or encumbrances, and (v) any other matters upon which Borrower and Lender may agree. The Mortgage Loan shall in all events be recourse to the Borrower and the Holding Company in the case of voluntary bankruptcy or failure to contest involuntary bankruptcy. The Mortgage Loan will be non-recourse to the Client except for losses sustained by Lender with regard to fraud or misappropriation of funds by the Client or of which the Client has actual knowledge. Up to $10.5 million of the senior-most (i.e., least risky) portion of the Mortgage Loan may be guaranteed on a recourse basis by the direct or indirect owners of Borrower but only if such guaranty does not impair the bankruptcy remote nature of Borrower or cause Borrower not to meet the requirements of the rating agencies involved in any Securitization of the Mortgage Loan (including, without limitation, the requirement for the delivery by Borrower's counsel of a satisfactory non-consolidation opinion).

CLOSING: The Client and Lender currently anticipate that the Mortgage Loan will close by no later than November 19, 1999, subject to Client's timely delivery of information satisfactory to Lender, and subject to the satisfaction of all of the conditions of the Commitment and this Term Sheet.

CREDIT UNDERWRITING: Lender will perform credit underwriting of the Mortgage Loan in accordance with the standards of prudent institutional investors, which will include, among other things, environmental reviews, engineering reports (which for all Properties identified by Lender must include a seismic assessment), title reports, appraisal reports, NOI audits, assessments of casualty and

liability insurance coverages (which coverages shall be satisfactory to Lender and shall include earthquake insurance for all properties in an earthquake zone), and a full legal documentation review. The bankruptcy remote nature of the Borrower must be satisfactory to Lender's counsel and must meet the requirements of the rating agencies involved in any Securitization of the Mortgage Loan. Origination of the Mortgage Loan is contingent upon and subject to Lender's complete satisfaction, in its sole and absolute discretion, with the result of its credit underwriting; provided, however, that if such credit underwriting causes Lender to

require cash reserves in order to include any of the Properties as Collateral or if Lender rejects any of the Properties as Collateral because cash reserves are insufficient, no such rejection or reserve requirement shall entitle Lender to refuse to make the Mortgage Loan as a result of its credit underwriting unless the sum of (a) the principal amount of the Mortgage Loan allocated by Lender to the Properties so rejected and (b) the amount of cash reserves so required by Lender, exceeds $25 million. Additionally, earthquake insurance and/or seismic upgrades may be required. Notwithstanding the foregoing, Lender shall determine compliance with the DSCR Parameters and LTV Parameters by July 20, 1999 as provided in the section hereof entitled "Due Diligence in Respect of DSCR and LTV".

ADDITIONAL FINANCING: Borrower will not be permitted to incur, directly or indirectly, any additional indebtedness other than the Mortgage Loan, except for de minimus amounts of short term unsecured trade debt incurred in the ordinary course of business. The parent of Borrower (the "Parent") will not be permitted to incur, directly or indirectly, any additional indebtedness other than mezzanine financing after December 31, 2000, provided the following criteria are met with respect thereto: (i) the total indebtedness of the Parent shall not exceed the lesser of (x) ____% of the portion of the purchase price paid in the Acquisition for the Properties which constitute the Collateral for the Mortgage Loan and (y) ___% of the then current fair market value of such Properties, (ii) the rating agencies affirm that there will be no downgrades of the ratings given to any securities issued in a securitization of the Mortgage Loan, and (iii) the mezzanine debt may be secured by a pledge of equity interests in the Borrower.

ADVERTISING: Lender and Client and their respective affiliates do not intend to advertise the Mortgage Loan. However, either party will be entitled to advertise the Mortgage Loan, at its own expense, subject to the prior written consent of the other party, such consent to be granted in the sole discretion of such other party.

DOCUMENTATION: All documents relating to the Mortgage Loan must be mutually satisfactory to the parties.

SERVICER: Lender or its designee will originate the Mortgage Loan and may engage a third party loan servicer (the "Servicer") to administer the Mortgage Loan. The Client will be responsible for reasonable initial

setup fees of the Servicer and any direct bank charges of the Servicer. Client will not incur any on-going servicing fees.

REPRESENTATIONS AND WARRANTIES: It is a condition of Lender's origination of the Mortgage Loan that the Borrower provide satisfactory representations and warranties. In addition, the Mortgage Loan must contain indemnities from the Borrower which are satisfactory to Lender.

COOPERATION: Lender's funding is not contingent upon any rating or subordination levels being obtained from any rating agencies for the Mortgage Loan. However, Client acknowledges and agrees that Lender has the absolute right to securitize, sell or otherwise dispose of all or any portion of the Mortgage Loan (each, a "Securitization"), and Client agrees that it and its affiliates (including Borrower) shall cooperate in all respects at Lender's request in connection with any such Securitization of the Mortgage Loan by Lender, including in connection with any documentation changes (which result in no material economic adverse changes to Borrower), the preparation, completion, execution and delivery (including as issuer and/or registrant, as applicable) of all necessary registration statements, prospectuses and/or private placement memoranda, site inspections, updated appraisals, or other diligence requested or conducted by any investors, and/or any rating agency, whether before or after funding.

Lender's Securitization of the Mortgage Loan may include a syndication of all or a portion of the Mortgage Loan to other lenders, to be accomplished through one or more Mortgage Loan assignments and/or participations. Client agrees that it and its affiliates (including Borrower) shall cooperate in all respects at Lender's request in connection with any such syndication of the Mortgage Loan by Lender, including in connection with any documentation changes requested by Lender (which result in no material economic adverse changes to Borrower).

In order to implement a Securitization, Lender may, in its sole discretion, determine to (i) reconstitute the Mortgage Loan such that it is recast into multiple senior and subordinate loan tranches, (ii) reallocate the Collateral among the various tranches of the Mortgage Loan and/or (iii) sever the Mortgage Loan or any tranche thereof into two or more self-contained, internally cross-collateralized

mortgage loan financings (any or all of the foregoing, a "Loan Reconstitution"). Client agrees that it and its affiliates (including Borrower) shall cooperate in all respects at Lender's request in connection with any such Loan Reconstitution by Lender, including in connection with any documentation changes and any changes to the structure of the Mortgage Loan or the ownership of the Properties requested by Lender (which result in no material economic adverse changes to Borrower).

Borrower shall pay all Securitization costs and expenses; provided, however, that Borrower shall not be obligated to pay any third party out of pocket costs and expenses which

accrue after the Closing Date.

EXCLUSIVITY: From the date of the Commitment until its expiration or termination, (i) Lender shall have the exclusive right to arrange for the financing of the Acquisition and Client shall not enter into discussions with any other source in respect of, or procure from any other source, financing for the Acquisition, and (ii) neither Lender nor any of its affiliates shall provide financing to any third party competing with the Client to acquire Sunstone Hotel Investors, Inc. or its assets, business and operations.

Notwithstanding the first paragraph of this section, if the Original Loan Amount specified by Lender on July 20, 1999 is less than an amount equal to $478,300,000 less the Sale Reduction Amount as of such date, then Client will have thirty (30) days to notify Lender whether or not Client will accept the specified Original Loan Amount. If Client accepts the specified Original Loan Amount, this Commitment will remain in full force and effect. If Client rejects the specified Original Loan Amount or does not respond within such 30-day period, this Commitment shall terminate at the expiration of such 30-day period.

Lender shall have (i) an exclusive right of first offer to provide mortgage or entity financing for any Properties that are refinanced by Borrower, Client or any of their respective affiliates (and Lender's refinancing offer must be accepted unless an alternative bid for the same loan is accepted from a third party on terms that are materially more favorable to Client, Borrower or their relevant affiliate, as applicable), (ii) the right to serve as lead manager in connection with

any public or private debt offering by Client or any of its affiliates, the proceeds of which are to be used, in whole or in part, to repay all or any portion of the Mortgage Loan, (iii) the right to serve as co-lead manager on equal economic terms with any other co-lead manager in connection with any equity offering made by Client or any of its affiliates, the proceeds of which are to be used, in whole or in part, to repay all or any portion of the Mortgage Loan, and (iv) the right to serve as dealer/manager for the Client in the event the Acquisition takes the form of a tender offer.

ATTORNEY'S FEES: In the event of any litigation, arbitration or other dispute resolution proceedings between the parties hereto arising out of or relating to the Commitment, this Term Sheet or the transactions contemplated hereby and thereby, the party prevailing in such litigation, arbitration or proceeding shall be entitled to recover from the other party the reasonable attorney's fees and disbursements incurred by such prevailing party in connection with such litigation, arbitration or proceeding.

NO JOINT VENTURE: Nothing contained herein or in the Commitment (i) shall constitute Lender or any of its affiliates as members of any partnership, joint venture, association or other separate entity with the Client, the Borrower, their respective affiliates or any other entities, (ii) shall be construed to impose any liability as such on Lender, or (iii) shall constitute a general or limited agency or be deemed to confer on either party hereto any express, implied or apparent authority to incur any obligation or liability on behalf of the other.

Schedule I

LIST OF BORROWERS

- Sunstone Hotel Properties, Inc.
- Sunstone Hotel Investors, L.P.
- Kahler E&P Partners, L.P.
- Sunstone Hotels, LLC
- Park Hotels, LLC
- Sunstone Kent Associates, L.P.

EXHIBIT B

<TABLE>
<CAPTION>

PROPERTY	CITY	STATE	FEE/LEASEHOLD	ROOMS
<S>	<C>	<C>	<C>	<C>
Residence Inn	Provo	UT	Fee	114
Marriott	Provo Park	UT	Fee	333
Economy Inn	Rochester	MN	Fee	266
Holiday Inn	Rochester	MN	Fee	170
Marriott	Rochester	MN	Fee	194
Hilton	Salt Lake City	UT	Fee	362
Courtyard by Marriott	Cypress	CA	Fee	180
Holiday Inn	Flagstaff	AZ	Fee	156
Marriott Courtyard	Fresno	CA	Fee	116
Residence Inn	High. Ranch	CO	Fee	117
Hawthorn Suites	Kent	WA	Fee	152
Marriott	Napa	CA	Fee	192
Hampton Inn	Oakland	CA	Fee	152
Residence Inn	Oxnard	CA	Fee	252
Holiday Inn Express	Poulsbo	WA	Fee	63
Holiday Inn	Price	UT	Fee	151
Holiday Inn	Provo	UT	Fee	78
Marriott Courtyard	Riverside	CA	Fee	163
Residence Inn	Sacramento	CA	Fee	126
Holiday Inn	San Diego (Harbor)	CA	Fee	202
Holiday Inn	San Diego (Stadium)	CA	Leasehold	175
Fairfield Inn	Santa Clarita	CA	Fee	66
Residence Inn	Santa Clarita	CA	Fee	90
Comfort Suites	South San Francisco	CA	Fee	165
Holiday Inn	Steamboat	CO	Fee	82
Hampton Inn	Clackamas	OR	Leasehold	114
Holiday Inn	Kent	WA	Fee	122
Holiday Inn Express	Starks	OR	Fee	85
Hampton Inn	Tucson	AZ	Fee	125
Hampton Inn	Silverthorne	CO	Fee	160
Hilton	Carson	CA	Fee	224
Holiday Inn	La Mirada	CA	Fee	289
Marriott Courtyard	Los Angeles (LAX)	CA	Leasehold	180
Holiday Inn	Mesa	AZ	Fee	246
Hampton Inn	Mesa	AZ	Fee	118
Marriott	Pueblo	CO	Leasehold	164
Hawthorn Suites	Sacramento	CA	Fee	272

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EXHIBIT B
(Continued)

<TABLE>
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PROPERTY	CITY	STATE	FEE/LEASEHOLD	ROOMS

<S>	<C>	<C>	<C>	<C>
Holiday Inn	San Diego (Old Town)	CA	Fee	175
Residence Inn	San Diego	CA	Fee/Leasehold	144
Ramada Inn	San Diego (Vacation Inn)	CA	Fee	125
Hawthorn Suites	Anaheim	CA	Leasehold	130
Holiday Inn	Craig	UT	Fee	152
Best Western	Lynnwood	WA	Fee	103
Marriott Courtyard	Lynnwood	WA	Fee	164
Radisson	Oxnard	CA	Fee	160
Holiday Inn Select	Renton	CA	Fee	226
Hilton Garden Inn	Sacramento	CA	Fee	153
Residence Inn	San Diego	CA	Fee	121
Holiday Inn	Santa Clara	CA	Fee	168
Hampton Inn	Santa Clarita	CA	Fee	130
Pacific Shores	Santa Monica	CA	Leasehold	164
Marriott Courtyard	Sante Fe	NM	Fee	213
Building Pads	San Clemente	CA	Fee	___
Development Land	Napa	CA	Fee	___
Development Land	Cypress	CA	Fee	___
Development Land	Rochester	Minn	Fee	___

</TABLE>

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EXHIBIT C

<TABLE>
<CAPTION>

PROPERTY	CITY	STATE	FEE/LEASEHOLD	ROOMS
<S>	<C>	<C>	<C>	<C>
Sheraton	Chandler	AZ	Fee	295
University Marriott	Salt Lake City	UT	Fee	218
Kahler Hotel	Rochester	MN	Fee	699
Marriott	Park City	UT	Fee	200
Marriott	Ogden	UT	Fee	288
Two (2) Laundry facilities				

</TABLE>

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Exhibit D

PROPERTIES WHICH MAY
BE SOLD PRIOR TO
CLOSING DATE

<TABLE>
<CAPTION>

Property	City	State	Property Type
<S>	<C>	<C>	<C>
Hampton Inn	Clackamas	OR	Limited Service
Holiday Inn Express	Starks	OR	Limited Service
Hawthorne Suites	Kent	WA	Other
Holiday Inn	Kent	WA	Other

</TABLE>

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Exhibit E

FORM OF MERGER
AGREEMENT

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Exhibit F

Exhibit H

Bank of America

IRREVOCABLE STANDBY LETTER OF CREDIT

ISSUING BANK:
NATIONSBANK, N.A.

ISSUE DATE: 08JUL99 EXPIRY DATE: 31JAN00

LETTER OF CREDIT NUMBER: 941648 PLACE: DALLAS, TEXAS

AMOUNT: USD 25,000,000.00
TWENTY FIVE MILLION AND 00/100

BENEFICIARY:
FIDELITY NATIONAL TITLE INSURANCE
COMPANY, AS ESCROW AGENT, OR ANY
SUCCESSOR AS ESCROW AGENT UNDER THE
ESCROW AGREEMENT DATED JULY __,1999
BY AND AMONG SUNSTONE HOTEL ****

APPLICANT:
WESTBROOK REAL ESTATE FUND III, LP
13155 NOEL RD., LB 54, STE 2300
DALLAS, TX 75240

WE HEREBY ISSUE THIS IRREVOCABLE STANDBY LETTER OF CREDIT IN BENEFICIARY'S FAVOR WHICH IS AVAILABLE BY PAYMENT AGAINST DRAFTS DRAWN AT SIGHT ON NATIONSBANK, N.A. BEARING THE CLAUSE: QUOTE DRAWN UNDER IRREVOCABLE LETTER OF CREDIT NO. 941648 CLOSE QUOTE ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

1. A WRITTEN STATEMENT PURPORTEDLY SIGNED BY AN AUTHORIZED REPRESENTATIVE OF THE BENEFICIARY IN THE FORM OF EXHIBIT "A" ATTACHED HERETO.

2. THE ORIGINAL OF THIS LETTER OF CREDIT AND ANY AMENDMENTS HERETO.

SPECIAL CONDITIONS:-
**** INVESTORS, L.P.,
SUNSTONE HOTEL INVESTORS, INC.

SHP ACQUISITION, L.L.C. AND
FIDELITY NATIONAL TITLE INSURANCE COMPANY
AS ESCROW AGENT
1300 DOVE ST., STE 310
NEWPORT BEACH, CA 92660
ATTN: PATTY BEVERLY

Bank of America

PRESENT DOCUMENTS TO BANK OF AMERICA, N.A., ATTN: LETTER OF CREDIT DEPARTMENT, 901 MAIN STREET, 9TH FLOOR, TX1-492-09-01, DALLAS, TEXAS 75202.

UNLESS OTHERWISE SPECIFICALLY STATED, THIS CREDIT IS SUBJECT TO THE UNIFORM

CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS 1993 REVISION. THE INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 500.

FOR ASSISTANCE PLEASE CALL BARBARA TEAGUE AT 214-209-3097.

AUTHORIZED SIGNATURE
NATIONSBANK, N.A.

IRREVOCABLE STANDBY LETTER OF CREDIT NO. 941648, PAGE 2

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Bank of America

EXHIBIT A TO IRREVOCABLE LETTER OF CREDIT NO. 941648

CERTIFICATE

THE UNDERSIGNED, A DULY AUTHORIZED OFFICER OF FIDELITY NATIONAL TITLE INSURANCE COMPANY, AS ESCROW AGENT (THE "ESCROW AGENT"), HEREBY CERTIFIES TO NATIONSBANK, N.A. (THE "ISSUER") WITH REFERENCE TO LETTER OF CREDIT NO. 941648 (THE "LETTER OF CREDIT") HELD BY THE ESCROW AGENT UNDER THE ESCROW AGREEMENT DATED JULY __, 1999 BY AND AMONG SUNSTONE HOTEL INVESTORS, L.P., SUNSTONE HOTEL INVESTORS, INC., SHP ACQUISITION, L.L.C. AND THE ESCROW AGENT, AS AMENDED THROUGH THE DATE OF THIS CERTIFICATE (AS SO AMENDED, THE "ESCROW AGREEMENT") THAT:

1. THE UNDERSIGNED IS A DULY AUTHORIZED OFFICER OF FIDELITY NATIONAL TITLE INSURANCE COMPANY.

2. THE UNDERSIGNED IS AUTHORIZED TO DRAW ON, AND DISBURSE THE PROCEEDS OF, THE LETTER OF CREDIT PURSUANT TO SECTION 4 OF THE ESCROW AGREEMENT.

PLEASE WIRE THE FUNDS AS FOLLOWS:

ABA NO.:.....
ACCOUNT NO.:.....
ACCOUNT NAME:.....
BANK:.....
AMOUNT:.....
REFERENCE:.....

IN WITNESS WHEREOF, THE UNDERSIGNED HAS EXECUTED AND DELIVERED THIS CERTIFICATE AS OF THE _____ DAY OF____, ____.

FIDELITY NATIONAL TITLE
INSURANCE COMPANY, AS ESCROW
AGENT

BY:_____

PATTY BEVERLY
VICE PRESIDENT AND
ESCROW MANAGER

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Exhibit I

[BROBECK PHLEGER & HARRISON LETTERHEAD]

RE: SUNSTONE HOTEL INVESTORS, INC./TAX OPINION

Ladies and Gentlemen:

This opinion is being delivered to you in connection with the Agreement and Plan of Merger dated as of July 12, 1999 (the "Merger Agreement") by and among SHP Acquisition, Inc., a Delaware limited liability company ("Parent"), SHP Acquisition Corp., a Maryland corporation and indirect subsidiary of Parent ("Buyer") and Sunstone Hotel Investors, Inc., a Maryland corporation (the "Company"). Except as otherwise provided, capitalized terms not defined herein shall have the meanings set forth in the Merger Agreement and the exhibits thereto. All section references, unless otherwise indicated, are to the Internal Revenue Code of 1986, as amended (the "Code").

The Company currently owns more than a 90% general partner interest in Sunstone Hotel Investors, L.P. (the "Partnership"). The Partnership currently owns, either directly or indirectly through subsidiary entities, several hotels and associated personal property (the "Hotels"). Each of the Hotels is leased to Sunstone Hotel Properties, Inc., a Colorado corporation (the "Lessee"), pursuant to a percentage lease (collectively, the "Leases"). Sunstone Hotel Management, Inc. (the "Management Company") is managing the Hotels. Robert A. Alter and Charles L. Biederman are 80% and 20% shareholders, respectively, of the Lessee and Mr. Alter is the sole shareholder of the Management Company.

In 1997, the Company acquired all of the stock of Kahler Realty Corporation ("Kahler"). (This transaction is referred to herein as the "Acquisition".) Kahler adopted a plan of liquidation after the Acquisition and all of its assets, subject to all of its outstanding liabilities, were transferred to the Company during 1997. The Company in turn contributed all such assets to the Partnership.

In our capacity as counsel to the Company in connection with the opinions rendered below, we have examined the following:

1. The Articles of Incorporation of the Company, as amended to date.

2. The Company's By-Laws, as amended to date.

3. The Merger Agreement.

4. The Limited Partnership Agreement of the Partnership, as amended to date (the "Partnership Agreement").

5. The cost segmentation analysis dated August 15, 1995, the cost segmentation analysis as of December 31, 1995, the cost segmentation analysis as of May 31, 1996, and the cost segmentation analysis as of December 31, 1996, prepared by Coopers & Lybrand L.L.P., and the cost segmentation analysis prepared by Ernst & Young LLP ("Ernst & Young") in connection with the Acquisition. (The foregoing analyses and information are referred to herein as the "Cost Segmentation Analyses.")

6. An analysis dated June 25, 1999, of the Company's satisfaction of the tests for qualification as a REIT for income tax purposes prepared by Ernst & Young (the "REIT Qualification Analysis").

7. The analysis of Kahler's pre-Acquisition earnings and profits prepared by KPMG Peat Marwick LLP in connection with the Acquisition (the "KPMG E&P Analysis").

8. The review of the KPMG E&P Analysis prepared by Ernst & Young in connection with the Acquisition (the "Ernst & Young E&P Review").

9. A representation certificate from the Company as to certain factual matters (the "Representation Certificate," a copy of which is attached to this letter).

10. Such other documents and data as we have deemed necessary or appropriate for purposes of this opinion.

In connection with the opinions rendered below, we have assumed or obtained representations that:

A. Each of the documents referred to above has been duly

authorized, executed, and delivered, is authentic if an original or accurate if a copy, and has not been amended.

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B. The Company will not make any amendments to its organizational documents, or in its operations or the Leases, after the date of this opinion that would affect its qualification as a REIT for any taxable period prior to the Effective Time.

C. No actions will be taken by the Company, the shareholders of the Company, the Partnership, the partners of the Partnership or any other entity in which the Company owns an interest (either directly or indirectly) after the date hereof that would have the effect of materially altering the facts upon which we have relied in rendering our opinion, including those facts set forth in the Representation Certificate.

D. The Cost Segmentation Analyses and the REIT Qualification Analysis are accurate in all material respects and there have been no material changes in the information reflected in the Ernst & Young REIT Qualification Analysis since the date thereof that would adversely affect the Company's qualification as a REIT.

E. The information and conclusions reflected in the KPMG E&P Analysis and the Ernst & Young E&P Review are accurate in all material respects.

F. All projections that have been provided to us by the Company regarding the expected financial performance of the Company, the Lessee and the Management Company represented reasonable projections when prepared.

G. All representations made by the Company in the Merger Agreement and other agreements to which the Company is a party related to the Merger are true and correct in all material respects.

H. The Company's taxable year that commenced on January 1, 1999, will end on the date of the Effective Time and the Company will be included in the consolidated return of _____ from the day after the date of the Effective Time.

I. The Company is a validly organized and duly incorporated corporation under the laws of the State of Maryland.

J. The Partnership is a duly organized and validly existing partnership under the laws of the State of Delaware.

K. Each partnership, limited liability company or joint venture in which the Company or the Partnership has an interest was properly treated as a partnership for federal income tax purposes for all relevant periods.

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We are of the opinion that, if all of the representations and assumptions upon which we have relied are accurate in all material respects:

1. Since the inception of its taxable year ended December 31, 1995, through its taxable year ended December 31, 1998, the Company was organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code and qualified as a REIT under the Code.

2. For the period that commenced on January 1, 1999, and continuing through the Effective Time of the Merger, the Company was organized and operated in conformity with the requirements for qualification and taxation as a REIT under the Code and qualified as a REIT under the Code.

3. For all periods commencing upon the formation of the Partnership on September 22, 1994, and ending at the Effective Time of the Merger, for United States federal income tax purposes, the Partnership has been classified as a partnership, rather than as an association taxable as a

corporation, and has not been a "publicly traded partnership" taxable as a corporation pursuant to Section 7704 of the Code.

If any of the representations upon which we have relied is inaccurate in any material respect, you may not rely on the foregoing opinions. In that event, our opinion could be different (e.g., that the Company was not organized and operated in conformity with the requirements for qualification as a REIT under the Code and did not qualify as a REIT under the Code for the pertinent portion or all periods prior to the Effective Time). Inasmuch as a failure of the Company to qualify as REIT for all periods or a loss of REIT status at a particular point in time prior to the Merger could result in substantial taxes, interest and penalties to the Company, Parent should assure itself prior to the closing of the Merger that the factual representations and information referred to above (including, without limitation, each of the representations set forth in the attached representation certificate) are accurate in all material respects. We have undertaken no independent investigation of these factual representations and we express no opinion as to the accuracy of any such factual representations or information. Therefore, we cannot provide certainty that the Company actually qualified as a REIT during the periods in question or that the Partnership was treated as a partnership for federal income tax purposes during the periods in question.

Furthermore, inasmuch as we are acting as counsel for the Company and not as Parent's counsel, Parent should consult with its own tax advisers to satisfy itself with regard to the opinion set forth in this letter.

The foregoing opinions are based on current provisions of the Code, the Treasury Regulations, published administrative interpretations thereof, and published court decisions. The Internal Revenue Service (the "Service") has not issued Regulations or administrative interpretations with respect to various provisions of the Code relating to REITs. The foregoing opinion is not binding on the Service or the courts, and no assurance can be given that the Service will not successfully challenge our opinion upon audit. Furthermore, no assurance can be given that the tax law will not change in a way that will adversely affect the Company and its shareholders.

The foregoing opinion is limited to the federal income tax matters specifically addressed herein, and no other opinion is rendered with respect to other federal tax matters or to any issues arising under the tax laws of any state or locality. We undertake no obligation to update the opinion expressed herein after the date of this letter. This opinion letter is solely for the information and use of the addressees and may not be relied upon for any purpose by any other person without our express written consent.

Very truly yours,

BROBECK, PHLEGER & HARRISON LLP

REPRESENTATION CERTIFICATE
FOR
TAX OPINION

This certificate is delivered in connection with the tax opinion (the "Tax Opinion") to be rendered by Brobeck, Phleger & Harrison LLP as a condition to the closing of the merger (the "Merger") pursuant to that certain Agreement and Plan of Merger dated as of the 12th day of July, 1999 (the "Merger Agreement") by and among SHP Acquisition, Inc., a Delaware corporation, SHP Acquisition Corp., a Maryland corporation, and Sunstone Hotel Investors, Inc., a Maryland corporation (the "Company").

The undersigned is aware that the Tax Opinion will contain as a material premise the truthfulness and accuracy of the representations set forth in this certificate.

Terms not defined in this certificate have the meaning ascribed to them in the Merger Agreement filed with respect to the issuance of the Warrants and Common Stock. Particular sections of the Internal Revenue Code of 1986, as amended (the "Code") referred to in this Certificate are explained in the Appendix attached hereto.

The undersigned, to the best of his actual knowledge and belief with respect to each of the following representations, on behalf of the Company and Sunstone Hotel Investors, L.P. (the "Partnership"), represents and certifies as follows:

1. Commencing with its 1995 taxable year and in all subsequent taxable years through the Effective Time of the Merger, the Company has been and will be operated in such a manner that will make the representations set forth below true for all such years. The Company's taxable year commencing January 1, 1999, will end on the date of the closing of the Merger, and the Company will file a consolidated return with _____ as the common parent commencing the day after the closing.

2. The Company will not make any amendments to its organizational documents through the Effective Time of the Merger, or in its operations or the Leases, after the date of the Tax Opinion that would affect its qualification as a REIT for any taxable year.

3. No actions will be taken by the Company, the Partnership or any other entity in which the Company owns an interest after the date hereof that would have the effect of materially altering the facts upon which the Tax Opinion is based, including the representations set forth in this Certificate. Neither the Merger nor any transaction related to the Merger will have the effect of materially altering the representations set forth in this Certificate (including, without limitation, the representations relating to the Company's sources of income, distributions and composition of assets).

4. The cost segmentation analysis dated August 15, 1995, the cost segmentation analysis as of December 31, 1995, the cost segmentation analysis as of May 31, 1996, and

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the cost segmentation analysis as of December 31, 1996, prepared by Coopers & Lybrand, L.L.P., and the cost segmentation analysis prepared by Ernst & Young LLP ("Ernst & Young") in connection with the offering of the Company's stock incident to the acquisition (the "Acquisition") of Kahler Realty Corporation ("Kahler") are accurate in all material respects.

5. The analysis dated June 25, 1999, prepared by Ernst & Young with respect to, among other things, the Company's assets and sources of income is accurate in all material respects, and there have been no material changes in the information reflected in the Ernst & Young analysis since the date thereof that would adversely affect the Company's qualification as a REIT.

6. All projections that the Company has provided to Brobeck, Phleger & Harrison LLP regarding the expected financial performance of the Company, the Lessee (as defined below) and the Management Company have represented good faith estimates when prepared.

7. The following requirements have been and will be met by the Lessee, the Management Company and any other person who leases, manages, or operates the hotels presently owned directly or indirectly by the Partnership (the "Hotels") or other hotel properties ("Other Hotel Properties") or non-hotel properties ("Non-Hotel Properties") in which the Company owns, or may in the future own, an interest, either directly, through a qualified REIT subsidiary (a "QRS") within the meaning of Section 856(i) of the Code, or through a limited liability company or a partnership:

(a) Such person will not own, directly or indirectly (within the meaning of Section 856(d)(5) of the Code), more than 35% of the shares of the Company.

(b) If such person is a corporation, not more than 35% of its stock, measured by voting power or number of shares, or, if such person

is a noncorporate entity, not more than 35% of the interest in its assets or net profits will be owned, directly or indirectly (within the meaning of Section 856(d)(5) of the Code), by one or more persons who own 35% or more of the shares of the Company.

(c) The Company and any QRS of the Company will not derive or receive any income, directly or indirectly, from such person, other than rents from the Hotels, Other Hotel Properties or Non-Hotel Properties.

(d) Such person will be adequately compensated for its services.

(e) If such person is an individual, he or she will not be an officer or employee of the Company.

(f) If such person is a corporation, none of its officers or employees will be officers or employees of the Company.

(g) If an individual serves as both (i) one of such person's directors and (ii) a director and officer or employee of the Company, that individual will not receive any compensation for serving as one of such person's directors.

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(h) If an individual serves as both (i) one of such person's directors and officers (or employees) and (ii) a director of the Company, that individual will not receive any compensation for serving as a director of the Company.

(i) If an individual serves as a director, officer or employee of the Company, such person will not be engaged in the day-to-day management of the Hotels, Other Hotel Properties or Non-Hotel Properties and will confine his or her activities as a shareholder or director of any corporate entity which leases or manages the Hotels, Other Hotel Properties or Non-Hotel Properties to such activities as are consistent with his or her status as a shareholder and/or director (as opposed to an officer or employee) of such entity.

8. The Company (and any QRS of the Company and any partnership or limited liability company in which the Company owns an interest) have not furnished or rendered, and will not furnish or render, or bear the cost of furnishing or rendering, any services to tenants (including the Lessee) of the Hotels or Other Hotel Properties, other than the payment of real and personal property taxes, ground lease rent (where applicable), insurance (other than workers' compensation insurance), capital improvements, and the cost of repairing, replacing or refurbishing furniture, fixtures and equipment with respect to such hotel property (to the extent prescribed in the Leases). The costs and services described in the preceding sentences are usually or customarily borne or provided by lessors of hotel properties in the geographic areas in which the Hotels or Other Hotel Properties are located. The Company (and any QRS of the Company and any partnership or limited liability company in which the Company owns an interest) has not rendered, and will not render, or bear the cost of furnishing or rendering, any services to tenants (including the Lessee) of any Non-Hotel Properties.

9. The following requirements have been and will be met by the Lessee, the Management Company and any other person who furnishes or renders services ("Noncustomary Services") to the tenants of the Hotels or Other Hotel Properties, other than services that are usually or customarily rendered in connection with the rental of space for occupancy only and are not otherwise considered rendered to the occupant:

(a) The Lessee, the Management Company and each such other person will satisfy the requirements described in paragraph 7 above.

(b) The cost of the Noncustomary Services will be borne by the Lessee, the Management Company or such other person.

(c) Any charge for such Noncustomary Services will be made, received and retained by the Lessee, the Management Company or such

other person.

10. The Company has not been and is not chartered or supervised as a bank, savings and loan, or similar association under state or federal law.

11. The Company has not and will not operate as a small business investment company under the Small Business Investment Act of 1958.

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12. The Company was not created by or pursuant to an act of a state legislature for the purpose of promoting, maintaining, and assisting the economy within the state by making loans that generally would not be made by banks.

13. The Company has not and will not engage in the business of issuing life insurance, annuity contracts, or contracts of health or accident insurance.

14. Beginning with the Company's 1996 taxable year, beneficial ownership of the Company has been and will be held by 100 or more persons for at least 335 days of each taxable year or during a proportionate part of the short taxable year commenced January 1, 1999, and ending on the closing date of the Merger. During the entire 1995 through 1999 taxable years, the Company has been managed by one or more directors and the beneficial ownership of the Company has been represented by transferable shares.

15. At all times during the last half of each taxable year beginning with the Company's 1996 taxable year and ending with the Company's 1999 taxable year (which will end on the closing date of the Merger) no more than 50% in value of the Company's outstanding shares has been or will be (during such period of time) owned, directly or indirectly (within the meaning of Section 544 of the Code, as modified by Section 856(h)(i)(B) of the Code), by or for five or fewer individuals. For this purpose, a qualified stock bonus, pension, or profit-sharing plan (as described in Section 401(a) of the Code), a supplemental unemployment compensation benefits plan (as described in Section 501(c)(17) of the Code), a private foundation (as described in Section 509(a) of the Code), or a portion of a trust permanently set aside or to be used exclusively for charitable purposes (as described in Section 642(c) of the Code) generally is considered an individual. However, stock held by a trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code (a "Qualified Trust") generally is treated as held directly by the Qualified Trust's beneficiaries in proportion to their actuarial interests in the Qualified Trust.

16. The Company was organized on September 23, 1994. The Company has not at any time been a party to a tax-free reorganization with another corporation and, except for assets acquired upon the liquidation of Kahler, has not held any asset the disposition of which could be subject to Section 1374 of the Code. The assets received upon the liquidation of Kahler are assets subject to Section 1374 of the Code.

17. The Company elected to be a REIT for its taxable year ended December 31, 1995, by computing its taxable income as a REIT on its federal income tax return for that taxable year (i.e., IRS Form 1120-REIT). The Company has also computed and reported, or will compute and report its taxable income as a REIT for the taxable years ended December 31, 1996, December 31, 1997, December 31, 1998, and the taxable year commenced January 1, 1999, and ending on the closing date of the Merger. The Company has revoked and will not terminate or revoke its REIT election prior to the closing of the Merger.

18. The Company has not had, and will not have, at the end of any taxable year, and will not succeed to, any earnings and profits accumulated during a non-REIT year of the Company or any other corporation.

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19. During 1995 and each subsequent taxable year, at least 95% of the Company's gross income, including any gross income of any QRS of the

Company and excluding gross income from the sale of property held as inventory or held primarily for sale to customers in the ordinary course of the Company's (or any QRS's) trade or business ("Prohibited Income"), has been and will be (for such period of time) derived from:

(a) Dividends.

(b) Interest.

(c) "Rents from real property" within the meaning of Section 856(d) of the Code.

(d) Gain from the sale or other disposition of stock, securities, and real property (including interests in real property and interests in mortgages on real property) that is not Prohibited Income.

(e) Abatements and refunds of taxes on real property.

(f) Income and gain derived from real property acquired directly by foreclosure or deed in lieu thereof ("Foreclosure Property"), not including property acquired as a result of indebtedness arising from the sale of property held as inventory or primarily for sale to customers in the ordinary course of the Company's business.

(g) Amounts (other than amounts based on the income or profits of any person within the meaning of Section 856 of the Code) received or accrued as consideration for entering into agreements (i) to make loans secured by mortgages on real property or on interests in real property or (ii) to purchase or lease real property (including interests in real property and interests in mortgages on real property).

(h) Gain from the sale or other disposition of real estate assets that is not Prohibited Income.

(i) Payments under bona fide interest rate swap or cap agreements, options, futures contracts, forward rate agreement, or any similar financial instrument, entered into by the Company (or any QRS of the Company) in a transaction to reduce the interest rate risks with respect to any indebtedness incurred or to be incurred by the Company to acquire or carry real estate assets ("Qualified Hedging Contracts").

(j) Gain from the sale or other disposition of Qualified Hedging Contracts.

20. During 1995 and each subsequent taxable year, at least 75% of the Company's gross income (including any gross income of any QRS of the Company, but excluding Prohibited Income) has been and will be (for such period of time) derived from:

(a) "Rents from real property" within the meaning of Section 856(d) of the Code.

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(b) Interest (as defined in Section 856(f) of the Code) on obligations secured by mortgages on real property or on interests in real property.

(c) Gain from the sale or other disposition of real property (including interests in real property and interests in mortgages on real property) that is not Prohibited Income.

(d) Dividends or other distributions on, and gain (other than Prohibited Income) from the sale or other disposition of, transferable shares in other REITs.

(e) Abatements and refunds of taxes on real property.

(f) Income and gain (other than Prohibited Income) derived from Foreclosure Property.

(g) Amounts (other than amounts based on the income or profits of any person) received or accrued as consideration for entering into agreements (i) to make loans secured by mortgages on real property or on interests in real property or (ii) to purchase or lease real property (including interests in real property and interests in mortgages on real property).

(h) Income that was (i) attributable to stock or a debt instrument (with a maturity date of at least five years), (ii) attributable to the temporary investment of new capital, and (iii) received or accrued during the one-year period beginning on the date on which the Company received such capital.

21. For purposes of this representation, the term "Adjusted Basis Ratio" means the ratio of (i) the average of the adjusted bases of the personal property contained in a Hotel (or other property) at the beginning and at the end of such taxable year to (ii) the average of the aggregate adjusted bases of both the real property and personal property comprising the Hotel (or other property) at the beginning and at the end of such taxable year. To the extent that the Adjusted Basis Ratio for each Hotel, Other Hotel Property or Non-Hotel Property of the Company, a QRS of the Company or the Partnership (or any partnership or limited liability company in which the Partnership, the Company or a QRS of the Company owns an interest) has exceeded or in the future exceeds 15% for any taxable year, the percentage-of-gross-income tests set forth in the two immediately preceding representations has been and will be satisfied notwithstanding that the gross income of the Company properly attributable to the subject personal property is disqualified income not constituting "rents from real property."

22. The Leases provide that rent is the greater of a fixed amount or a percentage amount that is calculated by multiplying specified percentages by the gross room revenues for each of the Hotels in excess of certain levels (the "Rent"). The lease terms, base rent and percentages used to compute the Rent (i) have not been and will not be renegotiated during the term of the Leases in a manner that bases the Rent on income or profits of any person and (ii) have and will at all times conform with normal business practices. In this regard, any rent abatements under the Leases (and any subsequent Leases) have and will conform with normal business practices, have been and will be based and calculated on objective factors other than the Lessee's net income from the particular Hotel (or other property) involved and have not

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been and will not be administered in a manner such that any rent abatement is determined with reference to the Lessee's net income from the particular Hotel (or other property) involved.

23. At all times since 1995, the Company's and the Lessee's financial projections have indicated that the Lessee will have sufficient future revenue to enable the Lessee to satisfy all of its liabilities and obligations (including payments under the Leases and payments to the Management Company) and generate a reasonable profit to the Lessee.

24. The stock of the Lessee has been ascribed an approximate value of $_____ in connection with the Merger.

25. The Company has leased and will lease any Non-Hotel Properties to the Lessee (or another lessee) for fixed rental payments on commercially reasonable terms or for rental payments which comply with the requirements in the immediately following representation and conform with normal business practices.

26. The Company has not received and will not receive or accrue, directly or indirectly (including through any QRS of the Company, the Partnership or any other partnership or limited liability company), any rent, interest, contingency fees, or other amounts that were or are determined in whole or in part with reference to the income or profits derived by any person (excluding amounts received (i) as rents from Hotels that are (A) based solely on a percentage or percentages of receipts or sales and the percentage or percentages are fixed at the time the leases are entered into, are not renegotiated during the term of the leases in a manner that has the effect of basing rent on income or profits, and conform with normal business practices or

(B) attributable to qualified rents from subtenants as provided by Section 856(d)(6) of the Code and (ii) as interest that is (A) based solely on a fixed percentage or percentages of receipts or sales or (B) attributable to qualified rents received or accrued by debtors as provided by Section 856(f)(2) of the Code).

27. The Company (and any QRS of the Company) has not owned and will not own, directly or indirectly (within the meaning of Section 856(d)(5) of the Code), 10% or more of the stock, by voting power or number of shares, of the Lessee, any other lessee of its properties, the Management Company or any other manager of its properties. The Company (and any QRS of the Company) will not receive or accrue, directly or indirectly, any rents from any of the following parties:

(a) A corporation of which the Company (or any QRS of the Company) owns, directly or indirectly (within the meaning of Section 856(d)(5) of the Code), 10% or more of the stock, by voting power or number of shares.

(b) A noncorporate entity in which the Company (or any QRS of the Company) owns, directly or indirectly (within the meaning of Section 856(d)(5) of the Code), an interest of 10% or more of the assets or net profits.

28. During each taxable year through 1997, less than 30% of the Company's gross income (including any gross income of any QRS of the Company) was derived from the sale or other disposition of:

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(a) Stock, Qualified Hedging Contracts or other securities held for less than one year.

(b) Property in a transaction that generated Prohibited income.

(c) Real property (including interests in real property interests in mortgages on real property) held for less than four years other than (i) property compulsorily or involuntarily converted to another form as a result of its destruction (in whole or in part), seizure, requisition, or condemnation (or the threat or imminence thereof) and (ii) Foreclosure Property.

29. At the close of each quarter of each taxable year of the Company (including the taxable year commenced January 1, 1995) through the closing date of the Merger, (i) at least 75% of the value of the Company's total assets (including the assets of any QRS of the Company) have and will be represented by real estate assets, cash and cash items, and government securities (the "75% Basket") and (ii) with respect to securities not included in the 75% Basket, (A) not more than 5% of the value of the Company's total assets have or will consist of the securities of any one issuer (excluding QRS's of the Company) and (B) the Company has not and will not hold more than 10% of the outstanding voting securities of any one issuer (excluding QRS's of the Company). For purposes of this representation, (i) the term "securities" does not include the Company's interest in the Partnership (or any other partnership or limited liability company in which the Company or the Partnership owns an interest if such entity is not taxable as a corporation), (ii) the Company's proportionate share of the assets of the Partnership (and any other partnership or limited liability company in which the Company or the Partnership owns an interest if such entity is not taxable as a corporation) are treated as assets of the Company, and (iii) the term "value" means (A) fair value as determined in good faith by the Board of Directors of the Company or (B) in the case of securities for which market quotations are readily available, the market value of such securities.

30. The Company has and will maintain sufficient records as to its investments to be able to show that it complies with the diversification requirements described in the preceding paragraph.

31. For each taxable year (including the taxable year commenced on January 1, 1999, and ending on the closing date), the deduction for dividends paid by the Company (as defined in Section 561 of the Code, but

without regard to capital gain dividends, as defined in Section 857(b)(3)(C) of the Code) has and will equal or exceed (i) the sum of (A) 95% of the Company's real estate investment trust taxable income (as defined in Section 857(b)(2) of the Code, but without regard to the deduction for dividends paid and excluding any net capital gain) and (B) 95% of the excess of its net income from Foreclosure Property over the tax imposed on such income by Section 857(b)(4)(A) of the Code, minus (ii) any excess noncash income (as defined in Section 857(e) of the Code).

32. The dividends paid by the Company (including dividends deemed paid under any dividend reinvestment plan or optional cash purchase plan) have been and will be made pro rata, with no preference to any share as compared with other shares of the same class. The Company has not sold and will not sell any shares under any dividend reinvestment plan

(including optional cash purchases) at a discount in excess of Internal Revenue Service ("IRS") published guide-lines, in a manner that is preferential with respect to any purchaser as compared to another purchaser or in a manner inconsistent with the IRS private letter ruling issued to the Company with respect to its dividend reinvestment plan and optional cash purchase plan.

33. Within 30 days after the end of each of the 1995 through 1998 taxable years the Company demanded, and within 30 days after the end of its taxable year commenced January 1, 1999, and ending on the closing date of the Merger, the Company will demand, written statements from its shareholders that, at any time during the last six months of the taxable year, owned 5% or more of its shares (or if the Company has less than 2,000 and more than 200 shareholders of record of its shares on any dividend record date, 1% or more of its shares, or if the Company has 200 or less shareholders of record on any dividend record date, one-half of 1% or more of its shares) setting forth the following information:

(a) The actual owners of the Company's stock (i.e., the persons who are required to include in gross income in their returns the dividends received on the stock).

(b) The maximum number of shares of the Company (including the number and face value of securities convertible into shares of the Company) that were considered owned, directly or indirectly (within the meaning of Section 544 of the Code, as modified by Section 856 (h)(1)(B) of the Code), by each of the actual owners of any of the Company's shares at any time during the last half of the Company's taxable year.

34. The Company has maintained and will maintain the written statements described in the preceding paragraph (and other information required by Section 1.857-8(d) of the Regulations) in its principal office, and the statements (and such other information) will be available for inspection by the IRS.

35. The Company has and will use the calendar year as its taxable year (provided that the 1999 taxable year will end on the closing date of the Merger).

36. The Partnership has been duly formed as a limited partnership under Delaware law and has been and will be operated in accordance with applicable Delaware law and the Partnership Agreement.

37. The Partnership Agreement will remain in substantially the same form as its current form and will not be amended in any respect that could adversely affect the Company's qualification as a REIT.

38. No Limited Partner (nor any affiliate of any Limited Partner) has owned or will own at any time, directly, indirectly or by attribution (as defined in Section 856(d)(5) of the Code), 10% or more of the Company. For purposes of this representation, beneficial ownership of the interests in the Partnership is taken into account.

39. A majority of the Company's Board of Directors at all times has been and, through the closing of the Merger, will be independent

directors.

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40. The Partnership has since its formation satisfied the private placement "safe harbor" from publicly traded partnership status under Notice 88-75 issued by the Service (including the requirement that the Partnership not have more than 500 partners). If the Partnership should fail to satisfy at least one of the safe harbors set forth in Notice 88-75 or the Regulations under Section 7704 of the Code, whichever is applicable, in any taxable year, the Partnership will satisfy the gross income test to avoid corporate treatment, as set forth in Section 7704(c)(2) of the Code, for such taxable year and all taxable years thereafter.

41. The interests in the Partnership have not been and will not be traded on an established securities market.

42. The Partnership has not issued and will not issue any Units in a transaction required to be registered under the Securities Act of 1933 (the "1933 Act").

43. The Partnership has not elected and will not elect to be taxable as a corporation under the Code.

44. No partnership or limited liability company in which the Company, the Partnership or a QRS of the Company owns an interest has elected or will elect to be treated as a corporation for tax purposes or will otherwise be treated as a corporation for tax purposes.

45. The Company has owned all of the stock of its corporate subsidiaries at all times since the incorporation of those subsidiaries and will continue to own all such stock.

46. The Company has not made, and will not make, an election under Section 338 of the Code.

47. The Company has elected pursuant to Notice 88-19, 1988-1 C.B. 486, to be subject to rules similar to those in Section 1374 of the Code with respect to the net built-in gain in properties acquired from Kahler and its subsidiaries.

The undersigned recognizes that (a) the Tax Opinion will be based on the representations set forth herein and on the statements contained in the Merger Agreement and other documents relating to Merger and (b) the Tax Opinion will be subject to certain limitations and qualifications, including that it may not be relied upon if any such representations are not accurate in all material respects.

The undersigned recognizes that the Tax Opinion will not address any tax consequences except as expressly set forth in such opinion.

SUNSTONE HOTEL INVESTORS, INC.

Dated: _____ By _____

Title _____

Exhibit 5

AGREEMENT AND PLAN OF MERGER

by and among

SHP ACQUISITION, L.L.C.,

SHP OP, L.L.C.,

SHP PROPERTIES CORP.,

SUNSTONE HOTEL INVESTORS, INC.

and

SUNSTONE HOTEL INVESTORS, L.P.

July 12, 1999

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of July 12, 1999, by and among SHP Acquisition, L.L.C., a Delaware limited liability company ("Parent"), SHP OP, L.L.C., a Delaware limited liability company ("Buyer Operating LLC"), SHP PROPERTIES CORP., a Delaware corporation ("Sub"), SUNSTONE HOTEL INVESTORS, INC., a Maryland corporation ("Seller General Partner" or "Seller"), and SUNSTONE HOTEL INVESTORS, L.P., a Delaware limited partnership (the "Seller Partnership").

WHEREAS, the respective Boards of Directors (or comparable body or entity) of Parent, SHP Investors Sub, Inc., a Maryland corporation ("Buyer") and Seller General Partner have approved the acquisition of the Seller and its assets (including without limitation the Seller's interest in the Seller Partnership) by Parent on the terms and subject to the conditions set forth in the Agreement and Plan of Merger of even date herewith (the "Merger Agreement"), by and among Parent, Buyer and Seller;

WHEREAS, it is proposed that, immediately prior to the merger of the Buyer and Seller as contemplated by the Merger Agreement (the "Merger"), Buyer Operating LLC will merge with and into the Seller Partnership (the "Partnership Merger") on the terms and subject to the conditions of this Agreement;

WHEREAS, the Board of Directors of Seller General Partner, in light of and subject to the terms and conditions set forth herein, (i) approved this Agreement and (ii) resolved to recommend that the holders of Seller Common OP Units adopt this Agreement and approve the Partnership Merger;

WHEREAS, Parent, Buyer Operating LLC, Sub, Seller General Partner and the Seller Partnership desire to make certain representations, warranties, covenants and agreements in connection with the Partnership Merger and also to prescribe various conditions thereto; and

WHEREAS, capitalized terms used herein and not otherwise defined have the respective meanings given them in the Merger Agreement.

NOW THEREFORE, in consideration of the representations, warranties, covenants and agreements contained herein, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE 1

THE MERGER

Section 1.1 The Partnership Merger. Upon the terms and subject to the conditions of this Agreement, at the Effective Time (as defined in Section 1.2) and in accordance with the Revised Uniform Limited Partnership Act of the State of Delaware (the "DRULPA") and the Limited Liability Company Act of the State of Delaware (the "DLLCA"), Buyer Operating LLC shall be merged with and into the Seller Partnership, with the Seller Partnership as the surviving partnership in the Partnership Merger (the "Surviving Operating Partnership"). At the Effective Time, the separate existence of Buyer Operating LLC shall cease and the other

effects of the Partnership Merger shall be as set forth in Section 17-211 of the DRULPA and Section 18-209 of the DLLCA.

Section 1.2 Closing; Effective Time. Provided that the conditions set forth in Article 5 have been satisfied (or waived by the appropriate party), the closing of the Partnership Merger (the "Closing") shall take place at the place of the closing of the Merger set forth in Section 1.2(a) of the Merger Agreement, on the Closing Date immediately prior to the closing of the Merger, or at such other place, at such other time or on such other date as the parties hereto may mutually agree. At the Closing, the parties hereto shall cause a certificate of merger (the "Certificate of Merger") to be executed and filed with the Secretary of State of the State of Delaware in accordance with the DRULPA and the DLLCA. The Partnership Merger shall become effective as of the date and time of such filing, or such other time within 24 hours after such filing as the parties hereto shall agree to be set forth in the Certificate of Merger (the "Effective Time"), which, in either case, shall be immediately prior to the effective time of the Merger.

Section 1.3 Certificate and Agreement of Limited Partnership; Officers. At the Effective Time, and without any further action on the part of Buyer Operating LLC or the Seller Partnership, the agreement of limited partnership as amended by the Partnership Agreement Amendments and the certificate of limited partnership of the Seller Partnership, as in effect immediately prior to the Effective Time, shall become, from and after the Effective Time, the agreement of limited partnership and the certificate of limited partnership of the Surviving Operating Partnership, until thereafter amended as provided therein and under applicable law.

Section 1.4 Conversion of Seller Common OP Units. The Seller Common OP Units issued and outstanding immediately prior to the Effective Time (including the Seller Common OP Units owned by Seller General Partner) shall, at the Effective Time, be converted into the following (the consideration set forth in clauses (a) through (c) below being collectively referred to as the "OP Merger Consideration"):

(a) for each Seller Common OP Unit with respect to which an election to receive a Class A Unit (as defined below) has been effectively made pursuant to Section 1.9 and not revoked or lost ("Class A Electing Units"), the right to receive one fully paid and nonassessable "Class A Preferred Unit" (each, a "Class A Unit") as provided in the Amended and Restated Limited Liability Company Agreement of Parent attached hereto as Exhibit A (as amended, supplemented or otherwise modified in accordance with the terms thereof and hereof, the "LLC Agreement");

(b) for each Seller Common OP Unit with respect to which an election to receive a Class B Unit (as defined below) has been effectively made pursuant to Section 1.9 and not revoked or lost ("Class B Electing Units"), the right to receive one fully paid and

nonassessable "Class B Common Unit" (each, a "Class B Unit") as provided in the LLC Agreement; and

(c) for each Seller Common OP Unit, other than Class A Electing Units and Class B Electing Units, the right to receive in cash, without interest, an amount equal to the Common Merger Consideration (the "Cash Election Price").

Notwithstanding the foregoing, if between the date of this Agreement and the Effective Time the outstanding Seller Common OP Units or the Class A Units (if any) or Class B Units (if any) shall have been changed into a different number of units or a different class by reason of any distribution, dividend, subdivision, reclassification, recapitalization, split, combination or exchange of Seller Common OP Units, Class A Units (if any) or Class B Units (if any), the Merger Consideration shall be correspondingly adjusted to reflect such distribution, dividend, subdivision, reclassification, recapitalization, split, combination or exchange. The Seller shall elect to receive the Cash Election Price as OP Merger Consideration in exchange for its OP Units.

Section 1.5 Conversion of Units Owned by Seller General Partner. The units of Seller Partnership that are deemed to be owned by Seller General Partner in its capacity as the general partner of the Seller Partnership shall immediately prior to the Effective Time (collectively, the "Seller GP Interest"), at the Effective Time, by virtue of the Partnership Merger and without any action on the part of Seller General Partner, also be converted into the right to receive the Cash Election Price.

Section 1.6 Seller-Owned Interests. (a) Each Seller Common OP Unit that is owned by Parent immediately prior to the Effective Time shall, at the Effective Time, by virtue of the Partnership Merger and without any action on

the part of Parent or the Seller, automatically be canceled and retired and cease to exist, and no consideration shall be delivered in exchange therefor.

(b) Each 7.9% Class A Cumulative Preferred Partnership Unit of Seller Partnership (the "Seller Preferred Units") shall be redeemed prior to the Partnership Merger in exchange for certain assets of the Seller Partnership as described in Exhibit A to the Merger Agreement, and any such Seller Preferred Units owned by Seller (if any) immediately prior to the Effective Time shall, at the Effective Time, by virtue of the Partnership Merger and without any action on the part of Seller, shall be converted into the right to receive the "Liquidation Preference" (as such term is defined in the Articles Supplementary of the Seller Preferred Units).

Section 1.7 Conversion of Interests in Buyer Operating LLC. The aggregate interests in Buyer Operating LLC owned by Parent immediately prior to the Effective Time shall, at the Effective Time, by virtue of the Partnership Merger and without any action on the part of Surviving Operating Partnership or Buyer Operating LLC, be converted into a 99% limited partnership interest in the Surviving Operating Partnership. The aggregate interest in Buyer

Operating LLC owned by Sub immediately prior to the Effective time shall, at the Effective Time, by virtue of the Partnership Merger and without any action on the part of Buyer be converted into a 1% general partnership interest in the Surviving Operating Partnership.

Section 1.8 Cancellation and Retirement of Seller Common OP Units. Each Seller Common OP Unit converted into the right to receive the Merger Consideration pursuant to Section 1.4 shall no longer be outstanding and shall automatically be canceled and retired and shall cease to exist, and each holder of a Seller Common OP Unit shall cease to have any rights with respect thereto, except for the right to receive the Merger Consideration, if any, applicable thereto.

Section 1.9 Interest Elections. (a) Subject to Section 1.9(e), each holder of a Seller Common OP Unit shall be entitled, with respect to all, but not less than all, of such holder's Seller Common OP Units, to make an unconditional election, on or prior to the Election Date (as defined in Section 1.9(b)), to receive (i) Class A Units or Class B Units (a "Non-Cash Election") or (ii) the Cash Election Price (a "Cash Election"), on the basis hereinafter set forth, provided that any holder making a Non-Cash Election must be an "accredited investor" as defined in Rule 501 promulgated under the Securities Act and must not be an "interested stockholder" of Seller or an "affiliate" of an "interested stockholder" of Seller, in each case as defined in subtitle 6 of Title 3 of the Maryland General Corporation Law ("MGCL").

(b) Buyer Operating LLC shall prepare, and the Seller Partnership shall mail pursuant to Section 4.3(a), a form of election, which form shall be subject to the reasonable approval of Seller General Partner (the "Form of Election"). The Form of Election shall be used by each holder of a Seller Common OP Unit to designate such holder's election to exchange all, but not less than all, of the Seller Common OP Units held by such holder into either Class A Units, Class B Units or the Cash Election Price. Any such holder's election to receive Class A Units, Class B Units or the Cash Election Price shall be deemed to have been properly made only if Parent shall have received at its principal executive office, not later than 5:00 p.m., New York City time on the date that is five business days before the scheduled date of the Seller Stockholders Meeting (the "Election Date"), a Form of Election specifying whether such holder elects to receive Class A Units, Class B Units or the Cash Election Price and otherwise properly completed and signed. The Form of Election shall state therein the date that constitutes the Election Date.

(c) A Form of Election may be revoked by any holder of a Seller Common OP Unit only by written notice received by Parent prior to 5:00 p.m., New York City time, on the Election Date. In addition, all Forms of Election shall automatically be revoked if the Partnership Merger has been abandoned.

(d) The reasonable determination of Parent shall be binding as to whether or not elections to receive Class A Units, Class B Units or the Cash Election Price have been properly made or revoked pursuant to this Section 1.9 and when elections and revocations were received by it. If Parent determines that any election to receive Class A Units, Class B Units or the Cash Election Price was not properly made (including, without limitation, because a Form of Election was not properly delivered by the time specified in Section 1.9(b)), the Seller Common OP Units with respect to which such election was not properly made shall be treated by Parent as Seller Common OP Units for which a Cash Election was made, and such Seller Common OP

Units shall be converted in accordance with Section 1.4(c). Parent may, with the agreement of Seller General Partner, make such rules as are consistent with this Section 1.9 for the implementation of the elections provided for herein as shall be necessary or desirable fully to effect such elections.

(e) Parent reserves the right to require any holder of Seller Common OP Units, as a condition to making a Non-Cash Election with respect to such holder's Seller Common OP Units, to (i) represent to Parent that such holder (x) is an "Accredited Investor" (as such term is defined under Rule 501 promulgated under the Securities Act) and (y) is not an "interested stockholder" of Seller or an "affiliate" of an "interested stockholder" of Seller, in each case as defined in Subtitle 6 of Title 3 of the MGCL and (ii) agree to abide by the terms of the LLC Agreement and to become a party thereto.

Section 1.10 Payment for Seller Common OP Units. (a) Promptly after the Effective Time, Surviving Operating Partnership shall pay the Merger Consideration to which holders of Seller Common OP Units shall be entitled at the Effective Time pursuant to Section 1.4(c). Holders of Seller OP Units being paid the Cash Election Price shall be paid in accordance with the procedures and provisions set forth in Section 1.9 of the Merger Agreement. Surviving Operating Partnership shall be entitled to deduct and withhold, from the consideration otherwise payable pursuant to Section 1.4(c) to any former holder of Seller Common OP Units, such amounts as Surviving Operating Partnership is required to deduct and withhold with respect to the making of such payment under the Code or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by Surviving Operating Partnership, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the former holder of Seller Common OP Units in respect of which such deduction and withholding was made by Surviving Operating Partnership.

(b) Each outstanding agreement for the issuance of warrants with respect to Seller Common OP Units and the Seller Common OP Units which would be issuable upon the exercise of such warrants (such OP Units, "OP Unit Warrants") shall be subject to the terms of this Agreement. Seller shall use its reasonable best efforts to cause each such OP Unit Warrant to be converted into the right to receive from the Surviving Operating Partnership an amount of cash equal to the excess, if any, of the Merger Consideration over the exercise price for such OP Unit Warrant (the "Warrant Consideration"). Prior to the Effective Time, Sellers shall take all steps necessary to give written notice to each holder of a warrant with respect to Seller Common OP Units that each OP Unit Warrant shall expire effective as of the Effective Time and be converted into the right to receive the Warrant Consideration for such Seller Common OP Unit. Any amounts payable pursuant to this Section 1.10(b) shall be subject to any required withholding of taxes and shall be paid without interest.

(c) The Merger Consideration delivered in accordance with the terms of Article 1 shall be deemed to have been issued (or paid, as applicable) in full satisfaction of all rights pertaining to the Seller Common OP Units or OP Unit Warrants.

(d) No interest shall be paid with respect to the Partnership Merger or payment of the OP Merger Consideration or Warrant Consideration thereunder.

Section 1.11 Further Assurances. If, at any time after the Effective Time, the Surviving Operating Partnership shall determine or be advised that any deeds, bills of sale, assignments,

assurances or any other actions or things are necessary or desirable to vest, perfect or confirm of record or otherwise in the Surviving Operating Partnership the right, title or interest in, to or under any of the rights, properties or assets of the Seller Partnership acquired or to be acquired by the Surviving Operating Partnership as a result of, or in connection with, the Redemption, the Partnership Merger or otherwise to carry out this Agreement, the Surviving Operating Partnership shall be authorized to execute and deliver, in the name and on behalf of each of Buyer Operating LLC and the Seller Partnership or otherwise, all such deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of each of Buyer Operating LLC and the Seller Partnership or otherwise, all such other actions and things as may be necessary or desirable to vest, perfect or confirm any and all right, title and interest in, to and under such rights, properties or assets in the Surviving Operating Partnership or otherwise to carry out this Agreement.

ARTICLE 2

REPRESENTATIONS AND WARRANTIES OF SELLER GENERAL PARTNER AND THE SELLER PARTNERSHIP

Each of Seller General Partner and the Seller Partnership represents and warrants to Buyer Operating LLC, Sub and Parent as follows:

Section 2.1 Organization, Standing and Power. Seller Partnership is duly organized and validly existing under the Laws of Delaware. Seller Partnership has the requisite limited partnership power and authority to carry on its business as now being conducted. Seller Partnership is duly qualified or licensed to do business as a foreign corporation or limited partnership and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a Seller Material Adverse Effect. Seller Partnership has delivered to Surviving Operating Partnership complete and correct copies of its organizational documents, in each case, as amended to the date of this Agreement. Attached hereto as Exhibit B is a complete and correct copy of Seller Partnership's Second Amended and Restated Agreement of Limited Partnership ("the Partnership Agreement"). The Partnership Agreement has not been amended subsequent to the date hereof, except for such amendments as are permitted and referred to in Section 4.3(a) of this Agreement.

Section 2.2 Authority; Noncontravention; Consents. (a) Each of Seller General Partner and Seller Partnership has the requisite corporate or limited partnership power and authority to enter into this Agreement and, subject to the Seller Partner Approval, to consummate the transactions contemplated by this Agreement to which it is a party. The execution and delivery of this Agreement by Seller General Partner and Seller Partnership and the consummation by Seller General Partner and Seller Partnership of the transactions contemplated by this Agreement to which Seller General Partner and/or Seller Partnership is a party have been duly authorized by all necessary corporate or limited partnership action on the part of Seller General Partner and Seller Partnership, except for the Seller Partner Approval. This Agreement has been duly executed and delivered by Seller General Partner and Seller Partnership and constitutes a valid and binding obligation of each of Seller General Partner and Seller Partnership, enforceable against each of Seller General Partner and Seller Partnership in

accordance with and subject to its terms, subject to applicable bankruptcy, insolvency, moratorium or other similar Laws relating to creditors' rights and general principles of equity.

(b) Except as disclosed in the Seller Disclosure Letter, the execution and delivery of this Agreement by each of Seller General Partner and Seller Partnership does not, and the consummation by Seller Partnership of the transactions contemplated by this Agreement to which it is a party and compliance by it with the provisions of this Agreement will not, require any consent, approval or notice under, or conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under, or result in the creation of any Lien upon any of the properties or assets of Seller General Partner, Seller Partnership or any Seller Subsidiary, under, (i) the certificate or articles of incorporation or the by-laws or organizational documents or partnership or similar agreement (as the case may be) of Seller General Partner, Seller Partnership or any Seller Subsidiary, each as amended or supplemented to the date hereof, (ii) any loan or credit agreement, note, bond, mortgage or indenture to which Seller General Partner, Seller Partnership or any Seller Subsidiary is a party; (iii) any reciprocal easement agreement, lease, joint venture agreement, development agreement, benefit plan or other agreement, instrument, permit, concession, franchise or license applicable to Seller General Partner, Seller Partnership or any Seller Subsidiary or their respective properties or assets; or (iv) subject to the governmental filings and other matters referred to in the following sentence, any Laws applicable to Seller General Partner, Seller Partnership or any Seller Subsidiary, or their respective properties or assets, other than in the case of clauses (iii) or (iv), any such conflicts, violations, defaults, rights, loss or Liens that individually or in the aggregate would not reasonably be expected to (x) have a Seller Material Adverse Effect or (y) prevent or delay beyond the Outside Date the consummation of the transactions contemplated by this Agreement, provided that no representation or warranty is made in this sentence as to any agreement with Lessee, Manager or any of their Affiliates. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to Seller General Partner, Seller Partnership or any Seller Subsidiary in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby except for (i) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (ii) any filings required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (iii) the filing of a Form D with the SEC and (iv) such other consents, approvals, orders, authorizations, registrations, declarations and filings (A) as are set forth in Section 2.4 of the Merger Agreement or Section 2.4 of the Seller Disclosure Letter, (B) as required by the "blue sky"

laws of various states, to the extent applicable or (C) those which, if not obtained or made, would not prevent or delay beyond the Outside Date the consummation of any of the transactions contemplated by this Agreement or otherwise prevent or delay beyond the Outside Date Seller Partnership from performing its obligations under this Agreement in any material respect or have, individually or in the aggregate, a Seller Material Adverse Effect.

Section 2.3 Information Supplied. None of the information supplied by Seller General Partner or the Seller Partnership for inclusion or incorporation by reference in the Information Statement (as defined in Section 4.3), any Additional Filings (as defined Section 4.3) or Solicitation Documents (as defined in Section 4.3), the Consent Solicitation Statement (as defined Section 4.3) or the Solicitation Documents shall, at the time of mailing thereof and at the Closing Date, contain any untrue statement of material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they

were made, not misleading.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF PARENT AND BUYER OPERATING PARTNERSHIP

Each of Parent, Sub and Buyer Operating LLC represents and warrants to Seller General Partner and the Seller Partnership as follows:

Section 3.1 Organization, Standing and Power. (a) Buyer Operating LLC is a limited liability company and Sub is a corporation, in each case duly organized and validly existing under the Laws of Delaware and each has the requisite power and authority to carry on its business as now being conducted. Each of Buyer Operating LLC and Sub is duly qualified or licensed to do business as a foreign limited liability company, in the case of Buyer Operating LLC, or a foreign corporation, in the case of Sub, and is in good standing in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualifications or licensing necessary, other than in such jurisdictions where the failure to be so qualified or licensed, individually or in the aggregate, would not have a Parent Material Adverse Effect. Each of Buyer Operating LLC and Sub has delivered to Seller complete and correct copies of its organizational documents as amended or supplemented to the date of this Agreement. Attached hereto as Exhibit A is a true and complete copy of the LLC Agreement. The LLC Agreement has not been amended subsequent to the date hereof except for such amendments which could be made without the approval of the holders of the Seller Common OP Units who make a Non-Cash Election had such amendment been made immediately after the Effective Time.

(b) Buyer Operating LLC is newly formed and, except for activities incident to the acquisition of Seller Partnership, Buyer Operating LLC has not (i) engaged in any business activities of any type or kind whatsoever or (ii) acquired any property of any type or kind whatsoever.

Section 3.2 Authority; Noncontravention; Consents. (a) Each of Parent, Sub and Buyer Operating LLC has the requisite power and authority to enter into this Agreement and to consummate the transactions contemplated by this Agreement to which it is a party. The execution and delivery of this Agreement by Parent, Sub and Buyer Operating LLC and the consummation by Parent, Sub and Buyer Operating LLC of the transactions contemplated by this Agreement to which Parent, Sub and/or Buyer Operating LLC is a party have been duly authorized by all necessary action on the part of Parent, Sub and Buyer Operating LLC (including, without limitation, the issuance of the Class A Units and the Class B Units in the Partnership Merger). This Agreement has been duly executed and delivered by Parent, Sub and Buyer Operating LLC, enforceable against each of them in accordance with and subject to their respective terms, subject to applicable bankruptcy, insolvency, moratorium or other similar Laws relating to creditors' rights and general principles of equity.

(b) Except as disclosed in the Buyer Disclosure Letter, the execution and delivery of this Agreement by each of Parent, Sub and Buyer Operating LLC does not, and the consummation of the transactions contemplated by this Agreement by Buyer Operating LLC to

which it is a party and compliance by it with the provisions of this Agreement will not, conflict with, or result in any violation of or default (with or without notice or lapse of time, or both) under, or give rise to a right of termination, cancellation or acceleration of any material obligation or to loss of a material benefit under, or result in the creation of any Lien upon any of the properties or assets of Parent, Sub, Buyer Operating LLC or any of its other Subsidiaries under, (i) the organizational or governing documents of Parent, Sub

or Buyer Operating LLC or the comparable certificate of incorporation or organizational documents or partnership or similar agreement (as the case may be) of any other Subsidiary of Parent, each as amended or supplemented to the date of this Agreement, (ii) any loan or credit agreement, note, bond, mortgage, indenture, reciprocal easement agreement, lease or other agreement, instrument, permit, concession, franchise or license applicable to Surviving Operating Partnership or any of its Subsidiaries or their respective properties or assets or (iii) subject to the governmental filings and other matters referred to in the following sentence, any Laws applicable to Parent or any of its Subsidiaries or their respective properties or assets, other than, in the case of clause (ii) or (iii), any such conflicts, violations, defaults, rights, loss or Liens that individually or in the aggregate would not reasonably be expected to (x) have a Parent Material Adverse Effect or (y) prevent the consummation of the transactions contemplated by this Agreement. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity is required by or with respect to Parent, Sub, Buyer Operating LLC or any of its other Subsidiaries in connection with the execution and delivery of this Agreement by Parent, Sub or Buyer Operating LLC or the consummation of the transactions contemplated hereby, except for (i) the filing of the Certificate of Merger with the Secretary of State of the State of Delaware, (ii) any filings required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (iii) the filing of a Form D with the SEC and (iv) such other consents, approvals, orders, authorizations, registrations, declarations and filings (A) as are Required Consents (as defined in the Merger Agreement) or are set forth in Section 3.3 of the Merger Agreement, (B) as required by the "blue sky" laws of various states, to the extent applicable or (C) those which, if not obtained or made, would not prevent or delay beyond the Outside Date the consummation of any of the transactions contemplated by this Agreement or otherwise prevent Parent, Sub or Buyer Operating LLC from performing its obligations under this Agreement in any material respect or have, individually or in the aggregate, a Parent Material Adverse Effect.

Section 3.3 Information Supplied. None of the information supplied by Parent, Sub or Buyer Operating LLC for inclusion or incorporation by reference in the Information Statement, any Additional Filings, the Consent Solicitation Statement or other Solicitation Documents shall, at the time of mailing thereof and at the Closing Date, contain any untrue statement of material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

ARTICLE 4

COVENANTS

Section 4.1 Reasonable Best Efforts; Additional Actions. Upon the terms and subject to the conditions of this Agreement, each of the parties hereto shall use all reasonable best efforts to take, or cause to be taken, all actions, and to do or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective as promptly as practicable the transactions contemplated by, and in connection with, this Agreement. In connection with and without limiting the foregoing, Seller General Partner shall take all necessary action to obtain the requisite consent of the holders of Seller Common OP Units with respect to the Seller Partner Approval, including the delivery contemporaneously with the execution of this Agreement of an executed voting agreement and consents in the form attached as Exhibit E to the Merger Agreement with respect to the adoption of this Agreement, approval of the Partnership Merger and approval of the Partnership Agreement Amendments.

Section 4.2 Notification of Certain Matters. Each of Seller General Partner and the Seller Partnership shall give notice to Parent, Sub and Buyer Operating LLC, and each of Parent, Sub and Buyer Operating LLC shall give notice to Seller General Partner and the Seller Partnership, promptly upon becoming aware of (a) any occurrence, or failure to occur, of any event, which occurrence or failure to occur has caused or would reasonably be expected to cause any representation or warranty that is qualified as to materiality in this Agreement to be untrue or inaccurate or any representation or warranty that is not so qualified to be untrue or inaccurate in any material respect at any time after the date hereof and prior to the Closing Date and (b) any material failure on its part to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided that the delivery of any notice pursuant to this Section 4.2 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

Section 4.3 Information Statement; Securities Filings. (a) To the extent the Seller Partnership has received the Seller Partner Approval in the form of valid written consents executed by partners of the Seller Partnership promptly after the date hereof, Seller Partnership and Parent shall jointly promptly prepare an Information Statement of Seller Partnership and Parent for

use in connection with the offering of units of limited liability company interest in Parent (the "Information Statement). The Information Statement shall comply as to form in all material respects with the requirements of the Securities Act and the rules and regulations thereunder applicable to an offering of securities exempt from registration under the Securities Act pursuant to Rule 506 thereunder. The parties shall cooperate and promptly prepare and the appropriate party shall file with the SEC as soon as practicable any other filings required under the Exchange Act ("Additional Filings") with respect to the transactions contemplated hereby. Parent shall take all actions required to be taken under any applicable federal and state securities laws in connection with the issuance of the Class A Units and the Class B Units in the Partnership Merger pursuant to this Agreement, including but not limited to the filing with the SEC of a "Notice of Sale of Securities Pursuant to Regulation D" on Form D.

(b) To the extent the Seller Partnership has not received the Seller Partner Approval in the form of valid written consents executed by partners of the Seller Partnership promptly after the date hereof, Seller Partnership and Parent shall jointly and promptly prepare a Consent Solicitation Statement soliciting the written consent of the holders of Seller OP Units to the adoption of this Agreement and the approval of the Partnership Merger (the "Consent

Solicitation Statement"), which Consent Solicitation Statement shall contain a description of the terms of the Class A Preferred Units and the Class B Units and the recommendation of Seller General Partner's Board of Directors that the holders of Seller OP Units consent to the adoption of this Agreement and the approval of the Partnership Merger. The Consent Solicitation Statement shall comply as to form in all material respects with the requirements of the Securities Act and the rules and regulations thereunder applicable to an offering of securities exempt from registration under the Securities Act pursuant to Rule 506 thereunder. As soon as practicable following the mailing of the Proxy Statement in connection with the Merger, Seller Partnership shall mail the Consent Solicitation Statement, together with a form of written consent, a Form of Election and any other documents relating thereto (collectively, the "Solicitation Documents"), to the holders of Seller OP Units. Seller Partnership and Parent shall consult and cooperate with each other in the preparation of the Solicitation Documents. All mailings to the holders of Seller OP Units in connection with the Partnership Merger, including the Solicitation Documents, shall be subject to the prior review, comment and approval of Parent (such approval not to be unreasonably withheld or delayed).

(c) Parent on the one hand, and Seller Partnership, on the other hand, shall each advise the other promptly if, prior to the Closing Date, it obtains knowledge of any facts that would make it necessary to amend the Information Statement, Consent Solicitation Statement or any of the Additional Filings or Solicitation Documents in order to render the statements therein not false or misleading or to comply with applicable law. Seller Partnership and Parent shall promptly amend or supplement any information in such documents if and to the extent that such information has become false or misleading, and Seller Partnership shall take all steps necessary to disseminate the amended documents or supplements to the holders of Seller Common OP Units, in each case, as and to the extent required by applicable law.

ARTICLE 5

CONDITIONS TO CONSUMMATION OF THE PARTNERSHIP MERGER

Section 5.1 Conditions to Each Party's Obligations to Effect the Partnership Merger. The respective obligations of each party hereto to effect the Partnership Merger is subject to the satisfaction on or prior to the Closing Date of each of the following conditions, any and all of which may be waived in whole or in part by the parties hereto with respect to such party's conditions, to the extent permitted by applicable law:

(a) Conditions to the Merger. All of the conditions to the closing of the Merger shall have been satisfied or waived in accordance with the terms of the Merger Agreement (other than those set forth in Section 6.2(h) of the Merger Agreement).

(b) Unitholders' Consent. The Seller Partner Approval shall have been obtained;

(c) No Injunctions or Restraints. No temporary restraining order, preliminary or permanent injunction or other order issued by any court of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Partnership Merger or any of the other transactions contemplated hereby shall be in effect; and

(d) HSR Act. All applicable waiting periods (and any extensions thereof) under the HSR Act shall have expired or otherwise been terminated.

Section 5.2 Conditions to Seller General Partner's and the Seller Partnership's Obligations to Effect the Partnership Merger. The obligation of Seller General Partner and the Seller Partnership to effect the Partnership Merger is also subject to the satisfaction (or waiver by Seller General Partner and the Seller Partnership) on or prior to the Closing Date of each of the following additional conditions:

(a) Accuracy of Representations and Warranties. The representations and warranties of each of Parent, Sub and Buyer Operating LLC set forth in this Agreement (i) that are qualified as to Parent Material Adverse Effect shall be true and correct and (ii) that are not so qualified shall be true and correct in all material respects, as of the date of this Agreement and as of the Closing Date, in each case as though made on and as of the Closing Date, except to the extent the representation or warranty is expressly limited by its terms to another date, in which case such representation or warranty shall be true and correct (if qualified as to Parent Material Adverse Effect) or true and correct in all material respects (if not so qualified) only as of such specific date.

(b) Compliance with Covenants. Each of Parent, Sub and Buyer Operating LLC shall have performed in all material respects all obligations and agreements, and complied in all material respects with covenants, contained in this Agreement to be performed or complied with by it prior to or as of the Closing Date.

(c) Officer's Certificate. Seller General Partner and the Seller Partnership shall have received a certificate of Parent, dated as of the Closing Date, signed by an executive officer of Parent to evidence satisfaction of the conditions set forth in Sections 5.2(a) and (b).

Section 5.3 Conditions to Parent's, Sub's and Buyer Operating LLC's Obligations to Effect the Partnership. The obligation of Parent, Sub and Buyer Operating LLC to effect the Partnership Merger is also subject to the satisfaction (or waiver by Parent, Sub and Buyer Operating LLC) at or prior to the Closing Date of each of the following additional conditions:

(a) Accuracy of Representations and Warranties. The representations and warranties of each of Seller General Partner and the Seller Partnership set forth in this Agreement (i) that are qualified as to Seller Material Adverse Effect shall be true and correct and (ii) that are not so qualified shall be true and correct in all material respects, as of the date of this Agreement and as of the Closing Date, in each case as though made on and as of the Closing Date, except to the extent the representation or warranty is expressly limited by its terms to another date, in which case such representation or warranty shall be true and correct (if qualified as to Seller Material Adverse Effect) or true and correct in all material respects (if not so qualified) only as of such specific date.

(b) Compliance with Covenants. Each of Seller General Partner and the Seller Partnership shall have performed in all material respects all obligations and agreements, and complied in all material respects with covenants, contained in this Agreement to be performed or complied with by it prior to or as of the Closing Date.

(c) Officer's Certificate. Parent, Sub and Buyer Operating LLC shall have received a certificate of Seller General Partner, dated as of the Closing Date, signed by an executive officer of Seller General Partner to evidence satisfaction of the conditions set forth in Sections 5.3(a) and (b).

(d) Seller Partnership Redemption. Seller Partnership shall have redeemed from Seller certain outstanding Seller OP Units in exchange for certain assets held by the Seller Partnership in accordance with the terms set forth on Exhibit A to the Merger Agreement.

ARTICLE 6

TERMINATION

Section 6.1 Termination. This Agreement shall terminate, without any further action on the part of the parties hereto, upon the termination of the Merger Agreement in accordance with its terms. This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the Closing Date by the mutual written consent of the parties hereto.

Section 6.2 Procedure for and Effect of Termination. If this Agreement is terminated as provided herein, no party hereto shall have any liability or further obligation to any other party under the terms of this Agreement.

ARTICLE 7

MISCELLANEOUS

Section 7.1 Amendment and Modification. Subject to applicable law, this Agreement may be amended, modified or supplemented only by a written agreement signed by each of the parties hereto at any time prior to the Closing Date with respect to any of the terms contained herein; provided, however, that after this Agreement is adopted by the holders of Seller Common OP Units, no such amendment shall be made which requires the approval of such holders.

Section 7.2 Waiver of Compliance; Consents. Any failure of Parent, Sub or Buyer Operating LLC, on the one hand, or Seller General Partner or the Seller Partnership, on the other hand, to comply with any obligation, covenant, agreement or condition herein may, subject to Section 7.1, be waived by Parent, Sub and Buyer Operating LLC or Seller General Partner and the Seller Partnership, respectively, only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Agreement requires or permits consent by or on behalf of any party hereto, such consent shall be given in writing in a manner consistent with the

requirements for a waiver of compliance as set forth in this Section 7.2 and in Section 7.1.

Section 7.3 Survival. The respective representations and warranties of Parent, Sub and Buyer Operating LLC and Seller General Partner and the Seller Partnership contained herein shall not survive the Closing hereunder.

Section 7.4 Notices. All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be delivered personally, sent by overnight courier (providing proof of delivery) to the parties or sent by telecopy (providing confirmation of transmission) at the following addresses or telecopy numbers (or at such other address or telecopy number for a party as shall be specified by like notice):

(a) if to Parent, Sub or Buyer Operating LLC, to:

SHP Acquisition, L.L.C. or SHP OP, L.L.C.
c/o Sunstone Hotel Properties, Inc.
903 Calle Amanecer
San Clemente, CA 92673
Attention: Robert A. Alter
Fax: (949) 369-4210

and to:

SHP Acquisition, L.L.C. or SHP OP, L.L.C.
c/o Westbrook Real Estate Partners
599 Lexington Avenue
Suite 3800
New York, New York 10022
Attention: Jonathan Paul
Fax: (212) 849-8801

with a copy to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, NY 10017-3954
Attention: Richard Capelouto, Esq.
Brian M. Stadler, Esq.
Fax: (212) 455-2502

and

Battle Fowler LLP

75 East 55th Street
New York, NY 10022
Attention: Martin L. Edelman, Esq.

Steve Lichtenfeld, Esq.
Fax: (212) 856-7808

(b) if to Seller General Partner or Seller Partnership, to:

Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, CA 92673
Attention: Chief Operating Officer
Fax: (949) 369-4230

with a copy to:

Altheimer & Gray
Ten South Wacker Drive
Suite 4000
Chicago, IL 60603
Attention: Phillip Gordon, Esq.
Fax: (312) 715-4800

All notices shall be deemed given only when actually received.

Section 7.5 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto without the prior written consent of the other parties.

Section 7.6 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF DELAWARE, REGARDLESS OF THE LAWS THAT MIGHT OTHERWISE GOVERN UNDER APPLICABLE PRINCIPLES OF CONFLICT OF LAWS THEREOF.

Section 7.7 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 7.8 Enforcement. The parties agree that irreparable harm would occur in the event that any of the provisions of this Agreement were not performed by any party in accordance with their specific terms or were otherwise breached. It is accordingly agreed that any party shall be entitled to an injunction or injunctions to prevent or redress breaches of this Agreement by any other party and to enforce specifically the terms and provisions of this Agreement in any federal court located in Delaware or in Chancery Court in Delaware, this being in addition to any other remedy to which they are entitled at law or in equity. Notwithstanding the foregoing, the parties agree that no party shall be entitled to a judgment specifically enforcing

the obligations of any other party to consummate the Partnership Merger. The parties agree that the provisions of Section 7.2 of the Merger Agreement constitute the exclusive remedy of any party for the loss suffered by such party as a result of the failure of the Partnership Merger to be consummated, and no party shall have any liability to any other party as a result of the failure of the Partnership Merger to be consummated, any breach of this Agreement or otherwise except as provided in Section 7.2 of the Merger Agreement. In addition, each of the parties hereto (a) consents to submit itself (without making such submission exclusive) to the personal jurisdiction of any federal court located in Delaware or Chancery Court located in Delaware in the event any dispute arises out of this Agreement or any of the transactions contemplated by this Agreement and (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court.

Section 7.9 Interpretation. The article and Section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement.

Section 7.10 Entire Agreement. The Merger Agreement (including the schedules, exhibits, documents or instruments referred to herein), this Agreement, the Seller Disclosure Letter and the Parent Disclosure Letter together embody the entire agreement and understanding of the parties hereto in respect of the subject matter hereof and thereof and supersede all prior agreements and understandings, both written and oral, among the parties, or between any of them, with respect to the subject matter hereof and thereof.

Section 7.11 No Third Party Beneficiaries. This Agreement is not intended to, and does not, create any rights or benefits of any party other than the parties hereto.

Section 7.12 Severability. In the event that any one or more of the provisions contained in this Agreement or in any other instrument referred to herein, shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement or any other such instrument.

Section 7.13 Tax Election. The parties hereby agree that an election pursuant to Section 754 of the Internal Revenue Code shall be made for the Seller Partnership and each partnership which is a subsidiary of the Seller Partnership (or shall be in effect) with respect to any transfers of interests in the Seller Partnership pursuant to the Merger and the Partnership Merger.

IN WITNESS WHEREOF, Parent, Sub, Buyer Operating LLC, Seller General Partner and the Seller Partnership have caused this Agreement and Plan of Merger to be signed by a person duly authorized to do so as of the date first above written.

SHP ACQUISITION L.L.C.

By: /s/ Paul Kazilionis

Name: /s/ Paul Kazilionis
Title: Manager

SHP OP, L.L.C.

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Person

SHP PROPERTIES CORP.

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Person

SUNSTONE HOTEL INVESTORS, INC.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Chief Operating Officer

SUNSTONE HOTEL INVESTORS, L.P.

By: SUNSTONE HOTEL INVESTORS, INC.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Auhorized Person

Exhibit A

LIMITED LIABILITY COMPANY AGREEMENT

OF

SHP OP, L.L.C.

This LIMITED LIABILITY COMPANY AGREEMENT (this "Agreement") of SHP OP, L.L.C. is made as of June 12, 1999 by SHP Acquisition, L.L.C., a Delaware limited liability company ("SHP Acquisition") and SHP Properties Corp., a Delaware corporation ("SHP Properties" and, collectively with SHP Acquisition, the "Original Members").

The Original Member hereby duly adopts this Agreement pursuant to and in accordance with the Delaware Limited Liability Company Act (6 Del.C. Section 18-101, et seq.), as amended from time to time (the "Act"), and hereby agrees as follows:

1. Name; Certificate of Formation. The name of the limited liability company is SHP OP, LLC. (the "Company"). The Certificate of Formation of the Company dated June 29, 1999 was filed in the office of the Secretary of State of the State of Delaware on June 29, 1999.

2. Purpose. The Company is formed for the object and purpose of, and the nature of the business to be conducted and promoted by the Company is, engaging in any lawful act or activity for which limited liability companies may be formed under the Act and engaging in any and all activities necessary or incidental to the foregoing.

3. Member Percentages. The percentage interest of each of the Original Members as of the date of this Agreement is set forth on Schedule A hereto. If one or more new members are admitted in accordance with the terms hereof, or if there are any other changes this Agreement will be amended and the percentage interest of each Member (the "Membership Percentage") set forth on a schedule hereto.

4. Designated Agent for Service of Process. The Company shall maintain a registered office and a designated and duly qualified agent for the service of process on the Company in the State of Delaware.

5. Managers. The Original Members hereby appoint the following named persons to be managers of the Company (the "Managers") and to serve with the title indicated:

<TABLE>
<CAPTION>

NAME	TITLE
<S>	<C>
Robert A. Alter	Manager
Paul Kazilionis	Manager
Mark Mance	Manager
Jonathan H. Paul	Manager

</TABLE>

6. Powers. The business and affairs of the Company shall be managed by the Original Members and such other persons as may become members of the Company from time to time in accordance with the provisions of this Agreement (together with the Original Members, the "Members"). The Members shall have the power to do any and all acts necessary or convenient to or for the furtherance of the purposes described herein, including all powers, statutory or otherwise, possessed by members under the laws of the State of Delaware. Each of the Managers is hereby each designated as an authorized person, within the meaning of the Act, to execute, deliver and file the certificate of formation of the Company (and any amendments and/or restatements thereof) and any other certificates (and any amendments and/or restatements thereof) necessary for the Company to qualify to do business in a jurisdiction in which the Company may wish to conduct business.

7. Management. The Managers shall have the sole and exclusive power and authority to act for and bind the Company. The Original Members shall have the exclusive right to manage the business and affairs of the Company and may delegate such management rights, powers, duties and responsibilities to one or more Managers or such other person or persons designated by them as they may determine, provided that such delegation by the Original Members shall not cause either of the Original Members to cease being a Member. Pursuant to its discretion to do so under this Section 7, the Original Members hereby delegate to the Managers the nonexclusive power and authority to act as an agent of the Company and, in such capacity, to bind the Company in the ordinary course of the Company's business and to execute any and all documents to be signed by the Company. Notwithstanding the foregoing delegation of power, no Manager shall have the authority to make any distributions or sell any assets of the Company without the consent of each of the Original Members.

8. Dissolution. The Company shall dissolve, and its affairs shall be wound up upon the first to occur of the following: (a) the written consent of the Original Members, (b) December 31, 2049, (c) the retirement, resignation, expulsion, insolvency, bankruptcy or dissolution of any Member or the occurrence of any other event which terminates the continued membership of any of the

Original Members in the Company unless the business of the Company is continued by consent of each of the Original Members within 90 days following the occurrence of any such event, or (d) the entry of a decree of judicial dissolution under Section 18-802 of the Act.

9. Capital Contributions. The Members shall make capital contributions to the Company from time to time, in cash, securities or other property, in amounts and at times as determined by the Original Members, and in proportion to their respective Membership Percentages.

10. Allocation of Profits and Losses. The Company's profits and losses shall be allocated among the Members in proportion to their respective Membership Percentages.

11. Distributions. Distributions shall be made to the Members at the times and in the amounts determined by the Original Members. Such distributions shall be allocated among the Members in proportion to their respective Membership Percentages.

12. Assignments; New Members. No Member may assign in whole or in part its limited liability company interest without the consent of each other Member, which consent may be granted or withheld in such Member's sole and absolute discretion. The Members may admit one or more new Members at any time upon such terms and conditions as they shall unanimously agree.

13. Resignation. No Member may resign from the Company without the consent of each of the Original Members; provided, however, that each of the Original Members may resign from the Company, thereby causing its dissolution, without the consent of any other Member.

14. Liability of Member; Indemnification. The Members shall not have any liability to the Company, any other Members or any third party for the obligations or liabilities of the Company except to the extent required by the Act. The Company shall, to the full extent permitted by applicable law, indemnify and hold harmless each Member and each Manager against liabilities incurred by it in connection with any action, suit or proceeding to which it may be made a party or otherwise involved or with which such Member or such Manager shall be threatened by reason of its being a Member or Manager or while acting as a Member or Manager on behalf of the Company or in its interest.

15. Governing Law. This Agreement shall be governed by, and construed under, the laws of the State of Delaware, all rights and remedies being governed by said laws.

16. Proposed Transactions. (a) The Original Members hereby deem it advisable and in the best interest of the Company that the Company enter into the Merger Agreement, dated as of July 12, 1999, among the Company, SHP Acquisition, SHP Properties and Sunstone Hotel Investors, L.P., a Delaware limited partnership (the "Merger Agreement"), a form of which has been presented to the Members, and the transactions contemplated thereby, be, and each of them hereby is, in all respects authorized and approved; and the Managers are, and each of them hereby is, authorized to execute and deliver on behalf of the Company the Merger Agreement with such changes therein and additions or amendments thereto, and any and all ancillary documents (collectively with the Merger Agreement, the "Transaction Agreements"), in

such form as the Manager or Manager executing any of the Transaction Agreements shall approve, such Manager's execution thereof to be conclusive evidence of such approval.

(b) All actions heretofore taken by any Member, any Manager or an authorized person within the meaning of the Act in connection with any matter referred to herein are hereby approved, ratified and confirmed in all respects.

(c) The Managers are, and each of them hereby is, authorized, and directed to do and perform, or cause to be done and performed, all such acts, deeds and things and to make, execute and deliver, or cause to be made, executed and delivered, all such agreements, undertakings, documents, instruments, certificates and other papers and instruments, in the name and on behalf of the Company or otherwise as each such Manager may deem necessary or appropriate to effectuate or carry out fully the purpose and intent of the Transaction Agreements and any of the transactions contemplated thereby.

17. Amendment. This Agreement may only be amended by a writing duly signed by each of the Original Members, except that any such amendment which directly and materially affects any Member shall require the consent of each such Member so affected.

18. Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart shall for all purposes be deemed an original, and all such counterparts shall together constitute but one and the same agreement.

19. Entire Agreement. This Agreement constitutes the entire agreement among the Members and supersedes all prior agreements and understandings among the Members with respect to the matters contemplated hereby. There are no restrictions, warranties, covenants, agreements, promises or undertakings other than those expressly set forth in this Agreement.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound hereby, have duly executed this Limited Liability Company Agreement as of the date first written above.

SHP ACQUISITION, L.L.C.

By /s/ Paul Kazilionis

Name: Paul Kazilionis

Title: Manager

SHP PROPERTIES CORP.

By /s/ Jonathan H. Paul

Name: Jonathan H. Paul

Title: Authorized Person

SCHEDULE A

<TABLE>
<CAPTION>

Member	Percentage Interest
<S>	<C>
SHP Acquisition, L.L.C.	99%
SHP Properties Corp.	1%

</TABLE>

EXHIBIT B

SECOND AMENDED AND RESTATED

AGREEMENT OF LIMITED PARTNERSHIP

OF

SUNSTONE HOTEL INVESTORS, L.P.

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SECOND AMENDED AND RESTATED AGREEMENT OF LIMITED PARTNERSHIP OF SUNSTONE HOTEL INVESTORS, L.P.

This Second Amended and Restated Agreement of Limited Partnership (this "Agreement") of Sunstone Hotel Investors, L.P. dated as of October 14, 1997, is entered into by and among Sunstone Hotel Investors, Inc., a Maryland corporation, in its individual capacity (the "Company") and in its capacity as the general partner of the Partnership (the "General Partner") and each of the limited partners of the Partnership (the "Limited Partners"), together with any other Persons who become Partners in the Partnership as provided herein.

R E C I T A L S:

A. WHEREAS, the General Partner and certain Limited Partners executed that certain First Amended and Restated Agreement of Limited Partnership dated as of October 16, 1995 (the "First Restated Agreement"), amending and restating that certain Limited Partnership Agreement dated as of September 22, 1994 (the "Original Agreement").

B. WHEREAS, the First Restated Agreement was amended by fourteen amendments thereto.

C. WHEREAS, the parties hereto have determined it to be in their mutual best interests to amend and restate the First Restated Agreement to incorporate

the fourteen amendments thereto and to make certain other changes to the First Restated Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing, of mutual covenants between the parties hereto, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree to amend the First Restated Agreement to read in its entirety as follows:

ARTICLE I

DEFINED TERMS

The following defined terms used in this Agreement shall have the meanings specified below:

"ACT" means the Delaware Revised Uniform Limited Partnership Act, as it may be amended from time to time, and any successor to such statute.

"ADDITIONAL LIMITED PARTNER" means a Person admitted to this Partnership as a Limited Partner pursuant to Section 4.2 hereof and who is shown as such on the Unitholder Ledger.

"ADMINISTRATIVE EXPENSES" means (i) all administrative and operating costs and expenses incurred by the Partnership, (ii) those administrative costs and expenses of the General Partner, including any salaries or other payments to directors, officers and/or employees of the General Partner, and any accounting and legal expenses of the General Partner, which expenses, the Partners have agreed, are expenses of the Partnership and not the General Partner, and (iii) to the extent not included in clause (ii) above, REIT Expenses; provided, however, that Administrative Expenses shall not include any administrative costs and expenses incurred by the Company that are attributable to Properties owned by the Company directly, if any.

"AFFILIATE" means (i) any Person that, directly or indirectly, controls or is controlled by or is under common control with such Person, (ii) any other Person that owns, beneficially, directly or indirectly, 5% or more of the outstanding capital stock, shares or equity interests of such Person, or (iii) any officer, director, employee, partner or trustee of such Person or any Person controlling, controlled by or under common control with such Person (excluding trustees and persons serving in similar capacities who are not otherwise an Affiliate of such Person). For the purposes of this definition, "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, through the ownership of voting securities, partnership interests or other equity interests.

"AGREED VALUE" means the fair market value of a Partner's non-cash Capital Contribution as of the date of such contribution as agreed to by the Partners making such contribution and the General Partner. For purposes of this Partnership Agreement, the Agreed Value of a Partner's non-cash Capital Contribution shall be equal to the number of Partnership Units received by such Partner in consideration for the conveyance or exchange of a Hotel or an interest in a Hotel, or in connection with the merger of a limited liability company, corporation or a partnership of which such Person is a member, shareholder or partner with and into the Partnership, or for any other non-cash asset so contributed, multiplied by the Public Offering Price or, if the contribution is or was made after the date of the closing of the Initial Offering, the Market Price; provided, that if there is no Market Price, the price agreed to by the Partners making such contribution and the General Partner. For Partners who contributed assets to the Partnership prior to the use of the Unitholder Ledger, the names and addresses of such Partners, number of Partnership Units issued to each Partner and the Agreed Value of non-cash Capital Contributions was as set forth on Exhibit "A" to the First Restated Agreement. After the introduction of the Unitholder Ledger, the names and addresses of the Partners and the number of Partnership Units issued to each Partner in exchange for assets contributed have been recorded in the Unitholder Ledger.

"AGREEMENT" means this Second Amended and Restated Agreement of Limited Partnership, as it may be further amended, supplemented or restated from time to

time.

"ARTICLES OF INCORPORATION" means the Articles of Incorporation of the General Partner originally filed in the State of Maryland on September 21, 1994, as amended and restated on September 23, 1994, as amended on November 9, 1994, June 19, 1995, August 14, 1995 and May 2, 1997, and as further amended or restated from time to time.

"ASSIGNEE" means a Person to whom one or more Partnership Units have been transferred in a manner permitted under this Agreement, but who has not become a Substituted Limited Partner.

"BOOK VALUE" means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Book Value of any asset contributed by a Partner to the Partnership shall be the gross fair market value of such asset (not reduced by any associated liabilities), as agreed to by the Partners;

(b) The Book Value of the Properties of the Partnership shall be adjusted to equal their respective gross fair market values as provided in Section 4.4 hereof; and

(c) The Book Value of any Property distributed to a Partner shall be adjusted to equal the gross fair market value of such asset on the date of distribution as determined by the General Partner.

The Book Value of any Property which has been established or adjusted to reflect gross fair market value hereunder shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing net income or net loss.

"BUSINESS DAY" means any day except a Saturday, Sunday or other day on which commercial banks in New York, New York or Orange County, California are authorized or required by law to close.

"CAPITAL ACCOUNT" has the meaning provided in Section 4.4 hereof.

"CAPITAL CONTRIBUTION" means the total amount of capital contributed or agreed to be contributed, as the context requires, to the Partnership by each Partner pursuant to the terms of the Agreement. Any reference to the Capital Contribution of a Partner shall include the Capital Contribution made by a predecessor holder of the Partnership Interest of such Partner. The paid-in Capital Contribution shall mean the cash amount or the Agreed Value of other assets actually contributed by each Partner to the capital of the Partnership.

"CASH AMOUNT" means an amount of cash per Partnership Unit equal to the value of the REIT Shares Amount on the date of receipt by the General Partner of a Notice of Redemption or, if such date is not a Business Day, the first Business Day thereafter. The value of the REIT Shares Amount shall be the Market Price.

"CERTIFICATE" means the Certificate of Limited Partnership relating to the Partnership together with any instrument or document that is required under the laws of Delaware or any other jurisdiction in which the Partnership conducts business, to be signed by the Partners of the Partnership (either by themselves or pursuant to the power-of-attorney granted to the General Partner in Section 8.2 hereof) and filed for recording in the appropriate public offices within Delaware or such other jurisdiction to perfect or maintain the Partnership as a limited partnership, to effect the

admission, withdrawal, or substitution of any Partner of the Partnership, or to protect the limited liability of the Limited Partners as limited partners under the laws of Delaware or such other jurisdiction.

"CERTIFICATE OF DESIGNATION" means, for a particular class of Preferred Partnership Units, the description of the rights, preferences and privileges to which the holders of Preferred Partnership Units of such class are entitled. For each class of Preferred Partnership Units that may be issued, a Certificate of

Designation shall be attached hereto as Exhibit "B" and shall be incorporated by reference herein.

"CODE" means the Internal Revenue Code of 1986, as amended and in effect from time to time, or any successor statute thereto, as interpreted by the applicable regulations thereunder. Any reference herein to a specific section or sections of the Code shall be deemed to include a reference to any corresponding provision of future law.

"COMMISSION" means the U.S. Securities and Exchange Commission.

"COMMON PARTNERSHIP UNITS" means a fractional, undivided share of the Partnership Interests of all Partners issued hereunder, excluding any Preferred Partnership Units.

"COMMON UNITHOLDER" means a holder of Common Partnership Units.

"COMPANY" means Sunstone Hotel Investors, Inc., a Delaware corporation, in its capacity other than as the General Partner or Limited Partner.

"COMPANY CONTRIBUTION" has the meaning provided in Section 4.2(a)(ii) hereof.

"CONVERSION FACTOR" means one (1), provided that in the event that the General Partner (i) declares or pays a dividend on its outstanding REIT Shares in REIT Shares or makes a distribution to all holders of its outstanding REIT Shares in REIT Shares, (ii) subdivides its outstanding REIT Shares, or (iii) combines its outstanding REIT Shares into a smaller number of REIT Shares, the Conversion Factor shall be adjusted by multiplying the Conversion Factor by a fraction, the numerator of which shall be the number of REIT Shares issued and outstanding on the record date for such dividend, distribution, subdivision or combination (assuming for such purposes that such dividend, distribution, subdivision or combination has occurred as of such time), and the denominator of which shall be the actual number of REIT Shares (determined without the above assumption) issued and outstanding on such date. Any adjustment to the Conversion Factor shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event.

"DEPRECIATION" means, for each accounting period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such period, except that if the Book Value of an asset differs from its adjusted basis for federal income tax purposes during such accounting period, Depreciation shall be an amount which bears the same ratio to Book Value as the federal income tax depreciation, amortization, or other cost recovery deduction

for such period bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such accounting period is zero, Depreciation shall be determined with reference to such asset as if the adjusted basis of the asset for federal income tax purposes were equal to the Book Value and using any reasonable method of cost recovery selected by the General Partner.

"DIRECTORS' PLAN" means the 1994 Directors' Plan of the Company relating to the issuance of REIT shares and the grant of options to acquire REIT Shares and similar rights to directors of the Company.

"DIVIDEND REINVESTMENT PLAN" means the Dividend Reinvestment and Stock Purchase Plan of the Company pursuant to which certain eligible persons may purchase REIT Shares directly from the Company, and holders of REIT Shares may elect to have some or all of their dividends on their REIT Shares reinvested to purchase additional REIT Shares from the Company.

"ELIGIBLE PERSON" has the meaning provided in Section 4.2(f) hereof.

"EVENT OF BANKRUPTCY" as to any Person means the filing of a petition for relief as to such Person as debtor or bankrupt under the Bankruptcy Code of 1978 or similar provision of law of any jurisdiction (except if such petition is contested by such Person and has been dismissed within ninety (90) days of filing); insolvency or bankruptcy of such Person as finally determined by a court proceeding; filing by such Person of a petition or application to accomplish the same or for the appointment of a receiver or a trustee for such Person or a substantial part of his assets; commencement of any proceedings relating to such Person as a debtor under any other reorganization, arrangement,

insolvency, adjustment of debt or liquidation law of any jurisdiction, whether now in existence or hereinafter in effect, either by such Person or by another, provided that if such proceeding is commenced by another, such Person indicates his approval of such proceeding, consents thereto or acquiesces therein, or such proceeding is contested by such Person and has not been finally dismissed within ninety (90) days of filing.

"FINANCIAL STATEMENTS" has the meaning provided in Section 10.6(a) hereof.

"FUNDING LOAN" has the meaning provided in Section 4.3 hereof.

"GENERAL PARTNER" means Sunstone Hotel Investors, Inc., a Maryland corporation and any Person who becomes a substitute or additional General Partner as provided herein, and any of their successors as General Partner.

"GENERAL PARTNERSHIP INTEREST" means the Partnership Interest held by the General Partner that is a general partnership interest representing a fractional part of the Partnership Interests at any particular time, including the right of such limited partner to any and all benefits to which such limited partner may be entitled as provided in this Agreement and in the Act, together with the obligations of such general partner to comply with provisions of this Agreement and Act. A General Partner Interest may be expressed as a number of Partnership Units.

"IMMEDIATE FAMILY MEMBER" has the meaning provided in Section 9.2(d)(iii) hereof.

"INCENTIVE RIGHTS" has the meaning provided in Section 4.2(f)(iii) hereof.

"INDEMNIFIED PARTY" has the meaning provided in Section 8.6(e) hereof.

"INDEMNIFYING PARTY" has the meaning provided in Section 8.6(e) hereof.

"INDEMNITEE" means (i) any Person made a party to a proceeding by reason of his status as (A) the General Partner or (B) a director or officer of the Partnership or the General Partner, or (C) a party liable, pursuant to a loan guarantee or otherwise, for any indebtedness of the Partnership or any Subsidiary of the Partnership (including, without limitation, any indebtedness which the Partnership or any Subsidiary of the Partnership has assumed or taken assets subject to), and (ii) such other Persons (including Affiliates of the General Partner or the Partnership) as the General Partner may designate from time to time (whether before or after the event giving rise to potential liability), in its sole and absolute discretion.

"INDEPENDENT DIRECTOR" has the meaning provided in the Articles of Incorporation.

"INITIAL HOTELS" means the Hampton Inn-Denver (S.W.), the Hampton Inn-Pueblo, Colorado, the Hampton Inn-Mesa, Arizona, the Hampton Inn, Silverthorne, Colorado, the Hampton Inn, Arcadia, California, the Best Western, Santa Fe, New Mexico, the Holiday Inn-Craig, Colorado, the Holiday Inn-Steamboat Springs, Colorado, the Holiday Inn-Provo, Utah, and the Courtyard by Marriott-Fresno, California, and any other hotel contributed by an Additional Limited Partner prior to the date of this Agreement.

"INITIAL OFFERING" means the initial offer and sale by the General Partner and the purchase by the Underwriters (as defined in the prospectus for such offering) of the shares of common stock of the General Partner for sale to the public.

"LIMITED PARTNER" means any Person named as a Limited Partner on the Unitholder Ledger, and any Person who becomes a Substitute or Additional Limited Partner, in such Person's capacity as a Limited Partner in the Partnership.

"LIMITED PARTNERSHIP INTEREST" means a Partnership Interest of a Limited Partner in the Partnership representing a fractional part of the Partnership Interests at any particular time, including the right of such Limited Partner to any and all benefits to which such Limited Partner may be entitled as provided in this Agreement and in the Act, together with the obligations of such Limited Partner to comply with all the provisions of this Agreement and of the Act. A Limited Partner Interest may be expressed as a number of Partnership Units.

"LIQUIDATOR" has the meaning provided in Section 8.2 hereof.

"LOSS" has the meaning provided in Section 5.1(f) hereof.

"MARKET PRICE" on any date shall mean the average of the Closing Price for the five consecutive Trading Days ending on such date. The "Closing Price" on any day shall mean the last reported sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange, of the class of REIT Shares or REIT Preferred Shares, or, if not, then listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which such shares are listed or admitted to trading or, if such shares are not then listed or admitted to trading on any national securities exchange, the last quoted price, or if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the National Association of Securities Dealers, Inc. Automated Quotation System or, if such system is no longer in use, the principal other automated quotations system that may then be in use or, if such shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market marker making a market in such shares as selected in good faith by the Board of Directors of the Company. "Trading Day" shall mean a day on which the principal national securities exchange on which such REIT Shares or REIT Preferred Shares are listed or admitted to trading is open for the transaction of business or, if such shares are not listed or admitted to trading on any national securities exchange, shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"MINIMUM LIMITED PARTNERSHIP INTEREST" means the lesser of (i) 1 % or (ii) if the total Capital Contributions to the Partnership exceeds $50 million, 1% divided by the ratio of the total Capital Contributions to the Partnership to $50 million; provided, however, that the Minimum Limited Partnership Interest shall not be less than 0.2% at any time.

"NEW SECURITIES" has the meaning provided in Section 4.2(a)(ii) hereof.

"NOTICE OF REDEMPTION" means the Notice of Exercise of Redemption Right substantially in the form attached as Exhibit "A" hereto.

"OFFER" has the meaning provided in Section 7.1(c) hereof.

"PARTNER" means any General Partner or any Limited Partner, and "PARTNERS" means collectively the General Partner and all of the Limited Partners.

"PARTNER NONRECOURSE DEBT MINIMUM GAIN" has the meaning set forth in Regulations Section 1.704-2(i). A Partner's share of Partner Nonrecourse Debt Minimum Gain shall be determined in accordance with Regulations Section 1.704-2(i)(5).

"PARTNERSHIP" means the limited partnership formed under the Act and pursuant to the Original Agreement, as amended and restated pursuant to the First Restated Agreement and this Agreement and any successor partnership thereto.

"PARTNERSHIP INTEREST" means an ownership interest in the Partnership representing a Capital Contribution by either a Limited Partner or the General Partner and includes any and all benefits to which the holder of such a Partnership Interest may be entitled as provided in this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement or the Act. A Partnership Interest may be expressed as a number of Partnership Units.

"PARTNERSHIP MINIMUM GAIN" has the meaning set forth in Regulations Section 1.704- 2(d). In accordance with Regulations Section 1.704-2(d), the

amount of Partnership Minimum Gain is determined by first computing, for each Partnership nonrecourse liability, any gain the Partnership would realize if it disposed of the property subject to that liability for no consideration other than full satisfaction of the liability, and then aggregating the separately computed gains. A Partner's share of Partnership Minimum Gain shall be determined in accordance with Regulations Section 1.704-2(g)(1).

"PARTNERSHIP RECORD DATE" means the record date established by the General Partner for the distribution of Distributable Cash pursuant to Section 5.2 hereof, which record date shall be the same as the record date established by the General Partner for a distribution to its stockholders of some or all of its portion of such distribution.

"PARTNERSHIP UNIT" means a fractional, undivided share of the Partnership Interests of all Partners issued at any time and from time to time by the Partnership, consisting of either Common Partnership Units or Preferred Partnership Units. The ownership of Partnership Units shall be evidenced by book entry on the Unitholder Ledger maintained by the Transfer Agent that reflects the issuance, redemption, exchange or conversion of Partnership Units. In the absence of manifest error, the Unitholder Ledger shall be final, conclusive and binding on all Limited Partners.

"PERCENTAGE INTEREST" means the percentage ownership interest in the Partnership that each Partner, as determined by dividing the Partnership Units owned by a Partner as of the date of determination by the total number of Partnership Units then outstanding, as may be adjusted by Section 4.2 hereof. The Percentage Interest of each Partner is set forth opposite its respective name on the Unitholder Ledger.

"PERSON" means any individual, partnership, limited liability company, corporation, joint venture, trust, association or other entity.

"PLEDGE" has the meaning provided in Section 9.2(a) hereof.

"PREFERRED UNIT" means a fractional, undivided share of the Partnership interest of all Partners issued at any time and from time to time by the Partnership, which has the rights, preferences and other privileges designated in the Certificate of Designation related to a particular class of Preferred Partnership Units. With respect to any class of Preferred Partnership Units, the allocation of Preferred Partnership Units among the Partners holding units of such class shall be as set forth on the Unitholder Ledger.

"PREFERRED UNITHOLDER" means a Partner holding one or more Preferred Partnership Units.

"PROFIT" has the meaning provided in Section 5.1(f) hereof.

"PROPERTIES" means the Initial Hotels together with any other hotel property or other investment in which the Partnership holds an ownership or ground lessee interest, including collectively real and personal property.

"PROSPECTUS" means the final prospectus delivered to purchasers of shares of the General Partner's common stock in the most recent public offering of securities of the Company.

"PUBLIC OFFERING PRICE" shall mean the initial public offering price set forth in the Prospectus for the Initial Offering.

"REDEEMING PARTNER" has the meaning provided in Section 8.5(a) hereof.

"REDEMPTION AMOUNT" means the Cash Amount, or the REIT Shares Amount, as selected by the General Partner in its sole discretion pursuant to Section 8.5 hereof, subject to the obligation under Section 8.5(c) hereof in certain cases to pay the Cash Amount.

"REDEMPTION RIGHT" has the meaning provided in Section 8.5(a) hereof.

"REDEMPTION SHARES" means all of the REIT Shares issued or to be issued upon the redemption of Partnership Units under Section 8.5 hereof.

"REGISTERED REDEMPTION SHARES" means any Redemption Shares covered by a Shelf Registration.

"REGULATIONS" means the Federal Income Tax Regulations promulgated under

the Code, as amended and as hereafter amended from time to time. Reference to any particular provision of the Regulations shall mean that provision of the Regulations on the date hereof and any succeeding provision of the Regulations.

"REIT" means a real estate investment trust under Sections 856 through 860 of the Code.

"REIT EXPENSES" means (i) all of the costs and expenses relating to the formation and continuity of existence of the Company (as a General Partner and Limited Partner) and any Subsidiaries thereof (which Subsidiaries shall, for purposes of this definition, be included within the definition of Company), including taxes, fees and assessments associated therewith, any and all costs, expenses or fees payable to any director, officer, or employee of the Company, (ii) costs and expenses relating to the public offering and registration of securities from time to time by the Company and all statements, reports, fees and expenses incidental thereto, including underwriting discounts and selling commissions applicable to any such offering of securities by the Company, (iii) costs and expenses associated with the preparation and filing of any periodic reports by the Company under federal, state or local laws or regulations, including filings with the Commission, (iv) costs

and expenses associated with compliance by the Company with laws, rules and regulations promulgated by any regulatory body, including the Commission, and (v) all other operating or administrative costs of the Company incurred in the ordinary course of its business on behalf of the Partnership.

"REIT PREFERRED SHARE" means a share of preferred stock of the Company.

"REIT SHARE" means a share of common stock of the Company.

"REIT SHARES AMOUNT" shall mean a whole number of REIT Shares equal to the product of the number of Partnership Units offered for redemption by a Redeeming Partner, multiplied by the Conversion Factor (rounded down to the nearest whole number in the event such product is not a whole number); provided that in the event the Company issues to all holders of REIT Shares rights, options, warrants or convertible or exchangeable securities entitling the shareholders to subscribe for or purchase REIT Shares, or any other securities or property (collectively, the "Rights"), then the REIT Shares Amount for such Redeeming Parties shall also include the Rights that a holder of that number of REIT Shares would be entitled to receive at the time of such redemption.

"SECURITIES ACT" shall have the meaning provided in Section 8.6(a) hereof.

"SERVICE" means the Internal Revenue Service.

"SHELF REGISTRATION" has the meaning provided in Section 8.6(a) hereof.

"SHELF REGISTRATION PERIOD" has the meaning provided in Section 8.6(a) hereof.

"SPECIFIED REDEMPTION DATE" means the first business day of the month that is at least ten (10) Business Days after the receipt by the General Partner of the Notice of Redemption; provided that if the General Partner enters into a merger, combination or other transaction with another Person to combine its outstanding REIT Shares, then no Specified Redemption Date shall occur after the record date and prior to the effective date of such combination.

"STOCK INCENTIVE PLAN" means the 1994 Stock Incentive Plan of the Company relating to the issuance of REIT Shares and grant of options to acquire REIT Shares and similar rights to employees of the Company and other eligible persons.

"SUBSIDIARY" means, with respect to any Person, any corporation or other entity of which a majority of (i) the voting power of the voting equity securities or (ii) the outstanding equity interests is owned, directly or indirectly, by such Person.

"SUBSTITUTE LIMITED PARTNER" means any Person admitted to the Partnership as a Limited Partner pursuant to Section 9.3 hereof.

"SURVIVING GENERAL PARTNER" has the meaning provided in Section 7.1(d) hereof.

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"TARGET CAPITAL ACCOUNT" means, with respect to any Partner, the amount which such Partner would be entitled to receive if all of the assets of the Partnership were sold at their Book Value and the proceeds distributed in accordance with Section 5.6 hereof.

"THRESHOLD CASH AMOUNT" has the meaning provided in Section 8.5(a) hereof.

"TRANSACTION" has the meaning provided in Section 7.1(c) hereof.

"TRANSFER" has the meaning provided in Section 9.2(a) hereof.

"TRANSFER AGENT" shall mean the transfer agent or agents engaged by the General Partner in its sole discretion with respect to the common or preferred stock of the General Partner or Partnership Units.

"UNITHOLDER LEDGER" shall mean the ledger maintained by the Transfer Agent which reflects the ownership of the Partnership Units and shall be revised from time to time pursuant to the instructions by the General Partner to the Transfer Agent to reflect the issuance, redemption, exchange, or conversion of Partnership Units.

"WARRANTS" means in the aggregate (i) the Warrants to Purchase Partnership Units dated as of August 16, 1995, to be issued by the Partnership to Robert A. Alter covering Partnership Units; (ii) the Warrants to Purchase Partnership Units dated as of August 16, 1995, to be issued by the Partnership to Charles L. Biederman covering Partnership Units; (iii) the Warrants to Purchase Partnership Units dated as of August 16, 1995, to be issued by the Partnership to C. Robert Enever covering Partnership Units; and (iv) the Warrants to Purchase Partnership Units dated as of August 16, 1995, to be issued by the Partnership to MYPC covering Partnership Units.

ARTICLE II

PARTNERSHIP CONTINUATION AND IDENTIFICATION

2.1 ORGANIZATION. The Partnership is a limited partnership organized pursuant to the provisions of the Act and upon the terms and conditions set forth in the First Restated Agreement. The Partners hereby amend and restate the First Restated Agreement in its entirety as of the date first hereinabove written. Except as expressly provided herein to the contrary, the rights and obligations of the Partners and the administration and termination of the Partnership shall be governed by the Act. The Partnership Interest of each Partner shall be personal property for all purposes. The Partners hereby agree to continue the Partnership pursuant to the Act and upon the terms and conditions set forth in this Agreement.

2.2 NAME. The name of the Partnership shall be Sunstone Hotel Investors, L.P. The Partnership's business may be conducted under any other name or names deemed advisable by the General Partner, including the name of the General Partner or any Affiliate thereof. The words "Limited Partnership," "L.P.," "Ltd." or similar words or letters shall be included in the Partnership's

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name where necessary for the purposes of complying with the laws of any jurisdiction that so requires. The General Partner in its sole and absolute discretion may change the name of the Partnership at any time and from time to time and shall notify the Limited Partners of such change in the next regular communication to the Limited Partners.

2.3 REGISTERED OFFICE AND AGENT; PRINCIPAL OFFICE. The address of the registered office of the Partnership in the State of Delaware shall be located at 32 Loockerman Square, Suite L-100, Dover, Delaware 19901, and the registered agent for service of process on the Partnership in the State of Delaware at such registered office shall be The Prentice-Hall Corporation System, Inc. The principal office of the Partnership shall be 115 Calle de Industrias, Suite 203, San Clemente, California 92672 or such other place as the General Partner may from time to time designate by notice to the Limited Partners. The Partnership may maintain offices at such other place or places within or outside the State

of Delaware as the General Partner deems advisable.

2.4 PARTNERS.

(a) The General Partner of the Partnership is Sunstone Hotel Investors, Inc., a Maryland corporation. Its principal place of business shall be the same as that of the Partnership. The Partnership Units that are owned by the Company from time to time shall be deemed held by it in its capacity as the General Partner, up to the number of Partnership Units required to give it a one percent (1%) Percentage Interest, and the balance of such Partnership Units shall be deemed Partnership Units held by the Company in its capacity as a Limited Partner.

(b) The Limited Partners shall be those Persons identified as Limited Partners on the Unitholder Ledger, as modified from time to time. Additional Limited Partners may be admitted to the Partnership through the issuance of Partnership Units as provided in Section 4.2, and Substitute Limited Partners may be admitted to the Partnership through the assignment or other disposition of Partnership Units as provided in Section 9.3. Limited Partners may withdraw from the Partnership upon the redemption or transfer of all of their Limited Partnership interests as provided in Section 9.7.

2.5 TERM AND DISSOLUTION.

(a) The term of the Partnership shall continue in full force and effect until December 31, 2050, except that the Partnership shall be dissolved upon the happening of any of the following events:

(i) The occurrence of an Event of Bankruptcy as to a General Partner or the dissolution, death or withdrawal of a General Partner unless the business of the Partnership is continued pursuant to Section 7.3(b) hereof; provided if a General Partner is on the date of such occurrence a partnership, the dissolution of such General Partner as a result of the dissolution, death, withdrawal, removal or Event of Bankruptcy of a partner in such partnership shall not be an event of dissolution of the Partnership if the business of such General Partner is continued by the remaining partner or partners, either alone or with

additional partners, and such General Partner and such partners comply with any other applicable requirements of this Agreement;

(ii) The passage of ninety (90) days after the sale or other disposition of all or substantially all the assets of the Partnership (provided that if the Partnership receives an installment obligation as consideration for such sale or other disposition, the Partnership shall continue, unless sooner dissolved under the provisions of this Agreement, until such time as such installment obligation or obligations are paid in full);

(iii) The redemption of all Limited Partnership Interests (other than any of such interests held by the General Partner); or

(iv) The election by the General Partner that the Partnership should be dissolved.

(b) Upon dissolution of the Partnership (unless the business of the Partnership is continued pursuant to Section 7.3(b) hereof), the General Partner (or its trustee, receiver, successor or legal representative, including the Liquidator) shall amend or cancel the Certificate and liquidate the Partnership's assets and apply and distribute the proceeds thereof in accordance with Section 5.6 hereof. Notwithstanding the foregoing, the liquidating General Partner may either (i) defer liquidation of, or withhold from distribution for a reasonable time, any assets of the Partnership (including those necessary to satisfy the Partnership's debts and obligations), or (ii) distribute the assets to the Partners in kind.

2.6 FILING OF CERTIFICATE AND PERFECTION OF LIMITED PARTNERSHIP. The General Partner shall execute, acknowledge, record and file at the expense of the Partnership, the Certificate and any and all amendments thereto and all requisite fictitious name statements and notices in such places and jurisdictions as may be necessary to cause the Partnership to be treated as a limited partnership under, and otherwise to comply with, the laws of each state or other jurisdiction in which the Partnership conducts business.

ARTICLE III

PURPOSE OF THE PARTNERSHIP

3.1 BUSINESS. The purpose and nature of the business to be conducted by the Partnership is (i) to conduct any business that may be lawfully conducted by a limited partnership organized pursuant to the Act, provided, however, that such business shall be limited to and conducted in such a manner as to permit the Company at all times to qualify as a REIT, unless the Company otherwise ceases to qualify as a REIT, (ii) to enter into any partnership, joint venture or other similar arrangement to engage in any of the foregoing or the ownership of interests in any entity engaged in any of the foregoing and (iii) to do anything necessary or incidental to the foregoing. The General Partner shall also be empowered to do any and all acts and things necessary or prudent to ensure that the Partnership will not be classified as a "publicly traded partnership" for the purposes of Section

7704(a) of the Code. In connection with the foregoing, and without limiting the General Partner's right in its sole discretion to cease qualifying as a REIT, the Partners acknowledge that the General Partner's current status as a REIT inures to the benefit of all the Partners and not solely to the General Partner.

3.2 POWERS. The Partnership is empowered to do any and all acts and things necessary, appropriate, proper, advisable, incidental to or convenient for the furtherance and accomplishment of the purposes and business described herein and for the protection and benefit of the Partnership, provided that the Partnership shall not take, or refrain from taking, any action which, in the judg ment of the General Partner, in its sole and absolute discretion, (i) could adversely affect the ability of the Company to continue to qualify as a REIT, (ii) could subject the General Partner to any additional taxes under Section 857 or Section 4981 of the Code, or (iii) could violate any law or regulation of any governmental body or agency having jurisdiction over the Company or its securities, unless such action (or inaction) shall have been specifically consented to by the General Partner in writing.

3.3 PARTNERSHIP ONLY FOR PURPOSES SPECIFIED. The Partnership shall be a partnership only for the purposes specified in Section 3.1 hereof, and this Agreement shall not be deemed to create a partnership among the Partners with respect to any activities whatsoever other than the activities within the purposes of the Partnership as specified in Section 3.1 hereof. Except as otherwise provided in this Agreement, no Partner shall have any authority to act for, bind, commit or assume any obligation or responsibility on behalf of the Partnership, its properties or any other Partner. No Partner, in its capacity as a Partner under this Agreement, shall be responsible or liable for any indebtedness or obligation of another Partner, nor shall the Partnership be responsible or liable for any indebtedness or obligation of any Partner, incurred either before or after the execution and delivery of this Agreement by such Partner, except as to those responsibilities, liabilities, indebtedness or obligations incurred pursuant to and as limited by the terms of this Agreement and the Act.

ARTICLE IV

CAPITAL CONTRIBUTIONS AND ACCOUNTS

4.1 CAPITAL CONTRIBUTIONS. The Company, as a General Partner and Limited Partner, initially contributed to the capital of the Partnership cash in an amount set forth opposite its name on Exhibit "A" to the First Restated Agreement. The Limited Partners (or their predecessors-in-interest) contributed prior to the date of this Agreement to the Capital of the Partnership interests in one or more of the Initial Hotels pursuant to the Purchase Agreements or Contribution Agreements. The Agreed Value of each Limited Partner's ownership interest in the Initial Hotels (other than the Company) that were contributed to the Partnership were set forth opposite such Limited Partner's names on Exhibit "A" to the First Restated Agreement for contributions made prior to the introduction of the Unitholder Ledger; or, for contributions made after the introduction of the Unitholder Ledger, such Agreed Value is established by reference to the number of Partnership Units issued in exchange for such contribution as evidenced on the Unitholder Ledger and calculating the value of such units in accordance with the definition of "Agreed Value."

4.2 ADDITIONAL CAPITAL CONTRIBUTIONS AND ISSUANCES OF ADDITIONAL PARTNERSHIP INTERESTS. Except as provided in this Section 4.2 or in Section 4.3, the Partners shall have no right or obligation to make any additional Capital Contributions or loans to the Partnership. The General Partner may contribute additional capital to the Partnership, from time to time, and receive additional Partnership Interests in respect thereof, in the manner contemplated in this Section 4.2.

(a) Issuances of Additional Partnership Interests.

(i) General. The General Partner is hereby authorized to cause the Partnership to issue such additional Partnership Interests in the form of Partnership Units for any Partnership purpose at any time or from time to time, to the Partners (including the General Partner) or to other Persons for such consideration and on such terms and conditions as shall be established by the General Partner in its sole and absolute discretion, all without the approval of any Limited Partners. The Partnership issued Partnership Units in the number set forth on Exhibit "A" to the First Restated Agreement or on the Unitholder Ledger to each of the Limited Partners who contributed an Initial Hotel to the Partnership. Any additional Partnership Interests issued by the General Partner have been and may be issued in one or more classes, or one or more series of any of such classes, with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights, powers and duties senior, equal or subordinate to Limited Partnership Interests, all as shall be determined by the General Partner in its sole and absolute discretion and without the approval of any Limited Partner, subject to only to mandatory provisions of applicable Delaware law, including, without limitation, (i) the allocations of items of Partnership income, gain, loss, deduction and credit to each such class or series of Partnership Interests; (ii) the rights of each such class or series of Partnership Interests to share in Partnership allocations and distributions; and (iii) the rights of each such class or series of Partnership Interests upon dissolution and liquidation of the Partnership. The General Partner may issue additional Partnership Interests to any Person (including the General Partner) as full or partial consideration for the contribution of a hotel or other asset from such Person to the Partnership in which case such Person's resultant Capital Contribution to the Partnership shall equal the Agreed Value of the hotel or other asset contributed. In addition to the foregoing, no additional Partnership Interests shall be issued to the Company (as a General and Limited Partner) unless either:

(1)(A) the additional Partnership Interests are issued in connection with an issuance of shares of or other debt or equity interests in the Company, which shares or interests have designations, preferences and other rights, all such that the economic interests are substantially similar to the designations, preferences and other rights of the additional Partnership Interests issued to the Company by the Partnership in accordance with this Section 4.2 and (B) the Company shall make a Capital Contribution to the Partnership in cash in an amount equal to the net proceeds raised in connection with the issuance of such shares of or other interests in the Company or of assets acquired by the Company with such net proceeds or a combination of such cash and assets, or

(2) the additional Partnership Interests are issued to all Partners in proportion to their respective Percentage Interests.

Without limiting the foregoing, the General Partner is expressly authorized to cause the Partnership to issue Partnership Units (i) for less than fair market value, so long as the General Partner concludes in good faith that such issuance is in the best interests of the General Partner and the Partnership, (ii) upon the exercise of any of the Warrants from time to time, and (iii) upon the exercise of any rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for, purchase or receive in an exchange Partnership Units.

(ii) Upon Issuance of New Securities. After the Initial Offering, the Company shall not grant, award or issue any (i) REIT Shares (other than REIT Shares issued in connection with a redemption

pursuant to Section 8.5 hereof), (ii) REIT Preferred Shares, (iii) rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase REIT Shares or REIT Preferred Shares, or (iv) debt securities (the securities described in (i), (ii), (iii) and (iv), collectively, "New Securities") unless:

(1) the General Partner shall cause the Partnership to issue to the Company, Partnership Interests or rights, options, warrants or convertible or exchangeable securities of the Partnership having designations, preferences and other rights, all such that the economic interests of such Partnership Interests or securities are substantially similar to those of the New Securities, and

(2) the Company contributes to the Partnership (A) the cash proceeds from the issuance of such New Securities and from the exercise of rights contained in such New Securities, (B) the assets acquired by the Company from a third party with the cash proceeds from the issuance of New Securities or in exchange for the New Securities issued to such third party (which includes assets of businesses whose equity interests are acquired by the Company where the business is then dissolved by or merged into the Company), or (C) a combination of (A) and (B) as determined in the sole discretion of the Company (the contributions referred to in (A), (B) and (C) collectively, a "Company Contribution"). The assets referred to in (B), which must be contributed by the Company to the Partnership, need not consist of the assets directly acquired by the Company (or the assets of businesses whose equity interests are acquired by the Company where the business is then dissolved by or merged into the Company). Rather, the Company may first acquire such assets and sell all or any part thereof to a third party (which may include Sunstone Hotel Properties, Inc. or any successor thereto) in exchange for any type and amount of consideration agreed upon by the Company in its sole discretion and the third party, and the Company may then contribute to the Partnership the consideration the Company received in such sale. Notwithstanding the foregoing, the Partnership shall (i) have no legal, equitable or beneficial ownership of any cash or other assets of the Company unless and until the Company contributes such cash or other assets to the Partnership; (ii) shall have no obligation to the transferor of assets to the Company; and (iii) shall not be

obligated to accept any stock of a corporation as a contribution if the Partnership would have to liquidate or recapitalize such corporation in order for the Company to maintain its REIT status.

Notwithstanding anything in this Section 4.2(a) to the contrary, the Company is allowed to issue New Securities in connection with an acquisition of assets to be held directly by the Company if such direct acquisition and issuance of New Securities has been approved and determined to be in the best interests of the Company and the Partnership by a majority of the Independent Directors. Without limiting the foregoing, the Company is expressly authorized to issue New Securities for less than fair market value, and to cause the Partnership to issue to the Company corresponding Partnership Interests, so long as (x) the Company concludes in good faith that such issuance is in the best interests of the Company and the Partnership (for example, and not by way of limitation, the issuance of REIT Shares and corresponding Partnership Units pursuant to an employee stock purchase plan providing for employee purchases of REIT Shares at a discount from fair market value or employee stock options that have an exercise price that is less than the fair market value of the REIT Shares, either at the time of issuance or at the time of exercise), and (y) the Company contributes the Company Contribution to the Partnership. By way of example, in the event the Company issues REIT Shares for a cash purchase price and contributes all of the proceeds of such issuance to the Partnership as required hereunder, the Company shall be issued a number of additional Partnership Units equal to the product of (A) the number of such REIT Shares issued by the Company the proceeds of which were so contributed, multiplied by (B) a fraction, the numerator of which is one hundred percent (100%), and the denominator of which is the Conversion Factor in effect on the date of such contribution.

(b) Value of Company Contribution; Certain Deemed Contributions. In connection with any and all issuances of New Securities the Company shall

contribute the resultant Company Contribution to the Partnership as a Capital Contribution. For purposes of determining the number of Partnership Units to be issued to the Company in exchange for such Capital Contribution, the value of the Capital Contribution shall be deemed to equal the gross proceeds of all New Securities issued in connection with such contribution. The value of the gross proceeds shall be deemed to equal the sum of (i) the gross cash proceeds of any issuance of New Securities for cash (even though the proceeds actually received by the Company are less than the gross proceeds of such issuance as a result of any underwriter's commission or discount or other expenses paid or incurred in connection with such issuance), and (ii) the aggregate value, as agreed upon by the Company and the party or parties selling assets to the Company which are included in a Company Contribution, of all REIT Shares, REIT Preferred Shares and debt securities of the Company issued to such party or parties in exchange for such assets. If, pursuant to clause (i) in the preceding sentence, the Company is deemed to have contributed gross cash proceeds from the issuance of New Securities for cash when the actual contribution of cash is less than the gross proceeds as a result of an underwriter's commission or discount or other expenses paid or incurred in connection with such issuance, then the Partnership shall be deemed simultaneously to have incurred such offering expenses in connection with the issuance of additional Partnership Units to the Company for its required Company Contribution pursuant to Section 4.2(a).

(c) Adjustment of Value of Company Contribution for Contingent Payment. In the event all or a portion of a particular Company Contribution to the Partnership includes assets acquired from a third party and the Company's agreement with such third party requires that the Company make a contingent payment to such third party for such assets on a date subsequent to the date on which the Company purchased the assets from the third party and contributed the assets to the Partnership (e.g., an earn-out payment to be made on a future date based on the performance of assets acquired from the third party), then immediately following payment by the Company of such contingent purchase price to the third party (whether in cash or New Securities, or a combination of cash and New Securities), the value of the assets acquired from the third party and previously contributed by the Company to the Partnership shall be deemed to be increased by an amount equal to the contingent payment made by the Company to such third party, and the Partnership shall make an equivalent cash payment or corresponding issuance of Partnership Units to the Company, as follows:

(i) The Partnership shall pay to the Company cash in an amount equal to the cash portion, if any, of the contingent payment;

(ii) The Partnership shall issue to the Company a number of Common Partnership Units equal to the number of REIT Shares, if any, included in the contingent payment; and

(iii) The Partnership shall issue to the Company a number of Preferred Partnership Units equal to the number of REIT Preferred Shares, if any, included in the contingent payment, which Preferred Partnership Units shall have rights, preferences and privileges that mirror the rights, preferences and privileges of such REIT Preferred Shares and which Preferred Partnership Units shall be designated by attaching as Exhibit "B" hereto an appropriate Certificate of Designation at the time of issuance.

(d) Classes of Partnership Units to be Issued to the Company in Exchange for Company Contribution. As provided in Section 4.2(a)(ii), in exchange for a Company Contribution, the Partnership shall issue to the Company Partnership Units having the rights, preferences and privileges equivalent to the rights, preferences and privileges of the New Securities issued by the Company to fund the Company Contribution. Specifically, the Partnership shall issue to the Company (i) Common Partnership Units corresponding to REIT Shares issued by the Company (whether such REIT Shares were issued for cash or in exchange for assets), and (ii) Preferred Partnership Units corresponding to any Preferred REIT Shares issued by the Company (whether such Preferred REIT Shares were issued for cash or for assets). Whenever the Company issues a class of Preferred REIT Shares not previously issued by the Company, the Partnership shall attach as Exhibit "B" to this Agreement a Certificate of Designation for the corresponding Preferred Partnership Units, setting forth rights, preferences and privileges mirroring those of the corresponding REIT Preferred Shares.

(e) Minimum Limited Partnership Interest. In the event that either a redemption pursuant to Section 8.5 hereof or an additional Capital Contribution by the Company would result in the Limited Partners (other than the General Partner), in the aggregate, owning less than the

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Minimum Limited Partnership Interest, the General Partner and the Limited Partners shall form another partnership and contribute sufficient Limited Partnership Interests together with such other Limited Partners so that such partnership owns at least the Minimum Limited Partnership Interest

(f) Stock Incentive Plan, Directors' Plan and Dividend Reinvestment Plan. The General Partner has established the Stock Incentive Plan and Directors' Plan and may from time to time establish other compensation or other incentive plans to provide incentives to its Directors, executive officers and certain key employees and consultants. The Company has also established the Dividend Reinvestment Plan to permit certain persons to purchase REIT Shares directly from the Company and to allow holders of REIT Shares to reinvest all or a portion of their dividends on their REIT Shares in the purchase of additional REIT Shares from the Company. The following examples are illustrative of the operation of the provisions of Section 4.2(a)(ii) with respect to issuances of New Securities to such Directors, officers, employees and consultants under the Stock Incentive Plan and Directors' Plan, and the other persons under the Dividend Reinvestment Plan (each, an "Eligible Person"):

(i) If the Company awards REIT Shares to any such Eligible Person (A) the Company shall, as soon as practicable, contribute to the Partnership (to be thereafter taken into account for the purposes of calculating any cash distributable to the Partners) an amount equal to the price, if any, paid to the Company by such party for such REIT Shares, and (B) the Company shall be issued by the Partnership a number of additional Partnership Units equal to the product of (1) the number of such REIT Shares issued by the Company to such Eligible Person, multiplied by (2) a fraction, the numerator of which is one hundred percent (100%), and the denominator of which is the Conversion Factor in effect on the date of such contribution;

(ii) If the Company awards an option or warrant relating to REIT Shares pursuant to the Stock Incentive Plan, the Director's Plan or otherwise to any Eligible Person, then the Partnership shall grant to the Company a corresponding option or warrant to acquire Partnership Units. Upon the exercise of such option or warrant to purchase REIT Shares, (A) the Company shall, as soon as practicable after such exercise, contribute to the capital of the Partnership (to be thereafter taken into account for the purposes of calculating distributable cash) an amount equal to the exercise price, if any, paid to the General Partner by such exercising party in connection with the exercise of the option or warrant, and (B) the Company shall be issued by the Partnership a number of additional Partnership Units equal to the product of (1) the number of REIT Shares issued by the Company in satisfaction of such exercised option or warrant, multiplied by (2) a fraction, the numerator of which is one hundred percent (100%), and the denominator of which is the Conversion Factor in effect on the date of such contribution; and

(iii) If the Company grants any director, officer or employee share appreciation rights, performance share awards or other similar rights ("Incentive Rights"), then simultaneously, the Partnership shall grant the Company corresponding and economically equivalent rights. Consequently, upon the cash payment by the Company to

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its directors, officers or employees pursuant to such Incentive Rights, the Partnership shall make an equal cash payment to the Company.

(g) Automatic Adjustments in Percentage Interests. In lieu of issuing any rights, options, warrants, convertible or exchangeable securities to purchase Partnership Units as contemplated by Sections 4.2(a)(ii), 4.2(f)(ii) or 4.2(f)(iii), the Partnership may at its election cause the Company's Partnership Interests set forth on the Unitholder Ledger to be revised to reflect the exercise of any such rights, options, warrants or convertible or exchangeable securities.

(h) Admission of Additional Limited Partners; Pro Rata First Quarter Distributions; Lock-Up. Any Person who receives Partnership Units pursuant to this Section 4.2 who does not already hold Partnership Units shall upon execution of a counterpart to this Agreement, by which such Person agrees

to be bound by all of the provisions hereof, become a Limited Partner of the Partnership; provided that the General Partner may in its sole discretion require that an amendment to this Agreement be effected in order to add a Person as a new Limited Partner in order to address the specific terms of such admission. Notwithstanding any provision in this Agreement to the contrary, any Person who becomes a Limited Partner pursuant to this Section 4.2 shall not be entitled to a full quarter's distributions on such Partnership Units for the quarter in which such Partnership Units were issued to such Partner, but shall only be entitled to a pro rata distribution on such Partnership Units for such quarter based upon the number of days in such quarter such Partner held such Partnership Units, unless the General Partner has waived this restriction in writing for a particular Partner for a particular quarter. In addition, the Limited Partners listed below and any person who becomes a Limited Partner after the date of this Agreement shall execute a lock-up agreement at the request of the managing underwriter in connection with any public underwritten securities offering by the General Partner on the same terms and conditions as any such agreement executed by Mr. Robert A. Alter, but in no event shall such lock-up exceed 120 days after the first date that any shares are released for sale to the public from such offering, and as a condition to any transfer of any Partnership Units or Redemption Shares otherwise permitted under this Agreement such Limited Partners shall cause any shareholder or other affiliate who receives any Partnership Units from such Limited Partners to agree to be subject to the obligation to execute such a lock-up agreement. The enumerated Limited Partners referenced in the preceding sentence are: (i) Flagstaff Hotel Assets, Inc.; (ii) Tucson Desert Assets, Inc.; (iii) Shivani, LLC; (iv) O.T. Hill, LLC; and (v) Peacock, LLC.

4.3 COMPANY LOANS. The Company may from time to time advance funds to the Partnership for any proper Partnership purpose as a loan ("Funding Loan"), provided that the funds for any such Funding Loans must first be obtained by the Company from a third party lender, and then all of such funds must be loaned by the Company to the Partnership on the same terms and conditions, including principal amount, interest rate, repayment schedule and costs and expenses, as shall be applicable with respect to or incurred in connection with such loan with such third party lender. Except for Funding Loans, the Company shall not incur any indebtedness for borrowed funds; provided, however, that upon a majority vote of the Independent Directors, any loan proceeds received by the Company may be distributed to its shareholders or other equity holders if such loan and distribution have been approved and determined by a majority of the Independent Directors to be necessary to enable the Company to maintain its status as a REIT under Sections 856-860 of the

Code. The Company may agree in its sole discretion to subordinate the repayment of the Funding Loan to any other loan by an institutional lender to the Partnership.

4.4 CAPITAL ACCOUNTS. A separate capital account (a "Capital Account") shall be established and maintained for each Partner in accordance with Regulations Section 1.704- 1(b)(2)(iv). If (i) a new or existing Partner acquires an additional Partnership Interest in exchange for more than a de minimis Capital Contribution, (ii) the Partnership distributes to a Partner more than a de minimis amount of Partnership property as consideration for a Partnership Interest, or (iii) the Partnership is liquidated within the meaning of Regulation Section 1.704-1(b)(2)(ii)(g), the General Partner shall revalue the property of the Partnership to its fair market value (taking into account Section 7701(g) of the Code) in accordance with Regulations Section 1.704-1(b)(2)(iv)(f). When the Partnership's property is revalued by the General Partner, the Capital Accounts of the Partners shall be adjusted in accordance with Regulations Sections 1.704-1(b)(2)(iv)(f) and (g), which generally require such Capital Accounts to be adjusted to reflect the manner in which the unrealized gain or loss inherent in such property (that has not been reflected in the Capital Accounts previously) would be allocated among the Partners pursuant to Section 5.1 if there were a taxable disposition of such property for its fair market value (taking into account Section 7701(g) of the Code) on the date of the revaluation.

4.5 PERCENTAGE INTERESTS. If the number of outstanding Partnership Units increases or decreases during a taxable year, each Partner's Percentage Interest shall be adjusted to a percentage equal to the number of Partnership Units held by such Partner divided by the aggregate number of outstanding Partnership Units. If the Partners' Percentage Interests are adjusted pursuant to this Section 4.5, the Profits and Losses for the taxable year in which the adjustment occurs shall be allocated between the part of the year ending on the day when the Partnership's property is revalued by the General Partner and the part of the year beginning on the following day either (i) as if the taxable year had

ended on the date of the adjustment or (ii) based on the number of days in each part. The General Partner, in its sole discretion, shall determine which method shall be used to allocate Profits and Losses for the taxable year in which the adjustment occurs. The allocation of Profits and Losses for the earlier part of the year shall be based on the Percentage Interests before adjustment, and the allocation of Profits and Losses for the later part shall be based on the adjusted Percentage Interests.

4.6 NO INTEREST ON CONTRIBUTIONS. No Partner shall be entitled to interest on its Capital Contribution.

4.7 RETURN OF CAPITAL CONTRIBUTIONS. No Partner shall be entitled to withdraw any part of its Capital Contribution or its Capital Account or to receive any distribution from the
Company, except as specifically provided in this Agreement. Except as otherwise provided herein, there shall be no obligation to return to any Partner or withdrawn Partner any part of such Partner's Capital Contribution for so long as the Partnership continues in existence.

4.8 NO THIRD PARTY BENEFICIARY. No creditor or other third party having dealings with the Partnership shall have the right to enforce the right or obligation of any Partner to make Capital Contributions or loans or to pursue any other right or remedy hereunder or at law or in equity, it

being understood and agreed that the provisions of this Agreement shall be solely for the benefit of, and may be enforced solely by, the parties hereto and their respective successors and assigns. None of the rights or obligations of the Partners herein set forth to make Capital Contributions or loans to the Partnership shall be deemed an asset of the Partnership for any purpose by any creditor or other third party, nor may such rights or obligations be sold, transferred or assigned by the Partnership or pledged or encumbered by the Partnership to secure any debt or other obligation of the Partnership or of any of the Partners. In addition, it is the intent of the parties hereto that no distribution to any Limited Partner shall be deemed a return of money or other property in violation of the Act. The payment of any such money or distribution of any such property to a Limited Partner shall be deemed to be a compromise within the meaning of Section 17-502(b) of the Act, and the Limited Partner receiving any such money or property shall not be required to return any such money or property to any Person, the Partnership or any creditor of the Partnership. However, if any court of competent jurisdiction holds that, notwithstanding the provisions of this Agreement, any Limited Partner is obligated to return such money or property, such obligation shall be the obligation of such Limited Partner and not of the General Partner. Without limiting the generality of the foregoing, a deficit Capital Account of a Partner shall not be deemed to be a liability of such Partner nor an asset or property of the Partnership.

4.9 NO PREEMPTIVE RIGHTS. No Person shall have any preemptive, preferential or other similar right with respect to (i) additional Capital Contributions or loans to the Partnership; or (ii) issuance or sale of any Partnership Units or other Partnership Interests.

ARTICLE V

PROFITS AND LOSSES: DISTRIBUTIONS

5.1 ALLOCATION OF PROFIT AND LOSS.

(a) General. After giving effect to the special allocations set forth in the other provisions of this Section 5.1, Profit or Loss, or items of income, gain, loss or deduction included in the determination of Profit or Loss, for each accounting period shall be allocated to the Partners as follows:

(i) Profit, or items of income or gain to the extent necessary, shall be allocated to each Partner in an amount equal to the excess of (i) the sum of (A) such Partner's Target Capital Account as of the last day of the accounting period, and (B) any distributions made by the Partnership to such Partner during the accounting period, over (ii) the sum of such Partner's (X) Capital Account as of the beginning of the accounting period, (Y) any Capital Contributions made by such Partner during the accounting period, and (Z) any income or gain (or minus any deduction or loss) allocated to the Partner under any other provision of this Section 5.1; and

(ii) Loss, or items of deduction or loss to the extent necessary, shall be allocated to each Partner in an amount equal to the excess,

if any, of (i) the sum of (A) such Partner's Capital Account as of the beginning of the accounting period, (B) any Capital Contributions made

by such Partner during the accounting period, and (C) any income or gain (or minus any deduction or loss) allocated to the Partner under any other provisions of this Section 5.1, over (ii) the sum of (X) such Partner's Target Capital Account as of the last day of the accounting period, and (Y) any distributions made by the Partnership to such Partner during the accounting period.

(b) Minimum Gain Chargeback. Notwithstanding any provision to the contrary, (i) any expense of the Partnership that is a "nonrecourse deduction" within the meaning of Regulations Section 1.704-2(b)(1) shall be allocated in accordance with the Partners' respective Percentage Interests, (ii) any expense of the Partnership that is a "partner nonrecourse deduction" within the meaning of Regulations Section 1.704-2(i)(2) shall be allocated in accordance with Regulations Section 1 .704-2(i)(1), (iii) if there is a net decrease in Partnership Minimum Gain within the meaning of Regulations Section 1.704-2(f)(1) for any Partnership taxable year, items of gain and income shall be allocated among the Partners in accordance with Regulations Section 1.704-2(f) and the ordering rules contained in Regulations Section 1.704-2(j), and (iv) if there is a net decrease in Partner Nonrecourse Debt Minimum Gain within the meaning of Regulations Section 1.704-2(i)(4) for any Partnership taxable year, items of gain and income shall be allocated among the Partners in accordance with Regulations Section 1.704-2(i)(4) and the ordering rules contained in Regulations Section 1.704-2(j). A Partner's "interest in partnership profits" for purposes of determining its share of the nonrecourse liabilities of the Partnership within the meaning of Regulations Section 1.752-3(a)(3) shall be such Partner's Percentage Interest.

(c) Qualified Income Offset. If a Limited Partner receives in any taxable year an adjustment, allocation, or distribution described in subparagraphs (4), (5), or (6) of Regulations Section 1.704-1(b)(2)(ii)(d) that causes or increases a negative balance in such Partner's Capital Account that exceeds the sum of such Partner's shares of Partnership Minimum Gain and Partner Nonrecourse Debt Minimum Gain, as determined in accordance with Regulations Sections 1.704- 2(g) and 1.704-2(i), such Partner shall be allocated specially for such taxable year (and, if necessary, later taxable years) items of income and gain in an amount and manner sufficient to eliminate such negative Capital Account balance as quickly as possible as provided in Regulations Section 1.704-1(b)(2)(ii)(d). After the occurrence of an allocation of income or gain to a Limited Partner in accordance with this Section 5.1(c), to the extent permitted by Regulations Section 1.704-1(b), items of expense or loss shall be allocated to such Partner in an amount necessary to offset the income or gain previously allocated to such Partner under this Section 5.1(c).

(d) Capital Account Deficits. Loss shall not be allocated to a Limited Partner to the extent that such allocation would cause a deficit in such Partner's Capital Account (after reduction to reflect the items described in Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) and (6)) to exceed the sum of such Partner's shares of Partnership Minimum Gain and Partner Nonrecourse Debt Minimum Gain. Any Loss in excess of that limitation shall be allocated to the General Partner. After the occurrence of an allocation of Loss to the General Partner in accordance with this Section 5.1(d), to the extent permitted by Regulations Section 1.704-1(b), Profit shall be allocated to the General Partner in an amount necessary to offset the Loss previously allocated to the General Partner under this Section 5.1(d).

(e) Allocations Between Transferor and Transferee. If a Partner transfers any part or all of its Partnership Interest, and the transferee is admitted as a substitute Partner as provided herein, the distributive shares of the various items of Profit and Loss allocable among the Partners during such fiscal year of the Partnership shall be allocated between the transferor and the substitute Partner either (i) as if the Partnership's fiscal year had ended on the date of the transfer, or (ii) based on the number of days of such fiscal year that each was a Partner without regard to the results of Partnership activities in the respective portions of such fiscal year in which the transferor and the transferee were Partners. The General Partner, in its sole discretion, shall determine which method shall be used to allocate the distributive shares of the various items of Profit and Loss between the transferor and the substitute Partner.

(f) Definition of Profit and Loss. "Profit" or "Loss" means for any accounting period, the amount, computed as of the last day thereof, of the net income or loss of the Partnership determined in accordance with federal income tax principles (but without requiring any items to be stated separately pursuant to Code Section 703), but with the following adjustments:

(i) Any income of the Partnership that is exempt from federal income tax shall be included in the computation of Profit or Loss;

(ii) Any expenditures of the Partnership described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(1) shall be included in the computation of Profit or Loss;

(iii) In any situation in which an item of income, gain, loss or deduction is affected by the adjusted basis of property, the Book Value of the Property shall be used in lieu of adjusted basis.

(g) Tax Allocations. Except as otherwise provided in this Section 5.1, items of income, gain, loss or deduction recognized for income tax purposes shall be allocated in the same manner that the corresponding items entering into the calculation of Profit or Loss are allocated pursuant to this Agreement.

(h) Section 704(c) Adjustments. In accordance with Code Section 704(c) and the Treasury Regulations thereunder and notwithstanding Section 5.1(g), items of income, gain, loss and deduction with respect to an asset, if any, which has a Book Value different from its adjusted basis for federal income tax purposes shall, solely for tax purposes, be allocated between the Partners so as to take account of any such variation in the manner required by Code Section 704(c) and Regulations Section 1.704-3(b). The allocation of such items shall be made pursuant to the "Traditional Method" of Regulation Section 1.704-3(b). The assets of the Partnership (and the Limited Partners who contributed such assets) that may be affected by this Section 5.1(h) include, without limitation, (i) the Hampton Inn Hotel, Oakland, California (Inns Properties and Westpac Shelter Corporation); and (ii) the Courtyard by Marriott Hotel, Riverside, California (Riverside Hotel Partners, Inc.).

5.2 DISTRIBUTION OF CASH.

(a) Except as otherwise provided in Section 5.6, cash available for distribution by the Partnership shall be distributed as follows:

(1) First, for any class of Preferred Partnership Units, if there are any Preferred Partnership Units of such class outstanding on any record date set forth in the applicable Certificate of Designation for payment of a distribution to the holders thereof, the General Partner shall distribute on the distribution date set forth in the Certificate of Designation to such Preferred Unitholder(s) an amount per Preferred Partnership Unit required to be paid pursuant to the Certificate of Designation. If there is more than one class of Preferred Partnership Units, the priority of payment of distributions as among the classes shall be governed by the Certificates of Designation for such classes.

(2) Second, the General Partner shall distribute cash on a quarterly (or, at the election of the General Partner, more frequent) basis, in an amount determined by the General Partner in its sole discretion, to the Partners who are Partners on the Partnership Record Date with respect to such quarter (or other distribution period) in accordance with their respective Percentage Interests on the Partnership Record Date.

(b) In no event may a Partner receive a distribution of cash with respect to a Partnership Unit if such Partner is entitled to receive a dividend with respect to a REIT Share for which all or part of such Partnership Unit has been or will be exchanged.

5.3 REIT DISTRIBUTION REQUIREMENTS. The General Partner shall use its reasonable efforts to cause the Partnership to distribute amounts sufficient to enable the General Partner (i) to meet its distribution requirement for qualification as a REIT as set forth in Section 857(a)(1) of the Code and (ii) to avoid any federal income or excise tax liability imposed by the Code.

5.4 NO RIGHT TO DISTRIBUTIONS IN KIND. No Partner shall be entitled to demand property other than cash in connection with any distributions by the Partnership.

5.5 LIMITATIONS ON RETURN OF CAPITAL CONTRIBUTIONS. Notwithstanding any of the provisions of this Article V, no Partner shall have the right to receive and the General Partner shall not have the right to make, a distribution which includes a return of all or part of a Partner's Capital Contributions, unless after giving effect to the return of a Capital Contribution, the sum of all Partnership liabilities, other than the liabilities to a Partner for the return of his Capital Contribution, does not exceed the fair market value of the Partnership's assets.

5.6 DISTRIBUTIONS UPON LIQUIDATION.

(a) Upon liquidation of the Partnership, after payment of, or adequate provision for, debts and obligations of the Partnership, including any Partner loans, any remaining assets of the Partnership shall be distributed in the following order of priority:

(i) First, if there are any Preferred Partnership Units outstanding, to the Preferred Unitholder(s) of each class of Preferred Partnership Units, an amount per Preferred Partnership Unit of a particular class of Preferred Partnership Units required to be paid upon liquidation as set forth in the Certificate of Designation for such class. If there is more than one class of Preferred Partnership Units, the priority of liquidation distributions among the classes shall be governed by the Certificates of Designation for such classes.

(ii) Thereafter, to the Common Unitholders with positive Capital Accounts in accordance with their respective Percentage Interests.

For purposes of the preceding sentence, the Capital Account of each Partner shall be determined after all adjustments made in accordance with Sections 5.1 and 5.2 resulting from Partnership operations and from all sales and dispositions of all or any part of the Partnership's assets. Any distributions pursuant to this Section 5.6 should be made by the end of the Partnership's taxable year in which the liquidation occurs (or, if later, within ninety (90) days after the date of the liquidation). To the extent deemed advisable by the General Partner, appropriate arrangements (including the use of a liquidating trust) may be made to assure that adequate funds are available to pay any contingent debts or obligations.

(b) If the General Partner has a negative balance in its Capital Account following a liquidation of the Partnership, as determined after taking into account all Capital Account adjustments in accordance with Sections 5.1 and 5.2 resulting from Partnership operations and from all sales and dispositions of all or any part of the Partnership's assets, the General Partner shall contribute to the Partnership an amount of cash equal to the negative balance in its Capital Account and such cash shall be paid or distributed by the Partnership to creditors, if any, and then to the Limited Partners in accordance with Section 5.6(a). Such contribution by the General Partner shall be made by the end of the Partnership's taxable year in which the liquidation occurs (or, if later, within ninety (90) days after the date of the liquidation).

5.7 SUBSTANTIAL ECONOMIC EFFECT. It is the intent of the Partners that the allocations of Profit and Loss under the Agreement have substantial economic effect (or be consistent with the Partners' interests in the Partnership in the case of the allocation of losses attributable to nonrecourse debt) within the meaning of Section 704(b) of the Code as interpreted by the Regulations promulgated pursuant thereto. Article V and other relevant provisions of this Agreement shall be interpreted in a manner consistent with such intent.

5.8 AMOUNTS WITHHELD. All amounts withheld pursuant to the Code or any provisions of any state or local tax law and Section 10.9 hereof with respect to any allocation, payment or distribution to the General Partner, the Limited Partners or Assignees shall be treated as amounts distributed to the General Partner, Limited Partners, or Assignees pursuant to Section 5.1 for all purposes under this Agreement.

ARTICLE VI

RIGHTS, OBLIGATIONS AND

POWERS OF THE GENERAL PARTNERSHIP

6.1 MANAGEMENT OF THE PARTNERSHIP.

(a) Except as otherwise expressly provided in this Agreement, the General Partner shall have full, complete and exclusive discretion to manage and control the business of the Partnership for the purposes herein stated, and shall make all decisions affecting the business and assets of the Partnership. The General Partner may not be removed by the Limited Partners with or without cause. In addition to the powers now or hereafter granted a general partner of a limited partnership under applicable law or which are granted to the General Partner under any other provision of this Agreement, the General Partner, subject to Section 7.1 hereof, shall have full power and authority to do all things deemed necessary or desirable by it to conduct the business of the Partnership, to exercise all powers set forth in Section 3.2 hereof and to effectuate the purposes set forth in Section 3.1 hereof, including, without limitation:

(i) to acquire, purchase, own, lease and dispose of any real property and any other property or assets that the General Partner determines are necessary or appropriate or in the best interests of the business of the Partnership;

(ii) to landscape, renovate, reconstruct, remodel or construct buildings, including without limitation hotels, and make other improvements on the properties now or hereafter owned or leased by the Partnership or any Subsidiary of the Partnership;

(iii) to borrow money for the Partnership, issue evidences of indebtedness in connection therewith, refinance, guarantee, increase the amount of, modify, amend or change the terms of, or extend the time for the payment of, any indebtedness or obligation to the Partnership, and secure such indebtedness by mortgage, deed of trust, pledge or other lien on the Partnership's assets;

(iv) to pay, either directly or by reimbursement, for all operating costs and general administrative expenses of the General Partner or the Partnership, to third parties or to the General Partner as set forth in this Agreement;

(v) to lease all or any portion of any of the Partnership's assets, whether or not the terms of such leases extend beyond the termination date of the Partnership and whether or not any portion of the Partnership's assets so leased are to be occupied by the lessee, or, in turn, subleased in whole or in part to others, for such consideration and on such terms as the General Partner may determine;

(vi) to prosecute, defend, arbitrate, or compromise any and all claims or liabilities in favor of or against the Partnership, on such terms and in such manner as the General Partner may reasonably determine, and similarly to prosecute, settle or defend

litigation with respect to the Partners, the Partnership, or the Partnership's assets; provided, however, that the General Partner may not, without the consent of all of the Partners, confess a judgment against the Partnership;

(vii) to file applications, communicate, and otherwise deal with any and all governmental agencies having jurisdiction over, or in any way affecting, the Partnership's assets or any other aspect of the Partnership business;

(viii) to make or revoke any election permitted or required of the Partnership by any taxing authority;

(ix) to maintain such insurance coverage for public liability, fire and casualty, and any and all other insurance for the protection of the Partnership, for the conservation of Partnership assets, or for any other purpose convenient or beneficial to the Partnership, in such amounts and such types, as it shall determine from time to time;

(x) to determine whether or not to apply any insurance proceeds for any property to the restoration of such property or to distribute the same;

(xi) to retain legal counsel, accountants, consultants, real estate brokers, and such other persons as the General Partner may deem necessary or appropriate in connection with the Partnership business and to pay therefor such reasonable remuneration as the General Partner may deem reasonable and proper;

(xii) to retain other services of any kind or nature in connection with the Partnership business, and to pay therefor such remuneration as the General Partner may deem reasonable and proper;

(xiii) to negotiate and conclude agreements on behalf of the Partnership with respect to any of the rights, powers and authority conferred upon the General Partner;

(xiv) to maintain accurate accounting records and to file promptly all federal, state and local income tax returns on behalf of the Partnership;

(xv) to distribute Partnership cash or other partnership assets in accordance with this Agreement;

(xvi) to form or acquire an interest in, and contribute property to, any further limited or general partnerships, joint ventures or other relationships that it deems desirable (including, without limitation, the acquisition of interests in, and the contributions of properly to, its Subsidiaries and any other Person in which it has an equity interest from time to time);

(xvii) to establish Partnership reserves for working capital, capital expenditures, contingent liabilities, or any other valid Partnership purpose;

(xviii) to negotiate, execute, and perform any contracts, conveyances or other instruments that the General Partner considers useful or necessary to the conduct of the Partnership's operations or the implementation of the General Partner's powers under this Agreement, including contracting with contractors, developers, consultants, accountants, legal counsel, other professional advisors and other agents and the payment of their expenses and compensation out of the Partnership's assets;

(xix) to establish one or more divisions of the Partnership, the selection and dismissal of employees of the Partnership, any division of the Partnership, or the General Partner (including, without limitation, employees having titles such as "president," "vice president," "secretary" and "treasurer" of the Partnership, any division of the Partnership or the General Partner), and agents, outside attorneys, accountants, consultants and contractors of the General Partner, the Partnership or any division of the Partnership, and the determination of their compensation and other terms of employment or hiring;

(xx) to issue REIT Shares to acquire Partnership Units held by a Limited Partner in connection with such Limited Partner's exercise of its Redemption Right under Section 8.5; and

(xxi) to take such other action, execute, acknowledge, swear to or deliver such other documents and instruments, and perform any and all other acts the General Partner deems necessary or appropriate for the formation, continuation and conduct of the business and affairs of the Partnership and to possess and enjoy all of the rights and powers of a general partner as provided by the Act.

Except as otherwise provided herein, to the extent the duties of the General Partner require expenditures of funds to be paid to third parties, the General Partner shall not have any obligations hereunder except to the extent that partnership funds are reasonably available to it for the performance of such duties, and nothing herein contained shall be deemed to require the General Partner, in its capacity as such, to expend its individual funds for payment to third parties or to undertake any individual liability or obligation on behalf of the Partnership.

(b) The Partnership shall not incur or allow to exist Indebtedness (as defined in the Articles of Incorporation) in excess of the

limitations contained in the Articles of Incorporation.

(c) The General Partner is expressly authorized to enter into, in the name and on behalf of the Partnership, a right of first opportunity arrangement and other conflict avoidance agreements with various Affiliates of the Partnership and the General Partner, on such terms as the General Partner, in its sole and absolute discretion, believes are advisable.

6.2 DELEGATION OF AUTHORITY. The General Partner may delegate any or all of its powers, rights and obligations hereunder, and may appoint, employ, contract or otherwise deal with any Person for the transaction of the business of the Partnership, which Person may, under supervision of the General Partner, perform any acts or services for the Partnership as the General Partner may approve.

6.3 INDEMNIFICATION AND EXCULPATION OF INDEMNITEES.

(a) The Partnership shall indemnify each Indemnitee from and against any and all losses, claims, damages, (joint or several) liabilities, expenses (including reasonable legal fees and expenses), judgments, fines, settlements, and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Partnership as set forth in this Agreement in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, unless it is established that: (i) the act or omission of the Indemnitee was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty; (ii) the Indemnitee actually received an improper personal benefit in money, property or services; or (iii) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful. The termination of any proceeding by judgment, order or settlement does not create a presumption that the Indemnitee did not meet the requisite standard of conduct set forth in this Section 6.3(a). The termination of any proceeding by conviction or upon a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the Indemnitee acted in a manner contrary to that specified in this Section 6.3(a). Any indemnification pursuant to this Section 6.3 shall be made only out of the assets of the Partnership.

(b) The Partnership may reimburse an Indemnitee for reasonable expenses incurred by an Indemnitee who is a party to a proceeding in advance of the final disposition of the proceeding upon receipt by the Partnership of (i) a written affirmation by the Indemnitee of the Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the Partnership as authorized in this Section 6.3 has been met, and (ii) a written undertaking by or on behalf of the Indemnitee to repay the amount if it shall ultimately be determined that the standard of conduct has not been met.

(c) The indemnification provided by this Section 6.3 shall be in addition to any other rights to which an Indemnitee or any other Person may be entitled under any agreement, pursuant to any vote of the Partners, as a matter of law or otherwise, and shall continue as to an Indemnitee who has ceased to serve in such capacity.

(d) The Partnership may purchase and maintain insurance, on behalf of the Indemnitees and such other Persons as the General Partner shall determine, against any liability that may be asserted against or expenses that may be incurred by such Person in connection with the Partnership's activities, regardless of whether the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 6.3, the Partnership shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Partnership also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute fines within the meaning of this Section 6.3; and actions taken or omitted by the Indemnitee with respect to an

employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is not opposed to the best interests of the Partnership.

(f) In no event may an Indemnitee subject the Limited Partners to personal liability by reason of the indemnification provisions set forth in this Agreement.

(g) An Indemnitee shall not be denied indemnification in whole or in part under this Section 6.3 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(h) The provisions of this Section 6.3 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

6.4 LIABILITY OF THE GENERAL PARTNER.

(a) Notwithstanding anything to the contrary set forth in this Agreement, the General Partner shall not be liable for monetary damages to the Partnership or any Partners for losses sustained or liabilities incurred as a result of errors in judgment or of any act or omission if the General Partner acted in good faith.

(b) The Limited Partners expressly acknowledge that the General Partner is acting on behalf of the Partnership and the General Partner's shareholders collectively, that the General Partner is under no obligation to consider the separate interests of the Limited Partners (including, without limitation, the tax consequences to Limited Partners) in deciding whether to cause the Partnership to take (or decline to take) any actions, and that the General Partner shall not be liable for monetary damages for losses sustained, liabilities incurred, or benefits not derived by Limited Partners in connection with such decisions, provided that the General Partner has acted in good faith.

(c) Subject to its obligations and duties as General Partner set forth in Section 6.1 hereof, the General Partner may exercise any of the powers granted to it under this
Agreement and perform any of the duties imposed upon it hereunder either directly or by or through its agents. The General Partner shall not be responsible for any misconduct or negligence on the part of any such agent appointed by it in good faith.

(d) Notwithstanding any other provisions of this Agreement or the Act, any action of the General Partner on behalf of the Partnership or any decision of the General Partner to refrain from acting on behalf of the Partnership, undertaken in the good faith belief that such action or omission is necessary or advisable in order (i) to protect the ability of the General Partner to continue to qualify as a REIT or (ii) to prevent the General Partner from incurring any taxes under Section 857, Section 4981, or any other provision of the Code, is expressly authorized under this Agreement and is deemed approved by all of the Limited Partners.

(e) Any amendment, modification or repeal of this Section 6.4 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the General Partner's liability to the Partnership and the Limited Partners under this Section 6.4 as in effect immediately prior to such amendment, modification or repeal with respect to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when claims relating to such matters may arise or be asserted.

6.5 EXPENDITURES BY PARTNERSHIP. The General Partner is hereby authorized to pay compensation for accounting, administrative, legal, technical, management and other services rendered to the Partnership. All of the aforesaid expenditures (including Administrative Expenses) shall be made on behalf of the Partnership, and the General Partner shall be entitled to reimbursement by the Partnership for any expenditure (including Administrative Expenses) incurred by it on behalf of the Partnership which shall be made other than out of the funds of the Partnership. The Partnership shall also assume, and pay when due, all Administrative Expenses.

6.6 OUTSIDE ACTIVITIES; REDEMPTION TENDER OFFER OF REIT SHARES.

Subject to Section 6.8 hereof, the Articles of Incorporation and

any agreements entered into by the General Partner or its Affiliates with the Partnership or a Subsidiary, any officer, director, employee, agent, trustee, Affiliate or shareholder of the General Partner shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities substantially similar or identical to those of the Partnership. Neither the Partnership nor any of the Limited Partners shall have any rights by virtue of this Agreement in any such business ventures, interest or activities. None of the Limited Partners nor any other Person shall have any rights by virtue of this Agreement or the partnership relationship established hereby in any such business ventures, interests or activities, and the General Partner shall have no obligation pursuant to this Agreement to offer any interest in any such business ventures, interests and activities to the Partnership or any Limited Partner, even if such opportunity is of a character which, if presented to the Partnership or any Limited Partner, could be taken by such Person.

6.7 EMPLOYMENT OR RETENTION OF AFFILIATES.

(a) Any Affiliate of the General Partner may be employed or retained by the Partnership and may otherwise deal with the Partnership (whether as a buyer, lessor, lessee, manager, furnisher of goods or services, broker, agent, lender or otherwise) and may receive from the Partnership any compensation, price, or other payment therefor which the General Partner determines to be fair and reasonable.

(b) The Partnership may lend or contribute to its Subsidiaries or other Persons in which it has an equity investment, and such Persons may borrow funds from the Partnership, on terms and conditions established in the sole and absolute discretion of the General Partner. The foregoing authority shall not create any right or benefit in favor of any Subsidiary or any other Person.

(c) The Partnership may transfer assets to joint ventures, other partnerships, corporations or other business entities in which it is or thereby becomes a participant upon such terms and subject to such conditions as the General Partner deems are consistent with this Agreement and applicable law.

(d) Except as expressly permitted by this Agreement, neither the General Partner nor any of its Affiliates shall sell, transfer or convey any property to, or purchase any property from, the Partnership, directly or indirectly, except pursuant to transactions that are on terms that are fair and reasonable to the Partnership.

6.8 COMPANY PARTICIPATION. The General Partner agrees that all business activities of the General Partner, including activities pertaining to the acquisition, development and/or ownership of hotels or other property, shall be conducted through the Partnership; provided, however, that the Company is allowed to make a direct acquisition, but if and only if, such acquisition is made in connection with the issuance of New Securities, which direct acquisition and issuance have been approved and determined to be in the best interests of the Company and the Partnership by a majority of the Independent Directors. The Company also agrees that all borrowings of the Company shall constitute Funding Loans, subject to the exception set forth in Section 4.3 hereof.

ARTICLE VII

CHANGES IN GENERAL PARTNER

7.1 TRANSFER OF THE GENERAL PARTNER'S PARTNERSHIP INTEREST.

(a) The General Partner may not transfer any of its General Partnership Interest or Limited Partnership Interests or withdraw as General Partner except as provided in Article 9, Section 7.1(c) or in connection with a transaction described in Section 7.1(d).

(b) The General Partner agrees that it will at all times own (as a general or limited partner) at least a 20% Percentage Interest.

(c) Except as otherwise provided in Section 6.8 or Section 7.1(d) hereof, the General Partner shall not engage in any merger, consolidation or other combination with or into another Person or sale of all or substantially all of its assets, or any reclassification, or any recapitalization or change of outstanding REIT Shares (other than a change in par value, or from par value to no par value, or as a result of a subdivision or combination of REIT Shares) (each a "Transaction"), unless (i) the Transaction also includes a merger of the Partnership or sale of substantially all of the assets of the Partnership as a

result of which all Limited Partners will receive for each Partnership Unit an amount of cash, securities, or other property equal to the product of the Conversion Factor and the greatest amount of cash, securities or other property paid in the Transaction to a holder of one REIT Share in consideration of one REIT Share, provided that if, in connection with the Transaction, a purchase, tender or exchange offer ("Offer") shall have been made to and accepted by the holders of more than 50 percent of the outstanding REIT Shares, each holder

of Partnership Units shall be given the option to exchange its Partnership Units for the greatest amount of cash, securities, or other property which a Limited Partner would have received had it (A) exercised its Redemption Right and (B) sold, tendered or exchanged pursuant to the Offer the REIT Shares received upon exercise of the Redemption Right immediately prior to the expiration of the Offer; and (ii) no more than 75 percent of the equity securities of the acquiring Person in such Transaction shall be owned, after consummation of such Transaction, by the General Partner or Persons who were Affiliates of the Partnership or the General Partner immediately prior to the date on which the Transaction is consummated.

(d) Notwithstanding Section 7.1(c), the General Partner may merge into or consolidate with another entity if immediately after such merger or consolidation (i) substantially all of the assets of the successor or surviving entity (the "Surviving General Partner"), other than Partnership Units held by the General Partner, are contributed to the Partnership as a Capital Contribution in exchange for Partnership Units with a fair market value equal to the value of the assets so contributed as determined by the Surviving General Partner in good faith and (ii) the Surviving General Partner expressly agrees to assume all obligations of the General Partner hereunder. Upon such contribution and assumption, the Surviving General Partner shall have the right and duty to amend this Agreement as set forth in this Section 7.1(d). The Surviving General Partner shall in good faith arrive at a new method for the calculation of the Cash Amount and Conversion Factor for a Partnership Unit after any such merger or consolidation so as to approximate the existing method for such calculation as closely as reasonably possible. Such calculation shall take into account, among other things, the kind and amount of securities, cash and other property that was receivable upon such merger or consolidation by a holder of REIT Shares and/or options, warrants or other rights relating thereto, and which a holder of Partnership Units could have acquired had such Partnership Units been redeemed immediately prior to such merger or consolidation. Such amendment to this Agreement shall provide for adjustment to such method of calculation which shall be as nearly equivalent as may be practicable to the adjustments provided for with respect to the Conversion Factor. The above provisions of this Section 7.1(d) shall similarly apply to successive mergers or consolidations permitted hereunder.

7.2 ADMISSION OF A SUBSTITUTE OR SUCCESSOR GENERAL PARTNER. A Person shall be admitted as a substitute or successor General Partner of the Partnership only if the following terms and conditions are satisfied:

(a) a majority-in-interest of the Limited Partners (other than the General Partner) shall have consented in writing to the admission of the substitute or successor General Partner, which consent may be withheld in the sole discretion of such Limited Partners;

(b) the Person to be admitted as a substitute or additional General Partner shall have accepted and agreed to be bound by all the terms and provisions of this Agreement by executing a counterpart thereof and such other documents or instruments as may be required or appropriate in order to effect the admission of such Person as a General Partner, and a certificate evidencing the admission of such Person as a General Partner shall have been filed for recordation and all other actions required by Section 2.6 hereof in connection with such admission shall have been performed;

(c) if the Person to be admitted as a substitute or additional General Partner is a corporation or a partnership it shall have provided the Partnership with evidence satisfactory to counsel for the Partnership of such Person's authority to become a General Partner and to be bound by the terms and provisions of this Agreement; and

(d) counsel for the Partnership shall have rendered an opinion

(relying on such opinions from other counsel and the state or any other jurisdiction as may be necessary) that the admission of the person to be admitted as a substitute or additional General Partner is in conformity with the Act, that none of the actions taken in connection with the admission of such Person as a substitute or additional General Partner will cause (i) the Partnership to be classified other than as a partnership for federal income tax purposes, or (ii) the loss of any Limited Partner's limited liability.

7.3 EFFECT OF BANKRUPTCY, WITHDRAWAL, DEATH OR DISSOLUTION OF A GENERAL PARTNER.

(a) Upon the occurrence of an Event of Bankruptcy as to a General Partner or the withdrawal, removal or dissolution of a General Partner (except that, if a General Partner is on the date of such occurrence a partnership, the withdrawal, death, dissolution, Event of Bankruptcy as to, or removal of a partner in, such partnership shall be deemed not to be a dissolution of such General Partner if the business of such General Partner is continued by the remaining partner or partners), the Partnership shall be dissolved and terminated unless the Partnership is continued pursuant to Section 7.3(b) hereof.

(b) Following the occurrence of an Event of Bankruptcy as to a General Partner or the withdrawal, removal or dissolution of a General Partner (except that, if a General Partner is on the date of such occurrence a partnership, the withdrawal, death, dissolution, Event of Bankruptcy as to, or removal of a partner in, such partnership shall be deemed not to be a dissolution of such General Partner if the business of such General Partner is continued by the remaining partner or partners), the Limited Partners, within ninety (90) days after such occurrence, may elect to reconstitute the Partnership and continue the business of the Partnership for the balance of the term specified in Section 2.5 hereof by selecting, subject to Section 7.2 hereof and any other provisions of this Agreement, a substitute General Partner by unanimous consent of the Limited Partners. If the Limited Partners elect to reconstitute the Partnership and admit a substitute General Partner, the relationship with the Partners and of any Person who has acquired an interest of a Partner in the Partnership shall be governed by this Agreement.

7.4 PURCHASE OF PARTNERSHIP UNITS. In the event the General Partner exercises any right it has under the Articles of Incorporation or otherwise to purchase REIT Shares, REIT Preferred Shares or debt securities of the Company, or to otherwise redeem REIT Shares, REIT Preferred Shares or debt securities of the Company (whether pursuant to a tender offer or otherwise), then the General Partner shall cause the Partnership to purchase from it that number and type of Partnership Units corresponding to the REIT Shares, REIT Preferred Shares or debt securities of the Company, on the same terms and for the same aggregate price that the General Partner purchased such REIT Shares, REIT Preferred Shares or debt securities of the Company.

ARTICLE VIII

RIGHTS AND OBLIGATIONS
OF THE LIMITED PARTNERS

8.1 MANAGEMENT OF THE PARTNERSHIP. The Limited Partners shall not participate in the management or control of Partnership business nor shall they transact any business for the Partnership, nor shall they have the power to sign for or bind the Partnership, such powers being vested solely and exclusively in the General Partner.

8.2 POWER OF ATTORNEY.

(a) Each Limited Partner and each Assignee hereby irrevocably constitutes and appoints the General Partner, any Liquidator (as defined below), and authorized officers and attorneys-in-fact of each, and each of those acting singly, in each case with full power of substi tution, as its true and lawful agent and attorney-in-fact, with full power and authority in its name, place and stead to:

(i) execute, swear to, acknowledge, deliver, file and record in the appropriate public offices (a) all certificates, documents and other instruments (including, without limitation, this Agreement and the Certificate and all amendments or restatements thereof) that the General Partner or any liquidator of the Partnership's assets (the "Liquidator") deems appropriate or necessary to form, qualify or continue the existence or qualification of the Partnership as a limited

partnership (or a partnership in which the Limited Partners have limited liability) in the State of Delaware and in all other jurisdictions in which the Partnership may or plans to conduct business or own property; (b) all instruments that the General Partner or the Liquidator deems appropriate or necessary to reflect any amendment, change, modification or restatement of this Agreement in accordance with its terms; (c) all conveyances and other instruments or documents that the General Partner deems appropriate or necessary to reflect the dissolution and liquidation of the Partnership pursuant to the terms of this Agreement, including, without limitation, a certificate of cancellation; (d) all instruments relating to the admission, withdrawal, removal or substitution of any Partner pursuant to, or other events described herein or the Capital Contribution of any Partner; and (e) all certificates, documents and other instruments relating to the determination of the rights, preferences and privileges of Partnership Interests; and

(ii) execute, swear to, seal, acknowledge and file all ballots, consents, approvals, waivers, certificates and other instruments appropriate or necessary, in the sole and absolute discretion of the General Partner or the Liquidator, to make, evidence, give, confirm or ratify any vote, consent, approval, agreement or other action which is made or given by the Partners hereunder or is consistent with the terms of this Agreement or appropriate or necessary, in the sole discretion of the General Partner or any Liquidator, to effectuate the terms or intent of this Agreement.

Nothing contained herein shall be construed as authorizing the General Partner or any Liquidator to amend this Agreement except as may be otherwise expressly provided for in this Agreement.

(b) The foregoing power of attorney is hereby declared to be irrevocable and a special power coupled with an interest, in recognition of the fact that each of the Partners will be relying upon the power of the General Partner and any Liquidator to act as contemplated by this Agreement in any filing or other action by it on behalf of the Partnership, and it shall survive and not be affected by the subsequent incapacity of any Limited Partner or Assignee and the transfer of all or any portion of such Limited Partner's or Assignee's Partnership Units and shall extend to such Limited Partner's or Assignee's heirs, successors, assigns and personal representatives. Each such Limited Partner or Assignee hereby agrees to be bound by any representation made by the General Partner or any Liquidator, acting in good faith pursuant to such power of attorney, and each such Limited Partner or Assignee hereby waives any and all defenses which may be available to contest, negate or disaffirm the action of the General Partner or any Liquidator, taken in good faith under such power of attorney. Each Limited Partner or Assignee shall execute and deliver to the General Partner or the Liquidator, within fifteen (15) days after receipt of the General Partner's or Liquidator's request therefor, such further designation, powers of attorney and other instruments as the General Partner or the Liquidator, as the case may be, deems necessary to effectuate this Agreement and the purposes of the Partnership.

8.3 LIMITATION ON LIABILITY OF LIMITED PARTNERS. No Limited Partner shall be liable for any debts, liabilities, contracts or obligations of the Partnership. A Limited Partner shall be liable to the Partnership only to make payments of his Capital Contribution, if any, as and when due hereunder. After his Capital Contribution is fully paid, no Limited Partner shall, except as otherwise required by the Act, be required to make any further Capital Contributions or other payments or lend any funds to the Partnership.

8.4 OWNERSHIP BY LIMITED PARTNER OF CORPORATE GENERAL PARTNER OR AFFILIATE. No Limited Partner shall at any time, either directly or indirectly, own any stock or other interest in the General Partner or in any Affiliate thereof, if such ownership by itself or in conjunction with other stock or other interests owned by other Limited Partners would, in the opinion of counsel for the Partnership, jeopardize the classification of the Partnership as a partnership for federal income tax purposes. The General Partner shall be entitled to make such reasonable inquiry of the Limited Partners as is required to establish compliance by the Limited Partners with the provisions of this Section.

8.5 REDEMPTION RIGHT.

(a) Subject to Section 8.5(c) and Section 9.8, each Limited Partner who holds Common Partnership Units (including Limited Partners who have

obtained Common Partnership Units through the exercise of conversion rights, if any, applicable to their Preferred Partnership Units), other than the General Partner, shall have the right (the "Redemption Right") to require the Partnership on a Specified Redemption Date to either (i) redeem all or a portion of the Common Partnership Units held by such Limited Partner at a redemption price equal to Cash Amount or (ii) to exchange all or a portion of the Common Partnership Units held by such Limited Partner for REIT

Shares at a ratio equal to the Conversion Factor. The Redemption Right shall be exercised pursuant to a Notice of Redemption delivered to the General Partner by the Limited Partner who is exercising the Redemption Right (the "Redeeming Partner"), provided that no more than two (2) Notices of Redemption from any single Limited Partner may be delivered to the General Partner during each calendar year. No such Limited Partner may exercise the Redemption Right for less than five hundred (500) Common Partnership Units or, if such Limited Partner holds less than five hundred (500) Common Partnership Units, all of the Common Partnership Units held by such Limited Partner. The Redeeming Partner shall have no right, with respect to any Common Partnership Units so redeemed, to receive any distribution paid with respect to Common Partnership Units if the record date for such distribution is on or after the Specified Redemption Date. Notwithstanding the preceding sentence to the contrary, if the Partnership or the General Partner elects under Section 8.5(c) to extend the payment date for the Cash Amount, then to the extent a Partnership Record Date occurs between the Specified Redemption Date and the date such Cash Amount is paid, the Redeeming Partner shall receive the distribution relating to such Partnership Record Date with respect to such Common Partnership Units being redeemed.

(b) Notwithstanding the provisions of Section 8.5(a), the General Partner may, in its sole and absolute discretion, assume directly and satisfy a Redemption Right by paying to the Redeeming Partner the Redemption Amount on the Specified Redemption Date, whereupon the General Partner shall acquire the Common Partnership Units offered for redemption by the Redeeming Partner and shall be treated for all purposes of this Agreement as the owner of such Common Partnership Units. In the event the General Partner shall exercise its right to satisfy the Redemption Right in the manner described in the preceding sentence, the Partnership shall have no obligation to pay any amount to the Redeeming Partner with respect to such Redeeming Partner's exercise of the Redemption Right, and each of the Redeeming Partner, the Partnership, and the General Partner shall treat the transaction between the General Partner and the Redeeming Partner as a sale of the Redeeming Partner's Common Partnership Units to the General Partner for federal income tax purposes. Each Redeeming Partner agrees to execute such documents and take such other actions as the General Partner may reasonably require in connection with the issuance of REIT Shares upon exercise of the Redemption Right.

(c) The Partnership or the General Partner, as the case may be, shall pay the Cash Amount to a Redeeming Partner as the Redemption Amount for such Limited Partner if:

(i) the acquisition of REIT Shares by such Limited Partner on the Specified Redemption Date would (A) result in such Limited Partner or any other person owning, directly or indirectly REIT Shares in excess of the "Ownership Limit," as defined in the Articles of Incorporation, (B) result in REIT Shares being owned by fewer than one hundred (100) persons (determined as provided by Section 856(a)(5) of the Code), except as provided in the Articles of Incorporation, (C) result in the General Partner being "closely held" within the meaning of Section 856(h) of the Code, (D) cause the Company to own, directly or constructively, ten percent (10%) or more of the ownership interests in a tenant of the Company's or the Partnership's real property, within the meaning of Section 856(d)(2)(B) of the Code, or (E) cause the acquisition of REIT Shares by such Partner to be "integrated" with

any other distribution of REIT Shares or other securities of the Company for purposes of complying with the registration provisions of the Securities Act;

(ii) there is not an effective registration statement on file with the Commission covering the Redemption Shares to be issued upon the redemption of the Partnership Units described in the Notice of

Redemption for such Redeeming Partner (a) as of the Specified Redemption Date, if the Cash Amount is less than the Threshold Cash Amount, and (b) within 45 days of the Specified Redemption Date (and if such date is not a Business Day, then the next Business Day) if the Cash Amount is more than the Threshold Cash Amount; or

(iii) the Partnership or the General Partner, as the case may be, so elects in its sole discretion.

Any Cash Amount to be paid to a Redeeming Partner pursuant to this Section 8.5 shall be paid on the Specified Redemption Date; provided, however, that if the Cash Amount to be paid to all Limited Partners who have sent a Notice of Redemption during the period from the date of receipt of the initial Notice of Redemption triggering a Specified Redemption Date and such Specified Redemption Date exceeds $500,000 (the "Threshold Cash Amount"), then such payment date may be extended for up to an additional one hundred eighty (180) days to the extent required for the General Partner to cause additional REIT Shares to be issued to provide financing to be used to make such payment of the Cash Amount. Notwithstanding the foregoing, the General Partner and the Partnership agree to use their best efforts to cause the closing of the acquisition of redeemed Partnership Units hereunder to occur as quickly as reasonably possible without incurring unreasonable expense.

(d) Each certificate, if any, evidencing REIT Shares that may be issued in redemption of Partnership Units under Section 8.5 above (the "Redemption Shares") shall bear a restrictive legend in substantially the following form:

"The shares represented by this certificate have not been registered under the Securities Act of 1933, as amended (the "Act"), or any state securities law. No transfer of the Shares represented by this certificate shall be valid or effective unless (A) such transfer is made pursuant to an effective registration statement under the Act, or (B) the holder of the securities proposed to be transferred shall have delivered to the company either a no-action letter from the Securities and Exchange Commission or an opinion of counsel (who may be an employee of such holder) experienced in securities matters to the effect that such proposed transfer is exempt from the registration requirements of the act which opinion shall be reasonably satisfactory to the company."

(e) The Assignee of any Limited Partner may exercise the rights of such Limited Partner pursuant to this Section 8.5, and such Limited Partner shall be deemed to have assigned such rights to such Assignee and shall be bound by the exercise of such rights by such Limited Partner's Assignee. In connection with any exercise of such rights by such Assignee on behalf of such Limited

Partner, the Cash Amount or REIT Shares Amount shall be paid by the Partnership directly to such Assignee and not to such Limited Partner. Neither the Redeeming Partner nor any Assignee of any Limited Partner shall have any right, with respect to any Part nership Units so redeemed, to receive any distributions paid after the Effective Date or the Specified Redemption Date.

(f) Each Limited Partner covenants and agrees with the General Partner that all Partnership Units delivered for redemption shall be delivered to the Partnership or the General Partner, as the case may be, free and clear of all liens and, notwithstanding anything herein contained to the contrary, neither the General Partner nor the Partnership shall be under any obligation to acquire Partnership Units which are or may be subject to any liens. Each Limited Partner further agrees that, in the event any state or local property transfer tax is payable as a result of the transfer of its Partnership Units to the Partnership or the General Partner, such Limited Partner shall assume and pay such transfer tax.

(g) Notwithstanding anything to the contrary herein, and, unless otherwise indicated, with respect to the Redemption Right pursuant to this Section 8.5:

(i) The consummation of such redemption shall be subject to the expiration and termination of the applicable waiting period, if any, under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended.

(ii) The consummation of such redemption shall be subject to and effected in compliance with all federal and state securities laws.

(iii) The Redeeming Partner shall continue to own all Partnership Units subject to any redemption for REIT Shares or the Cash Amount and be treated as a Limited Partner with respect to such Partnership Units for all purposes (other than as provided in Section 8.5(e) above) of this Agreement until such Partnership Units are transferred to the Partnership or General Partner and the consideration provided by this Section 8.5 is delivered in full on the Specified Redemption Date. Until the issuance of the Redemption Shares the Redeeming Partner shall have no rights as stockholder of the General Partner.

(h) Notwithstanding any other provision of this Section 8.5, unless Preferred Unitholders shall have converted their Preferred Partnership Units into Common Partnership Units pursuant to conversion rights set forth in the Certificate of Designation for their respective class of Preferred Partnership Units, Preferred Unitholders shall not have the Redemption Rights specified in this Section 8.5, but rather shall have such redemption rights, if any, as are set forth in the Certificate of Designation for a particular class of Preferred Partnership Units. In addition, the rights, if any, of the General Partner to redeem a particular class of Preferred Partnership Units shall be set forth in the Certificate of Designation applicable to such Preferred Partnership Units.

8.6 REGISTRATION.

(a) Shelf Registration. In lieu of paying the Cash Amount to a Redeeming Partner as the Redemption Amount pursuant to Section 8.5(c)(ii) hereof, the General Partner may file within

the applicable time period required pursuant to Section 8.5(c)(ii) hereof a shelf registration statement under Rule 415 of the Securities Act, or any similar rule that may be adopted by the Commission (the "Shelf Registration"), with respect to all of the Redemption Shares to be issued upon the redemption of the Partnership Units described in the Notice of Redemption provided by the Redeeming Partner entitled to payment under Section 8.5(c)(ii) hereof. The General Partner may elect in its sole discretion to register any other Redemption Shares pursuant to the Shelf Registration or any pre or post-effective amendment thereto. The General Partner will use its best efforts to have the Shelf Registration declared effective under the Securities Act as soon as practicable after filing in order to permit the disposition of the Registered Redemption Shares by the holders thereof in accordance with the method or methods of disposition specified by the holders, and to keep the Shelf Registration continuously effective until the earlier of (i) the second anniversary of the date the Shelf Registration is declared effective by the Commission (the "Shelf Registration Period"); (ii) the date when all of the Registered Redemption Shares are sold thereunder, or (iii) the date on which all of the holders of Registered Redemption Shares, pursuant to Rule 144(k) under the Securities Act, may sell the Registered Redemption Shares without registration under the Securities Act. The General Partner further agrees to supplement or make amendments to the Shelf Registration, if required by the rules, regulations or instructions applicable to the registration form utilized by the Company or by the Securities Act or rules and regulations thereunder for the Shelf Registration. Notwithstanding the foregoing, if for any reason the effectiveness of the Shelf Registration is delayed or suspended or it ceases to be available for sales of Registered Redemption Shares thereunder, the Shelf Registration Period shall be extended by the aggregate number of days of such delay, suspension or unavailability.

(b) Registration and Qualification Procedures. If and to the extent the General Partner files the Shelf Registration pursuant to the provisions of Section 8.6(a) above in lieu of making a payment of the Cash Amount pursuant to Section 8.5(c)(ii) hereof, then the General Partner will, subject to the provisions of Section 9.8 below:

(i) prepare and file with the Commission a registration statement, including amendments thereof and supplements relating thereto, with respect to the Redemption Shares, in connection with which the General Partner will give each holder of Redemption Shares, their underwriters, if any, and their counsel and accountants a reasonable opportunity to participate in the preparation thereof and will give such persons reasonable access to its books, records, officers and independent public accountants;

(ii) use its best efforts to cause the registration

statement to be declared effective by the Commission;

(iii) keep the registration statement effective and the related prospectus current throughout the Shelf Registration Period; provided, however, that the General Partner shall have no obligation to file any amendment or supplement at its own expense or the Partnership's expense at any time in connection with any underwritten public offering;

(iv) furnish to each holder of Redemption Shares such number of copies of prospectuses, and supplements or amendments thereto, and such other documents as such holder reasonably requests;

(v) register or qualify the Redemption Shares covered by the registration statement under the securities or blue sky laws of such jurisdictions within the United States as any holder whose Redemption Shares are covered by such registration statement shall reasonably request, and do such other reasonable acts and things as may be required of it to enable such holders to consummate the sale or other disposition in such jurisdictions of the Redemption Shares; provided, however, that the General Partner shall not be required to (i) qualify as a foreign corporation or consent to a general and unlimited service or process in any jurisdictions in which it would not otherwise be required to be qualified or so consent or (ii) qualify as a dealer in securities;

(vi) furnish, at the request of the holders of Redemption Shares, on the date Redemption Shares are delivered to the underwriters for sale pursuant to such registration, or, if such Shares are not being sold through underwriters, on the date the Shelf Registration with respect to such Redemption Shares becomes effective, (A) a securities opinion of counsel representing the General Partner for the purposes of such registration covering such legal matters as are customarily included in such opinions and (B) letters of the firm of independent public accountants that certified the financial statements included in the registration statement, addressed to the underwriters, covering substantially the same matters as are customarily covered in accountant's letters delivered to underwriters in underwritten public offerings of securities and such other financial matters as such holders (or the underwriters, if any) may reasonably request;

(vii) otherwise use its best efforts to comply with all applicable rules and regulations of the Commission, and make available to its stockholders as soon as reasonably practicable, but not later than sixteen (16) months after the effective date of the Shelf Registration, an earnings statement covering a period of at least twelve (12) months beginning after the effective date of the Shelf Registration, which earnings statement shall satisfy the provisions of Section 11(a) of the Securities Act;

(viii) enter into and perform an underwriting agreement with the managing underwriter, if any, selected as provided herein, containing customary (A) terms of offer and sale of the securities, payment provisions, underwriting discounts and commissions and (B) representations, warranties, covenants, indemnities, terms and conditions; and

(ix) keep the holders of Redemption Shares whose Shares are included in such Shelf Registration advised as to the initiation and progress of the registration.

(a) Allocation of Expenses. The Partnership shall pay all expenses in connection with the Shelf Registration, including without limitation (i) all expenses incident to filing with the National Association of Securities Dealers, Inc., (ii) registration fees, (iii) printing expenses, (iv) accounting and legal fees and expenses, except to the extent holders of Redemption Shares whose

Shares are included in such Shelf Registration elect to engage accountants or attorneys in addition to the accountants and attorneys engaged by the General Partner, (v) accounting expenses incident to or required by any such registration or qualification and (vi) expenses of complying with the securities

or blue sky laws of any jurisdictions in connection with such registration or qualification; provided, however, the Partnership shall not be liable for (A) any discounts or commissions to any underwriter or broker attributable to the sale of Redemption Shares, or (B) any fees or expenses incurred by holders of Redemption Shares in connection with such registration which, according to the written instructions of any regulatory authority, the Partnership is not permitted to pay. The Partnership shall not be required to pay any of the expenses set forth in this Section 8.6(c)(i) through (vi) in connection with any underwritten public offering after the Shelf Registration has been declared effective, except to the extent that such underwritten public offering occurs concurrently with the declaration of effectiveness of the Shelf Registration; provided, however, that this sentence shall not affect the Partnership's obligation to cooperate in connection with any such underwritten public offering.

(b) Indemnification.

(i) In connection with the Shelf Registration, the Partnership agrees to indemnify holders of Redemption Shares within the meaning of Section 15 of the Securities Act, against all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) caused by any untrue, or alleged untrue, statement of a material fact contained in the Shelf Registration, preliminary prospectus or prospectus (as amended or supplemented if the General Partner shall have furnished any amendments or supplements thereto) or caused by any omission, or alleged omission, to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages, liabilities or expenses are caused by any untrue statement, alleged untrue statement, omission, or alleged omission based upon information furnished to the General Partner expressly for use therein. The General Partner and each officer, director and controlling person of the General Partner shall be indemnified by each holder of Redemption Shares covered by the Shelf Registration for all such losses, claims, damages, liabilities and expenses (including reasonable costs of investigation) caused by any such untrue, or alleged untrue, statement or any such omission, or alleged omission, based upon information furnished to the General Partner expressly for use therein in a writing signed by the holder.

(ii) Promptly upon receipt by a party indemnified under this Section 8.6(d) of notice of the commencement of any action against such indemnified party in respect of which indemnity or reimbursement may be sought against any indemnifying party under this Section 8.6(d), such indemnified party shall notify the Partnership in writing of the commencement of such action, but the failure to so notify the Partnership shall not relieve it of any liability which it may have to any indemnified party otherwise than under this Section 8.6(d) unless such failure shall materially adversely affect the defense of such action. In case notice of commencement of any such action shall be given to the Partnership as above provided, the Partnership shall be entitled to participate in and, to the extent it may wish, jointly with any other indemnifying party similarly notified, to assume the defense of

such action at its own expense, with counsel chosen by it and reasonably satisfactory to such indemnified party. The indemnified party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel (other than reasonable costs of investigation) shall be paid by the indemnified party unless (i) the Partnership agrees to pay the same, (ii) the General Partner fails to assume the defense of such action with counsel reasonably satisfactory to the indemnified party or (iii) the named parties to any such action (including any impleaded parties) have been advised by such counsel that representation of such indemnified party and the General Partner by the same counsel would be inappropriate under applicable standards of professional conduct (in which case the General Partner shall not have the right to assume the defense of such action on behalf of such indemnified party). No indemnifying party shall be liable for any settlement entered into without its consent.

(c) Contribution.

(i) If for any reason the indemnification provisions contemplated by Section 8.6(d) are either unavailable or insufficient to hold harmless an indemnified party in respect of any losses, claims,

damages or liabilities referred to therein, then the party that would otherwise be required to provide indemnification or the indemnifying party (in either case, for purposes of this Section 8.6(e), the "Indemnifying Party") in respect of such losses, claims, damages or liabilities, shall contribute to the amount paid or payable by the party that would otherwise be entitled to indemnification or the indemnified party (in either case, for purposes of this Section 8.6(e), the "Indemnified Party") as a result of such losses, claims, damages, liabilities or expense, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and the Indemnified Party, as well as any other relevant equitable considerations. The relative fault of the Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact related to information supplied by the Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such party. In no event shall any holder of Redemption Shares covered by the Shelf Registration be required to contribute an amount greater than the dollar amount of the proceeds received by such holder from the sale of Redemption Shares pursuant to the registration giving rise to the liability.

(ii) The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 8.6(e) were determined by pro rata allocation (even if the holders or any underwriters or all of them were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. No person or entity determined to have committed a fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation.

(iii) The contribution provided for in this Section 8.6(e) shall survive the termination of this Agreement and shall remain in full force and effect regardless of any investigation made by or on behalf of any Indemnified Party.

(d) Listing on Securities Exchange. If the General Partner shall list or maintain the listing of any shares of its common stock on any securities exchange or national market system, it will at its expense and as necessary to permit the registration and sale of the Redemption Shares hereunder, list thereon, maintain and, when necessary, increase such listing to include such Redemption Shares.

8.7 MEETINGS OF THE PARTNERS.

(a) Meetings of the Partners may be called by the General Partner and shall be called upon the receipt by the General Partner of a written request by Limited Partners holding ten percent (10%) or more of the Limited Partner Interests, taking into account any Preferred Partnership Units that are convertible into Common Partnership Units and are required by the Certificate of Designation for the particular class of Preferred Partnership Units to be counted for such purposes on an as-converted basis. Upon request in writing to the General Partner by any person(s) entitled to call a meeting, the General Partner shall cause notice to be given (not less than fifteen (15) nor more than sixty (60) days after receipt of request) to the Limited Partners that a meeting will be held at a time requested by the person(s) calling the meeting. The call shall state the nature of the business to be transacted. Notice of any such meeting shall be given to all Partners not less than ten (10) days nor more than sixty (60) days prior to the date of such meeting. Partners may vote in person or by proxy at such meeting. Whenever the vote or consent of the Partners is permitted or required under this Agreement, such vote or consent may be given at a meeting of the Partners or may be given in accordance with the procedure prescribed in Section 8.7 hereof. Except as otherwise expressly provided in this Agreement, the consent of holders of a majority of the Percentage Interests held by Limited Partners (including Limited Partnership Interests held by the General Partner) shall control.

(b) Any action required or permitted to be taken at a meeting of the Partners may be taken without a meeting if a written consent setting forth

the action so taken is signed by a majority of the Percentage Interests of the Partners (or such other percentage as is expressly required by this Agreement), taking into account any Preferred Partnership Units that are convertible into Common Partnership Units and are required by the Certificate of Designation for the particular class of Preferred Partnership Units to be counted for such purposes on an as-converted basis. Such consent may be in one instrument or in several instruments, and shall have the same force and effect as a vote of a majority of the Percentage Interests of the Partners (or such other percentage as is expressly required by this Agreement). Such consent shall be filed with the General Partner. An action so taken shall be deemed to have been taken at a meeting held on the effective date so certified.

(c) Each Limited Partner may authorize any Person or Persons to act for him by proxy on all matters in which a Limited Partner is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting. Every proxy must be signed by the Limited

Partner or his attorney-in-fact. No proxy shall be valid after the expiration of eleven (11) months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Limited Partner executing it, such revocation to be effective upon the Partnership's receipt of or written notice of such revocation from the Limited Partner executing such proxy.

(d) Each meeting of Partners shall be conducted by the General Partner or such other Person as the General Partner may appoint pursuant to such rules for the conduct of the meeting as the General Partner or such other Person deems appropriate in its sole discretion. Without limitation, meetings of Partners may be conducted in the same manner as meetings of the stockholders of the General Partner and may be held at the same time as, and as part of, meetings of the stockholders of the General Partner.

ARTICLE IX

TRANSFERS OF LIMITED PARTNERSHIP INTERESTS

9.1 PURCHASE FOR INVESTMENT.

(a) Each Limited Partner hereby represents and warrants to the General Partner and to the Partnership that the acquisition of his Partnership Interest is made as a principal for his account for investment purposes only and not with a view to the resale or distribution of such Partnership Interest.

(b) Each Limited Partner agrees that he will not sell, assign or otherwise transfer his Partnership Interest or any fraction thereof, whether voluntarily or by operation of law or at judicial sale or otherwise, to any Person who does not make the representations and warranties to the General Partner set forth in Section 9.1(a) above and similarly agree not to sell, assign or transfer such Partnership Interest or fraction thereof to any Person who does not similarly represent, warrant and agree.

9.2 RESTRICTIONS ON TRANSFER OF LIMITED PARTNERSHIP INTERESTS AND REDEMPTION SHARES.

(a) Except as otherwise provided in Section 9.2(d) hereof, no Limited Partner other than the General Partner may offer, sell, assign, hypothecate, pledge or otherwise transfer his Limited Partnership Interest, in whole or in part, whether voluntarily or by operation of law or at judicial sale or otherwise (collectively, a "Transfer") without the written consent of the General Partner, which consent may be withheld in the sole discretion of the General Partner. The General Partner may require, as a condition of any Transfer, that the transferor assume all costs incurred by the Partnership in connection therewith.

(b) No Limited Partner may effect a Transfer of his Limited Partnership Interest, in whole or in part, if, in the opinion of legal counsel for the Partnership, such proposed Transfer would require the registration of the Limited Partnership Interest under the Securities Act, or would

otherwise violate any applicable federal or state securities or "Blue Sky" law (including investment suitability standards).

(c) No transfer by a Limited Partner of his or its Partnership Units, in whole or in part, may be made to any Person if: (i) in the opinion of legal counsel for the Partnership, the transfer would result in the Partnership's being treated as an association taxable as a corporation (other than a qualified REIT subsidiary within the meaning of Section 856(i) of the Code); (ii) such transfer is effectuated through an "established securities market" or a "secondary market (or the substantial equivalent thereof)" within the meaning of Section 7704 of the Code; (iii) such transfer would cause the Partnership to become, with respect to any employee benefit plan subject to Title I of ERISA, a "party-in-interest" (as defined in Section 3(14) of ERISA) or a "disqualified person" (as defined in Section 4975(c) of the Code); or (iv) if such transfer would, in the opinion of counsel to the Partnership, cause any portion of the assets of the Partnership to constitute assets of any employee benefit plan pursuant to Department of Labor Regulations Section 2510.2-101.

(d) Section 9.2(a) shall not apply to the following transactions, except as they may be prohibited by Section 9.2(h) and except that the General Partner may require that the transferor assume all costs incurred by the Partnership in connection therewith:

(i) any Transfer by a Limited Partner pursuant to the exercise of its Redemption Right under Section 8.5 hereof;

(ii) any Transfer by a Limited Partner that is a corporation or other business entity to any of its Affiliates or subsidiaries or to any successor in interest of such Limited Partner;

(iii) any donative Transfer by an individual Limited Partner to his immediate family members or any trust in which the individual or his immediate family members own, collectively, one hundred percent (100%) of the beneficial interests. For purposes of this Section 9.2(d)(iii), the term "immediate family member" shall be deemed to include only an individual Limited Partner's spouse, children and grandchildren;

(iv) any Transfer described in Section 9.3(a)(vii); or

(v) any Transfer of Preferred Partnership Units that is expressly permitted under the Certificate of Designation for a particular class of Preferred Partnership Units.

(e) Notwithstanding Section 9.2(a) to the contrary, any Limited Partner (including the Additional Limited Partners) may pledge, encumber or hypothecate ("Pledge") all or any portion of his Limited Partnership Interest upon satisfaction of each of the following conditions:

(i) the General Partner shall have determined in the exercise of its reasonable judgment that such Pledge will not either jeopardize the status of the Partnership as a partnership for federal or state income tax purposes or otherwise create any adverse tax

consequences to the Partnership or result in a transfer that might jeopardize any exemption from registration under federal or state securities laws;

(ii) the pledgee of the Pledge shall either be (i) an institutional lender; or (ii) a non-institutional lender reasonably acceptable to the General Partner; and

(iii) the Limited Partner making the Pledge shall provide a copy of all documents evidencing the Pledge or relating to the Pledge transaction and reimburse the Partnership for all reasonable costs and expenses incurred by the Partnership in connection with such Pledge.

(f) Any Transfer in contravention of any of the provisions of this Article IX shall be void ab initio and ineffectual and shall not be binding upon, or recognized by, the Partnership.

(g) Transfers pursuant to this Article IX may only be made on the first Business Day of a fiscal quarter of the Partnership, unless the General Partner otherwise agrees.

(h) Notwithstanding anything in this Agreement to the contrary:

(i) Flagstaff Hotel Assets, Inc. and Tucson Desert Assets, Inc. in their capacity as a Limited Partner and any successors thereto or assignees thereof, as well as any Person who becomes a Limited Partner after the effective date of this Agreement, shall not sell any Redemption Shares at any time if such sale could reasonably be expected to result in a violation of any applicable law or regulation due to any other securities offering or transaction by the General Partner or any administrator or agent for the General Partner's Dividend Reinvestment Plan;

(ii) any Person who becomes a Limited Partner after the effective date of this Agreement shall not, unless the General Partner in its sole discretion consents in writing, convey, assign, distribute or otherwise voluntarily or involuntarily transfer (other than a Pledge permitted by Section 9.2(e)) to any Person, including any shareholder, any of the Partnership Units (or any other substitute securities or other securities received on account of such Partnership Units) held by any such Limited Partners, for a period of one year from the date such Partnership Units were issued to such Limited Partners; and

(iii) the following Limited Partners shall not, unless the General Partner in its sole discretion consents in writing, convey, assign, distribute or otherwise voluntarily or involuntarily transfer (other than a Pledge permitted by Section 9.2(e)) to any Person, including any other Partner, any of the Partnership Units (or any other substitute securities or other securities received on account of such Partnership Units) held by such Limited Partners, at any time prior to the date listed next to each such Limited Partner's name, as follows: (1) Flagstaff Hotel Assets, Inc. and Tucson Desert Assets, Inc. (October 29, 1997), (2) Shivani, LLC (January 17, 1998), and (3) O.T. Hill, LLC (November 28, 1997).

9.3 ADMISSION OF SUBSTITUTE LIMITED PARTNER.

(a) Subject to the other provisions of this Article IX, an assignee of the Limited Partnership Interest of a Limited Partner (which shall be understood to include any purchaser, transferee, donee, or other recipient of any disposition of such Limited Partnership Interest) shall be deemed admitted as a Limited Partner of the Partnership only upon the satisfactory completion of the following:

(i) The assignee shall have accepted and agreed to be bound by the terms and provisions of this Agreement by executing a counterpart or an amendment thereof, and such other documents or instruments as the General Partner may require in order to effect the admission of such Person as a Limited Partner.

(ii) To the extent required, an amended Certificate evidencing the admission of such Person as a Limited Partner shall have been signed, acknowledged and filed for record in accordance with the Act.

(iii) The assignee shall have delivered a letter containing the representation set forth in Section 9.1(a) hereof and the agreement set forth in Section 9.1(b) hereof.

(iv) If the assignee is a corporation, partnership or trust, the assignee shall have provided the General Partner with evidence satisfactory to counsel for the Partnership of the assignee's authority to become a Limited Partner under the terms and provisions of this Agreement.

(v) The assignee shall have executed a power of attorney containing the terms and provisions set forth in Section 8.2 hereof.

(vi) The assignee shall have paid all reasonable legal fees of the Partnership and the General Partner and filing and publication costs in connection with his substitution as a Limited Partner.

(vii) The assignee has obtained the prior written consent of the General Partner to its admission as a Substitute Limited Partner, which consent may be given or denied in the exercise of the General Partner's sole and absolute discretion; provided, however, that subject

to Section 9.8 below, the General Partner hereby agrees to consent to the admission of any Assignee of any Limited Partner who was a party to this Agreement as of August 16, 1995 described in Section 9.2(f) (by distribution in accordance with the terms of the partnership agreement or other applicable governing agreement of such Limited Partner), which consent shall be effective with no further action by the General Partner upon the execution of such assignment by such Limited Partner to such Assignee.

(b) For the purpose of allocating profits and losses and distributing cash received by the Partnership, a Substitute Limited Partner shall be treated as having become, and appearing in the records of the Partnership as, a Partner upon the filing of the Certificate described in Section

9.3(a)(ii) hereof or, if no such filing is required, the later of the date specified in the transfer documents or the date on which the General Partner has received all necessary instruments of transfer and substitution.

(c) The General Partner shall cooperate with the Person seeking to become a Substitute Limited Partner by preparing the documentation required by this Section and making all official filings and publications. The Partnership shall take all such action as promptly as practicable after the satisfaction of the conditions in this Article IX to the admission of such Person as a Limited Partner of the Partnership.

9.4 RIGHTS OF ASSIGNEES OF PARTNERSHIP INTERESTS.

(a) Subject to the provisions of Sections 9.1 and 9.2 hereof, except as required by operation of law, the Partnership shall not be obligated for any purposes whatsoever to recognize the assignment by any Limited Partner of his Partnership Interest until the Partnership has received notice thereof.

(b) Any Person who is the assignee of all or any portion of a Limited Partner's Limited Partnership Interest, but does not become a Substitute Limited Partner and desires to make a further assignment of such Limited Partnership Interest, shall be subject to all the provisions of this Article IX to the same extent and in the same manner as any Limited Partner desiring to make an assignment of his Limited Partnership Interest.

9.5 EFFECT OF BANKRUPTCY, DEATH, INCOMPETENCE OR TERMINATION OF A LIMITED PARTNER. The occurrence of an Event of Bankruptcy as to a Limited Partner, the death of a Limited Partner or a final adjudication that a Limited Partner is incompetent (which term shall include, but not be limited to, insanity) shall not cause the termination or dissolution of the Partnership, and the business of the Partnership shall continue if an order for relief in a bankruptcy proceeding is entered against a Limited Partner, the trustee or receiver of his estate or, if he dies, his executor, administrator or trustee, or, if he is finally adjudicated incompetent, his committee, guardian or conservator, shall have the rights of such Limited Partner for the purpose of settling or managing his estate property and such power as the bankrupt, deceased or incompetent Limited Partner possessed to assign all or any part of his Partnership Interest and to join with the assignee in satisfying conditions precedent to the admission of the assignee as a Substitute Limited Partner.

9.6 JOINT OWNERSHIP OF INTERESTS. A Partnership Interest may be acquired by two individuals as joint tenants with right of survivorship, provided that such individuals either are married or are related and share the same home as tenants in common. The written consent o vote of both owners of any such jointly held Partnership Interest shall be required to constitute the action of the owners of such Partnership Interest; provided, however, that the written consent of only one joint owner will be required if the Partnership has been provided with evidence satisfactory to the counsel for the Partnership that the actions of a single joint owner can bind both owners under the applicable laws of the state of residence of such joint owners. Upon the death of one owner of a Partnership Interest held in a joint tenancy with a right of survivorship, the Partnership Interest shall become owned solely by the survivor as a Limited Partner and not as an Assignee. The Partnership

need not recognize the death of one of the owners of a jointly-held Partnership Interest until it shall have received notice of such death. Upon notice to the General Partner from either owner, the General Partner shall cause the Partnership Interest to be divided into two equal Partnership Interests, which shall thereafter be owned separately by each of the former owners.

9.7 ASSIGNMENT OF ALL PARTNERSHIP UNITS. Any Limited Partner who shall transfer all of his Partnership Units in a transfer permitted pursuant to this Article IX shall cease to be a Limited Partner upon the admission of all Assignees of such Partnership Units as Substitute Limited Partners. Similarly, any Limited Partner who shall transfer all of his Partnership Units pursuant to a redemption of all of his Partnership Units under Section 8.5 shall cease to be a Limited Partner.

9.8 LIMITATION ON TRANSFER OF PARTNERSHIP UNITS AND OTHER RIGHTS TO AVOID ADVERSE TAX EFFECTS. Notwithstanding any provision in this Agreement to the contrary, no transfer or purported transfer by any Limited Partner of any Partnership Interest or Partnership Units, nor exercise of any redemption right under Section 8.5, nor exercise of any registration rights under Section 8.5, nor exercise of any other right or benefit provided under this Agreement shall be effective or of any force or effect if as a result of the exercise or purported exercise of any such right, the Partnership will be taxed as a corporation, association or publicly traded partnership, rather than as a limited partnership, under the Code, any Regulations, or any administrative pronouncements of the Internal Revenue Service. The General Partner's determination as to whether a particular transfer, exercise of redemption rights, exercise of registration rights, or exercise of any other right or benefit will or may cause an adverse tax treatment to the Partnership shall be conclusive and binding on the Limited Partners.

ARTICLE X

BOOKS AND RECORDS: ACCOUNTING: TAX MATTERS

10.1 BOOKS AND RECORDS. At all times during the continuance of the Partnership, the Partners shall keep or cause to be kept at the Partnership's specified office true and complete books of account in accordance with generally accepted accounting principles, including: (a) a current list of the full name and last known business address of each Partner, (b) a copy of the Certificate of Limited Partnership and all certificates of amendment thereto, (c) copies of the Partnership's federal, state and local income tax returns and reports, (d) copies of the Agreement and any financial statements of the Partnership for the three most recent years and (e) all documents and information required under the Act. Any Partner or his duly authorized representative, upon paying the costs of collection, duplication and mailing, shall be entitled to inspect or copy such records during ordinary business hours.

10.2 CUSTODY OF PARTNERSHIP FUNDS: BANK ACCOUNTS.

(a) All funds of the Partnership not otherwise invested under Section 10.2(b) below shall be deposited in one or more accounts maintained in such banking or brokerage

institutions as the General Partner shall determine, and withdrawals shall be made only on such signature or signatures as the General Partner may, from time to time, determine.

(b) All deposits and other funds not needed in the operation of the business of the Partnership and deposited in accordance with Section 10.2(a) above, shall be invested by the General Partner in any of the following dollar denominated investments: (i) marketable direct obligations issued or unconditionally guaranteed by the United States government or issued by any agency thereof and backed by the full faith and credit of the United States; (ii) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof and, at the time of acquisition, having an investment grade rating from either Standard & Poor's Corporation ("S&P") or Moody's Investors Service, Inc. ("Moody's"); (iii) publicly traded commercial paper bearing at the time of acquisition an investment grade rating either of S&P or Moody's issued by United States, Australian, Canadian, European or Japanese bank holding companies or industrial or financial companies; (iv) certificates of deposit issued by and bankers acceptances of and interest bearing deposits with any United States, Canadian, European or Japanese commercial banks either (x) is the lender of

Non-discharged Indebtedness but only up to 125% of the amount of such Lender's Non-discharged indebtedness or (y) having capital and surplus of at least $100,000,000 or the equivalent and which issues (or the parent of which issues) commercial paper or other short term securities bearing an investment grade rating from either S&P or Moody's; and (v) money market funds organized under the laws of the United States or any state thereof that invest solely in any of the foregoing investments permitted under clauses (i), (ii), (iii), and (iv). The funds of the Partnership shall not be commingled with the funds of any other Person except for such commingling as may necessarily result from an investment in those investment companies permitted by this Section 10.2(b).

10.3 FISCAL AND TAXABLE YEAR. The fiscal and taxable year of the Partnership shall be the calendar year.

10.4 ANNUAL TAX INFORMATION AND REPORT. Within seventy-five (75) days after the end of each fiscal year of the Partnership, the General Partner shall furnish to each Person who was a Limited Partner at any time during such year the tax information necessary to file such Limited Partner's individual tax returns as shall be reasonably required by law.

10.5 TAX MATTERS PARTNER; TAX ELECTIONS; SPECIAL BASIS ADJUSTMENTS.

(a) The General Partner shall be the "Tax Matters Partner" of the Partnership within the meaning of Section 6231(a)(7) of the Code. As Tax Matters Partner, the General Partner shall have the right and obligation to take all actions authorized and required, respectively, by the Code for the Tax Matters Partner. The General Partner shall have the right to retain professional assistance in respect of any audit of the Partnership by the Service and all out-of-pocket expenses and fees incurred by the General Partner on behalf of the Partnership as Tax Matters Partner shall constitute Administrative Expenses. In the event the General Partner receives notice of a final Partnership adjustment under Section 6223(a)(2) of the Code, the General Partner shall either (i) file a court petition for judicial review of such final adjustment within the period provided under Section 6226(a) of the Code, a copy of which petition shall be mailed to all Limited Partners on the date such

petition is filed, or (ii) mail a written notice to all Limited Partners, within such period, that describes the General Partner's reasons for determining not to file such a petition.

(b) All elections required or permitted to be made by the Partnership under the Code shall be made by the General Partner in its sole discretion.

(c) In the event of a transfer of all or any part of the Partnership Interest of any Partner, the Partnership, at the option of the General Partner, may elect pursuant to Section 754 of the Code to adjust the basis of the Properties. Notwithstanding anything contained in Article V of this Agreement, any adjustments made pursuant to Section 754 shall affect only the successor in interest to the transferring Partner and in no event shall be taken into account in establishing, maintaining or computing Capital Accounts for the other Partners for any purpose under this Agreement. Each Partner will furnish the Partnership with all information necessary to give effect to such election.

10.6 REPORTS TO LIMITED PARTNERS.

(a) The books of the Partnership shall be audited annually as of the end of each fiscal year of the Partnership by accountants selected by the General Partner, who shall be the same accountants responsible for the examination of the General Partner's books. The General Partner shall determine and prepare an annual balance sheet, a statement of partners' capital as of the end of such year, as well as statements of cash flow and income, all in accordance with generally accepted accounting principles and accompanied by an independent auditor's report (collectively, the "Financial Statements"), together with all supplementary schedules and information prepared by the accountants related thereto. As a note to such Financial Statements, the General Partner shall prepare a schedule of all loans to the Partnership. Such schedule shall demonstrate that loans have been made, used, carried on the books of the Partnership (and repaid, if applicable) in accordance with the provisions of this Agreement.

As soon as practicable, but in no event later than one hundred five (105) days after the close of each fiscal year, or such later date as they are filed with the Commission by the General Partner, the General Partner shall cause to be mailed to each Limited Partner as of the close of the fiscal year,

an annual report containing Financial Statements of the Partnership, or of the General Partner if such statements are prepared solely on a consolidated basis with the General Partner, for such year. As soon as practicable, but in no event later than forty-five (45) days after the close of each calendar quarter (except the last calendar quarter of each year), or such later date as they are filed with the Commission by the General Partner, the General Partner shall cause to be mailed to each Limited Partner as of the last day of the calendar quarter, a report containing unaudited financial statements of the Partnership, or of the General Partner, if such statements are prepared solely on a consolidated basis with the General Partner, and such other information as may be required by applicable law or regulation, or as the General Partner determines to be appropriate.

(b) Any Partner shall further have the right to a private audit of the books and records of the Partnership, provided such audit is made for Partnership purposes, at the expense of the Partner desiring it and is made during normal business hours.

10.7 TITLE TO PARTNERSHIP ASSETS. Title to Partnership assets, whether real, personal or mixed and whether tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and no Partner, individually or collectively, shall have any ownership interest in such Partnership assets or any portion thereof. Title to any or all of the Partnership assets may be held in the name of the Partnership, the General Partner or one or more nominees, as the General Partner may determine, including Affiliates of the General Partner. The General Partner hereby declares and warrants that any Partnership assets for which legal title is held in the name of the General Partner or any nominee or Affiliate of the General Partner shall be held by the General Partner for the use and benefit of the Partnership in accordance with the provisions of this Agreement; provided, however, that the General Partner shall use its best efforts to cause beneficial and record title to such assets to be vested in the Partnership as soon as reasonably practicable. All Partnership assets shall be recorded as the property of the Partnership in its books and records, irrespective of the name in which legal title to such Partnership assets is held.

10.8 RELIANCE BY THIRD PARTIES. Notwithstanding anything to the contrary in this Agreement, any Person dealing with the Partnership shall be entitled to assume that the General Partner has full power and authority, without consent or approval of any other Partner or Person, to encumber, sell or otherwise use in any manner any and all assets of the Partnership and to enter into any contracts on behalf of the Partnership, and take any and all actions on behalf of the Partnership and such Person shall be entitled to deal with the General Partner as if the General Partner were the Partnership's sole party in interest, both legally and beneficially. Each Limited Partner hereby waives any and all defenses or other remedies which may be available against such Person to contest, negate or disaffirm any action of the General Partner in connection with any such dealing. In no event shall any Person dealing with the General Partner or its representatives be obligated to ascertain that the terms of this Agreement have been complied with or to inquire into the necessity or expedience of any act or action of the General Partner or its representatives. Each and every certificate, document, or other instrument executed on behalf of the Partnership by the General Partner or its representatives shall be conclusive evidence in favor of any and every Person relying thereon or claiming thereunder that (i) at the time of the execution and delivery of such certificate, document or instrument, this Agreement was in full force and effect, (ii) the Person executing and delivering such certificate, document or instrument was duly authorized and empowered to do so for and on behalf of the Partnership and (iii) such certificate, document or instrument was duly executed and delivered in accordance with the terms and provisions of this Agreement and is binding upon the Partnership.

10.9 WITHHOLDING. Each Limited Partner hereby authorizes the Partnership to withhold from or pay on behalf of or with respect to such Limited Partner any amount of federal, state, local, or foreign taxes that the General Partner determines that the Partnership is required to withhold or pay with respect to any amount distributable or allocable to such Limited Partner pursuant to this Agreement, including, without limitation, any taxes required to be withheld or paid by the Partnership pursuant to Sections 1441, 1442, 1445, or 1446 of the Code. Any amount paid on behalf of or with respect to a Limited Partner shall constitute a loan by the Partnership to such Limited Partner, which loan shall be repaid by such Limited Partner within fifteen (15) days after notice from the General Partner that such payment must be made unless (i) the Partnership withholds such payment from a distribution which would otherwise be made to the Limited Partner or (ii) the

General Partner determines, in its sole and absolute discretion, that such payment may be satisfied out of the available funds of the Partnership which would, but for such payment, be distributed to the Limited Partner. Any amounts withheld pursuant to the foregoing clauses (i) or (ii) shall be treated as having been distributed to such Limited Partner. Each Limited Partner hereby unconditionally and irrevocably grants to the Partnership a security interest in such Limited Partner's Partnership Interest to secure such Limited Partner's obligation to pay to the Partnership any amounts required to be paid pursuant to this Section 10.9. Any amounts payable by a Limited Partner hereunder shall bear interest at the lesser of (A) the base rate on corporate loans at large United States money center commercial banks, as published from time to time in the Wall Street Journal, plus one (1) percentage points, or (B) the maximum lawful rate of interest on such obligation, such interest to accrue from the date such amount is due (i.e., fifteen (15) days after demand) until such amount is paid in full. Each Limited Partner shall take such actions as the Partnership or the General Partner shall request in order to perfect or enforce the security interest created hereunder.

ARTICLE XI

AMENDMENT OF AGREEMENT

The General Partner, without the consent of the Limited Partners, may amend this Agreement in any respect; provided, however, that the following amendments shall require the consent of Limited Partners holding more than sixty-six and two-thirds percent (66-2/3%) of the Percentage Interests of the Limited Partners (excluding the Percentage Interests held in the name of the General Partner of the Partnership, or held by any entity which is controlled by the General Partner, whether as the General Partner or a Limited Partner):

(a) any amendment affecting the operation of the Conversion Factor, the Redemption Rights, or the Shelf Registration under Section 8.6 hereof;

(b) any amendment that would adversely affect the rights of the Limited Partners to receive the distributions payable to them hereunder.

(c) any amendment that would alter the Partnership's allocations of Profit and Loss to the Limited Partners, other than (i) an amendment (including attaching a new Certificate of Designation hereto) to issue a new class of Preferred Partnership Units or (ii) an amendment to admit a new Limited Partner provided such amendment to the allocations of Profit and Loss did not have an adverse effect on the existing Limited Partners; or

(d) any amendment that would impose on the Limited Partners any obligation to make additional Capital Contributions to the Partnership.

In determining what number of Partnership Units constitutes the requisite 66-2/3% consent for any of the amendments enumerated above, Preferred Partnership Units (other than those held in the name of the General Partner or an entity controlled by the General Partner, whether as the General Partner or a limited partner) shall be taken into account to the extent that, with respect to

a particular purpose enumerated above, the Certificate of Designation for a particular class of Preferred Partnership Units provides for conversion of such units into Common Partnership Units and provides that such Preferred Partnership Units shall vote on an as-converted basis. In addition to any of the voting rights that Preferred Unitholders may have under this Article X, Preferred Unitholders shall have such other voting rights, protective rights or similar rights as set forth in the Certificate of Designation for a particular class of Preferred Partnership Units.

ARTICLE XII

GENERAL PROVISIONS

12.1 NOTICES. All communications required or permitted under this Agreement shall be in writing and shall be deemed to have been given when delivered personally or upon deposit in the United States mail, registered,

postage prepaid return receipt requested, to the Partners at the addresses set forth in the Unitholder Ledger; provided, however, that any Partner may specify a different address by notifying the General Partner in writing of such different address. Notices to the Partnership shall be delivered at or mailed to its specified office.

12.2 SURVIVAL OF RIGHTS. Subject to the provisions hereof limiting transfers, this Agreement shall be binding upon and inure to the benefit of the Partners and the Partnership and their respective legal representatives, successors, transferees and assigns.

12.3 ADDITIONAL DOCUMENTS. Each Partner agrees to perform all further acts and execute, swear to, acknowledge and deliver all further documents which may be reasonable, necessary, appropriate or desirable to carry out the provisions of this Agreement or the Act.

12.4 SEVERABILITY. If any provision of this Agreement shall be declared illegal, invalid, or unenforceable in any jurisdiction, then such provision shall be deemed to be severable from this Agreement (to the extent permitted by law) and in any event such illegality, invalidity or unenforceability shall not affect the remainder hereof.

12.5 ENTIRE AGREEMENT. This Agreement and exhibits attached hereto constitute the entire Agreement of the Partners and supersede all prior written agreements and prior and contemporaneous oral agreements, understandings and negotiations with respect to the subject matter hereof.

12.6 PRONOUNS AND PLURALS. When the context in which words are used in the Agreement indicates that such is the intent, words in the singular number shall include the plural and the masculine gender shall include the neuter or female gender as the context may require.

12.7 HEADINGS. The Article headings or sections in this Agreement are for convenience only and shall not be used in construing the scope of this Agreement or any particular Article.

12.8 COUNTERPARTS. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original copy and all of which together shall constitute one and the

same instrument binding on all parties hereto, notwithstanding that all parties shall not have signed the same counterpart.

12.9 WAIVER. No failure by any party to insist upon the strict performance of any covenant, duty, agreement or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute waiver of any such breach or any other covenant, duty, agreement or condition.

12.10 APPLICABLE LAW. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of Delaware (other than the law governing the choice of law), without regard to the principles of conflicts of law. In the event of a conflict between the provisions of this Agreement and any nonmandatory provision of the Act, the provisions of this Agreement shall control and take precedence.

12.11 INVALIDITY OF PROVISIONS. If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

12.12 NO RIGHTS AS STOCKHOLDERS. Nothing contained in this Agreement shall be construed as conferring upon the holders of the Partnership Units any rights whatsoever as stockholders of the General Partner, including, without limitation, any right to receive dividends or other distributions made to stockholders of the General Partner or to vote or to consent or to receive notice as stockholders in respect of any meeting of stockholders for the election of directors of the General Partner or any other matter.

12.13 PARTITION. No Partner nor any successor-in-interest to a Partner shall have the right while this Agreement remains in effect to have any property of the Partnership partitioned, or to file a complaint or to institute any proceeding at law or in equity to have such property of the Partnership partitioned, and each Partner, on behalf of itself and its successors and assigns hereby waives any such right. It is the intention of the Partners that

the rights of the parties hereto and their successors-in-interest to Partnership property, as among themselves, shall be governed by the terms of this Agreement, and that the rights of the Partners and their successors-in-interest shall be subject to the limitations and restrictions as set forth in this Agreement.

12.14 NO THIRD-PARTY RIGHTS CREATED HEREBY. The provisions of this Agreement are solely for the purpose of defining the interests of the partners, inter se; and no other person, firm or entity (i.e., a party who is not a signatory hereto or a permitted successor to such signatory hereto) shall have any right, power, title or interest by way of subrogation or otherwise, in and to the rights, powers, title and provisions of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have hereunder affixed their signatures to this Agreement, all as of the date first hereinabove written.

GENERAL PARTNER

SUNSTONE HOTEL INVESTORS, INC., a Maryland corporation and the sole General Partner

By: /s/ ROBERT A. ALTER
Robert A. Alter
Its: President

LIMITED PARTNERS

SUNSTONE HOTEL INVESTORS, INC., a Maryland corporation, as a Limited Partner

By: /s/ ROBERT A. ALTER
Robert A. Alter
Its: President

/s/ ROBERT A. ALTER
ROBERT A. ALTER

/s/ C. ROBERT ENEVER
C. ROBERT ENEVER

/s/ CHARLES L. BIEDERMAN
CHARLES L. BIEDERMAN

MYPC PARTNERS,
a general partnership

By: /s/ KARL MATTHIES
Karl Matthies
Its: General Partner

ANTHONY E. VAN BAAK

/s/ LES LIMAN
LES LIMAN

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/s/ THOMAS R. SHARP
THOMAS R. SHARP, TRUSTEE

/s/ THOMAS R. SHARP
THOMAS R. SHARP

TRUST COMPANY OF AMERICA,
for the benefit of Patrick E. Barney

By: /s/ Trust Company of America

Name:
Its:

ENEVER ROUTT INVESTMENT
GROUP, LTD, a limited partnership

By: /s/ C. ROBERT ENEVER

C. Robert Enever
Its: General Partner

ALTER INVESTMENT GROUP, LTD, a
limited partnership

By: /s/ ROBERT A. ALTER

Robert A. Alter
Its: General Partner

INNS PROPERTIES, a California limited
partnership, formerly known as Inns
Properties I, a California limited
partnership

By INSPAC, LTD., a Delaware corporation,
formerly (and, in California, still
known as) INSCO, LTD., a General Partner

By:

Richard M. Moss
Its: President

RIVERSIDE HOTEL PARTNERS, INC.,
a California Corporation

By: /s/ ROBERT A. ALTER

Robert A. Alter
Its: President

FLAGSTAFF HOTEL ASSETS, INC.,
an Arizona corporation

By: /s/ LOURIN KOONIN

Lourin Koonin
Its: President

TUCSON DESERT ASSETS, INC.,
an Arizona corporation

By: /s/ LOURIN KOONIN

Lourin Koonin
Its: President

LINDA HAMLET & KENNETH HAMLET,
as Joint Tenants

Linda Hamlet

Kenneth Hamlet

CHANING DARRTEN HAMLET TRUST

By:

, TRUSTEE

BRENDAN HUNTER HAMLET TRUST

By:

, TRUSTEE

TYLER JENSEN HAMLET TRUST

By:

, TRUSTEE

SKLAR FAMILY PARTNERSHIP

By: /s/ GERALD A. SKLAR

Gerald A. Sklar
Its: Partner

SHARON DRUEHL

GORDON E. DRUEHL

/s/ MARGOT GASCH

MARGOT GASCH

O.T. HILL, LLC,
a Delaware limited liability company

By: /s/ GARY V. CHENSOFF

Gary V. Chensoff
Its: President

ANDRA M. PALMROS, Personal
Representative of the Estate of
Alexander Palmros II a/k/a
Alex Palmros II deceased

/s/ PETER B. AYRES

PETER B. AYRES, TRUSTEE

/s/ DANIEL E. CARSELLO

DANIEL E. CARSELLO, TRUSTEE

/s/ DANIEL E. CARSELLO

DANIEL E. CARSELLO

/s/ JEANNE H. CARSELLO

JEANNE H. CARSELLO, TRUSTEE

/s/ GERALD N. CLARK

GERALD N. CLARK

/s/ GAREY H. COONEN

GAREY H. COONEN

SHERMAN B. CORNELL

/s/ AUDREY W. ENEVER

AUDREY W. ENEVER

C. ROBERT ENEVER & AUDREY W.
ENEVER, as Joint Tenants

/s/ C. ROBERT ENEVER

C. Robert Enever

/s/ AUDREY W. ENEVER

Audrey W. Enever

/s/ TERRY H. HILSON

TERRY H. HILSON, TRUSTEE

JAMES HIVELY & SANDRA HIVELY,
as Joint Tenants

/s/ JAMES HIVELY

James Hively

/s/ SANDRA HIVELY

Sandra Hively

EUGENE O. HOGENSON &
CHRISTINE M. LEICK, as Joint Tenants

Eugene O. Hogenson

Christine M. Leick

EDGAR R. JOHNSON & JUNE A.
JOHNSON, as Joint Tenants

Edgar R. Johnson

June A. Johnson

SHIVANI LLC, a California Limited
Liability Company

By: /s/ TUSHAR PATEL

Tushar Patel

Its: Member

PEACOCK LLC, a California Limited Liability Company

By: /s/ TUSHAR PATEL

Tushar Patel
Its: Member

/s/ EVE E. POTH

TRUSTEE FOR EDWARD C. POTH REVOCABLE TRUST

/s/ RICHARD E. PYLE

RICHARD E. PYLE, TRUSTEE

/s/ DOUGLAS A. SLANSKY

DOUGLAS A. SLANSKY

RICHARD F. WEHRLI & JUDITH J. WEHRLI, as Joint Tenants

Richard F. Wehrli

Judith J. Wehrli

/s/ H. DAVID ZABEL

H. DAVID ZABEL

DEAN A. SAMMONS & SARAH B. SAMMONS, as Joint Tenants

/s/ DEAN A. SAMMONS

Dean A. Sammon

/s/ SARAH B. SAMMONS

Sarah B. Sammons

EXHIBIT A

NOTICE OF EXERCISE OF REDEMPTION RIGHT

In accordance with Section ___ of the Second Amended and Restated Agreement of Limited Partnership of Sunstone Hotel Investors, Limited Partnership (the "Agreement"), the undersigned hereby irrevocably (i) presents for redemption _____ Partnership Units in Sunstone Hotel Investors, L.P. in accordance with the terms of the Agreement and the Redemption Right referred to in Section 8.5 thereof, (ii) surrenders such Partnership Units and all right, title and interest therein, and (iii) directs that the Cash Amount or REIT Shares (as defined in the Agreement) as determined by the General Partner deliverable upon exercise of the Redemption Right be delivered to the address specified below, and if REIT Shares are to be delivered, such REIT shares be registered or placed in the name(s) and at the address(es) specified below.

Dated:_____ __, _____

Name of Limited Partner:

(Signature of Limited Partner)

(Mailing Address)

(City) (State) (Zip Code)

Signature Guaranteed by:

If REIT Shares are to be issued, issue to:

Please insert social security or identifying number:

Name:

EXHIBIT B

SUNSTONE HOTEL INVESTORS, L.P.

CERTIFICATE OF DESIGNATION CLASSIFYING
7.9% CLASS A CUMULATIVE CONVERTIBLE PREFERRED PARTNERSHIP UNITS

This Certificate of Designation establishes the powers, rights, preferences, qualifications, limitations and restrictions, as to distributions, voting rights, conversion, terms and conditions of redemption, liquidation and other terms and conditions of the 250,000 7.9% Class A Cumulative Preferred Partnership Units (the "Series A Preferred Partnership Units") of Limited Partnership interest of the Partnership to be issued to the Company. All capitalized terms used but not defined herein shall have the meaning ascribed to them in the Second Amended and Restated Agreement of Limited Partnership (the "Agreement") of the Partnership. The Series A Preferred Partnership Units are being issued by the Partnership to the General Partner in connection with the issuance by the Company of 250,000 shares in the aggregate of its 7.9% Class A Cumulative Preferred Stock (the "Series A Preferred Stock") to Westbrook Real Estate Investment Fund I, L.P. and Westbrook Co-Investment Real Estate Fund I, L.P. (collectively, "Westbrook") in connection with the Company's acquisition from Westbrook of all of the capital stock of Kahler Realty Corporation ("Kahler"). The terms of the Units are intended to mirror those of the Series A Preferred Stock.

1. Designation and Number. The Series A Preferred Partnership Units shall consist of 250,000 Partnership Units which shall be issued to the Company when the Company issues the corresponding 250,000 shares of Series A Preferred Stock to Westbrook. Subject to compliance with applicable protective voting rights which may be granted to any class of Preferred Partnership Units ("Protective Provisions"), but notwithstanding any other rights of holders of any class of Preferred Partnership Units or the powers, rights, designations, preferences, qualifications, limitations and restrictions of any additional class may be subordinated to, pari passu with (including, without limitation, provisions with respect to liquidation and acquisition preferences, redemption and/or approval of matters by vote or written consent), or senior to any of those of any present or future class of Preferred or Common Partnership Units.

2. Distribution Provisions. Immediately prior to the Company's payment of dividends to holders of the Series A Preferred Stock, the holder(s) of Series A Preferred Partnership Units shall be entitled to receive for each outstanding Series A Preferred Partnership Unit a cash distribution, prior and in preference to any payment of any cash distribution on the Common Partnership Units, in an amount equal to the payment to be made on each outstanding share of the Series A Preferred Stock.

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3. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the Partnership, either voluntary or involuntary, subject to the rights of classes of Preferred Partnership Units that may from time to time come into existence, the holder(s) of Series A Preferred Partnership Units shall (unless such Partnership Units of Series A Preferred Partnership Units are converted into Common Partnership Units pursuant to Section 5 hereof) be entitled to receive, prior and in preference to any distribution of any of the assets of the Partnership to the holders of Common Partnership Units by reason of their ownership thereof, an amount per Unit equal to the amount that must be paid to the holders of Series A Preferred Stock upon liquidation of the Company (including any and all events constituting a liquidation under Section 3 of the Articles Supplementary clarifying the Series A Preferred Stock) (the "Liquidation Preference"). If the assets and funds thus distributed among the holders of the Series A Preferred Partnership Units shall be insufficient to permit the payment to such holder(s) of the full aforesaid amount, then, subject to the rights of classes of Preferred Partnership Units that may from time to time come into existence, the entire assets and funds of the Partnership legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Partnership Units in proportion to the amount of such Partnership Units owned by each such holder.

(b) Upon the completion of the distribution required by subsection (a) of this Section 3 and any other distribution that may be required with respect to classes of Preferred Partnership Units that may from time to time come into existence, if assets remain in the Partnership, the holders of the Common Partnership Units of the Partnership shall receive all of the remaining assets of the Partnership.

4. Redemption.

(a) Subject to the rights of classes of Preferred Partnership Units which may from time to time come into existence immediately prior to a redemption of Series A Preferred Stock, the Company may redeem at its option a number of Series A Preferred Units equal to the number of shares of Series A Preferred Stock to be redeemed by the holder(s) thereof, and shall immediately receive from the Partnership an amount of cash equal to the cash to be paid by the Company to the redeeming holder(s) of shares of Series A Preferred Stock.

(b) From and after the redemption of Series A Preferred Units, unless there shall have been a default in payment of the redemption price, all rights of the holders of the Series A Preferred Partnership Units redeemed shall cease with respect to such Partnership Units, and such Partnership Units shall not thereafter be transferred on the Unitholder Ledger of the Partnership or be deemed to be outstanding for any purpose whatsoever. Subject to the rights of classes of Preferred Partnership Units which may from time to time come into existence, if the funds of the Partnership legally available for redemption of Partnership Units of Series A Preferred Partnership Units on any redemption date are insufficient to redeem the total number of Partnership Units of Series A Preferred Partnership Units to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such Partnership Units ratably among the holders of such Partnership Units to be redeemed based upon their holdings of

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Series A Preferred Partnership Units. The Partnership Units of Series A Preferred Partnership Units not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein. Subject to the rights of classes of Preferred Partnership Units which may from time to time come into existence, at any time thereafter when additional funds of the Partnership are legally available for the redemption of Partnership Units of Series A Preferred Partnership Units, such funds will immediately be used to redeem the balance of the Partnership Units which the Partnership has become obliged to redeem but which it has not redeemed.

5. Conversion. On the date on which shares of Series A Preferred Stock are converted into Common Stock of the Company, Series A Preferred Partnership Units shall automatically be converted into Common Partnership Units, such that the number of Series A Preferred Partnership Units so converted shall equal the

number of shares of Series A Preferred Stock converted and the number of Common Partnership Units received from such conversion will equal the number of shares of Common Stock of the Company received from the conversion of the shares of Series A Preferred Stock. Upon such conversion of Series A Preferred Stock, the Unitholder Ledger shall be amended to reflect such conversion.

6. Voting Rights. Except as to matters upon which the General Partner is not entitled to vote under the Agreement, the holder(s) of each Series A Preferred Partnership Unit shall have Partner consent and approval rights equal to such rights as would a holder of Common Partnership Units into which such holder's Partnership Series A Preferred Partnership Units could then be converted.

This Certificate of Designation has been approved by the General Partner in the manner and required by law and is incorporated into the Agreement by reference. In the event of a conflict between the provisions of this Certificate of Designation and the provisions of the Agreement, the provisions of this Certificate of Designation shall govern.

IN WITNESS WHEREOF, SUNSTONE HOTEL INVESTORS, L.P. has caused this Certificate of Designation to be executed on its behalf on this 14th day of October 1997.

SUNSTONE HOTEL INVESTORS, L.P.

By: SUNSTONE HOTEL INVESTORS, INC.,
its General Partner

By: /s/ ROBERT A. ALTER

Robert A. Alter,
President

Exhibit 6

SHP ACQUISITION, L.L.C.

AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT

Dated as of July 12, 1999

TABLE OF CONTENTS

SCHEDULES AND EXHIBITS

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SHP ACQUISITION, L.L.C.

AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT dated as of July 12, 1999 by and between WESTBROOK SHP L.L.C., a Delaware limited liability company (together with its successors and permitted assigns, "Westbrook Co-Invest"), WESTBROOK REAL ESTATE FUND III, L.P., a Delaware limited partnership (together with its successors and permitted assigns, the "Westbrook Fund"), WESTBROOK REAL ESTATE CO-INVESTMENT PARTNERSHIP III, L.P., a Delaware limited partnership (together with its successors and permitted assigns, "WRECIP III"), ALTER SHP LLC, a Delaware limited liability company (together with its successors and permitted assigns, "Alter LLC"), BIEDERMAN SHP LLC, a Delaware limited liability company (together with its successors and permitted assigns, "Biederman LLC"), and, solely for purposes of withdrawing as Member of the Company and Section 10.12 hereof, ROBERT A. ALTER ("Alter") and WESTBROOK FUND III ACQUISITIONS, L.L.C., a Delaware limited liability company ("Westbrook Acquisitions" and, together with Alter, the "Original Members").

Preliminary Statement

A Certificate of Formation was filed on April 5, 1999 for this limited liability company pursuant to the provisions of the Delaware Limited Liability Company Act.

A Limited Liability Company Agreement for this limited liability company was duly adopted by the Original Members pursuant to and in accordance with the Delaware Limited Liability Company Act on April 5, 1999 (the "Original Agreement").

The Original Members wish to amend and restate in its entirety the Original Agreement and admit Westbrook Co-Invest, the Westbrook Fund, WRECIP III, Biederman LLC and Alter LLC as new Members and the Original Members wish to withdraw as Members in accordance with the further provisions of this Agreement.

Concurrently with the execution and delivery of this Agreement, this limited liability company has entered into a Merger Agreement (the "Merger Agreement") dated as of the date hereof with Sunstone Hotel Investors, Inc., a Maryland corporation ("Sunstone") and SHP Investors Sub, Inc., a Maryland corporation and a subsidiary of SHP ("Investors Sub"), pursuant to which and subject to the terms and conditions thereof, Investors Sub shall merge into Sunstone.

Concurrently with the execution and delivery of this Agreement, this limited liability company has entered into a Merger Agreement (the "OP Merger Agreement") dated as the date hereof with Sunstone Hotel Properties, L.P., a Delaware limited partnership ("Sunstone OP") and SHP Properties, L.L.C., a Delaware limited liability company and a subsidiary of SHP ("SHP Properties") pursuant to which and subject to the terms and conditions thereof, SHP Properties shall merge into Sunstone OP (the "OP Merger").

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Concurrently with the execution and delivery of this Agreement, this limited liability company has entered into a Contribution Agreement (the "Contribution Agreement") dated the date hereof with Westbrook Fund, WRECIP III, Westbrook Co-Invest, Alter, Charles L. Biederman ("Biederman"), Sunstone Hotel Management, Inc., a Colorado corporation, and Sunstone Hotel Properties, Inc., a Colorado corporation, and the other parties identified therein pursuant to which certain parties shall contribute certain assets, equity interests and cash to this limited liability company as provided therein.

Concurrently with the execution and delivery of this Agreement, this limited liability company has entered into an Employment Agreement (the "Alter Employment Agreement") with Alter dated as of the date hereof pursuant to which and subject to the terms and conditions thereof, this limited liability company shall employ Alter as Chief Executive Officer of this limited liability company as of the Closing Date as provided therein.

Agreement

Accordingly, in consideration of the mutual promises and agreements herein made and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 Definitions. (a) Unless the context otherwise requires, the following terms shall have the following meanings for purposes of this Agreement:

"Act" shall mean the Delaware Limited Liability Company Act, 6 Del. C. Sections 18-101 et seq., as it may be amended from time to time, and any successor to such statute.

"Additional Capital Expenditures" shall mean any capital expenditure of the Company or any of its Subsidiaries in excess of 6% of FF&E relating to hotel properties owned or leased by the Company or any of its Subsidiaries approved by the Executive Committee other than an Emergency Expense.

"Additional Capital Contributions" shall mean all capital contributions required to be made by, and made by, any Member pursuant to, and to the extent provided in, Section 6.1(b) and to the extent such capital contributions are not Initial Capital Contributions.

"Adjusted Capital Account Balance" shall mean, with respect to any Member, the balance in such Member's Capital Account adjusted (i) by taking into account the adjustments, allocations and distributions described in Regulations section 1.704-1(b)(2)(ii)(d)(4), (5), and (6); and (ii) by adding to such balance such Member's share of

Minimum Gain and Member Nonrecourse Debt Minimum Gain, determined pursuant to Regulations section 1.704-2(g)(1) and 1.704-2(i)(5).

"Affiliate" with respect to any Person shall mean (i) any other Person who controls, is controlled by or is under common control with such Person (whether directly or through one or more intermediaries), (ii) any director, officer, partner or employee of such Person or any Person specified in clause (i) above or (iii) any immediate family member of any Person specified in clause (i) or (ii) above. For purposes of this definition, "control" of a Person includes the possession, directly or indirectly, of the power to (i) vote 10% or more of the voting securities of such Person and (ii) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"Agreement" shall mean this Amended and Restated Limited Liability Company Agreement, as it may be amended, supplemented,

modified or restated from time to time.

"Alter Cause" shall mean "Cause" as such term is defined in Section 8(a)(ii) of the Alter Employment Agreement.

"Alter Good Reason" shall mean "Good Reason" as such term is defined in Section 8(c)(iii) of the Alter Employment Agreement.

"Alter Member" shall mean, collectively, Alter LLC and any Alter Transferee admitted as an additional or substitute Member of the Company in accordance with the provisions of this Agreement and any other transferee of Alter LLC by operation of law, until such time as such Person ceases to be a Member of the Company as provided herein; provided that each Alter Member shall be a Subsidiary of Alter of which Alter directly or indirectly directs or causes the direction of the management and policies; and provided further that the assignment to any Person of any Class D Units as provided in Section 6.4(g) hereof does not make that Person an "Alter Member".

"Alter Transferees" shall mean (i) any corporation, partnership, limited liability company or other legal entity of which Alter (A) has a 50% direct or indirect economic interest and owns, directly or indirectly, 50% or more of the capital stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity and (B) directly or indirectly directs or causes the direction of the management and policies, and (ii) any trust or custodianship the beneficiaries of which include only Alter, his present, former or future spouse or his lineal descendants and their present, former or future spouses, provided that in each case the transferee agrees in writing to be bound by the terms and conditions of this Agreement in a writing in form and substance reasonably satisfactory to the Company.

"Available Cash" shall mean, for any quarterly period or such other period for which computation may be appropriate, the excess, if any, of (A) the sum of (i) the

amount of all cash receipts of the Company and its Subsidiaries during such period from whatever source (including all Capital Contributions and all loans from any Person, including any Member or its Affiliates) and (ii) any reduction in the Reserves existing at the start of such period, less (B) the sum of (i) all cash amounts paid or payable (without duplication) in such period on account of expenses and capital expenditures incurred in connection with the business of the Company and its Subsidiaries and approved in accordance with the provisions hereof (including, without limitation, general operating expenses, taxes, required amortization or interest on any debt of the Company and its Subsidiaries (including on any Priority Loan, Tax Loan or other loan made by a Member or an Affiliate of a Member) and expenses incurred in connection with the satisfaction of any refinancing of any of the properties acquired by the Company and its Affiliates), (ii) Reserves necessary as of the end of such period and (iii) any Bonus.

"Biederman Member" shall mean, collectively, Biederman LLC and any Biederman Transferee admitted as an additional or substitute Member of the Company in accordance with the provisions of this Agreement and any other transferee of Biederman LLC by operation of law, until such time as such Person ceases to be a Member of the Company as provided herein; provided that each Biederman Member shall be a Subsidiary of Biederman of which Biederman directly or indirectly directs or causes the direction of the management and policies.

"Biederman Transferees" shall mean (i) any corporation, partnership, limited liability company or other legal entity of which Biederman (A) has a 50% direct or indirect economic interest and owns, directly or indirectly, 50% or more of the capital stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity and (B) directly or indirectly directs or causes the direction of the management and policies, and (ii) any trust or custodianship the beneficiaries of which include only

Biederman, his present, former or future spouse or his lineal descendants and their present, former or future spouses, provided that in each case the transferee agrees in writing to be bound by the terms and conditions of this Agreement in a writing in form and substance reasonably satisfactory to the Company.

"Business Day" shall mean any day on which commercial banks are authorized to do business and are not required by law or executive order to close in either New York, New York or Los Angeles, California.

"Capital Contributions" shall mean, with respect to a Member at any time, the aggregate of all Initial Capital Contributions and Additional Capital Contributions made by such Member to the Company as of such time.

"Carrying Value" shall mean, with respect to any Company Asset, the asset's adjusted basis for U.S. federal income tax purposes, except that the Carrying Values of all Company Assets shall be adjusted to equal their respective fair market values, in accordance with the rules set forth in Regulations Section 1.704-1(b)(2)(iv)(f), except as

otherwise provided herein, as of: (a) the date of the acquisition of any additional Units by any new or existing Member in exchange for more than a de minimis capital contribution, other than pursuant to the initial formation of the Company; (b) the date of the distribution of more than a de minimis amount of Company property other than cash to a Member; (c) the date that all or a portion of Units are is redeemed by the Company or (d) the date of the termination of the Company under Section 708(b)(1)(A) of the Code; provided, however, that adjustments pursuant to subsections (a), (b) and (c) above shall be made only if the Managing Member determines that such adjustments are necessary or appropriate to reflect the relative economic interests of the Members. The Carrying Value of any Company Asset distributed to any Member shall be adjusted immediately prior to such distribution to equal its fair market value, as determined by the Members. Depreciation shall be calculated by reference to Carrying Value, instead of tax basis once Carrying Value differs from tax basis. The Carrying Value of any Initial Contributions other than cash shall be determined as provided in Article II of the Contribution Agreement.

"Class" means the classes of Units into which the Interests in the Company may be classified or divided from time to time pursuant to the provisions of this Agreement.

"Class A Member" means any Member holding one or more Class A Units in its capacity as such.

"Class A Unit" means any Class A Preferred Unit classified as such pursuant to the provisions of this Agreement.

"Class B Member" means any Member holding one or more Class B Units in its capacity as such.

"Class B Unit" means any Class B Common Unit classified as such pursuant to the provisions of this Agreement.

"Class C Member" means any Member holding one or more Class C Units in its capacity as such.

"Class C Unit" means any Class C Common Unit classified as such pursuant to the provisions of this Agreement.

"Class D Member" means any Member holding one or more Class D Units in its capacity as such.

"Class D Unit" means any Class D Common Unit classified as such pursuant to the provisions of this Agreement.

"Closing" shall have the meaning set forth in the Contribution Agreement.

"Closing Date" shall have the meaning set forth in the Contribution Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, or any successor statute. Any reference herein to a particular provision of the Code shall mean, where appropriate, the corresponding provision in any successor statute.

"Common Cash Consideration" has the meaning set forth in the OP Merger Agreement.

"Company" shall mean SHP Acquisition, L.L.C., the Delaware limited liability company being operated pursuant to this Agreement.

"Company Assets" shall mean all right, title and interest of the Company and its Subsidiaries in and to all or any portion of their respective assets (including the interest of the Company in each of its Subsidiaries).

"Dissolution Event" shall mean an event causing a dissolution of the Company under Section 18-801 of the Act, including the bankruptcy of any Voting Member as provided under Section 18-801(b) of the Act but excluding (i) the death, retirement, resignation, expulsion, bankruptcy or dissolution of any Non-Voting Member and (ii) the event specified in Section 18-801(a)(3).

"Emergency Expenses" shall mean any expenditure of the Company or any of its Subsidiaries necessary with respect to required non-discretionary debt service payments, the payment of taxes, operating deficits and insurance premiums or similar matters reasonably required to avert or mitigate an emergency that threatens imminent injury to persons or material damage to property; provided that "Emergency Expenses" shall not include any portion of any operating deficit attributable to capital expenditures relating to hotel properties owned or leased by the Company or any of its Subsidiaries in excess of 6% of FF&E, except to the extent such capital expenditure is to repair damage or destruction to hotel properties of the Company and its Subsidiaries not covered by insurance proceeds (which shall in all cases constitute "Emergency Expenses"); and provided further that in no event shall "Emergency Expenses" include any amounts required to fund direct or indirect expenses of the Company or its Subsidiaries unless the contract, agreement or other obligation that gives rise to any such expense was approved pursuant to the terms of this Agreement to the extent such contract, agreement or other obligation was required to be approved hereunder.

"Employee Cause" shall mean, with respect to any employee of the Company or its Subsidiaries, "Cause" as such term is defined in any then-effective employment agreement of such employee with the Company or its Subsidiary, provided that in the event "Cause" is not defined in such employment agreement or such employee does not have such an employment agreement, "Employee Cause" shall mean "Cause" as reasonably determined by the Chief Executive Officer.

"Employee Good Reason" shall mean, with respect to any employee of the Company or its Subsidiaries, "Good Reason" as such term is defined in any then-effective employment agreement of such employee with the Company or its Subsidiary, provided that in the event "Good Reason" is not defined in such employment agreement or such employee does not have such an employment agreement, "Employee Good Reason" shall mean "Good Reason" as reasonably determined by the Chief Executive Officer.

"Employee Members" shall mean (i) each New Employee Member and (ii) any Affiliate of (i) admitted as an additional or substitute Employee Member of the Company in accordance with the provisions of this Agreement, until such time as such Person ceases to be a Member of the Company as provided herein.

"Employment Agreement" means, with respect to any Employee Member, any then-effective employment agreement of such Employee Member or the parent of such Employee Member with the Company or any Subsidiary; provided that nothing in any Employment Agreement shall contravene any provision of this Agreement and in the event of any conflicts, this Agreement shall govern.

"Executive Committee Decisions" shall mean each of the following decisions affecting the Company or any Subsidiary thereof:

(i) (A) entering into, modifying or terminating any management, franchise or similar agreement for any hotel or (B) taking any action not in compliance with any management, franchise or similar agreement for any hotel;

(ii) modifying or terminating, or taking any action not in compliance with the Alter Employment Agreement, any New Alter Employment Agreement or any other employment agreement between Alter and the Company;

(iii) purchasing or leasing assets, or making capital expenditures;

(iv) selling, exchanging, leasing or otherwise transferring any assets other than in the ordinary course of business;

(v) entering into, modifying or terminating any contract which provides for payments in excess of $75,000 during any one-year period or $500,000 over the term of the contract;

(vi) dissolving, terminating and winding up the Company or any of its Subsidiaries, or filing a petition under any bankruptcy or other insolvency law, or admitting in writing the bankruptcy, insolvency or general inability to pay its debts of the Company or its Subsidiaries;

(vii) (A) entering into or amending any financing agreements or incurring, guaranteeing, assuming, renewing, refinancing or paying any indebtedness for borrowed

money, and (B) any other decisions or actions with respect to any outstanding indebtedness (other than the payment of regularly scheduled mandatory payments under such loans) other than in the ordinary course of business;

(viii) commencing, terminating or settling any litigation or claim which would reasonably be expected to result in liability to the Company or any of its Subsidiaries in excess of $75,000;

(ix) issuing any Units or admitting any new or substitute Members to the Company except as otherwise provided in Article IX hereof and except as provided in Sections 3.3, 3.4(b) or 6.1(b);

(x) changing the business of the Company or any of its Subsidiaries;

(xi) merging or consolidating the Company or any of its Subsidiaries with any other entity;

(xii) authorizing a Member to disclose confidential information;

(xiii) making or accepting any loan or advance (excluding advances under any loan previously approved by the Executive Committee);

(xiv) hiring, firing or renewing the employment agreement of the Chief Executive Officer;

(xv) forming any Subsidiary or entering into any partnership, limited liability company or other joint venture, or acquiring any equity interests in or otherwise making any equity investment in any

other entity;

(xvi) (A) causing the Company or any Subsidiary to employ any individual, or otherwise engage any Person outside of the ordinary course of business, if such employment or engagement is material or (B) entering into any employment agreement with any Person for employment with the Company or any Subsidiary or, except as otherwise permitted by Section 3.5(b) or 6.4(g), any other agreement providing for the assignment of Units;

(xvii) engaging any accountant, counsel or consultant for the Company and its Subsidiaries, or any change in or termination of any such accountant, counsel or consultant except in the ordinary course of business;

(xviii) taking or committing to take any other action expressly requiring approval of the Executive Committee under this Agreement; and

(xix) taking or committing to take any other action or making any decision of the Company or its Subsidiaries other than normal and customary day to day actions and

decisions in operating the Company or any of its Subsidiaries or otherwise in the ordinary course of business in accordance with the Approved Budget then in effect.

Notwithstanding anything to the contrary in clauses (i)(A), (iii), (iv), (v) or (xiii) of this definition, decisions taken in accordance with specific provisions of the applicable Approved Budget (after giving effect to the provisions of the last sentence of Section 4.4) and listed as a line-item in such Approved Budget shall not be "Executive Committee Decisions".

"Expenses" shall mean expenses of the Company and its Subsidiaries incurred in connection with the normal and customary day-to-day operation thereof and Emergency Expenses.

"Fair Market Value" shall mean, with respect to any security listed on Nasdaq or another principal securities exchange, the average closing prices of such securities quoted on Nasdaq or such other principal securities exchange on which such securities are listed, for the ten (10) trading days prior to the date of determination. "Fair Market Value" shall mean, with respect to any security not listed on a principal securities exchange or any Company Asset or other asset (other than cash or a cash equivalent), the "fair market value" as agreed upon in good faith by the relevant parties or, if the relevant parties cannot so agree within ten (10) days, then each party shall, within ten (10) days, submit in writing to a nationally recognized investment banking firm not having any substantial relation with either party and reasonably acceptable to each party (an "Independent Firm"), a proposed "Fair Market Value" together with documentation supporting such Fair Market Value (each such submission, a "Proposed FMV"). The Independent Firm shall determine, within ten (10) days of receipt of the Proposed FMVs and supporting documentation, a fair market value for the relevant assets, and the Proposed FMV closest to such fair market value determined by the Independent Firm shall be the "Fair Market Value" and shall be final and binding on the parties for all purposes hereof; provided that the Independent Firm's determination of such fair market value shall not exceed the highest of the Proposed FMVs and not be less than the lowest of the Proposed FMVs. In the event that the parties fail to promptly agree on an Independent Firm, each of the parties shall select a nationally-recognized investment banking firm, and the two investment banking firms proposed by the parties shall select a third nationally-recognized investment banking firm to serve as the Independent Firm, and the relevant Members shall be required to submit their Proposed FMV's to such Independent Firm within ten (10) days thereafter. Failure by either party to submit a Proposed FMV to the Independent Firm (or failure to propose an investment banking firm as the Independent Firm) shall, following receipt of written notice by the failing Member and a 15-day cure period thereafter, be deemed to result in the selection of the Proposed FMV or the proposed Independent

Firm, as the case may be, of the non-defaulting party.

"FF&E" means the gross revenues for any year with respect to the hotel properties of the Company and its Subsidiaries as such amount appears in the consolidated financial statements of the Company.

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"Fiscal Year" shall mean the calendar year ending on December 31 of each year, unless a different fiscal year shall be required by the Code; provided that the first Fiscal Year of the Company shall commence on the Closing Date and end on December 31, 1999 (or such shorter period for which a determination is being made).

"Funding Members" shall mean the Westbrook Members, Alter Member and Biederman Member.

"Initial Capital Contributions" shall mean the Initial Capital Contributions made by the Members pursuant to the Contribution Agreement, in the amounts provided in Article II of the Contribution Agreement.

"Interest" means a limited liability company interest in the Company as provided in this Agreement and under the Act and includes any and all rights and benefits to which the holder of such Interest may be provided under this Agreement, together with all obligations of such Person to comply with the terms and provisions of this Agreement. Interests shall be expressed as a number of Units.

"Managing Member" shall mean Westbrook Co-Invest or any other Westbrook Member designated by Westbrook Co-Invest, until such time as such Person ceases to be a Member of the Company as provided herein.

"Member Nonrecourse Debt" shall have the meaning ascribed to such term in Regulations section 1.704-2(b)(4).

"Member Nonrecourse Debt Minimum Gain" shall have the meaning ascribed to such term in Regulations section 1.704-2(i)(2).

"Member Nonrecourse Deductions" shall mean any item of Company loss, deduction, or expenditure under section 705(a)(2)(B) of the Code that is attributable to a Member Nonrecourse Debt, as determined pursuant to Regulations section 1.704-2(i)(2).

"Members" shall mean the Westbrook Members, the Alter Member, the Non-Voting Members and any other Person admitted to the Company as an additional or substitute Member of the Company in accordance with the provisions of this Agreement, until such time as such Person ceases to be a Member of the Company as provided herein and "Member" means any one such Person.

"Minimum Gain" shall have the meaning set forth in Regulations section 1.704-2(d)(1) and shall mean the amount determined by (i) computing for each nonrecourse liability of the Company any gain the Company would realize if it disposed of the property subject to that liability for no consideration other than full satisfaction of the liability and (ii) aggregating the separately computed gains. If the Carrying Value of any Company Asset differs from the adjusted tax basis of such property, the calculation of Minimum Gain pursuant to the preceding sentence shall be made by reference to the Carrying Value.

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For purposes hereof, a liability of the Company is a nonrecourse liability to the extent that no Member or related Person bears the economic risk of loss for that liability within the meaning of Regulations section 1.752-1.

"Net Income (Loss)" shall mean for each Fiscal Year or other period, the taxable income or loss of the Company, or particular items thereof, determined in accordance with the accounting method used by the Company for U.S. federal income tax purposes with the following

adjustments: (i) all items of income, gain, loss or deduction allocated pursuant to Section 7.4(c) through (f) shall not be taken into account in computing such taxable income or loss; (ii) any income of the Company that is exempt from U.S. federal income taxation and not otherwise taken into account in computing Net Income and Net Loss shall be added to such taxable income or loss; (iii) if the Carrying Value of any asset differs from its adjusted tax basis for U.S. federal income tax purposes, any depreciation, amortization or gain resulting from a disposition of such asset shall be calculated with reference to such Carrying Value; (iv) upon an adjustment to the Carrying Value of any asset, pursuant to the definition of Carrying Value, the amount of the adjustment shall be included as gain or loss in computing such taxable income or loss; and (v) except for items in (i) above, any expenditures of the Company not deductible in computing taxable income or loss, not properly capitalizable and not otherwise taken into account in computing Net Income and Net Loss pursuant to this definition shall be treated as deductible items.

"New Employee Member" shall mean each employee or Subsidiary of such employee admitted as a Member after the date hereof pursuant to the provisions of Section 9.1(b)(x), until such time as such Person ceases to be a Member of the Company as provided herein; provided that the engagement by the Company or its Subsidiary of such employee must be approved by the Executive Committee hereunder prior to the admission of such Person as a Member hereunder.

"New Alter Employment Agreement" shall mean an employment agreement for employment of Alter with the Company with a term commencing on the date after the date of expiration of the initial Alter Employment Agreement, having the same terms and conditions as the Alter Employment Agreement, provided that the base salary in such "New Alter Employment Agreement" shall equal the base salary of Alter under the Alter Employment Agreement as of the date of expiration thereof.

"Non-Voting Members" shall mean each of the Biederman Member, each Employee Member, each Class A Member and each Class B Member other than the Alter Member and Westbrook Member.

"Nonrecourse Deductions" shall have the meaning ascribed to such term in Regulations section 1.704-2(b)(1).

"OP Units" shall mean the common and preferred limited partnership units in Sunstone OP.

"Organizational Expenses" shall mean the actual third-party costs and expenses (excluding overhead or other internal costs) of the Company or any Initial Member arising out of or relating to the organization of the Company (including the negotiation of this Agreement), the negotiation of the Merger Agreement and the agreements referred to therein (including any merger agreement with respect to Sunstone OP, any financing agreements, the Alter Employment Agreement, the Contribution Agreement and the Term Sheet dated April 5, 1999 relating thereto) and the consummation of the transactions contemplated thereby (including the financing thereof), including fees and expenses of counsel to the Company and the Alter Member and the Westbrook Members.

"Person" shall mean an individual, partnership, joint venture, corporation, business trust, limited liability company, trust, unincorporated organization, governments (or agencies or political subdivisions thereof) and other associations and entities.

"Pre-Liquidation Target Account" means, with respect to any Member at the close of any period for which Net Income or Net Loss is being determined, an amount (which may be either a positive balance or a negative balance to the extent a contribution is required) equal to the hypothetical distribution (or contribution) such Member would receive (or contribute) if all assets of the Company, including cash that has not been distributed (whether held in Reserves or otherwise), were sold for cash equal to their Carrying Value (taking into account any adjustments to Carrying Value for such year), all liabilities of the Company were then satisfied according to their terms (limited, with

respect to each nonrecourse liability, to the Carrying Value of the assets securing such liability) and all remaining proceeds from such sale were distributed to the Members in the order of priority set forth in Section 6.4.

"Rate of Return" shall mean, with respect to any Class A Units or Class B Units, a return of all Capital Contributions made in respect of such Class A Units or Class B Units held by the holder of such Units (or by any previous holder of such Class A Units or Class B Units) plus a cumulative, quarterly compounded return on such Capital Contributions (and accrued but unpaid return at the specified rate outstanding from time to time) as made from time to time at a rate per annum equal to the applicable percentage specified herein. For purposes of computing such Rate of Return, the periods used to measure capital inflows and outflows shall be monthly and any Capital Contribution made, or deemed made, by such Member, any forfeiture of any Capital Contribution and any distribution of funds received by such Member at any time during a month shall be deemed to be made, forfeited or received on the date actually made. Any calculations shall be based on a 12-month year based on thirty (30) day months.

"Regulations" shall mean the regulations promulgated under the Code.

"Renewal Date" shall mean the effective date of a New Alter Employment Agreement.

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"Reserves" shall mean reserves of the Company reasonably established in good faith by the Executive Committee, (including in connection with any Emergency Expenses), as necessary for the operation of the Company and its Subsidiaries, in light of the anticipated cash receipts, including the timing thereof, of the Company and its Subsidiaries as of the end of the period for which such reserves are established; provided that in no event shall "Reserves" include any amounts required to fund direct or indirect expenses of the Company or its Subsidiaries unless the contract, agreement or other obligation that gives rise to any such Expense was approved pursuant to the terms of this Agreement to the extent such contract, agreement or other obligation was required to be approved hereunder; and provided, further, that "Reserves" may include amounts relating to future required debt payments, but shall not include amounts relating to discretionary debt payments or to acquisitions or major expansions of hotels to the extent the Company or any Subsidiary does not then have a contractual obligation entered into in compliance with the terms of this Agreement to make any such acquisition or expansion.

"Residual Share" shall mean for each Class B Member, a fraction, the numerator of which is the aggregate of the Initial Capital Contributions of such Class B Member (and by any previous holder of the Class B Units then held by such Member) in respect of the Class B Units held by such Member plus all Capital Contributions made (and required to be made) by a Class B Member pursuant to Section 6.1(b) (or by any previous holder of the Class B Units then held by such Class B Member) (not reduced by distributions thereof) in respect of the Class B Units held by such Member plus the outstanding principal amount of, and accrued interest on, any Priority Loans made by such Class B Member under Section 6.2(b) (or by any previous holder of the Class B Units then held by such Class B Member) (not reduced by repayments thereof) in respect of the Class B Units held by such Member plus any amounts distributed to such Class B Member under Section 6.4(d) (or to any previous holder of the Class B Units then held by such Member), and the denominator of which is the aggregate of all such amounts for all Class B Members.

"Subsidiary" or "Subsidiaries" of any Person means any corporation, partnership, limited liability company, joint venture or other legal entity of which such Person (either alone or through or together with any other wholly-owned subsidiary) owns, directly or indirectly, more than 50% of the stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity, and any partnership of which such Person serves as

general partner. In addition, Sunstone Hotel Properties, Inc., a Colorado corporation or any successor entity thereto ("Lessee"), shall be a "Subsidiary" of the Company for purposes of this Agreement as long as the Company holds, directly or indirectly, at least a 49% equity interest in Lessee.

"Unit" means a fractional share of the Interests of all Members. The number of Units outstanding and the holders thereof are set forth on Schedule A, as Schedule A may be amended from time to time pursuant to Section 3.2.

"Voting Members" shall mean the Alter Member and the Westbrook Members.

"Westbrook Members" shall mean Westbrook Co-Invest, Westbrook Fund, WRECIP III and any Westbrook Transferee admitted as an additional or substitute Member of the Company in accordance with the provisions of this Agreement, until such time as such Person ceases to be a Member of the Company as provided herein.

"Westbrook Transferees" shall mean (i) any investment fund of which Westbrook Real Estate Partners, L.L.C, a Delaware limited liability company ("WREP"), or a Subsidiary of WREP of which WREP directly or indirectly directs or causes the direction of the management and policies, is the general partner (a "Westbrook Investment Fund"); provided that such general partner continues to be a Subsidiary of WREP and so directed by WREP as long as such investment fund is a Member or (ii) any entity in which any Westbrook Investment Fund (A) has a 50% direct or indirect economic interest or owns, directly or indirectly, 50% or more of the capital stock or other equity interests, the holders of which are generally entitled to vote for the election of the board of directors or other governing body of such corporation or other legal entity and (B) directly or indirectly directs or causes the direction of the management and policies; provided that in each case the transferee agrees in writing to be bound by the terms and conditions of this Agreement in a writing in form and substance reasonably satisfactory to the Company.

(b) As used in this Agreement, each of the following capitalized terms shall have the meaning ascribed to them in the Section set forth opposite such term:

<TABLE>
<CAPTION>

Term	Section
<S>	<C>
Adverse Change	2.6(a)
Alter	Preamble
Alter Call	9.3(b)
Alter Employment Agreement	Recitals
Alter LLC	Preamble
Alter Price	9.3(a)
Alter Put	9.3(a)
Approved Budget	4.4
Biederman	Recitals
Biederman Call	9.3(d)
Biederman LLC	Preamble
Biederman Price	9.3(c)
Biederman Put	9.3(c)
Bonus	10.14
CapEx Loan	6.2(c)
Capital Account	7.3
Chief Executive Officer	4.2
Company Accountant	7.1(f)
Company Sale	9.5(a)

</TABLE>

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<CAPTION>

Term	Section
<S>	<C>
Contributing Member	6.2(b)
Contribution Agreement	Recitals
Contribution Loan	6.2(a)
Drag-Along Rights	9.2(b)
Employee Call	9.4(a)
Employee Price	9.4(a)
Executive Committee	4.1(a)
Indemnitees	4.5(e)(iii)
Initial Members	3.2
Investors Sub	Recitals
Liquidator	8.2
Managers	4.1(a)
Merger Agreement	Recitals
Net Income Excess	6.4(j)
Noncontributing Member	6.2(b)
Notified Member	9.5(b)
Notifying Member	9.5(b)
Offer Notice	4.3(c)
Officers	4.2
OP Merger	Recitals
OP Merger Agreement	Recitals
OP Unitholder	3.3
Original Agreement	Recitals
Original Members	Preamble
Other Employees	6.4(g)
Other Members	9.2(b)
Permitted Transfer	9.1(b)
Plan Asset Rules	2.6
Preferred Call	9.6(b)
Preferred Price	9.6(a)
Preferred Put	9.6(a)
Principal Agreements	10.16
Priority Loan	6.2(b)
Sale Proposal	9.5(a)
SHP Properties	Recitals
Stand Alone Sale	4.3(c)
Sunstone	Recitals
Sunstone OP	Recitals
Tag-Along Rights	9.2(a)
Tagging Members	9.2(a)
Tax Loan	6.4(j)
Tax Matters Member	7.2
Termination Notice	9.5(b)

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<CAPTION>

Term	Section
<S>	<C>
Transfer	9.1(a)
Transferee	9.1(b)
UBTI	2.6(a)
Valuation Agent	2.6(b)
Westbrook Acquisitions	Preamble
Westbrook Co-Invest	Preamble
Westbrook Fund	Preamble
WRECIP III	Preamble

</TABLE>

SECTION 1.2 Terms Generally. The definitions in Section 1.1 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. Unless the context requires otherwise, the words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The term "hereunder" shall mean this entire

Agreement as a whole unless reference to a specific section of this Agreement is made.

ARTICLE II

GENERAL PROVISIONS

SECTION 2.1 Formation. The Original Members have formed the Company under the provisions of the Act for the limited purposes set forth and on the other terms and conditions set forth in this Agreement.

SECTION 2.2 Name. The Company shall conduct its activities under the name of SHP Acquisition, L.L.C. The Executive Committee shall have the power at any time to change the name of the Company; provided, that the name shall always contain the words "Limited Liability Company" or the abbreviation "L.L.C.". The Executive Committee shall give prompt notice of any such change to each Member.

SECTION 2.3 Term. The term of the Company commenced April 5, 1999 and shall continue until December 31, 2049, unless sooner dissolved, wound up and terminated in accordance with Article VIII of this Agreement.

SECTION 2.4 Purpose; Powers. (a) The purpose of the Company shall be, directly or through ownership of equity interests in other entities, (i) to own, acquire, manage and reposition primarily full service hotel properties in the United States and (ii) to do all things permitted by law that are necessary or incidental to any of the foregoing.

(b) In furtherance of its purposes, the Company shall have all powers necessary, suitable or convenient for the accomplishment of its purposes, alone or with others, including the following:

(i) to invest and reinvest the cash assets of the Company and its Subsidiaries in money-market or other short-term investments;

(ii) to have and maintain one or more offices within or without the State of Delaware, and, in connection therewith, to rent or acquire office space, engage personnel and compensate them and do such other acts and things as may be advisable or necessary in connection with the maintenance of such office or offices;

(iii) to open, maintain and close bank accounts and draw checks and other orders for the payment of moneys;

(iv) to form or cause to be formed and to own the stock of one or more corporations, whether foreign or domestic, and to form or cause to be formed and to participate in and own equity interests in partnerships, joint ventures and limited liability companies, whether foreign or domestic;

(v) to enter into, make and perform all contracts, agreements and other undertakings as may be necessary or advisable or incident to carrying out its purposes;

(vi) to sue, prosecute, settle or compromise all claims against third parties, to compromise, settle or accept judgment of claims against the Company and its Subsidiaries, and to execute all documents and make all representations, admissions and waivers in connection therewith;

(vii) to distribute, subject to the terms of this Agreement, at any time and from time to time to Members cash or investments or other property of the Company or its Subsidiaries, or any combination thereof;

(viii) to borrow money, whether secured or unsecured, and to make, issue, accept, endorse and execute promissory notes, drafts, bills of exchange and other instruments and evidences of indebtedness, all without limit as to amount, and to guarantee the payment thereof, and to secure the payment thereof by mortgage, pledge, or assignment of, or security interest in, the assets then owned or thereafter

acquired by the Company or its Subsidiaries;

(ix) to buy, sell, own, operate and otherwise deal with assets of any nature, including real estate assets;

(x) to hold, receive, mortgage, pledge, lease, transfer, exchange or otherwise dispose of, grant options with respect to, and otherwise deal in and exercise all rights, powers, privileges and other incidents of ownership or possession with respect to, all property held or owned by the Company or any of its Subsidiaries; and

(xi) to take such other actions necessary or incidental thereto as may be permitted under applicable law.

SECTION 2.5 Registered Office; Place of Business; Registered Agent. The Company shall maintain a registered office at The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, or such other office within the State of Delaware as is chosen by the Executive Committee. The Company shall maintain an office and principal place of business at 903 Calle Amanecer, San Clemente, California 9273-6212, or at such other place as may from time to time be determined as its principal place of business by the Executive Committee; provided, that the Executive Committee shall give notice to the other Members of any change in the Company's principal place of business. The name and address of the Company's registered agent as of the date of this Agreement is The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801. The name and address of the Company's registered agent in California as of the date of this Agreement is CT Corporation System, 818 West Seventh Street, Los Angeles, California 90017.

SECTION 2.6 Alternative Investment Structure. (a) In order (i) to qualify and/or preserve the status of (x) the Company, (y) any entity which owns an interest in any Westbrook Member or (z) any entity in which any Member and/or the Company owns an interest and which owns any Units as an "operating company" as defined in the United States Department of Labor regulations 29 C.F.R. Section 2510.3-101 (the "Plan Asset Rules"), or (ii) to minimize the effects of any "unrelated business taxable income" as described in sections 512 and 514 of the Code ("UBTI") on any entity which owns an interest in any Westbrook Member and their respective Affiliates, each Member agrees to consent to modifications reasonably proposed from time to time by any Westbrook Member to the structure of the Company and/or the Company's investments in, and ownership of, its assets and properties and/or to the terms of this Agreement, including, without limitation, the capital contribution and allocation and distribution provisions set forth in Articles VI and VII, if in any such case the modifications will not adversely affect to any degree the aggregate amount or timing of capital contributions, payment of fees, distributions of Available Cash and liquidation proceeds or the aggregate allocations of Net Income and Net Loss to any Other Member or any other economic rights of any Other Member hereunder or any management rights or other control rights of any Other Member hereunder; provided, however, that if such modifications adversely affect to any degree the aggregate amount or timing of capital contributions, fees payable or distribution of Available Cash and liquidation proceeds or the aggregate allocations of Net Income and Net Loss or any other economic rights of any Other Member hereunder or any rights of management or other control rights hereunder to any Other Member (an "Adverse Change"), the provisions of Section 2.6(b) shall apply. Subject to and specifically limited by the foregoing, any such modification may include, without limitation, the formation by the Members of other entities (including, without limitation, corporations and trusts that qualify as real estate investment trusts under Section 856 of the Code) to be owned by the Members or their Affiliates and which will own a portion of the assets and properties to be included in the Initial Capital Contributions to the Company. In any such event the Company and such other entities shall be treated as a single partnership for federal income tax purposes and the fees payable to, the amounts distributable to, the Net Income and Net Loss allocable to, the capital contributions required to be contributed by, the maintenance of Capital Accounts, and the buy-sell rights and obligations pursuant to this Agreement and the organizational documents governing such other entities shall be calculated, determined and applied on an aggregate basis as if the property and assets to be included in the Initial Capital Contribution were owned by the

Company pursuant to this Agreement as in effect as of the Closing unless the Managing Member determines in its sole discretion that such provisions must be calculated, determined and applied on an entity by entity basis and not on an aggregate basis to qualify or preserve the status of the Managing Member, any entity which owns an interest in any Westbrook Member, the Company or any entity in which the Members and/or the Company owns an interest and which owns any Units as an "operating company" under the Plan Asset Rules. If the Managing Member determines that such provisions must be calculated, determined and applied on an entity by entity basis and not an aggregate basis, the Members agree to negotiate in good faith modifications to the terms of this Agreement and to the organic documents governing such other entities so as to preserve as nearly as possible without any material adverse affect to any Other Member the same overall economic benefits and burdens relating to the property and assets to be included in the Initial Capital Contribution as exist under this Agreement as in effect as of the Closing; provided, however, that if such modifications cause any Adverse Change, the provisions of Section 2.6(b) shall apply. Each Member agrees to execute, acknowledge, deliver, file, record and publish all such documents, agreements and instruments and to do all such other acts and things as are reasonably necessary to implement the foregoing, subject to the limitations set forth in the first sentence of this Section 2.6. The Westbrook Members shall bear (directly, and not as a capital contribution or a loan to the Company) all costs and expenses of the Company and the Members (and shall be allocated all of the deductions associated with such costs and expenses which shall be treated as deductions of the Westbrook Members and not deductions of the Company) incurred in connection with any transfers of the property and assets included in the Initial Capital Contribution and the formation of any additional entities to own any portion of the property and assets included in the Initial Capital Contribution in connection with any of the foregoing, including the reasonable fees and expenses of the legal counsel, accountants and other advisors of each Other Member in connection with any modification consummated pursuant to this Section 2.6 and all costs relating to the process described in Section 2.6(b) below, including the cost relating to the engagement of any Valuation Agent. The Westbrook Members shall reimburse each Other Member for all such costs within ten (10) Business Days after such Other Member delivers to the Westbrook Member written notice that is has incurred any such costs and reasonable supporting documentation relating thereto. If the Westbrook Members fail to reimburse any Other Member within such time period, the Company shall pay (and such Other Member shall have the authority to cause the Company to so pay) all such amounts to such Other Member.

(b) In the event of any Adverse Change, the Managing Member shall notify each Member and calculate and provide each Member with a calculation of an estimate of the economic value of such Adverse Change incurred by such Member. If the Members are unable to mutually agree upon the amount thereof within 30 days, the Members shall, within 10 days after the expiration of the foregoing 30-day period, mutually agree on an independent third party (the "Valuation Agent") to determine the economic value of the Adverse Change to the Alter Member arising from the Adverse Change resulting from a modification described in Section 2.6(a). If the parties are unable to agree on a Valuation Agent within such 10-day period, the Valuation Agent shall be appointed by the Chief Judge of the District Court of the United States of America for the Southern District of New York acting as an individual. In making its determination of the economic value of the Adverse Change, the Valuation Agent shall only consider the impact of the

modifications to the amounts and timing of capital contributions, fees payable and distributions of Available Cash and liquidation proceeds and the allocation of Net Income and Net Loss to any Other Member. Any Valuation Agent selected shall be independent and shall not have performed any appraisal or valuation services for the Company, the Managing Member, any other Member, any entity owning an interest in any Member or their Affiliates at any time prior to its selection unless approved in writing by the Alter Member. Within 60 days after the selection or appointment of the Valuation Agent, the Valuation Agent shall deliver to the Members a written report of the foregoing valuation, and the determination of the Valuation Agent thereon shall be conclusive and binding upon the Members. Within 30 days after the receipt of such report, the Westbrook Members shall pay in cash (in such proportion as they shall agree) to each Other Member the amount of the economic value of the Adverse Change with respect to such Member determined by the Valuation Agent. Such payment shall not be considered or deemed a transaction of the Company and shall not be treated Capital Contribution or loan by any Westbrook Member or a distribution or

borrowing by any Other Member.

ARTICLE III

MEMBERS AND INTERESTS

SECTION 3.1 Units. Each Member's Interest shall be represented by Units. The Units initially shall be divided into four Classes, "Class A Preferred Units", "Class B Common Units", "Class C Common Units" and "Class D Common Units". Except as expressly provided in this Agreement to the contrary, (a) any reference to "Units" shall include the Class A Units, Class B Units, Class C Units and Class D Units and any other Classes of Units that may be established pursuant to Section 3.6 and (b) any reference to "Members" shall include the Class A Members, Class B Members, Class C Members and Class D Members and any other Member holding any other Class of Units. At the Closing, Class A Units will be issued to one or more OP Unitholders to the extent any such OP Unitholder elects to receive Class A Units (in lieu of Class B Units or Common Cash Consideration), as further provided in Section 3.3. At the Closing, Class B Units will be issued to (i) the Westbrook Members, Alter Member and Biederman Member in exchange for their Initial Capital Contributions made pursuant to Section 6.1(a) as set forth in Article II of the Contribution Agreement, as further provided in Section 3.4(a) and (ii) one or more OP Unitholders to the extent any such OP Unitholder elects to receive Class B Units (in lieu of Class A Units or Common Cash Consideration), as further provided in Section 3.4(b). Class B Units will also be issued to the Funding Members as provided in Section 3.4(c) to the extent such Funding Members make any Additional Capital Contributions to the Company as provided in Section 6.1(b). At the Closing, Class C Units and Class D Units, which represent limited rights as provided in Section 3.5(a), will be issued to the Initial Members as further provided in Section 3.5(b), subject to the transfer of such Units pursuant to Section 3.5(b) or the assignment of such Units pursuant to Section 6.4(g).

SECTION 3.2 Members. Schedule A hereto contains the name and address of each Member of the Company as of the date of this Agreement. Each of Alter LLC, Biederman LLC, Westbrook Fund, WRECIP III and Westbrook Co-Invest is hereby admitted as a Member

as of the date of this Agreement (collectively, the "Initial Members") and each of Westbrook Acquisitions and Alter hereby resigns as a Member as of the date of this Agreement. Schedule A shall be revised by the Managing Member from time to time to reflect the admission, resignation, substitution, expulsion, bankruptcy or dissolution of a Member and the issuance, transfer, assignment or other changes in ownership of Units in accordance with the terms of this Agreement and other modifications to or changes in the information set forth therein.

SECTION 3.3 Class A Units. At the Closing, pursuant to the terms of the OP Merger Agreement, each Person who is a registered holder of OP Units (an "OP Unitholder") may receive, as consideration for such OP Units under the OP Merger Agreement, either Class A Units or Class B Units, at the election of such OP Unitholder. Each OP Unitholder electing to receive Class A Units shall receive a number of Class A Units equal to the number of OP Units exchanged for such Class A Units and shall have an agreed-upon value of its Capital Contribution as of the Closing for purposes of its initial Capital Account equal to (a) the number of OP Units exchanged for Class A Units multiplied by (b) the amount of the Common Cash Consideration. Any such OP Unitholder shall, after agreeing in writing to be bound by the terms and conditions of this Agreement in a writing in form and substance reasonably satisfactory to the Company, be admitted as a Class A Member without the consent of any other Member.

SECTION 3.4 Class B Units. (a) Upon making the Initial Capital Contributions provided in Section 6.1(a)(i), there will be issued (i) to each Westbrook Member a number of Class B Units that equals (A) the Initial Capital Contribution of such Westbrook Member divided by (B) the amount of the Common Cash Consideration, (ii) to the Alter Member a number of Class B Units that equals (A) the Initial Capital Contribution of the Alter Member divided by (B) the amount of the Common Cash Consideration and (iii) to the Biederman Member a number of Class B Units that equals (A) the Initial Capital Contribution of the Biederman Member divided by (B) the amount of the Common Cash Consideration.

(b) At the Closing, pursuant to the terms of the OP Merger

Agreement, each OP Unitholder electing to receive Class B Units as consideration for such OP Units under the OP Merger Agreement shall receive a number of Class B Units equal to the number of OP Units exchanged for such Class B Units, and shall have an agreed-upon value of its Capital Contribution as of the Closing for purposes of its initial Capital Account equal to (i) the number of OP Units exchanged for Class B Units multiplied by (ii) the amount of the Common Cash Consideration. Any such OP Unitholder shall, after agreeing in writing to be bound by the terms and conditions of this Agreement in a writing in form and substance reasonably satisfactory to the Company, be admitted as a Class B Member without the consent of any other Member.

(c) In the event any additional Class B Units are issued after the Closing Date, the number of Class B Units to be issued will equal the number determined by multiplying (i) the number of then-outstanding Class B Units by (ii) a fraction, the numerator of which is the total Capital Contributions being made to acquire such new Class B Units and the denominator of which is the aggregate Capital Contributions previously made in respect of all the then-outstanding Class B Units.

SECTION 3.5 Class C and D Units. (a) The Class C Units and the Class D Units shall be special Classes of Interests representing only (i) the right to participate in allocations of Net Income and Losses of the Company and to receive distributions from the Company in accordance with the terms of this Agreement and (ii) such other rights as expressly provided to the Class C Units and/or the Class D Units under this Agreement.

(b) As of the Closing, there will be issued and outstanding to the Initial Members 1,207,730 Class C Units and 1,000 Class D Units, which Class C Units and Class D Units will be owned by the Initial Members as set forth on Schedule B. Subject to the terms of any Employment Agreement, the Alter Member will have the right, in its sole discretion, to transfer Class C Units and Class D Units at any time from any Employee Member to the Alter Member, any other Employee Member or any Other Employee without the prior consent of such Employee Member (or any other Member, including any Westbrook Member) and the Alter Member will amend Schedule B from time to time to reflect any such transfers. The Employment Agreements of the Employee Members may contain additional provisions with respect to the ownership of the Class C Units and Class D Units, including provisions providing for vesting of ownership over time and forfeiture of ownership under certain circumstances; provided that the provisions of such Employment Agreements must not contravene any provisions of this Agreement and in the event of a conflict this Agreement shall govern.

SECTION 3.6 Additional Issuance of New Class of Units. Subject to the provisions of this Agreement, including Articles IV and IX, after the Closing, for any purpose specified in Section 2.4, the Executive Committee is authorized to cause the Company to issue one or more new Classes of Units representing additional Interests (in addition to the Class A Units, the Class B Units, the Class C Units and the Class D Units) at any time or from time to time to existing Members or to other Persons and to admit such other Persons as Members subject to the terms and conditions of this Agreement. Subject to the provisions of this Agreement, including Articles IV and IX, the Executive Committee Board shall have sole and complete discretion to determine whether to cause the Company to issue a new Class or Classes of Units and in determining the consideration and terms and conditions with respect to any future issuance of a new Class of Units, and the designations, preferences and relative, participating, optional or other special rights, powers and duties of any such Class or Classes; provided that any such new Class or Classes of Units may be pari passu with, but shall not have any distribution or other rights hereunder senior in priority to, the Class A Units.

ARTICLE IV

MANAGEMENT AND OPERATION OF THE COMPANY

SECTION 4.1 Management. (a) The Company shall have an Executive Committee (the "Executive Committee") which shall initially consist of four individuals (each, a "Manager") or such other number (but in no event fewer than four) as may be established by agreement of the Managing Member and the Alter Member, of whom one shall be appointed by the Alter Member, one by the Westbrook Fund, one by WRECIP III and one by Westbrook Co-

Invest; provided that in the event the number of Managers is adjusted, the Westbrook Members, collectively, shall in all cases have the right to appoint a majority of the Managers; and provided, further that the Westbrook Members, collectively, shall have the right to appoint all of the Managers, and any Manager appointed by the Alter Member shall cease to be a Manager, in the event either (i) the employment of Alter with the Company is terminated by the Company for Alter Cause pursuant to the Alter Employment Agreement or the New Alter Employment Agreement or (ii) the Alter Member ceases to hold any Units. For so long as Alter is employed by the Company or any Subsidiary thereof, Alter shall be appointed by the Alter Member as a Manager; thereafter, an individual listed on Schedule 4.1 or another individual reasonably acceptable to the Managing Member may be selected by the Alter Member to serve instead of Alter as the Manager to be appointed by the Alter Member pursuant to this Section 4.1. Subject to the immediately preceding sentence, each of the Alter Member and each Westbrook Member shall have the right to remove and designate replacements of those Managers appointed by it. In acting in the capacity as a Manager, an individual shall not be required to consider the interests of, or have any duty stated or implied by law or equity to, any Member other than the Member that appointed such Manager. None of the Non-Voting Members shall have any right to appoint a Manager hereunder. The Managers shall appoint by majority vote one of the Managers to preside at meetings of the Executive Committee.

(b) The Executive Committee shall have general supervision, direction and control of the business of the Company. The normal and customary day-to-day operations of the Company shall be managed by officers of the Company in accordance with Section 4.2 and subject to Sections 4.3 and 4.4.

(c) Except as provided in Section 4.3(a), (i) an action or decision of the Executive Committee shall require the consent or vote of a majority of the Managers and (ii) a majority of the total number of incumbent Managers shall be necessary to constitute a quorum for the transaction of business at any meeting of the Executive Committee. Except as otherwise provided in this Agreement or by the Act, the action of a majority of the Managers present at any meeting at which there is a quorum, when duly assembled, is valid. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of Managers, if any action taken is approved by a majority of the required quorum for such meeting. No Member, acting solely in its capacity as a Member, shall have the power and authority to act for and bind the Company unless such matter has been approved by the Managers as set forth herein.

(d) Meetings of the Executive Committee shall be held at the principal office of the Company, unless some other place is designated in the notice of the meeting. Any Manager may participate in a meeting through use of a conference telephone, video conference or similar communication equipment so long as all Managers participating in such a meeting can hear one another. Accurate minutes of any meeting of the Executive Committee shall be maintained by the Officer designated by the Executive Committee for that purpose.

(e) Special meetings of the Executive Committee for any purpose may be called at any time by the person selected to preside at meetings of the Executive Committee. Unless waived by the Executive Committee, at least two business days notice of the time and

place of any meeting of the Executive Committee shall be delivered personally to each of the Managers, communicated to them by facsimile, or communicated by Federal Express or other comparable overnight courier service. Notice shall be transmitted to the last known facsimile number or address of the Manager as shown on the records of the Company. Such notice as above provided shall be considered due, legal and personal notice to such Manager. With respect to a special meeting which has not been duly called or noticed pursuant to the foregoing provisions, all transactions carried out at the meeting are as valid as if had at a meeting regularly called and noticed if: (i) all Managers are present at the meeting, and sign a written consent to the holding of such meeting, (ii) if a majority of the Managers are present and if those not present sign a waiver of notice of such meeting and a written consent to the matters approved therein, whether prior to or after the holding of such meeting, which waiver, consent or approval shall be filed with the other records of the Company

or (iii) if a Manager attends a meeting without notice and does not protest prior to the meeting or at its commencement that notice was not given to him or her.

(f) Any action required or permitted to be taken by the Managers may be taken without a meeting and will have the same force and effect as if taken by a vote of Managers at a meeting properly called and noticed, if authorized by a writing signed individually or collectively by all, but not less than all, the Managers. Such consent shall be filed with the records of the Company.

(g) The Members hereby delegate to each and any one of the Managers the nonexclusive power and authority to act as an agent of Company and, in such capacity, to bind the Company in the ordinary course of the Company's business and to execute any and all documents to be signed by the Company, subject to the limitations on the authority of the Managers.

(h) Notwithstanding anything to the contrary contained in this Agreement, the Managers appointed by the Original Members in the Original Agreement (which Managers are Alter, Paul Kazilionis and Jonathan H. Paul) shall continue as Managers designated by the Members as of the date of this Agreement. Alter shall be deemed appointed by Alter Member, Paul Kazilionis by Westbrook Co-Invest and Jonathan H. Paul by Westbrook Fund for purposes of Section 4.1(a) hereof. In addition, Mark Mance shall be appointed as Manager by WRECIP III for purposes of Section 4.1(a) hereof. The delegation by the Original Members to the Managers of nonexclusive power and authority to act as an agent of the Company and, in such capacity, to bind the Company in the ordinary course of the Company's business and to execute any and all documents to be signed by the Company shall continue in full force and effect.

SECTION 4.2 Officers. The Members agree that the Company shall not have, and the Executive Committee shall not appoint, any officers of the Company (the "Officers") prior to the Closing Date (other than pursuant to the Alter Employment Agreement pursuant to which Alter shall become Chief Executive Officer as of (but not prior to) the Closing). As of the Closing, the Officers shall include a chief executive officer (the "Chief Executive Officer"). The Company may also have such other Officers as the Executive Committee in its discretion may appoint or whom may be appointed by the other Officers if specifically authorized to do so by the Executive Committee. Following the Closing, the Chief Executive Officer shall, subject to the

general direction and control of the Executive Committee, have overall responsibility for the management of the normal and customary day-to-day operations of the Company, subject to Sections 4.1, 4.3 and 4.4, and will be empowered to and will engage in all appropriate and necessary activities to accomplish the purposes of the Company as set forth herein. Notwithstanding the foregoing, all Executive Committee Decisions shall be approved by a majority of the Executive Committee (or all of the Managers to the extent required by Section 4.3). The initial Chief Executive Officer will be Alter, and as of the date hereof the Company has entered into the Alter Employment Agreement providing the terms of Alter's employment with the Company effective as of the Closing. The Members hereby delegate to each of the Officers the nonexclusive power and authority to act as an agent of the Company and, in such capacity, to bind the Company in the ordinary course of the Company's business and to execute any and all documents to be signed by the Company, subject to the limitations on the authority of the Officers set forth herein and under the Act. The Officers and other key employees of the Company will be compensated in accordance with this Agreement, their respective employment agreements, if any, and, if applicable, the compensation guidelines agreed to by the Alter Member and the Westbrook Members.

SECTION 4.3 Executive Committee Approval Requirements and Other Limitations on Actions. (a) Prior to the Closing, the Executive Committee will not authorize and the Company will not take, and will cause each of its Subsidiaries not to take, any of actions set forth in clauses (i), (ii), (iii) or (vii) below and after the Closing, the Executive Committee will not authorize and the Company will not take, and will cause each of its Subsidiaries not to take, any of the following actions without the prior approval of all the Managers at a meeting of the Executive Committee or action by written consent of the Executive Committee pursuant to Section 4.1, except that the Company shall have the right to do such of the following as is necessary to permit it to fulfill its obligations under Section 9.3 and 9.4 hereof:

(i) amending the Merger Agreement, provided that approval of the Manager appointed by the Alter Member shall not be required to terminate the Merger Agreement or to waive any condition precedent under the Merger Agreement;

(ii) changing the interest rate or principal amount, reducing the maturity to a period of less than three years or making any material change in the mandatory amortization schedule under any debt financing agreements relating to the Merger Agreement, provided that approval of the Manager appointed by the Alter Member shall not be required to terminate any such agreements prior to the termination of the Merger Agreement or to waive any condition precedent under such agreements;

(iii) conducting any business prior to the Closing other than that necessary or incidental to the consummation of the transactions contemplated by the Merger Agreement and the agreements referred to therein (including any merger agreement with respect to Sunstone OP, any financing agreements, the Alter Employment Agreement, the Contribution Agreement and the Term Sheet dated April 5, 1999 relating thereto);

(iv) acquiring all or any portion of any hotel property or any direct or indirect interest therein or entering into any contract to acquire any hotel properties, directly or indirectly;

(v) funding any capital expenditure in any fiscal year for renovations of hotel properties in excess of 6% of FF&E other than as provided in Section 6.2(c) (except to the extent such capital expenditure is to repair damage or destruction to hotel properties of the Company and its Subsidiaries not covered by insurance proceeds);

(vi) entering into any transaction with any Affiliate of any Westbrook Member unless such affiliation is disclosed in writing to all of the Managers and such transaction is on terms no less favorable to the Company or any of its Subsidiaries than it would obtain in a comparable arm's length transaction with a third party that is not an Affiliate of any Westbrook Member and otherwise complies with Section 4.5(d);

(vii) issuing any Units or admitting any Person as a substitute or additional Member (other than in connection with a Permitted Transfer) except as provided in Sections 3.3, 3.4, 3.5 or 6.1(b);

(viii) amending this Agreement or otherwise taking any act in contravention of this Agreement;

(ix) making any distribution to the Members other than cash;

(x) retaining (and not distribute as contemplated by Section 6.3) any Available Cash;

(xi) requiring or making any Additional Capital Contributions other than pursuant to Section 6.1(b);

(xii) paying any discretionary bonus to Alter (which does not include the Bonus) or any other Officer;

(xiii) taking any action which would cause the Partnership to become an entity other than a Delaware limited partnership;

(xiv) establishing or adjusting the adjusted basis of any asset for federal income tax purposes, provided that approval of a Manager shall not be required if the Member which appointed such Manager is not adversely affected by such action;

(xv) entering into any agreement (A) which would cause any Member to become personally liable on or in respect of or to guarantee any indebtedness of the Company or any Subsidiary thereof or (B) which is not nonrecourse to such Member;

(xvi) performing any act which would make it impossible to carry on the ordinary business of the Company, except in connection with the involuntary dissolution, winding up and termination of the Company as provided by Sections 8.1 and 8.2;

(xvii) possessing Company Assets, or assigning, transferring or pledging the Company's rights in specific Company Assets, for other than a Company purpose; or

(xviii) employing, or permitting to be employed, the funds or assets of the Company or any Subsidiary for other than a Company purpose.

(b) Prior to the eighteen-month anniversary of the Closing Date, the Company shall not (and the Members shall not permit the Company to), and shall not permit any Subsidiary to, voluntarily sell or otherwise transfer, in one transaction or in a series of transactions (whether or not related), Company Assets which, in the aggregate, include more than 30% of (x) the aggregate number of guest rooms owned (directly or indirectly) by the Company and its Subsidiaries as of the Closing Date plus (y) the number of guest rooms subsequently acquired by them, unless the aggregate sale price for such Company Assets exceeds the aggregate cost basis of the assets sold for purposes of the Company's financial statements, excluding depreciation and amortization of the Company and its Subsidiaries in such Company Assets, but including the aggregate of all capital improvements made thereto as of the date of such proposed sale to the extent such improvements exceed 4% of the aggregate investment in fixtures, furniture and equipment of the Company and its Subsidiaries in such Company Assets as of such date. In addition, prior to the eighteen-month anniversary of the Closing Date, the Company shall not (and the Members shall not permit the Company to), and shall not permit any Subsidiary to, voluntarily liquidate the Company or sell all or substantially all the Company Assets unless the aggregate proceeds to the Company and its Subsidiaries resulting from such liquidation or sale are sufficient to pay Alter (and/or any employees he has designated to receive a portion of the Bonus pursuant to Section 10.14 hereof) the Bonus and to distribute to the Alter Member, the Biederman Member and the Employee Members, collectively, $12.5 million pursuant to Section 6.4(d).

(c) If prior to the four-year anniversary of the Closing Date, the Company or any of its Subsidiaries proposes to sell, transfer or otherwise dispose (by merger or otherwise) to any Person any equity interest in or all or a significant portion of the assets (including the management contracts) of SHP Management, Inc. (or any successor thereto) without also simultaneously selling or leasing (for a term of not less than five years) to such Person related hotel assets or any interest in any Affiliate of the Company that directly or indirectly owns related hotel assets (a "Stand-Alone Sale"), the Company will first provide the Alter Member with a written notice setting forth the equity interest or assets to be offered for sale and the material terms and conditions of the proposed sale, including the price (the "Offer Notice"). Within thirty (30) days following the receipt of the Offer Notice, the Alter Member shall have the opportunity and right to elect to purchase, and the Company shall have the obligation to agree to sell to the Alter Member, such equity interest or assets on the terms set forth in the Offer Notice, and the Alter Member shall exercise such right of election by delivering written notice of acceptance to the Company within such 30-day period. If the Alter Member exercises its right pursuant to this Section 4.3(c), the closing of such purchase by the Alter Member of the equity interest or assets

with respect to which such rights have been exercised shall occur at the offices of the Company on the date which is 60 days after the delivery of the notice of acceptance by the Alter Member to the Company (or, if such date is not a Business Day, on the next succeeding Business Day). If the Alter Member does not deliver such an acceptance notice within such 30-day period, the right of the Alter Member to purchase such equity interest or assets pursuant to the Offer Notice shall terminate and the Company shall have the right to sell such equity interest or assets described in the Offer Notice to any third party on terms which are not materially less favorable to the Company than those set forth in the Offer Notice; provided that if an agreement to sell such equity interest or assets has not been entered into within 120 days after termination of such

30-day period, the rights of the Alter Member as described above shall be reinstated and the Company will be required to deliver another Offer Notice to the Alter Member with respect to such proposed sale before such sale can occur.

(d) Commencing on the four-year anniversary of the Closing Date, the rights of the Alter Member described in Section 4.3(c) shall not apply to any Stand-Alone Sale unless, as of the date of the Offer Notice that would be required pursuant to Section 4.3(c), the Units held by the Westbrook Members would receive a Rate of Return of at least 17.5%, calculated by taking into account (i) all prior distributions of Available Cash to the Westbrook Members pursuant to Section 6.4, (ii) the aggregate gross proceeds (net of transaction expenses) received by the Westbrook Members on any sale by any Westbrook Member (to any Person other than another Westbrook Member) of all or any portion of its Units, (iii) the aggregate amount that would be distributed to each Westbrook Member if the Company were liquidated (not including the amount to be distributed pursuant to clause (iv) below) as of the date of such Offer Notice (assuming Company Assets were sold at Fair Market Value) and (iv) the amount that would be distributed to the Westbrook Members, collectively, as a result of such Stand-Alone Sale.

SECTION 4.4 Budget. The Members have agreed upon an initial budget for the Company for the period commencing on the Closing Date and ending on December 31, 1999, a copy of which is attached as Exhibit A, which shall be the budget for the Company for such period in the event the Alter Member and Westbrook Members do not agree upon another budget for such period prior to the Closing Date. Not less than thirty (30) days prior to the end of each fiscal quarter and not less than sixty (60) days prior to the end of each fiscal year, the Chief Executive Officer shall submit to the Executive Committee a proposed budget for the next such fiscal period, which shall be prepared at the expense of the Company. Prior to the commencement of the fiscal period to which such budget applies, the Executive Committee (by majority vote) shall either approve such budget as presented or modify the proposed budget following consultation with the Chief Executive Officer (such budget, as approved, whether or not with modification, by the Executive Committee, the "Approved Budget"), provided that if the Executive Committee does not modify any such proposed budget within 20 days (in the case of any quarterly budget) or 45 days (in the case of any annual budget) after its submission by the Chief Executive Officer, such proposed budget shall be deemed approved by the Executive Committee. No Member, Manager, Officer (including the Chief Executive Officer) or any other employee of the Company shall authorize (i) with respect to all expenditures of the Company in any fiscal period, expenditures of more than 105% of total amount allocated for all expenditures in the Approved Budget (including any contingency amounts in such Approved Budget) for such

fiscal period, and (ii) with respect to any individual line-item set forth in the Approved Budget for any fiscal period, expenditures of more than 110% of the amount allocated to such individual line-item in such Approved Budget (including any contingency amounts in such Approved Budget) for such fiscal period.

SECTION 4.5 Certain Duties and Obligations of the Members. (a) Subject to the terms of this Agreement, the Members shall take all action which may be reasonably necessary or appropriate for the formation and continuation of the Company as a limited liability company under the laws of the State of Delaware.

(b) No Member shall take any action so as to cause the Company to be classified for Federal income tax purposes as an association taxable as a corporation and not as a partnership.

(c) The Company shall take all action which is necessary to form or qualify the Company and to conduct the business in which the Company is engaged under the laws of any jurisdiction in which the Company is doing business and to continue in effect such formation or qualification.

(d) Except as otherwise permitted hereunder, no Member shall take, or cause to be taken, any action that would result in any Member having any personal liability for the obligations of the Company. Neither any Member nor any Affiliate of any Member shall enter into any transaction with the Company unless the transaction (i) is expressly permitted hereunder, (ii) with respect to services, the fees for such services must be no greater than the fees charged generally by qualified, unaffiliated third-parties performing similar services in the geographical area in which the services are to be performed and

the other terms of the agreement pursuant to which such services will be performed shall generally be no more onerous to the Company than the terms of agreements used by qualified, unaffiliated third-parties performing similar services in the geographical area in which the particular services are to be rendered, (iii) with respect to purchases and sales of property, the price paid for such property must be no greater than the price that an unaffiliated third-party would pay for such property and the other terms of the agreement pursuant to which such property is purchased or sold shall generally be no more onerous to the Company than the terms of agreements used by unaffiliated third-parties purchasing or selling similar property in the geographical area in which such property is located or (iv) is approved by all the Managers upon disclosure of any direct or indirect interest such Member or any Affiliate thereof may have in the transaction. Each Member hereby agrees that it shall not recommend that the Company or any Subsidiary enter into, or otherwise permit the Company or any Subsidiary to enter into any, an agreement with any Person that is an Affiliate of such Member without first disclosing to the other Member in writing that such Person is an Affiliate of such Member.

(e) (i) Except as otherwise expressly provided in the Act, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no Member shall be obligated for any such debt, obligation or liability of the Company solely by reason of being a Member of the Company. Except as otherwise expressly provided in the Act or in this Agreement, the liability of

each Member shall be limited to the amount of Capital Contributions made (or required to be made) by such Member in accordance with the provisions of this Agreement.

(ii) No Manager, Member and no partner, shareholder or member or other holder of an equity interest in any Member or any officer of director of any of the foregoing shall be liable, responsible or accountable to the Company or to any Member for monetary damages for any losses, claims, damages or liabilities arising from any act or omission performed or omitted by it and arising out of or in connection with (A) any act performed within the scope of the authority conferred on it by this Agreement, (B) its failure or refusal to perform any act, (C) its performance of, or failure to perform, any act on the reasonable reliance on advice of legal counsel to the Company or (D) the negligence, dishonesty or bad faith of any agent, consultant or broker of the Company, except, in each case described in clauses (A) through (D), to the extent the action or failure to act of such party (but not of such legal counsel, agent, consultant or broker) constituted fraud, willful misconduct or gross negligence. No Manager, partner, shareholder, member or other holder of an equity interest in any Member or officer or director of any of the foregoing shall be personally liable for the performance of such Member's obligations under this Agreement, but the foregoing shall not relieve any partner or member of any Member from its obligations to such Member.

(iii) The Company shall, to the fullest extent permitted by applicable law, indemnify, defend and hold harmless each Member and each general or limited partner of any Member or such Member's Affiliates, shareholder, members or other holder of any equity interest in such Member or its Affiliate, or any officer or director of any of the foregoing and each and every Manager or Officer (collectively, the "Indemnitees"), from and against any losses, claims, demands, liabilities, costs, damages, expenses and causes of action to which such Indemnitee may become subject in connection with any matter arising out of or incidental to this Agreement, including the formation hereof, the making of the Initial Capital Contributions and any matter for which such Indemnitee is exculpated under Section 4.5(e)(ii) or any other act performed or omitted to be performed by any such Indemnitee in connection with this Agreement or the Company's business or affairs; provided, however, that such act or omission was not attributable to such Indemnitee's fraud, willful misconduct or gross negligence or its breach of the representation set forth in Section 10.1. Any indemnity under this Section shall be paid solely out of and to the extent of Company Assets and shall not be a personal obligation of any Member and in no event will any Member be required, or permitted without the consent of all of the Members, to contribute additional capital to

enable the Company to satisfy any obligation under this Section. The Company shall indemnify, defend and hold harmless each Member from and against any losses, claims, demands, liabilities, costs, damages, expenses with respect to any cause of action arising from the Merger Agreement and the transactions contemplated thereby to the extent such Member acted in its capacity as a Member of the Company.

(iv) The Company, each Manager and the other Members shall be indemnified and held harmless by each Member from and against any and all claims, demands,

liabilities, costs, damages, expenses and causes of action of any nature whatsoever arising out of or attributable to the fraud, willful misconduct or gross negligence of such Member.

(f) No Member shall be required to consider the interests of, or have any duty stated or implied by law or equity to (including any fiduciary duty), any other Member.

SECTION 4.6 UBTI. Subject to the obligations of the Westbrook Members pursuant to Section 2.6, the Company will use its best efforts to avoid the incurrence of any UBTI by any Member.

SECTION 4.7 Consent of Alter Member. To the extent the Alter Member is required to grant any consent or take any other action under any provision of this Agreement, such consent or other action shall be taken or made on behalf of the Alter Member by the Manager appointed by the Alter Member.

SECTION 4.8 Non-Voting Members. Anything in this Agreement to the contrary notwithstanding, none of the Non-Voting Members shall have any voting, management or other rights with respect to the Company under this Agreement except for the right of such Non-Voting Members to receive distributions as provided in Section 6.4 hereof. Without limiting the foregoing, (a) none of the Non-Voting Members will have any right to vote on and their consent shall not be required for any amendment, supplement or other modification to this Agreement or for the Company to take any action or to vote on or approve of any matters requiring the consent or approval of the Members, including any matter requiring the unanimous consent of the Members under the Act and (b) neither the Company, any Manager or any Member will have any fiduciary or other duties or obligation to the Non-Voting Members.

ARTICLE V

OTHER ACTIVITIES

SECTION 5.1 Other Activities. Except as expressly provided hereunder, this Agreement shall not be construed in any manner to preclude any Member or any of its Affiliates from engaging in any activity whatsoever permitted by applicable law (whether or not such activity might compete, or constitute a conflict of interest, with the Company or any of its Subsidiaries), including, without limitation, engaging in other real estate investments and related ventures. No Member or any of its Affiliates will have any obligation to present or otherwise make available to the Company any business opportunity which such Member or any of its Affiliates may become aware of.

SECTION 5.2 Transactions With the Company. This Agreement shall not be construed in any manner to preclude any Member (or Affiliate of any Member) from (a) lending money to, (b) borrowing money from, (c) acting as a surety, guarantor or endorser for, (d) guaranteeing or assuming one or more obligations of, (e) providing collateral for or (f) transacting other businesses with, the Company or its Subsidiaries, to the extent approved by the Executive

Committee and not in violation of Section 4.3(a)(vi) or 4.5(d). Any Member performing any of the transactions set forth in this Section 5.2 with the approval of the Executive Committee (or all the Managers) to the extent required by the provisions of Section 4.3(a) hereof) shall have the same rights and obligations with respect to any such transaction as a Person who is not a

Member.

ARTICLE VI

CAPITAL CONTRIBUTIONS; DISTRIBUTIONS

SECTION 6.1 Capital Contributions. (a) (i) Immediately prior to the Closing, the Initial Members (other than the Employee Members) shall make Initial Capital Contributions to the Company solely as provided in the Contribution Agreement. Each of the Members hereby acknowledges and agrees that the agreed-upon value of the respective Initial Capital Contributions of the Initial Members for purposes of their initial Capital Account shall be determined as set forth in Article II of the Contribution Agreement.

(ii) At the Closing, the OP Unitholders being admitted as Class A Members or Class B Members shall make Capital Contributions as set forth in Section 3.3 or 3.4(b) hereof.

(b) The Funding Members shall make Additional Capital Contributions to the Company as directed by either the Alter Member or any Westbrook Member only to the extent additional funds are required by the Company in connection with Emergency Expenses. Each Funding Member shall be given written notice of any Additional Capital Contribution required by the Member directing such Additional Capital Contribution to be made at least 20 Business Days prior to the date on which such Additional Capital Contribution is required to be made. Each Funding Member shall make all Additional Capital Contributions in the same proportion as their Residual Shares. The Company shall issue Class B Units as consideration for Additional Capital Contributions in accordance with the provisions of Section 3.4(c).

(c) No Member shall be required or permitted to make Capital Contributions to the Company except as provided in Section 6.1(a) or (b).

(d) No Member shall have any obligation to restore any negative balance in the Member's Capital Account, whether to the Company, any Member or any other Person. A deficit balance in any Member's Capital Account shall not be deemed to be a liability of such Member (or of such Member's members or partners) or an asset or property of the Company (or any Member). No Member shall be entitled to withdraw all or any part of its Capital Contributions except as expressly provided in this Agreement. No interest shall be payable by the Company on the Capital Contributions of any Member except as otherwise provided herein. In no event shall any Member be entitled to demand any property from the Company other than cash.

(e) If any Westbrook Member or the Alter Member require Additional Capital Contributions in accordance with Section 6.1(b), such Member shall give notice to all of the other Funding Members of the amount of funds required and the date such funds shall be due; provided that unless otherwise expressly provided herein, (i) such notice must provide at least 15 business days prior written notice for any Additional Capital Contributions, and (ii) the date such Capital Contributions shall be required shall be a Business Day.

SECTION 6.2 Loans for Additional Capital Contributions; Other Loans to the Company. (a) In the event an Additional Capital Contribution to the Company is required pursuant to Section 6.1(b), and such Additional Capital Contribution is required by the Company in connection with Emergency Expenses attributable to capital expenditures relating to hotel properties owned or leased by the Company or any of its Subsidiaries in excess of 4% of FF&E, each of the Alter Member, Biederman Member and Westbrook Co-Invest shall have the right to borrow the amount needed to fund its Additional Capital Contribution in the form of a recourse loan made by the Company to such Funding Member, which shall bear interest at an annual rate equal to the lesser of (i) 15% compounded quarterly and (ii) the maximum rate permitted by applicable law, shall be payable by set-off against any payments or distributions to be made by the Company to the Funding Member pursuant to this Agreement, and shall be secured by the Units of such Funding Member (each such loan, a "Contribution Loan"). In the event any of the Alter Member, Biederman Member or Westbrook Co-Invest wishes to exercise its right to receive a Contribution Loan, the Westbrook Members agree to lend to the Company an amount equal to the aggregate amount of all such Contribution Loans to be made by the Company, which loan by the

Westbrook Members shall be made to the Company immediately prior to the making of such Contribution Loans, shall bear interest at a rate equal to that with respect to such Contribution Loans, shall be payable with the proceeds of any set-off made or other payments received by the Company with respect to such Contribution Loans and shall be secured by the Units held as security under such Contribution Loans.

(b) If any Funding Member shall fail to make an Additional Capital Contribution to the Company as required in Section 6.1(b) above for a reason other than the failure of the Company or the Westbrook Members to make the loans contemplated by Section 6.2(a) (a "Noncontributing Member"), the Executive Committee shall promptly notify such Noncontributing Member in writing and if such default is not cured within 10 days after receipt of such notice of such default, then any other Funding Member (a "Contributing Member") may fund all or part of the Noncontributing Member's Additional Capital Contribution in the form of a nonrecourse demand loan (a "Priority Loan") made by the Contributing Member to the Company, and such Priority Loan with respect to the Noncontributing Member's Additional Capital Contribution shall bear interest at an annual rate equal to the lesser of (i) 15% compounded quarterly and (ii) the maximum rate permitted by applicable law.

(c) The Westbrook Members shall have the right to fund any Additional Capital Expenditures in whole or in part in the form of a nonrecourse demand loan (a "CapEx Loan") made by one or more Westbrook Members to the Company. Any such CapEx Loan shall bear interest at an annual rate equal to the lesser of (i) 15% compounded quarterly and (ii) the maximum rate permitted by applicable law. Notwithstanding the foregoing, the Company shall

use reasonable commercial efforts to obtain alternative financing less expensive to the Company than a CapEx Loan for any Additional Capital Expenditures.

SECTION 6.3 Distributions Generally. Available Cash shall be distributed from time to time as determined by the Executive Committee for each fiscal quarter, but no later than 45 days following the end of such quarter. The Company shall make such distributions in cash among the Members in accordance with Section 6.4, and all distributions shall be subject to any restrictions contained in any agreement between the Company and any lender.

SECTION 6.4 Distributions of Available Cash. Each distribution of Available Cash hereunder shall be made to the Members as follows and the calculations described in the following clauses shall be made as of the date of each distribution, on a cumulative basis:

(a) First, to the Class A Members pro rata in accordance with the number of Class A Units held by each Class A Member until such time as the Class A Members have received a cumulative compounded quarterly (to the extent not paid on a quarterly basis) return of 8.5% on the Class A Members' Capital Contributions attributable to the Class A Units (without any return of Capital Contributions);

(b) Second, to the Class B Members pro rata in accordance with the number of Class B Units held by each Class B Member until such time as the Class B Members have received a cumulative compounded quarterly (to the extent not paid on a quarterly basis) return of 15% on the Class B Members' Capital Contribution attributable to the Class B Units (without any return of Capital Contributions);

(c) Third, pro rata among the Class A Members and Class B Members in accordance with their respective Capital Contributions until such time as the Class A Members and Class B Members have received a return of their Capital Contributions attributable to the Class A Units and Class B Units; and thereafter each such Class A Member shall no longer be entitled to receive any distributions of Available Cash hereunder, such Class A Units shall no longer be considered outstanding for purposes of this Agreement and each such Class A Member shall cease to be a Member;

(d) Fourth, 100% to the Class C Members, collectively, pro rata in accordance with the number of Class C Units held by each Class C Member, until such time as the Class C Members have received an aggregate of $12.5 million pursuant to this Section 6.4(d); and

(e) Thereafter, (i) 12.5% to the Class D Members collectively,

pro rata in accordance with the number of Class D Units held by each Class D Member, provided that in the event any Class D Units are forfeited and retained by the Company pursuant to Section 6.4(f)(i), 6.4(f)(ii) or 6.4(f)(iii), such percentage will be reduced pro rata based on the number of Class D Units which remain outstanding; and (ii) 87.5% to the Class B Members in proportion to each Class B Member's Residual Share; provided that in the event any Class D Units are forfeited and retained by the Company pursuant to Section 6.4(f)(i), 6.4(f)(ii) or 6.4(f)(iii), such percentage will be increased in proportion to each Class B Member's Residual Share.

(f) (i) Notwithstanding the provisions of Section 6.4(e) and subject to the provisions of Section 6.4(g), (A) in the event that during the term of the Alter Employment Agreement the employment of Alter is terminated by the Company for Alter Cause or by Alter without Alter Good Reason, the Alter Member shall forfeit 86.9% of its Class D Units and such forfeited Class D Units shall be retained by the Company; (B) in the event that prior to the expiration of the term of the Alter Employment Agreement Alter is offered a New Alter Employment Agreement by the Company but Alter does not execute and deliver to Company such New Alter Employment Agreement with the Company (for any reason other than Alter's death or Disability (as defined in the Alter Employment Agreement) or his prior termination of employment other than by the Company for Alter Cause or by Alter without Alter Good Reason) prior to the later of (x) the expiration of the term of the Alter Employment Agreement or (y) fifteen (15) Business Days after receipt of such New Alter Employment Agreement by Alter, the Alter Member will forfeit 86.9% of its Class D Units and such forfeited Class D Units shall be retained by the Company; and (C) in the event that during the term of the New Alter Employment Agreement the employment of Alter is terminated by the Company for Alter Cause or by Alter without Alter Good Reason, the Alter Member will forfeit the percentage of Class D Units set forth below and such forfeited Class D Units shall be retained by the Company: (1) 43.5% of its Class D Units if such termination occurs prior to the first anniversary of the Renewal Date; (2) 34.8% of its Class D Units if such termination occurs on or after the first anniversary of the Renewal Date and prior to the second anniversary of the Renewal Date; (3) 26.1% of its Class D Units if such termination occurs on or after the second anniversary of the Renewal Date and prior to the third anniversary of the Renewal Date; (4) 17.4% of its Class D Units if such termination occurs on or after the third anniversary of the Renewal Date and prior to the fourth anniversary of the Renewal Date; and (5) 8.7% of its Class D Units if such termination occurs on or after the fourth anniversary of the Renewal Date and prior to the fifth anniversary of the Renewal Date. In the event that prior to the expiration of the term of the Alter Employment Agreement, Alter is not offered a New Alter Employment Agreement by the Company, the Class D Units of the Alter Member shall no longer be subject to forfeiture.

(ii) Notwithstanding the provisions of Section 6.4(e), the Class D Units of any Employee Member shall be subject to forfeiture as provided in any Employment Agreement or other written agreement among the Company, the Alter Member and the Employee Member, and any such forfeited Class D Units shall be immediately transferred to the Alter Member, except that any Class D Units that would have been previously forfeited by the Alter Member pursuant to this Section 6.4(f) had the Alter Member owned such Class D Units prior to the date of such forfeiture shall be retained by the Company.

(iii) Notwithstanding the provisions of Section 6.4(e), (A) in the event that prior to the fifth anniversary of the Closing Date, the employment of Biederman with the Company (or its Subsidiary) is terminated by the Company (or its Subsidiary) for Cause or by Biederman without Good Reason, the Biederman Member shall forfeit 86.9% of its Class D Units and such forfeited Class D Units shall be retained by the Company; and (B)

in the event that prior to the fifth anniversary of the Closing Date,

Biederman is offered the opportunity to continue his employment with the Company (or its Subsidiary) after the fifth anniversary of the Closing Date on the same terms and conditions and with a base salary not less than the base salary paid to Biederman immediately prior to the fifth anniversary of the Closing Date, and the employment of Biederman is terminated thereafter (for any reason other than Biederman's death or disability or his prior termination of employment other than by the Company for Cause or by Biederman without Good Reason), the Biederman Member will forfeit the percentage of Class D Units set forth below and such forfeited Class D Units shall be retained by the Company: (1) 43.5% of its Class D Units if such termination occurs prior to the sixth anniversary of the Closing Date; (2) 34.8% of its Class D Units if such termination occurs on or after the sixth anniversary of the Closing Date and prior to the seventh anniversary of the Closing Date; (3) 26.1% of its Class D Units if such termination occurs on or after the seventh anniversary of the Closing Date and prior to the eighth anniversary of the Closing Date; (4) 17.4% of its Class D Units if such termination occurs on or after the eighth anniversary of the Closing Date and prior to the ninth anniversary of the Closing Date; and (5) 8.7% of its Class D Units if such termination occurs on or after the ninth anniversary of the Closing Date and prior to the tenth anniversary of the Closing Date. In the event that prior to the fifth anniversary of the Closing Date, Biederman is not offered the opportunity to continue his employment with the Company (or its Subsidiary) after the fifth anniversary of the Closing Date on the same terms and conditions and with a base salary not less than the base salary paid to Biederman immediately prior to the fifth anniversary of the Closing Date, the Class D Units of the Biederman Member shall no longer be subject to forfeiture.

(g) As long as Alter remains the Chief Executive Officer, the Alter Member shall assign Class D Units to one or more key employees of the Company or its Subsidiaries (other than Alter, the Biederman Member and the Employee Members), which employees may or may not have an Employment Agreement (the "Other Employees") as determined by the Alter Member in its sole discretion; provided that the Class D Units assigned to the Other Employees plus the Class D Units held by the Biederman Member and the Employee Members shall equal not less than 28.7% of the total outstanding Class D Units; and provided further that in the event Alter is no longer the Chief Executive Officer, the Alter Member shall no longer have the right to make such assignment and the Company shall have the right to assign such 28.7% of the outstanding Class D Units. Any assignment of any Class D Units to any Other Employee shall automatically terminate (and the right to Class D Units shall be automatically assigned to the Company without any consideration) at the time any such Other Employee to whom such an assignment has been made ceases to be an employee of the Company or its Subsidiary as a result of such Other Employee's termination for Employee Cause by the Company or its Subsidiary or by such Other Employee without Employee Good Reason. Any Class D Units assigned to the Company as described in the immediately preceding sentence may be assigned by the Alter Member to one or more Other Employees as determined by the Alter Member in its sole discretion as long as Alter remains the Chief Executive Officer (and must be so assigned by the Alter Member if the total Class D Units so assigned by the Alter Member to such Other Employees plus the total Class D Units held by the Biederman Member and the Employee

Members is less than 28.7% of the total outstanding Class D Units), provided that in the event Alter is no longer the Chief Executive Officer, the Alter Member shall no longer have the right to make such assignment and the Company shall have the right to reassign any Class D Units required to be assigned pursuant to this Section 6.4(g). Persons to whom Class D Units are assigned pursuant to this Section 6.4(g) shall not become Members or receive any rights under this Agreement solely by virtue of such assignment, but Class D Units may be assigned by the Alter Member to key employees who are Members. In the event of the forfeiture of any Class D Units by the Alter Member pursuant to Section 6.4(f), those Class D Units which the Alter Member has assigned to Other Employees pursuant to this Section 6.4(g) shall not be forfeited and the assignment to such Other Employees shall continue until such time as such Other Employee ceases to be an employee of the Company or its Subsidiary as a result of such Other Employee's termination for Employee Cause by the Company or its Subsidiary or by such Other Employee without Employee Good Reason (at which time any such assignment shall automatically terminate and the right to such Class D Units shall be automatically assigned to the Company).

(h) Notwithstanding any provision of this Section 6.4, all amounts distributed in connection with a liquidation of the Company or the sale or other disposition of all or substantially all the assets of the Company that leads to a liquidation of the Company will be distributed to the Members in accordance with their respective Capital Account balances with respect to the Units held by such Members, as adjusted for all Company operations up to and including the date of such distribution. The parties intend that such final Capital Account balances shall be determined after allocating all income and loss for all purposes taking into account Section 7.4(g)(vi) and making the adjustments to fair market value as described in the definition of Carrying Value.

(i) For purposes of determining the distributions under this Section 6.4, the Company shall be deemed to have made distributions to each Member in an amount equal to all taxes paid by the Company (or the Company's share of taxes paid by any entity owned, directly or indirectly, in whole or in part, by the Company) attributable solely to such Member; such distributions shall be deemed made on the later of (i) the date upon which the distributions related thereto are made or (ii) the date upon which such taxes are paid. This Section 6.4(i) shall not apply with respect to the amounts of any Tax Loans to the Alter Member, Biederman Member or any Employee Member.

(j) If, as of the end of the Fiscal Year, the cumulative Net Income plus items of income and gain (for tax purposes or book purposes) allocated to the Alter Member, Biederman Member or any Employee Member exceeds the cumulative Net Loss plus items of deduction and loss (for tax purposes or book purposes) allocated to the Alter Member, Biederman Member or any Employee Member for all Fiscal Years (on a cumulative basis taking into account the principal amount of any earlier Tax Loan) (a "Net Income Excess"), the Company shall make or continue a tax loan, within 10 Business Days after a request therefor (a "Tax Loan") to the Alter Member, Biederman Member or such Employee Member equal to (i) such Net Income Excess multiplied by the actual income tax rates (taking into account the federal deduction for state and local taxes) applicable to the Alter Member, Biederman Member or such

Employee Member from time to time reduced by (ii) the cumulative distributions to the Alter Member, Biederman Member or such Employee Member under Section 6.4 for all Fiscal Years. The Tax Loan shall bear interest at the prime rate of The Chase Manhattan Bank as adjusted from time to time, and shall be repaid out (A) out of distributions to the Alter Member, Biederman Member or such Employee Member, (B) to the extent of any reduction in the amount of the Tax Loan by reason of a reduction in the Net Income Excess and (C) if not repaid earlier, on the termination of the Company. In the event of the assignment or Transfer by the Alter Member, Biederman Member or any Employee Member of any Units, any outstanding Tax Loans with respect to such Units shall be repaid by the Alter Member, Biederman Member or such Employee Member to the Company at the time of such transfer.

SECTION 6.5 Restricted Payments. Notwithstanding any provisions to the contrary in this Agreement, neither the Company nor any Member on behalf of the Company shall make a distribution or Tax Loan if such distribution or Tax Loan would violate the Act or violate any contractual obligations of the Company that is entered into pursuant to the terms of this Agreement (provided, however, the Members shall use reasonable efforts, and shall cause the Executive Committee to do so, to not permit the Company to enter into loan documents or other agreements that prohibit the Company from making tax loans to the Alter Member).

SECTION 6.6 Organizational Expenses. (a) Promptly after the Closing Date, the Company, to the extent it does not pay such costs and expenses directly and to the extent previously approved by the Executive Committee, will reimburse each Initial Member for Organizational Expenses incurred by such Member. Any Organizational Expenses incurred by a Member shall not be included as a Capital Contribution and any reimbursement by the Company shall not be treated as a distribution. In the event this Agreement is terminated by its terms prior to the Closing, the Company shall have no obligation to reimburse any Member for any Organizational Expenses hereunder except to the extent provided in the Contribution Agreement.

(b) The Company shall pay (or reimburse each Member to the extent incurred by such Member) all third-party expenses actually incurred by

any Member in the operation and business of the Company to the extent approved by the Executive Committee and provided for in an Approved Budget, including the acquiring, holding, owning, developing, servicing, collecting upon and operating the Company or the Company Assets, any taxes imposed on the Company, fees and expenses for attorneys and accountants, the costs and expenses of any insurance purchased by the Company, the costs and expenses of any litigation involving the Company and the amount of any judgments or settlements paid in connection therewith, and any diligence expenses in connection with investments being considered by the Company.

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ARTICLE VII

BOOKS; REPORTS; TAX MATTERS; CAPITAL ACCOUNTS; ALLOCATIONS

SECTION 7.1 General Accounting Matters; Books and Records. (a) Allocations of Net Income (Loss) pursuant to Section 7.4 shall be made by or under the reasonable direction of the Managing Member at the end of each Fiscal Year.

(b) Except as otherwise provided herein, all determinations, valuations and other matters of judgment required to be made for accounting and tax purposes under this Agreement shall be made by or under the reasonable direction of the Managing Member in a reasonable manner after consultation with the Alter Member.

(c) The Chief Executive Officer shall cause the Company through the Company's accountants to maintain, at the expense of the Company, in a manner customary and consistent with good accounting principles, practices and procedures, a comprehensive system of office records, books and accounts (which records, books and accounts shall be and remain the property of the Company) in which shall be entered fully and accurately each and every financial transaction with respect to the ownership and operation of the Company Assets. Bills, receipts and vouchers shall be maintained on file by the Company. Said books and accounts shall be maintained in a safe manner and separate from any records not having to do directly with the Company or any Company Assets. The Chief Executive Officer shall cause audits to be performed and audited statements and income tax returns to be prepared at the expense of the Company as required by Section 7.1(e) below. Such books and records of account shall be prepared by the Company's accountants and maintained at the principal place of business of the Company or such other place or places as may from time to time be determined by the Voting Members. Each Member or its duly authorized representative shall have the right to inspect, examine and copy such books and records of account at the Company's office during reasonable business hours. A reasonable charge (approximating the cost thereof) for copying books and records may be charged by the Company.

(d) The books of the Company shall be kept on the accrual basis in accordance with GAAP and on a tax basis (in accordance with United States tax requirements) and the Company shall report its operations for tax purposes on the accrual method, provided that the Company shall not be required to keep separate books on a tax basis as long as the books that are maintained on a GAAP basis are sufficient to permit the Chief Executive Officer to make all quarterly tax adjustments and to prepare all of the reports described in Section 7.1(e).

(e) (i) The Chief Executive Officer will prepare, or will cause the Company Accountant to prepare, at the expense of the Company, and furnish to each Member within 21 calendar days after the end of each fiscal quarter of the Company (unless, except in the case of clause (E) which shall be required for every fiscal quarter, such fiscal quarter is the last fiscal quarter of any fiscal year of the Company) (A) an unaudited balance sheet of the Company dated as of the end of such fiscal quarter, (B) an unaudited related income statement of the Company for such fiscal quarter, (C) an unaudited statement of each Member's capital account for such

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fiscal quarter, (D) an unaudited statement of cash flows for such fiscal quarter, and (E) a status report of the Company's activities during such fiscal quarter, including summary descriptions of additions to, dispositions of and

leasing and occupancy of the Company Assets during such fiscal quarter, all of which shall be certified by the Chief Executive Officer as being, to the best of his knowledge, true and correct.

(ii) The Chief Executive Officer will prepare, or will cause the Company Accountant to prepare, at the expense of the Company, and furnish to each Member within 30 calendar days after the end of each Fiscal Year, the final audited amount of net income of the Company for such Fiscal Year and, within 30 calendar days after the end of each Fiscal Year (1) an audited balance sheet of the Company prepared on a GAAP basis dated as of the end of such Fiscal Year, (2) an audited related income statement of the Company prepared on a GAAP basis for such Fiscal Year, (3) an audited statement of cash flows for such Fiscal Year and (4) an audited statement of each Member's Capital Account for such Fiscal Year, all of which shall be certified by the Chief Executive Officer as being, to the best of its knowledge, true and correct and all of which shall be certified in the customary manner by the Company Accountant (which firm shall provide such balance sheet, income statement and statement of Capital Account in draft form to the Members for review prior to finalization and certification thereof).

(iii) The Chief Executive Officer will furnish to each Member, at the expense of the Company, copies of all reports required to be furnished to any lender of the Company.

(iv) When requested, the Company Accountant shall prepare a reasonable estimate of the taxable income of the Company. All schedules of book income shall be prepared on a GAAP basis. Promptly after the end of each Fiscal Year, the Chief Executive Officer will use reasonable efforts to cause the Company Accountant to prepare and deliver to each Member a report setting forth in sufficient detail all such additional information and data with respect to business transaction effected by or involving the Company during the Fiscal Year as will enable the Company and each Member to timely prepare its federal, state and local income tax returns in accordance with applicable laws, rules and regulations. The Chief Executive Officer will use reasonable efforts to cause the Company Accountant to prepare all federal, state and local tax returns required of the Company, submit those returns to the Voting Members for their approval no later than February 1 of the year following such Fiscal Year and will file the tax returns after they have been approved by each of the Voting Members. If each of the Voting Members shall not have approved any such tax return prior to the date required for the filing thereof (including any extensions granted), the Chief Executive Officer will timely obtain an extension of such date to the extent such an extension is available. Each Member shall give prompt notice to each Voting Member of any and all notices or other communications it receives from the Internal Revenue Service concerning the Company, including any notice of audit, any notice of action with respect to a revenue agent's report, any notice of a 30-day appeal letter and any notice of a deficiency in tax concerning any Company tax return. Upon request, the Tax Matters Member shall furnish each Voting Member with status reports

regarding any negotiation between the Internal Revenue Service or any other taxing authority and the Company.

(v) The Chief Executive Officer shall prepare, or shall cause the Company Accountant to prepare, at Company expense, such additional financial reports and other information as the Managing Member may determine are appropriate.

(vi) All decisions as to accounting principles shall be made by the Managing Member subject to the provisions of this Agreement, including Section 7.2 hereof.

(f) The Company shall retain as the regular accountant and auditor of the Company (the "Company Accountant") a nationally-recognized accounting firm agreed upon by the Westbrook Members and the Alter Member, or a different nationally-recognized accounting firm as may be selected by all the Managers at any time. The fees and expenses of the Company Accountant shall be a Company expense.

SECTION 7.2 Certain Tax Matters. The taxable year of the Company shall be the same as its Fiscal Year. The Chief Executive Officer shall cause to be prepared all Federal, state and local tax returns of the Company for each year for which such returns are required to be filed and, after approval of such returns by the Executive Committee, shall cause such returns to be timely filed, provided, however, that extensions shall be applied for unless otherwise approved by the Westbrook Members and the Alter Member. The Managing Member shall determine the appropriate treatment of each item of income, gain, loss, deduction and credit of the Company and the accounting methods and conventions under the tax laws of the United States, the several states and other relevant jurisdictions as to the treatment of any such item or any other method or procedure related to the preparation of such tax returns. The Tax Matters Member shall make the election provided for in Section 754 of the Code, if, and only if the Member who or which has acquired any Units or a distribution of Company property with respect to which the election is made will have provided to the Tax Matters Member concurrently, or within 30 days after the Transfer of such Units, its undertaking to the effect that it, and its successors in interest hereunder, will reimburse the Company annually for its additional administrative costs incurred by reason of such election as determined by the auditor of the Company. The Tax Matters Member shall also make the election to amortize Organizational Expenses pursuant to Code Section 709 and the regulation promulgated thereunder. In addition, the Managing Member may cause the Company to make or refrain from making any and all other elections permitted by the tax laws of the United States, the several states and other relevant jurisdictions. The Company shall be treated as a partnership for tax purposes. The "Tax Matters Partner" for purposes of Section 6231(a)(7) of the Code (the "Tax Matters Member") shall be the Managing Member, subject to the right of the Alter Member to participate in all negotiations with respect to settlements. If a dispute as to the content of a tax return cannot be resolved to the reasonable satisfaction of all Voting Members prior to the required filing date therefor, the Managing Member shall have the right to direct the Chief Executive Officer to cause the Company's tax return to be filed as reasonably approved by the Managing Member. The Tax Matters Member shall have all of the rights, duties, powers and obligations provided for in Sections 6221 through 6232 of the Code with respect to the Company.

SECTION 7.3 Capital Accounts. There shall be established for each Member on the books of the Company as of the date hereof, or such later date on which such Member is admitted to the Company, a capital account (each being a "Capital Account"). Each Capital Contribution shall be credited to the Capital Account of such Member on the date such contribution of capital is paid to the Company. In addition, each Member's Capital Account shall be (a) credited with such Member's allocable share of any Net Income of the Company as well as items of income specifically allocated pursuant to Sections 7.4(c), 7.4(d) and 7.4(f), (b) debited with (i) distributions to such Member of cash or the fair market value of other property and (ii) such Member's allocable share of Net Loss of the Company as well as items of loss or deduction specifically allocated for book purposes pursuant to Section 7.4(f), and (c) otherwise maintained in accordance with the provisions of the Code. Any other item which is required to be reflected in a Member's Capital Account under Section 704(b) of the Code or otherwise under this Agreement shall be so reflected. Capital Accounts shall be appropriately adjusted to reflect transfers of part (but not all) of a Member's Units. Interest shall not be payable on Capital Account balances. Notwithstanding anything to the contrary contained in this Agreement, the Company shall maintain the Capital Accounts of the Members in accordance with the principles and requirements set forth in section 704(b) of the Code and Regulations section 1.704-1(b)(2)(iv).

SECTION 7.4 Allocations. For purposes of determining Capital Account balances under this Section 7.4, a Member's Capital Account balance shall be deemed to be increased by such Member's share of Minimum Gain and Member Nonrecourse Debt Minimum Gain remaining at the close of such Fiscal Year as determined under the Regulations under Code Section 704(b):

(a) For each Fiscal Year, Net Loss shall be allocated among the Members in the following order of priority:

(i) First, among the Members as necessary to cause each Member's Capital Account balance to equal such Member's Pre-Liquidation Target Account, and

(ii) Second, after giving effect to the allocations made

pursuant to Section 7.4(a)(i), among the Class B Members in proportion to the Class B Members' then respective Capital Contributions.

(b) For each Fiscal Year, Net Income shall be allocated among the Members as necessary to cause each Member's Capital Account balance to equal such Member's Pre-Liquidation Target Account.

(c) Notwithstanding the foregoing, Net Loss shall be allocated to the Alter Member, Biederman Member and Employee Members in a percentage greater than their share of Capital Contributions only to reverse prior allocations of Net Income in the same percentage and the same order previously allocated to the Alter Member, Biederman Member and Employee Members. The allocations of Net Income and Net Loss pursuant to this Section 7.4 are intended to satisfy the "fractions" and "substantial economic effect" rules contained in Section 514(c)(9)(E)

of the Code, and Net Income and Net Loss shall be allocated among the Members only to the extent that such allocations would not violate such rules.

(d) Notwithstanding anything herein to the contrary, in the event any Member unexpectedly receives any adjustments, allocations or distributions described in paragraphs (b)(2)(ii)(d)(4), (5) or (6) of Section 1.704-1 of the regulations under the Code, there shall be specially allocated to such Member such items of Company income and gain, at such times and in such amounts as will eliminate as quickly as possible that portion of any deficit in its Capital Account caused or increased by such adjustments, allocations or distributions.

(e) Notwithstanding any other provision of this Agreement, taxable loss (or items of deduction) as computed for book purposes shall not be allocated to a Member to the extent that the Member has or would have, as a result of such allocations, a deficit Adjusted Capital Account Balance. Any taxable loss (or items of deduction) as computed for book purposes which otherwise would be allocated to a Member, but which cannot be allocated to such Member because of the application of the immediately preceding sentence, shall instead be allocated to the other Members. In the event any Member has a deficit Adjusted Capital Account Balance at the end of any Fiscal Year, each such Member shall be specially allocated items of Company income and gain in the amount of such excess as quickly as possible, provided, that an allocation pursuant to this paragraph Section 7.4(e) shall be made only if and to the extent that a Member would have a deficit Adjusted Capital Account Balance after all other allocations provided for in this Article VII have been tentatively made as if Section 7.4(d) and 7.4(e) were not in this Agreement.

(f) All items of income, gain, loss, deduction and credit of the Company shall be allocated among the Members for Federal, state and local income tax purposes consistent with the manner that the corresponding constituent items of Net Income (Loss) shall be allocated among the Members pursuant to this Agreement, except as may otherwise be provided herein or by the Code.

(g) Notwithstanding the provisions of this Section 7.4, net income, net gain, and net loss of the Company (or items of income, gain, loss, deduction, or credit, as the case may be) shall be allocated in accordance with the following provisions of this Section 7.4 to the extent such provisions shall be applicable.

(i) Nonrecourse Deductions of the Company for any Fiscal Year shall be specially allocated to the Members in proportion to each such Member's Capital Contributions. Member Nonrecourse Deductions of the Company for any Fiscal Year shall be specially allocated to the Member who bears the economic risk of loss for the liability in question. The provisions of this Section 7.4(g)(i) are intended to satisfy the requirements of Regulations sections 1.704-2(e)(2) and 1.704-2(i)(1) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(ii) If there is a net decrease in the Minimum Gain of the Company during any Company Fiscal Year, each Member shall be specially allocated items of Company income

and gain for such year equal to that Member's share of the net decrease in Minimum Gain, within the meaning of Regulations section 1.704-2(g)(2), to the extent required by the Regulations. The provisions of this Section 7.4(g)(ii) are intended to comply with the Minimum Gain chargeback requirements of Regulations section 1.704-2(e) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(iii) If there is a net decrease in Member Nonrecourse Debt Minimum Gain during any Fiscal Year, each Member that has a share of such Member Nonrecourse Debt Minimum Gain, determined in accordance with Regulations section 1.704-2(i)(5), as of the beginning of such year shall be specially allocated items of Company income and gain for such year (and, if necessary, for succeeding years) equal to such Member's share of the net decrease in Member Nonrecourse Debt Minimum Gain, to the extent required by the Regulations. The provisions of this Section 7.4(g)(iii) are intended to comply with the Member Nonrecourse Debt Minimum Gain chargeback requirement of Regulations section 1.704-2(i)(4) and shall be interpreted in accordance therewith for all purposes under this Agreement.

(iv) Notwithstanding the foregoing, if any special allocation otherwise required pursuant to this Section 7.4(g) would cause the Company's allocations to violate Section 514(c)(9)(B)(iv) of the Code (taking into account its incorporation by reference of the "substantial economic effect" requirement of Section 704(b)(2) of the Code), then the special allocation shall not be made.

(v) Any item of income, gain, loss and deduction with respect to any property (other than cash) that has been contributed by a Member to the capital of the Company or which has been revalued for Capital Account purposes pursuant to Regulations Section 1.704-1(b)(2)(iv) shall be allocated among the Members for income tax purposes under Code Section 704(c) so as to take into account the variation between the tax basis of such property and its fair market value at the time of its contribution or at the time of its revaluation for Capital Account purposes pursuant to the "traditional method" under Regulations Section 1.704-3(b) (or any successor Regulation). Allocations under this Section 7.4(g)(v) are solely for purposes of federal, state and local taxes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of Net Income or Net Loss or other items or distributions under any provision of this Agreement.

(vi) The parties intend that the foregoing tax allocation provisions of this Article VII, as applied for book purposes, shall be interpreted so as to produce final Capital Account balances of the Members that would permit liquidating distributions made in accordance with final Capital Account balances under Section 8.3 to be made (after unpaid loans and interest thereon, including those owed to Members have been paid) in a manner identical to the order of priorities set forth in Section 6.4.

ARTICLE VIII

DISSOLUTION

SECTION 8.1 Dissolution. The Company shall be dissolved and subsequently terminated upon the occurrence of the first of the following events:

(a) subject to Section 9.4(b), after the ten-year anniversary of the Closing Date, upon the determination of either the Alter Member or any Westbrook Member, in its sole discretion, to dissolve the Company;

(b) December 31, 2049;

(c) upon the written determination of all the Voting Members to dissolve the Company; or

(d) the occurrence of a Dissolution Event, except the Company shall not be dissolved upon the occurrence of a Dissolution Event that terminates the continued membership of a Member in the Company if within 90 days after the occurrence of such Dissolution Event, any remaining Voting Members consent to the continuation of the Company.

SECTION 8.2 Winding-up. When the Company is dissolved, the business and property of the Company shall be wound up and liquidated by such party appointed by the Executive Committee (the party conducting the liquidation being hereinafter referred to as the "Liquidator"), which party shall not receive any fee from the Company for acting as Liquidator hereunder. The Liquidator shall use its best efforts to reduce to cash and cash equivalent items such assets of the Company as the Liquidator shall deem it advisable to sell, subject to obtaining fair value for such assets and any tax or other legal considerations.

SECTION 8.3 Final Distribution. Within 270 calendar days after the effective date of dissolution of the Company, the assets of the Company shall be distributed in the following manner and order:

(a) to the payment of the expenses of the winding-up, liquidation and dissolution of the Company;

(b) to pay all creditors of the Company, other than Members, either by the payment thereof or the making of reasonable provision therefor;

(c) to establish reserves, in amounts reasonably established by the Liquidator, to meet other liabilities of the Company for a period of up to 18 months after the date on which the liquidation is consummated; and

(d) to pay, in accordance with the provisions of this Agreement applicable to such loans or in accordance with the terms agreed among them and otherwise on a pro rata basis, all creditors of the Company that are Members, either by the payment thereof or the making of reasonable provision therefor.

The remaining assets of the Company shall be applied and distributed in accordance with the positive balances of the Members' Capital Accounts, as determined after taking into account all adjustments to Capital Accounts for the Company taxable year during which the liquidation occurs.

ARTICLE IX

TRANSFER OF MEMBERS' INTERESTS

SECTION 9.1 Restrictions on Transfer of Units. (a) No Member may, directly or indirectly, assign, sell, exchange, transfer, pledge, mortgage, hypothecate or otherwise encumber or dispose of all or any part of its Units (a "Transfer") to any Person, other than in accordance with this Article IX.

(b) Any Member may Transfer its Units as follows:

(i) all or part of such Units to any Person after obtaining the prior written consent of the Alter Member and each Westbrook Member, which Transfer shall be subject to the Tag-Along Rights and the Drag-Along Rights to the extent, if any, provided in such consent;

(ii) solely in the case of the Alter Member and each Westbrook Member, all or part of such Units to an Alter Transferee or a Westbrook Transferee, which Transfer shall not be subject to any Tag-Along Rights or Drag-Along Rights under Section 9.2 except in the case of a transfer from a Westbrook Member to a Westbrook Transferee for any cash consideration in excess of the basis of the Westbrook Member in such Units, which shall be subject to Tag-Along Rights and Drag-Along Rights under Section 9.2;

(iii) all (but not part) of such Units by operation of law, including death or bankruptcy, which Transfer shall not be subject to any Tag-Along Rights or Drag-Along Rights under Section 9.2;

(iv) solely in the case of each Westbrook Member, in one or more transactions (A) at any time, up to 50% of the aggregate Units of all Westbrook Members as of the Closing Date or (B) after the 18-month anniversary of the Closing Date, all of its Units, each of which Transfers shall be subject to the Tag-Along Rights and the Drag-Along Rights under Section 9.2;

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(v) (A) solely in the case of the Alter Member, Biederman Member or any Employee Member any Units pursuant to an exercise by such Member of the Tag-Along Rights of such Member under Section 9.2(a) or (B) solely in the case of any Other Member any Units pursuant to an exercise by any Westbrook Member of the Drag-Along Rights of such Westbrook Member under Section 9.2(b) with respect to such Other Member;

(vi) solely in the case of each Westbrook Member, in one or more transactions prior to the one-year anniversary of the Closing Date, less than 50% of the aggregate Units of all Westbrook Members as of the Closing Date, which Transfer shall not be subject to any Tag-Along Rights or Drag-Along Rights under Section 9.2, as long as such Units transferred by the Westbrook Member have not received any positive Rate of Return, provided that receipt of a carry, promote or profit interest with respect to the transferred Units or a right to receive future payments upon the attainment of certain financial or other measurements shall not be disregarded in determining whether there has been a positive Rate of Return;

(vii) (A) solely in the case of the Alter Member, all of such Units as required by an exercise of the Alter Put or Alter Call, (B) solely in the case of the Biederman Member, all of such Units as required by an exercise of the Biederman Put or Biederman Call, (C) solely in the case of each Employee Member, all of such Units as required by an exercise of an Employee Call with respect to such Employee Member, and (D) solely in the case of each Class A Member, all of such Units as required by an exercise of the Preferred Put or Preferred Call; none of which Transfers shall be subject to any Tag-Along Rights or Drag-Along Rights under Section 9.2;

(viii) all of such Units as required by a Company Sale or exercise of a Notified Member of the right of such Notified Member to purchase such Units, which Transfer shall not be subject to any Tag-Along Rights or Drag-Along Rights under Section 9.2;

(ix) solely in the case of the Alter Member, part (but not all) of the Class D Units to any employee of the Company or its Subsidiaries pursuant to Section 6.4(g), which Transfer shall not be subject to any Tag-Along Rights or Drag-Along Rights under Section 9.2;

(x) solely in the case of the Alter Member, part (but not all) of the Class B Units, Class C Units or Class D Units to any New Employee Member, which Transfer shall not be subject to any Tag-Along Rights or Drag-Along Rights under Section 9.2; or

(xi) solely in the case of each Employee Member, all or part of the Class C Units or Class D Units to the Alter Member, any other Employee Member or any Other Employee pursuant to the provisions of Section 3.5(b), which Transfer shall not be subject to any Tag-Along Rights or Drag-Along Rights under Section 9.2;

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(xii) solely in the case of each Class A Member, all or part of its Units to any Affiliate of such Class A Member, which Transfer shall not be subject to any Tag-Along Rights or Drag-Along Rights under Section 9.2; or

(xiii) as provided in Article II of the Contribution Agreement.

provided that in the case of any Transfer pursuant to clause (i), (ii), (iv), (v), (vi), (ix), (x), (xi) or (xii) above of this Section 9.1(b), the Person (the "Transferee") to whom the Member's Units was Transferred shall not be admitted as a substitute Member until the Transferee has delivered to the Company written acceptance and adoption of all of the terms and provisions of this Agreement in form and substance reasonably satisfactory to the Company; and provided further that in the case of any Transfer pursuant to clause (iv)(A) or (vi) above of this Section 9.1(b), the Westbrook Member shall retain the right to appoint a majority of the Executive Committee. Each Transfer pursuant to clause (ii) through (xii) above of this Section 9.1(b) shall be a "Permitted Transfer" hereunder. Except as provided in this Section 9.1(b), no Member may Transfer any Units.

(c) No Member may mortgage, pledge, hypothecate or otherwise encumber all or any portion of such Member's Units or such Member's rights to receive a portion of the Available Cash, Net Income and Net Losses except that a Member may pledge or hypothecate its right to receive distributions hereunder as long as such pledge or hypothecation does not provide the pledgee with any voting or other rights with respect to the Company either upon such pledge or hypothecation or upon foreclosure thereof.

SECTION 9.2 Tag-Along and Drag-Along Rights. (a) With respect to any proposed Transfer subject to Tag-Along Rights pursuant to Section 9.1(b) hereof by one or more of the Westbrook Members of part (but not all) of the Units held by the Westbrook Members, each Westbrook Member shall have the obligation, and each of the Alter Member, Biederman Member and each Employee Member (the "Tagging Members") shall have the right, to require the proposed transferee to purchase from any Tagging Member, at the same price and upon the same terms and conditions as to be paid and given to such Westbrook Member, a number of Class B Units equal to the number of Class B Units owned by such Tagging Member multiplied by a fraction, the numerator of which is the number of Class B Units being sold by the Westbrook Members and the denominator of which is the total number of Class B Units held by all the Westbrook Members. With respect to any proposed Transfer subject to Tag-Along Rights pursuant to Section 9.1(b) hereof by the Westbrook Members of all the Units held by the Westbrook Members, each Westbrook Member shall have the obligation, and each Tagging Member shall have the right, to require the proposed transferee to purchase from such Tagging Member all Class B Units, Class C Units and Class D Units held by such Tagging Member in each case for the consideration described in the following sentence and upon the same terms and conditions as to be given to the Westbrook Members. The gross proceeds to be paid to the Members as consideration in the event of a Transfer of all the Units in accordance with the preceding sentence shall be distributed among the Members in accordance with the provisions of Section 6.4, in the same manner as if such proceeds were distributed as Available Cash hereunder. In the event some but not all of the Tagging Members exercise their Tag-Along Rights with respect to a Transfer by the Westbrook Members of all the Units held by the Westbrook

Members, the proceeds will be distributed to the Westbrook Members and the Tagging Members exercising their Tag-Along Rights using an implied valuation of the Company determined by the Executive Committee in good faith. The rights of the Tagging Members to require a purchase of any of their Units pursuant to this Section 9.2(a) are collectively referred to herein, as applicable, as the "Tag-Along Rights". In order to be entitled to exercise its Tag-Along Rights, a Tagging Member must agree to make, severally but not jointly, the same representations, warranties, covenants and indemnities and other similar agreements as the Westbrook Member agrees to make in connection with the proposed Transfer of its Units. Each Westbrook Member shall give notice to each Tagging Member of each proposed Transfer by such Westbrook Member giving rise to the Tag-Along Rights of such Tagging Member at least 20 days prior to the proposed consummation of such Transfer, setting forth the name and address of the proposed transferee, the proposed amount of consideration therefor and terms and conditions agreed to by the proposed transferee, and the number of Units such Tagging Member may sell to such proposed transferee (in accordance with the first two sentences of this Section 9.2(a)). The Tag-Along Rights must be exercised by each Tagging Member within 15 days following receipt of the notice required by the preceding sentence, by delivery of a written irrevocable notice to the relevant Westbrook Member indicating the exercise by such Tagging Member of its rights and specifying the Units it desires to sell. If the proposed

transferee fails to purchase the interest of any Tagging Member after it has properly exercised its Tag-Along Rights, then such Westbrook Member shall not be permitted to make the proposed Transfer, and any such attempted Transfer shall be void and of no effect. If any Tagging Member exercises its Tag-Along Rights, the closing of the purchase of its Units with respect to which such Tag-Along Rights have been exercised shall take place concurrently with the closing of the sale of the Westbrook Member's Units.

(b) With respect to any proposed Transfer by the Westbrook Members of all their Units, each Westbrook Member shall have the right to require each Member other than the Westbrook Members (collectively, the "Other Members") to sell to the proposed transferee all the Units of such Other Member, and all of any Class D Units assigned to any Other Employee, in each case for the consideration described in the following sentence and upon the same terms and conditions as given to the Westbrook Members, provided that no Other Member or Other Employee shall make any representations and warranties other than with respect to ownership and title, but each Other Member shall be liable, severally but not jointly, for a pro rata portion (determined by reference to the relative gross proceeds received by each transferring Member in such transaction) of any indemnities which the Westbrook Members agree to make in connection with the proposed Transfer of its Units (and the parent of the Alter Member may be required to guarantee such indemnification obligations of the Alter Member), provided further that in no event shall the indemnification obligations of the Alter Member to any proposed transferee exceed the consideration (whether cash or non-cash) paid to such Alter Member for its Units, and provided further that any such indemnification obligation of the Alter Member may be satisfied by use of any non-cash consideration that the Alter Member received as such consideration. The gross proceeds to be paid to Members as consideration for the Transfers of all the Units shall be distributed among the Members in accordance with the provisions of Section 6.4, in the same manner as if such proceeds were distributed as Available Cash hereunder. The rights of the Westbrook Members to require a sale of all the Units of each Other Member pursuant to this Section 9.2(b) are referred to herein as the "Drag-Along Rights". The Westbrook Members shall

give notice to each Other Member and each Other Employee of each proposed Transfer by the Westbrook Members giving rise to the Drag-Along Rights at least 20 days prior to the proposed consummation of such Transfer, setting forth the name and address of the proposed transferee, the proposed amount of consideration therefor and terms and conditions agreed to by the proposed transferee. Each Other Member and each Other Employee shall consent to and raise no objections to the proposed transaction and will take all other actions necessary or desirable to cause the consummation of such sale on the terms proposed by the Westbrook Members. If the Westbrook Members exercises their Drag-Along Rights, the closing of the purchase of the Units with respect to which such rights have been exercised shall take place concurrently with the closing of the sale of the Westbrook Members' Units. Notwithstanding the foregoing, no Westbrook Member shall have the right to exercise any Drag-Along Rights with respect to any Transfer by the Westbrook Members prior to the eighteen-month anniversary of the Closing Date unless the Alter Member (collectively with any transferees or assignees of the Bonus pursuant to Section 10.14 and any transferees or assignees of any Units initially issued to the Alter Member) will receive as consideration in connection with the Transfer of the Alter Member's Units as a result of the exercise by the Westbrook Members of such Drag-Along Rights, together with all prior distributions of Available Cash, an amount equal to the sum of (i) the Initial Capital Contribution of the Alter Member plus (ii) any accrued but unpaid Bonus plus (iii) $12.5 million.

(c) In the event any Other Member fails to deliver the assignments reasonably requested by the Westbrook Member as set forth in this Section 9.2, the Company may deliver the applicable purchase price pursuant to the provisions of this Section 9.2 to such Other Member and upon such delivery execute and deliver, as the attorney in fact for such Other Member, such required assignments. Such power of attorney is coupled with an interest and shall survive the insolvency, bankruptcy and dissolution of the Company. Each of the Company, and any Member shall each pay its own legal fees in connection with the exercise of any of its rights under this Section 9.2.

SECTION 9.3 Required Sale or Purchase of Alter Member or Biederman Member Units. (a) In the event that Alter's employment with the Company is terminated by the Company without Alter Cause, terminated by Alter with Alter Good Reason, or terminated by reason of Alter's death or Disability

(as defined in the Alter Employment Agreement), or in the event the Company does not offer to enter into a New Alter Employment Agreement with Alter not less than fifteen (15) Business Days prior to the expiration of the term of the Alter Employment Agreement, the Alter Member shall have the right to sell to the Company, and the Company shall be required to purchase, all of the Alter Member's Units (the "Alter Put") at a cash price equal to the Fair Market Value of such Units as of the date of such event (the "Alter Price"), calculated by assuming the Company were liquidated as of the date of such event and assuming all the Company Assets were sold as of such date for their Fair Market Value and taking into account any forfeiture of the Class D Units pursuant to Section 6.4(f), if any. The Alter Put may be exercised by the Alter Member at any time within ninety (90) days after, as applicable, any such termination of his employment with the Company or the failure of the Company to offer to enter into a New Alter Employment Agreement within such time period by delivery of written notice to the Company. If the Alter Member does not deliver an exercise notice with respect to the Alter Put within such 90-day period, the right of the Alter Member to cause the Company to purchase

its Units shall terminate and the Company shall have no further obligation with respect to the Alter Put.

(b) In the event that Alter's employment with the Company is terminated for any reason, each Westbrook Member shall have the right to cause the Company to purchase, and upon exercise of such right, the Alter Member shall be required to sell, all the Alter Member's Units (the "Alter Call") at a cash price equal to the Alter Price. The Alter Call may be exercised by the Company at any time within ninety (90) days after the termination of Alter's employment with the Company by delivery of written notice to the Alter Member. If the Company does not deliver an exercise notice with respect to the Alter Call within such 90-day period, the right of the Company to purchase the Alter Member's Units shall terminate and the Alter Member shall have no further obligation with respect to the Alter Call.

(c) In the event that Biederman's employment with the Company is terminated by the Company without Employee Cause, terminated by Biederman with Employee Good Reason, or terminated by reason of Biederman's death or "disability" (as such term is defined in the Employment Agreement between Biederman and the Company), the Biederman Member shall have the right to sell to the Company, and the Company shall be required to purchase, all of the Biederman Member's Units (the "Biederman Put") at a cash price equal to the Fair Market Value of such Units as of the date of such event (the "Biederman Price"), calculated by assuming the Company were liquidated as of the date of such event and assuming all the Company Assets were sold as of such date for their Fair Market Value and taking into account any forfeiture of the Class D Units pursuant to the provisions of Section 6.4(f)(iii)). The Biederman Put may be exercised by the Biederman Member at any time within ninety (90) days after any such termination of his employment with the Company within such time period by delivery of written notice to the Company. If the Biederman Member does not deliver an exercise notice with respect to the Biederman Put within such 90-day period, the right of the Biederman Member to cause the Company to purchase its Units shall terminate and the Company shall have no further obligation with respect to the Biederman Put.

(d) In the event that Biederman's employment with the Company is terminated for any reason, each Westbrook Member shall have the right to cause the Company to purchase, and upon exercise of such right the Biederman Member shall be required to sell, all the Biederman Member's Units (the "Biederman Call") at a cash price equal to the Biederman Price. The Biederman Call may be exercised by the Company at any time within ninety (90) days after the termination of Biederman's employment with the Company by delivery of written notice to the Biederman Member. If the Company does not deliver an exercise notice with respect to the Biederman Call within such 90-day period, the right of the Company to purchase the Biederman Member's Units shall terminate and the Biederman Member shall have no further obligation with respect to the Biederman Call.

(e) Unless otherwise agreed upon by the Company and the Alter Member or the Biederman Member, as the case may be, the closing of the purchase of the Alter Member's Units under Section 9.3(a) or 9.3(b) or the Biederman Member's Units under Section 9.3(c) or 9.3(d), shall occur at the offices of the Company on the date which is 30 days after final

determination of the Alter Price or Biederman Price, as applicable (or, if such date is not a Business Day, on the next succeeding Business Day). At the closing, the selling Member shall deliver to the Company such assignments and other documents as reasonably requested by the Company, and the Company shall deliver to the selling Member the Alter Price or Biederman Price, as applicable. The selling Member shall not be required to make any representations or warranties except with respect to the title of the selling Member to the Units being transferred and the absence of liens on such Units and shall not be required to make any indemnifications or otherwise incur any obligations with respect to such representations and warranties. Each of the Alter Member, the Biederman Member and the Company shall be entitled to enforce its rights under this Section 9.3 by specific performance. In addition, in the event the selling Member fails to deliver the assignments reasonably requested by the Company as set forth herein, the Company may deliver the Alter Price or Biederman Price, as applicable, to the selling Member and upon such delivery, execute and deliver, as the attorney in fact for the selling Member, such required assignments. Such power of attorney is coupled with an interest and shall survive the insolvency, bankruptcy and dissolution of the Company. The Company, the Biederman Member and the Alter Member shall each pay its own legal fees in connection with the exercise of its rights under this Section 9.3. In the event the Alter Member or Biederman Member exercises the Alter Put or Biederman Put or the Company exercises the Alter Call or Biederman Call, the Company shall cause the selling Member to be removed as guarantor from any debt obligations of the Company no later than 30 days after the date of the closing of the purchase and sale pursuant to this Section 9.3(e). The Company shall have the right to assign its rights (but not its obligations) under this Section 9.3 to any other Person.

SECTION 9.4 Required Sale or Purchase of Employee Member Units. (a) In the event that the employment of any Employee Member (or the parent of any Employee Member) with the Company is terminated for any reason, the Alter Member shall have the right, in addition to its right to assign the Units of such Employee Member pursuant to Section 3.5(b), to purchase, and, if such right is exercised by the Alter Member, the Employee Member shall be required to sell, all the Units of such Employee (after giving effect to any forfeiture of Units pursuant to the terms of the Employment Agreement of such Employee Member) (the "Employee Call") at a cash price equal to the fair market value of such Units as of the date of such event (the "Employee Price"), calculated by assuming the Company were liquidated as of the date of such event and assuming all the Company Assets were sold as of such date for their Fair Market Value, and after giving effect to any forfeiture of Units pursuant to the terms of the Employment Agreement of such Employee Member. The Employee Call may be exercised by the Alter Member at any time within ninety (90) days after the termination of employment of the Employee Member (or its parent) with the Company by delivery of written notice to the Employee Member. If the Alter Member does not deliver an exercise notice with respect to the Employee Call within such 90-day period, then each Westbrook Member shall have the right to Exercise the Employee Call by causing the Company to purchase, and, if such right is exercised by the Westbrook Member, the Employee Member shall be required to sell, all its Units at the Employee Price. The Employee Call may be exercised by the Company at any time commencing ninety (90) days after the termination of employment of the Employee Member (or its parent) with the Company until 180 days after such termination by delivery of written notice to the Employee Member. If the Company does not deliver an exercise notice with respect to the Employee Call within such

period, the right of the Company to purchase the Employee Member's Units shall terminate and the Employee Member shall have no further obligation with respect to the Employee Call.

(b) Unless otherwise agreed upon by the Alter Member or Company, as the case may be, and the Employee Member, the closing of the purchase of the Employee Member's Units under Section 9.4(a), shall occur at the offices of the Company on the date which is 30 days after final determination of the Employee Price (or, if such date is not a Business Day, on the next succeeding Business Day). At the closing, the Employee Member shall deliver to the Alter Member or the Company, as the case may be, such assignments and other documents as reasonably requested by the Alter Member or the Company, as the case may be, and the Alter Member or the Company, as the case may be, shall

deliver to the Employee Member the Employee Price. Each of the Alter Member, Employee Member and the Company shall be entitled to enforce its rights under this Section 9.4 by specific performance. In addition, in the event the Employee Member fails to deliver the assignments reasonably requested by the Alter Member or the Company, as the case may be, as set forth herein, the Alter Member or the Company, as the case may be, may deliver the Employee Price to the Employee Member and upon such delivery, execute and deliver, as the attorney in fact for the Employee Member, such required assignments. Such power of attorney is coupled with an interest and shall survive the insolvency, bankruptcy and dissolution of the Company. The Alter Member, the Company and the Employee Member shall each pay its own legal fees in connection with the exercise of its rights under this Section 9.4. The Company shall have the right to assign its rights (but not its obligations) under this Section 9.4 to any other Person.

SECTION 9.5 Sale of Company. (a) At any time after the ten-year anniversary of the Closing Date, subject to Section 9.5(b), either the Alter Member or any Westbrook Member may, in its sole discretion request the Executive Committee in writing (a "Sale Proposal") to cause the sale of all of the Company Assets or all of the Units of the Members (a "Company Sale"). In the event of a request for Company Sale, the Executive Committee shall have the obligation to identify prospective purchasers of such Company Assets or Units, determine the terms on which such prospective purchasers would engage in a Company Sale and negotiate the terms of such Company Sale. The Executive Committee shall have an obligation to conduct the Company Sale in good faith and use reasonable commercial efforts to effect the Company Sale as promptly as reasonably practical. Each Member shall be required to agree to sell such Company Assets or to sell its Units on the terms and conditions as agreed upon by Executive Committee, and each Member shall consent to and raise no objections to the proposed transaction and will take all other actions necessary or desirable to cause the consummation of such sale on such terms; provided that the provisions of this Section 9.5(a) shall not apply with respect to any sale to any Westbrook Transferee or Alter Transferee.

(b) Prior to requesting a Company Sale pursuant to Section 9.5(a) or taking any action to dissolve the Company pursuant to Section 8.1(a), the Member proposing such Sale Proposal or dissolution (the "Notifying Member") shall first provide the Alter Member, if any Westbrook Member is the Notifying Member, or each Westbrook Member, if the Alter Member is the Notifying Member (the "Notified Member") with a written notice notifying each Notified Member of the intended dissolution or Sale Proposal (and certain proposed terms, including a

minimum purchase price for all the Units of such Notifying Member, in the case of a proposed Sale Proposal) (the "Termination Notice"). Within thirty (30) days following the delivery of the Termination Notice, the Notified Members shall have the opportunity and right (i) to elect to purchase the assets or Units proposed to be sold on the terms set forth in the Termination Notice or (ii) in the case of a proposed dissolution, to elect to purchase all (but not part) of the Notifying Member's Units for Fair Market Value and in each case the Notifying Member shall have the obligation to sell such Units to the Notified Members. Each Notified Member shall exercise such right by delivering written notice of acceptance to the Notifying Member within such 30-day period. If any Notified Member does not deliver an acceptance notice within such 30-day period, the right of such Notified Member to purchase such Units pursuant to the Termination Notice shall terminate and the Notifying Member shall have the right to cause such dissolution of the Company to take place in accordance with the provisions of Article VIII hereof or to submit a Sale Proposal to the Executive Committee. Notwithstanding the foregoing, if such dissolution has not occurred or an agreement for such Company Sale, the terms of which include a purchase price for the Notifying Member's Units not less than the minimum purchase price set forth in the Termination Notice, has not been entered into within 120 days after delivery of the Termination Notice, the rights of each Notified Member as described above shall be reinstated and the Notifying Member will have to deliver another Termination Notice to each Notified Member with respect to such dissolution or sale before such dissolution or sale can occur. If any Notified Member exercises its right to purchase pursuant to this Section 9.5(b), the closing of such purchase by such Notified Member of the Units with respect to which such rights have been exercised shall occur at the offices of the Company (i) on the date which is 60 days after the delivery of the notice of acceptance by such Notified Member in the case of a dissolution or agreement of the Executive Committee as to the purchase price in the case of a proposed Sale Proposal (or, if such date is not a Business Day, on the next succeeding

Business Day) or (ii) on the date agreed to by the Executive Committee and the purchaser in the case of any Company Sale. In addition, in the event the Notifying Member fails to deliver the transfer documents and assignments reasonably requested by any Notified Member to effect the purchase pursuant to this Section 9.5(b), such Notified Member may deliver the consideration to be paid to the Notifying Member pursuant to this Section 9.5(b) to the Notifying Member and upon such delivery, execute and deliver, as the attorney in fact for the Notifying Member, such required assignments. Such power of attorney is coupled with an interest and shall survive the insolvency, bankruptcy and dissolution of the Notifying Member.

SECTION 9.6 Required Sale or Purchase of Class A Units. (a) At any time after the fifth anniversary of the Closing Date, each Class A Member shall have the right to sell to the Company, and the Company shall be required to purchase, all the Class A Units held by such Class A Member (the "Preferred Put") at a cash price equal to (i) the amount of the Capital Account of such Class A Member relating the Class A Units held by such Class A Member plus (ii) an amount necessary to cause such Class A Units to have received a 8.5% Rate of Return minus (iii) any amounts distributed to such Class A Member pursuant to Section 6.4(a) or 6.4(c) hereof with respect to such Class A Units prior to the date of such purchase (the "Preferred Price"). The Preferred Put may be exercised by any Class A Member at any time after the fifth anniversary of the Closing Date by delivery of written notice to the Company; provided that in the event the purchase by the Company of Class A Units required by the exercise of the Preferred Put

would result in a default or an event of default on the part of the Company or any Subsidiary under any loan or other agreement under which the Company or any of its Subsidiaries has borrowed money, the Company shall not be obligated to purchase such Class A Units until the tenth day (or, if such date is not a Business Day, on the next succeeding Business Day) after the date that exercise of the Preferred Put would no longer result in such a default or event of default.

(b) At any time after the third anniversary of the Closing Date, the Company shall have the right to purchase, and upon exercise of such right, each Class A Member shall be required to sell, all or part of the Class A Units held by such Class A Member (the "Preferred Call") at a cash price equal to the Preferred Price (as of the date of purchase) with respect to the portion of the Class A Units held by such Class A Member to be purchased. The Preferred Call may be exercised by the Company with respect to the Class A Units held by such Class A Member at any time after the third anniversary of the Closing Date by delivery of written notice to such Class A Member.

(c) Unless otherwise agreed upon by the Company and the selling Class A Member, the closing of the purchase of any Class A Units held by such Class A Member under Section 9.6(a) or 9.6(b) shall occur at the offices of the Company on the date which is 30 days after delivery of the exercise notice with respect to the Preferred Put or the Preferred Call, as applicable (or, if such date is not a Business Day, on the next succeeding Business Day). At the closing, each Class A Member shall deliver to the Company such assignments and other documents as reasonably requested by the Company, and the Company shall deliver to each Class A Member the Preferred Price for the purchased Class A Units held by such Class A Member. No Class A Member shall be required to make any representations or warranties except with respect to the title of such Class A Member to the Units being transferred and the absence of liens on such Units. Each of the Company and each Class A Member shall be entitled to enforce its rights under this Section 9.6 by specific performance. In addition, in the event any Class A Member fails to deliver the assignments reasonably requested by the Company as set forth herein, the Company may deliver the Preferred Price to such Class A Member and upon such delivery, execute and deliver, as the attorney in fact for such Class A Member, such required assignments. Such power of attorney is coupled with an interest and shall survive the insolvency, bankruptcy and dissolution of the Company. The Company and each Class A Member shall each pay its own legal fees in connection with the exercise of its rights under this Section 9.6.

SECTION 9.7 Other Transfer Provisions. (a) Any purported Transfer by a Member of all or any part of its Units in violation of this Article IX shall be null and void and of no force or effect.

(b) Except as provided in this Article IX, no Member shall

have the right to resign from the Company prior to its termination and no additional Member may be admitted to the Company without the prior written consent of the Managing Member and the Alter Member.

(c) Notwithstanding any provision of this Agreement to the contrary, a Member may not Transfer all or any part of its Units if such Transfer would jeopardize the status of the Company as a partnership for federal income tax purposes, cause a dissolution of the

Company under the Act or would violate, or would cause the Company to violate, any applicable law or regulation (including any applicable federal or state securities laws) or contract to which the Company or any of its Subsidiaries is a party.

(d) Concurrently with the admission of any substitute or additional Member, the Managing Member shall forthwith cause any necessary papers to be filed and recorded and notice to be given wherever and to the extent required showing the substitution of a Transferee as a substitute Member in place of the Member Transferring its Units, or the admission of an additional Member, all at the expense, including payment of any professional and filing fees incurred, of such substituted or additional Member. The admission of any Person as a substitute or additional Member shall be conditioned upon such Person's written acceptance and adoption of all the terms and provisions of this Agreement.

(e) If any Units are Transferred during any accounting period in compliance with the provisions of this Article IX, each item of income, gain, loss, expense, deduction and credit and all other items attributable to such Units for such period shall be divided and allocated between the transferor and the transferee by taking into account their varying Interests during such period in accordance with Section 706(d) of the Code, using any conventions permitted by law and selected by the Managing Member. All distributions on or before the date of such Transfer shall be made to the transferor, and all distributions thereafter shall be made to the transferee. Solely for purposes of making such allocations and distributions, the Company shall recognize a Transfer on the date that the Managing Member receives notice of the Transfer which complies with this Article IX from the Member Transferring its Units.

(f) Without limiting the foregoing and notwithstanding any of other provision of this Agreement to the contrary, a Member's ability to Transfer all or any portion of its Units shall be subject to the following additional restrictions, and any purported transfer or any other action taken in violation of this Section 9.7(f) shall be void:

(i) no Transfer of all or any portion of such Units shall be effective unless (A) such Transfer complies with the Transfer restrictions in all agreements to which the Company or such Member is a party, and (B) such Units are registered under the Securities Act and any applicable state securities laws, or an exemption from registration is available, and the Company shall (if reasonably requested by the non-Transferring Members) have received an opinion of counsel reasonably acceptable to such non-Transferring Members to such effect;

(ii) no Member shall be permitted to Transfer any portion of its Units or take any other action which would cause the Company to be (a) treated as a "publicly traded partnership" within the meaning of Code Section 7704 or (b) classified as a corporation (or as an association taxable as a corporation) within the meaning of Code Section 7701(a);

(iii) unless arrangements concerning withholding are reasonably acceptable to such non-Transferring Members, if such withholding is required of the Company, no

Member shall be permitted to Transfer all or any portion of its Units to any Person, unless such Person is a United States Person as defined in Code Section 7701(a)(30) and is not subject to withholding of any federal tax; and

(iv) no Member shall be permitted to Transfer all or any portion of its Units if such Transfer will (A) cause the assets of the Company to be deemed to be "plan assets" under ERISA or its accompanying regulations or the Code, (B) result in any "prohibited transaction" under ERISA or its accompanying regulations affecting the Company or (C) cause the Company or any Member to incur any UBTI.

(g) The Members acknowledge that the relationship of each Member to the other Members is a personal relationship and that the restrictions on the power of each Member to withdraw or Transfer its Units, and the remedies with respect thereto, that are set forth herein (i) are necessary to preserve such personal relationship and safeguard the investment of the other Members in the Company, (ii) were a material inducement to the other Members entering into this Agreement, and (iii) shall be enforceable notwithstanding the Bankruptcy of any Member or any applicable prohibition against restraints on alienation.

(h) Each Alter Member agrees not to permit any transfer of any interests in such Alter Member or any taking of any other action with respect to the direct or indirect ownership thereof to the extent such transfer or other action would result in the Alter Member failing to satisfy the definition of "Alter Transferee" at any time while it is a Member. Each Westbrook Member agrees not to permit any transfer of any interests in such Westbrook Member or any taking of any other action with respect to the direct or indirect ownership thereof to the extent such transfer or other action would result in such Westbrook Member failing to satisfy the definition of "Westbrook Transferee" at any time while it is a Member.

ARTICLE X

MISCELLANEOUS

SECTION 10.1 No Brokers. Except as set forth on Schedule 10.1 attached hereto, each Member hereby represents to the Company and the other Members that it has dealt with no real estate agent, broker, salesman or finder with respect to this Agreement or the transactions contemplated hereby. Each Member shall indemnify the Company and the other Members and protect, defend and hold the Company and the other Members harmless from and against all claims, losses, damages, liabilities, costs, expenses (including reasonable attorneys' fees and disbursements) and charges resulting from a breach by such Member of the representation contained in this Section 10.1.

SECTION 10.2 Equitable Relief. The Members hereby confirm that damages at law may be an inadequate remedy for a breach or threatened breach of this Agreement and agree that, in the event of a breach or threatened breach of any provision hereof, the respective rights and obligations hereunder shall be enforceable by specific performance, injunction or other

equitable remedy, but, nothing herein contained is intended to, nor shall it, limit or affect any right or rights at law or by statute or otherwise of a Member aggrieved as against the other for a breach or threatened breach of any provision hereof, it being the intention by this Section 10.2 to make clear the agreement of the Members that the respective rights and obligations of the Members hereunder shall be enforceable in equity as well as at law or otherwise and that the mention herein of any particular remedy shall not preclude a Member from any other remedy it or he might have, either in law or in equity.

SECTION 10.3 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware. In particular, the Company is formed pursuant to the Act, and the rights and liabilities of the Members shall be as provided therein, except as herein otherwise expressly provided.

SECTION 10.4 Mediation; Submission to Jurisdiction; Waiver of Trial By Jury. (a) In the event any dispute or difference of opinion arises under this Agreement, the parties hereto shall endeavor to resolve such dispute or difference of opinion by negotiation or mediation. If, for any reason, such mediation or negotiation fails to result promptly in an amicable resolution, the parties agree to be bound by their consent to the jurisdiction pursuant to Section 10.4(b).

(b) Each Member unconditionally and irrevocably submits to and accepts the jurisdiction of any state or federal court of competent jurisdiction located in the State of Delaware for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby, and each Member unconditionally and irrevocably agrees to be bound by any final judgment rendered thereby in connection therewith. Each Member further agrees that service of any process, summons, notice or document by U.S. registered mail to such party's respective address set forth on Schedule A shall be effective service of process for any action, suit or proceeding in any state or federal court located in the State of Delaware with respect to any matters to which it has submitted to jurisdiction as set forth above in the immediately preceding sentence. Each Member irrevocably and unconditionally waives trial by jury and irrevocably and unconditionally waives any objections, including the laying of venue or based on the grounds of forum non conveniens, which it may have to the bringing of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in any state or federal courts located in the State of Delaware, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. Each Member acknowledges that a final, nonappealable judgment against it in any action, suit or proceeding referred to in this Section shall be conclusive and may be enforced in any other jurisdiction, by suit on the judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and of the amount of the judgment.

SECTION 10.5 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto, their respective successors and assigns.

SECTION 10.6 Confidentiality. By executing this Agreement, each Member expressly agrees, at all times during the term of the Company and thereafter and whether or not at

the time a Member of the Company, (a) not to issue any press release or advertisement or take any similar action concerning the Company's business or affairs without the consent of all of the Members, (b) not to publicize financial information concerning the Company without the consent of the Managing Member and (c) not to disclose the Company's affairs generally, including without limitation the terms of this Agreement, without the consent of the other Member; provided that each Member shall have the right to disclose information as necessary to its legal, accounting and financial advisors who need to know such information for the purpose of advising such Member and who are informed on the confidential nature of such information and agree not to disclose such information; and provided further that each Member shall have the right to disclose such information as required by applicable law, regulation or legal process.

SECTION 10.7 Notices. Whenever notice is required or permitted by this Agreement to be given, such notice shall be in writing. Such notice shall be given to any Member at its address or facsimile number shown in the Company's books and records (including Schedule A hereto). Each such notice shall be effective (a) if given by facsimile, upon confirmation of receipt, (b) if given by air courier, when recorded on the records of the air courier as received by the receiving party and (c) if given by any other means, when delivered to and receipted for at the address of such Member specified as aforesaid. The time to respond to any notice given shall commence to run upon the date of delivery at the correct address (or the date of attempted delivery if delivery is refused during normal business hours).

SECTION 10.8 Counterparts. This Agreement may be executed in any number of counterparts, all of which together shall constitute a single instrument.

SECTION 10.9 Entire Agreement. This Agreement and the Contribution Agreement (including in each case the exhibits and schedules thereto) embody the entire agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein or in the Contribution Agreement. This Agreement supersedes all prior agreements and understandings between the parties with respect to the subject matter hereof other than the Contribution Agreement.

SECTION 10.10 Amendments. Subject to the provisions of Section 4.3(a) hereof, any amendment to this Agreement shall be in writing and shall be effective upon execution by the Alter Member and each of the Westbrook Members and delivery to each of the Members. Notwithstanding the foregoing, as long as the Alter Member has not forfeited all of the right of such Alter Member to its Class D Units, the Alter Member shall have the right, in its sole discretion, to amend at any time Schedule B and such amendments shall be in writing and effective upon execution by the Alter Member and delivery to each of the other Members.

SECTION 10.11 Section Titles. Section titles are for descriptive purposes only and shall not control or alter the meaning of this Agreement as set forth in the text hereof.

SECTION 10.12 Representations and Warranties. Each Member (including each Original Member) represents, warrants and covenants to each other Member and to the Company, as of the date hereof and during the term of this Agreement, that:

(a) such Member, if not a natural Person, is duly formed and validly existing under the laws of the jurisdiction of its organization with full power and authority to conduct its business to the extent contemplated in this Agreement;

(b) this Agreement has been duly authorized, executed and delivered by such Member and constitutes the valid and legally binding agreement of such Member enforceable in accordance with its terms against such Member except as enforceability hereof may be limited by bankruptcy, insolvency, moratorium and other similar laws relating to creditors' rights generally and by general equitable principles;

(c) the execution and delivery of this Agreement by such Member does not, and the performance of its duties and obligations hereunder will not, result in a breach of any of the terms, conditions or provisions of, or constitute a default under, or give rise to a right to terminate, cancel or accelerate under, or the creation of lien, pledge or other encumbrance pursuant to, any indenture, mortgage, deed of trust, credit agreement, note or other evidence of indebtedness, or any material lease or other agreement, or any material license, permit, franchise or certificate, to which such Member is a party or by which it is bound or to which its properties are subject, or require any authorization or approval under or pursuant to any of the foregoing, or violate any statute, regulation, law, order, writ, injunction, judgment or decree to which such Member or its property is subject;

(d) such Member is not in default (nor has any event occurred which with notice, lapse of time, or both, would constitute a default) in the performance of any material obligation, agreement or condition contained in any indenture, mortgage, deed of trust, credit agreement, note or other evidence of indebtedness or any lease or other agreement (including the Original Agreement), or any license, permit, franchise or certificate, to which it is a party or by which it is bound or to which the properties of it are subject, nor is it in violation of any statute, regulation, law, order, writ, injunction, judgment or decree to which it or its property is subject, which default or violation would adversely affect such Member's ability to carry out its obligations under this Agreement;

(e) there is no litigation, investigation or other proceeding pending or, to the knowledge of such Member, threatened against such Member or any of its Affiliates or their property which, if adversely determined, would materially adversely affect such Member's ability to carry out its obligations under this Agreement;

(f) no consent, approval or authorization of, or filing, registration or qualification with, any court or governmental authority on the part of such Member is required for the execution and delivery of this Agreement by such Member and the performance of its obligations and duties hereunder; and

(g) No amounts are due and owing to the Company from any Original Member and no tax allocations have been made with respect to any Original Member, in each case in its capacity as Original Member, and no Original Member has an Capital Account its capacity as Original Member which has not been repaid.

SECTION 10.13 Waiver of Partition. Each of the Members hereby irrevocably waive any rights such Member may have under any applicable law to partition.

SECTION 10.14 Bonus. After each Unit initially issued to a Westbrook Member has received a cumulative compounded quarterly (to the extent not paid on a quarterly basis) return of 12% (without any return of Capital Contributions), the Company shall accrue out of Available Cash (a) an amount equal to $230,000 per calendar quarter (which will be cumulative and compound quarterly at a rate of 12%) as a bonus to the Alter Member (a designated portion of which shall be paid to any other senior employees of the Company or its Subsidiaries, if any, as designated by the Alter Member in its sole discretion as long as Alter is Chief Executive Officer) and (b) an amount equal to $20,000 per calendar quarter (which will be cumulative and compound quarterly at a rate of 12%) as a bonus to the Biederman Member (collectively, the "Bonus"). The Company shall, or shall cause a Subsidiary to, pay and the Executive Committee shall authorize the payment to the Alter Member or any other senior employee as may be designated by the Alter Member (as long as Alter is Chief Executive Officer) and the Biederman Member of the Bonus within 10 days following the end of any fiscal year of the Company for which a Bonus has accrued, provided that the Executive Committee shall have the right to reduce the Bonus to the Alter Member or the Biederman Member with respect to any then-current fiscal year (but not any then-prior or then-future fiscal year) to the extent (and only to the extent) that any Available Cash has been or is to be distributed to the Alter Member or the Biederman Member, as the case may be, with respect to such then-current fiscal year (but not any then-prior or then-future fiscal year) (whether or not yet paid) pursuant to Section 6.4(d).

SECTION 10.15 No Third Party Beneficiaries. Except for the beneficiaries of the indemnification provided herein, this Agreement does not create any rights, claims or benefits inuring to any Person that is not a party hereto nor create or establish any third party beneficiary hereto.

SECTION 10.16 Consent to Merger and Related Transactions. The Members hereby deem it advisable and in the best interest of the Company that the Company enter into the Merger Agreement, the OP Merger Agreement, the Contribution Agreement, the Alter Employment Agreement and the commitment letter with respect to the financing of the Merger and the OP Merger (collectively, the "Principal Agreements"), a form of each of which has been presented to the Members, and the transactions contemplated thereby, be, and each of them hereby is, in all respects authorized and approved, and the Managers are, and each of them hereby is, authorized to execute and deliver on behalf of the Company each of the Principal Agreements, and any and all ancillary documents, in such form as the Manager executing any of the Principal Agreements or such ancillary documents shall approve, such Manager's execution thereof to be conclusive evidence of such approval.

IN WITNESS WHEREOF, the parties have executed this Amended and Restated Limited Liability Company Agreement as of the day and year first above written.

MEMBERS:

WESTBROOK SHP L.L.C.

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Person

ALTER SHP L.L.C.

By: /s/ Robert A. Alter

Name: Robert A. Alter
Title: Manager

BIEDERMAN SHP L.L.C.

By: /s/ Charles L. Biederman

Name: Charles L. Biederman
Title: Manager

WITHDRAWING MEMBERS:

/s/ Robert A. Alter

Robert A. Alter

WESTBROOK FUND III ACQUISITIONS, L.L.C.

By: /s/ Jonathan H. Paul

Name: Jonathan H. Paul
Title: Authorized Person

SCHEDULE A

Members of the Company

<TABLE>
<CAPTION>

Member	Address	Class of Units	Number of Units
<S>	<C>	<C>	<C>
Westbrook SHP L.L.C.	599 Lexington Avenue Suite 3800 New York, New York 10022 Attention: Jonathan Paul for notices, with a copy to Simpson Thacher & Bartlett 425 Lexington Avenue New York, New York 10017 Attention: Richard Capelouto Brian M. Stadler	Class B	
Westbrook Real Estate Fund III, L.P.	Same as Westbrook SHP L.L.C.	Class B	
Westbrook Real Estate Co-Investment Partnership III, L.P.	Same as Westbrook SHP L.L.C.	Class B	
Alter SHP L.L.C.	c/o Sunstone Hotel Investors, Inc. 903 Calle Amanecer San Clemente, California 92673-6212 for notices, with a copy to: Battle Fowler LLP 75 East 55th Street New York, New York 10022 Attention: Steven Lichtenfeld	Class B Class C Class D	 1,111,112 900

</TABLE>

<TABLE>
<CAPTION>

Member	Address	Class of Units	Number of Units
<S>	<C>	<C>	<C>
Biederman SHP LLC	c/o Charles L. Biederman	Class B	

5 Sunset Drive Englewood, Colorado 80110	Class C	96,618
for notices, with a copy to:	Class D	100
Battle Fowler LLP 75 East 55th Street New York, New York 10022 Attention: Steven Lichtenfeld		

</TABLE>

SCHEDULE B

CLASS C UNITS AND CLASS D UNITS

SCHEDULE 3.1

DESIGNATED ALTER MEMBER ALTERNATIVE MANAGERS

Charles Biederman

SCHEDULE 10.1

BROKERS

Letter Agreement dated September 25, 1998 among Sunstone Hotel Properties, Sunstone Hotel Management Company and NationsBanc Montgomery Securities LLC, as amended.

Exhibit 7

ESCROW AGREEMENT

This Escrow Agreement (this "Agreement") is made and entered into as of July 12, 1999, by and among SUNSTONE HOTEL INVESTORS, L.P., a Delaware limited partnership ("Seller Partnership"), SUNSTONE HOTEL INVESTORS, INC., a Maryland corporation ("Seller"), SHP ACQUISITION, L.L.C., a Delaware limited liability company ("Parent"), and FIDELITY NATIONAL TITLE INSURANCE COMPANY, a California corporation, as escrow agent (the "Escrow Agent"). Each of Seller, Seller Partnership, Parent and the Escrow Agent are referred to individually herein as a "Party" and are referred to together herein as the "Parties".

WITNESSETH:

WHEREAS, Seller, SHP Investors Sub, Inc., a Maryland corporation and a wholly-owned subsidiary of Parent (the "Buyer"), and Parent have entered into an Agreement and Plan of Merger dated of even date herewith (the "Merger Agreement") pursuant to which Buyer will be merged into Seller;

WHEREAS, Seller conducts substantially all of its operations through Seller Partnership, and Seller Partnership, Parent and SHP Acquisition Sub, LP, a Delaware limited partnership and a wholly-owned subsidiary of Parent, have entered into an Agreement and Plan of Merger of even date herewith (the "Partnership Merger Agreement") pursuant to which SHP Acquisition Sub, L.P. will be merged into Seller Partnership;

WHEREAS, Section 4.7 of the Merger Agreement requires the Buyer to deliver cash in the amount of $25,000,000 (the "Cash Collateral") to the Escrow Agent, to be held as security for the payment of liquidated damages which may become payable by Buyer under certain circumstances set forth in Section 7.2 of the Merger Agreement;

WHEREAS, Section 4.7 of the Merger Agreement provides that the Buyer, at its election, may provide to Escrow Agent, in lieu of or in substitution for the Cash Collateral, a letter of credit substantially in the form of Attachment A (the "Letter of Credit") with the Escrow Agent as the beneficiary thereof, with such changes

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as shall be reasonably satisfactory to Seller, from Nationsbank, N.A., or another bank reasonably satisfactory to Seller, in substitution of the Cash Collateral; and

WHEREAS, Parent, Seller and Seller Partnership wish to appoint the Escrow Agent as escrow agent to hold, invest and disburse the Cash Collateral and to deliver and/or draw upon the Letter of Credit, and the Escrow Agent wishes to accept such appointment, upon the terms and conditions set forth below.

NOW, THEREFORE, the Parties hereto hereby agree as follows:

1. Defined Terms. Capitalized terms used in this Agreement and not otherwise defined shall have the meanings given them in the Merger Agreement.

2. Collateral. The Escrow Agent hereby acknowledges receipt of the Letter of Credit and shall hold the Letter of Credit in accordance with the terms of this Agreement. In the event Cash Collateral is substituted for the Letter of Credit, the Escrow Agent shall hold the Cash Collateral in accordance with the terms of this Agreement in a segregated trust account designated as the "SHI Cash Collateral Account" or in an account having a similar designation, and shall invest the Cash Collateral in accordance with Section 5 hereof pursuant to the written instruction of Parent.

3. Intentionally Omitted.

4. Release. (a) The Escrow Agent shall distribute the Cash Collateral, deliver the Letter of Credit (in cases where the Letter of Credit is to be delivered to Parent), or draw on the Letter of Credit and distribute the proceeds thereof (in cases where the proceeds of the Letter of Credit is to be delivered to Seller), as applicable and as directed, only as follows:

(i) to such party or parties as directed in a joint written certificate executed by both Seller and Parent; or

(ii) to such party or parties as directed in a unilateral written certificate executed by Seller or Parent (each, a "Unilateral Certificate"), provided that the Escrow Agent has complied with the terms of Section 4(b)

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below and has not received a Notice of Dispute (as defined below) within the time period set forth in Section 4(b) below. Any Unilateral Certificate shall state the amount to be distributed and the Section of the Merger Agreement under which such distribution is authorized.

(b) Promptly after receipt of a Unilateral Certificate delivered to the Escrow Agent under Section 4(a)(ii) above, the Escrow Agent shall deliver to (i) Seller in the case of a Unilateral Certificate delivered by Parent or (ii) Parent in the case of a Unilateral Certificate delivered by Seller, a copy of the Unilateral Certificate. Seller or Parent, as applicable,

shall have a period of ten (10) days after its receipt of such copy of the Unilateral Certificate within which to deliver to the Escrow Agent a notice (a "Notice of Dispute") disputing distribution as provided in the Unilateral Certificate. If Seller or Parent, as applicable, fails to deliver a Notice of Dispute within such ten (10) day period, such party shall be deemed to have consented to the distribution provided in the applicable Unilateral Certificate. If Seller or Parent, as applicable, timely delivers a Notice of Dispute to the Escrow Agent, the Escrow Agent, upon receipt of such Notice of Dispute, shall give prompt notice thereof to the party which had delivered the applicable Unilateral Certificate, and the Escrow Agent shall not make any disbursements except upon receipt of the joint written instruction of Seller and Parent or a final, nonappealable order of a court of competent jurisdiction.

(c) Notwithstanding anything to the contrary herein, in the event that the Escrow Agent is holding the Letter of Credit in escrow by the date which is 15 days prior to the expiry date of the Letter of Credit (or the first business day thereafter if such date is not a business day), Escrow Agent shall draw on the full amount of the Letter of Credit and hold the proceeds thereof in escrow as Cash Collateral unless otherwise directed in a joint written certificate by Seller and Parent, and neither Seller nor Parent shall seek to enjoin either (i) a draw on the Letter of Credit made in accordance with this Section 4(c) or (ii) payment by the issuer on the Letter of Credit with respect to such draw.

5. Investment of Cash Collateral. (a) Any monies held as Cash Collateral shall be invested by the Escrow Agent, to the extent permitted by law and as directed in writing by Parent, in (i) obligations having a maturity date of 30 days or less issued or guaranteed by the United States of America or any agency or instrumentality thereof, (ii) obligations having a maturity date of 30 days or less

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(including certificates of deposit and bankers' acceptances) of banks which at the date of their last public reporting had total assets in excess of $500 million, (iii) commercial paper having a maturity date of 30 days or less rated at least A-1 or P-1 or, if not rated, issued by companies having outstanding debt rated at least AA or Aa, and/or (iv) money market mutual funds invested primarily in the securities described in the foregoing clauses (i), (ii) and (iii).

(b) Escrow Agent shall pay to Parent, on the first day of each calendar month and on the date of disbursement of all of the Cash Collateral, any interest earned on the Cash Collateral.

6. Fees and Expenses. Seller and Seller Partnership shall be jointly and severally liable for the fees of the Escrow Agent, including, but not limited to, reasonable legal fees and expenses for the services rendered by the Escrow Agent hereunder and for its attorney's fees and expenses incurred in

connection with the preparation of this Agreement. In furtherance of the foregoing, Seller and Seller Partnership agree to pay or reimburse the Escrow Agent for the Escrow Agent's reasonable compensation for its normal services hereunder and the preparation of this Agreement in accordance with the fee schedule attached hereto as Attachment B. The Escrow Agent shall be entitled to reimbursement on demand for all expenses incurred in connection with the administration of the escrow created hereby that are in excess of its compensation for normal services hereunder, including, without limitation, payment of any legal fees and expenses incurred by the Escrow Agent in connection with the resolution of any claim by any Party hereunder.

7. Limitation of Escrow Agent's Liability. (a) Neither the Escrow Agent nor any of its directors, officers or employees shall incur liability with respect to any action taken or suffered by it in reliance upon any notice, direction, instruction, consent, statement or other documents believed by it to be genuine and duly authorized, nor for other action or inaction except its own willful misconduct or gross negligence; provided, that with respect to the custody of the Cash Collateral, the Escrow Agent shall use the standard care of customarily used by custodians of funds. The Escrow Agent shall not be responsible for the validity or sufficiency of this Agreement and shall not be responsible for any of the agreements referred to herein, including the Merger Agreement and the Partnership Merger Agreement, but shall be obligated only for the performance of such duties as are specifically set forth in this

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Escrow Agreement. Without limiting the foregoing, the Escrow Agent (i) shall not be obligated to inquire as to the accuracy of any calculations used in preparing the Disbursement Certificate and (ii) shall have no obligation to inquire whether Seller Partnership has the right to liquidated damages pursuant to the Merger Agreement. In all questions arising under this Agreement, the Escrow Agent may rely on the advice of counsel, including in-house counsel, and for anything done, omitted or suffered in good faith by the Escrow Agent based on such advice the Escrow Agent shall not be liable to anyone. The Escrow Agent shall not be required to take any action hereunder involving any expense unless the payment of such expense is made or provided for in a manner reasonably satisfactory to it. The Escrow Agent shall not be liable for any losses resulting from the investments made in accordance with this Agreement. In no event shall the Escrow Agent be liable for indirect, punitive, special or consequential damages.

(b) Seller and Seller Partnership shall jointly and severally indemnify the Escrow Agent for, and hold it harmless against, any loss, liability or expense (including reasonable attorneys' fees and expenses) incurred without gross negligence or willful misconduct on the part of the Escrow Agent, arising out of or in connection with its carrying out of its duties hereunder, including without limitation drawing on the Letter of Credit.

(c) Seller and Seller Partnership jointly and severally hereby agree to assume any and all obligations imposed now or hereafter by any applicable tax law with respect to the payment of amounts to be distributed under this Agreement, and to indemnify and hold the Escrow Agent harmless from and against any taxes, additions for late payment, interest, penalties and other expenses, that may be assessed against the Escrow Agent in any such payment or other activities under this Agreement (other than taxes on the net income of the Escrow Agent attributable to the payment of fees hereunder). Seller and Seller Partnership undertake to instruct the Escrow Agent in writing with respect to the Escrow Agent's responsibility for withholding and other taxes, assessments or other governmental charges, certifications and governmental reporting in connection with its acting as Escrow Agent under this Agreement. Seller and Seller Partnership jointly and severally hereby agree to indemnify and hold the Escrow Agent harmless from any liability on account of taxes, assessments or other governmental charges, including without limitation the withholding or deduction or the failure to withhold or deduct the same, and any liability for failure to obtain proper

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certifications or to properly report to governmental authorities, to which the Escrow Agent may be or become subject in connection with or which arises out of this Agreement, including costs and expenses (including reasonable legal fees and expenses), interest and penalties.

8. Termination. This Agreement shall terminate upon the disbursement by the Escrow Agent of all of the Cash Collateral or the full amount of the Letter of Credit (except in accordance with Section 4(a)) in accordance with this Agreement; provided, however, that the provisions of Sections 6 and 7 shall survive such termination.

9. Notices. All notices, instructions and other communications given hereunder or in connection herewith shall be in writing. Any such notice, instruction or communication shall be sent either (i) by registered or certified mail, return receipt requested, postage prepaid or (ii) via a reputable nationwide overnight courier service, in each case to the address set forth below. Any such notice, instruction or communication shall be deemed to have been delivered four business days after it is sent by registered or certified mail, return receipt requested, postage prepaid; or one business day after it is sent via a reputable nationwide overnight courier service.

If to Seller or Seller Partnership: Sunstone Hotel Investors, Inc.
903 Calle Amanecer
San Clemente, CA 92673
Attention: Chief Operating Officer
Fax: (949) 369-4230

Copy to: Altheimer & Gray

10 South Wacker Drive
Chicago, Illinois 60606-7482
Attention: Andrew W. McCune
Fax: (312-715-4800

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If to Parent:	SHP Acquisition, L.L.C. c/o Westbrook Real Estate Partners, L.L.C. 599 Lexington Avenue New York, NY 10022 Attention: Jonathan H. Paul Fax: (312) 715-4800
Copies to:	Battle Fowler LLP 75 East 55th Street New York, NY 10022 Attention: Steven L. Lichtenfeld, Esq. Fax: (212) 856-7802
and	Simpson Thacher & Bartlett 425 Lexington Avenue New York, NY 10017-3954 Attention: Richard Capelouto, Esq. Brian M. Stadler, Esq. Fax: (212) 455-2502
and	Westbrook Partners L.L.C. 13155 Noel Road -- LB54 Suite 2300 Dallas, Texas 75240 Attention: Patrick K. Fox, Esq. Fax: (972) 934-8333
If to the Escrow Agent:	Fidelity National Title Insurance Company 1300 Dove Street, Suite 310, Newport Beach, California 92660 Attention: Patty Beverly Fax: (949) 477-6835

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Any Party may give any notice, instruction or communication in connection with this Agreement using any other means (including personal delivery, telecopy or ordinary mail), but no such notice, instruction or communication shall be deemed to have been delivered unless and until it is actually received by the Party to

whom it was sent. Any Party may change the address to which notices, instructions or communications are to be delivered by giving the other Parties to this Agreement notice thereof in the manner set forth in this Section 9.

10. Successor Escrow Agent. In the event the Escrow Agent becomes unavailable or unwilling to continue in its capacity hereunder, the Escrow Agent may resign and be discharged from its duties or obligations hereunder by delivering a resignation to the Parties to this Escrow Agreement, not less than 60 days' prior to the date when such resignation shall take effect. Seller may, upon three business days prior written notice to Parent, appoint a successor Escrow Agent so long as such successor is a bank with assets of at least $500 million. If, within such 60-day notice period, Seller provides to the Escrow Agent written instructions with respect to the appointment of a successor Escrow Agent and directions for the transfer of the Letter of Credit or the Cash Collateral then held by the Escrow Agent to such successor, the Escrow Agent shall act in accordance with such instructions and promptly transfer the Letter of Credit or the Cash Collateral to such designated successor. If no successor escrow agent is named by Seller within such notice period, the Escrow Agent may apply to a court of competent jurisdiction for appointment of a successor escrow agent.

11. General.

(a) Governing Law. This Agreement shall be governed by, enforced under and construed in accordance with the laws of the State of New York without regard to conflict-of-law principles.

(b) Counterparts. This Agreement may be executed in two or more counterparts (which need not each be signed by all of the Parties hereto), each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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(c) Entire Agreement. This Agreement constitutes the entire understanding and agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements or understandings, written or oral, between the Parties with respect to the subject matter hereof.

(d) Waivers. No waiver by any Party hereto of any condition or of any breach of any provision of this Escrow Agreement shall be effective unless in writing. No waiver by any Party of any such condition or breach, in any one instance, shall be deemed to be a further or continuing waiver of any such condition or breach or a waiver of any other condition or breach of any other provision contained herein.

(e) Amendment. This Agreement may be amended only by a written instrument signed by the Parties hereto.

(f) Consent to Jurisdiction and Service. Each Party hereby absolutely and irrevocably consents and submits to the jurisdiction of the courts in the State of New York and of any federal court located in the state of New York in connection with any actions or proceedings brought against such Party by the Escrow Agent arising out of or relating to this Escrow Agreement. In any such action or proceeding, each Party hereby absolutely and irrevocably waives personal service of any summons, complaint, declaration or other process and hereby absolutely and irrevocably agrees that the service thereof may be made in accordance with the notice provisions of Section 9 hereof, directed to such Party at its address set forth in Section 9 hereof.

(g) Force Majeure. No Party shall be responsible for delays or failures in performance resulting from acts beyond its, his or her control. Such acts shall include but not be limited to acts of God, strikes, lockouts, riots, acts of wars, epidemics, governmental regulations superimposed after the fact, fire, communication line failures, computer viruses, power failures, earthquakes or other disasters.

(h) Binding Effect, Assigns. This Agreement shall be binding upon and inure to the benefit of the respective Parties hereto and their heirs, executors, successors and assigns.

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(i) Reproduction of Documents. This Agreement and all documents relating thereto, including, without limitation, (i) consents, waivers and modifications which may hereafter be executed, and (ii) certificates and other information previously or hereafter furnished, may be reproduced by any photographic, photostatic, microfilm, optical disk, micro-card, miniature photographic or other similar process. The Parties agree that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding, whether or not the original is in existence and whether or not such reproduction was made by a Party in the regular course of business, and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

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IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the day and year first above written.

SUNSTONE HOTEL INVESTORS, INC.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Chief Operating Officer

SUNSTONE HOTEL INVESTORS, L.P.

By: /s/ R. Terrence Crowley

Name: R. Terrence Crowley
Title: Authorized Representative

SHP ACQUISITION, L.L.C.

By: /s/ Paul Kazilionis

Name: Paul Kazilionis
Title: Manager

FIDELITY NATIONAL TITLE INSURANCE COMPANY, as Escrow Agent

By: /s/ P. Beverly

Name: P. Beverly
Title: Vice President