STRATEGIC HOTELS & RESORTS, INC
Form 424B5
April 17, 2012
Table of Contents

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-179850

The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities, and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated April 17, 2012

Prospectus supplement

(To Prospectus dated March 2, 2012)

16,000,000 shares

Common stock

We are offering 16,000,000 shares of our common stock through this prospectus supplement and the accompanying prospectus.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol BEE . The last reported sale price of our common stock on the NYSE on April 16, 2012 was $6.54 per share. To ensure that we maintain our qualification as a real estate investment trust, our charter limits ownership by any individual to 9.8% of the number or value, whichever is more restrictive, of our outstanding shares of common stock, with certain exceptions. In addition, our charter limits ownership by any individual to 9.8% in value of our outstanding shares of stock, with certain exceptions.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to Strategic Hotels & Resorts, Inc., before expenses	$	$

The underwriters may also purchase up to an additional 2,400,000 shares of common stock from us at the public offering price, less the underwriting discount, within 30 days following the date of this prospectus supplement. If the underwriters exercise the option in full, the total discount and commission will be $ and the total net proceeds, before expenses, to us will be $.

The underwriters expect that the shares of common stock will be ready for delivery in book-entry form through the facilities of The Depository Trust Company on or about April , 2012.

Investing in our common stock involves risks, including those described in the Risk factors section beginning on page S-10 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

Deutsche Bank Securities **Raymond James**

April , 2012

Table of Contents

TABLE OF CONTENTS

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

As used in this prospectus supplement, references to we, our, us and SHR are to Strategic Hotels & Resorts, Inc. and, except as the context otherwise requires, its consolidated subsidiaries, including Strategic Hotel Funding, L.L.C., our operating partnership, and its consolidated subsidiaries. References to SH Funding are to Strategic Hotel Funding, L.L.C.

This document consists of two parts. The first part is the prospectus supplement, which describes the specific terms of this offering of our common stock. The second part is the accompanying prospectus, which provides general information about us and our securities, some of which may not apply to the common stock that we are currently offering.

Both this prospectus supplement and the accompanying prospectus include important information about us and our common stock, and other information of which you should be aware before investing in our common stock. This prospectus supplement also adds, updates and changes information contained in the accompanying prospectus and the documents incorporated therein by reference. To the extent that any statements that we make in this prospectus supplement are inconsistent with statements made in the accompanying prospectus, the statements made in this prospectus supplement are deemed to modify the statements made in the accompanying prospectus. You should read both this prospectus supplement and the accompanying prospectus, as well as the additional materials described under the caption Where you can find more information and incorporation by reference in the accompanying prospectus, before investing in our common stock.

This prospectus supplement contains registered trademarks that are the exclusive property of their respective owners, which are companies other than us, including Fairmont®, Four Seasons®, Hyatt®, InterContinental®, Loews®, Marriott®, Ritz-Carlton® and Westin®. None of the owners of these trademarks, their affiliates or any of their respective officers, directors, agents or employees is an issuer or underwriter of the securities being offered hereby. In addition, none of the owners of these trademarks, their affiliates or any of their respective officers, directors, agents or employees has or will have any liability arising out of or related to the sale or offer of the securities being offered hereby, including any liability or responsibility for any financial statements, projections or other financial information or other information contained in this prospectus supplement or otherwise disseminated in connection with the offer or sale of the securities offered hereby.

You should rely only on the information incorporated by reference or provided in this prospectus supplement and the accompanying prospectus or any free writing prospectus prepared by or on behalf of us. Neither we nor the underwriters have authorized anyone to provide you with additional or different information. If anyone provided you with additional or different information, you should not rely on it. Neither we nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. This summary is not intended to be a complete description of the matters covered in this prospectus supplement, the accompanying prospectus and the information incorporated by reference. You should read this prospectus supplement, the accompanying prospectus, any free writing prospectus and the documents incorporated by reference herein and therein carefully, especially the risks of investing in our common stock discussed in Risk factors below, before investing in our common stock.

Strategic Hotels & Resorts, Inc.

Our business

We are an owner and asset manager of high-end hotels and resorts. We own a quality portfolio of upper upscale and luxury hotels and resorts in desirable North American and European locations. The terms upper upscale and luxury are classifications of hotels by brand that are defined by Smith Travel Research, an independent provider of lodging industry statistical data. We own hotels with complex operations, sophisticated customers and multiple revenue streams. Our properties are diverse and include large convention hotels, business hotels and resorts, which are operated by internationally known hotel management companies under long-term management contracts or operating leases. Our existing hotels are operated under the widely-recognized upper upscale and luxury brands of Fairmont®, Four Seasons®, Hyatt®, InterContinental®, Loews®, Marriott®, Ritz-Carlton® and Westin®. The Hotel del Coronado is operated by a specialty management company, KSL Resorts. We seek to maximize asset values and operating results through asset management. Although we have no imperative to grow, we will opportunistically seek to acquire additional properties that meet our disciplined investment criteria.

We operate as a self-administered and self-managed real estate investment trust, or REIT, managed by our board of directors and executive officers and conduct our operations through our direct and indirect subsidiaries including SH Funding, our operating partnership. We are the managing member of SH Funding and hold approximately 99% of its membership units as of April 17, 2012. We own our properties through our investment in SH Funding and manage all business aspects of SH Funding, including the sale and purchase of hotels, the investment in these hotels and the financing of our operating partnership and its assets.

As of April 17, 2012, we:

- wholly own or lease 14 hotels, have a 53.5% interest in an affiliate that owns a hotel where we asset manage such hotel, and have 50.0% and 34.3% interests in, and act as asset manager for, two unconsolidated affiliates that each own one hotel;
- own land held for development including:
  - 20.5 acres of oceanfront land adjacent to our Four Seasons Punta Mita Resort, Nayarit, Mexico and 60.0 acres of oceanfront land near the Four Seasons Punta Mita Resort;
  - a 20,000 square-foot parcel of land on the ocean in Santa Monica, California adjacent to our Loews Santa Monica Beach Hotel entitled for development and residential units;

- a 50% interest in an unconsolidated affiliate that owns 10.0 acres of land adjacent to the Fairmont Scottsdale Princess hotel; and

- a 31% interest in an unconsolidated affiliate with two unaffiliated parties that is developing the fractional ownership program known as the Four Seasons Residence Club Punta Mita.

We were incorporated in Maryland in January 2004 and completed our initial public offering in June 2004. Our principal executive office is located at 200 West Madison Street, Suite 1700, Chicago, Illinois 60606 and our telephone number is (312) 658-5000. We operate under the name Strategic Hotels & Resorts and maintain an Internet site at http://www.strategichotels.com which contains information concerning us and our subsidiaries. Information included or referred to on, or otherwise accessible through, our website is not incorporated by reference or otherwise a part of this prospectus supplement.

Business Strategy

We are a preeminent owner of upper upscale and luxury branded hotels located primarily in North America with select international hotels. Our strategy involves the acquisition of hotels with strong underlying real estate values, adding value through the application of our management s superior asset management skills, identifying redevelopment opportunities to enhance cash flow and value, and opportunistic dispositions of hotels upon completion of our value enhancement and cash flow generating strategies.

Acquisition Strategy

One of our core competencies is a diligent approach to acquisitions that includes continuous research-based selection of target markets and individual properties. We target upper upscale and luxury hotels in select urban and resort markets, including major business centers and leisure destinations, with strong growth characteristics and high barriers to entry. We believe that the upper upscale and luxury hotel sector is an extremely attractive sector for long-term investment, especially considering the supply constraints characteristic of that sector.

Asset Management Strategy

We believe that we can enhance our cash flow and earnings growth through expert asset management, which we expect will ultimately generate increased operating margins and higher investment returns. Our value-added asset management strategy has the following general components:

- Working in partnership with the hotel management companies that operate our hotels, we build an asset management approach to enhance the cash flow and value of our properties. We have multi-property relationships with a select group of hotel management companies that in our opinion have strong brand recognition, superior marketing capabilities, management depth and an ability to work with our team to create efficient operations. We improve hotel operating performance through the application of value-added programs involving consumer and market research, competitive benchmarking, technology upgrades and systems development and upgrades.

- We provide rigorous oversight of our properties and the hotel management companies that operate them to ensure the alignment of the hotel management companies and our interests and to monitor the hotel management companies and our compliance with the management contracts relating to our properties. Typically, this oversight allows us to maximize operating margins and enhance property values.

Redevelopment Strategy

A major component of our value creation strategy is to create incremental sources of income from our properties through thoughtfully executed and consumer market research based redevelopment.

Our current portfolio now includes capital investments, which give us a competitive portfolio in excellent physical condition that management believes can provide relative outperformance during the current recovery cycle. We have planned a variety of property investment programs with the goal of enhancing the cash flow growth of our portfolio through the careful execution of these plans.

Disposition Strategy

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

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

We continually undertake a comprehensive review of our assets against sources of capital in the marketplace with the objective of seeking strategies to sell assets in order to supplement our liquidity position.

Table of Contents

Summary of Hotel Properties

Set forth below is a summary of certain information related to our hotel properties as of April 17, 2012:

Hotel	Location	Number of rooms	Property interest	Date acquired
Westin St. Francis (*)	San Francisco, CA	1,195	Fee simple	6/2006
InterContinental Chicago (*)	Chicago, IL	792	Fee simple	4/2005
Hotel del Coronado (1)	Coronado, CA	757	Fee simple	1/2006
Fairmont Chicago (*)	Chicago, IL	687	Fee simple	9/2005
Fairmont Scottsdale Princess (2)	Scottsdale, AZ	649	Fee simple	9/2006
InterContinental Miami (*)	Miami, FL	641	Fee simple	4/2005
Hyatt Regency La Jolla (3) (*)	La Jolla, CA	419	Fee simple	7/1999
Ritz-Carlton Laguna Niguel (*)	Dana Point, CA	396	Fee simple	7/2006
Marriot Lincolnshire Resort (*)	Lincolnshire, IL	389	Ground lease	9/1997
Loews Santa Monica Beach Hotel (*)	Santa Monica, CA	342	Fee simple	3/1998
Marriot Hamburg (4)	Hamburg, Germany	278	Leasehold	6/2000
Ritz-Carlton Half Moon Bay (*)	Half Moon Bay, CA	261	Fee simple	8/2004
Marriot London Grosvenor Square (*)	London, England	237	Ground lease	8/2006
Four Seasons Washington, D.C. (*)	Washington, D.C.	222	Fee simple	3/2006
Four Seasons Silicon Valley	East Palo Alto, CA	200	Fee simple	3/2011
Four Seasons Punta Mita Resort (*)	Punta Mita, Mexico	173	Fee simple	2/2001
Four Seasons Jackson Hole	Teton Village, WY	124	Fee simple	3/2011
Total number of rooms:		7,762		

(1) We indirectly have a 34.3% interest in the unconsolidated affiliate that owns this property, which is subject to a mortgage. See Part II. Item 8. Financial Statements and Supplementary Data 6. Investment in Unconsolidated Affiliates in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission, or SEC, on February 23, 2012.

(2) We indirectly have a 50.0% interest in the unconsolidated affiliate that owns this property, which is subject to a mortgage. The unconsolidated affiliate has a ground lease interest in one land parcel at this property. See Part II. Item 8. Financial Statements and Supplementary Data 6. Investment in Unconsolidated Affiliates in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

(3) We own a 53.5% controlling interest in an affiliate that owns this property.

(4) This property was originally acquired on the date indicated in the table but was subsequently sold to a third party and leased back to us in a transaction that is more fully described under Part II. Item 8. Financial Statements and Supplementary Data 8. Operating Lease Agreements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

(*) These properties are subject to mortgages as more fully described under the heading Part II. Item 8. Financial Statements and Supplementary Data 9. Indebtedness in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Recent Developments

Preferred dividends

In the fourth quarter of 2011, our board of directors authorized, and we declared, the payment of accrued and unpaid dividends on our 8.50% Series A Cumulative Redeemable Preferred Stock, 8.25% Series B Cumulative Redeemable Preferred Stock and 8.25% Series C Cumulative Redeemable Preferred Stock, which we collectively refer to herein as our Outstanding Preferred Stock, through September 30, 2011, and dividends for the quarter ended December 31, 2011, which we collectively refer to herein as the Unpaid Dividends, and a sum sufficient for the payment of the Unpaid Dividends has been set apart for payment on our books through the recording of a liability in accordance with the terms of our charter. However, the

Unpaid Dividends are not payable until June 29, 2012, are payable to holders of record as of the close of business on June 15, 2012 and are contingent upon our ability to meet, on the June 29, 2012 Unpaid Dividends payment date, the requirements of the Maryland General Corporation Law, or MGCL, with respect to the payment of dividends, or the Maryland Dividend Requirement. In addition, in February 2012, our board of directors authorized, and we declared, the payment of dividends on our Outstanding Preferred Stock for the quarter ended March 31, 2012, which we refer to herein as the First Quarter 2012 Dividends, payable on June 29, 2012, to holders of record as of the close of business on June 15, 2012, contingent upon our ability to meet the Maryland Dividend Requirement on such payment date. A sum sufficient for the payment of the First Quarter 2012 Dividends has been set apart for payment on our books through the recording of a liability in accordance with the terms of our charter. While we cannot make any guarantees, we currently expect to be able to meet the Maryland Dividend Requirement on the June 29, 2012 Unpaid Dividends and First Quarter 2012 Dividends payment date. The aggregate amount of the Unpaid Dividends and the First Quarter 2012 Dividends is $78.5 million.

Increase in authorized shares of common stock

In connection with this offering, our board of directors has approved an increase in the number of shares of common stock that we are authorized to issue from 250,000,000 to 350,000,000, and our charter will be amended accordingly prior to the closing of the offering.

Table of Contents

THE OFFERING

Issuer	Strategic Hotels & Resorts, Inc.
Common stock offered by us	16,000,000 shares of our common stock. We have also granted the underwriters an option to purchase up to 2,400,000 additional shares of our common stock to cover over-allotments, if any.
Common stock to be outstanding after this offering	201,867,664 shares (204,267,664 shares if the underwriters exercise their over-allotment option in full)
NYSE trading symbol	BEE
Restrictions on ownership	Our charter contains restrictions on the ownership and transfer of our capital stock that are intended to assist us in continuing to qualify as a REIT and complying with certain requirements under the Internal Revenue Code of 1986, as amended, or the Tax Code, applicable to REITs. Specifically, without the approval of our board of directors, no individual may own more than 9.8% of the number or value, whichever is more restrictive, of the outstanding shares of our common stock, no individual may own more than 9.8% in value of our outstanding shares of stock and no person may own shares of our stock that would cause us to be closely held under the Tax Code or otherwise cause us to fail to qualify as a REIT. See Description of our common stock.
Use of proceeds	Assuming a public offering price per share of $6.54 (the last reported sale of our common stock as reported on the NYSE on April 16, 2012), we estimate that the net proceeds from this offering will be approximately $100.1 million ($115.1 million if the underwriters exercise their over-allotment option in full), after deducting underwriting discounts and commissions and our estimated offering expenses. We intend to use the net proceeds from this offering for general corporate purposes, including, without limitation, reducing our borrowings under our secured bank credit facility, funding the payment of the Unpaid Dividends and the First Quarter 2012 Dividends, repaying other debt and funding capital expenditures and working capital. See Use of proceeds.
Transfer agent and registrar	Computershare Shareowner Services LLC
Risk factors	See Risk factors and other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus for a discussion of the factors you should carefully consider before deciding to invest in our common stock.

Table of Contents

The number of shares of our common stock to be outstanding after this offering as shown above is based on 185,867,664 shares outstanding as of April 17, 2012. The number of shares of common stock to be outstanding after this offering does not include as of April 17, 2012:

- 853,461 shares of common stock issuable upon redemption of non-managing member interests in SH Funding if we elect to pay for the redemption with shares of our common stock;
- 669,797 shares of common stock issuable upon the exercise of options granted under our equity incentive plans with a weighted-average exercise price of $20.40;
- 2,404,007 shares of common stock issuable upon the lapsing of restrictions and conversion of outstanding restricted stock units under our equity incentive plans;
- 4,976,200 shares of common stock reserved and available for future issuance under our equity incentive plans; and
- up to 1,856,169 shares of common stock that may be issued in connection with our Value Creation Plan Normal Unit Distributions Deferral Election and Deferral Program, which we refer to herein as the VCP Deferral Program.

Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise by the underwriters of their option to purchase up to 2,400,000 additional shares of our common stock.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table sets forth our summary consolidated financial and operating data as of and for each of the years ended December 31, 2011, 2010 and 2009. The following summary consolidated financial data as of and for each of the years ended December 31, 2011, 2010 and 2009 was derived from our audited historical consolidated financial statements contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

You should read the following table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2011 and our consolidated financial statements and notes thereto included or incorporated by reference herein.

	Years Ended December 31,		
	2011(1)	2010(1)	2009(1)
	(In thousands, except per share data)		
Operating Data:			
Revenue:			
Rooms	$ 410,315	$ 362,559	$ 343,891
Food and beverage	267,194	238,762	216,982
Other hotel operating revenue	80,907	79,981	89,525
Lease revenue	5,422	4,991	4,858
Total revenues	763,838	686,293	655,256
Operating costs and expenses:			
Rooms	114,087	105,142	100,642
Food and beverage	192,028	171,279	160,252
Other departmental expenses	207,664	199,336	193,699
Management fees	24,719	22,911	23,386
Other hotel expenses	53,808	48,781	52,385
Lease expense	4,865	4,566	4,752
Depreciation and amortization	112,062	130,601	130,955
Impairment losses and other charges	-	141,858	99,740
Corporate expenses	39,856	34,692	23,910
Total operating costs and expenses	749,089	859,166	789,721
Operating income (loss)	14,749	(172,873)	(134,465)
Interest expense	(86,447)	(86,285)	(93,929)
Equity in (losses) earnings of unconsolidated affiliates	(9,215)	13,025	1,718
Loss from continuing operations	(106,424)	(265,311)	(231,296)
Income (loss) from discontinued operations, net of tax	101,572	34,511	(15,137)
Net loss	(4,852)	(230,800)	(246,433)
Net loss attr			