

# Extended Stay America Acquisition Is a Sign of ‘Bottom-Up Recovery’

**Extended-Stay Hotels Posted Demand Growth Starting in July 2020**



Blackstone Real Estate Partners and Starwood Capital Group announced on March 15 that they are acquiring Charlotte-based Extended Stay America and its paired-share real estate investment trust ESH Hospitality for \$6 billion. Pictured here is an Extended Stay America property in Ormond Beach, Florida, which opened on March 3. (Extended Stay America)

By [Danielle Hess](#)  
Hotel News Now

March 16, 2021 | 7:56 AM

Blackstone Real Estate Partners and Starwood Capital Group's announcement Monday to acquire Extended Stay America shows the current strength of the extended-stay economy segment, according to Mark Skinner, partner at The Highland Group.

The two companies announced Monday that they are [acquiring Charlotte-based Extended Stay America](#) and its paired-share real estate investment trust ESH Hospitality for \$6 billion in cash, with the transaction expected to close in the second quarter of 2021.

Research from [The Highland Group](#) shows that the economy extended-stay segment is the only segment that's posted monthly gains in revenue per available room since February 2020.

The segment also reported gains in occupancy and average daily rate, which resulted in RevPAR growth of 3.6% in January 2021 compared to January 2020.

"It's been ... a bottom-up recovery because the economy segment of the overall hotel industry has also suffered relatively low revenue loss, but nowhere near as low as economy extended-stay hotels," Skinner said. "And as yet, economy extended-stay hotels are the only segment to have recalled positive RevPAR change."

It's important to keep in mind that the economy extended-stay segment started to show positive demand change year over year in July 2020, "and it continued every month throughout the year," he said.

"It was the only segment of the lodging industry to do that, and every single month, its RevPAR loss was lower than the previous month," he said.

In the past, some have thought the economy extended-stay segment to be more risky than, for example, limited-service hotels, Skinner said, adding that "the truth of the matter is, it is not."

"There are investors out there who are very, very familiar with the product that know that," he said. "2020 has really put that to the forefront."

The segment has shown its resilience in downturns, and "the product lends itself to that," he said.

## A 'Good Fit'

The acquisition is a "good fit" for all parties given Blackstone and Starwood Capital's previous history in the segment, Skinner said, citing Blackstone's 2004 acquisition and 2007 sale of Extended Stay America.

In a note sent out about the deal on Monday, Rich Hightower, managing director at Evercore ISI, acknowledged the "longstanding relationship" Blackstone and Starwood have with ESA.

"Furthermore, as an essentially single-branded hotel company, [ESA] has historically ... been at a scale disadvantage versus several peers, and has been rumored to be 'for sale' for quite some time," he wrote in the note. Blackstone "has an impressive history of acquiring, growing, and eventually exiting hotel investments of all sorts [assets, brands, and/or entire companies], somewhat farther away from the public eye — but even then, we'd say that [ESA] is somewhat unique versus the other public brand companies."

Extended Stay America has focused on a franchising strategy since 2016, which Skinner said he expected Blackstone and Starwood Capital will continue.

He said "getting hotels [through] franchising mainly would be their vehicle" for growing the brand.

## Other Financial Details

Valuation perspectives from Baird Equity Research price the deal at approximately \$93,000 per key, "which is near peak mid-cycle per-key levels reached in mid-2018 when investors were most optimistic regarding a potential M&A transaction," the note states.

Year-end metrics show that Extended Stay America traded at 9.2x adjusted earnings before interest, taxes depreciation and amortization at year-end 2019 versus "9.9x using Friday's closing price versus 10.7x implied by the take-private price," according to Baird.

Extended Stay America filed its merger agreement Tuesday morning, which Baird said has not changed its outlook on the deal.

The agreement states that "the buyers may request the company to pay a special dividend of up to \$1.75/share immediately prior to closing, which will represent a distribution of current and accumulated earnings and profits," according to Baird's note.

Baird's assessment also states that its "understanding is the distribution would likely be paid by the C-corporation and be a qualified dividend for shareholders."