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REAL ESTATE

Blackstone, Starwood Capital Team Up in $6 Billion Purchase of Extended Stay

The two investment firms agreed to evenly split ownership of hotel operator

By Peter Grant and Craig Karmin

Blackstone Group Inc. and Starwood Capital Group have agreed to acquire hotel owner and operator Extended Stay America Inc. for $6 billion, a bet that a rare bright spot for the lodging industry during Covid-19 can shine brighter as the U.S. emerges from the pandemic.

The companies on Monday provided details of the deal, which real-estate executives say is the largest sale in the hotel sector during the Covid-19 period.

Extended Stay is a midprice hotel chain that focuses on lodging for guests interested in staying for weeks or longer, offering kitchen facilities and more space than a typical hotel room. During the pandemic, its rooms and suites attracted essential workers, healthcare professionals and others who needed to travel.

That business helped Extended Stay achieve a 74% occupancy rate last year, Blackstone said. The average occupancy rate across all U.S. hotels was 44%, according to hotel data-tracking firm STR.

Now, as vaccinations roll out, hiring increases and more Americans think about traveling again, Blackstone and Starwood believe a different breed of customer will fill beds in Extended Stay's properties with the economy bouncing back. This group includes construction workers, contractors and professionals such as lawyers and consultants.

"Corporate America is going to be a heavy investor in capital spending and this business is going to benefit from that," said Tyler Henritze, Blackstone's head of acquisitions for the Americas.

The lodging sector has been one of the hardest hit during the pandemic, which caused most tourism, conventions, and business travel to dry up. U.S. hotel occupancy, which was close to 65% just before the pandemic, cratered to 22% in mid-April, according to STR.

While analysts say the hotel industry overall won't return to prepandemic revenue levels for two to three years, the growing prospect of an economic recovery has some investors thinking now is a good time to buy hotels catering to business travelers or luxury guests.

"Resorts are coming back, and a big resort portfolio would be of interest to us," said Starwood Capital Chief Executive Barry Sternlicht. He calls Extended Stay a "bread-and-butter investment—this isn't glamorous."

He said it is a lodging segment that can attract guests across different economic cycles, because there are always people who need an affordable place for an extended period without the commitment of a lease. He cited as examples participants in training programs, people getting divorced and those who are moving but their new homes aren't ready.

The deal for Extended Stay, which will be owned equally by the two firms, marks a truce of sorts after a period last year of jockeying over stakes in the company. Starwood owns nearly 10% of the company's shares, Mr. Sternlicht said, while Blackstone acquired a 4.9% stake before cashing out in June.

Starwood was also a runner-up when Blackstone led a group that bought the chain out of a bankruptcy proceeding in 2010.

This time the two occasional rivals determined it made more sense to team up. "It gives us more [cash] to continue to look at other hospitality opportunities which could present themselves coming out of Covid," Blackstone's Mr. Henritze said.

Extended Stay's share price has more than doubled over the past year. Blackstone's and Starwood's bid represents a 23% premium to the weighted average of what Extended Stay's shares were trading for in the 30 days leading up to the deal concluded over the weekend. A deal for Extended Stay, which is expected to close later this year, still requires shareholder approval.

With this purchase, the two firms would acquire the 567 properties owned by Extended Stay. The company franchises an additional 82. About two- thirds of its hotels are located in the top 25 U.S. metro areas, Blackstone said.

Extended Stay shares jumped Monday after the deal was announced. They closed at $19.21, up 13.4%, and slightly below the $19.50 per share value of the all-cash bid.

When the deal closes, it will mark the third time that Blackstone has owned Extended Stay. It first bought the chain in 2004 and combined it with other lodging portfolios it had been buying.

Both firms have extensive hospitality experience. Mr. Sternlicht created the hotel operator Starwood Hotels & Resorts Worldwide Inc., which is now a part of Marriott International Inc., and other hotel brands. Blackstone's biggest real-estate profit came from its 2007 acquisition of Hilton Worldwide Holdings Inc., which earned the firm more than $14 billion in profit after it took it public and cashed out its final holdings in 2018.

Blackstone shrank its hotel portfolio in the years leading up to the pandemic. Lodging accounted for less than 10% of its portfolio early last year, down from close to 50% in 2010.

Mr. Henritze suggested that the new Extended Stay acquisition was just the beginning of its renewed interest in the lodging industry. "There's a high degree of interest overall in investment in a broad-based travel and leisure recovery and that would include every segment of hospitality," he said.