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THE PROPERTY REPORT

Extended-Stay Sector Thrives

Demand for the hotels soared during the pandemic and shows no signs of easing

By Craig Karmin

Leisure travel flourished after Covid-19 lockdowns eased. Business travel is still depressed. But one type of lodging has filled rooms throughout the pandemic: extended stay hotels.

These properties, which cater to guests staying a week to three months, were popular with first responders, nurses, military and construction workers during the early months of Covid-19. As the pandemic wore on and more Americans began to travel, they attracted vacationing families, project managers and information technology workers.

Now as real-estate investors look beyond the pandemic, demand for extended stay properties shows no sign of fading.

Blackstone Inc. and Starwood Capital Group, two of the largest real-estate investors in the U.S., agreed this month to jointly purchase 111 extended-stay hotels under the Wood-Spring Suites brand for about $1.5 billion. The deal came less than a year after the same two firms bought Extended Stay America Inc. for about $6 billion.

Extended stay hotels appeal to guests because rooms tend to be cheaper than full-service, and even some limited-service, hotels. Rates start at less than $50 a night for a roughly 300-square-foot room, with a kitchenette that usually includes a stovetop and microwave. More-upscale versions, such as Marriott International Inc.'s Residence Inn, can charge closer to $140 a night and offer more-spacious rooms, with higher-end finishes and appliances such as dishwashers.

50%

Profit margin offered by extended-stay hotels

Property owners like extended stay hotels because they offer profit margins of about 50% of revenue, or nearly double the industry as a whole, said Ryan Meliker, president of Lodging Analytics Research & Consulting, a hospitality consulting firm.

"They're like ATMs with a roof," Mr. Meliker said. "They print money."

The hotels enjoy these margins in large part because of limited staff—an even bigger advantage these days with a labor shortage in the lodging industry. Extended stay properties need fewer employees at the check-in desk because of guests' lengthier stays, and housekeeping is usually offered on a weekly rather than daily basis. The hotels offer minimal food service.

"This isn't glamorous," Starwood Capital Chief Executive Barry Sternlicht said about his Extended Stay America deal last year. "It's a bread-and-butter investment."

Jack DeBoer, an entrepreneur in the hospitality business, pioneered the extended stay sector and all-suite hotels starting in the 1970s. Eventually, big hotel operators including Hilton Worldwide Holdings Inc., Hyatt Hotels Corp. and Marriott noticed his success and acquired extended stay brands from Mr. DeBoer or others.

Even in 2020—the worst year in memory for hotel owners, marked by dwindling business, mass layoffs and property closures—extended stay hotels held on.

For the U.S. hotel industry overall, revenue per available room, or revpar, fell about 48% in 2020 compared with the previous year, Mr. Meliker said. But revpar for the extended stay segment declined only about 33%, he added, and revpar for the lowest-cost extended stay hotels dipped less than 6%.

Some extended stay customers are guests because they have few other options. Rooms, at times, are populated with people who have lost their homes. Some are recently divorced or going through other difficult situations and need a temporary place to shelter.

"You see that more at an extended stay hotel than a full service hotel," Mr. Meliker noted.

But the segment continues to expand and move in new directions. Gary DeLapp, the former CEO of Wood-spring Suites and Extended Stay America, is now chief executive at stayAPT Suites, a midprice offering that launched in 2019.

His new brand charges less than $100 a night for accommodation, which he said looks more like a one-bedroom apartment with about 500 square feet, a full-size kitchen and a separate bedroom. He has about 20 properties that are open, under construction or in the planning stage, mostly scattered across the South, from North Carolina to Texas.

"Everybody is looking for that extra space, especially during Covid," he said.

The lodging company AKA Hotels + Hotel Residences offers a more-luxurious take on extended stay, charging $250 to $400 a night for guests who book on average 19 days, said Russell Urban, CEO of Electra America Hospitality Group, a hotel investor that partners with and invests in AKA properties.

AKA hotels feature higher-end design and finishes, and members-only lounges that serve food and cocktails. The rise of remote work has boosted business, Mr. Urban said, as more guests travel with their spouses or families and lengthen their stays.

Rather than checking out on a Sunday, he said, they will "extend their trips to Monday or Tuesday and work remotely."