

Blackstone

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waterhouseCoopers hospitality and leisure practice. "This is another event that causes lodging companies to wonder if they are missing out by not trying to accelerate transactions.

"If companies wait until we have a full year of [revenue per available room] growth or there are five or six transactions already done, then it will be too late," Hanson said. "Now is a good time for companies to develop strategies."

Will Marks, a director who covers ESA for JMP Securities in San Francisco, said the \$60,000-per-key sales price was surprising.

"I'm a little surprised at the price, although I certainly wouldn't have expected [ESA] management to accept a deal at a lower price," Marks said.

Hanson said the Blackstone-ESA deal and the CNL-KSL transaction could trigger more deals.

"Public companies earn their

stock price in part by growth," he said. "At the same time, public equity markets are seeing favorable news about lodging trends and are willing to buy on future income streams."

"What is does for public and private companies is create a value metric," Marks said. "Particularly if you're looking at price per key. If you use that as a metric for other companies, then they are worth more than what they are trading for."

"This deal can only help to make more transactions take place."

Two Blackstone affiliates signed an agreement to purchase Extended Stay America Inc. and its three brands—Extended StayAmerica Efficiency Studios, StudioPLUS Deluxe Studios and Crossland Economy Studios. The brands represent 50,700 guestrooms. The hotels won't be rebranded.

"We have a very consistent brand with a national footprint that provides great value to the customer," Oakes said. "We have a talented management team and systems in place to support the

Analysts' views

Several analysts issued their opinions of the Blackstone's proposed acquisition of ESA:

■ **Marc Falcone**, Deutsche Bank Securities: "The private market appetite for lodging investment remains high. This transaction shows that private money is clearly willing to step up when the public markets don't reflect perceived net-asset values."

■ **Michael Rietbrock**, Citigroup Smith Barney said the deal has positive implications for the lodging industry for two main reasons: the fact

that a sophisticated, long-term investor is willing to pay a significant premium to market valuation and to look through high current valuations will ease investor concerns that lodging stocks are ahead of themselves; and the deal might set off a small wave of acquisition speculation.

■ **Keith Mills**, UBS said: "The ESA acquisition will be positive for lodging-company valuations, as The Blackstone Group is paying premium to the peak valuations that most lodging companies are trading at."

properties."

The two purchasing funds—Blackstone Capital Partners IV and Blackstone Real Estate Partners IV—will provide \$680 million in equity financing. Bank of America and Bear Stearns Commercial Mortgage have committed to provide \$2.66 billion of financing. The total financing package for the deal is \$3.34 billion, according to the agreement and plan of merger document issued by Extended Stay America Inc.

Blackstone officials declined to comment.

The purchase price of \$19.625 per share represents a 24-percent premium over the \$15.81 price of the stock at the close of business March 5—the day the deal was announced.

H. Wayne Huizenga and George Johnson own almost 20 percent of ESA's stock.

As of year-end 2003, the top institutional holders of ESA stock included Capital Research and Management Co. (7.39 million shares), Fidelity Management & Research Corp. (5.81 million shares) and Cascade Investment LLC (5.19 million shares). Top mutual fund holders included Smallcap World Fund (6.19 million shares), Fidelity Magellan Fund (5.86 million shares) and Baron Growth Fund (2 million shares).

Blackstone is a \$14-billion private equity firm. In November 2001, it purchased Homestead Village, which later changed its name to Homestead Studio Suites Hotels, from Security Capital Group for \$740 million.

Blackstone has 132 properties in the Homestead portfolio, and Homestead will take over the management duties of the ESA brands once the deal is completed. Extended Stay America's headquarters will remain in Spartanburg. ESA will cease to be a publicly traded company and will be the surviving corporation under the Blackstone Group's umbrella.

"We're going to work very close to make it a successful, timely integration," Oakes said.

"Obviously, there is some fat that could be trimmed off by Blackstone," said Mark Skinner, partner with The Highland

Group, an Atlanta-based consulting firm.

On the operations side, duplicate job functions could be eliminated. On the real-estate side, underperforming properties or sites that have been purchased for future development could be sold, Skinner said.

Once the deal is complete, Blackstone will control about 68 percent of the midprice extended-stay segment's 92,000 guestrooms, Skinner said.

"There's no doubt that there's going to be some competition between the two main brands [Homestead and ESA]," he said. "But there is some brand differentiation based on the distribution of the brands, and that will open up new opportunities down the road."

For example, the ESA brand has a heavy concentration of properties in Southern California and Chicago, where Homestead is under-represented, Skinner said.

Oakes said the transaction process began in January when Blackstone officials made the initial contact.

"We were in the middle of some refinancing," he said. "On the eve of that, they contacted us. It was completely out of the blue."

Oakes and Jim Ovenden, ESA's c.f.o., said the deal shows how important the extended-stay model is in the hotel industry.

"The [extended-stay] sector didn't need anyone to validate it—that's already been done," Oakes said. "[The Blackstone-ESA deal] shows confidence in the sector."

"It validates the cash flow of the sector," Ovenden said.

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Hanson
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The breakdown

Extended Stay America Inc. signed a definitive agreement on March 5 to be acquired by two affiliates of The Blackstone Group for \$19.625 per share. The deal is expected to close by the end of the second quarter.

ESA owns and operates 475 extended-stay hotels under three brands:

Extended StayAmerica	341 properties	38,000 guestrooms
StudioPLUS	95 properties	7,600 guestrooms
Crossland	39 properties	5,100 guestrooms

Source: Extended Stay America