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Starwood Looking to Buy Bankrupt Extended Stay

Starwood Capital Group is hoping to ink the deal to buy the Extended Stay Inc. chain of hotels currently under Chapter 11 bankruptcy soon. Starwood has been arranging for its financing with Goldman Sachs Group Inc. and the two sides are close to terms on its $2.2 billion financing. About $1 billion of the money would come from Goldman's partner, Citigroup Inc. If the deal goes through, it would be the largest mortgage-debt financing on a real estate venture since the height of the credit crisis 2 years ago. It also indicates that big banks like Goldman Sachs are starting to resume business in commercial real estate financing just as the property market struggles to find its feet after its worst recession in decades.

There are presently two competing sides interested in buying the 680 room Extended Stay hotel chain, the other being Centerbridge Partners LP. Centerbridge Partners has joined forces with Paulson & Co. and Blackstone LP and together have also been arranging their own financing to purchase Extended Stay.

The bankruptcy judge presiding over Extended Stay's Chapter 11 case has set May 17 as the deadline for all prospective buyers to submit their proposals to acquire the hotel chain. A public auction has been scheduled for May 27 when more prospective buyers are expected to enter the fray.

Such acquisitions like Extended Stay's is now becoming more common as investors dig into their financial reserves to buy up commercial properties whose prices have begun to stabilize after bottoming out at about 40% off its peak in August 2007. Goldman Sach's financing for Extended Stay is a major indication that other well-capitalized banks will follow suit into financing the loan-sale market or commercial-mortgage backed securities (CMBS).

Extended Stay Inc. filed for bankruptcy protection in June last year with debts of $7.4 billion, largely arising from the $8 billion loan that owner David Lichtenstein used to purchase the hotel chain in 2008. The budget hotel chain has raised the interest of many investors looking for a bargain buy since its bankruptcy. Such interest has been heightened since the US hotel market began to stabilize as the economy recovers.

Both the Starwood and the Centerbridge groups are likely to say that each can provide better value to Extended Stay. Bankruptcy experts say that the bidding war is good for Extended Stay's creditors, among whom are the Federal Reserve Bank, who inherited $900 million Extended Stay debts through a fund called Maiden Lane, a result of the collapse of Bear Stearns in 2008.

Extended Stay will ultimately choose the winning bidder subject to the approval from the bankruptcy court.