Hotel chain files for bankruptcy

Extended Stay based in Lakewood

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Extended Stay Inc., the hotel chain owned by Lakewood-based The Lightstone Group, filed for bankruptcy protection Monday after it concluded it didn't have enough money to pay its lenders and stay afloat.

The filing could give breathing room both to The Lightstone Group and the company's owner, David Lichtenstein, who might have personally guaranteed many of the loans.

Extended Stay, based in Spartanburg, S.C., is the biggest owner of long-term hotels with 680 properties, including one in Middletown. It was bought by The Lightstone Group in 2007 for $8 billion — $1 billion in cash and $7 billion in debt.

The company, however, has struggled during the recession. The company's revenue per available room for the first five months of the year was down 23.2 percent from the same time last year, bankruptcy documents said.

Extended Stay filed for Chapter 11 bankruptcy in U.S. Bankruptcy Court in New York. It reported $7.1 billion in assets and $7.6 billion in liabilities.

Chapter 11 means the company will continue to operate while it restructures. Extended Stay said its secured lenders have agreed to a plan to restructure its debt.

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And the company doesn't plan to close or sell any of its hotels, said Gary DeLapp, president and chief executive of HVM LLC, which manages Extended Stay.

Lichtenstein lives in New York, but he started his career in Lakewood, where he established the Lightstone Group's headquarters. When he announced a deal to buy Extended Stay from private-equity firm the Blackstone Group, he made a splash; it was one of the most expensive noncasino hotel acquisitions in history.

The company financed the deal with $4.1 billion in debt that was secured by the hotel properties and other real estate, and $3.3 billion in debt that was unsecured, according to a report by Fitch Ratings.

It planned to pay it off by attracting more customers to its concept. It rebranded its hotels, offered a fully equipped kitchen and laundry facilities and kept expenses lower than other hotels by eliminating room service and daily maid service, the filing said.

Analysts said the company has been hit hard by the economy. Occupancy rates for extended-stay hotels were 61.2 percent during the first four months of the year, down 10.2 percent from the same time last year, according to Smith Travel Research, a Hendersonville, Tenn.-based consulting company.

Adding to the problem: The extended-stay hotel industry has expanded recently, leaving the company with more competition. "The number of rooms that have been added has in many ways contributed to the (health

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— Donald Campbe a bankruptcy attorn with Giordano, Hallera & Ciesla, Middletou

president for Smit Travel Research.

Lichtenstein didn't r turn an e-mail requestin comment. But the filin shows that he is bracin for legal fights, appa ently over claims h made personal guarar tees both to secured an unsecured lenders.

The filing asks th bankruptcy judge esser tially to extend bank ruptcy protection fron Extended Stay to Lichter stein himself, arguing h is vital to the company' restructuring and can' be distracted by persona litigation, said Donal Campbell, a bankruptc attorney with Giordano Halleran & Ciesla, a Mid dletown firm that isn't in volved with the case.

Without that protec tion, the filing calls fo Extended Stay to provid Lichtenstein up to $5 mil lion to defend himsel against litigation.

"It's not so much tha (debtors) borrowed toc much. It's that the marke is correcting itself anc the the valuation of assets is decreasing," Campbell said. "Banks loaned money based on overvaluation two years ago, and the market is correcting itself.

"If (lenders) try to force a liquidation, they're not going to be made whole," he said. "They're now adjusting their loans and hopefully trying to work with their borrowers."

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