UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2021
Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 001-36190	**Commission File Number: 001-36191**
Extended Stay America, Inc.	**ESH Hospitality, Inc.**
(Exact name of registrant as specified in its charter)	**(Exact name of registrant as specified in its charter)**
Delaware	**Delaware**
(State or other jurisdiction of incorporation or organization)	**(State or other jurisdiction of incorporation or organization)**
46-3140312	**27-3559821**
(I.R.S. Employer Identification No.)	**(I.R.S. Employer Identification No.)**
11525 N. Community House Road, Suite 100 **Charlotte** **North Carolina** **28277**	**11525 N. Community House Road, Suite 100** **Charlotte** **North Carolina** **28277**
(Address of principal executive offices, zip code)	**(Address of principal executive offices, zip code)**
(980) 345-1600	**(980) 345-1600**
(Registrant's telephone number, including area code)	**(Registrant's telephone number, including area code)**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share, of Extended Stay America, Inc. and Class B Common Stock, par value $0.01 per share, of ESH Hospitality, Inc., which are attached and trade together as Paired Shares	STAY	Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Extended Stay America, Inc.	Yes	☒	No	☐
ESH Hospitality, Inc.	Yes	☒	No	☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Extended Stay America, Inc.	Yes	☒	No	☐
ESH Hospitality, Inc.	Yes	☒	No	☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Extended Stay America, Inc.	Large Accelerated Filer	☒	Accelerated filer	☐
	Non-accelerated filer	☐	Smaller reporting company	☐
	Emerging growth company	☐		
ESH Hospitality, Inc.	Large Accelerated Filer	☒	Accelerated filer	☐
	Non-accelerated filer	☐	Smaller reporting company	☐
	Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Extended Stay America, Inc.	Yes	☐	No	☒
ESH Hospitality, Inc.	Yes	☐	No	☒

177,730,773 shares of common stock, par value $0.01 per share, of Extended Stay America, Inc., which are attached to and traded together with 177,730,773 shares of Class B common stock, par value $0.01 per share, of ESH Hospitality, Inc., and 250,493,583 shares of Class A common stock, par value $0.01 per share, of ESH Hospitality, Inc., were all outstanding as of May 6, 2021.

EXTENDED STAY AMERICA, INC.

ESH HOSPITALITY, INC.

QUARTERLY REPORT ON FORM 10-Q

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ABOUT THIS COMBINED QUARTERLY REPORT

This combined quarterly report on Form 10-Q is filed by Extended Stay America, Inc., a Delaware corporation (the “Corporation”), and its controlled subsidiary, ESH Hospitality, Inc., a Delaware corporation (“ESH REIT”). Both the Corporation and ESH REIT have securities that have been registered under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are publicly traded and listed on The Nasdaq Global Select Market (“Nasdaq”) as Paired Shares, as defined herein. As further discussed herein, unless otherwise indicated or the context requires, the terms “Company,” “Extended Stay,” “Extended Stay America,” “we,” “our” and “us” refer to the Corporation, ESH REIT and their subsidiaries considered as a single enterprise.

As required by Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, *Consolidation*, due to the Corporation’s controlling financial interest in ESH REIT, the Corporation consolidates ESH REIT’s financial position, results of operations, comprehensive income and cash flows with those of the Corporation. The Corporation’s stand-alone financial condition and related information is discussed herein where applicable. In addition, with respect to other financial and non-financial disclosure items required by Form 10-Q, any material differences between the Corporation and ESH REIT are discussed herein.

This combined quarterly report on Form 10-Q presents the following sections or portions of sections separately for each of the Company, on a consolidated basis, and ESH REIT, where applicable:

- Part I Item 1 – Unaudited Financial Statements
- Part I Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations
- Part I Item 3 – Quantitative and Qualitative Disclosures About Market Risk
- Part I Item 4 – Controls and Procedures

This combined quarterly report also includes separate Exhibit 31 and 32 certifications for each of Extended Stay America, Inc. and ESH Hospitality, Inc. in order to establish that the Chief Executive Officer and the Chief Financial Officer of each registrant has made the requisite certifications and that Extended Stay America, Inc. and ESH Hospitality, Inc. are compliant with Rule 13a-15 or Rule 15d-15 of the Exchange Act and 18 U.S.C. §1350.

We believe combining the quarterly reports on Form 10-Q of the Corporation and ESH REIT into this single report results in the following benefits:

- Enhances investors’ understanding of the Corporation and ESH REIT by enabling investors, whose ownership of Paired Shares, as defined herein, gives them an ownership interest in our hotel properties through ESH REIT and in the operation, management, development and franchising of hotels and other aspects of our business through the Corporation, to view the business as a whole;
- Eliminates duplicative and potentially confusing disclosure and provides a more streamlined presentation, since a substantial amount of our disclosure applies to both registrants; and
- Creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

ADDITIONAL INFORMATION AND WHERE TO FIND IT

This quarterly report on Form 10-Q may be deemed to be solicitation material in respect of the proposed acquisition of the Company by a joint venture of Blackstone Real Estate Partners IX L.P. and Starwood Distressed Opportunity Fund XII Global, L.P. In connection with the proposed transaction, the Company filed with the United States Securities and Exchange Commission (“SEC”) on April 26, 2021, a definitive joint proxy statement, accompanying WHITE proxy cards and other relevant documents. SHAREHOLDERS OF THE COMPANY ARE ADVISED TO READ THE DEFINITIVE JOINT PROXY STATEMENT (INCLUDING ALL AMENDMENTS AND SUPPLEMENTS THERETO) BECAUSE IT CONTAINS OR WILL CONTAIN IMPORTANT INFORMATION. Investors may obtain a free copy of the definitive joint proxy statement and other relevant documents filed by the Company with the SEC at the SEC’s website at http://www.sec.gov. The definitive joint proxy statement, the WHITE proxy cards accompanying the definitive joint proxy statement and such other documents filed with the SEC may also be obtained for free from the Investor Relations section of the Company’s website (https://www.aboutstay.com/investor-relations) or by directing a request to the Company at ir@esa.com.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This combined quarterly report on Form 10-Q contains “forward-looking statements” within the meaning of the federal securities laws. All statements other than statements of historical facts included in this combined quarterly report on Form 10-Q may be forward-looking, including statements regarding, among other things, our ability to meet our debt service obligations, future capital expenditures (including future acquisitions and hotel renovation programs), our distribution policies, our development, growth and franchise opportunities, anticipated benefits or use of proceeds from dispositions, our plans, objectives, goals, beliefs, business strategies, business conditions, results of operations, financial position and business outlook, business trends and future events, including the COVID-19 pandemic, its effects on the foregoing, government actions taken in response to the COVID-19 pandemic and actions that we have or plan to take in response to the pandemic and such effects.

When used in this combined quarterly report on Form 10-Q, the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “will,” “look forward to” and variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not historical facts, and are based upon our current expectations, beliefs, estimates and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond our control. Our expectations, beliefs, estimates and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management’s expectations, beliefs, estimates and projections will be achieved and actual results may differ materially from what is expressed in or indicated by the forward-looking statements.

As disclosed in our combined annual report on Form 10-K filed with the SEC on February 25, 2021 (the “2020 Form 10-K”) and in other filings with the SEC, including this combined quarterly report on Form 10-Q, there are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this combined quarterly report on Form 10-Q. You should evaluate all forward-looking statements made in this combined quarterly report on Form 10-Q in the context of these risks and uncertainties, and you are cautioned not to place undue reliance on such forward looking statements.

We caution you that the risks, uncertainties and other factors referenced above and throughout this combined quarterly report on Form 10-Q may not contain all of the risks, uncertainties and other factors that may be important to you. In addition, we cannot assure you that we will realize the results, benefits or developments that we expect or anticipate or, even if substantially realized, that they will have the results or effect on us, our business, our operations or the market price of our Paired Shares in the way expected. In particular, no assurance can be given that any of our ongoing, planned or expected strategic initiatives or objectives discussed herein or in other filings with the SEC will be initiated or completed on our expected timing or at all. Estimates and forward-looking statements speak only as of the date they were made and we undertake no obligation to publicly update or revise any forward-looking statements to reflect subsequent events or circumstances, except as required by law.

PART I — FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2021 AND DECEMBER 31, 2020
(In thousands, except share and per share data)
(Unaudited)

	March 31, 2021	December 31, 2020
ASSETS		
PROPERTY AND EQUIPMENT - Net of accumulated depreciation of $1,571,171 and $1,541,986	$ 3,414,487	$ 3,445,955
RESTRICTED CASH	13,152	13,151
CASH AND CASH EQUIVALENTS	357,857	396,770
INTANGIBLE ASSETS - Net of accumulated amortization of $16,412 and $15,715	35,014	34,093
GOODWILL	44,921	45,055
ACCOUNTS RECEIVABLE - Net of allowance for credit losses of $8,668 and $7,963	14,032	13,709
OTHER ASSETS	140,885	140,416
TOTAL ASSETS	$ 4,020,348	$ 4,089,149
LIABILITIES AND EQUITY		
LIABILITIES:		
Term loan facility payable - Net of unamortized deferred financing costs and debt discount of $8,946 and $9,355	$ 612,499	$ 613,667
Senior notes payable - Net of unamortized deferred financing costs and debt discount of $28,335 and $29,810	2,021,665	2,020,190
Revolving credit facility	9,765	49,765
Finance lease liabilities	3,611	3,668
Deferred tax liabilities	8,835	11,218
Accounts payable and accrued liabilities	229,318	253,198
Total liabilities	2,885,693	2,951,706
COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY:		
Common stock - $0.01 par value, 3,500,000,000 shares authorized, 177,730,773 and 177,560,635 shares issued and outstanding	1,778	1,776
Additional paid in capital	726,070	725,865
Accumulated deficit	(42,729)	(44,664)
Accumulated other comprehensive loss	(95)	(206)
Total Extended Stay America, Inc. shareholders' equity	685,024	682,771
Noncontrolling interests	449,631	454,672
Total equity	1,134,655	1,137,443
TOTAL LIABILITIES AND EQUITY	$ 4,020,348	$ 4,089,149

See accompanying notes to condensed consolidated financial statements.

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
REVENUES:		
Room revenues	$ 249,868	$ 254,464
Other hotel revenues	6,680	6,768
Franchise and management fees	1,218	1,279
	257,766	262,511
Other revenues from franchised and managed properties	1,805	3,790
Total revenues	259,571	266,301
OPERATING EXPENSES:		
Hotel operating expenses	146,338	145,295
General and administrative expenses	24,124	23,938
Depreciation and amortization	49,408	50,520
Merger transaction expenses	4,782	—
	224,652	219,753
Other expenses from franchised and managed properties	2,444	4,207
Total operating expenses	227,096	223,960
GAIN ON SALE OF HOTEL PROPERTIES (Note 4)	12,018	—
OTHER INCOME	1	2
INCOME FROM OPERATIONS	44,494	42,343
OTHER NON-OPERATING (INCOME) EXPENSE	(84)	703
INTEREST EXPENSE, NET	31,462	32,685
INCOME BEFORE INCOME TAX EXPENSE	13,116	8,955
INCOME TAX EXPENSE	750	1,110
NET INCOME	12,366	7,845
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(10,445)	(3,291)
NET INCOME ATTRIBUTABLE TO EXTENDED STAY AMERICA, INC. COMMON SHAREHOLDERS	$ 1,921	$ 4,554
NET INCOME PER EXTENDED STAY AMERICA, INC. COMMON SHARE:		
Basic	$ 0.01	$ 0.03
Diluted	$ 0.01	$ 0.03
WEIGHTED-AVERAGE EXTENDED STAY AMERICA, INC. COMMON SHARES OUTSTANDING:		
Basic	177,827	177,990
Diluted	178,549	178,171

See accompanying notes to condensed consolidated financial statements.

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
NET INCOME	$ 12,366	$ 7,845
OTHER COMPREHENSIVE INCOME:		
INTEREST RATE CASH FLOW HEDGE GAIN (LOSS), NET OF TAX OF $40 and $(307)	218	(1,747)
COMPREHENSIVE INCOME	12,584	6,098
COMPREHENSIVE INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(10,552)	(2,439)
COMPREHENSIVE INCOME ATTRIBUTABLE TO EXTENDED STAY AMERICA, INC. COMMON SHAREHOLDERS	$ 2,032	$ 3,659

See accompanying notes to condensed consolidated financial statements.

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(In thousands, except per share data)
(Unaudited)

	Common Stock						
	Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Extended Stay America, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
BALANCE - January 1, 2020	179,483	$ 1,795	$ 742,397	$ (48,283)	$ 383	$ 696,292	$ 479,978	$ 1,176,270
Net Income	—	—	—	4,554	—	4,554	3,291	7,845
Interest rate cash flow hedge loss, net of tax	—	—	—	—	(895)	(895)	(852)	(1,747)
Repurchase of Corporation common stock and ESH REIT Class B common stock (Paired Shares)	(2,237)	(22)	—	(19,665)	—	(19,687)	(11,406)	(31,093)
Corporation common distributions - $0.09 per common share	—	—	(15,981)	—	—	(15,981)	—	(15,981)
ESH REIT common distributions - $0.14 per Class B common share	—	—	—	—	—	—	(24,842)	(24,842)
ESH REIT preferred distributions	—	—	—	—	—	—	(4)	(4)
Adjustment to reflect changes in book value of noncontrolling interests	—	—	(3,319)	—	—	(3,319)	3,319	—
Equity-based compensation	220	2	188	—	—	190	246	436
BALANCE - March 31, 2020	177,466	$ 1,775	$ 723,285	$ (63,394)	$ (512)	$ 661,154	$ 449,730	$ 1,110,884

	Common Stock							
	Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Extended Stay America, Inc. Shareholders' Equity	Noncontrolling Interests	Total Equity
BALANCE - January 1, 2021	177,561	$ 1,776	$ 725,865	$ (44,664)	$ (206)	$ 682,771	$ 454,672	$ 1,137,443
Net income	—	—	—	1,921	—	1,921	10,445	12,366
Interest rate cash flow hedge gain, net of tax	—	—	—	—	111	111	107	218
ESH REIT common distributions - $0.09 per Class B common share	—	—	—	—	—	—	(16,092)	(16,092)
ESH REIT preferred distributions	—	—	—	—	—	—	(4)	(4)
Adjustment to reflect changes in book value of noncontrolling interests	—	—	(330)	—	—	(330)	330	—
Equity-based compensation	170	2	535	14	—	551	173	724
BALANCE - March 31, 2021	177,731	$ 1,778	$ 726,070	$ (42,729)	$ (95)	$ 685,024	$ 449,631	$ 1,134,655

See accompanying notes to condensed consolidated financial statements.

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
OPERATING ACTIVITIES:		
Net income	$ 12,366	$ 7,845
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,408	50,520
Foreign currency transaction (gain) loss	(84)	703
Amortization of deferred financing costs and debt discount	2,058	2,052
Loss on disposal of property and equipment	1,232	3,343
Gain on sale of hotel properties	(12,018)	—
Equity-based compensation	2,348	1,126
Deferred income tax benefit	(2,423)	(3,122)
Changes in assets and liabilities:		
Accounts receivable, net	(323)	(1,407)
Other assets	57	1,760
Accounts payable and accrued liabilities	38,725	29,465
Net cash provided by operating activities	91,346	92,285
INVESTING ACTIVITIES:		
Purchases of property and equipment	(22,549)	(34,452)
Development in process payments	(6,246)	(19,769)
Payment for intangible assets	(1,641)	(358)
Proceeds from sale of hotel properties	21,867	—
Proceeds from insurance and related recoveries	56	956
Net cash used in investing activities	(8,513)	(53,623)
FINANCING ACTIVITIES:		
Principal payments on term loan facility	(1,577)	(1,577)
Proceeds from revolving credit facilities	—	399,765
Payments on revolving credit facilities	(40,000)	—
Payments of deferred financing costs	—	(17)
Principal payments on finance leases	(38)	(37)
Tax withholdings related to restricted stock unit settlements	(1,638)	(815)
Repurchase of Corporation common stock and ESH REIT Class B common stock (Paired Shares)	—	(31,093)
Corporation common distributions	(91)	(16,177)
ESH REIT common distributions	(78,401)	(25,222)
Net cash (used in) provided by financing activities	(121,745)	324,827
CHANGES IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH DUE TO CHANGES IN FOREIGN CURRENCY EXCHANGE RATES	—	(150)
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(38,912)	363,339
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - Beginning of period	409,921	361,670
CASH, CASH EQUIVALENTS AND RESTRICTED CASH - End of period	$ 371,009	$ 725,009

EXTENDED STAY AMERICA, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020 (CONTINUED)
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for interest, excluding prepayment and other penalties, net of capitalized interest of $430 and $859	$ 3,611	$ 5,455
Cash payments (refunds) for income taxes, net of refunds of $152 and $18	$ 359	$ (18)
Operating cash payments for finance leases	$ 56	$ 59
Operating cash payments for operating leases	$ 735	$ 714
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital expenditures included in accounts payable and accrued liabilities	$ 13,239	$ 22,400
Additions to finance lease right-of-use assets and liabilities	$ —	$ 364
Corporation common distributions included in accounts payable and accrued liabilities	$ 107	$ 238
ESH REIT common distributions included in accounts payable and accrued liabilities	$ 725	$ 387

See accompanying notes to condensed consolidated financial statements.

1. BUSINESS, ORGANIZATION AND BASIS OF CONSOLIDATION

Extended Stay America, Inc. (the "Corporation") was incorporated in the state of Delaware on July 8, 2013. ESH Hospitality, Inc. ("ESH REIT") was formed as a limited liability company in the state of Delaware on September 16, 2010 and was converted to a corporation on November 5, 2013. The Corporation owns all of the issued and outstanding Class A common stock of ESH REIT, which, as of March 31, 2021, represents 58% of the outstanding common stock of ESH REIT. Due to its controlling interest in ESH REIT, the Corporation consolidates the financial position, results of operations, comprehensive income and cash flows of ESH REIT. The term, "the Company," as used herein refers to the Corporation and its consolidated subsidiaries, including ESH REIT.

A "Paired Share" consists of one share of common stock, par value $0.01 per share, of the Corporation, that is attached to and trades as a single unit with one share of Class B common stock, par value $0.01 per share, of ESH REIT. Each outstanding share of Corporation common stock is attached to and trades with one share of ESH REIT Class B common stock.

The Company is an integrated owner/operator of Extended Stay America-branded hotels and is also engaged in franchising, and in certain cases managing, extended stay hotels for third parties in the U.S. As of March 31, 2021 and 2020, the Company owned and operated 563 and 558 hotel properties, respectively, in 40 U.S. states, consisting of approximately 62,700 and 62,100 rooms, respectively, and franchised 88 and 74 hotel properties for third parties, respectively, consisting of approximately 9,000 and 7,600 rooms, respectively. As of March 31, 2021, all 651 system-wide hotels were operated under the Extended Stay America brand.

Owned hotel properties are owned by subsidiaries of ESH REIT and are operated by subsidiaries of the Corporation (the "Operating Lessees") pursuant to leases between ESH REIT and the Operating Lessees. The hotels are managed by ESA Management LLC ("ESA Management"), a subsidiary of the Corporation. The Extended Stay America brand is owned by ESH Hospitality Strategies LLC ("ESH Strategies"), also a subsidiary of the Corporation. ESH Strategies licenses the brand and intellectual property to the Operating Lessees and third parties.

Pending Merger—On March 14, 2021, the Corporation and ESH REIT entered into an Agreement and Plan of Merger (the "Merger Agreement") with Eagle Parent Holdings L.P. ("Parent"), a joint venture of Blackstone Real Estate Partners IX L.P. and Starwood Distressed Opportunity Fund XII Global, L.P. Upon completion of the proposed transactions, the Corporation and ESH REIT will become wholly-owned subsidiaries of Parent. Pursuant to the terms and conditions of the Merger Agreement, each issued and outstanding Paired Share will be converted into a right to receive (1) $19.50 in cash, plus (2) if the transactions are consummated after July 27, 2021 (or earlier, under certain circumstances), a per diem amount of $0.001 for each day from and after such date until, but not including, the closing date, without interest thereon (such sum, the "Merger Consideration").

The Merger Agreement contains customary representations, warranties and covenants, including those related to the Company's use of commercially reasonable efforts to carry on its business consistent with past practice prior to completion of the transactions. Under the terms of the Merger Agreement, Parent may request that the Corporation pay a special distribution (the "Special Dividend") immediately prior to the closing of up to $1.75 per share of Corporation common stock, in which case the cash consideration paid in the merger in respect of a share of Corporation common stock shall be reduced by the amount of such Special Dividend. The Merger Agreement is subject to customary closing conditions, including approval by the Company's shareholders and receipt of certain regulatory approvals. The Company can provide no assurance that the transactions contemplated by the Merger Agreement will be completed.

Basis of Consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP") and include the financial position, results of operations, comprehensive income, changes in equity and cash flows of the Corporation and its consolidated subsidiaries, including ESH REIT. Third-party equity interests in consolidated subsidiaries are presented as noncontrolling interests. Despite the fact that each share of Corporation common stock is paired on a one-for-one basis with each share of ESH REIT Class B common stock, the Corporation does not own ESH REIT Class B common stock; therefore, ESH REIT Class B common stock represents a third-party equity interest. As such, the rights associated with ESH REIT Class B common stock, along with other third-party equity interests in ESH REIT, are presented as noncontrolling interests in the accompanying condensed consolidated financial statements. Changes in ownership interests in a consolidated subsidiary that do not result in a loss of control are accounted for as equity transactions. All intercompany accounts and transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Presentation—Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. GAAP have been condensed or omitted in the accompanying condensed consolidated financial statements. The Company believes the disclosures made are adequate to prevent the information presented from being misleading. However, the condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2020 included in the combined annual report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 25, 2021.

The accompanying condensed consolidated financial statements reflect all adjustments (consisting only of normal and recurring items) necessary to present fairly the Company's financial position as of March 31, 2021, the results of the Company's operations, comprehensive income, changes in equity and cash flows for the three months ended March 31, 2021 and 2020. Interim results are not necessarily indicative of full year performance because of the impact of seasonal, short-term or other market variations, including the impact of the COVID-19 pandemic, as well as the impact of hotel acquisitions and dispositions, renovations and capital transactions.

Use of Estimates—The preparation of the accompanying condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and amounts of revenues and expenses during the reporting period. Management used significant estimates to determine the estimated useful lives of tangible assets, as well as in the assessment of tangible and intangible assets for impairment and estimated liabilities for insurance reserves and income taxes. Actual results could differ from those estimates.

Property and Equipment—Property and equipment additions are recorded at cost. Major improvements that extend the life or utility of property or equipment are capitalized and depreciated over a period equal to the shorter of the estimated useful life of the improvement or the remaining estimated useful life of the asset. Ordinary repairs and maintenance are charged to expense as incurred. Depreciation and amortization are recorded on a straight-line basis over estimated useful lives which range from 1 to 49 years.

Management assesses long-lived assets for potential impairment quarterly, as well as when events or changes in circumstances indicate the carrying amount of an asset or group of assets may not be recoverable. The identification of events or changes in circumstances that indicate the carrying value of assets may not be recoverable requires significant judgment. The Company reviews for impairment indicators at the lowest level of identifiable cash flows based on quantitative, qualitative and certain industry-related factors. Quantitative factors include, but are not limited to, hotel property EBITDA, EBITDA margins and EBITDA multiples, and serve to screen assets with historical, current or projected operating cash flow losses or deterioration. Qualitative factors include a change in physical condition, economic environment, regulatory environment or primary use, including the evaluation of the asset for disposition.

Recoverability of property and equipment is measured by a comparison of the carrying amount of a hotel property or group of hotel properties to the estimated future undiscounted cash flows expected to be generated by the hotel property or group of hotel properties. Impairment is recognized when estimated future undiscounted cash flows, including expected proceeds from disposition, are less than the carrying value of the hotel property or group of hotel properties. To the extent that a hotel property or group of hotel properties is impaired, the excess carrying amount over estimated fair value is recognized as an impairment charge. Fair value is determined based upon the discounted cash flows of the hotel property or group of hotel properties, bids, quoted market prices or independent appraisals, as considered necessary.

The estimation and evaluation of future cash flows, in particular the holding period for real estate assets and asset composition and/or concentration within real estate portfolios, relies on significant judgments and assumptions regarding holding period, current and future operating performance and current and future market conditions. It is possible that such judgments and/or estimates will change; in particular, the effects of the COVID-19 pandemic could cause economic and market conditions to deteriorate, and if this occurs, or if the Company's expected holding period for real estate assets changes, the Company may recognize impairment charges or losses on sale in future periods reflecting either changes in estimate, circumstance or the estimated market value of assets.

Intangible Assets—Intangible assets include trademarks, corporate customer relationships and software development and licenses related to certain internal-use software. Corporate customer relationships and software development and licenses are amortized using the straight-line method over their estimated useful lives; the estimated useful life of customer relationships and software development is 20 and five years, respectively, and the estimated useful life of software licenses is the remaining non-cancellable term of each respective contract. Trademarks are not amortized.

Definite-lived intangible assets are reviewed for impairment quarterly and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite-lived intangible assets, are reviewed for impairment quarterly, and the Company tests for impairment more frequently if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. At such time their classification as indefinite-lived intangible assets is reassessed, the Company first assesses qualitative factors to determine if it is more likely than not that the fair value of its indefinite-lived intangible assets is less than its carrying amount.

If the effects of the COVID-19 pandemic or other factors cause economic and market conditions to deteriorate, these events could result in impairment charges with respect to intangible assets in the future. Actual results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends.

Goodwill—Goodwill represents the purchase price in excess of the fair value of net assets acquired in conjunction with the acquisition of the Company's predecessor in 2010. Goodwill is reviewed for impairment quarterly and more frequently if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has two reportable operating segments, owned hotels and franchise and management. There is no goodwill associated with the Company's franchise and management segment. As a result, management only analyzes goodwill associated with owned hotels when analyzing for potential impairment. The Company first assesses qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

If the effects of the COVID-19 pandemic or other factors cause economic and market conditions to deteriorate, these events could result in impairment charges with respect to goodwill in the future. Actual results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends.

Revenue from Owned and Operated Hotels—Revenue generated from owned and operated hotels consists of room and other hotel revenues recognized when services are provided. When a reservation is made, the Company deems that the parties have approved a contract in accordance with customary business practices and are committed to perform their respective obligations. At such time, each party’s rights regarding the services to be transferred are identified, payment terms are specified, the contract has commercial substance and, in most instances, it is probable the Company will collect substantially all consideration to which it will be entitled in exchange for services.

Each room night consumed by a guest with a cancellable reservation represents a contract whereby the Company has a performance obligation to provide the room night at an agreed upon price. For cancellable reservations, the Company recognizes revenue as each performance obligation (i.e., each room night) is met. Such contract is renewed if the guest continues their stay. If at any time during a guest’s stay the Company believes it is not probable it will collect substantially all consideration to which it will be entitled, revenue is recognized on a cash basis until such time as collection is considered probable.

For room nights consumed by a guest with a non-cancellable reservation, the entire reservation period represents the contract term whereby the Company has a performance obligation to provide the room night or nights at an agreed upon price. For non-cancellable reservations, the Company recognizes revenue over the term of the performance period (i.e., the reservation period) as room nights are consumed. For these reservations, the room rate is typically fixed over the reservation period. The Company uses an output method based on performance completed to date (i.e., room nights consumed) to determine the amount of revenue it recognizes on a daily basis if the length of a non-cancellable reservation exceeds one night since consumption of room nights indicates when services are transferred to the guest. In certain instances, variable consideration may exist with respect to the transaction price, such as discounts, coupons and price concessions made upon guest checkout.

In evaluating its performance obligation, the Company bundles the obligation to provide the guest the room itself with other obligations (such as free WiFi, access to on-site laundry facilities and parking), as the other obligations are not distinct and separable because the guest cannot benefit from the additional amenities without the consumed room night. The Company’s obligation to provide the additional items or services is not separately identifiable from the fundamental contractual obligation (i.e., providing the room and its contents). The Company has no performance obligations once a guest’s stay is complete.

Certain revenues are generated through third-party intermediaries or distribution channels (i.e., online travel agents). Regardless of the basis on which the Company is compensated (i.e., gross or net), the Company is responsible for fulfilling the promise to provide the hotel room and related services to the guest and retains inventory risk. Since the Company controls the inventory and services provided and because third-party intermediaries are typically not contractually required to guarantee room night consumption, the Company is the principal in these transactions. As such, the Company is required to record revenue at an amount equal to the price charged to the guest (i.e., on a gross basis). Third-party intermediaries that pay the Company directly (i.e., on a net basis) typically charge the guest additional fees, blend the room offering with other offerings at amounts which are not allocable and may adjust the price without the Company's approval. As such, the Company is unable to calculate the room rate charged to the guest. Since any estimate the Company would make has significant uncertainty that ultimately would not be resolved, despite its role as principal, in these instances the Company records revenue equal to the amount paid by the third-party intermediaries (i.e., the net amount).

Revenue from Franchise and Management Fees—Revenue generated from franchise and management fees consists of the following:

- Franchise fees, which consist of an initial fee and an ongoing royalty fee based on a percentage of a hotel's monthly revenue in exchange for the access to and use of the Company's brand name and other intellectual property. Initial fees are deferred and recognized over the expected contract or customer life. Royalty fees are recognized over time as franchisees derive value from the license to use the intellectual property.

- Management fees, which consist of an ongoing base fee calculated as a percentage of a hotel's monthly revenue in exchange for on-site hotel management services. Management fees are recognized over time as third-party hotel owners derive value from on-site personnel and related services.

- Other revenues from franchised and managed properties, which include the reimbursement of costs incurred on behalf of third-party hotel owners on a direct and an indirect basis, as follows:
    - Direct costs incurred with respect to franchise and management agreements include on-site hotel personnel and incremental reservation and distribution costs for which the Company is reimbursed on a dollar-for-dollar basis. Since the Company employs the hotel personnel and has discretion over reservation and distribution costs, it is the principal with respect to these services and revenue is recognized on a gross basis.
    - Indirect costs incurred with respect to franchise agreements include costs associated with certain shared system-wide platforms (i.e., system services), such as marketing, technology infrastructure, central reservations, national sales and revenue management systems. The Company is reimbursed for indirect costs through a system service fee, or program fee, based on a percentage of a hotel's monthly revenue. System service fees are recognized over time as franchisees derive value from the license to use these processes and systems. The Company has discretion over how it spends system service fees and is the principal with respect to these services. Revenue is recognized on a gross basis; expense is recognized as incurred. Over time, the Company manages system services to break-even, but the timing of system service fee revenues will typically not align with expenses incurred to operate the programs.

The promise to provide access to the Company's intellectual property is combined with the promise to provide system services to form a single performance obligation since the promises generally accompany one another. Hotel management services form a single performance obligation. As noted above, each identified performance obligation is considered to be a series of services transferred over time. Revenue is recognized on an output method based on performance completed to date. The Company recognizes revenue in the amount to which it has a right to bill third parties under their respective franchise or management agreements, as it has a right to consideration in an amount that corresponds directly with the third parties' hotel revenues. Franchise, management and system service fees are characterized as variable consideration and vary from period to period. In the event that fees include variables that extend beyond the current period, the Company uses the most likely amount method to determine the amount of revenue to record based on a reasonable revenue forecast for the applicable hotel. In most instances, the Company does not have constraining estimates, as third-party hotel revenues are typically available and obtained monthly.

Recently Issued Accounting Standards

Reference Rate Reform—In March 2020, the FASB issued an accounting standards update that provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that reference LIBOR, subject to meeting certain criteria. The Company adopted this update on March 12, 2020 and the updates are effective through December 31, 2022, during which time the Company may elect to apply the optional expedients and exceptions offered under the standard. The Company's variable rate debt and interest rate swap are tied to rates that reference LIBOR (see Notes 7 and 8). As of March 31, 2021, the Company had not applied any of these optional expedients or exceptions. The adoption of this update did not, and is not expected to, have a material effect on the Company's condensed consolidated financial statements.

Income Taxes—In December 2019, the FASB issued an accounting standards update which simplifies the accounting for income taxes. The update amends several topics including interim period accounting for enacted changes in tax law and year-to-date loss limitation in interim-period tax accounting. The Company adopted this update on January 1, 2021. The adoption of this update did not have a material effect on the Company's condensed consolidated financial statements.

3. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of the Corporation's unrestricted common stock outstanding. Diluted net income per share is computed by dividing net income available to common shareholders, as adjusted for potentially dilutive securities, by the weighted-average number of shares of unrestricted common stock outstanding plus potentially dilutive securities. Dilutive securities include certain equity-based awards (see Note 13) and are included in the calculation provided that the inclusion of such securities is not anti-dilutive.

The calculations of basic and diluted net income per share, including a reconciliation of the numerators and denominators, are as follows (in thousands, except per share data):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Numerator:		
Net income available to Extended Stay America, Inc. common shareholders - basic	$ 1,921	$ 4,554
Income attributable to noncontrolling interests assuming conversion	(25)	(2)
Net income available to Extended Stay America, Inc. common shareholders - diluted	$ 1,896	$ 4,552
Denominator:		
Weighted-average number of Extended Stay America, Inc. common shares outstanding - basic	177,827	177,990
Dilutive securities	722	181
Weighted-average number of Extended Stay America, Inc. common shares outstanding - diluted	178,549	178,171
Net income per Extended Stay America, Inc. common share - basic	$ 0.01	$ 0.03
Net income per Extended Stay America, Inc. common share - diluted	$ 0.01	$ 0.03

4. HOTEL DISPOSITIONS

The table below summarizes hotel dispositions during the three months ended March 31, 2021 and the year ended December 31, 2020 (in thousands, except number of hotels and number of rooms). No dispositions were reported as discontinued operations.

Date	Location	Number of Hotels	Number of Rooms	Net Proceeds	Gain on Sale	Franchised	
March 2021	Texas	2	241	$ 21,867	$ 12,018	Yes	(1)
November 2020	California	1	146	$ 63,556	$ 52,525	No	

(1) Remaining term of franchise agreement is less than one year.

During the three months ended March 31, 2021 and 2020, disposed hotel properties contributed total room and other hotel revenues, total operating expenses and income before income tax expense as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Total room and other hotel revenues	$ 615	$ 1,611
Total operating expenses	548	1,125
Income before income tax expense	67	486

5. PROPERTY AND EQUIPMENT

Net investment in property and equipment as of March 31, 2021 and December 31, 2020, consists of the following (in thousands):

	March 31, 2021	December 31, 2020
Hotel properties:		
Land and site improvements (1)	$ 1,249,785	$ 1,246,441
Building and improvements	2,895,078	2,881,855
Furniture, fixtures and equipment (2)	782,465	783,414
Total hotel properties	4,927,328	4,911,710
Development in process	28,527	46,496
Corporate furniture, fixtures, equipment, software and other	29,803	29,735
Total cost	4,985,658	4,987,941
Less accumulated depreciation:		
Hotel properties	(1,546,732)	(1,518,236)
Corporate furniture, fixtures, equipment, software and other	(24,439)	(23,750)
Total accumulated depreciation	(1,571,171)	(1,541,986)
Property and equipment — net	$ 3,414,487	$ 3,445,955

(1) Includes finance lease asset of $4.0 million as of March 31, 2021 and December 31, 2020.
(2) Includes finance lease asset of $0.4 million as of March 31, 2021 and December 31, 2020.

As of March 31, 2021 and December 31, 2020, development in process consisted of six and eight land parcels, respectively, that were in various phases of construction and/or development. The Company expects to delay commencement of construction at four of these locations as a result of current market uncertainty.

During the three months ended March 31, 2021 and the year ended December 31, 2020, the following owned, newly constructed hotels were opened under the Extended Stay America brand:

Opening Date	Location	Number of Hotels	Number of Rooms
March 2021	Florida	2	248
December 2020	Florida	1	124
November 2020	Florida	1	144
August 2020	Florida	1	124
June 2020	Various	2	248
April 2020	South Carolina	1	120
March 2020	Florida	1	120

During the three months ended March 31, 2021 and 2020, newly-built hotels contributed total room and other hotel revenues, total operating expenses and income (loss) before income tax expense as follows (in thousands):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Total room and other hotel revenues	$ 4,475	$ 108
Total operating expenses	3,722	130
Income (loss) before income tax expense	753	(22)

6. INTANGIBLE ASSETS AND GOODWILL

The Company's intangible assets and goodwill as of March 31, 2021 and December 31, 2020, consist of the following (in thousands):

	March 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets			
Customer relationships	$ 26,800	$ (14,045)	$ 12,755
Software development and licenses	14,024	(2,367)	11,657
Software development in process	439	—	439
Indefinite-lived intangible assets—trademarks	10,163	—	10,163
Total intangible assets	51,426	(16,412)	35,014
Goodwill	44,921	—	44,921
Total intangible assets and goodwill	$ 96,347	$ (16,412)	$ 79,935

	December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets			
Customer relationships	$ 26,800	$ (13,710)	$ 13,090
Software licenses	10,546	(2,005)	8,541
Software development in process	2,299	—	2,299
Indefinite-lived intangible assets—trademarks	10,163	—	10,163
Total intangible assets	49,808	(15,715)	34,093
Goodwill	45,055	—	45,055
Total intangible assets and goodwill	$ 94,863	$ (15,715)	$ 79,148

The remaining weighted-average amortization period for amortizing intangible assets is approximately eight years as of March 31, 2021. Estimated future amortization expense for amortizing intangible assets is as follows (in thousands):

Years Ending December 31,		
Remainder of 2021	$	2,463
2022		3,279
2023		3,279
2024		3,279
2025		3,279
2026		2,723
Thereafter		6,110
Total	$	24,412

7. DEBT

Summary - The Company's outstanding debt, net of unamortized debt discounts and unamortized deferred financing costs, as of March 31, 2021 and December 31, 2020, consists of the following (dollars in thousands):

		Carrying Amount		Unamortized Deferred Financing Costs			
Loan	**Stated Amount**	**March 31, 2021**	**December 31, 2020**	**March 31, 2021**	**December 31, 2020**	**Stated Interest Rate**	**Maturity Date**
Term loan facility							
ESH REIT Term Facility	$ 630,909	$ 619,847 (1)	$ 621,351 (1)	$ 7,348	$ 7,684	LIBOR (2) + 2.00%	9/18/2026 (3)
Senior notes							
2025 Notes	1,300,000	1,294,630 (4)	1,294,301 (4)	11,526	12,232	5.25%	5/1/2025
2027 Notes	750,000	750,000	750,000	11,439	11,879	4.63%	10/1/2027
Revolving credit facilities							
ESH REIT Revolving Credit Facility	350,000	—	—	1,923 (5)	2,061 (5)	LIBOR (2) + 2.00%	9/18/2024
Corporation Revolving Credit Facility	50,000	9,765	49,765	485 (5)	520 (5)	LIBOR (2) + 2.25%	9/18/2024
Total		$ 2,674,242	$ 2,715,417	$ 32,721	$ 34,376		

(1) The ESH REIT Term Facility (defined below) is presented net of an unamortized debt discount of $1.6 million and $1.7 million as of March 31, 2021 and December 31, 2020, respectively.

(2) As of March 31, 2021 and December 31, 2020, one-month LIBOR was 0.11% and 0.14%, respectively. As of March 31, 2021 and December 31, 2020, $50.0 million and $100.0 million, respectively, of the ESH REIT Term Facility was subject to an interest rate swap at a fixed rate of 1.175%.

(3) Amortizes in equal quarterly installments of $1.6 million. In addition to scheduled amortization, subject to certain exceptions, annual mandatory prepayments of up to 50% of Excess Cash Flow, as defined, may be required under the ESH REIT Term Facility. Annual mandatory prepayments for the year are due during the first quarter of the following year. No mandatory prepayments were required in the first quarter of 2021 based on ESH REIT's Excess Cash Flow for the year ended December 31, 2020.

(4) The 2025 Notes (defined below) are presented net of an unamortized discount of $5.4 million and $5.7 million as of March 31, 2021 and December 31, 2020, respectively.

(5) Unamortized deferred financing costs related to revolving credit facilities are included in other assets in the accompanying condensed consolidated balance sheets.

ESH REIT Credit Facilities

ESH REIT's credit agreement, as may be amended and supplemented from time to time, provides for senior secured credit facilities (collectively, the "ESH REIT Credit Facilities") which consist of a $630.9 million senior secured term loan facility (the "ESH REIT Term Facility") and a $350.0 million senior secured revolving credit facility (the "ESH REIT Revolving Credit Facility"). Subject to the satisfaction of certain criteria, borrowings under the ESH REIT Credit Facilities may be increased by an amount of up to $600.0 million, plus additional amounts, so long as, after giving effect to the incurrence of such incremental facility and the application of proceeds thereof, ESH REIT's pro-forma senior loan-to-value ratio is less than or equal to 45%.

ESH REIT Term Facility—The ESH REIT Term Facility bears interest at a rate equal to (i) LIBOR plus 1.75% for any period during which ESH REIT maintains a public corporate family rating better than or equal to BB (with a stable or better outlook) from S&P and Ba3 (with a stable or better outlook) from Moody's (a "Level 1 Period") or LIBOR plus 2.00% for any period other than a Level 1 Period; or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50% or (C) the one-month adjusted LIBOR rate plus 1.00%), plus 0.75% during a Level 1 Period or 1.00% for any period other than a Level 1 Period. ESH REIT has the option to prepay outstanding loans under the ESH REIT Term Facility without penalty.

ESH REIT Revolving Credit Facility—Borrowings under the ESH REIT Revolving Credit Facility bear interest at a rate equal to (i) LIBOR plus a spread that ranges from 1.50% to 2.00% based on ESH REIT's Consolidated Total Net Leverage Ratio, as defined, or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50%, or (C) the one-month adjusted LIBOR rate plus 1.00%) plus a spread that ranges from 0.50% to 1.00% based on ESH REIT's Consolidated Total Net Leverage Ratio, as defined. ESH REIT incurs a fee of 0.30% or 0.175% on the unutilized revolver balance based on the amount outstanding under the facility. ESH REIT is also required to pay customary letter of credit fees and agency fees. The ESH REIT Revolving Credit Facility provides for the issuance of up to $50.0 million of letters of credit. As of March 31, 2021, ESH REIT had no letters of credit outstanding and available borrowing capacity of $350.0 million under the facility.

ESH REIT 2025 Notes

In May 2015 and March 2016, ESH REIT issued $500.0 million and $800.0 million, respectively, of its 5.25% senior notes due in May 2025 (the "2025 Notes") under an indenture with Deutsche Bank Trust Company Americas, as trustee, in private placements pursuant to Rule 144A of the Securities Act of 1933, as amended. ESH REIT may redeem the 2025 Notes at any time in whole or in part, at a redemption price equal to 102.625% of the principal amount, declining annually to 100% of the principal amount from May 1, 2023 and thereafter, plus accrued and unpaid interest. Upon a Change of Control, as defined, holders of the 2025 Notes have the right to require ESH REIT to redeem the 2025 Notes at 101% of the principal amount, plus accrued and unpaid interest.

ESH REIT 2027 Notes

In September 2019, ESH REIT issued $750.0 million of its 4.625% senior notes due in 2027 (the "2027 Notes") under an indenture with Deutsche Bank Trust Company Americas, as trustee, at a price equal to 100% of par value in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. ESH REIT may redeem the 2027 Notes at any time on or after October 1, 2022, in whole or in part, at a redemption price equal to 102.313% of the principal amount, declining annually to 100% of the principal amount from October 1, 2024 and thereafter, plus accrued and unpaid interest. Prior to October 1, 2022, ESH REIT may redeem the 2027 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a "make-whole" premium, as defined, plus accrued and unpaid interest. Prior to October 1, 2022, subject to certain conditions, ESH REIT may redeem up to 35% of the aggregate principal amount of the 2027 Notes at a redemption price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest, with the net cash proceeds from certain equity offerings, provided 65% of the original amount of the principal remains outstanding after the occurrence of each such redemption. Upon a Change of Control, as defined, holders of the 2027 Notes have the right to require ESH REIT to redeem the 2027 Notes at 101% of the principal amount, plus accrued and unpaid interest.

Corporation Revolving Credit Facility

The Corporation's revolving credit facility, as may be amended and supplemented from time to time (the "Corporation Revolving Credit Facility"), provides for the issuance of up to $50.0 million of letters of credit as well as borrowing on same day notice, referred to as swingline loans, in an amount of up to $20.0 million. Borrowings under the Corporation Revolving Credit Facility bear interest at a rate equal to (i) LIBOR plus 2.25% or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50% or (C) the one-month adjusted LIBOR plus 1.00%) plus 1.25%. In addition to paying interest on outstanding principal, the Corporation incurs a fee of 0.30% or 0.175% on the unutilized revolver balance based on the amount outstanding under the facility.

During the three months ended March 31, 2021, the Company repaid $40.0 million under the Corporation Revolving Credit Facility, and as of March 31, 2021, the outstanding balance under the facility was $9.8 million. As of March 31, 2021, the Corporation had one letter of credit outstanding of $0.2 million and $40.0 million available borrowing capacity under the facility.

Obligations under the Corporation Revolving Credit Facility are guaranteed by certain existing and future material domestic subsidiaries of the Corporation, excluding ESH REIT and its subsidiaries and subject to customary exceptions. The facility is secured, subject to certain exceptions, by a first priority security interest in substantially all of the assets of the Corporation and the guarantors. If obligations are outstanding under the facility during any fiscal quarter, the Corporation Revolving Credit Facility requires that the Consolidated Leverage Ratio, as defined, calculated as of the end of such fiscal quarter for any consecutive four quarter period, be less than or equal to 8.75 to 1.00 (the “Leverage Covenant,” subject to the Four Quarter Suspension Period, as defined below). The facility is also subject to a springing financial covenant whereby the senior loan-to-value ratio may not exceed 45% when the aggregate principal amount of borrowings and letters of credit under the Corporation Revolving Credit Facility, excluding up to $30.0 million of letters of credit, is equal to or greater than 25% of the aggregate available principal amount of the Corporation Revolving Credit Facility on the applicable fiscal quarter end date.

In May 2020, the Company entered into an amendment to the Corporation Revolving Credit Facility and obtained a suspension of the Leverage Covenant from the beginning of the second quarter of 2020 through the end of the first quarter of 2021 (the “Four Quarter Suspension Period”). For the second quarter of 2021 through the fourth quarter of 2021, the leverage covenant calculation has been modified to use annualized EBITDA, as opposed to trailing twelve-month EBITDA. Additionally, the amendment provides for the Corporation to borrow up to $150.0 million from ESH REIT through an intercompany loan facility. Throughout the Four Quarter Suspension Period, the Company has agreed to maintain minimum liquidity of $150.0 million and to limit share repurchases and dividend payments made by the Corporation.

Covenants

The ESH REIT Credit Facilities, the 2027 Notes, the 2025 Notes, the Corporation Revolving Credit Facility and certain intercompany loan facilities contain a number of restrictive covenants that, among other things and subject to certain exceptions, limit the Corporation’s or ESH REIT’s ability and the ability of their respective subsidiaries to engage in certain transactions. In addition, the ESH REIT Revolving Credit Facility and the Corporation Revolving Credit Facility contain financial covenants that, subject to certain conditions, require compliance with certain senior loan-to-value and consolidated leverage ratios. The agreements governing the Corporation’s and ESH REIT’s indebtedness also contain certain customary representations and warranties, affirmative covenants and events of default, including, but not limited to, cross-defaults to certain other indebtedness and, in the case of the ESH REIT Credit Facilities and certain intercompany loan facilities, certain material operating leases and management agreements. As of March 31, 2021, the Corporation and ESH REIT were in compliance with all covenants under their respective debt agreements.

The Company’s continued compliance with these covenants could be impacted by current or future economic conditions associated with the COVID-19 pandemic. The Company's failure to maintain compliance with its debt covenants or to pay debt obligations as they become due would give rise to a default under one or more of the agreements governing the Company's indebtedness, and could entitle the lenders under the defaulted agreements to accelerate the maturity of the amounts thereunder, which could raise substantial doubt about the Company's ability to continue as a going concern. The Company may seek additional covenant waivers or amendments, though there is no certainty that it would be successful in such efforts.

Interest Expense, net—The components of net interest expense during the three months ended March 31, 2021 and 2020, are as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Contractual interest, net [1]	$ 29,067	$ 31,326
Amortization of deferred financing costs and debt discount	2,058	2,052
Other costs [2]	338	293
Interest income	(1)	(986)
Total	$ 31,462	$ 32,685

(1) Net of capitalized interest of $0.4 million and $0.9 million, respectively. For the three months ended March 31, 2020, includes dividends on shares of mandatorily redeemable Corporation preferred stock.

(2) Includes interest expense on finance leases (see Note 12) and unused facility fees.

Fair Value of Debt —As of March 31, 2021 and December 31, 2020, the estimated fair value of the Company’s debt was $2.7 billion and $2.8 billion, respectively. Estimated fair values are determined by comparing current borrowing rates and risk spreads offered in the market (Level 2 fair value measures) or quoted market prices (Level 1 fair value measures), when available, to the stated interest rates and spreads on the Company’s debt. As of March 31, 2021 and December 31, 2020, the estimated fair value of the Corporation revolving credit facility was equal to its carrying value due to its short-term nature and frequent settlement.

8. DERIVATIVE INSTRUMENTS

ESH REIT is a counterparty to a floating-to-fixed interest rate swap at a fixed rate of 1.175% and a floating rate of one-month LIBOR to manage its exposure to interest rate risk on a portion of the ESH REIT Term Facility. The notional amount of the interest rate swap as of March 31, 2021 was $50.0 million, and the swap matures in September 2021.

For the three months ended March 31, 2021, the Company paid interest of $0.3 million, and for the three months ended March 31, 2020, the company received proceeds of $0.3 million that offset interest expense. As of March 31, 2021, $0.3 million of interest expense is expected to be recognized over the following six months until the swap's maturity.

The table below presents the amounts and classification of the interest rate swap on the Company’s condensed consolidated financial statements (in thousands):

	Accrued liabilities	Accumulated other comprehensive loss, net of tax	Interest expense (income), net
As of March 31, 2021	$ (268)	$ (227) [1]	
As of December 31, 2020	$ (525)	$ (445) [2]	
For the three months ended March 31, 2021			$ 262
For the three months ended March 31, 2020			$ (257)

(1) Changes during the three months ended March 31, 2021, on a pre-tax basis, consisted of changes in fair value of $0.3 million.
(2) Changes during the year ended December 31, 2020, on a pre-tax basis, consisted of changes in fair value of $(1.4) million.

9. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of Revenue

The following table disaggregates room revenues from owned hotels by booking source for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Property direct	$ 68,052	$ 60,024
Central call center	77,980	77,191
Proprietary website	53,589	52,939
Third-party intermediaries	44,929	57,820
Travel agency global distribution systems	5,318	6,490
Total room revenues from owned hotels [1]	$ 249,868	$ 254,464

(1) In addition to room revenues, the Company’s owned hotels earned $6.7 million and $6.8 million of other hotel revenues during the three months ended March 31, 2021 and 2020, respectively.

The following table disaggregates room revenues from owned hotels by length of guest stay for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
1-6 nights	$ 64,288	$ 84,594
7-29 nights	55,053	54,831
30+ nights	130,527	115,039
Total room revenues from owned hotels (1)	$ 249,868	$ 254,464

(1) In addition to room revenues, the Company's owned hotels earned $6.7 million and $6.8 million of other hotel revenues during the three months ended March 31, 2021 and 2020, respectively.

The following table disaggregates revenues from franchised and managed hotels for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Management fees (1)	$ —	$ 235
Franchise fees	1,218	1,044
Indirect reimbursements (system service fees)	1,471	1,190
Direct reimbursements	334	2,600
Total revenues from franchised and managed hotels	$ 3,023	$ 5,069

(1) The Company previously managed 25 hotels for a third-party franchise owner. The term of the management agreement for those 25 hotels expired on December 31, 2020.

Outstanding Contract Liabilities

Contract liabilities relate to advance deposits with respect to owned hotels and, with respect to franchised hotels, advance consideration received, such as initial franchise fees paid when a franchise agreement is executed and certain system implementation fees paid at the time of installation. Contract liabilities are included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets. The following table presents changes in outstanding contract liabilities as of March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Contract liabilities - beginning of period	$ 17,197	$ 16,111
Contract liabilities - end of period	$ 17,687	$ 16,231
Portion of beginning balance recognized as revenue during the period	$ 10,422	$ 10,172

Performance Obligations

As of March 31, 2021, $12.4 million of outstanding contract liabilities related to owned hotels and $5.3 million related to franchised hotels. The Company does not estimate revenues expected to be recognized related to unsatisfied performance obligations for royalty fees, system service fees or management fees, as they are considered either sales-based fees or allocated to wholly unsatisfied performance obligations in a series. Performance obligations related to owned hotels are expected to be satisfied within less than one year. Performance obligations related to third-party owned (i.e., franchised) hotels are expected to be satisfied over the term of the respective franchise agreements, which are typically 20 years.

10. SEGMENTS

The Company's operating segments are components of the business which are managed discretely and for which discrete financial information is reviewed regularly by its chief operating decision maker to assess performance and make decisions regarding the allocation of resources. The Company's operating and reportable segments are defined as follows:

- *Owned Hotels*—Earnings are derived from the operation of Company-owned hotel properties and include room and other hotel revenues.
- *Franchise and management*—Earnings are derived from fees under franchise and management agreements with third parties. These contracts provide the Company the ability to earn compensation for licensing the Extended Stay America brand name, providing access to shared system-wide platforms and/or management services.

The performance of the Company's operating segments is evaluated primarily on income from operations. Selected financial data is provided below (in thousands):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Revenues:		
Owned hotels	$ 256,548	$ 261,232
Franchise and management [1]	1,981	2,062
Total segment revenues	258,529	263,294
Corporate and other [2]	18,109	19,992
Other revenues from franchised and managed properties [3]	1,805	3,790
Intersegment eliminations [4]	(18,872)	(20,775)
Total	$ 259,571	$ 266,301
Income from operations:		
Owned hotels[5]	$ 56,763	$ 48,551
Franchise and management [1]	1,981	2,062
Total segment income from operations	58,744	50,613
Corporate and other [2]	(13,611)	(7,853)
Other expenses from franchised and managed properties, net [3]	(639)	(417)
Total	$ 44,494	$ 42,343

(1) Includes intellectual property fees charged to the owned hotels segment of $0.8 million for the three months ended March 31, 2021 and 2020, that are eliminated in the condensed consolidated statements of operations.

(2) Includes revenues generated and operating expenses incurred in connection with the overall support of owned, franchised and managed hotels and related operations. Corporate and other revenues are comprised of management fees earned by and cost reimbursements charged to the owned hotels segment that are eliminated in the condensed consolidated statements of operations.

(3) Includes direct reimbursement of specific costs incurred under franchise and management agreements that the Company is reimbursed for on a dollar-for-dollar basis as well as indirect reimbursement of certain costs incurred associated with the Company's shared platform (i.e., system services, see Note 2).

(4) Includes management fees, intellectual property fees and other cost reimbursements charged to the owned hotels segment that are eliminated in the condensed consolidated statements of operations.

(5) Includes gain on sale of hotel properties of $12.0 million for the three months ended March 31, 2021.

Total assets for each of the Company's operating segments are provided below (in thousands):

	March 31, 2021	December 31, 2020
Assets:		
Owned hotels	$ 3,809,233	$ 3,802,896
Franchise and management	13,400	13,319
Total segment assets	3,822,633	3,816,215
Corporate and other	199,003	274,039
Intersegment eliminations	(1,288)	(1,105)
Total	$ 4,020,348	$ 4,089,149

Total capital expenditures for each of the Company's operating segments are provided below (in thousands):

	Three Months Ended March 31,	
	2021	2020
Capital expenditures:		
Owned hotels	$ 28,607	$ 54,368
Corporate and other	1,829	211
Total	$ 30,436	$ 54,579

11. INCOME TAXES

The Corporation’s taxable income includes the taxable income of its wholly-owned subsidiaries and distribution income related to its ownership of 58% of ESH REIT.

ESH REIT has elected to be taxed as and expects to continue to qualify as a real estate investment trust (“REIT”) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). A REIT is a legal entity that holds real estate assets and is generally not subject to federal and state income taxes. In order to maintain qualification as a REIT, ESH REIT is required to distribute at least 90% of its taxable income, excluding net capital gain, to its shareholders each year. In addition, ESH REIT must meet a number of complex organizational and operational requirements. If ESH REIT were to fail to qualify as a REIT in any taxable year, it would be subject to federal income taxes at regular corporate rates and generally would be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which it lost its REIT qualification. ESH REIT intends to distribute its taxable income to the extent necessary to optimize its tax efficiency including, but not limited to, maintaining its REIT status, while retaining sufficient capital for its ongoing needs. Even in qualifying as a REIT, ESH REIT may be subject to state and local taxes in certain jurisdictions, and is subject to federal income and excise taxes on undistributed income.

The Company recorded a provision for federal, state and foreign income taxes of $0.8 million, an effective tax rate of 5.7%, for the three months ended March 31, 2021, as compared to a provision of $1.1 million, an effective tax rate of 12.4%, for the three months ended March 31, 2020. The Company's effective rate differs from the federal statutory rate of 21% due to ESH REIT's status as a REIT under the provisions of the Code.

The Company's income tax returns for the years 2017 to present are subject to examination by the Internal Revenue Service (“IRS”) and other taxing authorities. As of March 31, 2021, a subsidiary of ESH REIT was under examination by the Canadian Revenue Agency for the tax years 2014 through 2017. As this audit is still in process, the timing of the resolution and any payments that may be required cannot be determined at this time. The Company believes that, to the extent a liability may exist, it is not material as of March 31, 2021.

12. COMMITMENTS AND CONTINGENCIES

Lease Commitments—The Company is a tenant under long-term ground leases at five of its hotel properties. Three of these leases are operating leases and two are finance leases. The ground lease agreements terminate at various dates between 2023 and 2096 and several of the agreements include multiple renewal options for generally five or ten year periods. The Company is also a tenant under an operating lease for its corporate office, which terminates in December 2022. As the Company is reasonably certain that it will exercise the options to extend its ground leases, fixed payments associated with the extensions are included in the measurement of related right-of-use assets and lease liabilities. Additionally, the Company leases certain technology equipment located at its hotel sites under finance leases.

Operating lease costs related to ground leases are included in hotel operating expenses and operating lease costs related to the Company’s office lease are included in general and administrative expenses in the condensed consolidated statements of operations. Finance lease interest costs are included in interest expense, net in the condensed consolidated statements of operations (see Note 7) or, when pertaining to assets under development, are capitalized and included in property and equipment, net on the condensed consolidated balance sheets (see Note 5). The Company has no variable lease costs or short-term leases.

For the three months ended March 31, 2021 and 2020, the components of the Company’s total lease costs are as follows (in thousands):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Operating lease costs	$ 869	$ 769
Finance lease costs	125	61
Total lease costs	$ 994	$ 830

The Company’s right-of-use assets and lease liabilities are as follows (in thousands):

	March 31, 2021	December 31, 2020
Right-of-use assets:		
Operating(1)	$ 5,390	$ 2,538
Finance(2)	4,323	4,354
Lease liabilities:		
Operating(3)	13,304	10,442
Finance	3,611	3,668

(1) Included in other assets on the accompanying condensed consolidated balance sheets.
(2) Included in property and equipment, net on the accompanying condensed consolidated balance sheets.
(3) Included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets.

Maturities of lease liabilities as of March 31, 2021, are as follows (in thousands):

Years Ending December 31,	Operating Leases	Finance Leases
Remainder of 2021	$ 2,358	$ 297
2022	3,449	853
2023	552	400
2024	503	402
2025	503	429
2026	503	439
Thereafter	76,588	2,232
Total	$ 84,456	$ 5,052
Total discounted lease liability	$ 13,304	$ 3,611
Difference between undiscounted cash flows and discounted cash flows	$ 71,152	$ 1,441
Weighted-average remaining lease term	41 years	10 years
Weighted-average discount rate	5.3 %	6.6 %

The Company’s leases do not contain residual value guarantees and do not contain restrictions with respect to incurring additional financial obligations or paying dividends. As of March 31, 2021, the Company does not have any material leases that have not yet commenced.

Letter of Credit—As of March 31, 2021, the Company had one outstanding letter of credit, issued by the Corporation, for $0.2 million, which is collateralized by the Corporation Revolving Credit Facility.

Legal Contingencies—As of March 31, 2021, six purported class action lawsuits in California have been filed against the Company. The complaints allege, among other things, failure to provide meal and rest periods, wage and hour violations and violations of the Fair Credit Reporting Act. The complaints seek, among other relief, collective and class certification of the lawsuits, unspecified damages, costs and expenses, including attorneys' fees, and such other relief as the court might find just and proper.

With respect to the Fair Credit Reporting Act violations alleged in the lawsuits described above, the parties reached a tentative settlement agreement in May 2019, which is subject to certain conditions, including court approval, and the Company recorded a payable and a corresponding insurance receivable for the amount of the tentative settlement. The expected resolution of the alleged Fair Credit Reporting Act violations in the lawsuits did not have, and is not expected to have, a material adverse impact on the Company's condensed consolidated financial statements, results of operations or liquidity.

With respect to the meal and rest period and the wage and hour violations alleged in the lawsuits described above, excluding the one lawsuit described below, the parties reached a tentative settlement agreement in January 2020, which is subject to certain conditions, including court approval. During the three months ended December 31, 2019, the Company incurred a loss and recorded a charge equal to the amount of the tentative settlement. The expected resolution of the alleged meal and rest period and wage and hour violations in the lawsuits did not have, and is not expected to have, a material adverse impact on the Company's condensed consolidated financial statements, results of operations or liquidity.

With respect to one lawsuit, although the Company believes it is reasonably possible that it may incur losses associated with such matter, it is not possible to estimate the amount of loss or range of loss, if any, that might result from adverse judgments, settlements or other resolution based on the early stage of the lawsuit, the uncertainty as to the certification of a class or classes and the size of any certified class, if applicable, and the lack of resolution of significant factual and legal issues. However, depending on the amount and timing, an unfavorable resolution of the lawsuit or a change in the Company's assessment of the likelihood of loss could have a material adverse effect on the Company's condensed consolidated financial statements, results of operations or liquidity in a future period. The Company believes that it has meritorious defenses and is prepared to vigorously defend the lawsuit.

The Company is not a party to any additional litigation or claims, other than routine matters arising in the ordinary course of business that are incidental to the operation of the business of the Company. The Company believes that the results of all additional litigation and claims, individually or in the aggregate, will not have a material adverse effect on the Company's condensed consolidated financial statements, its business, results of operations or financial condition.

13. EQUITY-BASED COMPENSATION

The Corporation and ESH REIT each maintain a long-term incentive plan ("LTIP"), approved by their shareholders. Under each LTIP, the Corporation and ESH REIT may issue to eligible employees or directors restricted stock units ("RSUs") or other equity-based awards in respect of Paired Shares with service, performance or market vesting conditions. The aggregate number of Paired Shares that may be the subject of awards under the LTIPs shall not exceed 8.0 million, of which no more than 4.0 million may be granted as incentive stock options. Each of the Corporation's and ESH REIT's LTIPs has a share reserve of an equivalent number of shares of Corporation common stock and ESH REIT Class B common stock. As of March 31, 2021, 4.4 million Paired Shares were available for future issuance under the LTIPs.

Equity-based compensation expense is recognized by amortizing the grant-date fair value on a straight-line basis over the requisite service period of each award. A portion of the grant-date fair value of all equity-based awards is allocated to a share of Corporation common stock and a portion is allocated to a share of ESH REIT Class B common stock. Equity-based compensation expense, which is included in general and administrative expenses in the accompanying condensed consolidated statements of operations, was $2.3 million and $1.1 million for the three months ended March 31, 2021 and 2020, respectively.

As of March 31, 2021, unrecognized compensation expense related to outstanding equity-based awards and the related weighted-average period over which it is expected to be recognized subsequent to March 31, 2021, is presented in the following table. Total unrecognized compensation expense will be adjusted for forfeitures as they occur.

	Unrecognized Compensation Expense Related to Outstanding Awards (in thousands)	Remaining Weighted-Average Amortization Period (in years)
RSUs with service vesting conditions	$ 9,579	2.0
RSUs with market vesting conditions	5,269	2.3
Total unrecognized compensation expense	$ 14,848	

RSU activity during the three months ended March 31, 2021, was as follows:

	Service-Based Awards		Performance-Based Awards - Market Vesting	
	Number of RSUs (in thousands)	Weighted-Average Grant-Date Fair Value	Number of RSUs (in thousands)	Weighted-Average Grant-Date Fair Value
Outstanding at January 1, 2021	986	$ 14.26	376	$ 12.96
Granted	183	$ 15.12	211	$ 17.26
Settled	(217)	$ 15.43	(39)	$ 17.41
Forfeited	(31)	$ 15.23	(35)	$ 13.34
Outstanding at March 31, 2021	921	$ 14.63	513	$ 14.37
Vested at March 31, 2021	117	$ 14.46	—	$ —
Nonvested at March 31, 2021	804	$ 14.65	513	$ 14.37

The grant-date fair value of awards with service vesting conditions is based on the closing price of a Paired Share on the date of grant. Service-based awards vest over a period of one to three years, subject to the grantee's continued employment or service. The grant-date fair value of awards with market vesting conditions is based on an independent valuation. These awards vest at the end of a three-year period, subject to the grantee's continued employment, with the ability to earn Paired Shares in a range of 0% to 200% of the awarded number of RSUs based on the total shareholder return of a Paired Share relative to the total shareholder return of other publicly traded lodging companies identified in the award agreements. During the three months ended March 31, 2021, the grant-date fair value of awards with market vesting conditions were calculated using a Monte Carlo simulation model with the following key assumptions:

Expected holding period	3.0 years
Risk–free rate of return	0.17 %
Expected dividend yield	3.17 %

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2021 AND DECEMBER 31, 2020
(In thousands, except share and per share data)
(Unaudited)

	March 31, 2021	December 31, 2020
ASSETS		
PROPERTY AND EQUIPMENT - Net of accumulated depreciation of $1,569,166 and $1,540,358	$ 3,430,051	$ 3,461,212
CASH AND CASH EQUIVALENTS	287,989	375,715
RENTS RECEIVABLE FROM EXTENDED STAY AMERICA, INC. (Note 10)	11,108	3,941
DEFERRED RENTS RECEIVABLE FROM EXTENDED STAY AMERICA, INC. (Note 10)	38,536	39,135
INTANGIBLE ASSETS - Net of accumulated amortization of $2,312 and $2,005	8,285	8,541
GOODWILL	43,748	43,878
OTHER ASSETS	19,143	18,695
TOTAL ASSETS	$ 3,838,860	$ 3,951,117
LIABILITIES AND EQUITY		
LIABILITIES:		
Term loan facility payable - Net of unamortized deferred financing costs and debt discount of $8,946 and $9,355	$ 612,499	$ 613,667
Senior notes payable - Net of unamortized deferred financing costs and debt discount of $28,335 and $29,810	2,021,665	2,020,190
Finance lease liabilities	3,611	3,668
Unearned rental revenues from Extended Stay America, Inc. (Note 10)	23,743	—
Due to Extended Stay America, Inc., net (Note 10)	5,405	92,791
Accounts payable and accrued liabilities	89,190	125,519
Total liabilities	2,756,113	2,855,835
COMMITMENTS AND CONTINGENCIES (Note 11)		
EQUITY:		
Common stock - Class A: $0.01 par value, 4,300,000,000 shares authorized, 250,493,583 shares issued and outstanding; Class B: $0.01 par value, 7,800,000,000 shares authorized, 177,730,773 and 177,560,635 shares issued and outstanding	4,283	4,281
Additional paid in capital	1,053,075	1,052,379
Preferred stock—no par value, $1,000 liquidation value, 125 shares authorized, issued and outstanding	73	73
Retained earnings	25,584	39,075
Accumulated other comprehensive loss	(268)	(526)
Total equity	1,082,747	1,095,282
TOTAL LIABILITIES AND EQUITY	$ 3,838,860	$ 3,951,117

See accompanying notes to condensed consolidated financial statements.

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
REVENUES - Rental revenues from Extended Stay America, Inc. (Note 10)	$ 120,392	$ 119,190
OPERATING EXPENSES:		
Hotel operating expenses	21,405	24,527
General and administrative expenses (Note 10)	3,960	4,167
Depreciation and amortization	48,381	49,588
Merger transaction expenses	2,373	—
Total operating expenses	76,119	78,282
GAIN ON SALE OF HOTEL PROPERTIES (Note 4)	11,930	—
INCOME FROM OPERATIONS	56,203	40,908
OTHER NON-OPERATING (INCOME) EXPENSE	(84)	560
INTEREST EXPENSE, NET	31,135	32,428
INCOME BEFORE INCOME TAX EXPENSE	25,152	7,920
INCOME TAX EXPENSE	2	2
NET INCOME	$ 25,150	$ 7,918
NET INCOME PER ESH HOSPITALITY, INC. COMMON SHARE:		
Class A - basic	$ 0.06	$ 0.02
Class A - diluted	$ 0.06	$ 0.02
Class B - basic	$ 0.06	$ 0.02
Class B - diluted	$ 0.06	$ 0.02
WEIGHTED-AVERAGE ESH HOSPITALITY, INC. COMMON SHARES OUTSTANDING:		
Class A - basic	250,494	250,494
Class A - diluted	250,494	250,494
Class B - basic	177,827	177,990
Class B - diluted	178,549	178,171

See accompanying notes to condensed consolidated financial statements.

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	**2020**
NET INCOME	$ 25,150	$ 7,918
OTHER COMPREHENSIVE INCOME:		
INTEREST RATE CASH FLOW HEDGE GAIN (LOSS), NET OF TAX OF $0 and $1	258	(2,054)
COMPREHENSIVE INCOME	$ 25,408	$ 5,864

See accompanying notes to condensed consolidated financial statements.

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(In thousands, except preferred stock shares and per share data)
(Unaudited)

	Common Stock			Preferred Stock					
	Class A Shares	Class B Shares	Amount	Shares	Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
BALANCE - January 1, 2020	250,494	179,483	$ 4,300	125	$ 73	$ 1,050,740	$ 93,424	$ 830	$ 1,149,367
Net income	—	—	—	—	—	—	7,918	—	7,918
Interest rate cash flow hedge loss, net of tax	—	—	—	—	—	—	—	(2,054)	(2,054)
Repurchase of Class B common stock	—	(2,237)	(22)	—	—	—	(11,384)	—	(11,406)
Common distributions - $0.14 per Class A and Class B common share	—	—	—	—	—	—	(59,911)	—	(59,911)
Preferred distributions	—	—	—	—	—	—	(4)	—	(4)
Equity-based compensation	—	220	2	—	—	336	—	—	338
BALANCE - March 31, 2020	250,494	177,466	$ 4,280	125	$ 73	$ 1,051,076	$ 30,043	$ (1,224)	$ 1,084,248

	Common Stock			Preferred Stock					
	Class A Shares	Class B Shares	Amount	Shares	Amount	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
BALANCE - January 1, 2021	250,494	177,561	$ 4,281	125	$ 73	$ 1,052,379	$ 39,075	$ (526)	$ 1,095,282
Net income	—	—	—	—	—	—	25,150	—	25,150
Interest rate cash flow hedge gain, net of tax	—	—	—	—	—	—	—	258	258
Common distributions - $0.09 per Class A and Class B common share	—	—	—	—	—	—	(38,637)	—	(38,637)
Preferred distributions	—	—	—	—	—	—	(4)	—	(4)
Equity-based compensation	—	170	2	—	—	696	—	—	698
BALANCE - March 31, 2021	250,494	177,731	$ 4,283	125	$ 73	$ 1,053,075	$ 25,584	$ (268)	$ 1,082,747

See accompanying notes to condensed consolidated financial statements.

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(In thousands)
(Unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
OPERATING ACTIVITIES:		
Net income	$ 25,150	$ 7,918
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48,381	49,588
Foreign currency transaction (gain) loss	(84)	560
Amortization of deferred financing costs and debt discount	2,023	2,022
Loss on disposal of property and equipment	1,232	3,343
Gain on sale of hotel properties	(11,930)	—
Equity-based compensation	117	134
Changes in assets and liabilities:		
Deferred rents payable (receivable) from Extended Stay America, Inc.	508	(2,512)
Due to Extended Stay America, Inc., net	(166)	(1,588)
Other assets	112	(798)
Unearned rental revenues/rents receivable from Extended Stay America, Inc., net	16,576	20,159
Accounts payable and accrued liabilities	26,236	29,469
Net cash provided by operating activities	108,155	108,295
INVESTING ACTIVITIES:		
Purchases of property and equipment	(22,222)	(33,786)
Development in process payments	(6,246)	(19,769)
Payment for intangible assets	(137)	(358)
Proceeds from sale of hotel properties	21,867	—
Proceeds from insurance and related recoveries	56	956
Net cash used in investing activities	(6,682)	(52,957)
FINANCING ACTIVITIES:		
Principal payments on term loan facility	(1,577)	(1,577)
Proceeds from revolving credit facility	—	350,000
Payments of deferred financing costs	—	(11)
Principal payments on finance leases	(38)	(37)
Repurchase of Class B common stock	—	(11,406)
Issuance of Class B common stock related to issuance of Paired Shares	1,034	737
Common distributions	(188,618)	(60,291)
Net cash (used in) provided by financing activities	(189,199)	277,415
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(87,726)	332,753
CASH AND CASH EQUIVALENTS - Beginning of period	375,715	296,134
CASH AND CASH EQUIVALENTS - End of period	$ 287,989	$ 628,887

ESH HOSPITALITY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020 (CONTINUED)
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	**2020**
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash payments for interest, excluding prepayment and other penalties, net of capitalized interest of $430 and $859	$ 3,412	$ 5,239
Cash payments (refunds) for income taxes, net of refunds of $10 and $18	$ 1	$ (18)
Operating cash payments for finance leases	$ 56	$ 59
Operating cash payments for operating leases	$ 196	$ 189
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital expenditures included in due to/from Extended Stay America, Inc. and accounts payable and accrued liabilities	$ 12,504	$ 21,873
Additions to finance lease right-of-use assets and liabilities	$ —	$ 364
Common distributions included in accounts payable and accrued liabilities	$ 725	$ 387
Net receivable (payable) related to RSUs not yet settled or issued included in due to/from Extended Stay America, Inc.	$ 235	$ (230)

See accompanying notes to condensed consolidated financial statements.

1. BUSINESS, ORGANIZATION AND BASIS OF CONSOLIDATION

ESH Hospitality, Inc. ("ESH REIT") was formed as a limited liability company in the state of Delaware on September 16, 2010 and was converted to a corporation on November 5, 2013. Extended Stay America, Inc. (the "Corporation"), the parent of ESH REIT, was incorporated in the state of Delaware on July 8, 2013. The Corporation owns all of the issued and outstanding Class A common stock of ESH REIT, which, as of March 31, 2021, represents 58% of the outstanding common stock of ESH REIT.

A "Paired Share" consists of one share of common stock, par value $0.01 per share, of the Corporation, that is attached to and trades as a single unit with one share of Class B common stock, par value $0.01 per share, of ESH REIT. Each outstanding share of ESH REIT Class B common stock is attached to and trades with one share of Corporation common stock.

As of March 31, 2021 and 2020, ESH REIT and its subsidiaries owned and leased 563 and 558 hotel properties, in 40 U.S. states, consisting of approximately 62,700 and 62,100 rooms, respectively. All hotels are leased to wholly-owned subsidiaries of the Corporation (the "Operating Lessees").

Pending Merger—On March 14, 2021, the Corporation and ESH REIT entered into an Agreement and Plan of Merger (the "Merger Agreement") with Eagle Parent Holdings L.P. ("Parent"), a joint venture of Blackstone Real Estate Partners IX L.P. and Starwood Distressed Opportunity Fund XII Global, L.P. Upon completion of the proposed transactions, the Corporation and ESH REIT will become wholly-owned subsidiaries of Parent. Pursuant to the terms and conditions of the Merger Agreement, each issued and outstanding Paired Share will be converted into a right to receive (1) $19.50 in cash, plus (2) if the transactions are consummated after July 27, 2021 (or earlier, under certain circumstances), a per diem amount of $0.001 for each day from and after such date until, but not including, the closing date, without interest thereon (such sum, the "Merger Consideration").

The Merger Agreement contains customary representations, warranties and covenants, including those related to the Corporation's and ESH REIT's use of commercially reasonable efforts to carry on their business consistent with past practice prior to completion of the transactions. The Merger Agreement is subject to customary closing conditions, including approval by the Corporation shareholders, ESH REIT shareholders and receipt of certain regulatory approvals. Neither the Corporation nor ESH REIT can provide assurance that the transactions contemplated by the Merger Agreement will be completed.

Basis of Consolidation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. ("U.S. GAAP"), and include the financial position, results of operations, comprehensive income, changes in equity and cash flows of ESH REIT and its consolidated subsidiaries. Changes in ownership interests in a consolidated subsidiary that do not result in a loss of control are accounted for as equity transactions. All intercompany accounts and transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Presentation—Certain information and footnote disclosures normally included in financial statements presented in accordance with U.S. GAAP have been condensed or omitted in the accompanying condensed consolidated financial statements. ESH REIT believes the disclosures made are adequate to prevent the information presented from being misleading. However, the condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the year ended December 31, 2020, included in the combined annual report on Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") on February 25, 2021.

The accompanying condensed consolidated financial statements reflect all adjustments (consisting only of normal and recurring items) necessary to present fairly ESH REIT's financial position as of March 31, 2021, the results of ESH REIT's operations, comprehensive income, changes in equity and cash flows for the three months ended March 31, 2021 and 2020. Interim results are not necessarily indicative of full year performance because of hotel acquisitions and dispositions, capital transactions, the impact of accounting for variable rental payments under lease arrangements and the impact of the COVID-19 pandemic.

Use of Estimates—The preparation of the accompanying condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the amounts of revenues and expenses during the reporting period. Management used significant estimates to determine the estimated useful lives of tangible assets, as well as in the assessment of tangible and intangible assets for impairment. Actual results could differ from those estimates.

Property and Equipment—Property and equipment additions are recorded at cost. Major improvements that extend the life or utility of property or equipment are capitalized and depreciated over a period equal to the shorter of the estimated useful life of the improvement or the remaining estimated useful life of the asset. Ordinary repairs and maintenance are charged to expense as incurred. Depreciation and amortization are recorded on a straight-line basis over estimated useful lives which range from 1 to 49 years.

Management assesses long-lived assets for potential impairment quarterly, as well as when events or changes in circumstances indicate the carrying amount of an asset or group of assets may not be recoverable. The identification of events or changes in circumstances that indicate the carrying value of assets may not be recoverable requires significant judgment. ESH REIT reviews for impairment indicators at the lowest level of identifiable cash flows based on quantitative, qualitative and certain industry-related factors. Quantitative factors include, but are not limited to, hotel property EBITDA, EBITDA margins and EBITDA multiples, and serve to screen assets or asset groups with historical, current or projected operating cash flow losses or deterioration. Qualitative factors include a change in physical condition, economic environment, regulatory environment or primary use, including the evaluation of the asset or group of assets for disposition.

Recoverability of property and equipment is measured by a comparison of the carrying amount of a hotel property or group of hotel properties (grouped under ESH REIT’s leases) to the estimated future undiscounted cash flows expected to be generated by the hotel property or group of hotel properties. Impairment is recognized when estimated future undiscounted cash flows, including expected proceeds from disposition, are less than the carrying value of the hotel property or group of hotel properties. To the extent that a hotel property or group of hotel properties is impaired, the excess carrying amount over estimated fair value is recognized as an impairment charge. Fair value is determined based upon the discounted cash flows of the hotel property or group of hotel properties, bids, quoted market prices or independent appraisals, as considered necessary.

The estimation and evaluation of future cash flows, in particular the holding period for real estate assets and asset composition and/or concentration within real estate portfolios, relies on significant judgments and assumptions regarding holding period, current and future operating performance and current and future market conditions. It is possible that such judgments and/or estimates will change; in particular, the effects of the COVID-19 pandemic could cause economic and market conditions to continue to deteriorate, and if this occurs, or if ESH REIT's expected holding period for real estate assets changes, ESH REIT may recognize impairment charges or losses on sale in future periods reflecting either changes in estimate, circumstance or the estimated market value of assets.

Intangible Assets—Intangible assets include licenses related to certain internal-use software. Licenses are amortized using the straight-line method over their estimated useful life, which is the remaining non-cancellable term of each respective contract. Intangible assets are reviewed for impairment quarterly and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. ESH REIT tests for impairment more frequently if events or circumstances change that would more likely than not reduce the fair value of its reporting unit below its carrying amount. Definite-lived intangible assets are reviewed for impairment quarterly and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

If the effects of the COVID-19 pandemic or other factors cause economic and market conditions to deteriorate, these events could result in impairment charges with respect to intangible assets in the future. Actual results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends.

Goodwill—Goodwill represents the purchase price in excess of the fair value of net assets acquired in conjunction with the acquisition of ESH REIT's predecessor in 2010. Goodwill is reviewed for impairment quarterly, and ESH REIT tests for impairment more frequently if events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ESH REIT has one operating segment, which is its reporting unit; therefore, management analyzes goodwill associated with hotels when analyzing for potential impairment. ESH REIT first assesses qualitative factors to determine if it is more likely than not that the fair value of its reporting unit is less than its carrying amount.

If the effects of the COVID-19 pandemic or other factors cause economic and market conditions to deteriorate, these events could result in impairment charges with respect to goodwill in the future. Actual results are subject to a high degree of uncertainty due to the volatility of macroeconomic trends.

Revenue Recognition—ESH REIT's sole source of revenues is rental revenue derived from operating leases with subsidiaries of the Corporation (i.e., all revenues are generated from agreements with related parties (see Note 10)). Rental revenues are recorded on a straight-line basis as they are earned during the lease terms. Rents receivable from Extended Stay America, Inc. on the accompanying condensed consolidated balance sheets represent monthly rental amounts contractually due. Deferred rents receivable from Extended Stay America, Inc. on the accompanying condensed consolidated balance sheets represent the cumulative difference between straight-line rental revenues recognized and rental revenues contractually due. Lease rental payments received prior to rendering services are included in unearned rental revenues from Extended Stay America, Inc. on the accompanying condensed consolidated balance sheets. Variable rental revenues, specifically percentage rental revenues related to hotel revenues of the Operating Lessees, are recognized when such amounts are fixed and determinable (i.e., only when percentage rental revenue thresholds have been achieved).

Recently Issued Accounting Standards

Reference Rate Reform—In March 2020, the FASB issued an accounting standards update that provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that reference LIBOR, subject to meeting certain criteria. ESH REIT adopted this update on March 12, 2020 and the updates are effective through December 31, 2022, during which time ESH REIT may elect to apply the optional expedients and exceptions offered under the standard. ESH REIT's variable rate debt and interest rate swap are tied to rates that reference LIBOR (see Notes 7 and 8). As of March 31, 2021, ESH REIT had not applied any of these optional expedients or exceptions. The adoption of this update did not, and is not expected to, have a material effect on ESH REIT's condensed consolidated financial statements.

Income Taxes—In December 2019, the FASB issued an accounting standards update which simplifies the accounting for income taxes. The update amends several topics including interim period accounting for enacted changes in tax law and year-to-date loss limitation in interim-period tax accounting. ESH REIT adopted this update on January 1, 2021. The adoption of this update did not have a material effect on ESH REIT's condensed consolidated financial statements.

3. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income available to Class A and Class B common shareholders by the weighted-average number of shares of unrestricted Class A and Class B common stock outstanding, respectively. Diluted net income per share is computed by dividing net income available to Class A and Class B common shareholders, as adjusted for potentially dilutive securities, by the weighted-average number of shares of unrestricted Class A and Class B common stock outstanding, respectively, plus potentially dilutive securities. Dilutive securities include certain equity-based awards and are included in the calculation provided that the inclusion of such securities is not anti-dilutive.

The calculations of basic and diluted net income per share, including a reconciliation of the numerators and denominators, are as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2021	2020
Numerator:		
Net income	$ 25,150	$ 7,918
Less preferred dividends	(4)	(4)
Net income available to ESH Hospitality, Inc. common shareholders	$ 25,146	$ 7,914
Class A:		
Net income available to ESH Hospitality, Inc. Class A common shareholders - basic	$ 14,706	$ 4,627
Amounts attributable to ESH Hospitality, Inc. Class B shareholders assuming conversion	(25)	(2)
Net income available to ESH Hospitality, Inc. Class A common shareholders - diluted	$ 14,681	$ 4,625
Class B:		
Net income available to ESH Hospitality, Inc. Class B common shareholders - basic	$ 10,440	$ 3,287
Amounts attributable to ESH Hospitality, Inc. Class B shareholders assuming conversion	25	2
Net income available to ESH Hospitality, Inc. Class B common shareholders - diluted	$ 10,465	$ 3,289
Denominator:		
Class A:		
Weighted-average number of ESH Hospitality, Inc. Class A common shares outstanding - basic and diluted	250,494	250,494
Class B:		
Weighted-average number of ESH Hospitality, Inc. Class B common shares outstanding - basic	177,827	177,990
Dilutive securities	722	181
Weighted-average number of ESH Hospitality, Inc. Class B common shares outstanding - diluted	178,549	178,171
Net income per ESH Hospitality, Inc. common share - Class A - basic	$ 0.06	$ 0.02
Net income per ESH Hospitality, Inc. common share - Class A - diluted	$ 0.06	$ 0.02
Net income per ESH Hospitality, Inc. common share - Class B - basic	$ 0.06	$ 0.02
Net income per ESH Hospitality, Inc. common share - Class B - diluted	$ 0.06	$ 0.02

4. HOTEL DISPOSITIONS

The table below summarizes hotel dispositions during the three months ended March 31, 2021, and the year ended December 31, 2020 (in thousands, except number of hotels and number of rooms). No dispositions were reported as discontinued operations.

Date	Location	Number of Hotels	Number of Rooms	Net Proceeds	Gain on Sale
March 2021	Texas	2	241	$ 21,867	$ 11,930
November 2020	California	1	146	$ 63,556	$ 52,196

During the three months ended March 31, 2021 and 2020, disposed hotel properties contributed total rental revenues, total operating expenses and income before income tax expense as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Total rental revenues from Extended Stay America, Inc.	$ 289	$ 933
Total operating expenses	157	395
Income before income tax expense	132	538

5. PROPERTY AND EQUIPMENT

Net investment in property and equipment as of March 31, 2021 and December 31, 2020, consists of the following (in thousands):

	March 31, 2021	December 31, 2020
Hotel properties:		
Land and site improvements (1)	$ 1,252,151	$ 1,248,807
Building and improvements	2,927,906	2,914,683
Furniture, fixtures and equipment (2)	789,633	790,584
Total hotel properties	4,969,690	4,954,074
Development in process	28,527	46,496
Other	1,000	1,000
Total cost	4,999,217	5,001,570
Less accumulated depreciation:	(1,569,166)	(1,540,358)
Property and equipment — net	$ 3,430,051	$ 3,461,212

(1) Includes finance lease asset of $4.0 million as of March 31, 2021 and December 31, 2020.
(2) Includes finance lease asset of $0.4 million as of March 31, 2021 and December 31, 2020.

As of March 31, 2021 and December 31, 2020, development in process consisted of six and eight land parcels, respectively, that were in various phases of construction and/or development. ESH REIT expects to delay commencement of construction of four of these locations as a result of current market uncertainty.

During the three months ended March 31, 2021 and the year ended December 31, 2020, the following owned, newly constructed hotels were opened under the Extended Stay America brand:

Opening Date	Location	Number of Hotels	Number of Rooms
March 2021	Florida	2	248
December 2020	Florida	1	124
November 2020	Florida	1	144
August 2020	Florida	1	124
June 2020	Various	2	248
April 2020	South Carolina	1	120
March 2020	Florida	1	120

During the three months ended March 31, 2021 and 2020, newly-build hotels contributed rental revenues, total operating expenses and income before income tax expense as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Rental revenues from Extended Stay America, Inc.	$ 1,975	$ 130
Total operating expenses	1,901	62
Income before income tax expense	74	68

6. INTANGIBLE ASSETS AND GOODWILL

ESH REIT's intangible assets and goodwill as of March 31, 2021 and December 31, 2020, consist of the following (dollars in thousands):

	March 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets—software licenses	$ 10,597	$ (2,312)	$ 8,285
Goodwill	43,748	—	43,748
Total intangible assets and goodwill	$ 54,345	$ (2,312)	$ 52,033

	December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Definite-lived intangible assets—software licenses	$ 10,546	$ (2,005)	$ 8,541
Goodwill	43,878	—	43,878
Total intangible assets and goodwill	$ 54,424	$ (2,005)	$ 52,419

The remaining weighted-average amortization period for amortizing intangible assets is approximately seven years as of March 31, 2021. Estimated future amortization expense for amortizing intangible assets is as follows (in thousands):

Years Ending December 31,	
Remainder of 2021	$ 944
2022	1,259
2023	1,259
2024	1,259
2025	1,259
2026	1,259
Thereafter	1,046
Total	$ 8,285

7. DEBT

Summary—ESH REIT's outstanding debt, net of unamortized debt discount and unamortized deferred financing costs, as of March 31, 2021 and December 31, 2020, consists of the following (dollars in thousands):

Loan	Stated Amount	Carrying Amount		Unamortized Deferred Financing Costs		Stated Interest Rate	Maturity Date
		March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020		
Term loan facility							
ESH REIT Term Facility	$ 630,909	$ 619,847 (1)	$ 621,351 (1)	$ 7,348	$ 7,684	LIBOR (2) + 2.00%	9/18/2026 (3)
Senior notes							
2025 Notes	1,300,000	1,294,630 (4)	1,294,301 (4)	11,526	12,232	5.25%	5/1/2025
2027 Notes	750,000	750,000	750,000	11,439	11,879	4.63%	10/1/2027
Revolving credit facility							
ESH REIT Revolving Credit Facility	350,000	—	—	1,923 (5)	2,061 (5)	LIBOR (2) + 2.00%	9/18/2024
Unsecured intercompany facility							
ESH REIT Intercompany Facility	75,000	—	—	—	—	5.00%	9/18/2026
Total		$ 2,664,477	$ 2,665,652	$ 32,236	$ 33,856		

(1) The ESH REIT Term Facility (defined below) is presented net of an unamortized debt discount of $1.6 million and $1.7 million as of March 31, 2021 and December 31, 2020, respectively.
(2) As of March 31, 2021 and December 31, 2020, one-month LIBOR was 0.11% and 0.14%, respectively. As of March 31, 2021 and December 31, 2020, $50.0 million and $100.0 million, respectively, of the ESH REIT Term Facility was subject to an interest rate swap at a fixed rate of 1.175%.
(3) Amortizes in equal quarterly installments of $1.6 million. In addition to scheduled amortization, subject to certain exceptions, annual mandatory prepayments of up to 50% of Excess Cash Flow, as defined, may be required under the ESH REIT Term Facility. Annual mandatory prepayments for the year are due during the first quarter of the following year. No mandatory prepayments were required in the first quarter of 2021 based on ESH REIT's Excess Cash Flow for the year ended December 31, 2020.
(4) The 2025 Notes (defined below) are presented net of an unamortized discount of $5.4 million and $5.7 million as of March 31, 2021 and December 31, 2020, respectively.
(5) Unamortized deferred financing costs related to the revolving credit facility are included in other assets in the accompanying condensed consolidated balance sheets.

ESH REIT Credit Facilities

ESH REIT's credit agreement, as may be amended and supplemented from time to time, provides for senior secured credit facilities (collectively, the "ESH REIT Credit Facilities") which consist of a $630.9 million senior secured term loan facility (the "ESH REIT Term Facility") and a $350.0 million senior secured revolving credit facility (the "ESH REIT Revolving Credit Facility"). Subject to the satisfaction of certain criteria, borrowings under the ESH REIT Credit Facilities may be increased by an amount of up to $600.0 million, plus additional amounts, so long as, after giving effect to the incurrence of such incremental facility and the application of proceeds thereof, ESH REIT's pro-forma senior loan-to-value ratio is less than or equal to 45%.

ESH REIT Term Facility—The ESH REIT Term Facility bears interest at a rate equal to (i) LIBOR plus 1.75% for any period during which ESH REIT maintains a public corporate family rating better than or equal to BB (with a stable or better outlook) from S&P and Ba3 (with a stable or better outlook) from Moody's (a "Level 1 Period") or LIBOR plus 2.00% for any period other than a Level 1 Period; or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50% or (C) the one-month adjusted LIBOR rate plus 1.00%), plus 0.75% during a Level 1 Period or 1.00% for any period other than a Level 1 Period. ESH REIT has the option to prepay outstanding loans under the ESH REIT Term Facility without penalty.

ESH REIT Revolving Credit Facility—Borrowings under the ESH REIT Revolving Credit Facility bear interest at a rate equal to (i) LIBOR plus a spread that ranges from 1.50% to 2.00% based on ESH REIT's Consolidated Total Net Leverage Ratio, as defined, or (ii) a base rate (determined by reference to the highest of (A) the prime lending rate, (B) the overnight federal funds rate plus 0.50%, or (C) the one-month adjusted LIBOR rate plus 1.00%) plus a spread that ranges from 0.50% to 1.00% based on ESH REIT's Consolidated Total Net Leverage Ratio, as defined. ESH REIT incurs a fee of 0.30% or 0.175% on the unutilized revolver balance based on the amount outstanding under the facility. ESH REIT is also required to pay customary letter of credit fees and agency fees. The ESH REIT Revolving Credit Facility provides for the issuance of up to $50.0 million of letters of credit. As of March 31, 2021, ESH REIT had no letters of credit outstanding and available borrowing capacity of $350.0 million under the facility.

ESH REIT 2025 Notes

In May 2015 and March 2016, ESH REIT issued $500.0 million and $800.0 million, respectively, of its 5.25% senior notes due in May 2025 (the "2025 Notes") under an indenture with Deutsche Bank Trust Company Americas, as trustee, in private placements pursuant to Rule 144A of the Securities Act of 1933, as amended. ESH REIT may redeem the 2025 Notes at any time on or after May 1, 2020, in whole or in part, at a redemption price equal to 102.625% of the principal amount, declining annually to 100% of the principal amount from May 1, 2023 and thereafter, plus accrued and unpaid interest. Upon a Change of Control, as defined, holders of the 2025 Notes have the right to require ESH REIT to redeem the 2025 Notes at 101% of the principal amount, plus accrued and unpaid interest.

ESH REIT 2027 Notes

In September 2019, ESH REIT issued $750.0 million of its 4.625% senior notes due in 2027 (the "2027 Notes") under an indenture with Deutsche Bank Trust Company Americas, as trustee, at a price equal to 100% of par value in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. ESH REIT may redeem the 2027 Notes at any time on or after October 1, 2022, in whole or in part, at a redemption price equal to 102.313% of the principal amount, declining annually to 100% of the principal amount from October 1, 2024 and thereafter, plus accrued and unpaid interest. Prior to October 1, 2022, ESH REIT may redeem the 2027 Notes, in whole or in part, at a redemption price equal to 100% of the principal amount, plus a "make-whole" premium, as defined, plus accrued and unpaid interest. Prior to October 1, 2022, subject to certain conditions, ESH REIT may redeem up to 35% of the aggregate principal amount of the 2027 Notes at a redemption price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest, with the net cash proceeds from certain equity offerings, provided 65% of the original amount of the principal remains outstanding after the occurrence of each such redemption. Upon a Change of Control, as defined, holders of the 2027 Notes have the right to require ESH REIT to redeem the 2027 Notes at 101% of the principal amount, plus accrued and unpaid interest.

ESH REIT Intercompany Facility

In August 2016, ESH REIT, as borrower, and the Corporation, as lender, entered into an unsecured intercompany credit facility, as may be amended and supplemented from time to time (the "ESH REIT Intercompany Facility"). Under the ESH REIT Intercompany Facility, ESH REIT may borrow up to $300.0 million, plus additional amounts, in each case subject to certain conditions. Loans under the ESH REIT Intercompany Facility bear interest at an annual rate of 5.0%. ESH REIT has the option to prepay outstanding balances under the facility without penalty. As of March 31, 2021 and December 31, 2020, the amount outstanding under the facility was $0.

Covenants

The ESH REIT Credit Facilities, the 2027 Notes, the 2025 Notes, and the ESH REIT Intercompany Facility contain a number of restrictive covenants that, among other things and subject to certain exceptions, limit ESH REIT's ability and the ability of its subsidiaries to engage in certain transactions. In addition, the ESH REIT Revolving Credit Facility contains a financial covenant that, subject to certain conditions, requires compliance with a certain senior loan-to-value ratio. The agreements governing ESH REIT's indebtedness also contain certain customary representations and warranties, affirmative covenants and events of default, including, but not limited to, cross-defaults to certain other indebtedness and, in the case of the ESH REIT Credit Facilities and the ESH REIT Intercompany Facility, certain material operating leases and management agreements. As of March 31, 2021, ESH REIT was in compliance with all covenants under its debt agreements.

ESH REIT's continued compliance with these covenants could be impacted by current or future economic conditions associated with the COVID-19 pandemic. ESH REIT's failure to maintain compliance with its debt covenants or to pay debt obligations as they become due would give rise to a default under one or more of the agreements governing its indebtedness, and could entitle the lenders under the defaulted agreements to accelerate the maturity of the amounts thereunder, which could raise substantial doubt about ESH REIT's ability to continue as a going concern. ESH REIT may seek covenant waivers or amendments, though there is no certainty that it would be successful in such efforts.

Interest Expense, net—The components of net interest expense during the three months ended March 31, 2021 and 2020, are as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Contractual interest, net [(1)]	$ 28,879	$ 31,090
Amortization of deferred financing costs and debt discount	2,023	2,022
Other costs [(2)]	327	262
Interest income [(3)]	(94)	(946)
Total	$ 31,135	$ 32,428

(1) Net of capitalized interest of $0.4 million and $0.9 million, respectively.
(2) Includes interest expense on finance leases (see Note 11) and unused facility fees.
(3) For the three months ended March 31, 2021, includes unused facility income from the Corporation Intercompany Facility (see Note 10).

Fair Value of Debt—As of March 31, 2021 and December 31, 2020, the estimated fair value of ESH REIT's debt was $2.7 billion. Estimated fair values are determined by comparing current borrowing rates and risk spreads offered in the market (Level 2 fair value measures) or quoted market prices (Level 1 fair value measures), when available, to the stated interest rates and spreads on ESH REIT's debt.

8. DERIVATIVE INSTRUMENTS

ESH REIT is a counterparty to a floating-to-fixed interest rate swap at a fixed rate of 1.175% and a floating rate of one-month LIBOR to manage its exposure to interest rate risk on a portion of the ESH REIT Term Facility. The notional amount of the interest rate swap as of March 31, 2021 was $50.0 million, and the swap matures in September 2021.

For the three months ended March 31, 2021, ESH REIT paid interest of $0.3 million, and for the three months ended March 31, 2020, ESH REIT received proceeds of $0.3 million that offset interest expense. As of March 31, 2021, $0.3 million of interest expense is expected to be recognized over the following six months until the swap's maturity.

The table below presents the amounts and classification of the interest rate swap on ESH REIT's condensed consolidated financial statements (in thousands):

	Accrued liabilities	Accumulated other comprehensive loss, net of tax	Interest expense (income), net
As of March 31, 2021	$ (268)	$ (268) [(1)]	
As of December 31, 2020	$ (525)	$ (526) [(2)]	
For the three months ended March 31, 2021			$ 262
For the three months ended March 31, 2020			$ (257)

(1) Changes during the three months ended March 31, 2021, on a pre-tax basis, consisted of changes in fair value of $0.3 million.
(2) Changes during the year ended December 31, 2020, on a pre-tax basis, consisted of changes in fair value of $(1.4) million.

9. INCOME TAXES

ESH REIT has elected to be taxed as and expects to continue to qualify as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended ("the Code"). A REIT is a legal entity that holds real estate assets and is generally not subject to federal and state income taxes. In order to maintain qualification as a REIT, ESH REIT is required to distribute at least 90% of its taxable income, excluding net capital gain, to its shareholders each year. In addition, ESH REIT must meet a number of complex organizational and operational requirements. If ESH REIT were to fail to qualify as a REIT in any taxable year, it would be subject to federal income taxes at regular corporate rates and generally would be precluded from qualifying as a REIT for the subsequent four taxable years following the year during which it lost its REIT qualification. ESH REIT intends to distribute its taxable income to the extent necessary to optimize its tax efficiency including, but not limited to, maintaining its REIT status, while retaining sufficient capital for its ongoing needs. Even in qualifying as a REIT, ESH REIT may be subject to state and local taxes in certain jurisdictions and is subject to federal income and excise taxes on undistributed income.

ESH REIT recorded a provision for state income taxes of less than $0.1 million, an effective tax rate of 0.1%, for each of the three months ended March 31, 2021 and 2020. ESH REIT's tax rate differs from the federal statutory rate of 21% due to its status as a REIT under the provisions of the Code.

ESH REIT's income tax returns for the years 2017 to present are subject to examination by the Internal Revenue Service and other taxing authorities. As of March 31, 2021, a subsidiary of ESH REIT was under examination by the Canadian Revenue Agency for the tax years 2014 through 2017. As this audit is still in process, the timing of the resolution and any payments that may be required cannot be determined at this time. ESH REIT believes that, to the extent a liability may exist, it is not material as of March 31, 2021.

10. RELATED PARTY TRANSACTIONS

Revenues and Expenses

Leases and Rental Revenues—All revenues are generated as a result of, and earned from, three operating leases with related parties. The counterparty to each lease agreement is a subsidiary of the Corporation. Fixed and variable rental revenues for the three months ended March 31, 2021 and 2020 are as follows (in thousands):

	Three Months Ended March 31,	
	2021	**2020**
Fixed rental revenues	$ 120,392	$ 119,190
Variable rental revenues[1]	—	—

(1) Regardless of whether cash rental payments are received, ESH REIT only recognizes revenue when a lessee's revenue exceeds specific thresholds stated in the lease.

Each lease agreement has a five-year term that expires in October 2023 and contains an automatic five-year renewal, unless lessee provides notice that it will not renew no later than thirty months prior to expiration. Upon renewal, minimum and percentage rents will be adjusted to reflect then-current market terms. Future fixed rental payments to be received under current remaining noncancellable lease terms are as follows (in thousands):

Years Ending December 31,	
Remainder of 2021	$ 362,564
2022	496,448
2023	424,031
Total	$ 1,283,043

Overhead Expenses—The Corporation incurs costs under a services agreement between the Corporation and ESH REIT for certain overhead services performed on each entities' behalf. The services relate to executive management, accounting, financial analysis, training and technology. For the three months ended March 31, 2021 and 2020, ESH REIT incurred $2.5 million and $2.9 million, respectively, related to these services, which is included in general and administrative expenses in the accompanying condensed consolidated statements of operations. Expenses incurred under this services agreement also include expenses related to certain employees that participate in the Corporation's long-term incentive plan. Such charges were $0.2 million for each of the three months ended March 31, 2021 and 2020.

Capital Transactions

Corporation Intercompany Facility—In July 2020, the Corporation, as borrower, and ESH REIT, as lender, entered into an unsecured credit facility (the "Corporation Intercompany Facility"). Under the Corporation Intercompany Facility, the Corporation may borrow up to $150.0 million. Loans under the facility bear interest at an annual rate of 4.5%. In addition to paying interest on outstanding principal, the Corporation is required to pay a commitment fee to ESH REIT of 0.25% on the unutilized facility balance. There is no scheduled amortization under the facility and the facility matures on July 2, 2025. Obligations under the Corporation Intercompany Facility and guarantees thereof are unsecured and fully subordinated to the obligations of the Corporation under its revolving credit facility. The Corporation has the option to prepay outstanding balances under the facility without penalty. As of March 31, 2021, the outstanding balance under the facility was $0. For the three months ended March 31, 2021, ESH REIT recognized interest income of $0.1 million related to the unused facility balance (see Note 7).

ESH REIT Intercompany Facility—As of March 31, 2021 and December 31, 2020, there were no outstanding balances owed by ESH REIT to the Corporation under the ESH REIT Intercompany Facility, and ESH REIT incurred no interest expense during each of the three months ended March 31, 2021 and 2020 related to the ESH REIT Intercompany Facility. ESH REIT is able to borrow under the ESH REIT Intercompany Facility up to $300.0 million, plus additional amounts, in each case subject to certain conditions (see Note 7).

Distributions—During the three months ended March 31, 2021, ESH REIT paid distributions of $110.2 million to the Corporation in respect of the Class A common stock of ESH REIT. The distributions paid included an $87.7 million distribution that as of December 31, 2020, was declared and payable to the Corporation and was included in Due to Extended Stay America, Inc. on the condensed consolidated balance sheet as of December 31, 2020.

Issuance of Common Stock—During each of the three months ended March 31, 2021 and 2020, ESH REIT was compensated $1.0 million and $0.7 million, respectively, for the issuance of 0.2 million shares of Class B common stock, each of which was attached to a share of Corporation common stock to form a Paired Share, used to settle vested RSUs.

As of March 31, 2021, the Corporation has granted a total of 1.4 million RSUs whereby, as a counterparty to these outstanding RSUs, ESH REIT is expected to issue and be compensated in cash for 1.4 million shares of Class B common stock of ESH REIT in future periods, assuming market-based awards vest at 100% and no forfeitures.

Related Party Transaction Balances

Related party transaction balances as of March 31, 2021 and December 31, 2020, include the following (in thousands):

	March 31, 2021		December 31, 2020	
Leases:				
Rents receivable[1]	$	11,108	$	3,941
Deferred rents receivable[2]	$	38,536	$	39,135
Unearned rental revenues[1]	$	(23,743)	$	—
Working capital and other:				
Ordinary working capital[3]	$	(5,640)	$	(5,806)
Equity awards receivable[4]		235		688
Distribution payable [5]		—		(87,673)
Total working capital and other, net[6]	$	(5,405)	$	(92,791)

(1) Rents receivable relate to percentage rents. As of March 31, 2021 and December 31, 2020, unearned rental revenues related to percentage rent.
(2) Revenues recognized in excess of cash rents received.
(3) Disbursements and/or receipts made by the Corporation or ESH REIT on the other entity's behalf and amounts payable/receivable for certain transactions between the Corporation and ESH REIT. Includes overhead costs incurred by the Corporation on ESH REIT's behalf.
(4) Amounts related to restricted stock units not yet settled or issued.
(5) Distribution declared in December 2020 and paid in January 2021.
(6) Outstanding balances are typically repaid within 30 days.

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments—ESH REIT is a tenant under long-term ground leases at five of its hotel properties. Three of these leases are operating leases and two are finance leases. The ground lease agreements terminate at various dates between 2023 and 2096 and several of the agreements include multiple renewal options for generally five or ten year periods. As ESH REIT is reasonably certain that it will exercise the options to extend its ground leases, fixed payments associated with the extensions are included in the measurement of related right-of-use assets and lease liabilities. Additionally ESH REIT leases certain technology equipment located at its hotel sites under finance leases.

Operating lease costs related to ground leases are included in hotel operating expenses in the condensed consolidated statements of operations. Finance lease interest costs are included in interest expense, net in the condensed consolidated statements of operations (see Note 7) or, when pertaining to assets under development, are capitalized and included in property and equipment, net on the condensed consolidated balance sheets (see Note 5). ESH REIT has no variable lease costs or short-term leases.

For the three months ended March 31, 2021 and 2020, components of ESH REIT's total lease costs are as follows (in thousands):

	Three Months Ended March 31,	
	2021	2020
Operating lease costs	$ 326	$ 326
Finance lease costs	125	61
Total lease costs	$ 451	$ 387

ESH REIT's right-of-use assets and lease liabilities are as follows (in thousands):

	March 31, 2021	December 31, 2020
Right-of-use assets:		
Operating[(1)]	$ 1,335	$ 1,388
Finance[(2)]	4,323	4,354
Lease liabilities:		
Operating[(3)]	8,989	9,036
Finance	3,611	3,668

(1) Included in other assets on the accompanying condensed consolidated balance sheets.
(2) Included in property and equipment, net on the accompanying condensed consolidated balance sheets.
(3) Included in accounts payable and accrued liabilities on the accompanying condensed consolidated balance sheets.

Maturities of lease liabilities as of March 31, 2021, are as follows (in thousands):

Years Ending December 31,	Operating Leases	Finance Leases
Remainder of 2021	$ 588	$ 297
2022	806	853
2023	552	400
2024	503	402
2025	503	429
2026	503	439
Thereafter	76,588	2,232
Total	$ 80,043	$ 5,052
Total discounted lease liability	$ 8,989	$ 3,611
Difference between undiscounted cash flows and discounted cash flows	$ 71,054	$ 1,441
Weighted-average remaining lease term	60 years	10 years
Weighted-average discount rate	6.6 %	6.6 %

ESH REIT's leases do not contain residual value guarantees and do not contain restrictions with respect to incurring additional financial obligations or paying dividends. As of March 31, 2021, ESH REIT does not have any material leases that have not yet commenced.

Legal Contingencies—ESH REIT is not a party to any litigation or claims, other than routine matters arising in the ordinary course of business that are incidental to the operation of its business. ESH REIT believes that the results of all litigation and claims, individually or in the aggregate, will not have a material adverse effect on its condensed consolidated financial statements, its business, results of operations or financial condition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q.

Background and Certain Defined Terms

The following defined terms relate to our corporate structure and lodging industry operating metrics. Unless otherwise indicated or the context requires:

- *ADR* or *average daily rate* means hotel room revenues divided by total number of rooms sold in a given period.
- *Company* means the Corporation (as defined below), ESH REIT (as defined below) and their subsidiaries considered as a single enterprise.
- *Corporation* means Extended Stay America, Inc., a Delaware corporation, and its subsidiaries (excluding ESH REIT and its subsidiaries), which include the Operating Lessees (as defined below), ESH Strategies (as defined below) and ESA Management (as defined below). The Corporation controls ESH REIT through its ownership of ESH REIT's Class A common stock, which currently represents 58% of the outstanding common stock of ESH REIT.
- *ESA Management* means ESA Management LLC, a Delaware limited liability company and wholly-owned subsidiary of the Corporation, and its subsidiaries, which manage Extended Stay America-branded hotel properties on behalf of the Operating Lessees and third parties.
- *ESH REIT* means ESH Hospitality, Inc., a Delaware corporation that has elected to be taxed as a real estate investment trust ("REIT"), and its subsidiaries. ESH REIT, a majority-owned subsidiary of the Corporation, leases all of its hotel properties to the Operating Lessees.
- *ESH Strategies* means ESH Hospitality Strategies LLC, a Delaware limited liability company and wholly-owned subsidiary of the Corporation, and one of its subsidiaries, ESH Strategies Branding LLC, a Delaware limited liability company, which owns the intellectual property related to our businesses and licenses it to the Operating Lessees and ESH Strategies Franchise (as defined below).
- *ESH Strategies Franchise* means ESH Strategies Franchise LLC, a Delaware limited liability company and wholly-owned subsidiary of ESH Strategies, that licenses the Extended Stay America brand name from ESH Strategies and in-turn relicenses it to third-party franchisees.
- *Extended stay market* means the market of hotels with a fully equipped kitchenette in each guest room, which accept reservations and do not require a lease, as defined by The Highland Group.
- *Mid-price extended stay segment* means the segment of the extended stay market that generally operates at a daily rate between $55 and $105.
- *Occupancy* or *occupancy rate* means the total number of rooms sold in a given period divided by the total number of rooms available during that period.
- *Operating Lessees* means wholly-owned subsidiaries of the Corporation that lease a group of hotels from subsidiaries of ESH REIT and operate Company-owned hotels.
- *Paired Share* means one share of common stock, par value $0.01 per share, of the Corporation together with one share of Class B common stock, par value $0.01 per share, of ESH REIT, which are attached and trade as a single unit.
- *RevPAR* or *Revenue per Available Room* means the product of average daily room rate charged and the average daily occupancy achieved for a hotel or group of hotels in a given period. RevPAR does not include ancillary revenues, such as food and beverage revenues, or parking, pet, WiFi upgrade or other guest service revenues.
- *System-wide hotels* means all hotels that are operated under the Extended Stay America brand and that are owned, franchised and/or managed by the Company. As of March 31, 2021, there were 651 system-wide hotels.
- *Third-party intermediaries* are unaffiliated distribution channels that sell hotel inventory, including ours, for a fee on the internet. Third-party intermediaries currently include Expedia.com and Booking.com (and their respective affiliated brands and distribution channels, such as Priceline, Hotwire, Kayak and Trivago) and may in the future include search engines such as Google and alternative lodging suppliers such as Airbnb and HomeAway.

The following discussion may contain forward-looking statements. Actual results may differ materially from those suggested by any forward-looking statements for various reasons, including those discussed in "Risk Factors" in the 2020 Form 10-K and in "Item 1A. Risk Factors" contained in this quarterly report, and "Cautionary Note Regarding Forward-Looking

Statements" contained herein. Those sections expressly qualify any subsequent oral and written forward-looking statements attributable to us or persons acting on our behalf.

We present below separate results of operations for each of the Company and ESH REIT. Our assets and operations, other than ownership of our real estate assets, which are owned by ESH REIT, are held directly by the Corporation. The Corporation owns all of the issued and outstanding shares of Class A common stock of ESH REIT, representing 58% of the outstanding common stock of ESH REIT. Due to its controlling interest in ESH REIT, the Corporation consolidates the financial position, results of operations, comprehensive income and cash flows of ESH REIT.

Overview

Extended Stay America-branded hotels are designed to provide an affordable and attractive alternative to traditional lodging or apartment accommodations and are targeted toward self-sufficient, value-conscious guests who need lodging for a week or longer. Guests include business travelers, leisure travelers, professionals on temporary work or training assignments, persons relocating, the temporarily displaced, those purchasing a home and anyone else in need of temporary housing.

We are the largest integrated owner/operator of company-branded hotels in North America. Our business operates in the extended-stay segment of the lodging industry, and we have the following reportable operating segments:

- *Owned Hotels*—Earnings are derived from the operation of Company-owned hotel properties and include room and other hotel revenues, which accounted for 98.8% of total revenues for the three months ended March 31, 2021.
- *Franchise and management*—Earnings are derived from fees under various franchise and, in certain cases, management agreements with third parties, which accounted for 1.2% of total revenues for the three months ended March 31, 2021. These contracts provide us the ability to earn compensation for licensing the Extended Stay America brand name, providing access to shared system-wide platforms and/or management services.

We are also the only major hotel company focused solely on the extended stay segment. We target our product and service offering to an underserved customer base within the lodging industry and the extended stay segment. In addition to owning and operating hotels, we have increased and seek to continue to increase our fee-based income stream, which is driven by franchising our brand to third parties. Our core operations include intense focus on the delivery of a consistent, quality guest experience; the efficiency of our scalable marketing and distribution platforms; growing the value of our brand, in-part through rebranding our hotels to the *Extended Stay America Suites* brand or the *Extended Stay America Premier Suites* step-up brand, each of which we expect will operate under the Extended Stay America umbrella brand; and maximizing the value of our owned real estate through investment in our hotels. We intend to continue to (i) maximize and grow our core operations, (ii) create and curate value within our real estate portfolio, (iii) increase the number of franchised hotels under the Extended Stay America umbrella brand and (iv) optimize capital deployment on behalf of key stakeholders.

As of March 31, 2021, we owned and operated 563 hotel properties in 40 U.S. states, consisting of approximately 62,700 rooms, and franchised 88 hotel properties to third parties, consisting of approximately 9,000 rooms. All 651 system-wide hotels operate under the Extended Stay America brand, which serves the mid-price extended stay segment and accounts for approximately 43% of the segment by number of rooms in the United States.

RevPAR for owned hotels was $44.60 and $45.23 for the three months ended March 31, 2021 and 2020, respectively. RevPAR for comparable system-wide hotels, which includes hotels owned and franchised for the full three months ended March 31, 2021 and 2020, was $43.56 and $44.30 for the three months ended March 31, 2021 and 2020, respectively.

During the trailing twelve months ended March 31, 2021, 26.1%, 21.4% and 52.5% of our owned hotel room revenues were derived from guests with stays from 1-6 nights, from 7-29 nights and for 30 or more nights, respectively. For the trailing twelve months ended March 31, 2021, 26.9% of our owned hotel room revenues were derived from property-direct reservations, 31.8% were derived from our central call center, 21.5% were derived from our own proprietary website, 17.5% were derived from third party intermediaries and 2.3% were derived from travel agencies using global distribution systems.

Franchisees typically pay an initial application fee, along with monthly royalty and system service fees for the licensing of our brand and the use of our shared system-wide platforms, such as marketing, technology infrastructure, central reservations, national sales and revenue management systems. The standard term for our franchise agreements is generally 20 years.

Recent Updates

Pending Merger

On March 14, 2021, the Corporation and ESH REIT entered into an Agreement and Plan of Merger (the "Merger Agreement") with Eagle Parent Holdings L.P. ("Parent"), a joint venture of affiliates of Blackstone Real Estate Partners IX L.P. and Starwood Distressed Opportunity Fund XII Global, L.P. The Merger Agreement provides that an acquisition subsidiary of Parent will merge with and into the Corporation (the "Corporation Merger"), with the Corporation surviving the Corporation Merger, and an indirect acquisition subsidiary of Parent will merge with and into ESH REIT (the "ESH Merger" and, together with the Corporation Merger, the "Mergers"), with ESH REIT surviving the ESH Merger.

Upon completion of the Mergers, holders of our paired shares will be entitled to receive $19.50, subject to adjustments as described in the definitive joint proxy statement filed with the SEC on April 26, 2021 (the "joint proxy statement"), in exchange for each Paired Share, except for certain excluded shares as described in the joint proxy statement.

The management of the Company recommended the Corporation Merger to the Corporation's board of directors (the "Corporation Board") and the ESH Merger to ESH REIT's board of directors (the "ESH Board"), and the Corporation Board and ESH Board approved the Mergers, based on their assessment that the certainty of $19.50 per Paired Share in cash today was superior to the risk-adjusted present value associated with management's execution of its business plan for the Company. Moreover, the $19.50 per Paired Share price represents a 15.1% premium to the $16.94 closing price for our Paired Shares on the last trading day prior to the execution of the merger agreement. The foregoing closing price was near a 52-week high for the Paired Shares. In addition, the $19.50 price reflects a premium of 23%, 28%, and 44% to the 30 trading day, 3-month and 6-month weighted average prices, respectively, for the Paired Shares prior to the execution of the Merger Agreement.

The holders of the Paired Shares will be asked, at a special meeting of Corporation stockholders, to vote their Corporation common stock on, among other things, the adoption of the Merger Agreement, and will be asked, at a special meeting of ESH REIT stockholders, to vote their ESH REIT class B stock on, among other things, the adoption of the Merger Agreement.

The transaction is expected to close during the second quarter of 2021, subject to customary closing conditions, including approval by the Company's shareholders and receipt of certain regulatory approvals. The Company, on the one hand, and Parent, on the other hand, may mutually agree to terminate and abandon the Merger Agreement at any time prior to the effective time, even after we have obtained the requisite vote, and the Company, on the one hand, and Parent, on the other hand, may terminate the Merger Agreement under certain circumstances and such termination of the Merger Agreement may result in the payment of a termination fee by the Company, on the one hand, and Parent, on the other hand, as described in the joint proxy statement.

Further details of the Mergers are included in Note 1 to each of the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q. The foregoing description of the Mergers and the transactions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by reference to, the full text of the Merger Agreement, which has been filed with the SEC as an exhibit to a Current Report on Form 8-K on March 16, 2021 and the joint proxy statement filed with the SEC on April 26, 2021.

During the three months ended March 31, 2021, the Company incurred $4.8 million of operating expenses in contemplation of the proposed transaction.

COVID-19 Pandemic

During the year ended December 31, 2020, primarily as a result of the COVID-19 pandemic, the Company experienced significant declines in RevPAR, net income, Adjusted EBITDA and cash flow from operations. As a result of the pandemic and its impact on our business, we have increased our focus on attracting guests staying for one week or longer. Additionally, we have implemented certain reductions to expenses in order to reduce costs and maintain liquidity. While the resulting impact of the pandemic remains uncertain, we believe our business model has been resilient in absorbing the impact of the COVID-19 pandemic as compared to the broader lodging industry.

We expect increases in RevPAR, net income, Adjusted EBITDA and cash flow from operations for the year ending December 31, 2021 compared to the year ended December 31, 2020, due to the negative impact the COVID-19 pandemic had on our 2020 operating results. The timing and extent of such increases are uncertain. For the month ended March 31, 2021, we experienced a year-over-year increase in Company-owned hotel RevPAR for the first month since February 2020.

New Hotels

The table below summarizes owned, newly constructed hotel openings during the three months ended March 31, 2021 and the year ended December 31, 2020. All hotels were opened under the Extended Stay America brand.

Date	Location	Number of Hotels	Number of Rooms
March 2021	Florida	2	248
December 2020	Florida	1	124
November 2020	Florida	1	144
August 2020	Florida	1	124
June 2020	Various	2	248
April 2020	South Carolina	1	120
March 2020	Florida	1	120

Hotel Dispositions

In March 2021, the Company disposed of two hotels located in Texas. Net proceeds totaled $21.9 million and the Company recorded a gain on sale of $12.0 million. In November 2020, the Company disposed of a hotel located in California. Net proceeds totaled $63.6 million and the Company recorded a gain on sale of $52.5 million.

Hotel Pipeline

As of March 31, 2021, the Company had a pipeline of 51 hotels, which consisted of the following:

Company-Owned Pipeline & Recently Opened Hotels as of March 31, 2021									
Under Option		**Pre-Development**		**Under Construction**		**Total Pipeline**		**Opened YTD**	
# Hotels	**# Rooms**	**# Hotels**	**# Rooms**	**# Hotels**	**# Rooms**	**# Hotels**	**# Rooms**	**# Hotels**	**# Rooms**
—	—	4	504	2	248	6	752	2	248

Third-Party Pipeline & Recently Opened Hotels as of March 31, 2021									
Commitments		**Applications**		**Executed**		**Total Pipeline**		**Opened YTD**	
# Hotels	**# Rooms**	**# Hotels**	**# Rooms**	**# Hotels**	**# Rooms**	**# Hotels**	**# Rooms**	**# Hotels**	**# Rooms**
21	2,604	—	—	24	2,893	45	5,497	3	291

Definitions	
Under Option	Locations with a signed purchase and sale agreement
Pre-Development	Land purchased, permitting and/or site work
Under Construction	Hotel is under construction
Commitments	Signed commitment to build or convert a certain number of hotels by a third party, generally associated with a prior portfolio sale
Applications	Third party filed franchise application with deposit
Executed	Franchise and development application approved, geography identified and deposits paid, various stages of pre-development and/or construction

The Company expects to delay commencement of construction of four pre-development locations as a result of current market uncertainty. We also expect delays in certain third-party pipeline activity. The length of such delays and severity of the impact on our business, financial position, results of operations and liquidity, is highly uncertain.

Understanding Our Results of Operations—The Company

Revenues and Expenses. The following table presents the components of the Company's revenues as a percentage of our total revenues for the three months ended March 31, 2021:

	Percentage of 2021 Year to Date Total Revenues
• *Room revenues*. Room revenues relate to owned hotels and are driven primarily by ADR and occupancy. Pricing policy and customer mix are significant drivers of ADR. Room revenues are presented and/or discussed with respect to owned hotels only as opposed to on a system-wide basis. System-wide hotels include all owned and franchised hotels.	96.3%
• *Other hotel revenues*. Other hotel revenues relate to owned hotels and include ancillary revenues such as laundry revenues, vending commissions, additional housekeeping fees, purchased WiFi upgrades, parking revenues and pet charges. Occupancy and customer mix, as well as the number and percentage of guests that have longer-term stays, have been historical drivers of our other hotel revenues.	2.6%
• *Franchise and management fees*. Franchise and management fees include royalty and other fees charged to third party hotel owners for use of our brand name and hotel management services. The substantial majority of these fees are based on a percentage of hotel revenues.	0.5%
• *Other revenues from franchised and managed properties*. Other revenues from franchised and managed properties include the direct reimbursement of specific costs, such as on-site personnel, incremental reservation costs and other distribution costs incurred by us for which we are reimbursed on a dollar-for-dollar basis by third party hotel owners. Additionally, these revenues include fees charged, based on a percentage of revenue of the franchised hotel, as reimbursement for indirect costs incurred by us associated with certain shared system-wide platforms (i.e., system services), such as marketing, technology infrastructure, central reservations, national sales and revenue management systems.	0.6%

The following table presents the components of the Company's operating expenses as a percentage of our total operating expenses for the three months ended March 31, 2021:

	Percentage of 2021 Year to Date Total Operating Expenses
• *Hotel operating expenses*. Hotel operating expenses relate to owned hotels and have both fixed and variable components. Operating expenses that are relatively fixed include personnel expense, real estate tax expense and property insurance premiums. Occupancy is a key driver of expenses that have a high degree of variability, such as housekeeping services. Other variable expenses include marketing costs, reservation costs, property insurance claims and repairs and maintenance expense.	64.4%
• *General and administrative expenses*. General and administrative expenses include expenses associated with corporate overhead. Costs consist primarily of compensation expense of our corporate staff, including equity-based compensation and severance costs, and professional fees, including audit, tax and consulting fees, legal fees and legal settlement costs.	10.6%
• *Depreciation and amortization*. Depreciation and amortization relates primarily to the acquisition and usage of hotels and related property and equipment, including capital expenditures incurred with respect to renovations and other capital expenditures.	21.8%
• *Merger transaction expenses*. Merger transaction expenses include direct, incremental expenses incurred associated with our pending merger.	2.1%
• *Other expenses from franchised and managed properties*. Other expenses from franchised and managed properties include specific costs, such as on-site hotel personnel expense, incremental reservation costs and other distribution costs, incurred by us in the delivery of services for which we are reimbursed on a dollar-for-dollar basis. Additionally, these expenses include costs associated with shared system-wide platforms (i.e., system services), such as marketing, technology infrastructure, central reservations, national sales and revenue management systems for which we are reimbursed through system service (i.e., program) fees.	1.1%

Understanding Our Results of Operations—ESH REIT

Revenues. ESH REIT's sole source of revenues is lease rental revenues. ESH REIT's rental revenues are generated from leasing its hotel properties to subsidiaries of the Corporation. Rental revenues consist of fixed minimum rental payments recognized on a straight-line basis over the lease terms plus variable rental payments based on specified percentages of annual hotel revenues over designated thresholds. Although variable rental payments are received throughout the year, variable rental revenues are recognized in income when such amounts are fixed and determinable (i.e., only when percentage rental revenue thresholds have been achieved).

Expenses. The following table presents the components of ESH REIT's operating expenses as a percentage of ESH REIT's total operating expenses for the three months ended March 31, 2021:

	Percentage of 2021 Year to Date Total Operating Expenses
• *Hotel operating expenses.* ESH REIT's hotel operating expenses include expenses directly related to hotel ownership, such as real estate tax expense, property insurance premiums and loss on disposal of capital assets.	28.1%
• *General and administrative expenses.* General and administrative expenses include overhead expenses incurred directly by ESH REIT and certain administrative service costs reimbursed to the Corporation.	5.2%
• *Depreciation and amortization*. Depreciation and amortization relate primarily to the acquisition and usage of hotels and related property and equipment, including capital expenditures incurred with respect to renovations and other capital expenditures.	63.6%
• *Merger transaction expenses*. Merger transaction expenses include direct, incremental expenses incurred associated with our pending merger.	3.1%

Results of Operations

Results of Operations discusses the Company's and ESH REIT's condensed consolidated financial statements, each of which have been prepared in accordance with U.S. GAAP. The condensed consolidated financial statements of the Company include the financial position, results of operations, comprehensive income, changes in equity and cash flows of the Corporation and its subsidiaries, including ESH REIT. Third-party equity interests in ESH REIT, which consist primarily of the Class B common stock of ESH REIT and represent 42% of ESH REIT's total common equity, are not owned by the Corporation and therefore are presented as noncontrolling interests. The condensed consolidated financial statements of ESH REIT include the financial position, results of operations, comprehensive income, changes in equity and cash flows of ESH REIT and its subsidiaries.

Results of Operations—The Company

As of March 31, 2021, the Company owned and operated 563 hotels, consisting of approximately 62,700 rooms, and franchised 88 hotels for third parties, consisting of approximately 9,000 rooms. As of March 31, 2020, the Company owned and operated 558 hotels, consisting of approximately 62,100 rooms, and franchised 74 hotels for third parties, consisting of approximately 7,600 rooms. See Notes 4 and 5 to the condensed consolidated financial statements of Extended Stay America, Inc., included in Item 1 of this quarterly report on Form 10-Q,

Comparison of Three Months Ended March 31, 2021 and March 31, 2020

The following table presents the Company's consolidated results of operations for the three months ended March 31, 2021 and 2020, including the amount and percentage change in these results between the periods (in thousands):

	Three Months Ended March 31,			
	2021	**2020**	**Change ($)**	**Change (%)**
Revenues:				
Room revenues	$ 249,868	$ 254,464	$ (4,596)	(1.8)%
Other hotel revenues	6,680	6,768	(88)	(1.3)%
Franchise and management fees	1,218	1,279	(61)	(4.8)%
	257,766	262,511	(4,745)	(1.8)%
Other revenues from franchised and managed properties	1,805	3,790	(1,985)	(52.4)%
Total revenues	259,571	266,301	(6,730)	(2.5)%
Operating Expenses:				
Hotel operating expenses	146,338	145,295	1,043	0.7%
General and administrative expenses	24,124	23,938	186	0.8%
Depreciation and amortization	49,408	50,520	(1,112)	(2.2)%
Merger transaction expenses	4,782	—	4,782	n/a
	224,652	219,753	4,899	2.2%
Other expenses from franchised and managed properties	2,444	4,207	(1,763)	(41.9)%
Total operating expenses	227,096	223,960	3,136	1.4%
Gain on sale of hotel properties	12,018	—	12,018	n/a
Other income	1	2	(1)	(50.0)%
Income from operations	44,494	42,343	2,151	5.1%
Other non-operating (income) expense	(84)	703	(787)	(111.9)%
Interest expense, net	31,462	32,685	(1,223)	(3.7)%
Income before income tax expense	13,116	8,955	4,161	46.5%
Income tax expense	750	1,110	(360)	(32.4)%
Net income	12,366	7,845	4,521	57.6%
Net income attributable to noncontrolling interests[(1)]	(10,445)	(3,291)	(7,154)	217.4%
Net income attributable to Extended Stay America, Inc. common shareholders	$ 1,921	$ 4,554	$ (2,633)	(57.8)%

(1) Noncontrolling interests in Extended Stay America, Inc. include 42% and 41% of ESH REIT's common equity as of March 31, 2021 and 2020, respectively, and 125 shares of ESH REIT preferred stock.

The following table presents key operating metrics, including occupancy, ADR, RevPAR and hotel inventory for the Company's owned hotels for the three months ended March 31, 2021 and 2020, respectively:

	Three Months Ended March 31,		
	2021	**2020**	**Change**
Number of hotels (as of March 31)	563	558	5
Number of rooms (as of March 31)	62,674	62,053	621
Occupancy	74.5%	71.4%	310 bps
ADR	$59.86	$63.35	(5.5)%
RevPAR	$44.60	$45.23	(1.4)%

Room revenues. Room revenues decreased by $4.6 million, or 1.8%, to $249.9 million for the three months ended March 31, 2021, compared to $254.5 million for the three months ended March 31, 2020, due to a 1.4% decrease in RevPAR due to significant business disruption resulting from the COVID-19 pandemic that began in March 2020. The decrease in RevPAR was driven by a 5.5% decrease in ADR, partially offset by a 310 basis point increase in occupancy.

Other hotel revenues. Other hotel revenues decreased by $0.1 million, or 1.3%, to $6.7 million for the three months ended March 31, 2021, compared to $6.8 million for the three months ended March 31, 2020.

Franchise and management fees. Franchise and management fees decreased by $0.1 million, or 4.8%, to $1.2 million for the three months ended March 31, 2021, compared to $1.3 million for the three months ended March 31, 2020. We expect franchise fees to increase over time as additional franchised hotels open in the future. As of March 31, 2021, the Company does not manage any third-party hotels.

Other revenues from franchised and managed properties. Other revenues from franchised and managed properties decreased by $2.0 million, or 52.4%, to $1.8 million for the three months ended March 31, 2021, compared to $3.8 million for the three months ended March 31, 2020, due to a decrease in direct reimbursable costs related to the management of 25 hotels whose management agreement expired on December 31, 2020. As of March 31, 2021, the Company does not manage any third-party hotels.

Hotel operating expenses. Hotel operating expenses increased by $1.0 million, or 0.7%, to $146.3 million for the three months ended March 31, 2021, compared to $145.3 million for the three months ended March 31, 2020. The increase in hotel operating expenses was primarily due to increases in general liability premiums and claims of $2.3 million, hotel-level payroll expense of $2.2 million, allowance for uncollectible guest balances of $1.3 million and utilities expense of $1.2 million. These increases were partially offset by decreases of $2.1 million in costs related to the temporary suspension of our grab-and-go breakfast, loss on disposal of assets of $2.1 million and reservation costs of $2.1 million.

General and administrative expenses. General and administrative expenses increased by $0.2 million, or 0.8%, to $24.1 million for the three months ended March 31, 2021, compared to $23.9 million for the three months ended March 31, 2020.

Depreciation and amortization. Depreciation and amortization decreased by $1.1 million, or 2.2%, to $49.4 million for the three months ended March 31, 2021, compared to $50.5 million for the three months ended March 31, 2020, primarily due to declines in capital expenditures related to existing and newly-constructed hotels.

Merger transaction expenses. During the three months ended March 31, 2021, the Company incurred $4.8 million in direct, incremental expenses associated with our pending merger.

Other expenses from franchised and managed properties. Other expenses from franchised and managed properties decreased by $1.8 million, or 41.9%, to $2.4 million for the three months ended March 31, 2021, compared to $4.2 million for the three months ended March 31, 2020, due to a decrease in direct reimbursable costs related to the management of 25 hotels whose management agreement expired on December 31, 2020. We generally expect the cost to provide certain shared system-wide platforms to franchisees to be recovered through system service fees, which are included in other revenues from franchised and managed properties.

Gain on sale of hotel properties. During the three months ended March 31, 2021, the Company recognized a $12.0 million gain related to the sale of two hotels. No hotels were sold during three months ended March 31, 2020.

Other income. Other income remained consistent at less than $0.1 million for each of the three months ended March 31, 2021 and 2020.

Other non-operating (income) expense. During the three months ended March 31, 2021 and 2020, we recognized a foreign currency transaction gain of $0.1 million and loss of $0.7 million, respectively, related to a residual Canadian dollar-denominated deposit as a result of the prior sale of Canadian hotels.

Interest expense, net. Net interest expense decreased by $1.2 million, or 3.7%, to $31.5 million for the three months ended March 31, 2020, compared to $32.7 million for the three months ended March 31, 2020. In March 2020, the Company borrowed $399.8 million under revolving credit facilities, of which $350.0 million was repaid in August 2020 and $40.0 million was repaid during the three months ended March 31, 2021. The Company's total debt outstanding, net of unamortized deferred financing costs and debt discounts, decreased to $2.6 billion as of March 31, 2021, compared to $3.0 billion as of March 31, 2020. The Company's weighted-average interest rate decreased to 4.4% as of March 31, 2021, compared to 4.7% as of March 31, 2020, due to a decline in LIBOR.

Income tax expense. The Company recorded a provision for federal, state, and foreign income taxes of $0.8 million, an effective tax rate of 5.7%, for the three months ended March 31, 2021, compared to a provision of $1.1 million, an effective tax rate of 12.4%, for the three months ended March 31, 2020. The Company's effective rate differs from the federal statutory rate of 21% primarily due to ESH REIT's status as a REIT under the provisions of the Internal Revenue Code (the "Code").

Results of Operations—ESH REIT

As of March 31, 2021, ESH REIT owned and leased 563 hotels, consisting of approximately 62,700 rooms. As of March 31, 2020, ESH REIT owned and leased 558 hotels, consisting of approximately 62,100 rooms. See Notes 4 and 5 to the condensed consolidated financial statements of ESH Hospitality, Inc., included in Item 1 of this quarterly report on Form 10-Q,

Comparison of Three Months Ended March 31, 2021 and March 31, 2020

The following table presents ESH REIT's results of operations for the three months ended March 31, 2021 and 2020, including the amount and percentage change in these results between the periods (in thousands):

	Three Months Ended March 31,			
	2021	2020	Change ($)	Change (%)
Revenues- Rental revenues from Extended Stay America, Inc.	$ 120,392	$ 119,190	$ 1,202	1.0%
Operating expenses:				
Hotel operating expenses	21,405	24,527	(3,122)	(12.7)%
General and administrative expenses	3,960	4,167	(207)	(5.0)%
Depreciation and amortization	48,381	49,588	(1,207)	(2.4)%
Merger transaction expenses	2,373	—	2,373	n/a
Total operating expenses	76,119	78,282	(2,163)	(2.8)%
Gain on sale of hotel properties	11,930	—	11,930	n/a
Income from operations	56,203	40,908	15,295	37.4%
Other non-operating (income) expense	(84)	560	(644)	(115.0)%
Interest expense, net	31,135	32,428	(1,293)	(4.0)%
Income before income tax expense	25,152	7,920	17,232	217.6%
Income tax expense	2	2	—	0.0%
Net income	$ 25,150	$ 7,918	$ 17,232	217.6%

Rental revenues from Extended Stay America, Inc. Rental revenues increased by $1.2 million, or 1.0%, to $120.4 million for the three months ended March 31, 2021, compared to $119.2 million for the three months ended March 31, 2020. The increase in rental revenues was due to new hotel openings that occurred during 2020 and the first quarter of 2021, partially offset by asset sales. No variable rental revenues were recognized during the three months ended March 31, 2021 or 2020, as minimum percentage rental revenue thresholds were not achieved during either of those periods.

Hotel operating expenses. Hotel operating expenses decreased by $3.1 million, or 12.7%, to $21.4 million for the three months ended March 31, 2021, compared to $24.5 million for the three months ended March 31, 2020. This decrease was due to decreases in loss on disposal of assets of $2.1 million and property insurance related costs of $0.9 million.

General and administrative expenses. General and administrative expenses decreased by $0.2 million, or 5.0%, to $4.0 million for the three months ended March 31, 2021, compared to $4.2 million for the three months ended March 31, 2020, due to a decrease in reimbursable costs paid to the Corporation.

Depreciation and amortization. Depreciation and amortization decreased by $1.2 million, or 2.4%, to $48.4 million for the three months ended March 31, 2021, compared to $49.6 million for the three months ended March 31, 2020, primarily due to declines in capital expenditures related to existing and newly-constructed hotels.

Merger transaction expenses. During the three months ended March 31, 2021, ESH REIT incurred $2.4 million in direct, incremental expenses associated with our pending merger.

Other non-operating (income) expense. During the three months ended March 31, 2021 and 2020, ESH REIT recognized a foreign currency transaction gain of $0.1 million and loss of $0.6 million, respectively, related to a residual Canadian dollar-denominated deposit as a result of the prior sale of Canadian hotels.

Interest expense, net. Net interest expense decreased by $1.3 million, or 4.0%, to $31.1 million for the three months ended March 31, 2021, compared to $32.4 million for the three months ended March 31, 2020. In March 2020, ESH REIT borrowed $350.0 million under its revolving credit facility, which was fully repaid in August 2020. ESH REIT's total debt outstanding, net of unamortized deferred financing costs and debt discounts, decreased to $2.6 billion as of March 31, 2021, compared to $3.0 billion as of March 31, 2020. ESH REIT’s weighted-average interest rate decreased to 4.4% as of March 31, 2021, compared to 4.6% as of March 31, 2020, due to a decline in LIBOR.

Income tax expense. ESH REIT’s effective income tax rate remained consistent at less than 0.1% for each of the three months ended March 31, 2021 and 2020. ESH REIT’s effective rate differs from the federal statutory rate of 21% primarily due to its status as a REIT under the provisions of the Code.

Non-GAAP Financial Measures

Hotel Operating Profit and Hotel Operating Margin

Hotel Operating Profit and Hotel Operating Margin measure hotel-level operating results prior to certain items, including debt service, income tax expense, impairment charges, depreciation and amortization and general and administrative expenses. The Company believes that Hotel Operating Profit and Hotel Operating Margin are useful measures to investors regarding our operating performance as they help us evaluate aggregate owned hotel-level profitability, specifically owned hotel operating efficiency and effectiveness. Further, these measures allow us to analyze period over period operating margin flow-through, defined as the change in Hotel Operating Profit divided by the change in total room and other hotel revenues.

We define Hotel Operating Profit as net income excluding: (1) income tax expense; (2) net interest expense; (3) other non-operating (income) expense; (4) other income; (5) gain on sale of hotel properties; (6) impairment of long-lived assets; (7) depreciation and amortization; (8) merger transaction expenses (9) general and administrative expenses; (10) loss on disposal of assets; (11) franchise and management fees; and (12) system services (profit) loss, net. We define Hotel Operating Margin as Hotel Operating Profit divided by the sum of room and other hotel revenues. We believe that Hotel Operating Profit and Hotel Operating Margin are not meaningful or useful measures for ESH REIT on a stand-alone basis due to the fact that a Paired Share represents an investment in the Company, as a single, consolidated enterprise, which is reflected in the consolidated Company results of operations; therefore, we believe these performance measures are meaningful for the consolidated Company only.

Hotel Operating Profit and Hotel Operating Margin as presented may not be comparable to similar measures calculated by other companies. This information should not be considered as an alternative to net income of the Company, the Corporation or ESH REIT, or any other measure of the Company, the Corporation or ESH REIT calculated in accordance with U.S. GAAP. Interest expense and other items have been and will continue to be incurred and are not reflected in Hotel Operating Profit or Hotel Operating Margin. Management separately considers the impact of these excluded items to the extent they are material to operating decisions and assessments of operating performance. The Company’s condensed consolidated statements of operations include excluded items, each of which should be considered when evaluating our performance in addition to our non-GAAP financial measures. Hotel Operating Profit and Hotel Operating Margin should not solely be considered as measures of our profitability.

The following table provides a reconciliation of Hotel Operating Profit and Hotel Operating Margin for the Company for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	2020
Net income	$ 12,366	$ 7,845
Income tax expense	750	1,110
Interest expense, net	31,462	32,685
Other non-operating (income) expense	(84)	703
Other income	(1)	(2)
Gain on sale of hotel properties	(12,018)	—
Depreciation and amortization	49,408	50,520
Merger transaction expenses	4,782	—
General and administrative expenses	24,124	23,938
Loss on disposal of assets [(1)]	1,232	3,343
Franchise and management fees	(1,218)	(1,279)
System services loss, net	639	417
Hotel Operating Profit	$ 111,442	$ 119,280
Room revenues	$ 249,868	$ 254,464
Other hotel revenues	6,680	6,768
Total room and other hotel revenues	$ 256,548	$ 261,232
Hotel Operating Margin	43.4 %	45.7 %

[(1)] Included in hotel operating expenses in the condensed consolidated statements of operations.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income excluding: (1) net interest expense; (2) income tax expense; and (3) depreciation and amortization. EBITDA is a commonly used measure of performance in many industries. The Company believes that EBITDA provides useful information to investors regarding our operating performance as it helps us and investors evaluate the ongoing performance of our hotels and our franchise and management operations after removing the impact of our capital structure, primarily net interest expense, our corporate structure, primarily income tax expense, and our asset base, primarily depreciation and amortization. We believe that the use of EBITDA facilitates comparisons between us and other lodging companies, hotel owners and capital-intensive companies. Additionally, EBITDA is a measure that is used by management in our annual budgeting and compensation planning processes.

The Company uses Adjusted EBITDA when evaluating our performance because we believe the adjustment for certain additional items, described below, provides useful supplemental information to investors regarding ongoing operating performance and that the presentation of Adjusted EBITDA, when combined with the U.S. GAAP presentation of net income, net income per share and cash flow provided by operating activities, is beneficial to the overall understanding of ongoing operating performance. We adjust EBITDA for the following items where applicable for each period presented, and refer to this measure as Adjusted EBITDA:

- *Equity-based compensation*—We exclude charges related to equity-based compensation expense with respect to awards issued under long-term incentive compensation plans to employees and certain directors.
- *Impairment of long-lived assets*—We exclude the effect of impairment losses recorded on property and equipment and intangible assets, as we believe they are not reflective of ongoing or future operating performance.

- *Gain on sale of hotel properties*—We exclude the gain on sale of hotel properties, as we believe it is not reflective of ongoing or future operating performance.
- *Merger transaction expenses*—We exclude transaction expenses related to our pending merger, as we believe they are not reflective of ongoing or future operating performance.
- *System services (profit) loss, net*—We exclude direct and indirect reimbursable expenses from franchised and managed properties, net of other revenues, because although the timing of system service fee revenues will typically not align with expenses incurred to operate these programs, the Company manages system services to break even over time.
- *Other expenses*—We exclude the effect of other expenses or income that we do not consider reflective of ongoing or future operating performance, including the following: loss on disposal of assets, non-operating (income) expense, including foreign currency transaction costs, and certain costs associated with acquisitions, dispositions and/or capital transactions.

EBITDA and Adjusted EBITDA as presented may not be comparable to similar measures calculated by other companies. This information should not be considered as an alternative to net income of the Company, the Corporation or ESH REIT, or any other measure of the Company, the Corporation or ESH REIT calculated in accordance with U.S. GAAP. Cash expenditures for capital expenditures, interest expense and other items have been and will continue to be incurred and are not reflected in EBITDA or Adjusted EBITDA. Management separately considers the impact of these excluded items to the extent they are material to operating decisions and assessments of operating performance. The Company's condensed consolidated statements of operations and cash flows include capital expenditures, net interest expense and other excluded items, all of which should be considered when evaluating our performance in addition to our non-GAAP financial measures. EBITDA and Adjusted EBITDA should not solely be considered as measures of our profitability or indicative of funds available to fund our cash needs, including our ability to pay shareholder distributions.

We believe that EBITDA and Adjusted EBITDA are not meaningful or useful measures for ESH REIT on a stand-alone basis due to the fact that a Paired Share represents an investment in the Company, as a single, consolidated enterprise, which is reflected in the consolidated Company results of operations; therefore, we believe these performance measures are meaningful for the consolidated Company only.

The following table provides a reconciliation of net income to EBITDA and Adjusted EBITDA for the Company for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,	
	2021	**2020**
Net income	$ 12,366	$ 7,845
Interest expense, net	31,462	32,685
Income tax expense	750	1,110
Depreciation and amortization	49,408	50,520
EBITDA	93,986	92,160
Equity-based compensation	2,348	1,126
Gain on sale of hotel properties	(12,018)	—
Merger transaction expenses	4,782	—
System services loss, net	639	417
Other expense [(1)]	1,149	4,046
Adjusted EBITDA	$ 90,886	$ 97,749

[(1)] Includes loss on disposal of assets and non-operating (income) expense, including foreign currency transaction costs. Loss on disposal of assets totaled $1.2 million and $3.3 million, respectively.

FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share

FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share are metrics used by management to assess our operating performance and profitability and to facilitate comparisons between us and other hotel and/or real estate companies that include a REIT as part of their legal entity structure. Funds From Operations ("FFO") is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as net income (computed in accordance with U.S. GAAP), excluding gains from sales of real estate, impairment charges, the cumulative effect of changes in accounting principle, plus real estate related depreciation and amortization and after adjustments for unconsolidated partnerships and joint ventures following the same approach. FFO is a commonly used measure among other hotel and/or real estate companies that include a REIT as a part of their legal entity structure. Since real estate depreciation and amortization, impairment of long-lived assets and gains from sales of hotel properties, net are dependent upon the historical cost of the real estate asset bases and generally not reflective of ongoing operating performance or earnings capability, the Company believes FFO is useful to investors as it provides a meaningful comparison of our performance between periods and between us and other companies and/or REITs.

Consistent with our presentation of Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share, as described below, our reconciliation of FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share begins with net income attributable to Extended Stay America, Inc. common shareholders, which excludes net income attributable to noncontrolling interests, and adds back earnings attributable to ESH REIT's Class B common shares, presented as noncontrolling interest of the Company as required by U.S. GAAP. We believe that including earnings attributable to ESH REIT's Class B common shares in our calculations of FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share provides investors with useful supplemental measures of the Company's operating performance since our Paired Shares, directly through the pairing of the common stock of the Corporation and Class B common stock of ESH REIT, and indirectly through the Corporation's ownership of the Class A common stock of ESH REIT, entitle holders to participate in 100% of the common equity and earnings of both the Corporation and ESH REIT. Based on the limitation on transfer provided for in each of the Corporation's and ESH REIT's charters, shares of common stock of the Corporation and shares of Class B common stock of ESH REIT are transferable and tradable only in combination as units, each unit consisting of one share of the Corporation's common stock and one share of ESH REIT Class B common stock.

The Company uses Adjusted FFO and Adjusted FFO per diluted Paired Share when evaluating our performance because we believe the adjustment for certain additional items, described below, provides useful supplemental information to investors regarding our ongoing operating performance and that the presentation of Adjusted FFO and Adjusted FFO per diluted Paired Share, when combined with the U.S. GAAP presentation of net income and net income per common share, is beneficial to the overall understanding of our ongoing performance.

The Company adjusts FFO for the following items, net of tax, as applicable, that are not addressed in NAREIT's definition of FFO, and refers to this measure as Adjusted FFO:

- *Debt modification and extinguishment costs*—We exclude charges related to the write-off of unamortized deferred financing costs, prepayment penalties and other costs associated with the modification and/or extinguishment of debt as we believe they are not reflective of our ongoing or future operating performance.
- *Merger transaction expenses*—We exclude transaction expenses related to our pending merger, as we believe they are not reflective of ongoing or future operating performance.

Adjusted FFO per diluted Paired Share is defined as Adjusted FFO divided by the weighted average number of Paired Shares outstanding on a diluted basis. Until such time as the number of outstanding common shares of the Corporation and Class B common shares of ESH REIT differ, we believe Adjusted FFO per diluted Paired Share is useful to investors, as it represents a measure of the economic risks and rewards related to an investment in our Paired Shares.

FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share as presented may not be comparable to similar measures calculated by other REITs or real estate companies that include a REIT as part of their legal entity structure. In particular, due to the fact that we present these measures for the Company on a consolidated basis (i.e., including the impact of franchise fees, management fees and income taxes), FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share, may be of limited use to investors comparing our results only to REITs. This information should not be considered as an alternative to net income of the Company, the Corporation, or ESH REIT, net income per share of common stock of the Corporation, net income per share of Class A or Class B common stock of ESH REIT or any other measure of the Company, the Corporation or ESH REIT calculated in accordance with U.S. GAAP. Real estate related depreciation and amortization expense will continue to be incurred and is not reflected in FFO, Adjusted FFO or Adjusted FFO per diluted Paired Share. Additionally, impairment charges, gains or losses on sales of hotel properties and other charges or income incurred in accordance with U.S. GAAP may occur and are not reflected in FFO, Adjusted FFO or Adjusted FFO per diluted Paired Share. Management separately considers the impact of these excluded items to the extent they are material to operating decisions and assessments of operating performance. The Company's condensed consolidated statements of operations include these items, all of which should be considered when evaluating our performance, in addition to our non-GAAP financial measures.

We believe that FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share are not meaningful or useful measures for ESH REIT on a stand-alone basis due to the fact that a Paired Share represents an investment in the Company, as a single, consolidated enterprise, which is reflected in the consolidated Company results of operations; therefore, we believe these performance measures are meaningful for the consolidated Company only.

The following table provides a reconciliation of net income attributable to Extended Stay America, Inc. common shareholders to FFO, Adjusted FFO and Adjusted FFO per diluted Paired Share for the Company for the three months ended March 31, 2021 and 2020 (in thousands, except per Paired Share data):

	Three Months Ended March 31,	
	2021	**2020**
Net income per Extended Stay America, Inc. common share - diluted	$ 0.01	$ 0.03
Net income attributable to Extended Stay America, Inc. common shareholders	$ 1,921	$ 4,554
Noncontrolling interests attributable to Class B common shares of ESH REIT	10,441	3,287
Real estate depreciation and amortization	47,755	48,881
Gain on sale of hotel properties	(12,018)	—
Tax effect of adjustments to net income attributable to Extended Stay America, Inc. common shareholders	(3,038)	(1,608)
FFO	45,061	55,114
Merger transaction expenses	4,782	—
Tax effect of adjustments to FFO	(406)	—
Adjusted FFO	$ 49,437	$ 55,114
Adjusted FFO per Paired Share - diluted	$ 0.28	$ 0.31
Weighted average Paired Shares outstanding - diluted	178,549	178,171

Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share

We present Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share as supplemental measures of the Company’s performance. We believe that these are useful measures for investors since our Paired Shares, directly through the pairing of the common stock of the Corporation and Class B common stock of ESH REIT, and indirectly through the Corporation’s ownership of the Class A common stock of ESH REIT, entitle holders to participate in 100% of the common equity and earnings of both the Corporation and ESH REIT. As required by U.S. GAAP, net income attributable to Extended Stay America, Inc. common shareholders excludes earnings attributable to ESH REIT’s Class B common shares, a noncontrolling interest. Based on the limitation on transfer provided for in each of the Corporation’s and ESH REIT’s charters, shares of common stock of the Corporation and shares of Class B common stock of ESH REIT are transferable and tradable only in combination as units, each unit consisting of one share of the Corporation’s common stock and one share of ESH REIT Class B common stock. As a result, we believe that Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share represent useful measures to holders of our Paired Shares.

Paired Share Income is defined as the sum of net income attributable to Extended Stay America, Inc. common shareholders and noncontrolling interests attributable to Class B common shares of ESH REIT. Adjusted Paired Share Income is defined as Paired Share Income adjusted for items that, net of income taxes, we believe are not reflective of ongoing or future operating performance. We adjust Paired Share Income for the following items, net of tax, as applicable, and refer to this measure as Adjusted Paired Share Income: debt modification and extinguishment costs, impairment of long-lived assets, gain on sale of hotel properties, merger transaction expenses, system services (profit) loss, net and other expenses such as loss on disposal of assets, non-operating (income) expense, including foreign currency transaction costs and certain costs associated with acquisitions, dispositions and/or capital transactions. With the exception of equity-based compensation, an ongoing charge, and debt modification and extinguishment costs, these adjustments (other than the effect of income taxes) are the same as those used in the reconciliation of net income calculated in accordance with U.S. GAAP to EBITDA and Adjusted EBITDA.

Adjusted Paired Share Income per diluted Paired Share is defined as Adjusted Paired Share Income divided by the number of Paired Shares outstanding on a diluted basis. Until such time as the number of outstanding common shares of the Corporation and Class B common shares of ESH REIT differ, we believe Adjusted Paired Share Income per diluted Paired Share is useful to investors, as it represents one measure of the economic risks and rewards related to an investment in our

Paired Shares. We believe that Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share provide meaningful indicators of the Company's operating performance in addition to separate and/or individual analyses of net income attributable to common shareholders of the Corporation and net income attributable to Class B common shareholders of ESH REIT, each of which is impacted by specific U.S. GAAP requirements, including the recognition of contingent lease rental revenues and the recognition of fixed minimum lease rental revenues on a straight-line basis, and may not reflect how cash flows and/or earnings are generated on an individual entity or total enterprise basis. Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share should not be considered as an alternative to net income of the Company, the Corporation or ESH REIT, net income per share of common stock of the Corporation, net income per share of Class A or Class B common stock of ESH REIT or any other measure of the Company, the Corporation or ESH REIT calculated in accordance with U.S. GAAP.

We believe that Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share are not meaningful or useful measures for ESH REIT on a stand-alone basis due to the fact that a Paired Share represents an investment in the Company, as a single, consolidated enterprise, which is reflected in the condensed consolidated Company results of operations; therefore, we believe these performance measures are meaningful for the consolidated Company only.

The following table provides a reconciliation of net income attributable to Extended Stay America, Inc. common shareholders to Paired Share Income, Adjusted Paired Share Income and Adjusted Paired Share Income per diluted Paired Share for the three months ended March 31, 2021 and 2020 (in thousands, except per Paired Share data):

	Three Months Ended March 31,	
	2021	**2020**
Net income per Extended Stay America, Inc. common share - diluted	$ 0.01	$ 0.03
Net income attributable to Extended Stay America, Inc. common shareholders	$ 1,921	$ 4,554
Noncontrolling interests attributable to Class B common shares of ESH REIT	10,441	3,287
Paired Share Income	12,362	7,841
Gain on sale of hotel properties	(12,018)	—
Merger transaction expenses	4,782	—
System services loss, net	639	417
Other expense [(1)]	1,149	4,046
Tax effect of adjustments to Paired Share Income	464	(147)
Adjusted Paired Share Income	$ 7,378	$ 12,157
Adjusted Paired Share Income per Paired Share – diluted	$ 0.04	$ 0.07
Weighted average Paired Shares outstanding – diluted	178,549	178,171

(1) Includes loss on disposal of assets and non-operating (income) expense, including foreign currency transaction costs. Loss on disposal of assets totaled $1.2 million and $3.3 million, respectively.

Liquidity and Capital Resources

Company Overview

We have historically generated significant cash flow from operations and have financed our ongoing business as well as the execution of our strategic objectives with existing cash, cash flow generated from operations, borrowings under our revolving credit facilities, as needed, and, in certain instances, proceeds from asset dispositions. We generated cash flow from operations of $91.3 million and $92.3 million for the three months ended March 31, 2021 and 2020, respectively.

Current liquidity requirements consist primarily of funds necessary to pay for (i) hotel operating expenses, (ii) capital expenditures, including capital expenditures incurred to complete the construction of two new hotels in process and certain hotel renovations, (iii) investments in franchise and other fee-based programs, (iv) general and administrative expenses, including expenses related to our pending merger, (v) debt service obligations, including interest expense, (vi) income taxes, (vii) Corporation and required ESH REIT distributions and (viii) continued focus on our core operations and business strategy, including rebranding our hotels to the *Extended Stay America Suites* brand or the E*xtended Stay America Premier Suites* brand, each of which we expect to operate under the Extended Stay America umbrella brand. We expect to fund our current liquidity requirements from a combination of cash on hand, cash flow generated from operations and, in certain instances, proceeds from asset dispositions. We may also fund a portion of our current liquidity requirements with the borrowings under our revolving credit facilities.

The COVID-19 pandemic had a material adverse effect on the Company's cash flows from operations during the year ended December 31, 2020. Despite this impact, the Company continues to generate positive cash flow from operations, net of interest and capital expenditures. It remains difficult to predict when pre-pandemic demand and pricing for our hotels will resume. We may choose to delay the execution of certain of our business strategies and reduce operating costs and certain capital expenditures in order to preserve liquidity. As of March 31, 2021, the Company's total available borrowing capacity under its revolving credit facilities was $390.0 million.

Long-term liquidity requirements consist of funds necessary to (i) make future hotel renovations (ii) acquire additional hotel properties and/or other companies, (iii) execute our business strategy and strategic initiatives, including rebranding our hotels to the *Extended Stay America Suites* brand or the E*xtended Stay America Premier Suites* brand, each of which we expect to operate under the Extended Stay America umbrella brand, (iv) pay Corporation and required ESH REIT distributions, (v) repay and/or refinance outstanding amounts under our existing debt obligations, including the Corporation Revolving Credit Facility due in September 2024, the 2025 Notes due in May 2025, the ESH REIT Term Facility due in September 2026 and the 2027 Notes due in October 2027. See Note 7 to each of the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional detail.

With respect to our long-term liquidity requirements, specifically our ability to refinance our existing outstanding debt obligations, we cannot assure you that the Corporation and/or ESH REIT will be able to refinance any debt on attractive terms at or before maturity, on commercially reasonable terms or at all, or the timing of any such refinancing. There are a number of factors that may have a material adverse effect on our ability to refinance our existing debt obligations, including the current and future state of overall capital and credit markets generally and as a result of the COVID-19 pandemic, our degree of leverage, the value of our unencumbered assets, borrowing restrictions imposed by existing or prospective lenders, general market conditions for the lodging industry, our operating performance and liquidity and market perceptions about us. The success of our business strategies will depend, in part, on our ability to access various capital sources. There can be no assurance that we will be able to raise any such financing on terms acceptable to us or at all.

Cash Balances. The Company had unrestricted cash and cash equivalents of $357.9 million and $396.8 million at March 31, 2021 and December 31, 2020, respectively. Based upon the current level of operations, management believes that our cash flow from operations, together with our cash balances, including the $9.8 million of borrowings under the Corporation's Revolving Credit Facility, is expected to be adequate to meet the Company’s anticipated funding requirements and business objectives for the foreseeable future. However, the length and severity of the COVID-19 pandemic and its economic impact continues to be highly uncertain and the potential future worsening of macroeconomic conditions could require the Company to reassess its liquidity position and take additional measures of liquidity preservation to ensure it can satisfy financial obligations as they come due.

Debt Obligations. During the three months ended March 31, 2021, the Company repaid $40.0 million under the Corporation Revolving Credit Facility. As of March 31, 2021, the outstanding balance under the Corporation Revolving Credit Facility was $9.8 million and the Corporation and ESH REIT had $40.0 million and $350.0 million of available borrowing capacity, respectively, under each of their respective credit facilities.

In May 2020, the Company entered into an amendment to the Corporation Revolving Credit Facility whereby it obtained a suspension of the quarterly tested leverage covenant from the beginning of the second quarter of 2020 through the end of the first quarter of 2021 (the “Four Quarter Suspension Period”). For the second quarter of 2021 through the fourth quarter of 2021, the leverage covenant calculation was modified to use annualized EBITDA as opposed to trailing twelve-month EBITDA. Throughout the Four Quarter Suspension Period, the Company has agreed to maintain minimum liquidity of $150.0 million and to limit share repurchases and dividend payments made by the Corporation. Additionally, the amendment provides for the Corporation to borrow up to $150.0 million from ESH REIT through an intercompany loan facility.

The Company’s compliance with financial covenants under its debt obligations could be impacted by current or future economic conditions associated with the pandemic. We may not be able to maintain compliance with our debt covenants or pay debt obligations as they become due and could risk default under the agreements governing the Company's indebtedness, upon which the amount outstanding could be accelerated and may raise substantial doubt about our ability to continue as a going concern.

See Note 7 to each of the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional detail related to our debt obligations and related covenants.

Paired Share Repurchase Program. In December 2015, the Boards of Directors of the Corporation and ESH REIT authorized a combined Paired Share repurchase program. As a result of several increases in authorized amounts and program extensions, the combined Paired Share repurchase program currently authorizes the Corporation and ESH REIT to purchase up to $550.0 million in Paired Shares through December 31, 2021. Repurchases may be made at management's discretion from time to time in the open market, in privately negotiated transactions or by other means (including through Rule 10b5-1 trading plans). As of March 31, 2021, the Corporation and ESH REIT had repurchased and retired 28.6 million Paired Shares for $283.0 million and $166.4 million, including transaction fees, respectively, and $101.1 million remained available under the combined Paired Share repurchase program.

Distributions. The following table outlines distributions declared or paid to date in 2021:

Declaration Date	Record Date	Date Paid/Payable	ESH REIT Distribution	Corporation Distribution	Total Distribution
2/25/2021	3/12/2021	3/26/2021	$0.09	$—	$0.09
12/22/2020	1/6/2021	1/20/2021	$0.35	$—	$0.35

We do not expect to pay our regular quarterly distribution during the pendency of transactions contemplated by the Merger Agreement. Under the terms of the Merger Agreement, Parent may request that the Corporation pay a special distribution (the "Special Dividend") immediately prior to the closing of up to $1.75 per share of Corporation common stock, in which case the cash consideration paid in the merger in respect of a share of Corporation common stock shall be reduced by the amount of such Special Dividend. See "Overview—Pending Merger".

The Corporation

The Corporation's primary source of liquidity is distribution income it receives in respect of its ownership of 100% of the Class A common stock of ESH REIT, which as of March 31, 2021, represents 58% of the outstanding common stock of ESH REIT. Distributions are subject to uncertainty due to the volatility of macroeconomic trends, including the evolving nature of the COVID-19 pandemic. Other sources of liquidity include income from the operations of the Operating Lessees, ESA Management, ESH Strategies and ESH Strategies Franchise.

The Corporation's current liquidity requirements consist primarily of funds necessary to pay for or fund (i) hotel operating expenses, (ii) general and administrative expenses, (iii) debt service obligations, (iv) income taxes, (v) investments in its franchise and other fee programs and (vi) Corporation distributions. The Corporation expects to fund its current liquidity requirements from a combination of cash on hand, including funds borrowed under the Corporation Revolving Credit Facility or borrowings from ESH REIT, as lender, under the Corporation Intercompany Facility (defined below), as well as cash flow generated from operations, including distribution income it receives in respect of its ownership of 100% of the Class A common stock of ESH REIT.

The Corporation's long-term liquidity requirements include the repayment of outstanding amounts under the Corporation Revolving Credit Facility, and the repayment of outstanding amounts, if any, under the Corporation Intercompany Facility. See Note 7 to the condensed consolidated financial statements of Extended Stay America, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional detail.

The Corporation's ability to pay distributions is dependent upon a number of factors, including but not limited to, its results of operations, net income, liquidity, cash flows, financial condition or prospects, economic conditions, ability to effectively execute certain tax planning strategies, compliance with applicable law, the receipt of distributions from ESH REIT in respect of the Class A common stock, level of indebtedness, capital requirements, contractual restrictions, restrictions in any existing and future debt agreements and other factors. The payment of future distributions is at the discretion of the Corporation's Board of Directors.

During the three months ended March 31, 2021, the Corporation repaid $40.0 million under the Corporation Revolving Credit Facility. As of March 31, 2021, the outstanding balance under the Corporation Revolving Credit Facility was $9.8 million and the Corporation had $40.0 million of available borrowing capacity under the facility.

In July 2020, the Corporation, as borrower, and ESH REIT, as lender, entered into an unsecured credit facility (the "Corporation Intercompany Facility"). Under the Corporation Intercompany Facility, the Corporation may borrow up to $150.0 million from ESH REIT. Loans under the facility bear interest at an annual rate of 4.5%. In addition to paying interest on outstanding principal, the Corporation is required to pay a commitment fee to ESH REIT of 0.25% on the unutilized facility balance. There is no scheduled amortization under the facility and the facility matures on July 2, 2025. Obligations under the Corporation Intercompany Facility and guarantees thereof are unsecured and fully subordinated to the obligations of the Corporation under the Corporation Revolving Credit Facility. The Corporation has the option to prepay outstanding balances under the facility without penalty. As of March 31, 2021, the outstanding balance under the facility was $0.

ESH REIT may return additional cash to the Corporation for the Corporation to fund its current and long-term liquidity requirements or for other corporate purposes. ESH REIT may transfer cash to the Corporation through the redemption of shares of Class A common stock, which would decrease the Corporation's ownership of ESH REIT. Such redemption would likely be inefficient from a tax perspective because the redemption would be taxed as an ordinary dividend. Additionally, ESH REIT may loan funds to the Corporation under the Corporation Intercompany Facility, subject to the conditions contained in the Corporation Revolving Credit Facility and other existing debt agreements.

Based upon the current level of operations, we believe that the Corporation's cash position and cash flow generated from operations will be adequate to meet all the Corporation's funding requirements and business objectives for the foreseeable future.

ESH REIT

ESH REIT's primary source of liquidity is rental revenues derived from leases. The leases expire in October 2023, and at such time, we expect minimum and percentage rents to be adjusted to reflect then-current market terms.

ESH REIT's current liquidity requirements include funds necessary to pay (i) costs associated with ownership of hotel properties, (ii) debt service obligations, including interest expense, and with respect to the ESH REIT Term Facility, scheduled principal payments on outstanding borrowings, (iii) real estate tax expense, (iv) property insurance expense, (v) general and administrative expense, including administrative service costs reimbursed to the Corporation, (vi) capital expenditures, including those capital expenditures incurred to complete certain hotel renovations, the completion of construction of two new hotels in-process and rebranding hotels to the *Extended Stay America Suites* brand or the *Extended Stay America Premier Suites* brand, vii) draws made by the Corporation on the Corporation Intercompany Facility and (viii) the payment of required REIT distributions.

ESH REIT's long-term liquidity requirements consist of funds necessary to (i) complete future hotel renovations, including at those hotels which may rebrand to the *Extended Stay America Premier Suites* brand (ii) acquire additional hotel properties and/or other lodging companies, (iii) pay required REIT distributions, (iv) fund draws made by the Corporation on the Corporation Intercompany Facility, (v) repay any outstanding amounts under the ESH REIT Revolving Credit Facility and (vi) refinance (including prior to or in connection with debt maturity payments) the 2025 Notes, the ESH REIT Term Facility and the 2027 Notes maturing in May 2025, September 2026 and October 2027, respectively. See Note 7 to the condensed consolidated financial statements of ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional detail on ESH REIT's debt obligations.

In order to qualify and maintain its status as a REIT, ESH REIT must distribute annually to its shareholders an amount at least equal to:

- 90% of its REIT taxable income, computed without regard to the deduction for dividends paid and excluding any net capital gain; plus
- 90% of the excess of its net income, if any, from foreclosure property over the tax imposed on such income by the Code; less
- the sum of certain items of non-cash income that exceeds a percentage of ESH REIT's income.

ESH REIT intends to distribute its taxable income to the extent necessary to optimize its tax efficiency including, but not limited to, maintaining its REIT status, while retaining sufficient capital for its ongoing needs. ESH REIT is subject to income tax on its taxable income that is not distributed and to an excise tax to the extent that certain percentages of its taxable income are not distributed by specified dates.

We expect that ESH REIT will need to refinance all or a portion of its outstanding debt, including the 2025 Notes, the ESH REIT Credit Facilities and the 2027 Notes, on or before maturity. See Note 7 to the condensed consolidated financial statements of ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q, for additional detail. We cannot assure you that ESH REIT will be able to refinance any of its debt on attractive terms at or before maturity, on commercially reasonable terms or at all.

As of March 31, 2021, the outstanding balance under the ESH REIT Revolving Credit Facility was $0 and available borrowing capacity was $350.0 million.

In August 2016, ESH REIT, as borrower, and the Corporation, as lender, entered into an unsecured intercompany credit facility (the "ESH REIT Intercompany Facility"). Under the ESH REIT Intercompany Facility, ESH REIT may borrow up to $300.0 million, plus additional amounts, in each case subject to certain conditions. There is no scheduled amortization under the facility and the facility matures in September 2026. As of March 31, 2021, the outstanding balance under the ESH REIT Intercompany Facility was $0.

The Corporation may return additional cash to ESH REIT in order for ESH REIT to pay for or fund (i) its current and long-term liquidity requirements, (ii) capital expenditures, (iii) outstanding debt obligations or (iv) for other corporate purposes. The Corporation may transfer cash to ESH REIT through the purchase of additional shares of Class A common stock, which would increase its ownership of ESH REIT and reduce the Company's overall tax efficiency. Additionally, the Corporation may loan funds to ESH REIT under the ESH REIT Intercompany Facility, subject to the conditions contained in existing debt agreements. The Corporation does not expect to return additional cash to ESH REIT in the foreseeable future to the extent it is not required under existing agreements or applicable law.

Based upon the current level of operations, we believe that ESH REIT's cash position, cash flow generated from operations and, in certain circumstances, proceeds from asset sales, will be adequate to meet all of ESH REIT's funding requirements and business objectives for the foreseeable future.

Sources and Uses of Cash – The Company

The following cash flow table and comparisons are provided for the Company:

Comparison of Three Months Ended March 31, 2021 and March 31, 2020

We had total cash, cash equivalents and restricted cash of $371.0 million and $725.0 million at March 31, 2021 and 2020, respectively. The following table summarizes the changes in our cash, cash equivalents and restricted cash as a result of operating, investing and financing activities for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020	Change ($)
Cash provided by (used in):			
Operating activities	$ 91,346	$ 92,285	$ (939)
Investing activities	(8,513)	(53,623)	45,110
Financing activities	(121,745)	324,827	(446,572)
Effects of changes in exchange rate on cash and cash equivalents	—	(150)	150
Net (decrease) increase in cash and cash equivalents	$ (38,912)	$ 363,339	$ (402,251)

Cash Flows provided by Operating Activities

Cash flows provided by operating activities totaled $91.3 million for the three months ended March 31, 2021, compared to $92.3 million for the three months ended March 31, 2020, a decrease of $0.9 million. The decrease in cash flows provided by operating activities was a result of a slight decline in hotel operating income, primarily due to a 5.5% decrease in ADR driven by the negative impact of the COVID-19 pandemic, partially offset by a 310 bps increase in occupancy.

Cash Flows used in Investing Activities

Cash flows used in investing activities totaled $8.5 million for the three months ended March 31, 2021, compared to $53.6 million for the three months ended March 31, 2020, a decrease of $45.1 million. The decrease in cash flows used in investing activities was due to a net decrease in investment in property and equipment, including development in process and intangible assets, of $24.1 million. In addition, cash flows used in investing activities decreased as a result of $21.9 million in proceeds received from the disposition of two hotels during the three months ended March 31, 2021, whereas no hotel properties were sold during the three months ended March 31, 2020.

Cash Flows (used in) provided by Financing Activities

Cash flows used in financing activities totaled $121.7 million for the three months ended March 31, 2021 compared to cash flows provided by financing activities of $324.8 million for the three months ended March 31, 2020. Cash flows used in financing activities changed due to a $439.7 million decrease in net proceeds received from financing transactions and an increase in Paired Share distributions of $37.1 million, partially offset by a $31.1 million decrease in Paired Share repurchases.

Sources and Uses of Cash – ESH REIT

The following cash flow table and comparisons are provided for ESH REIT:

Comparison of Three Months Ended March 31, 2021 and March 31, 2020

ESH REIT had total cash and cash equivalents of $288.0 million and $628.9 million at March 31, 2021 and 2020, respectively. The following table summarizes the changes in ESH REIT's cash and cash equivalents as a result of operating, investing and financing activities for the three months ended March 31, 2021 and 2020 (in thousands):

	Three Months Ended March 31,		
	2021	**2020**	**Change ($)**
Cash provided by (used in):			
Operating activities	$ 108,155	$ 108,295	$ (140)
Investing activities	(6,682)	(52,957)	46,275
Financing activities	(189,199)	277,415	(466,614)
Net (decrease) increase in cash and cash equivalents	$ (87,726)	$ 332,753	$ (420,479)

Cash Flows provided by Operating Activities

Cash flows provided by operating activities totaled $108.2 million for the three months ended March 31, 2021 compared to $108.3 million for the three months ended March 31, 2020, a decrease of $0.1 million.

Cash Flows used in Investing Activities

Cash flows used in investing activities totaled $6.7 million for the three months ended March 31, 2021 compared to $53.0 million for the three months ended March 31, 2020, a decrease of $46.3 million. The decrease in cash flows used in investing activities was due to a $25.3 million net decrease in investment in property and equipment, including development in process and intangible assets. In addition, cash flows used in investing activities decreased as a result of $21.9 million in proceeds received from the disposition of two hotels during the three months ended March 31, 2021, whereas no hotel properties were sold during the three months ended March 31, 2020.

Cash Flows (used in) provided by Financing Activities

Cash flows used in financing activities totaled $189.2 million for the three months ended March 31, 2021 compared to cash flows provided by financing activities of $277.4 million for the three months ended March 31, 2020. Cash flows used in financing activities changed due a $350.0 million decrease in net proceeds received from financing transactions and an increase in ESH REIT Class A and Class B common distributions of $128.3 million, partially offset by a decrease of $11.4 million in ESH REIT Class B common stock repurchases.

Capital Expenditures

We maintain each of our hotels in good repair and condition and in conformity with applicable laws and regulations. The cost of all improvements and significant alterations are generally made with cash flow from operations. During the three months ended March 31, 2021 and 2020, the Company incurred capital expenditures, including development in process, of $30.4 million and $54.6 million, respectively. These capital expenditures related to development and construction in process, ordinary hotel capital improvements, investments in information technology and hotel renovations.

With respect to our current hotel renovation program, as of March 31, 2021, we have substantially completed renovations at 31 hotels for $71.7 million. We are currently in the process of performing renovations at three additional hotels, with total costs incurred to date of $7.9 million. After completion of the current renovation program, we generally expect each hotel to be on a seven to eight-year renovation cycle. We expect future hotel renovations to focus on strict underwriting standards intended to maximize returns on investment through the renovation of our highest potential assets, which may include renovations to conform certain existing, core-branded *Extended Stay America Suites* hotels to our new step-up brand, *Extended Stay America Premier Suites*.

Funding requirements for future capital expenditures, including hotel rebranding, hotel renovations, completing construction of new hotels we expect to own and operate, acquiring and converting existing hotels, will be significant and are expected to be provided primarily from cash flows generated from operations or, to the extent necessary, the Corporation or ESH REIT revolving credit facilities, including intercompany facilities and, in certain instances, proceeds from asset sales.

Our Indebtedness

As of March 31, 2021, the Company's total indebtedness was $2.6 billion, net of unamortized deferred financing costs and debt discounts. ESH REIT's total indebtedness at March 31, 2021 was $2.6 billion, net of unamortized deferred financing costs and debt discounts. See Note 7 to the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this quarterly report on Form 10-Q, for additional detail related to our debt obligations.

Critical Accounting Policies

Our discussion and analysis of our historical financial condition and results of operations is based on the Company's and ESH REIT's historical condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods. Actual results may differ significantly from these estimates and assumptions. We believe the following accounting policies, which are described in detail in Note 2 to each of the audited consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 8 of the 2020 Form 10-K, require material subjective or complex judgments and have the most significant impact on the Company's and ESH REIT's financial condition and results of operations: property and equipment, investments, rental revenue recognition and income taxes. We evaluate estimates, assumptions and judgments on an ongoing basis, based on information that is then available to us, our experience and various matters that we believe are reasonable and appropriate for consideration under the circumstances.

Recent Accounting Pronouncements

For a discussion of recently issued accounting standards, see Note 2 to each of the condensed consolidated financial statements of Extended Stay America, Inc. and ESH Hospitality, Inc., included in Item 1 of this combined quarterly report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Corporation and ESH REIT may seek to reduce earnings and cash flow volatility associated with changes in interest rates and commodity prices by entering into financial arrangements to provide a hedge against a portion of the risks associated with such volatility, when applicable. We have exposure to such risks to the extent they are not hedged. We may enter into derivative financial arrangements to the extent they meet the foregoing objectives. We do not use derivatives for trading or speculative purposes.

The Corporation

The Corporation currently has limited exposure to market risk from changes in interest rates. As of March 31, 2021, the Corporation's variable rate debt consisted of $9.8 million drawn on its revolving credit facility. If market rates of interest were to fluctuate by 1.0%, interest expense would increase or decrease by $0.1 million annually, assuming that the amount of outstanding Corporation variable rate debt remains at $9.8 million.

ESH REIT

As of March 31, 2021, $621.4 million of ESH REIT's outstanding gross debt of $2.7 billion had a variable interest rate. ESH REIT is a counterparty to an interest rate swap at a fixed rate of 1.175%. The notional amount of the interest rate swap as of March 31, 2021 was $50.0 million, and the swap matures in September 2021. The remaining $571.4 million of outstanding variable interest rate debt not subject to the interest rate swap remains subject to interest rate risk. If market rates of interest were to fluctuate by 1.0%, interest expense would increase or decrease by $5.7 million annually, assuming that the amount of outstanding ESH REIT unhedged variable interest rate debt remains at $571.4 million.

Item 4. Controls and Procedures

Controls and Procedures (Extended Stay America, Inc.)

Disclosure Controls and Procedures

As of March 31, 2021, Extended Stay America, Inc. reviewed, under the direction of the Chief Executive Officer and Chief Financial Officer, the disclosure controls and procedures of Extended Stay America, Inc., as defined in Exchange Act Rule 13a-15(e). Based upon and as of the date of that review, the Chief Executive Officer and Chief Financial Officer of Extended Stay America, Inc. concluded that the disclosure controls and procedures of Extended Stay America, Inc. were effective to ensure that information required to be disclosed in the reports that Extended Stay America, Inc. files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the management of Extended Stay America, Inc., including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes in Extended Stay America, Inc.’s internal control over financial reporting that occurred during the most recent fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, Extended Stay America, Inc.’s internal control over financial reporting.

Controls and Procedures (ESH Hospitality, Inc.)

Disclosure Controls and Procedures

As of March 31, 2021, ESH Hospitality, Inc. reviewed, under the direction of the Chief Executive Officer and Chief Financial Officer, the disclosure controls and procedures of ESH Hospitality, Inc., as defined in Exchange Act Rule 13a-15(e). Based upon and as of the date of that review, the Chief Executive Officer and Chief Financial Officer of ESH Hospitality, Inc. concluded that the disclosure controls and procedures of ESH Hospitality, Inc. were effective to ensure that information required to be disclosed in the reports that ESH Hospitality, Inc. files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the management of ESH Hospitality, Inc., including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes in ESH Hospitality, Inc.’s internal control over financial reporting that occurred during the most recent fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect, ESH Hospitality, Inc.’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time subject to various litigation and claims incidental to our business. We recognize a liability when we believe a loss is probable and can be reasonably estimated. However, the ultimate result of litigation and claims cannot be predicted with certainty.

As of March 31, 2021, the following six purported class action lawsuits have been filed against the Company:

Date of Filing	Plaintiff(s)	Defendant(s)	Court
March 27, 2018	Tracy Reid, on behalf of himself, all others similarly situated	ESA Management, LLC	US District Court, Northern District of California
June 8, 2018	Franisha Beasley and Stephanie Randall, individually and on behalf of others similarly situated	ESA Management, LLC	US District Court, Northern District of California
July 13, 2018	Adrienne Liggins, individually and on behalf of others similarly situated and aggrieved	ESA Management, LLC, Extended Stay America - Anaheim Convention Center	US District Court, Northern District of California
July 13, 2018	Bridget Liggins, individually and on behalf of others similarly situated and aggrieved	ESA Management, LLC	State of California, Orange County Superior Court
August 21, 2018	Sandra Arizmendi, an individual, on behalf of the State of California, as private attorney general, and on behalf of all others similarly situated	ESA Management, LLC	US District Court, Northern District of California
January 18, 2019	Lisa M. Sanchez, individually and on behalf of all others similarly situated	Extended Stay America, Inc. and ESA Management, LLC	State of California, Orange County Superior Court

The complaints above allege, among other things, failure to provide meal and rest periods, wage and hour violations and violations of the Fair Credit Reporting Act. The complaints seek, among other relief, collective and class certification of the lawsuits, unspecified damages, costs and expenses, including attorneys' fees, and such other relief as the court might find just and proper.

With respect to the Fair Credit Reporting Act violations alleged in the lawsuits described above, the parties reached a tentative settlement agreement in May 2019, which is subject to certain conditions, including court approval. During the second quarter of 2019, the Company recorded a payable and a corresponding insurance receivable for the amount of the tentative settlement. The expected resolution of the alleged Fair Credit Reporting Act violations in the lawsuits did not have, and is not expected to have, a material adverse impact on the Company's condensed consolidated financial statements, results of operations or liquidity.

With respect to the meal and rest period and the wage and hour violations alleged in the lawsuits described above, excluding the Sanchez lawsuit, the parties reached a tentative settlement agreement in January 2020, which is subject to certain conditions, including court approval. During the fourth quarter of 2019, the Company incurred a loss and recorded a charge equal to the amount of the tentative settlement. The expected resolution of the alleged meal and rest period and wage and hour violations in the lawsuits did not have, and is not expected to have, a material adverse impact on the Company's condensed consolidated financial statements, results of operations or liquidity.

With respect to the Sanchez lawsuit, although the Company believes it is reasonably possible that it may incur losses associated with such matter, it is not possible to estimate the amount of loss or range of loss, if any, that might result from adverse judgments, settlements or other resolution based on the early stage of the lawsuit, the uncertainty as to the certification of a class or classes and the size of any certified class, if applicable, and the lack of resolution of significant factual and legal issues. However, depending on the amount and timing, an unfavorable resolution of the lawsuit or a change in the Company's assessment of the likelihood of loss could have a material adverse effect on the Company's condensed consolidated financial statements, results of operations or liquidity in a future period. We believe that we have meritorious defenses and are prepared to vigorously defend the lawsuit.

We are also subject to various other litigation and claims incidental to our business. We believe we have adequate reserves against such matters. In the opinion of management, such matters, individually or in the aggregate, will not have a material adverse effect on the Company's condensed consolidated financial statements, results of operations or liquidity or on ESH REIT's condensed consolidated financial statements, results of operations or liquidity.

Item 1A. Risk Factors

In addition to the other information set forth in this combined quarterly report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A "Risk Factors" in our 2020 Form 10-K. These risks, which could materially affect our business, financial condition or future results, are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition and/or operating results. In addition to the risk factors previously disclosed in our 2020 Form 10-K, the following risks relate to the proposed Mergers:

Failure to consummate the proposed Mergers within the expected timeframe or at all could have a material adverse impact on our business, results of operations and financial condition.

There can be no assurance that the Mergers will be consummated. Consummation of the Mergers is subject to various conditions, including approval by certain United States regulatory authorities, approval by the Company's shareholders, and other customary closing conditions. There can be no assurance that these and other conditions to closing will be satisfied in a timely manner or at all.

The Merger Agreement also provides that it may be terminated by the Company, on the one hand, or the Parent, on the other hand, under certain circumstances, and in certain specified circumstances the Company will be required to pay Parent a termination fee of $105 million. If we are required to make such payment, doing so may materially adversely affect our business, results of operations and financial condition.

There can be no assurance that a remedy will be available to us in the event of a breach of the Merger Agreement by Parent or its affiliates or that we will wholly or partially recover any damages incurred by us in connection with the proposed Mergers. In addition, we could be subject to litigation related to any failure to complete the Mergers or related to any enforcement proceeding commenced against us to perform our obligations under the Merger Agreement. A failed transaction may result in negative publicity and a negative impression of us among our customers or in the investment community or business community generally. Further, any disruptions to our business resulting from the announcement and pendency of the proposed Mergers, including any adverse changes in our relationships with our customers, partners, suppliers and employees, could continue or accelerate in the event of a failed transaction. Also, we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed Mergers, for which we will have received little or no benefit if the proposed Mergers are not completed. Many of these fees and costs will be payable by us even if the proposed Mergers are not completed and may relate to activities that we would not have undertaken other than to complete the proposed Mergers.

The announcement and pendency of the proposed Mergers may adversely affect our business, results of operations and financial condition.

Uncertainty about the effect of the proposed Mergers on our employees, customers and other parties may have an adverse effect on our business, results of operation and financial condition. These risks to our business include the following, all of which could be exacerbated by a delay in the completion of or failure to consummate the proposed Mergers:

- the impairment of our ability to attract, retain and motivate our employees, including key personnel;
- the diversion of significant management time and resources towards the completion of the proposed Mergers that could otherwise have been devoted to pursuing other beneficial opportunities for us;
- difficulties maintaining relationships with customers, suppliers and other business partners;
- delays or deferments of certain business decisions by our customers, suppliers and other business partners;
- the inability to pursue alternative business opportunities or make appropriate changes to our business because the Merger Agreement requires us to conduct our business in the ordinary course consistent with past practice and not engage in certain types of transactions prior to the completion of the proposed Mergers;

- litigation relating to the proposed Mergers and the costs related thereto; and
- the incurrence of significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed Mergers.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Purchases of Equity Securities by the Issuers and Affiliated Purchasers

No Paired Shares were repurchased during the three months ended March 31, 2021.

In December 2015, the Boards of Directors of the Corporation and ESH REIT authorized a combined Paired Share repurchase program. As a result of several increases in authorized amounts and program extensions, the combined Paired Share repurchase program currently authorizes the Corporation and ESH REIT to purchase up to $550 million in Paired Shares through December 31, 2021. Repurchases may be made at management’s discretion from time to time in the open market, in privately negotiated transactions or by other means (including through Rule 10b5-1 trading plans). As of March 31, 2021, $101.1 million remained under the combined Paired Share repurchase program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description
10.1*	Agreement and Plan of Merger, dated as of March 14, 2021, by and among Eagle Parent Holdings L.P., Eagle Merger Sub 1 Corporation, Eagle Merger Sub 2 Corporation, Extended Stay America, Inc. and ESH Hospitality, Inc. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-36190) filed March 16, 2021, and incorporated by reference herein).
10.2†	Offer Letter of Continued Employment between Extended Stay America, Inc., ESH Hospitality, Inc. and Bruce N. Haase dated as of February 8, 2021 (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36190) filed February 9, 2021, and incorporated by reference herein).
10.3	Form of Letter Agreement (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 001-36190) filed March 16, 2021, and incorporated by reference herein).
31.1**	Certification of the Chief Executive Officer of Extended Stay America, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of the Chief Financial Officer of Extended Stay America, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3**	Certification of the Chief Executive Officer of ESH Hospitality, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.4**	Certification of the Chief Financial Officer of ESH Hospitality, Inc. pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, and Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Chief Executive Officer and the Chief Financial Officer of Extended Stay America, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Chief Executive Officer and the Chief Financial Officer of ESH Hospitality, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1.INS	XBRL Instance Document
101.1.SCH	XBRL Taxonomy Extension Schema Document
101.1.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.1.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.1.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.1.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule will be furnished supplementally to the SEC upon request: provided, however, that the parties may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any document so furnished.

** Filed herewith.

† Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

		EXTENDED STAY AMERICA, INC.
Date: May 10, 2021	By:	/s/ Bruce N. Haase
		Bruce N. Haase
		President and Chief Executive Officer
Date: May 10, 2021	By:	/s/ David A. Clarkson
		David A. Clarkson
		Chief Financial Officer
		ESH HOSPITALITY, INC.
Date: May 10, 2021	By:	/s/ Bruce N. Haase
		Bruce N. Haase
		President and Chief Executive Officer
Date: May 10, 2021	By:	/s/ David A. Clarkson
		David A. Clarkson
		Chief Financial Officer

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Bruce N. Haase, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Extended Stay America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2021

/s/ Bruce N. Haase

Bruce N. Haase
President and Chief Executive Officer

Exhibit 31.2

<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>

I, David A. Clarkson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Extended Stay America, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2021

/s/ David A. Clarkson
David A. Clarkson
Chief Financial Officer

Exhibit 31.3

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Bruce N. Haase, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ESH Hospitality, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2021	/s/ Bruce N. Haase
	Bruce N. Haase
	President and Chief Executive Officer

Exhibit 31.4

<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>

I, David A. Clarkson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ESH Hospitality, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 10, 2021

/s/ David A. Clarkson
David A. Clarkson
Chief Financial Officer

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Bruce N. Haase, President and Chief Executive Officer, and David A. Clarkson, Chief Financial Officer of Extended Stay America, Inc., each certifies with respect to the quarterly report of Extended Stay America, Inc. on Form 10-Q for the quarterly period ended March 31, 2021 (the "Report") that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Extended Stay America, Inc.

Date: May 10, 2021	/s/ Bruce N. Haase Bruce N. Haase President and Chief Executive Officer
Date: May 10, 2021	/s/ David A. Clarkson David A. Clarkson Chief Financial Officer

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. § 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Bruce N. Haase, President and Chief Executive Officer, and David A. Clarkson, Chief Financial Officer of ESH Hospitality, Inc., each certifies with respect to the quarterly report of ESH Hospitality, Inc. on Form 10-Q for the quarterly period ended March 31, 2021 (the "Report") that, to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of ESH Hospitality, Inc.

Date: May 10, 2021	/s/ Bruce N. Haase Bruce N. Haase President and Chief Executive Officer
Date: May 10, 2021	/s/ David A. Clarkson David A. Clarkson Chief Financial Officer