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IN FOCUS:

# CHINESE INVESTMENT IN U.S. HOTELS IS STILL GOING STRONG

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*U.S. hotel demand is increasing out of China, Chinese investors continue to purchase stakes in U.S. hotel properties, and major Chinese real estate companies have begun to develop mixed-use projects in the U.S. that include hotels—all signals of rising interest from China in the U.S. lodging industry.*

## Chinese Investment in U.S. Hotels: A Growing Trend

Since I began writing about Chinese hotel investment and tourism trends in the U.S., activity from China has not only grown but also diversified. Over the last two years, more and more Chinese investors have been searching for hotels to purchase in gateway cities like Los Angeles, San Francisco, and Seattle in the west, and New York in the east.

Some recent examples of big hotel acquisitions by Chinese investors in Greater Los Angeles include the Sheraton Gateway Los Angeles, the Four Points by Sheraton Los Angeles International Airport, the Torrance Marriott South Bay, and the DoubleTree Monrovia; together, these hotel purchases total well over a quarter of a billion dollars. Chinese investors have bought up many limited- and select-service hotels as well. Across the wide spectrum of hotel types and tiers, the trend of Chinese investment in U.S. hotels has realized enormous growth.

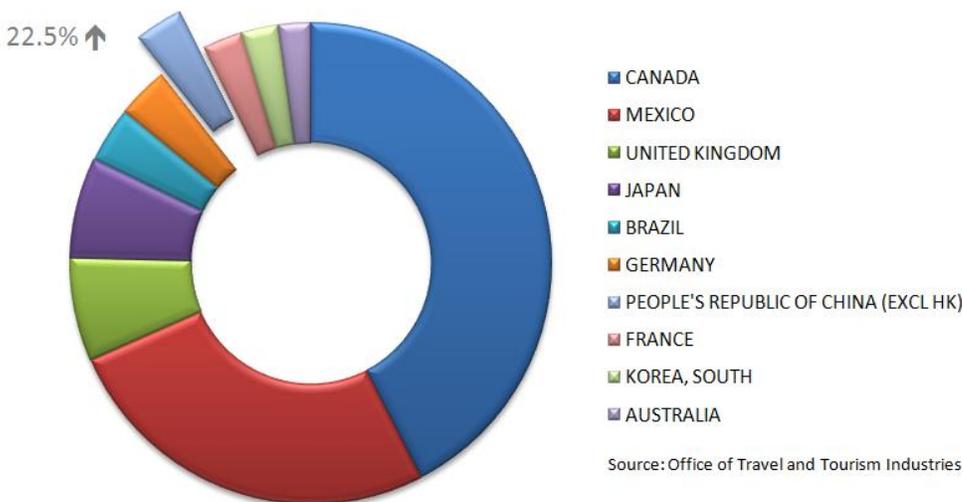


## Chinese Investors and the Draw of U.S. Hotel Investment

When we speak of “a” Chinese hotel investor, we may mean an individual, a bank, a hotel operator with a stake in the property, a real estate firm, or even an import/export company or an airline company. There are three principal attractions for Chinese investment in U.S. hotels and real estate. First, the U.S., despite some credit rating setbacks over the past several years, leads the world in terms of the most attractive capital appreciation among nations. Second, compared with similar markets and properties in China, certain hotel properties in the U.S. can be had at a lower price premium (in terms of price per room). Finally, the

number of Chinese travelers to the U.S. has been growing dramatically; over 1.8 million Chinese tourists visited the U.S. in 2013. The U.S. Department of Commerce’s Office of Travel and Tourism Industries expects that number to rise to more than 2.1 million in 2014; as U.S. hotels compete to capture this influx of demand, Chinese investors are positioning their properties for the greatest possible benefit.

### Country of Residence – 2013 YE Number of Arrivals



**2011 – 1.1 million Chinese visitors**  
**2012 – 1.5 million Chinese visitors**

## Recent Chinese Investments in U.S. Hotel Development

Beyond investments in existing U.S. hotels, Chinese investors have increasingly delved into the development of new hotels in the U.S. Real estate developers from China, historically tuned toward residential properties, have begun to branch out into hotel and mixed-use projects, as evidenced by recent developments in the greater Los Angeles market. In the summer of 2013, Greenland Group of Shanghai purchased the 6.3-acre “Metropolis” site, just north of Staples Center in Downtown LA, for \$150 million.<sup>1</sup> Greenland Group’s planned mixed-use development project on the site will include a 350-room Hotel Indigo, InterContinental Hotels Group trademark “branded boutique.” In late 2013, Oceanwide Real Estate Group bought a 4.6-acre site just east of Staples Center, where it plans to build a five-star hotel, apartments, and retail stores. In addition to these prospective developments in Los Angeles, Chinese property conglomerate Dalian Wanda Group aims to expand its luxury real estate and hotel business with a luxury hotel in the U.S., a move to cater to the booming outbound, upscale travel market from China.



Greenland, Oceanwide, and Dalian Wanda are leading real estate companies in China, having developed and operated major residential and commercial real estate projects in their home country; these new ventures represent the companies’ first major hotel developments in the U.S., a sign of increasing confidence from China in the long-term prospects for the U.S. hospitality industry.

**Chinese investors have been searching for hotels to purchase in gateway cities like Los Angeles, San Francisco, and Seattle in the west, as well as New York City in the east.**

<sup>1</sup> “Chinese developer buys major lot in downtown L.A.” Roger Vincent and Julie Makinen, January 31, 2014. <http://articles.latimes.com/2014/jan/31/business/la-fi-chinese-land-buy-20140201>

## Most EB-5 Visa Applicants—and Their Investment Dollars—Come from China

During and after the recent recession, when traditional sources of hotel financing became very scarce, the U.S. government's EB-5 visa program<sup>2</sup> channeled business-minded immigrants—with many viable hotel investors among them. Moreover, the vast majority of EB-5 applicants came from the Chinese mainland.

Even following the economic downturn, with wider options for financing hotel construction, the EB-5 program is proving very attractive for foreign investors. This can be seen in the increasing number of visas: There were 7,641 EB-5 visas issued in 2012, and that number rose to 8,567 in 2013. Most of these (approximately 80%) continue to come from mainland China, with individuals attracted by the opportunity to set down professional and personal roots in the U.S.

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## Conclusion

Capital continues to flow from China to the U.S. hotel industry. China's hotel and real estate markets have experienced a general slowdown since early this year, and investors from mainland China have targeted overseas investment. Chinese investors,

ranging from individuals targeting purchases of economy hotels to major firms investing in full-service luxury properties, have become especially active in the U.S. hotel transactions and ownership market. Most recently, some highly prominent real estate companies in China have invested hundreds of millions in major mixed-use developments that include hotels. Investment from Chinese businesses and people in U.S. hospitality properties is not only expanding but also literally breaking new ground.

Activity remains concentrated in destination cities on the west and east coasts, and part of the reason is that so much of the leisure and commercial demand originating from China draws toward these

major markets. With demand from China on the rise, and with Chinese investors positioning their properties to bring these potential guests through their doors, the opportunities are robust for well-advised investment in U.S. hotels.

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<sup>2</sup> The EB-5 visa for Immigrant Investors, created by Congress in 1990, targets qualified foreign investors seeking U.S. citizenship. The visa provides a route to permanent residency (a green card) for foreign nationals who invest at least \$1,000,000 (or \$500,000 in a "Targeted Employment Area") in a business while creating or preserving at least ten full-time jobs for U.S. workers.



## About HVS

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## About the Author



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