

**MAY 2015** 

### **IN FOCUS:**

# DOWNTOWN LOS ANGELES HOTEL MARKET

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A population boom and new development money in Downtown Los Angeles lead to a dramatic increase in the supply pipeline. Recent hotel transactions have been geared towards redevelopment and repositioning.

Downtown Los Angeles (DTLA) is the central business district of the city of Los Angeles and covers the area bounded by Interstate 110, Interstate 10, and the Los Angeles River. DTLA is undergoing a renaissance of new commercial and residential developments. The past 16 years have seen the landscape change significantly with the addition of such attractions as the Staples Center, Walt Disney Concert Hall, and the \$3-billion LA Live entertainment complex, all key projects that have helped establish DTLA as a popular destination.

DTLA population has boomed in that time as well. Besides 32 million ft<sup>2</sup> of office space, the number of residential units has tripled from 11,500 in 1999 to 34,000 in 2014; an additional 7,500 units are under construction and 14,000 more units are planned. Approximately \$19.2 billion has been invested in DTLA since 1999. Over 700 new restaurants, bars/lounges, night clubs, and retail establishments have opened in the past 7 years, with an additional 1.2 million ft<sup>2</sup> of retail space under construction.<sup>1</sup>

#### **HOTEL INVENTORY**

DTLA currently has about 8,000 rooms of existing hotel inventory. Branded and independent full-service and boutique hotels dominate the market, such as the JW Marriott Los Angeles LA Live, The Standard Downtown LA, and the Millennium Biltmore. The most recent additions to the market include the Ace Hotel Downtown Los Angeles, the Courtyard Los Angeles LA Live, and the Residence Inn Los Angeles LA Live, all of which opened in 2014.

#### **Newly Opened**

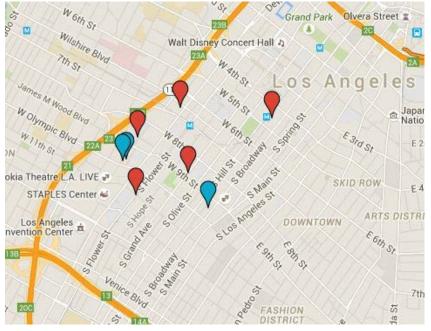
Located in DTLA's historic core, the 180-room **Ace Hotel Downtown Los Angeles** is an adaptive-reuse conversion of the United Artists Theatre building. The hotel's 13 floors include a 1,600-seat entertainment venue (the refurbed United Artists theater). Other amenities include a restaurant and bar, high-end retail, and upstairs rooftop space with a bar, outdoor lounge, and wading pool. This is the first Ace Hotel in Los Angeles.

The \$170 million dual-branded Courtyard by Marriott and Residence Inn LA Live opened in May 2014, directly across from LA Live and the JW Marriott. The 23-story, 393-room hotel tower represents the only nationally-recognized, branded select-service and extended-stay hotels in DTLA.

#### **Proposed Hotel Developments**

Recent hotel development has been astounding, with roughly 2,000 rooms currently under construction, nearly another 5,000 in the development pipeline. DTLA's incoming supply represents a potential 90% increase to the existing inventory. Several projects are valued approximately \$1 billion apiece, and more are on the way.

 $\label{eq:map_of_def} \mbox{MAP OF DTLA HOTELS} - \mbox{NeW (BLUE)} \mbox{ AND UNDER CONSTRUCTION (RED)}$ 



<sup>&</sup>lt;sup>1</sup> Los Angeles Downtown Center Business Improvement District 2014 Annual Report. Figures quoted are through year-end 2014.



#### **UNDER CONSTRUCTION**

	Product	Address/		Est. Open			
Proposed Hotel	Туре	Location	Rooms	Date	Developer	Status	
Clark Hotel	В	426 S. Hill	347	Q3 2015	Chetrit Group	Under Construction	
Empire Hotel	В	855 S. Grand	183	Q4 2015	Chetrit Group	Under Construction	
Metropolis Hotel	В	9th & Francisco	350	Q1 2016	Greenland Group	Under Construction	
InterContinental Wilshire Grand	FS	7th & Wilshire	900	Q1 2018	Korean Air	Under Construction	
Fig Central Hotel	FS	1101 S. Flower	183	Q1 2018	Oceanwide Real Estate Group	Broke Ground	
		Total	1,963				
Key: FS=Full Service, SS= Select Service, ES= Extended Stay, B=Boutique, LS=Limited Service							

Source: HVS. Build Central, Local Plannina Office, respective developer websites.

#### IN THE PIPELINE

Proposed Hotel	Product Type	Address/ Location	Rooms	Est. Open Date	Developer	Status	
Case Hotel	В	1106 S. Broadway	151	Q3 2016	Kor Group, Case Real Estate	Early Development	
Freehand Hostel/Hotel	В	416 W. 8th	200	Q3 2016	Sydell Group, Yucaipa Companies	Early Development	
NoMad Hotel	В	649 S. Olive	250	Q1 2017	Sydell Group	Early Development	
JW Marriott L.A. LIVE Expansion	FS	900 W. Olympic	755	Q1 2018	AEG WorldWide	Early Development	
Equinox Hotel @ The Grand	FS	Grand & 2nd	300	Q4 2018	The Related Companies	Early Development	
Shenzhen Hazens Towers/Luxe Hotel Site	FS	S. Figueroa & 11th	250	2020	Shenzhen Hazens Group	Early Development	
		SUBTOTAL	1,906				
Other Proposed Hotels (various stages of planning	g)		2,945				
		TOTAL	4,851				
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Key: FS=Full Service, SS= Select Service, ES= Extended Stay, B=Boutique, LS=Limited Service, TBD=To Be Determined

Source: HVS, Build Central, Local Planning Office, respective developer websites.

High construction costs and historical low average rates have traditionally constrained feasibility and led to a lack of supply in the prior development cycle. However, DTLA currently benefits from an infusion of Asian capital. Of the four \$1-billion mixed-use projects detailed below, three are led by firms based in South Korea or China. Additionally, China-based Shenzhen Hazens Real Estate Group recently announced plans for a \$700 million mixed-use complex across the road from LA Live on the Luxe Hotel City Center site.

Developed by **Korean Air** (parent company Seoul-based Hanjin Group), the **Wilshire Grand** project will feature a 900-room Intercontinental-branded hotel, to be operated by InterContinental Hotels Group. The original 896-room Wilshire Grand Hotel closed in December 2011 and was demolished in October 2012. Construction is underway for a 73-story mixed-use tower—the bottom floors will have retail shops, restaurants, and meeting space; the next 20 stories will contain office space, and the hotel will occupy the remaining upper floors. The project is designed to meet the U.S. Green Building Council's LEED certification standards. Upon completion, it will be the tallest building in Los Angeles.

After acquiring the site for \$145 million from IDS Real Estate Group and CalSTRS in January 2014, Shanghai-based **Greenland Group** broke ground on the **Metropolis** mixed-use development in February 2014. The development sits on a 6.33-acre site and includes an 18-story hotel with 350-rooms (planned to be an Indigo under the Intercontinental Hotels & Resorts chain). This is Greenland Group's first significant real estate deal in the U.S.

Beijing-based **Oceanwide Real Estate Group** broke ground on **Fig Central** in March 2015. Plans call for a mixed-use development on a 4.6-acre site with two 40-story towers and a 49-story high-rise on top of a parking structure. The project will include retail space, residential condominiums, and a 183-room five-star, Roberto Cavalli-branded, luxury hotel. Fig Central is the first real estate venture outside of China for Oceanwide. The developer aquired the site and its entitlements in September 2014 for \$200 million from New York City-based Moinian Group.

The **Grand Avenue** mixed-use development by **The Related Companies** calls for a 20-story luxury apartment tower (which opened in 2014) and two high-rise towers: a 37-story residential tower and a 25-story hotel/office tower-designed by



Frank Gehry. Plans also include retail, restaurant, and entertainment space. In early 2015, Related announced that Equinox would operate the hotel. If this agreement goes through, the DTLA hotel will be the second Equinox hotel to open (estimated 2019), after the first one opens in New York City's Hudson Yards development (hotel set to break ground this year with completion estimated for 2018). The Grand Avenue project is located adjacent to the Gehry-designed Walt Disney Concert Hall.

In March 2015, **AEG** announced plans to expand the existing 878-room **JW Marriott LA Live**. The proposed project includes a new Gensler-designed 38-story, 755-room high-rise tower connected to the existing hotel, as well as new rooftop meeting space that will be connected to both hotel towers. The new expansion will have parking, retail, restaurants, a fitness center, and a pool area with cabanas. The new tower combined with the existing JW Marriott LA Live and the Ritz-Carlton Los Angeles will contain a total of 1,756 rooms and over 200,000 ft<sup>2</sup> of function space, making it the second largest hotel in California. The project is estimated to cost over \$500 million.

**Shenzhen Hazens Real Estate Group** plans to build a \$700 million mixed-use complex of three high-rise buildings on the existing **Luxe Hotel site** and adjacent parcels. The first phase consists of a 30-story hotel with 250 rooms, and a 30-story residential tower at the northeast corner of 11th and Figueroa. The project aims to break ground in 2017 and the first phase with the hotel component (**Shenzen Hazens Towers**) is slated to open in 2020. The developers envision a "five-star" luxury brand for the hotel, but a specific brand affiliation has not been released at this time. A second phase will demolish the existing 178-room Luxe Hotel and raise a 42-story residential tower.

Other proposed hotels include a Curio by Hilton, a Virgin Hotel, a convention center headquarters hotel, and a redevelopment of the May Company Department Store building, which are all in the early planning stages

#### **CONVENTION CENTER**

The Los Angeles Convention Center (LACC) is a significant demand generator for DTLA and is one of the key contributors to the economic and cultural vitality of Los Angeles. The LACC is adjacent to the Staples Center and LA Live. The convention center was privatized and AEG took over management of the facilities in December 2013; however, Discover Los Angeles (the Convention and Visitors Bureau) still handles the event bookings. It hosts major annual events such as the Greater Los Angeles Auto Show and Anime Expo.

LOS ANGELES CONVENTION CENTER TRENDS

Year	Number o Citywides		Attendance	% Change	Room Nights	% Change
2010/1	1 22	_	363,000	_	244,768	_
2011/1	2 23	4.5	% 291,700	(19.6)	% 254,789	4.1 %
2012/1	3 24	4.3	215,800	(26.0)	245,018	(3.8)
2013/1	4 23	(4.2)	290,418	34.6	157,450	(35.7)
2014/15	Proj. 25	8.7	353,350	21.7	202,626	28.7

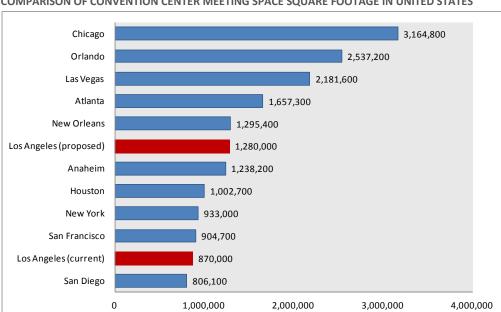
Source: Los Angeles Department of Convention and Tourism Development

The Los Angeles Convention Center (LACC) has historically lost larger citywide conventions to other regional convention centers with more guestrooms within a walkable distance. This trend is set to change with the number of new DLTA hotel rooms coming online within a 1-2 mile radius in the next few years, coupled with new developments about to take place at LACC.

In early 2015, AEG announced that it would abandon its proposed NFL stadium project (known as Farmers Field) and instead move forward with a modernization and expansion plan for LACC. The convention center currently has 720,000 ft<sup>2</sup> of exhibit space; 102,000 ft<sup>2</sup> of meeting space; and 48,000 ft<sup>2</sup> of flexible space. The proposed facilities would increase the exhibit space square footage to 1,000,000; meeting space to 172,000; and also add a 60,000 ballroom. In total, the proposed plan would expand the facilities from 870,000 ft<sup>2</sup> to 1,280,000 ft<sup>2</sup> of sellable space, or a nearly 50% increase.



According convention center officials, the expansion plan would make the LACC more attractive for larger conventions, such as Comic-Con International which is historically held in San Diego. By size, the current facilities place LACC near the bottom of major convention centers in the U.S.; with the proposed expansion, LACC would raise to the mid-range just above Anaheim Convention Center's current space.



COMPARISON OF CONVENTION CENTER MEETING SPACE SQUARE FOOTAGE IN UNITED STATES

Source: Los Angeles Department of Convention and Tourism Development

Discover Los Angeles officials are also considering a 1,000-room headquarter hotel adjacent to the convention center to help elevate LACC's competitive position. Several architectural firms are currently working on design proposals with one firm to be selected by the end of 2015 to create the final designs.

#### **HOTEL MARKET PERFORMANCE**

Historically, the DTLA market has been driven by corporate and meeting/group demand. With LA Live as the main catalyst, and with more restaurant and nightlife amenities opening, leisure demand made its way into the market. Local hoteliers report that the area has become a hub for tourists, with travelers opting to stay downtown while exploring other parts of the greater Los Angeles market. The success of LA Live and the JW Marriott and Ritz-Carlton hotels has benefitted average rate in DTLA. These hotels set a new bar, raising the entire market due to their luxury product offering and brand affiliations with higher price points, and also helped spur renovation and redevelopment projects of other hotels.

DTLA has seen five consecutive years of RevPAR increases. According to HVS surveys with market participants, DTLA ended 2014 with an occupancy range of 74-76%, an average rate near \$185, and a RevPAR of approximately \$140, which is an increase from the year prior and a new all-time high. The year-to-date period through March 2015 registered an approximate 7.0% increase in RevPAR over the previous period. While an improvement in the market, these average rates still have room for growth before catching up with the average rates generated by greater Los Angeles' top-tier markets, such as Santa Monica, West Hollywood, and Beverly Hills.

DTLA, along with Los Angeles County, is currently experiencing a surge in visitors and its market-wide hotel performance is expected to trend positively over the next few years, given the ongoing development projects and anticipated changes at the convention center.



#### LODGING TRANSACTIONS

Investor appetite in DTLA has strengthened in recent years. Since 2014, 645 rooms have traded hands, representing nearly 10% of DTLA's total supply.

#### **DOWNTOWN LOS ANGELES HOTEL TRANSACTIONS 2014-2015 YTD**

Name	Sale Date	Seller	Buyer	Rooms	Price	Price/Room
Ace Hotel	Apr-2015	Greenfield Partners	Chesapeake Lodging Trust	182	\$101,700,000	\$558,791
Luxe City Center Hotel	Jul-2014	Emerik Properties Corp, Luxe Worldwide Hotels	Shenzhen Hazens Real Estate Group	178	104,150,000	585,112
Hotel Figueroa	Jul-2014	Figueroa Hotel Real Estate Holding Trust	GreenOak, Gemstone Hotels & Resorts	285	61,833,750	216,961

Source: Real Capital Analytics

After being converted from a Holiday Inn to the **Luxe City Center Hotel** in 2010, the hotel sold to **Shenzhen Hazens Real Estate Group** in July 2014 for redevelopment purposes (as discussed earlier in the Proposed Hotel Developments section). The sale price pencils out to \$585,112 per room; however, note that this price includes multiple adjacent parking lot parcels and is not a true per-key price figure.

Slightly over a year after the **Ace Hotel** opened, it sold to public-REIT **Chesapeake Lodging Trust** for \$101,700,000, or \$558,791 per key. The Ace represents the highest price per key transaction for investment purposes (non redevelopment) to ever to take place in DTLA, and shows that investors have confidence in the market's continued growth. (The previous record was held by the Standard Hotel Downtown for \$444,444 per key in 2008.) The hotel will remain branded and managed by the Ace Hotel Group. Greenfield Partners paid \$11 million for the historic United Artist building in 2011, which was subsequently converted to the Ace hotel. The cost of the renovation was not disclosed. Chesapeake also owns the Hilton Checkers in DTLA.

#### **Conclusion**

The influx of people and development money in Downtown Los Angeles has led to a dramatic increase in the supply pipeline. Recent transactions have been geared towards redevelopment, yet the Ace Hotel sale represents a high water mark and shows investors' long term confidence in the market. With the saturation of full-service and boutique hotel types in DTLA, there may be opportunities to develop other hotel products, particularly those affiliated with nationally-recognized hotel chains. There are not yet any nationally-recognized branded limited-service hotels that currently exist in DTLA, which is not typical relative to downtown markets in other major U.S. cities and could be indicative for future development opportunities. With availability of developable land decreasing rapidly, adaptive reuse projects remain a viable option for increasing limited-service, select-service, or extended-stay hotels into the DTLA market.



#### About HVS

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HVS LOS ANGELES, established in 2013, is located in the South Bay region of the Los Angeles area and is readily accessible to Southern California's hotel and resort markets. HVS Los Angeles operates under the direction of Senior Managing Director Suzanne R. Mellen and Vice President Leah Dauer Murphy (the on-site practice manager). Our LA team has diverse academic backgrounds and hotel-related experience, with in-depth expertise in the numerous and varied lodging markets of Southern California.

#### **About the Author**



As a Senior Associate with HVS Consulting & Valuation in Los Angeles, Nordee Saritvanich has evaluated numerous hotel properties in California and throughout the United States. Nordee is well-versed in examining the key metrics and detailed nuances of hotel appraisals and feasibility studies for a wide range of proposed and existing lodging

types. Prior to joining HVS, Nordee worked as a credit and equity analyst graduate intern with PB Capital (a member of Deutsche Bank Group) and Time Equities in New York City. Nordee earned his BS degree from the University of California at Irvine and his MS degree with distinction in Real Estate Finance and Investments from New York University. He also has a certificate in Hotel Real Estate Investments & Asset Management from the Cornell University School of Hotel Administration. Nordee speaks conversational Thai, has a black belt in Taekwondo, and enjoys snowboarding. nordee@hvs.com