

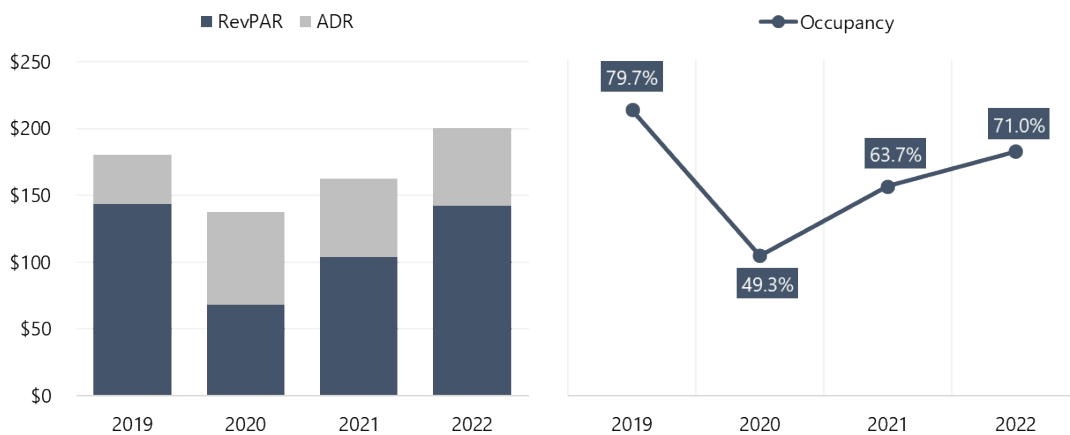
Destination Los Angeles: A Look at the Future of the Hotel Market

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Los Angeles, the entertainment capital of the world, boasts a thriving tourism industry that draws millions of visitors every year. In this article, we will pinpoint the trends, innovations, upcoming events, and challenges that are shaping the future of the Los Angeles hotel industry.

In 2022, the Los Angeles market showed a significant rebound, as ADR well exceeded 2019 levels, although occupancy still trailed pre-pandemic levels. While concerns about COVID began to fade, business travel had yet to fully recover, and international travel was hit by flight shortages and a visa backlog. Regardless, ADR growth was fueled by inflation, the influx of high-quality new hotels that opened in the last few years, and Super Bowl LVI held in February 2022.

Recent Los Angeles Hotel Metrics



Source: STR

Mega Events

The 2022 Super Bowl was held at the new SoFi Stadium in February, during which time Los Angeles hotels were fully booked with an average ADR of \$445, the second highest in Super Bowl history, according to STR.^[1] Looking ahead, the

2026 FIFA World Cup and the 2028 Summer Olympic Games (also known as LA28) will again showcase the city as a major player on the international stage.

Los Angeles will attract a diverse community for the 2028 Summer Olympics, including over eight million ticketholders, 10,500 athletes, and 30,000 broadcasters and media personnel. The event is anticipated to significantly boost Los Angeles hotel metrics, as illustrated by trends for the host cities of the last three Summer Olympic Games:

- According to data from STR, Rio's ADR for hotels during the 2016 Games was up 199.2%, and RevPAR increased by 278.6% compared to the same period in 2015.^[2]
- During the 2008 Beijing Olympics, RevPAR for the market increased 184.2%, largely due to a 250.1% increase in ADR.
- The 2012 London Olympics generated a 44.4% increase in RevPAR, exclusively due to an increase in ADR, as occupancy remained nearly flat during the event.

Given that the 2028 Summer Olympics will be held during Los Angeles's peak season, with occupancies typically averaging 80% to 90%, we anticipate substantial growth in ADR, yielding unprecedented revenue gains for the city. Additionally, developments and preparation for these mega events are poised to transform the city's economy, infrastructure, and global profile.



Transportation of the Future

Los Angeles International Airport, commonly known as LAX, is one of the busiest airports in the world. Nearly \$20 billion is being invested at LAX in anticipation of the 2028 Summer Olympics.^[3]

- By mid-year 2023, Delta will complete a \$2.3-billion project to upgrade and connect Terminal 2, Terminal 3, and the International Terminal.
- A 24-hour automated People Mover is in its final stretch of construction and will ultimately facilitate a seamless connection from Terminal 1 to Terminal 8 entirely behind security.
- Initial preparations have begun for the development of two new terminals, Terminals 0 and 9.

The Los Angeles Metro expansion is also well underway, including the Westside Purple Line Extension.^[4] The project will add nine miles of track and seven new stations and is scheduled for completion before 2028. The project cost, originally estimated at \$4.2 billion, has gone up to \$8.2 billion. Upon completion, the Westside Purple Line is anticipated to connect over 150,000 riders daily from venues at UCLA, including the Olympic Village, directly with Downtown and the rest of the Metro system.

Stadium Developments

- The \$5.5-billion state-of-the-art SoFi Stadium, which opened in 2021, is set to host several events during the 2028 Los Angeles Olympics, including the opening and closing ceremonies, as well as athletic events such as soccer, archery, and gymnastics.^[5]
- Intuit Dome is currently under construction and will be home to the Los Angeles Clippers.^[6] The \$2-billion, 18,000-seat facility is scheduled to open in the fall of 2024 and is planned to serve as an LA28 venue.
- A new headquarters for the Los Angeles Chargers is currently under construction and is expected to be completed by July 2024.^[7] The stadium will include three full-size fields, several meeting rooms, training space, a rooftop hospitality club, and an esports gaming studio.



Hotel Developments

Since the beginning of the pandemic, roughly 3,000 to 5,000 new hotel rooms have opened in Los Angeles. Furthermore, several marquee assets recently opened or are undergoing redevelopment.

- Designed by legendary architect Frank Gehry, the \$1.3-billion Grand LA complex opened Downtown in 2022, including a 45-story residential tower; a 28-story, 305-key Conrad hotel; and 164,000 square feet of retail and restaurant space.^[8] The hotel features world-class dining led by celebrity chef José Andrés.
- The Century Plaza complex completed a five-year, \$2.5-billion redevelopment and reopened in September 2021. The project includes the 16-story, 400-key Fairmont Century Plaza hotel and two new 44-story towers featuring 331 privately-owned luxury residences, retail space, and a traditional French-inspired restaurant, Lumière Brasserie.
- The Fairmont Miamar Hotel & Bungalows is set to undergo a redevelopment into the newly named Miramar Santa Monica.^[9] The 502,157-square-foot mixed-use redevelopment project will include a 312-key hotel, 60 condominiums, 18,000 square feet of ground-floor retail, and a housing complex with 42 units.
- The Loews Santa Monica is currently undergoing renovation to rebrand and reopen as a Regent hotel in late 2023. The project will mark the return of the Regent brand to the United States after three decades.

Challenges

As one of the most desirable hotel markets in the nation, Los Angeles also faces its own challenges. The new Hotel Worker Protection Ordinance, which went into effect in August 2022, requires hotels to increase safety protections for hotel workers, limit daily workload, and raise worker wages. For hotels with 60 or more rooms, which include most of the select-service and full-service hotels, a room attendant cannot be required to clean more than 3,500 square feet of floor

space in an eight-hour workday or the hotel will be subject to double-time rates for the worker's full workday. Similar ordinances had already been in place for cities such as Long Beach and West Hollywood. Hotel managers are reporting 50–100% increases in salaries and wages in the housekeeping department, which could potentially result in a 300 to 500 bps increase in rooms expense if revenues stay flat.

In November 2022, voters in the City of Los Angeles approved ballot Measure ULA, commonly known as the “mansion tax,” to enact new transfer taxes on properties valued over \$5 million.^[10] Any nonexempt property that sells for between \$5 million and \$10 million will be subject to an additional transfer tax of 4.4%, and any nonexempt property sold for \$10 million or more will be subject to an additional transfer tax of 5.5%. This tax will apply to all residential and commercial properties, including hotels. The revenue raised by the new transfer tax is planned to be used for affordable housing production and homelessness prevention initiatives.

However, a recent lawsuit seeking its invalidation has raised questions about whether the city could implement the transfer tax. Additionally, a proposed state ballot initiative would potentially invalidate Measure ULA and other similar tax measures and will be on the 2024 referendum. Nevertheless, other cities in California, such as San Francisco and Santa Monica, have imposed similar documentary transfer taxes, which ultimately hinder transaction activities.



Conclusion

The new regulations may bring additional costs and administrative burdens to businesses and individuals. However, the City of Angels is also set to benefit from two mega events: the 2026 World Cup and the 2028 Summer Olympics. These events will not only generate a considerable economic impact for the state but will also promote social and cultural exchange. The 2028 Summer Olympics present a tremendous opportunity for the city to reinvent itself and showcase its capabilities. With careful planning and preparation, the hospitality industry in Los Angeles is well positioned to transform in the next decade.

For more information, contact Aidan Martin or Kirsten Smiley of the HVS Los Angeles office.

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