

# West Hollywood, California: Market Update for 2002

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West Hollywood is a popular destination and known to be one of the trendiest cities in California, with the entertainment industry wrapping the city in an aura of celebrity. However, as with the rest of the nation, lodging statistics for 2001 reflect a dramatic downturn with RevPAR down from 2000. Specifically, occupancy declined in 2001 by 4.8 occupancy points from the 2000 occupancy of 74.6%. Marketwide average rate declined by \$5.25, or 3.6%, in 2001 to \$139.97. West Hollywood was home to several technology companies, which are no longer operational, the dominant generator of lodging demand remains the entertainment industry. In general, although vacancy rates have increased and net absorption has decreased, the West Los Angeles office market entered the recent economic slowdown with superior market conditions. Despite growing economic concerns, West Los Angeles remains one of the strongest markets in the nation, largely due to the predominance and health of the entertainment industry. Of the West Los Angeles office sub markets, West Hollywood remained relatively strong. Although, office space vacancy increased in 2001, it is still well below other sub markets. Additionally, in the fourth quarter 2001, West Hollywood had positive absorption, while the rest of Los Angeles averaged a negative. Finally, asking rental rates increased in West Hollywood in the fourth quarter of 2001, while the greater Los Angeles markets' rates declined. According to the Entertainment Industry Development Corporation (EIDC), the industry has experienced a general decline in overall for-profit motion picture production days over the last five years. However, the average annual compounded percentage change between 1993 and 2001 was a positive 4.5%. Overall production days increased from 19,277 days in 1993 to 27,435 days in 2001. Gross box office earnings for 2001 were recorded at roundly \$8.35 billion, almost 9% higher than the amount in 2000, indicating a continuation of a 10-year trend of positive growth. On the supply side, West Hollywood registered an increase of approximately 8,684 hotel rooms resulting from the expansion of the Grafton Hotel at year-end 2000. Subsequent to that addition to supply, no new rooms have entered the market. According to West Hollywood planners, the 370-unit Sunset Millennium has been approved by the review board, but still needs to obtain the required building permits. Additionally, financing for this hotel development was reported to be unavailable. As a result of the down-market, no new supply to the subject's market is foreseen in the near future. According to local hoteliers, the entertainment industry is expected to rebound in 2002, as the effects of the potential writers and actors' strike lies well behind it. Market information shows that while average rate for the first quarter 2002 is still declining, occupancy is stabilizing. According to local hoteliers, growth in average rate will follow healthy occupancy

growth. Recent trends indicate that demand for room nights in the West Hollywood lodging market is returning, albeit at a lower average rate than that experienced during the first quarter 2001. It should also be noted that local managers indicate that the 2002 awards season and the summer months are expected to have a positive impact on lodging demand. However, the test of the market will lie in the outcome of the strength of demand during the summer months. Overall, local hoteliers are optimistic that as demand returns and occupancy strengthens, average rate growth will be realized. Data according to Smith Travel Research.