

A Look Back on Trends of the Los Angeles County Lodging Market

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Los Angeles County

The Los Angeles County lodging market has experienced challenges since the early 1990s, including fluctuation of supply, the rise and fall of area demand generators, and increased meeting and convention competition from other regional metropolitan markets. This article will examine the condition of the overall Los Angeles County lodging market, as well as two of the county's largest and most dominant submarkets.

The Los Angeles County market entered the 1990s in a recessionary environment. Following the bursting of the Japanese-investment bubble of the mid- to late 1980s, commercial real estate values declined, as many purchases were made on financial expectations that either never materialized or were beyond aggressive optimism. Los Angeles County, as well as other areas in Southern California, went through a wrenching adjustment to the downsizing of the military in the post-Cold War era of the early 1990s. In addition, the increasing crime rates of Los Angeles County in the early 1990s and the 1994 Northridge Earthquake further hindered the growth of the overall county. With the military aerospace contracts no longer fueling the Los Angeles economy, a recession took hold of the Los Angeles County market area during the 1990s. Due to favorable tax policies in the mid-1980s, numerous new hotels were constructed in Los Angeles County during this time. However, the aforementioned market conditions in the early 1990s and the addition of new lodging supply in the mid-1980s caused marketwide occupancies in the early 1990s to suffer. As indicated in Table 1, which includes all hotels reporting to Smith Travel Research (STR) located within Los Angeles County, the overall countywide annual occupancies fluctuated from 71.9% in 1987, down to their nadir of 58.4% in 1992, and rebounding to 72.1% in 2000, prior to the events of September 11. While several other markets in the United States flourished and added new supply in the 1990s, the Los Angeles County market's historical lackluster occupancy and average rate did not support new hotel development, and as a result this market received virtually no new supply in the 1990s. With rising demand and limited new supply, the Los Angeles market experienced strong RevPAR growth from 1994 through 2000. After eight years of marketwide RevPAR levels in the \$50 range, the area's marketwide RevPAR levels increased by roundly 60% from 1995 to 2000.

As with most markets in the United States, the events surrounding September 11th adversely affected the overall Los Angeles County market and decreased demand and average rate growth. Demand in the Los Angeles County market began to rebound in 2003, while marketwide average rate and RevPAR levels recorded a strong rebound in 2004. The county's marketwide average rate and RevPAR levels continued a robust growth trend through 2007, and then moderated in 2008. Due to the current national economic recession, the county's marketwide RevPAR level for the year-to-date period through April 2009 recorded a record 24.6% decline compared to the same period in 2008. Although the data presented in Table 1 ended in April 2009, the strained economy continued to adversely affect the Los Angeles County's lodging performance levels throughout the rest of 2009.

Despite the turbulent history of the Los Angeles County lodging market, overall lodging supply has remained relatively consistent over the period shown. Given the data provided by STR, virtually no new net supply entered into the Los Angeles County market over the 20-year historical period presented. While some new hotels in the market have been developed or created through conversion, the closure of older, obsolete hotels have offset any new supply additions over the period shown. According to STR, approximately 61 hotels in the Los Angeles County market area closed between 1987 and 2008, as the land beneath these older obsolete assets has become more valuable than the existing use. As indicated in Table 1 and graphically illustrated in Table 2, between 1987 and 2008, supply grew at a paltry 0.1% per year on a compounded average basis. Table 1 also

Summary

The Los Angeles County lodging market has recorded a tumultuous history since the early 1990s, with most recent statistics showing room for growth. This article will examine the condition of the overall Los Angeles County lodging market.

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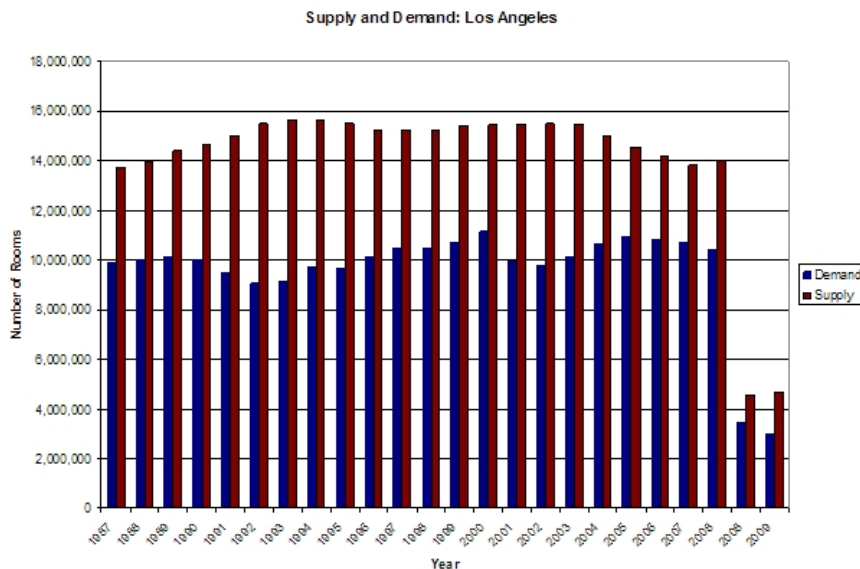
indicates that, with market demand growth and limited amount of new supply, occupancies had a chance to recover gradually throughout the late 1990s and mid-2000s. During the same period, demand in Los Angeles County grew at a slightly higher rate of 0.3% on a compounded annual basis. Given the slightly higher amount of demand growth as compared to the county's growth in supply, the Los Angeles County lodging market demonstrated how the addition of new supply to the county had historically been fully absorbed into the market.

Table 1 Historical Supply and Demand Trends—Los Angeles County

Year	Demand	Change	Supply	Change	Occupancy	Average Rate	Change	RevPAR	Change
1987	9,871,348	—	13,734,660	—	71.9 %	\$70.13	—	\$50.41	—
1988	9,980,806	1.1 %	13,984,169	1.8 %	71.4	73.77	5.2 %	52.65	4.4 %
1989	10,161,717	1.8	14,393,061	2.9	70.6	78.40	6.3	55.35	5.1
1990	10,023,127	(1.4)	14,699,692	2.1	68.2	82.89	5.7	56.52	2.1
1991	9,500,526	(5.2)	15,019,779	2.2	63.3	81.62	(1.5)	51.63	(8.7)
1992	9,041,004	(4.8)	15,490,643	3.1	58.4	82.19	0.7	47.97	(7.1)
1993	9,126,776	0.9	15,639,453	1.0	58.4	82.37	0.2	48.07	0.2
1994	9,711,011	6.4	15,653,877	0.1	62.0	83.67	1.6	51.90	8.0
1995	9,659,699	(0.5)	15,493,886	(1.0)	62.3	84.33	0.8	52.57	1.3
1996	10,153,166	5.1	15,230,510	(1.7)	66.7	89.35	6.0	59.56	13.3
1997	10,505,044	3.5	15,264,047	0.2	68.8	96.29	7.8	66.27	11.3
1998	10,498,399	(0.1)	15,226,840	(0.2)	68.9	104.59	8.6	72.11	8.8
1999	10,704,392	2.0	15,407,066	1.2	69.5	108.97	4.2	75.71	5.0
2000	11,160,328	4.3	15,472,967	0.4	72.1	116.77	7.2	84.22	11.2
2001	9,968,238	(10.7)	15,455,675	(0.1)	64.5	114.35	(2.1)	73.75	(12.4)
2002	9,808,037	(1.6)	15,483,534	0.2	63.3	112.27	(1.8)	71.12	(3.6)
2003	10,093,279	2.9	15,471,570	(0.1)	65.2	109.36	(2.6)	71.34	0.3
2004	10,672,776	5.7	15,008,858	(3.0)	71.1	117.89	7.8	83.83	17.5
2005	10,980,534	2.7	14,572,572	(2.9)	75.2	127.02	7.7	95.54	14.0
2006	10,845,206	(1.1)	14,199,632	(2.6)	76.4	140.62	10.7	107.40	12.4
2007	10,694,671	(1.4)	13,839,710	(2.5)	77.3	154.33	9.8	119.26	11.0
2008	10,417,483	(2.6)	14,006,132	1.2	74.4	162.56	5.3	120.91	1.4
Average Annual Compounded Change: 1987-2008									
		0.3 %		0.1 %			4.1 %		4.3 %
Year-to-Date Through April									
2008	3,442,506	—	4,545,351	—	75.7 %	\$163.36	—	\$123.72	—
2009	3,011,916	(12.5) %	4,699,440	3.4 %	64.1	145.63	(10.9) %	93.34	(24.6) %

Source: Smith Travel Research

Table 2 Historical Supply and Demand Trends—Los Angeles County



Downtown Los Angeles Submarket

With roundly 31 million square feet of office space, Downtown Los Angeles is Southern California's largest office space market and is Los Angeles County's largest commercial demand generator. The hotels located in the Downtown area consist primarily of a variety of nationally branded and independent full-service hotels. In addition to hotel demand generated by the Downtown area's diverse amount office space, the Los Angeles Convention Center and LA Live mixed-use development also generate a substantial portion of the area's demand.

LA Live is a 27-acre, \$2.5 billion, mixed-use development in Downtown Los Angeles that is being developed by AEG. The first phase of the development opened in October 2007, with the opening of the Nokia Theater and the Nokia Plaza. The Nokia Theater has become a premier destination for major entertainment events, such as the Grammy's, the Emmy's, the American Music Awards, and the American Idol finals. A variety of well-known restaurants opened on the Downtown campus in 2008. In 2009, a bowling alley, a 14-theater cinema a dance club, the Grammy Museum, and the ESPN's West Coast Broadcast Center also opened. In addition, an 877-room JW Marriott hotel and a 123-room Ritz Carlton hotel are also part of the mixed-use development.

The Los Angeles County market has long awaited the opening of LA Live's two hotels, which are anticipated to rejuvenate the local convention market. The two hotels will be contained within a 54-story tower, with the JW Marriott to be situated on the lower floors and the Ritz-Carlton will be situated on the upper floors. The 877-room JW Marriott Hotel is anticipated to contain a lobby lounge and a restaurant, ±77,000 square feet of meeting space, a full-service spa and fitness center, retail shops, and a rooftop swimming pool. The 123-room Ritz-Carlton hotel is expected to contain a fine-dining restaurant, a retail shop, a small meeting room, and approximately 224 condominium residences. The JW Marriott is anticipated to become the Los Angeles Convention Center's headquarters hotel and is currently scheduled to open on February 15, 2010. The Ritz-Carlton hotel is scheduled to open on March 15, 2010.

Despite the large number of diverse hotels located throughout Los Angeles County, the marketability of the Los Angeles Convention Center has historically been impaired by the lack of a large headquarters hotel within walking distance of the Los Angeles Convention Center. Prior to the construction of LA Live and the JW Marriott and Ritz-Carlton hotels, the convention center recorded its peak attendance level in 2000, due primarily to the Democratic National Convention, which was hosted in Los Angeles. Throughout the last decade, the convention center has continued to struggle with increased competition from other convention cities including Las Vegas, Orlando, and San Diego. However, following the addition of the \$2.5 billion mixed-used LA Live development, the Downtown area has received a surge of attractions to help entice convention and meeting groups that had historically stayed away from Los Angeles. Due to the addition of the JW Marriott convention-headquarters hotel and LA Live's numerous new restaurants and attractions, which are all within walking distance of the convention center, representatives of LA, Inc., the official sales force for the convention center, have indicated that the center is projected to accommodate roughly 20 city-wide conventions per year going forward. This increase in convention and meeting activity at the Los Angeles Convention Center is anticipated to create a significant positive change to the overall Downtown Los Angeles market area. However, the addition of significant new supply during this downturn will likely negatively impact the area's occupancies during off-convention periods, when competition for non-group demand will intensify.

Westside Los Angeles Submarket

The Westside market is Los Angeles County's most affluent market. It consists of luxury and upscale properties located in Beverly Hills, Bel Air, Santa Monica, Century City, and West Los Angeles. The hotels in these areas include a variety of nationally recognized hotel brands or independent hotels, with a large amount of them internationally renowned. Historically, the hotels within this area achieved the highest average rates of any hotels in the city. Beverly Hills and West Hollywood are considered the world headquarters for the entertainment industry, primarily in the music and film industries, which generate a significant amount of demand to the area. In addition, demand in the market is also generated by various companies within the financial, healthcare, and technology industries and also by an assortment of tourist and leisure attractions.

Given the barriers to entry into the Westside market, most of the hotel development within the area has included renovations or conversions of existing hotel properties. Some of the most notable and recently completed conversions include the Bel Age Hotel converting to the London West Hollywood in April 2008, the Le Meridien Beverly Hills converting to the SLS Beverly Hills in November 2008, the Hyatt West Hollywood converting to the Andaz West Hollywood in January 2009, the Doubletree Westwood converting to the Kimpton Hotel Palomar Los Angeles in January 2009, and a 1938 art-deco hotel that was renovated and officially reopened as the Shangri-La Santa Monica in March 2009. Although most of the area's recent hotel development has included renovations and conversions of existing hotel buildings, the area's newest hotel developments include the opening of the Montage Beverly Hills hotel in November 2008 and the anticipated opening of the 305-room W Hollywood on January 28, 2010.

Additional hotels in the area have announced significant renovations, including the Hotel Bel-Air and the Raffles L'Ermitage. In October 2009, the Hotel Bel-Air was completely closed to begin an extensive renovation throughout all of its 91 guestrooms and various public spaces. The hotel's renovation is scheduled to be completed by mid-2011 and is anticipated to also include the construction of 12 new guest villas and a new 12,000-square-foot spa facility. On January 15, 2010, an announcement was released regarding the sale of the Raffles L'Ermitage Beverly Hills, which is an eight-story hotel located adjacent to the "Golden Triangle." The 119-room luxury hotel was originally constructed as an apartment building, but opened as the L'Ermitage Hotel in 1976 and has undergone several transformations and changes in ownership since. The hotel's new owner is reportedly a private investor who purchased the property for an undisclosed amount. In addition, the new owner intends to begin a significant renovation of the property and install the Viceroy Hotel Group as the new management team. The hotel is anticipated to reopen as the Viceroy Beverly Hills in late 2010.

Several proposed hotel projects continue to be in the pre-planning process in the area, including a proposed hotel within the Sunset Millennium mixed-use development, a proposed Waldorf Astoria, a proposed Hard Rock Hotel Los Angeles, and a proposed Mandarin Oriental Los Angeles. Given the current strained economic conditions, barriers to entry within the market area, and difficulty in finding appropriate project financing, the completion of these proposed projects should not be expected to have an affect on the market area for at least the next several years.

Following the anticipated economic recovery, we believe that this market will return to being one of the strongest markets in Southern California, particularly given how difficult it is to develop new supply in this submarket.

Conclusion

The Los Angeles County lodging market experienced some difficulties in the 1990s, but the overall market was able to fully recover and experience strong growth in the 2000s, up until the beginning of the national economic recession. Given the limited amount of overall supply growth to the Los Angeles County, the continued development and renovations of existing hotel properties, and the anticipated growth into the next major convention and meeting city following the opening of the JW Marriott, as the new headquarter hotel for the Los Angeles Convention Center, the overall outlook of the Los Angeles County lodging market remains optimistic over the mid to long term.