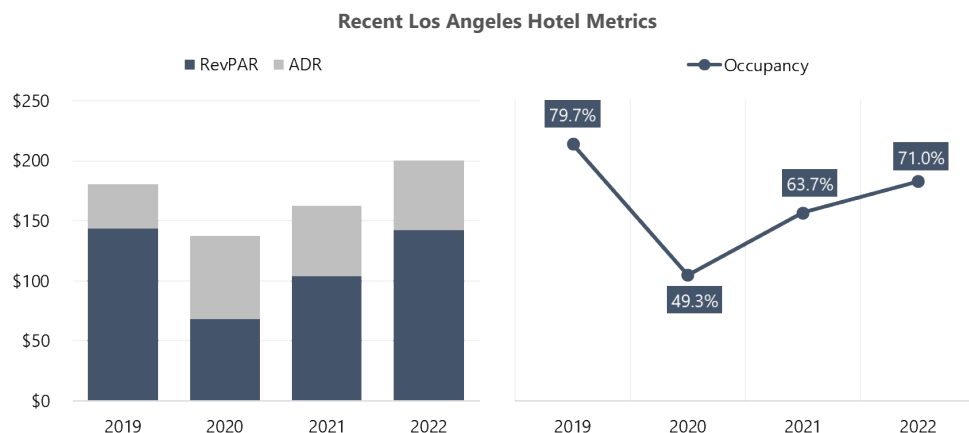


# Destination Los Angeles: A Look at the Future of the Hotel Market

April 10, 2023 / By Kirsten Z. Smiley, MAI, Aidan Martin



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.



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.<sup>[1]</sup> 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.<sup>[2]</sup>
- 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

## Summary

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.

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## 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.<sup>[3]</sup>

- 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**.<sup>[4]</sup> 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.<sup>[5]</sup>
- **Intuit Dome** is currently under construction and will be home to the **Los Angeles Clippers**.<sup>[6]</sup> 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.<sup>[7]</sup> 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.<sup>[8]</sup> 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**.<sup>[9]</sup> 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.<sup>[10]</sup> 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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<sup>[1]</sup> *Costar*, "**STR: Los Angeles Hotel Rates Forecasted at \$445 for Super Bowl Weekend**," 1/12/2022. Retrieved 3/29/2023.

<sup>[2]</sup> *Hotel Management*, "**Olympics revenue boost outpaces London, Beijing**," 10/10/2016. Retrieved 3/29/2023.

<sup>[3]</sup> *Los Angeles World Airports*, **LAX Projects**, 10/10/2016. Retrieved 3/29/2023.

<sup>[4]</sup> Adam Paul Susaneck, "**Los Angeles Metro 2020–2060**," 4/6/2020. Retrieved 3/29/2023.

<sup>[5]</sup> *Los Angeles Times*, "**Let the Games Begin (Again): The Olympics Return to L.A. – And Inglewood**," Retrieved 3/29/2023.

<sup>[6]</sup> Beth Harris, *North State Journal*, "**IOC committee visits sites for 2028 Olympics in Los Angeles**," 9/17/2022. Retrieved 3/29/2023.

<sup>[7]</sup> Charean Williams, *NBC Sports*, "**Chargers break ground on new team headquarters in El Segundo**," 5/18/2022. Retrieved 3/29/2023.

<sup>[8]</sup> Roger Vincent, *Los Angeles Times*, "**Inside Frank Gehry's latest Los Angeles mega-project**," 6/30/2022. Retrieved 3/29/2023.

<sup>[9]</sup> *The Real Deal*, "**Coastal Commission approves Miramar redevelopment in Santa Monica**," 3/15/2022. Retrieved 3/29/2023.

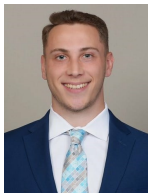
<sup>[10]</sup> Lee Kaplan, *Multi-Housing News*, "**Should You Be Concerned About LA's New Transfer Tax?**," 2/21/2023. Retrieved 3/29/2023.

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Aidan Martin is a consulting and valuation Manager with the HVS Los Angeles office. His passion for hospitality began while working at his local country club as a teenager. He graduated from Michigan State University in May 2022 with a Bachelor of Arts in Hospitality Business and a minor in Real Estate Investment Management. While studying at Michigan State University, he participated in the Real Estate Investment Club, held a leadership position in his fraternity, and completed the Certification in Hotel Industry Analytics (CHIA). Prior to joining HVS, he completed a property management internship with Greystar in Chicago. Contact Aidan at (424) 902-2598 or [\[email protected\]](#).