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DAILY 25¢
DESIGNATED AREAS HIGHER



GARY FRIEDMAN / Los Angeles Times

Richard Alter, left, and Eddy Chao of Financial Capital & Investment, in front of firm's Hotel Inter-Continental in downtown L.A.



JAMES FLANIGAN
ON SOUTHERN
CALIFORNIA

Hotels are once again hot properties in Southern California. Bidding for the Sheraton Grande in downtown Los Angeles will climax this Friday when the winner is chosen from among five suitors. The price will be \$55 million or more, experts say, or \$117,000

a room—a full 28% more than was paid in January for the nearby Hotel Inter-Continental, another downtown hotel catering to business travelers.

In Huntington Beach, the owners of the Waterfront Hilton are building a Hilton Ocean Grand Resort and conference center adjacent to the original property. Only two years ago, the Waterfront Hilton's developer-owner, Robert Mayer Corp., emerged from a Chapter 11 bankruptcy protection, which it entered in 1993 at the depth of the Southern California recession.

"We reorganized and came out in good shape," says Steve Bone, president of Robert Mayer. Now mortgage lenders are eager to back Mayer's plan for the \$100-million hotel and conference complex.

The pattern is evident in most parts of the Southland—hotel occupancy rising and buyers eager to look over the properties. This very day in fact, Asian investors are attending a Pacific Resources conference in Beverly Hills to talk about opportunities in real estate.

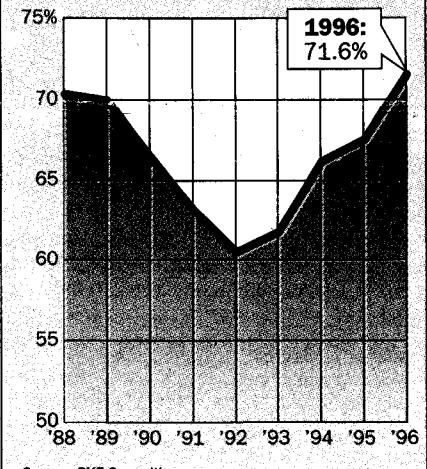
What's the attraction?

"The Los Angeles area looks very undervalued to investors from Asia,"

Hotels Are Hot Again, and That Says a Lot About the Southland Recovery

Rising Occupancy

Occupancy levels in Los Angeles County hotels have been steadily increasing since a drop in the early 1990s caused by the recession.



says Eddy Chao, a managing director of **Financial Capital & Investment Co.**, a West Los Angeles firm that acts on behalf of Chinese investors. Financial Capital, with Taiwan and Hong Kong investors, owns the Hotel Inter-Continental and is bidding for the Sheraton Grande.

Such words are reassuring, of course.

But Southern Californians often become nervous when presented with talk of rising real estate prices. There have been disappointments in the past. Is the promised recovery real this time?

Yes, it's real. Pension and mutual funds and real estate investment trusts are putting money into Southern California "because prices for its office buildings and hotels lag behind comparable properties in other cities such as New York and Boston," explains a Southland real estate broker-manager.

More important, the real estate recovery is real because the underlying economy has more going for it than many local residents realize. The Los Angeles area "is a major world-class economy, with 15 million people and an infrastructure of highways and telephone systems," says Chao, who emigrated from Taiwan himself in 1977.

Chinese investors want hotel properties because prices are low compared with anywhere in Asia, Chao explains. In Hong Kong, the J.W. Marriott hotel sold recently for \$250 million.

Also, a hotel investment in the United States is secure and can offer a possible exit strategy for one's family from a politically unstable area. U.S. immigration law promises a resident visa to investors of \$1 million or more who employ 10 or more workers. Commercial property investors frequently purchase houses in Southern California as well.

The hotel business is a good indicator of the economy's strength because it reflects overall business activity. In 1993, with the economy in recession, hotel rooms at Los Angeles International Airport were going for \$54 a night; at John Wayne Airport, hotels were more than one-third empty, according to PKF Consulting, a Los Angeles firm that tracks hospitality industry trends. Now with increased business activity, LAX

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GARY FRIEDMAN / Los Angeles Times

Richard Alter, left, Eddy Chao in lobby of Hotel Inter-Continental. Their firm hopes to acquire Sheraton Grande.

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hotel rooms are up to \$67 a night, and hostelleries near John Wayne are mostly full.

Hotel investments also can be indicators of future growth, even in the lagging downtown L.A. market. The many bidders for the Sheraton Grande, which **Metropolitan Life Insurance Co.** is selling, expect improved business. The hotel now has fairly low income, explains Jordan Richman, hotel expert at Grubb & Ellis, a commercial real estate firm. "It takes in \$20 million in revenues and its income is \$2 million annually," Richman says. "So if a buyer pays \$55 million, the return on investment is 3.6%—less than a Treasury bill."

But with activity picking up, "the Sheraton's income may rise to \$4 million or more, doubling the return," Richman explains.

Then why is Met Life selling? Because it likes the price and reckons that downtown Los An-

geles' growth is too slow for its taste.

The cost to build a new downtown area hotel comparable to the Sheraton, experts say, would be \$80 million. And none is likely in the near future, explains Richard Alter, Chao's partner at Financial Capital. The area still is not attractive to nighttime diners. Even corporate visitors like to stay in more attractive areas, such as Beverly Hills and Santa Monica.

Downtown L.A. is planning some attractions—Disney Hall, restaurants and clubs on Bunker Hill and possibly a special area for musical entertainment and dining, similar to Universal CityWalk, near the Biltmore Hotel. Ultimately the Sports Arena, near the Convention Center, could add to an expanded downtown and perhaps attract a new hotel.

The emphasis on public recreation is a key aspect of new urban economies elsewhere in the Southland, with hotels playing an integral part. In Santa Monica, Shutters on the Beach has been a great success and is scheduled for a

500-room expansion on the site of the Pritikin Center.

The Shutters complex is now a prime part of the Santa Monica revival that began with political determination. "The City Council there put investment and effort into creating the Third Street Promenade," Alter says, an area, like Old Town Pasadena, Universal CityWalk and the South Coast Plaza area of Costa Mesa—of restaurants and shops with bright lights and active but discreet policing. "The Promenade revived business all over Santa Monica," he says.

In Orange County, Disneyland's California Experience expansion will see new hotels built inside the park and in adjacent areas of Anaheim. The Ontario Airport area, with shopping centers and restaurants, is getting new hotels. And an Extended Stay America hotel is going up in Long Beach.

In the recovered economy, and the changing cities of Southern California, hotels are economic engines as well as increasingly valuable assets.