

REPORT OF THE CHIEF LEGISLATIVE ANALYST

DATE: June 20, 2014

TO: Honorable Members of the Economic Development Committee

FROM: Gerry F. Miller
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Assignment No: 13-08-0676

ECONOMIC DEVELOPMENT INCENTIVE POLICY FOR HOTEL DEVELOPMENT

SUMMARY

Council approved Motion (Perry-Parks, CF# 09-2540), introduced on October 14, 2009, which recognizes the importance of hotels to the City's economy and instructed the Chief Legislative Analyst (CLA) to identify incentive programs that could support the development of additional hotels in the City.

On August 27, 2013, the Economic Development Committee considered a report by the CLA that provided details for such an incentive program. The Committee, following public testimony and substantial deliberation, directed the CLA to conduct additional research and evaluate revisions to the recommended policy.

This report updates data concerning the status of hotel development and hotel occupancy in the City, provides additional information related to the Committee's questions, and presents a revised policy to implement a general incentive for hotel development across the City and enhanced incentives in specified geographic areas.

Policy details are supported by a report from PKF Consulting USA, provided in Attachment A. Additional comment on the policy is provided in a letter from Convention, Sports, and Leisure as Attachment B. The final recommended hotel incentive policy is provided in Attachment C to this report.

RECOMMENDATIONS

That the City Council:

1. Approve a Hotel Incentive Program, as defined in Attachment C, to provide qualified hotel developers with site-specific revenue support under specified criteria, which will sunset five years from adoption of this policy;
2. Instruct the Economic and Workforce Development Department, with support from the Chief Legislative Analyst (CLA), City Administrative Officer (CAO), and City Attorney as an oversight committee, to implement the Hotel Incentive Program;

3. Instruct the CLA to prepare and release a Request for Qualifications (RFQ) to establish a list of economic and financial analysts qualified to evaluate the development costs and economic impacts of hotel development for use in the Hotel Incentive Program and similar economic development projects;
4. Instruct the EWDD, CLA, and CAO and request the City Attorney to prepare standard documents for use in program implementation;
5. Instruct the Planning Department, EWDD, and CLA to report to Council and Mayor any entitlement provisions that constrain hotel development;
6. Instruct the Planning Department to conduct a study of small hotels to identify their appropriate locations throughout the City, compatibility with local land uses and zoning, and options to transition these properties, if appropriate, to other uses; and
7. Instruct the EWDD, with the CLA, CAO, and City Attorney, to report annually on the status of this program, including compliance with State Government Code Section 53083 Compliance reporting.

BACKGROUND

On August 27, 2013, the Economic Development Committee considered a report concerning the establishment of an incentive program to encourage the development of hotels. The proposed incentive program would provide limited assistance for the development of qualified hotel projects throughout, as well as enhanced incentives for qualified hotel projects in specified geographic areas as noted below.

The purpose of a Citywide incentive policy is to increase the number of hotel rooms available in the City and create certainty in the development process for hotels. Over the last 25 years, the City has experienced a .07% increase in hotel room development, compared to the national average of 1.8%. The Citywide policy also addresses the increase in tourism projected by the Los Angeles Tourism and Convention Board (LATCB) which seeks to increase tourist visits from 42.2 million in 2013 to more than 50 million annual visitors by 2020.

Further, enhanced incentive areas were proposed within the policy to achieve specific goals relative to the Los Angeles Convention Center (LACC), Downtown Los Angeles, adaptive reuse projects in Downtown, Los Angeles Airport, Hollywood, in North Hollywood, and City sections near the Burbank Airport. The LACC, for example, requires specific hotel products to meet the needs of convention clients. The policy is designed to provide enhanced incentives that address the business needs of this City-owned facility.

During consideration of the report, the Committee requested additional information and consideration of alternative incentives. This report provides information in response to the Committee's request and provides adjustments to the policy elements originally proposed.

This report is based upon research provided by PKF Consulting USA. Their technical report is provided as Attachment A. That report provides recommendations on various policy elements, as well as background research on incentives provided in other cities across the nation. Additional information was provided by the LATCB, LACC, and other specialists in the hotel and convention industry.

In addition, a peer review of the PKF technical report was obtained to ensure that all aspects of the hotel incentive policy were considered. Convention, Sports, and Leisure (CSL) provided a letter (Attachment B) that summarizes the PKF technical report and provides recommendations that supplement the recommended Hotel Incentive Policy.

In particular, CSL highlights the PKF analysis that depressed hotel development can “negatively impact the viability of surrounding office and other commercial projects.”

Updates to Hotel Demand Data

Los Angeles has experienced a very small amount of new hotel openings over the past 25 years as compared to similar, well-known national destinations. According to data from Smith Travel Research and PKF Hospitality Research, since 1988 the annual increase in new hotel rooms has averaged only 0.7% in Los Angeles compared to a national average of 1.8%. Between 2003 and 2012 the number of hotels within Los Angeles County has actually declined, as older properties were razed or converted to other uses. Table 1 provides a comparison of hotel room growth in several cities across the nation.

	Total Room Increase, 1988-2013	% Increase, 1988-2013
Anaheim	14,276	1.2%
Chicago	37,944	1.7%
Los Angeles	15,711	0.7%
New Orleans	10,143	1.3%
New York	37,396	1.8%
Orlando	55,889	2.6%
San Diego	20,538	1.7%
San Francisco	7,692	0.7%
All U.S.	1,768,439	1.8%

Table 2 compares annual hotel room supply and occupancy between 2009, at the depth of the recession, and the hotel occupancy forecast for 2014. Weekly reports in 2013 indicated that City hotel markets have from time-to-time exceeded 90% occupancy.

Table 2
Annual Room Supply by City of Los Angeles Submarket

Submarket	Annual Supply 2009	Occupancy 2009	Annual Supply 2014 Forecast	Occupancy 2014 Forecast
Downtown 1 (ADR >\$110)	1,980,490	60.8%	2,141,942	75.5%
Downtown 2 (ADR <\$110)	491,290	69.1%	465,375	69.3%
LAX	3,897,105	74%	3,949,300	86.3%
West Los Angeles Luxury	560,640	56.6%	573,050	76.7%
West Los Angeles Deluxe	1,441,385	65.4%	1,599,065	81.3%
West Los Angeles First Class	763,215	76.4%	801,905	81.1%
Hollywood	490,560	70.1%	622,690	82.9%
East San Fernando Valley	1,344,660	68.3%	1,406,710	78.8%
West San Fernando Valley	631,085	60.4%	659,190	74.3%

Average Daily Rate (ADR)

Source: PKF Consulting, 2014 Southern California Lodging Forecast

An increase in the hotel stock adjacent to LACC is of particular interest to the City. Table 3 compares the hotel room configurations adjacent to convention destinations in California.

Table 3
Convention Center-Adjacent Hotels Among Convention Cities

City	Hotels with 1,000 or More Rooms	Hotels with 500 to 999 Rooms	Hotels with 100 to 499 Rooms	Total Rooms
Los Angeles (Figure 1)	0	2	11	4,225
Anaheim (Figure 2)	2	2	24	7,800
San Diego (Figure 3)	3	1	11	8,190
San Francisco (Figure 4)	4	5	43	19,113

Source: CSL International and the LATCB, 2012.

Figures 1 through 4 graphically show the location of the hotels in Table 3 in relation to their city's convention center. A ½ mile radius, a reasonable distance to walk from a hotel to a convention center, is also indicated on each figure. Data for these figures represents hotel status in 2012, and as a result Figure 1 does not show hotels that are expected to be built within the LACC Incentive Area. Figure 1 is limited to existing hotels and hotels under construction.

Hotel Rooms Within 1/2 Mile of the Los Angeles Convention Center



<ul style="list-style-type: none"> – 0 hotels with more than 1,000 rooms. – 2 hotel with 500 to 999 rooms. – 11 hotels with 100 to 499 rooms. 	<ol style="list-style-type: none"> 1 – Wilshire Grand (900 rooms) – opening 03/2017 2 – JW Marriott LA Live (878) 3 – Sheraton Downtown (485) 4 – Hotel Indigo (350) – opening 02/2016 5 – Mayfair Hotel (295) 6 – Figueroa Hotel (285) 7 – Stillwell Hotel (232) 8 – Ace Hotel (182) 9 – Residence Inn LA Live (219) – opening 06/2014 10 – Luxe Hotel City Center (180) 11 – Courtyard by Marriott LA Live (175) – opening 06/2014 12 – Ritz Milner Hotel (137) 13 – The Ritz-Carlton LA (123)
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Figure 1

Hotel Rooms Within 1/2 Mile of the Anaheim Convention Center

- 2 hotels with more than 1,000 rooms.
- 2 hotels with 500 to 999 rooms.
- 29 hotels with 100 to 499 rooms.



- 1 – Hilton Anaheim (1,572 rooms)
- 2 – Anaheim Marriott (1,030)
- 3 – Disneyland Hotel (988)
- 4 – Disney's Grand Californian (948)
- 5 – Sheraton Park Hotel (490)
- 6 – Disney's Paradise Pier (481)
- 7 – Anabella Hotel (360)
- 8 – Red Lion (310)
- 9 – Best Western PLUS Stovall's Inn (289)
- 10 – Clarion Hotel (284)
- 11 – Residence Inn (274) – Opening 06/2015
- 12 – Hyatt House (252) – Opening 03/2015
- 13 – DoubleTree Guest Suites (251)
- 14 – Homewood Suites (251) – Opening 10/2015
- 15 – Best Western PLUS Park Place Inn (199)
- 16 – Castle Inn and Suites (199)
- 17 – Desert Palms (189)
- 18 – Portofino Inn and Suites (188)
- 19 – Ramada Inn Maingate (185)
- 20 – Hyatt Place (178) – Opening 07/2014
- 21 – Super 8 (173)
- 22 – Hampton Inn and Suites (172)
- 23 – SpringHill Suites (172) – Opening 07/2014
- 24 – Candy Cane Inn (171)
- 25 – Courtyard by Marriott (153)
- 26 – Desert Inn and Suites (146)
- 27 – Dolphin's Cove Resort (136)
- 28 – Cortona Inn and Suites (127)
- 29 – Travelodge Anaheim Conv. Ctr. (119)
- 30 – Best Western Raffles Inn (108)
- 31 – Comfort Inn Maingate (108)
- 32 – Ramada Plaza Hotel (105)
- 33 – Holiday Inn Express (104)



Figure 2
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