



Investors Are Raising Risk on Hotel Buys



Applefield: "Hotel performance is up and is expected to continue to go up."

NEWPORT BEACH, CA—The outlook for **hotels** in Southern California continues to brighten, **Gregg Applefield**, director of the **debt-and-equity finance** group at Newport Beach-based **Mission Capital**, tells GlobeSt.com. Economic and tourism conditions in the Los Angeles and Orange County areas, in particular, have improved, making this a strong market for **hotel investment**.

Applefield notes a record number of visitors to the L.A. area. "In 2013, the LAX passenger count increased

4.7% over 2012, and overall hotel performance throughout the L.A. area has improved. Transaction volume is up, the gross volume of hotels sold has increased, and investors are willing to move down the risk curve into buying **unstabilized** hotels and **renovating** alternative property types. They're rebranding them and developing new assets, which shows how much general improvement there has been in the market. Buyers are actively interested in investing in hotels in the area."

Mission Capital focuses on raising capital for owners, operators and **developers** in a variety of property types, including hotels.

Hotel performance in general is up and is expected to continue to rise, he adds. "In 2013, occupancy and **RevPAR** are the strongest we've seen in several years, and we expect those figures to start getting closer to or above where they were in the peak of the last cycle. With respect to transaction volume, the sector started

out with a strong first half of the year, and there's been an increased in the number of hotels sold over last year."

The takeaway is that investors and lenders are willing to make a larger bet on Southern California hotel properties as the economy and hotel market improve, he says. "It's a year-round market, and it attracts corporate, leisure and group travelers."

In addition, the amount of **foreign capital** chasing Southern California hotel deals has increased, Applefield says. "There's a lot of interest from Asian buyers to invest in hotel properties throughout Southern California. Visitors and tourists from around the world peg Orange County hotels as some of the best real estate in the US."

In fact, Applefield cites **Washington Real Estate Holdings'** recent sale of the **St. Regis Hotel** in Dana Point, CA, for nearly \$320 million as a testament to the value of Orange County hotels. "That's a significant price for a hotel asset in that area."

Also, now that the economy is improving, owners are willing to reinvest money to improve their properties, spurred by new hotel development throughout the region. "I do think there's been a limited-service development trend in the Airport office market, and there have also been several trades with an eye on redevelopment recently. **Green Oak Real Estate** bought the **Hotel Figueroa** in Downtown L.A. and is planning a significant **renovation** of that project. In lieu of ground-up new development, owners are converting existing assets, particularly office, to hospitality."