

Los Angeles Ultimate City for Investors

Los Angeles is attracting bargain-hunting Hong Kong and mainland Chinese buyers who are capitalising on low prices

Peta Tomlinson | *South China Morning Post*
June 15, 2011

Historical and business ties run deep between Los Angeles and Hong Kong. Dating back more than 170 years, they continue today in trade ranging from electronic and agricultural products to textiles and wine.

It was the 1850s gold rush that first attracted the Chinese to California, making them among the first Asian immigrants in the United States. But soon the lifestyle, educational opportunities and growing Chinatown in Los Angeles attracted prospectors of a different kind: those seeking to share the American dream.

In 1850, the US Census showed there were just two Chinese residents in Los Angeles. Today, their numbers have swollen to the extent that California now has the largest ethnic Chinese population in the US. In terms of business ties, Hong Kong is California's sixth-largest trading partner. Last year, Californian exports to Hong Kong were worth US\$6.8 billion.

The 2008 financial crisis produced a new breed of Chinese in Los Angeles: the bargain hunter.

When the Los Angeles Sheraton Universal Hotel was sold to Shenzhen New World Group earlier this year, the price was undisclosed, but if the widely mooted figure of US\$90 million is correct, this was something of a windfall for the Chinese buyer (which also bought the Los Angeles Marriott Downtown last year for an estimated US\$60 million). The *Los Angeles Times* reported that the seller, a local developer and landlord, paid US\$122 million for the hotel at the top of the market in 2007 and spent US\$25 million on improvements, but lost control of it last year after the recession battered the travel business.

The report quoted Jim Butler, a Los Angeles hotel lawyer who worked on the Sheraton deal, as saying that those who invested in hotels from 2005 to 2007 ran out of money. "Overnight, properties dropped 50 per cent or 60 per cent in value, and cash flows fell through the bottom," he said.

Residential homeowners felt the pinch, too: in September 2008, industry analyst MDA DataQuick found that 46.9 per cent of all homes sold in California the previous month were foreclosed properties. That helped send the statewide median home price plunging 35.3 per cent for the year, the firm said.

The latest data for the S&P/Case-Shiller Home Price Indices shows the slide may not be over yet. The US National Home Price Index declined by 4.2 per cent in the first quarter of this year, after having fallen 3.6 per cent in the last quarter of 2010. Nationally, this returns home prices to their mid-2002 levels, and barely above the lows hit during the worst of the recession.

For Hong Kong and mainland buyers, whose home territories were far less affected by the global economic and real estate recessions, the US woes are an opportunity.

Patrick O'Neill, a Hong Kong-based US property specialist, says the combination of low prices, inventory oversupply and low American interest rates creates "the ultimate investor climate" for overseas buyers. It is even more attractive when compared with Asian property price hikes.

"The situation in the US is a sharp contrast to the mainland, Singapore and Hong Kong, where property prices are at an all-time high," says ONeill, CEO of ONeill Group. "Hong Kong [property] increased over 45 per cent while the US decreased 30 per cent during the same period."

As a result, Chinese investment in US property nearly doubled last year compared with 2009, according to the National Association of Realtors. "We are on track for that figure to double again in 2011. For the Hong Kong buyers, the US became the number one country of interest in 2010 for real estate investment, surpassing the Chinese mainland and Britain for the first time. Los Angeles and New York continue to be the top US cities of interest," ONeill says.

Late last month, ONeill Group held a property seminar in Hong Kong to examine market conditions and investment opportunities. Los Angeles featured because it offers price discounts of 35 to 40 per cent below the peak of 2006, and rental vacancy rates under 5 per cent.

"Comparatively speaking, this is a stable market with net rental yields hovering around 4 to 5 per cent. These are better net yields than we are currently seeing in Hong Kong, New York and London," ONeill says.

Forty potential investors attended the seminar, and a dozen went to sales meetings the next day, to learn more about properties such as the W Hollywood Residences, where prices have been reduced up to 40 per cent and start at US\$500,000.

ONeill describes these residences, attached to the hip W Hotel, as "the hottest new development in California", with a super-chic design and 24/7 pampering by the hotel's Whatever/Whenever W concierge services.

"These 143 unique residences at the iconic intersection of Hollywood and Vine have views sweeping the LA skyline," he says. "Residents enjoy every amenity including two outdoor pools, jacuzzi, fitness centre, multiple lounges, restaurant and the hottest nightclub."