The Winds Are Shifting: Chinese Investors Buying Up U.S. Hotels

By Dr. Richard Kelley

A few months ago, I attended the World Travel & Tourism Council’s Tourism Summit in Hainan, China, and listened to the heads of major U.S. hotel companies talking about how many hotels each brand has opened or is planning to open in China. However, I did not hear anyone talk about a related and very important story: Chinese investors have begun acquiring and operating a significant number of hotels in the United States!

This week, the Chinese conglomerate Dalian Wanda Group announced that it had just acquired a 90 percent interest in Chicago’s Lakeshore East development, which will include a 240-room Wanda-branded hotel in a mixed-use, 89-story skyscraper. Wanda Hotels and Resorts is China’s largest upscale hotel management company, which is currently involved in 57 hotel properties across China. It plans to expand its portfolio to 96 hotels by the end of 2015, including projects in other major U.S. cities, including New York, Los Angeles and San Francisco.

Li Chen, vice president of HVS, a global hospitality services consulting firm, reports that while real estate investment in the U.S. by Chinese citizens and companies is relatively new, it is growing rapidly. A few years ago, many of the initial Chinese investments were from individuals seeking to qualify for an EB-5 visa ("green card"), which grants permanent U.S. residency to individuals who invest at least $1 million in a business and create at least 10 full-time jobs for U.S. workers. “There were 7,641 EB-5 visas issued in 2012, and that number rose to 8,567 in 2013. Most of these (approximately 80 percent) continue to come from mainland China, with individuals attracted by the opportunity to set down professional and personal roots in the U.S. The purchase of an economy or select-service hotel property was a popular way to meet these requirements,” said Chen.

Now, the focus has shifted to Chinese corporate acquisitions of major hotels in U.S. gateway cities. Chen notes, “Some recent examples in Greater Los Angeles include the Sheraton Gateway Los Angeles, the Four Points by Sheraton Los Angeles International Airport, the Torrance Marriott South Bay, and the DoubleTree Monrovia. All together, these hotel purchases total well over a quarter of a billion dollars.”
Group’s “lifestyle” hotel brand. In late 2013, Oceanwide, another leading Chinese real estate group, bought a 4.6 acre site just to the east of Staples Center where it plans to build a five-star hotel.

Several major U.S. law firms, such as Jeffer Mangels Butler & Mitchell LLP, have recently established a special department to serve the needs of Chinese individuals and corporations seeking legal assistance with their U.S. investments.

The sudden flow of investments from China is reminiscent of the wave of investments in the U.S. by companies from Japan in the 1980s. Japanese companies and individuals suddenly rushed to purchase many properties in Hawai‘i as well as assets across the continental U.S. They included iconic properties such as the four historic golf courses at Pebble Beach and Rockefeller Center in New York City. A shift in interest rates and the value of the yen wiped out many of these investments a few years later.

The current rush of Chinese investors may become much, much larger and last significantly longer than the so-called Japanese Bubble.

Currently, Japan, with a population of approximately 127 million, has the world’s third-largest gross domestic product (GDP). By contrast, China’s population is close to 1.4 billion, over 10 times the size of Japan’s, and it has a GDP almost double that of Japan.

Hold onto your hats! The winds are shifting! ☀️