TR Mandigo & Company

2009 Forecast for the Chicago CBD

Presented to: Council of Chicago Hotel General Managers

By Ted Mandigo – Director of TR Mandigo & Company
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Let's cut to the chase. There's a ream of paper here for you to look over, and a lot of statistics, but the summary is as follows:

I think we will wind up with an occupancy of about 67.2% at year end, with a slight improvement in 2010 to somewhere around 69.5% then 71% in 2011 and 72.5% in 2012. About half the impact on occupancy is supply based with a significant increase of 1,729 rooms in 2008 and another 949 coming on line in 2009. The rest of the impact is from a very real drop in demand. Year over year we show a decline of 200,000 room nights from July 2008 to July of 2009 from the prior trailing twelve month period (July 2007 to June 2008). The primary issue here is that almost all of that decline in demand occurred in the first six months of this year. I believe it will be about two years before we recover that lost demand and start off-setting the supply increases as well, that's why we expect occupancies to remain below the 70 percent level through 2010.

Looking at ADR, we were at $201.92 in 2008. It looks like a $30 drop in ADR YTD through June, but we think there will be a softening of that by late summer and a net drop of about $25 from last year to an estimated $173 for 2009 year end. With recovery, historically we climbed slowly for a year, and then caught momentum, so 2010 is estimated about $ 183, then $196 for 2011 and $207 for 2012.

That's our best guess at this point, and it assumes a late summer bounce back, and a continuous good (doesn't have to be great) stock market performance.

That's coming off the bottom in better shape than the 2001 downturn in terms of occupancy, but only slightly. The RevPAR and ADR drop is significantly more severe. We've had a shift in business mix with more packages, discounts, weekend rates and concessions granted throughout the spring and no sign of let up despite a reasonably firm June and July and an anticipated fair convention season this fall.

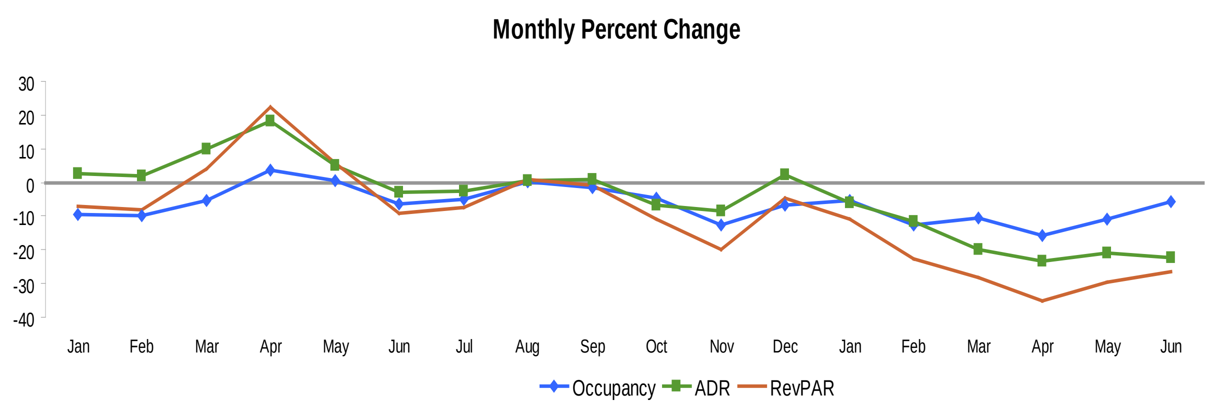
There is a strong likelihood that a portion of the national meetings market may be scaled back to regional activity, which tends to generate more local and regional attendance, but fewer room nights. Video conferencing may be incorporated to bring regional sessions together for a portion of the program to continue the national flavor. Nationwide we anticipate a significant shift in convention and meeting activity, with a smaller overall future demand in this segment, partially replaced by leisure travel through tourism and packages. Technology was beginning to impact the convention market in any event, reducing the number of visitors and length of stay as well as reducing booth requirement. This recession has accelerated that evolution in conventions. The drop in attendance is a consequence of the market downturn and recession as well as the impact of technology and represents a dynamic shift or step down in the volume of convention business. Over the next few years we will be able to quantify this impact and the general trend line.

I don't see the Chicago market being hit as severely or for as long a period as our competitors in Las Vegas and Orlando, both of which are suffering through the AIG affect. Chicago, with its superior facilities, variety of venues, lack of distractions and central location is in a good position to serve the evolving meetings market.

In addition to counting on a strong convention market for this fall and a rebounding market in the spring, we expect the infrastructure programs and other incentives to continue to generate a positive outlook and should result in growth in demand in the next year.

I would be remiss if I didn't comment on year over year comparisons as a basis for evaluating business. The market early last year was very strong, at a level well above average. When we compare a down market early this year with that very strong market early last year the results show a substantial percentage decline in performance indexes. Well, we are now beginning to measure the fall of this year against the fall of last year, when we began to turn downward in performance. Measuring a poor year against another poor period of activity results in much more optimistic comparisons. So we should see that dismal string of double drops in occupancy, rate and RevPAR to turn around this fall, and next year will look great!!!

Here is a chart of the monthly percent change in occupancy, ADR and RevPAR from January of 2008 through June of 2009.



Source: Smith Travel Research

I'll quickly go through the materials included in the package.

The first page of statistics is the projection of Occupancy and ADR for the near term, giving five years of outlook as usual. At the bottom of the page are the critical statistics of demand and supply for the downtown market, showing the drop from a 2008 demand level of 8,232,000 room nights, declining to a forecasted 7,850,000 in 2009

(200,000 of those nights were already lost in the first half of this year). This is matched with supply increases to show the expected occupancy level. The change in supply is a significant factor in the Chicago market area. In 2008 we had an increase in supply of 1,729 rooms, contributing about half the decline in occupancy levels. With another 949 coming on line in 2009 (most of those are already in the market) that will further contribute to the reduced expectation for this year. We have basically discounted the remaining projects as uncertain in timing or uncertain as to status at this time. Obviously new supply past 2010 will continue to impact overall market performance. The listing of supply additions is tabulated and presented on the next page.

Following that are general charts showing the market performance over the past 15 years and an overlay chart of the past three years' and year to date occupancy and rate performance for the downtown market.

We threw in the comparison of supply and demand for the past year and year to date periods to illustrate the loss of room nights from the market, and then wrap it up with a 48 year history of the cycles and patterns in the overall Chicago Metropolitan Area, starting in 1960 so you can visualize the past recessions and recoveries.

Thank You!

I would be pleased to answer questions.

Projected Occupancy CBD (Historic Data Source: Smith Travel Research)

	2009	2010	2011	2012	2013	2014
January	54.00%	45.57%	46.55%	47.54%	48.52%	49.50%
February	48.10%	54.46%	55.64%	56.81%	57.99%	59.16%
March	61.30%	66.08%	67.51%	68.94%	70.36%	71.79%
April	66.80%	70.38%	71.90%	73.42%	74.93%	76.45%
May	66.70%	75.50%	77.13%	78.76%	80.39%	82.01%
June	77.60%	82.01%	83.78%	85.55%	87.32%	89.09%
July	77.50%	80.05%	81.78%	83.51%	85.24%	86.96%
August	71.50%	76.18%	77.82%	79.47%	81.11%	82.76%
September	76.00%	78.60%	80.30%	82.00%	83.69%	85.39%
October	78.50%	79.56%	81.27%	82.99%	84.71%	86.42%
November	70.00%	72.15%	73.71%	75.27%	76.82%	78.38%
December	55.00%	53.93%	55.09%	56.26%	57.42%	58.58%
Annual	67.20%	69.50%	71.00%	72.50%	74.00%	75.50%

Projected ADR CBD

	2009	2010	2011	2012	2013	2014
January	$137.05	$138.21	$148.03	$156.34	$161.81	$167.47
February	$138.90	$144.67	$154.95	$163.64	$169.37	$175.30
March	$147.73	$161.28	$172.74	$182.43	$188.82	$195.43
April	$168.69	$174.83	$187.25	$197.76	$204.68	$211.84
May	$177.58	$200.15	$214.36	$226.39	$234.32	$242.52
June	$179.39	$213.13	$228.27	$241.08	$249.52	$258.25
July	$182.00	$175.97	$188.47	$199.05	$206.02	$213.23
August	$170.00	$170.45	$182.56	$192.80	$199.55	$206.53
September	$195.00	$204.07	$218.57	$230.83	$238.91	$247.27
October	$196.00	$218.25	$233.75	$246.87	$255.51	$264.45
November	$176.00	$202.16	$216.52	$228.67	$236.68	$244.96
December	$152.00	$161.60	$173.08	$182.79	$189.19	$195.81
Annual	$173.00	$183.00	$196.00	$207.00	$214.25	$221.74
	-14.32%	5.78%	7.10%	5.61%	3.50%	3.50%

	2008	2009	2010	2011	2012	2013	2014
Rooms	31,289	32,005	33,153	33,153	33,153	33,153	33,153
Supply	11,420,380	11,681,788	12,100,933	12,100,933	12,100,933	12,100,933	12,100,933
Demand	8,232,502	7,850,000	8,410,490	8,591,316	8,773,451	8,955,062	9,135,954
Occupancy	72.09%	67.20%	69.50%	71.00%	72.50%	74.00%	75.50%
Change in Supply		2.29%	3.59%	0.00%	0.00%	0.00%	0.00%
Change in Demand		-4.65%	7.14%	2.15%	2.12%	2.07%	2.02%

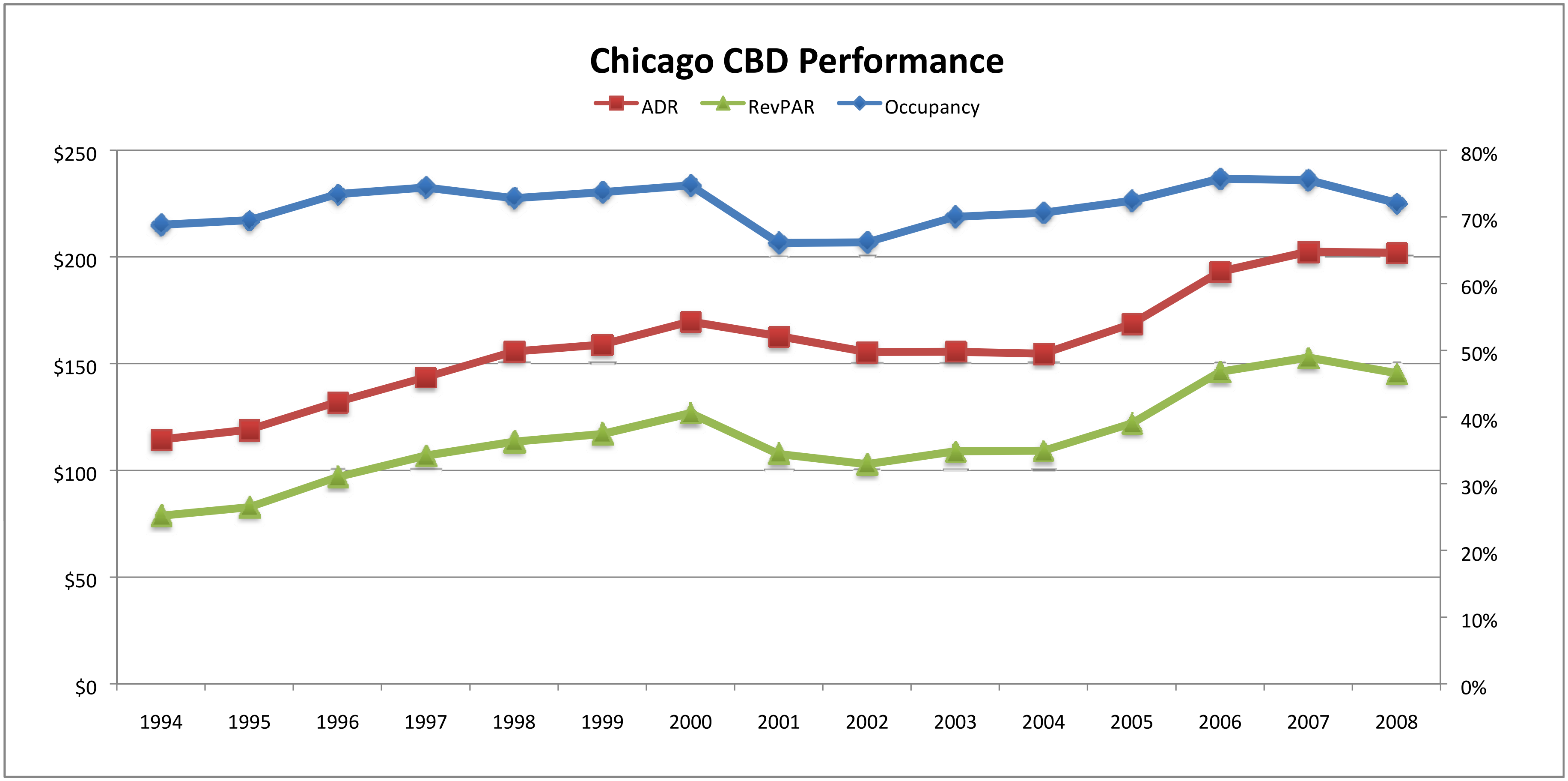
Rooms Scheduled to Enter Market

	2008	2009	2010	2011	2012
Jan	339				
Feb			261		
Mar	1085	230	119		
Apr		233			
May		298	170	200	
Jun	305		780	381	
Jul					
Aug				335	
Sep		188			
Oct					
Nov					
Dec					
Total	1729	949	1330	916	

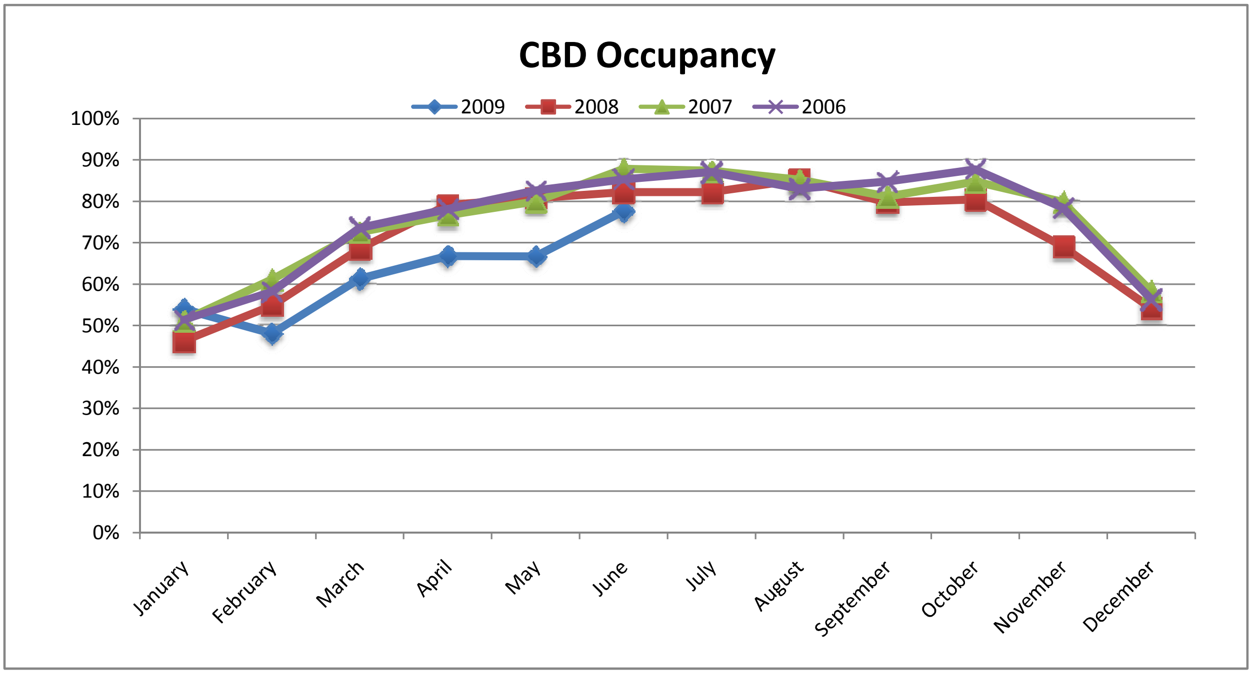
In Order or Entry into Market:

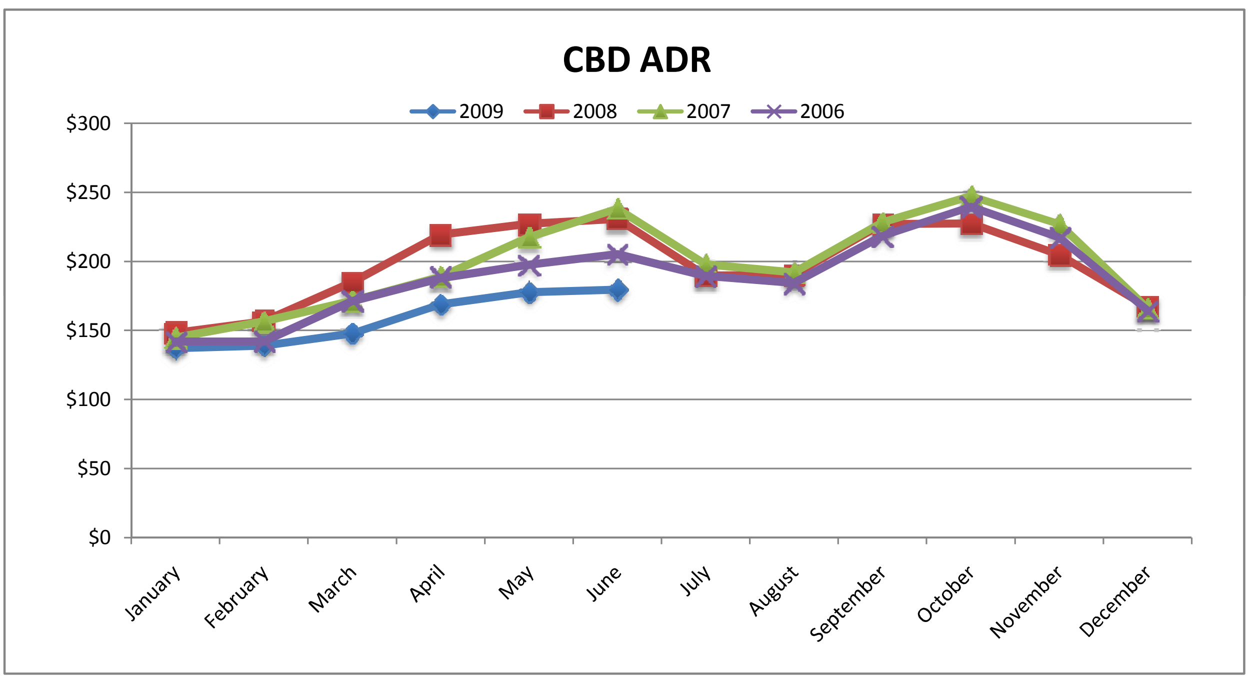
Jan-08	Trump Tower	339	
Mar-08	South Loop	232	
	Blackstone Renaissance	330	
	Residence Inn	270	
	Springhill Suites	253	
Jun-08	Club Quarters	89	
	Hotel Dana	216	1729
Mar-09	Hotel Felix	230	
Apr-09	LaQuinta	233	
May-09	The Wit	298	
Sep-09	Elysian	188	949
Feb-10	Palomar	261	
Mar-10	Comfort Suites	119	
May-10	Grand Imperial	170	
Jun-10	JW Marriott	610	
	Hyatt Place	170	1330
May-11	Mondarin	200	
Jun-11	Hyatt Place	216	
	aloft	165	
Aug-11	IBM	335	916

Assume delay in entering market.



Source: Smith Travel Research



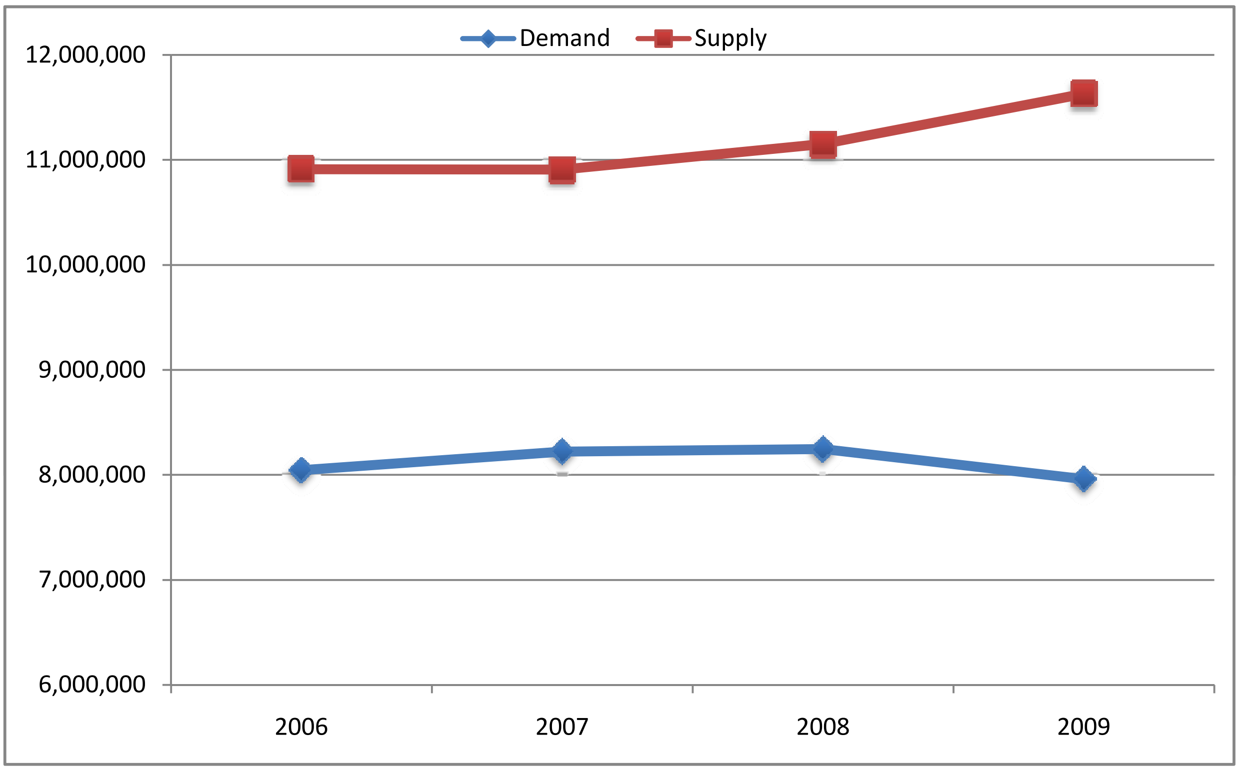


Source: Smith Travel Research

Demand		
Running 12 Months		
2007	2008	2009
8,222,436	8,245,819	7,959,757
8,045,720	8,222,436	8,245,819
2.2	0.3	-3.5

Supply		
Running 12 Months		
2007	2008	2009
10,908,230	11,152,424	11,632,407
10,911,100	10,908,230	11,152,424
0.0	2.2	4.3

Running 12	Demand	Supply	Δ Demand	Δ Supply	Occupancy
2006	8,045,720	10,911,100	100.00%	100.00%	73.74%
2007	8,222,436	10,908,230	102.20%	99.97%	75.38%
2008	8,245,819	11,152,424	102.49%	102.21%	73.94%
2009	7,959,757	11,632,407	98.93%	106.61%	68.43%
Loss/Gain	(85,963)	721,307			
Loss Peak to Valley	(286,062)				



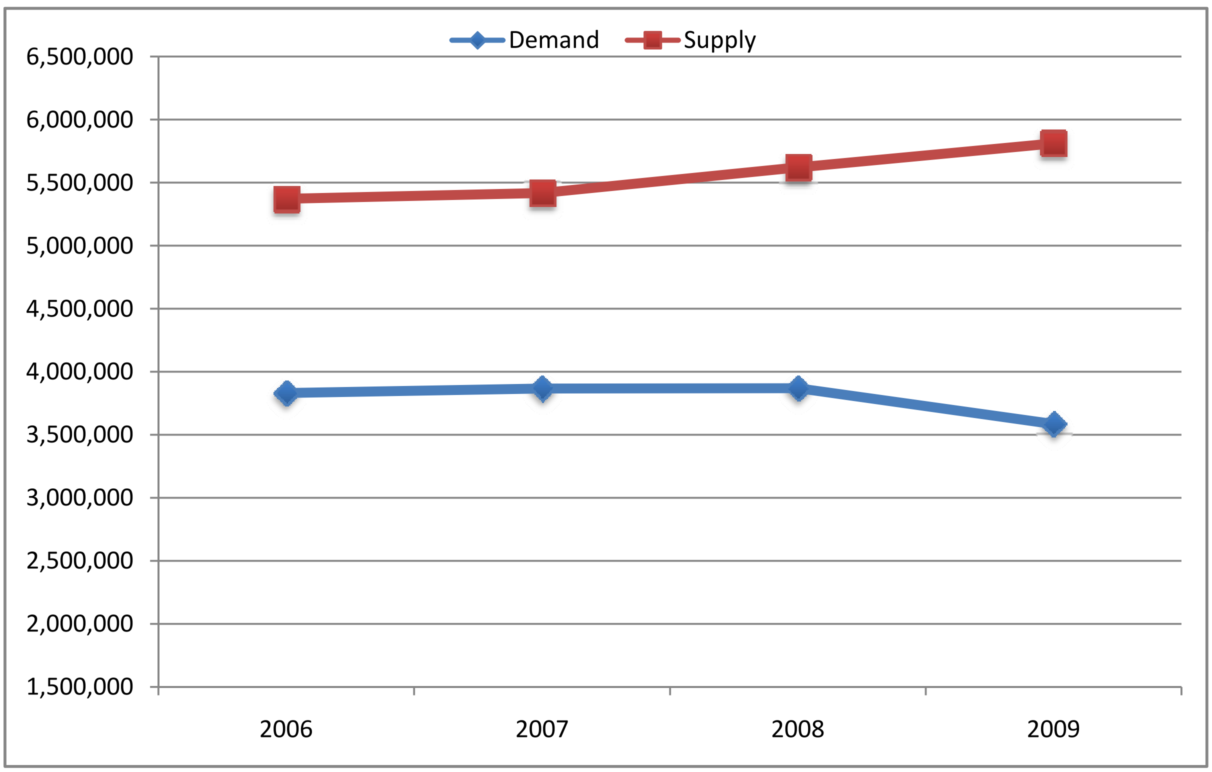
Source: Smith Travel Research

Year To Date Supply		
2007	**2008**	**2009**
5,418,318	5,622,012	5,812,139
5,373,683	5,418,318	5,622,012
0.8	3.8	3.4

Year To Date Demand		
2007	**2008**	**2009**
3,867,026	3,869,281	3,584,853
3,831,519	3,867,026	3,869,281
0.9	0.1	-7.4

Year To Date Through June 2009

	Demand	Supply	∆ Demand	∆ Supply	Occupancy
2006	3,831,519	5,373,683	47.62%	49.25%	71.30%
2007	3,867,026	5,418,318	48.06%	49.66%	71.37%
2008	3,869,281	5,622,012	48.09%	51.53%	68.82%
2009	3,584,853	5,812,139	44.56%	53.27%	61.68%
Loss/Gain	(246,666)	438,456			
Loss Peak to Valley	(284,428)				



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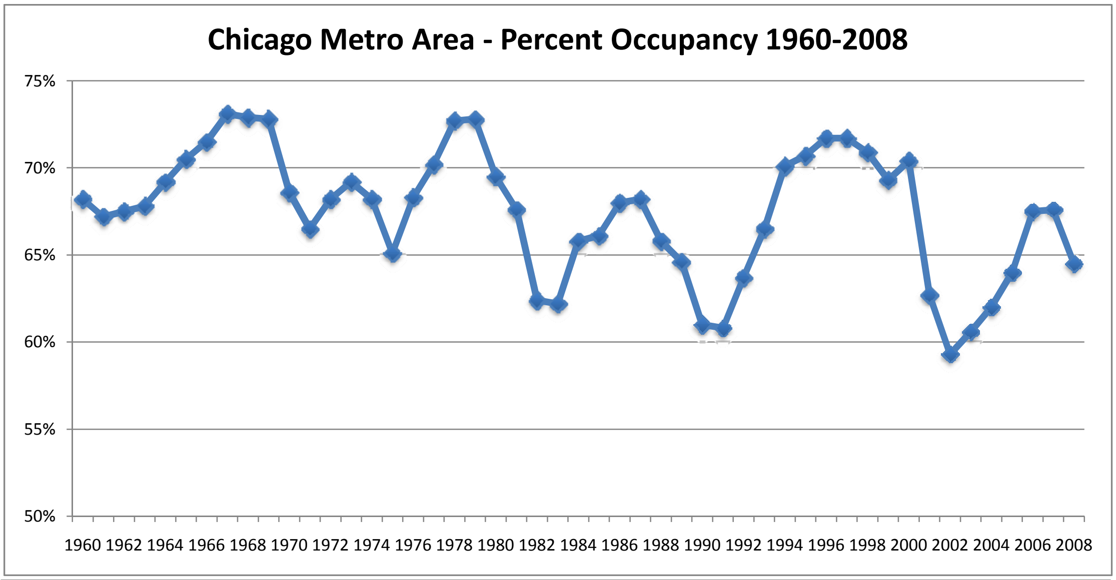

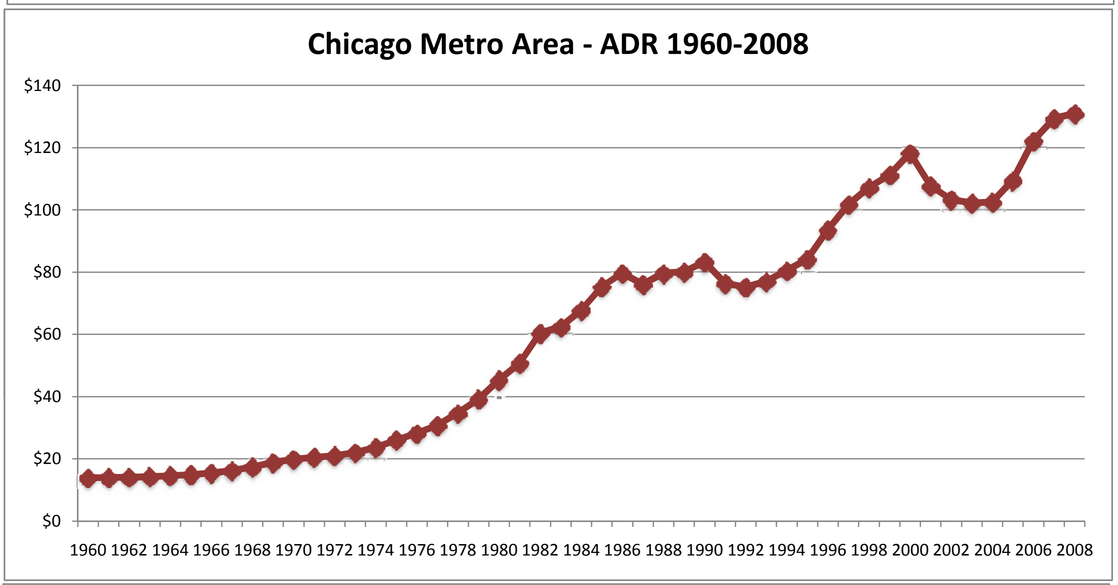

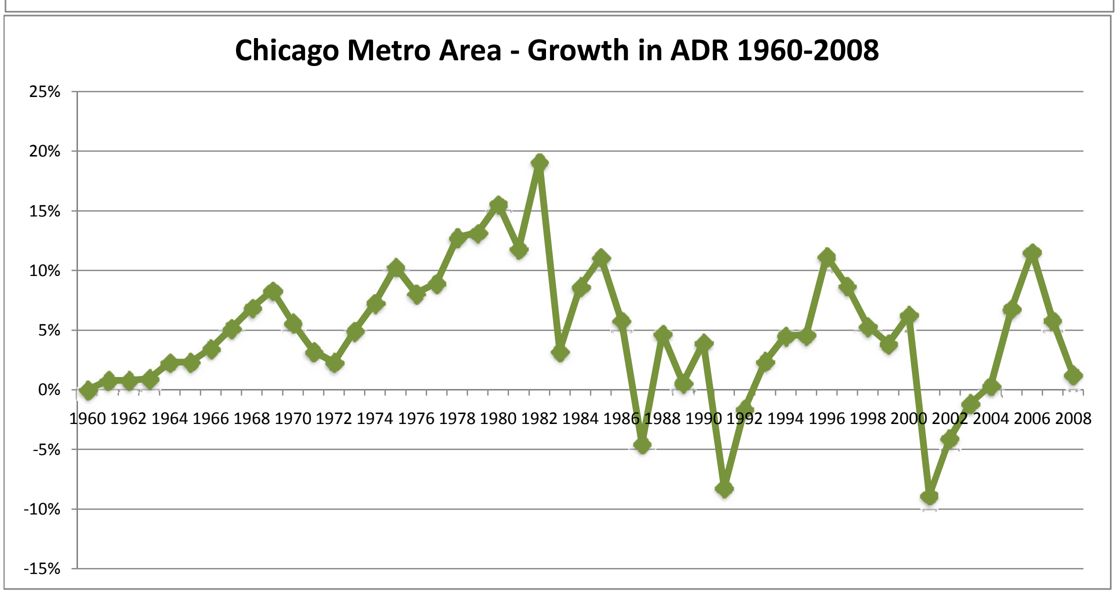

Source: Smith Travel Research

CMA Statistics - Actual 1960-2007

Chicago Metropolitan Area

Year	Occupancy
1960	68.20%
1961	67.20%
1962	67.50%
1963	67.80%
1964	69.20%
1965	70.50%
1966	71.50%
1967	73.10%
1968	72.90%
1969	72.80%
1970	68.60%
1971	66.50%
1972	68.20%
1973	69.20%
1974	68.20%
1975	65.10%
1976	68.30%
1977	70.20%
1978	72.70%
1979	72.80%
1980	69.50%
1981	67.60%
1982	62.40%
1983	62.20%
1984	65.80%
1985	66.10%
1986	68.00%
1987	68.20%
1988	65.80%
1989	64.60%
1990	61.00%
1991	60.80%
1992	63.70%
1993	66.50%
1994	70.10%
1995	70.70%
1996	71.70%
1997	71.70%
1998	70.90%
1999	69.30%
2000	70.40%
2001	62.70%
2002	59.30%
2003	60.60%
2004	62.00%
2005	64.00%
2006	67.50%
2007	67.60%
2008	64.50%
Avg.	67.46%

Year	ADR
1960	$13.95
1961	$14.06
1962	$14.17
1963	$14.30
1964	$14.63
1965	$14.97
1966	$15.49
1967	$16.29
1968	$17.41
1969	$18.86
1970	$19.92
1971	$20.56
1972	$21.03
1973	$22.07
1974	$23.68
1975	$26.12
1976	$28.23
1977	$30.76
1978	$34.69
1979	$39.26
1980	$45.38
1981	$50.75
1982	$60.45
1983	$62.41
1984	$67.81
1985	$75.35
1986	$79.73
1987	$76.12
1988	$79.67
1989	$80.13
1990	$83.29
1991	$76.45
1992	$75.23
1993	$77.01
1994	$80.50
1995	$84.19
1996	*$93.61*
1997	$101.76
1998	$107.16
1999	$111.30
2000	$118.28
2001	$107.78
2002	$103.39
2003	$102.21
2004	$102.57
2005	$109.54
2006	$122.21
2007	$129.36
2008	$131.00
Avg.	$61.53

	Growth ADR
1960	
1961	0.79%
1962	0.78%
1963	0.92%
1964	2.31%
1965	2.32%
1966	3.47%
1967	5.16%
1968	6.88%
1969	8.33%
1970	5.62%
1971	3.21%
1972	2.29%
1973	4.95%
1974	7.29%
1975	10.30%
1976	8.08%
1977	8.96%
1978	12.78%
1979	13.17%
1980	15.59%
1981	11.83%
1982	19.11%
1983	3.24%
1984	8.65%
1985	11.12%
1986	5.81%
1987	-4.53%
1988	4.66%
1989	0.58%
1990	3.94%
1991	-8.21%
1992	-1.60%
1993	2.37%
1994	4.53%
1995	4.58%
1996	11.19%
1997	8.71%
1998	5.31%
1999	3.86%
2000	6.27%
2001	-8.88%
2002	-4.07%
2003	-1.14%
2004	0.35%
2005	6.80%
2006	11.57%
2007	5.85%
2008	1.27%
CAG	4.78%

Source: Smith Travel Research