



**TR Mandigo & Company**

*“Over 35 Years of Hospitality Consulting”*

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# **Market History and Forecast**

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Market History and Forecast  
for Downtown Chicago  
and the surrounding area,  
August 7, 2012

**Prepared by:**

TR Mandigo & Company  
338 N. Highland Avenue  
Elmhurst, Illinois 60125  
TEL: (630) 279-8144  
FAX: (630) 279-4701

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Each year, we try to come up with a slightly different way of interpreting the overall market, more as an exercise than anything else. We have of course included our projections as well. If you want to just skip ahead to the back page, we won't blame you.

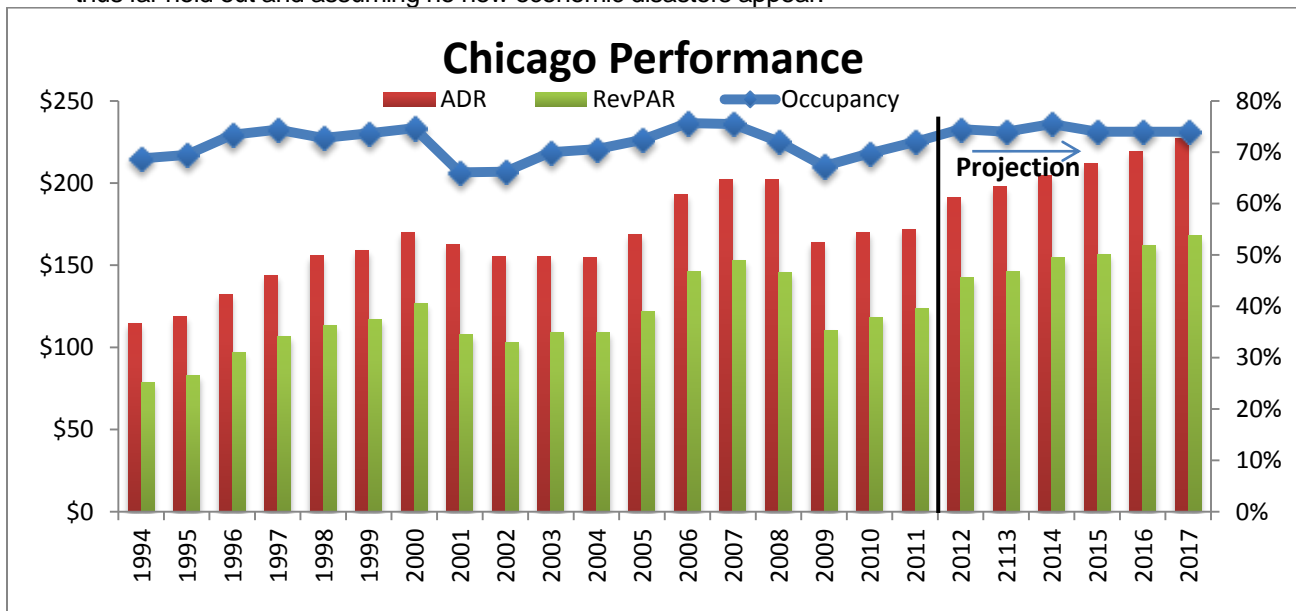
Last year one of the things we discussed was the effect that the surrounding suburbs can have on a market. We're going to expound upon that this year a bit.

We've tried to express why the Chicago market is so different from New York in a number of ways, and while there's a million different reasons, one of the ones we found the most interesting was geography. New York, Miami, and San Francisco all performed fairly well during the recession, and one of the reasons for that is that they are essentially walled cities with captive demand. Of course, they're not literally walled off, but New York is an island with bridges (and tolls) to get in or out, San Francisco is on the end of a peninsula with a massive bay. Miami seems like it should be part of this list, but it is surrounded by ocean on one side, and the everglades on the other, leaving suburbs only to the north and south. Moreover, Miami Beach is the heart of the hotel scene there, and it is on an island only reachable by bridge. Chicago has a lake on one side, and a comparatively easy transit system to reach the suburbs on the three other sides. Basically, because it's easy to get away from downtown, the suburbs are more attractive when rates increase in one location and not the other, while these other markets remain pressurized, trapping more and more rooms downtown, which enables them to keep rates higher. There are of course, other factors, but that one's pretty interesting.

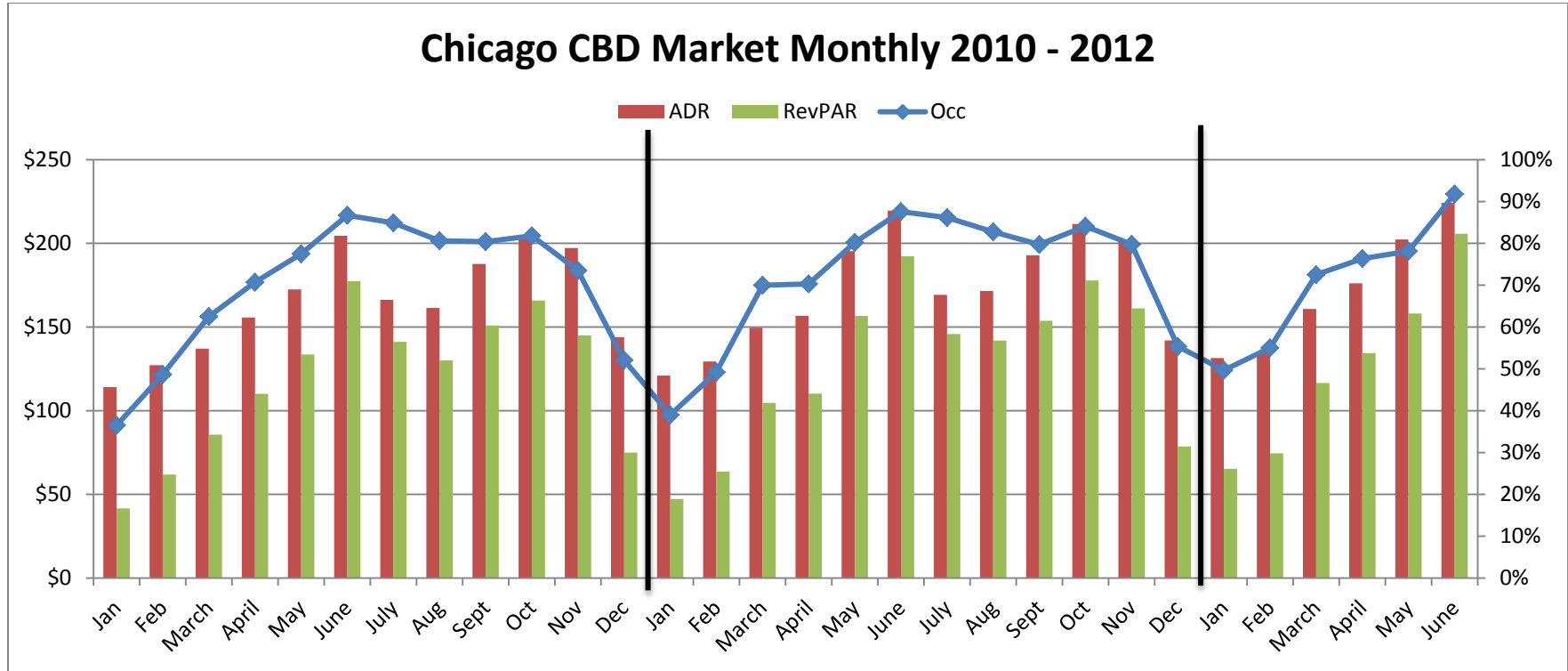
Chicago was at the peak of its cycle in 1999 and 2000, and was already headed for a slight downturn prior to the crash of 2001, though the ensuing recession was exacerbated by the events of that year and took until 2004 to begin to recover. Rates and demand grew until the crash of 2008 at which point rates were lowered dramatically, while demand essentially stagnated. Occupancy loss in the downtown market was primarily due to the increased supply in 2009.

The Chicago market suffered a significant drop in both rate and occupancy during the downturn, but fared far better than the surrounding market. This is due to the downtown market's higher desirability, which enabled it to essentially siphon off additional rooms from the suburbs and O'Hare to boost its own occupancies. Rates downtown and in the luxury track dropped considerably further than those in other markets, which partially explains why they saw less of a drop in occupancy, though this is also because the suburbs and mid-range and lower hotels did not have much ground to give up.

Because of the deep discounts used to lure people downtown, rate took several years to recover, and is only anticipated to top 2007, the previous high, by the end of this year, assuming the patterns seen thus far hold out and assuming no new economic disasters appear.

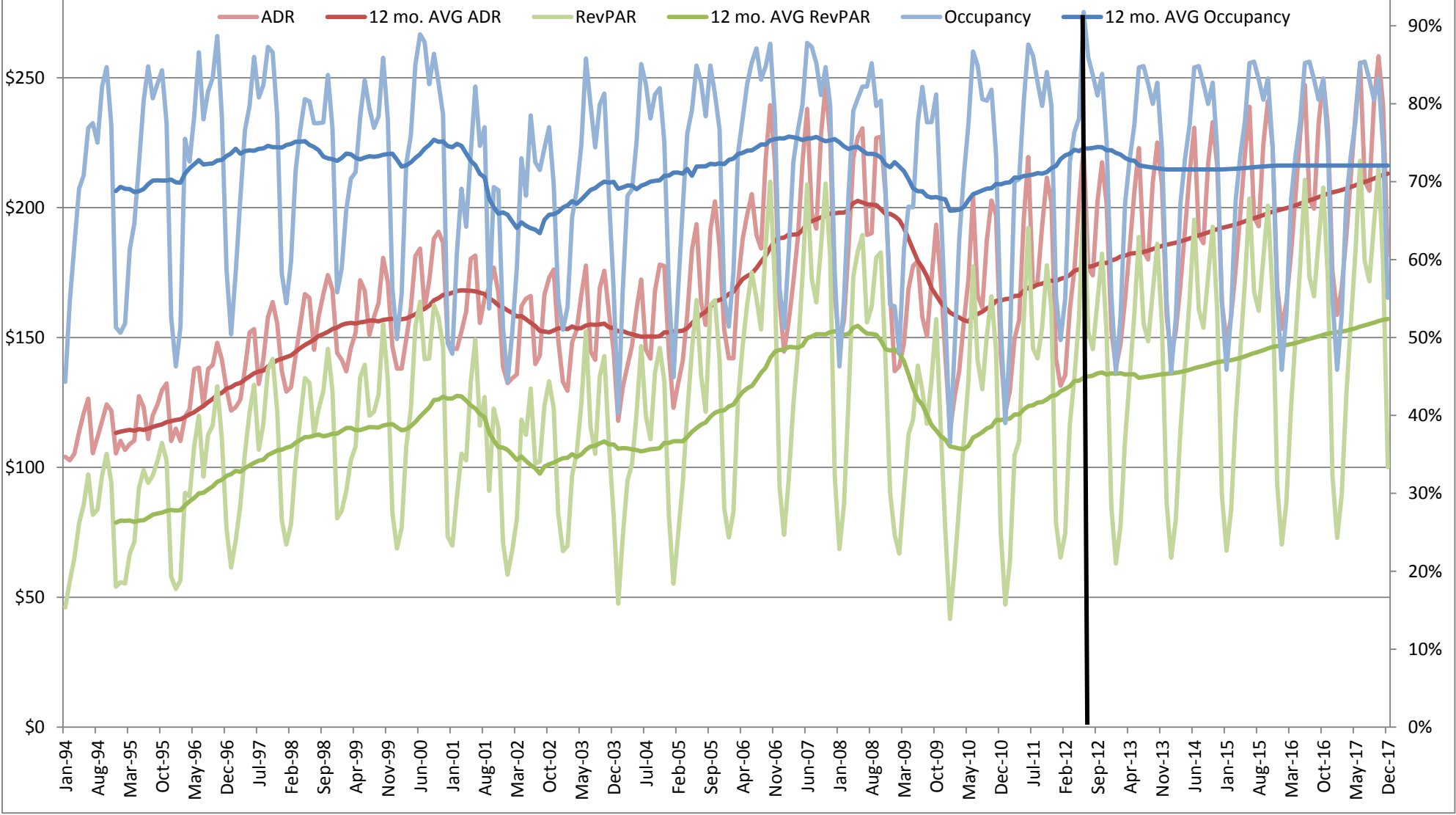


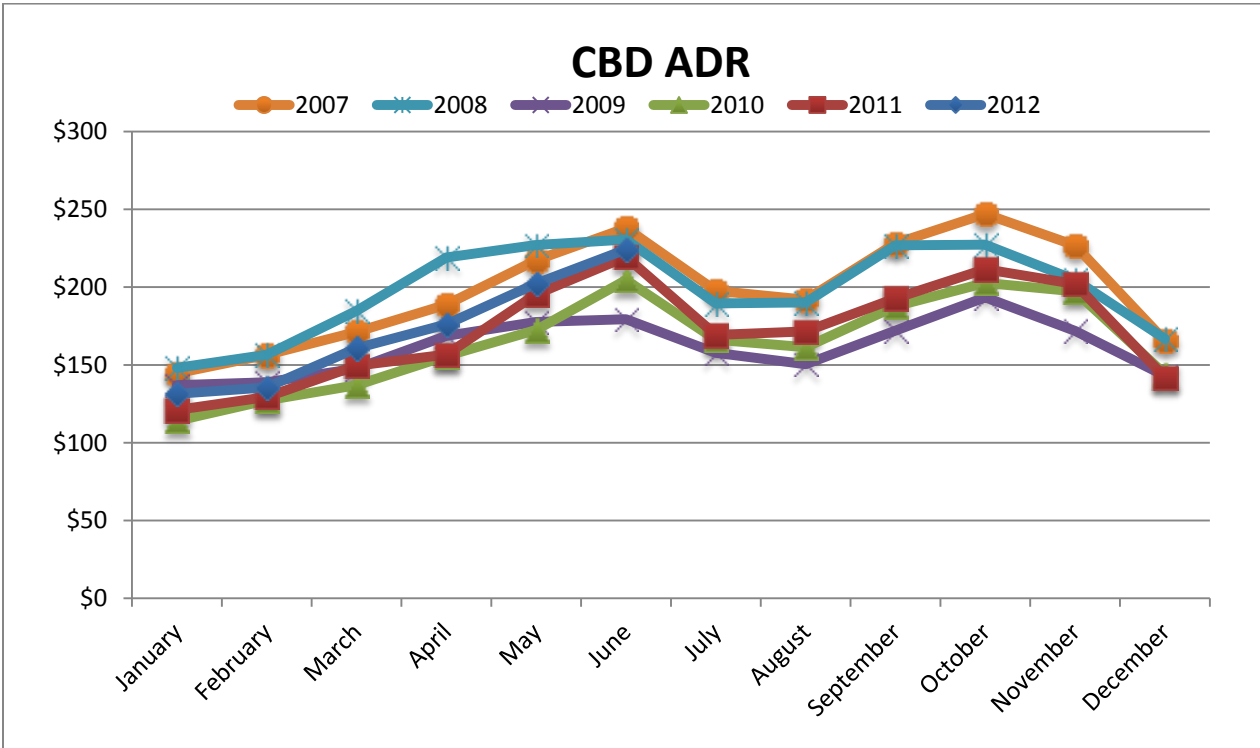
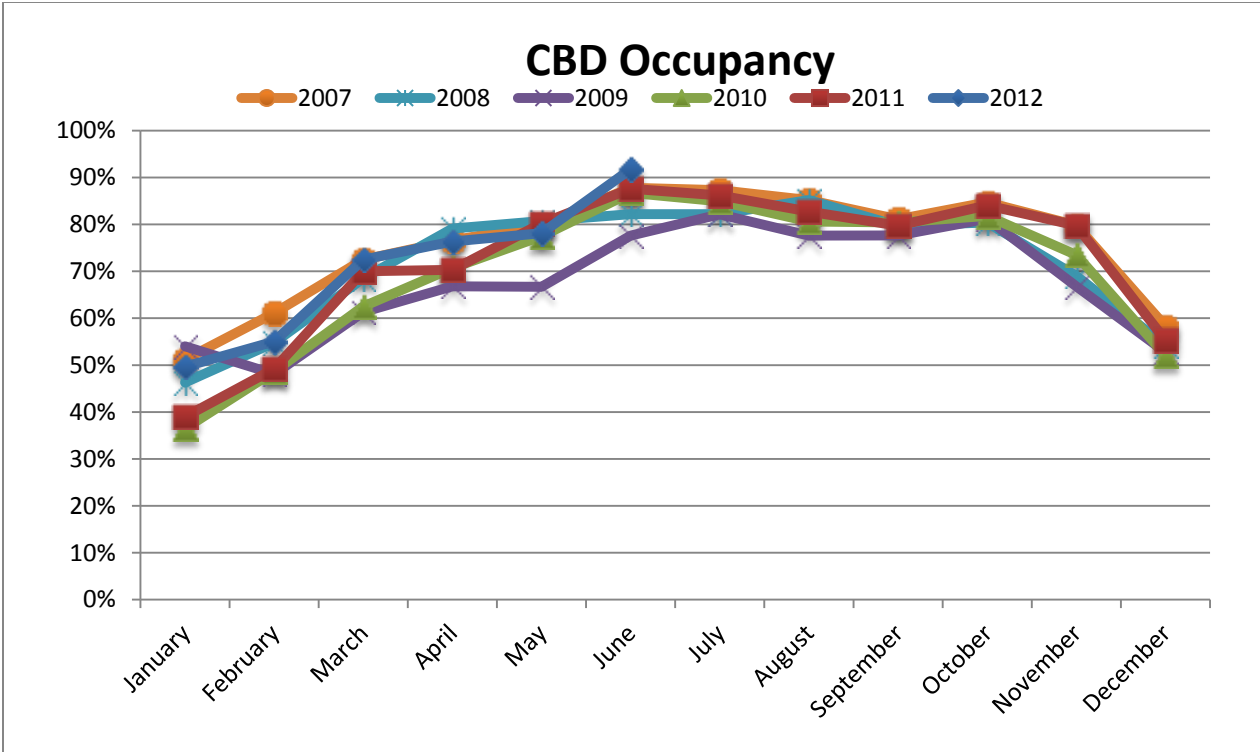
The following chart displays the seasonality of the Chicago market over the past two years.



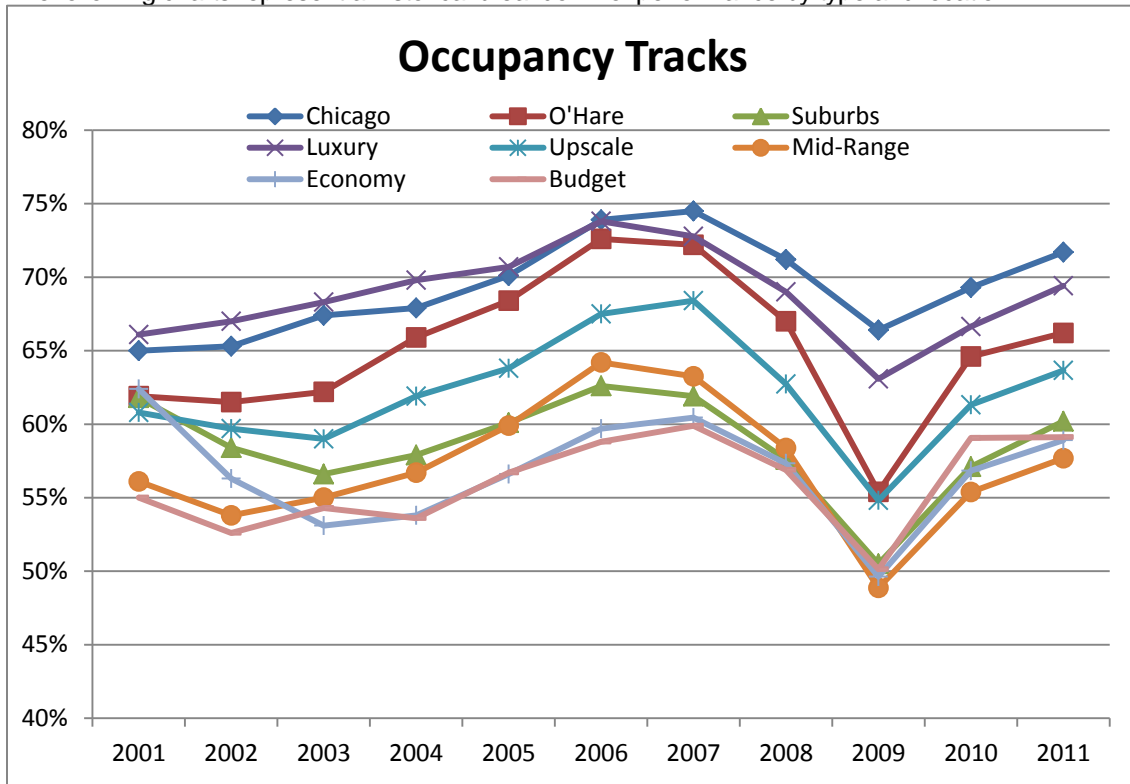
As you can see, the low point from each year is higher than the year before it. However, this should be taken with a grain of salt, as January and February were both terrible months in 2010 and 2011. The next chart displays the Average Daily Rate, Occupancy percentage, and Revenue Per Available Room on a monthly basis including projections from 1994 through 2017.

# Historic Trends and Projections in Chicago CBD 1994-2017

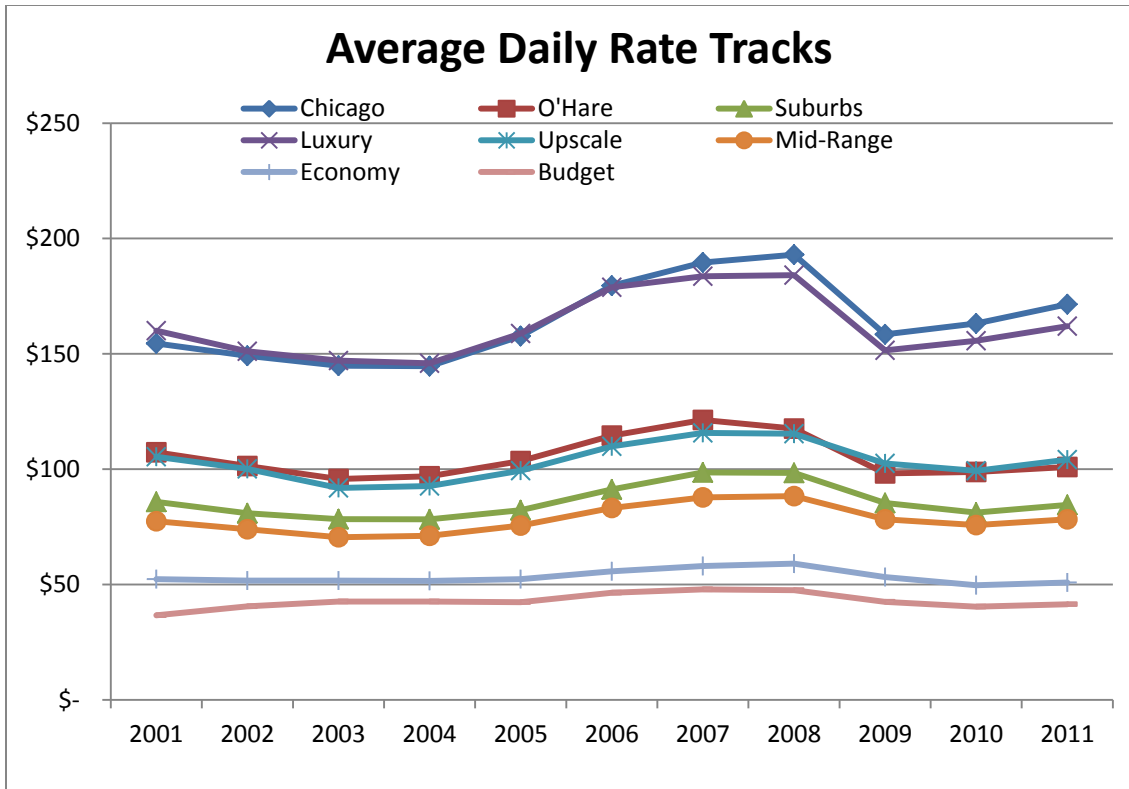




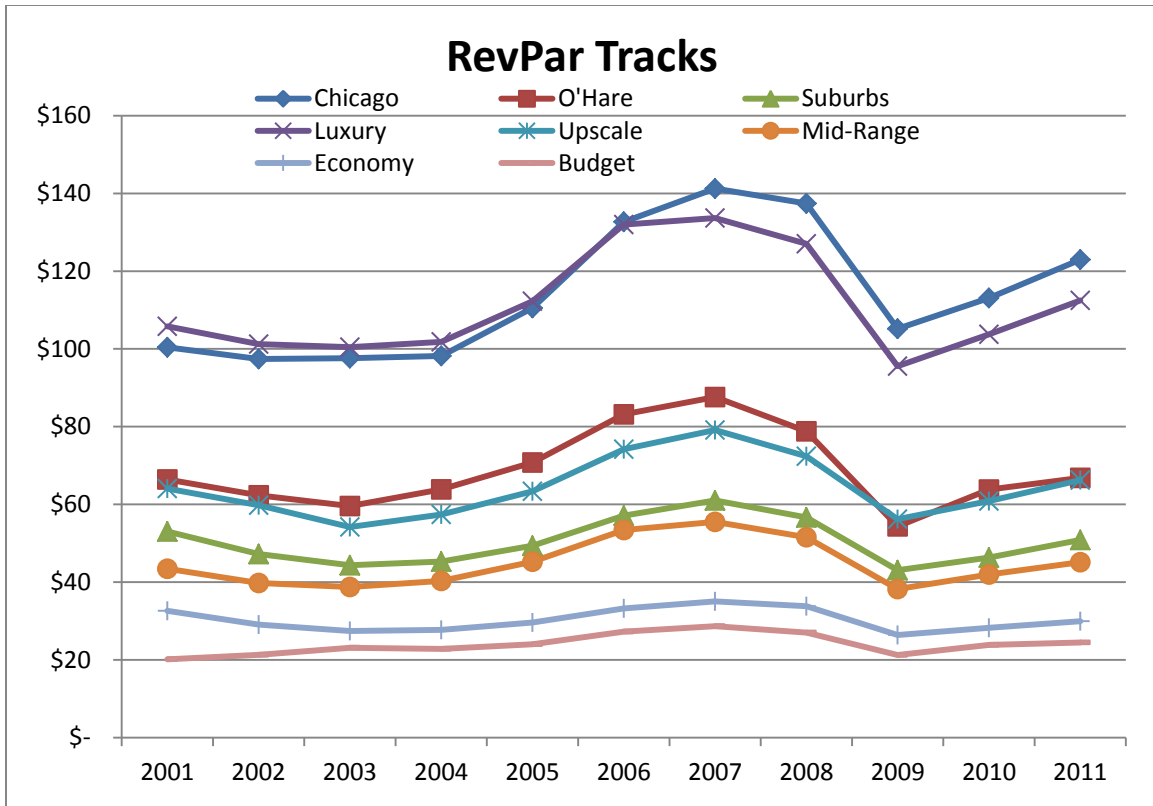
The following charts represent a historical breakdown of performance by type and location.



OCCUPANCY								
	Chicago	O'Hare	Suburbs	Luxury	Upscale	Mid-Range	Economy	Budget
2001	65.0%	61.9%	61.8%	66.1%	60.8%	56.1%	62.4%	55.0%
2002	65.3%	61.5%	58.4%	67.0%	59.7%	53.8%	56.3%	52.6%
2003	67.4%	62.2%	56.6%	68.3%	59.0%	55.0%	53.1%	54.3%
2004	67.9%	65.9%	57.9%	69.8%	61.9%	56.7%	53.8%	53.6%
2005	70.1%	68.4%	60.1%	70.7%	63.8%	59.9%	56.6%	56.7%
2006	73.9%	72.6%	62.6%	73.8%	67.5%	64.2%	59.7%	58.8%
2007	74.5%	72.2%	61.9%	72.8%	68.4%	63.3%	60.4%	59.9%
2008	71.2%	67.0%	57.6%	69.0%	62.7%	58.4%	57.3%	56.9%
2009	66.4%	55.4%	50.5%	63.1%	54.8%	48.9%	49.6%	50.1%
2010	69.3%	64.6%	57.1%	66.6%	61.3%	55.4%	56.8%	59.1%
2011	71.7%	66.2%	60.2%	69.4%	63.7%	57.7%	58.9%	59.1%

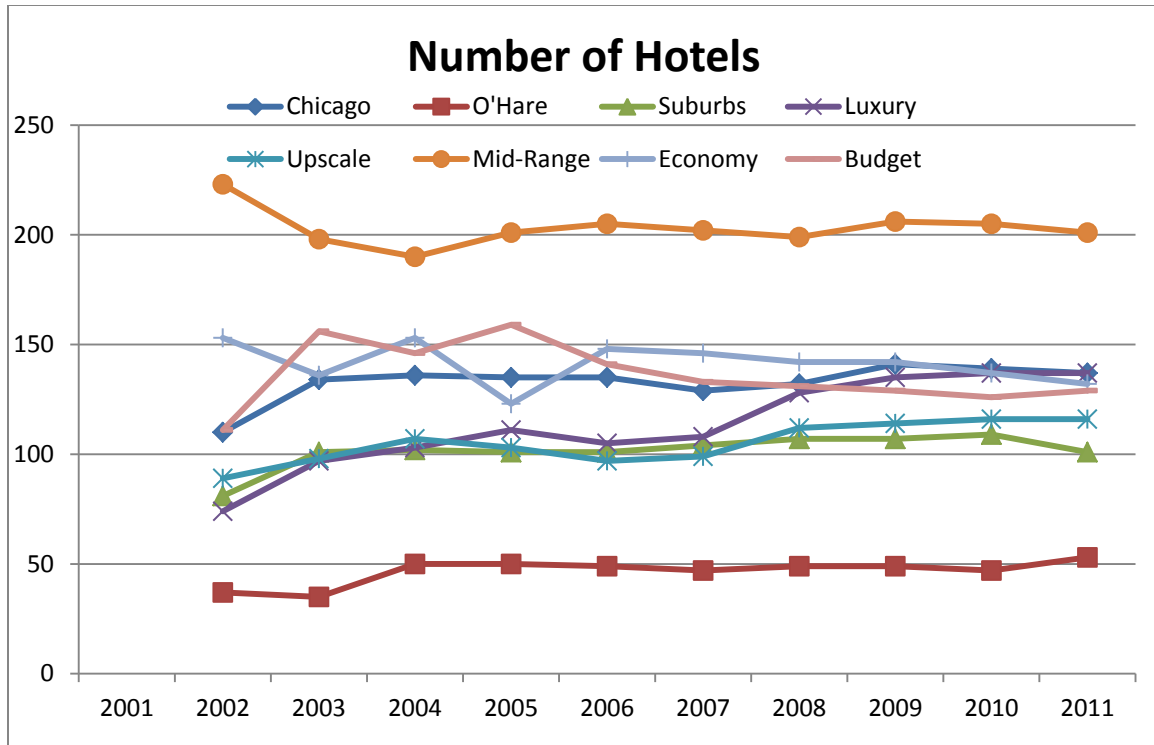


ADR								
	Chicago	O'Hare	Suburbs	Luxury	Upscale	Mid-Range	Economy	Budget
2001	\$ 154.46	\$ 107.32	\$ 85.80	\$ 160.04	\$ 105.36	\$ 77.42	\$ 52.30	\$ 36.62
2002	\$ 149.14	\$ 101.38	\$ 80.91	\$ 151.09	\$ 100.13	\$ 73.94	\$ 51.67	\$ 40.50
2003	\$ 144.85	\$ 95.77	\$ 78.34	\$ 147.08	\$ 91.88	\$ 70.47	\$ 51.72	\$ 42.61
2004	\$ 144.63	\$ 96.90	\$ 78.24	\$ 145.86	\$ 92.72	\$ 71.12	\$ 51.54	\$ 42.59
2005	\$ 157.67	\$ 103.49	\$ 82.19	\$ 158.80	\$ 99.33	\$ 75.58	\$ 52.33	\$ 42.36
2006	\$ 179.56	\$ 114.53	\$ 91.25	\$ 178.83	\$ 109.91	\$ 83.18	\$ 55.70	\$ 46.41
2007	\$ 189.57	\$ 121.33	\$ 98.61	\$ 183.64	\$ 115.71	\$ 87.76	\$ 58.00	\$ 47.87
2008	\$ 193.01	\$ 117.60	\$ 98.34	\$ 184.09	\$ 115.38	\$ 88.32	\$ 59.02	\$ 47.55
2009	\$ 158.41	\$ 98.15	\$ 85.32	\$ 151.51	\$ 102.50	\$ 78.23	\$ 53.19	\$ 42.45
2010	\$ 163.18	\$ 98.77	\$ 81.18	\$ 155.68	\$ 99.29	\$ 75.77	\$ 49.71	\$ 40.38
2011	\$ 171.51	\$ 100.92	\$ 84.51	\$ 162.00	\$ 104.10	\$ 78.27	\$ 50.84	\$ 41.40



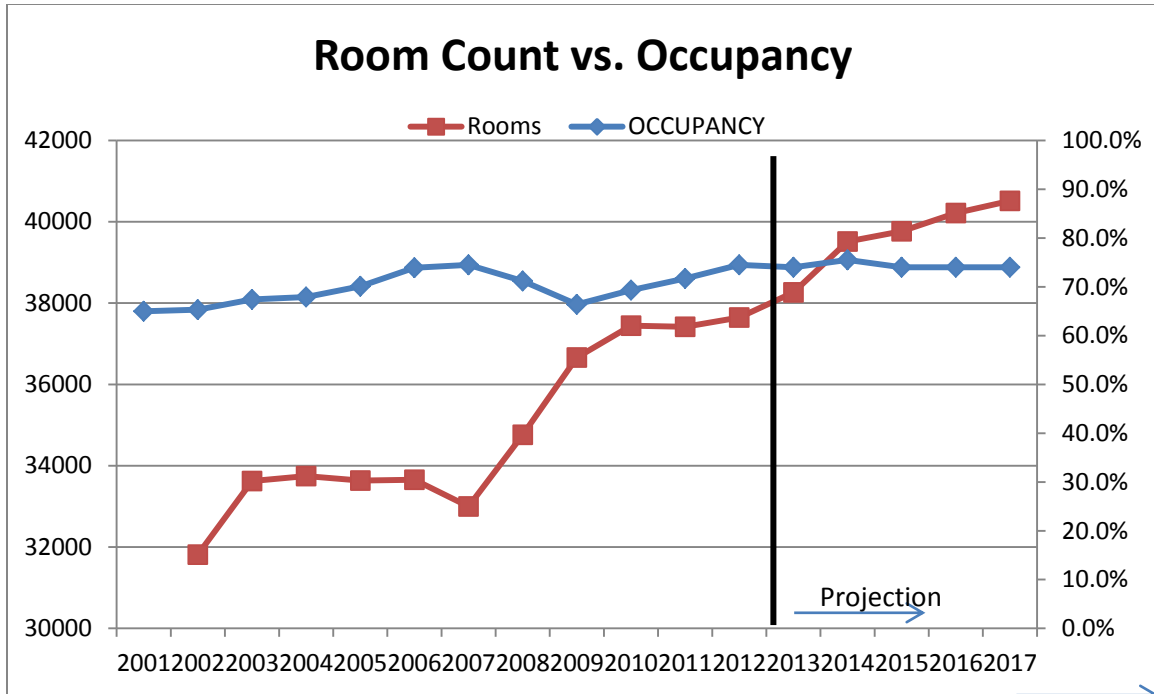
RevPAR								
	Chicago	O'Hare	Suburbs	Luxury	Upscale	Mid-Range	Economy	Budget
2001	\$ 100.40	\$ 66.43	\$ 53.02	\$ 105.79	\$ 64.06	\$ 43.43	\$ 32.64	\$ 20.14
2002	\$ 97.39	\$ 62.35	\$ 47.25	\$ 101.23	\$ 59.78	\$ 39.78	\$ 29.09	\$ 21.30
2003	\$ 97.63	\$ 59.57	\$ 44.34	\$ 100.46	\$ 54.21	\$ 38.76	\$ 27.46	\$ 23.14
2004	\$ 98.20	\$ 63.86	\$ 45.30	\$ 101.81	\$ 57.39	\$ 40.33	\$ 27.73	\$ 22.83
2005	\$ 110.53	\$ 70.79	\$ 49.40	\$ 112.27	\$ 63.37	\$ 45.27	\$ 29.62	\$ 24.02
2006	\$ 132.69	\$ 83.15	\$ 57.12	\$ 131.98	\$ 74.19	\$ 53.40	\$ 33.25	\$ 27.29
2007	\$ 141.23	\$ 87.60	\$ 61.04	\$ 133.65	\$ 79.15	\$ 55.51	\$ 35.06	\$ 28.67
2008	\$ 137.42	\$ 78.79	\$ 56.64	\$ 127.02	\$ 72.39	\$ 51.56	\$ 33.84	\$ 27.05
2009	\$ 105.18	\$ 54.38	\$ 43.09	\$ 95.57	\$ 56.19	\$ 38.23	\$ 26.40	\$ 21.28
2010	\$ 113.08	\$ 63.81	\$ 46.35	\$ 103.74	\$ 60.88	\$ 41.97	\$ 28.25	\$ 23.85
2011	\$ 122.97	\$ 66.81	\$ 50.88	\$ 112.45	\$ 66.26	\$ 45.14	\$ 29.95	\$ 24.47





Hotels								
	Chicago	O'Hare	Suburbs	Luxury	Upscale	Mid-Range	Economy	Budget
2002	110	37	81	74	89	223	153	111
2003	134	35	101	97	98	198	136	156
2004	136	50	102	103	107	190	153	146
2005	135	50	101	111	103	201	123	159
2006	135	49	101	105	97	205	148	141
2007	129	47	104	108	99	202	146	133
2008	132	49	107	128	112	199	142	131
2009	141	49	107	135	114	206	142	129
2010	139	47	109	137	116	205	137	126
2011	137	53	101	137	116	201	132	129

Finally, we have a comparison of Occupancy against Room Count, followed by a chart detailing the proposed additions to the market in the coming years.



	OCCUPANCY	ADR	RevPAR	Hotels	Rooms	Demand
2001	65.0%	\$ 154.46	\$ 100.40			
2002	65.3%	\$ 149.14	\$ 97.39	110	31815	20775
2003	67.4%	\$ 144.85	\$ 97.63	134	33622	22661
2004	67.9%	\$ 144.63	\$ 98.20	136	33746	22914
2005	70.1%	\$ 157.67	\$ 110.53	135	33635	23578
2006	73.9%	\$ 179.56	\$ 132.69	135	33655	24871
2007	74.5%	\$ 189.57	\$ 141.23	129	32997	24583
2008	71.2%	\$ 193.01	\$ 137.42	132	34762	24751
2009	66.4%	\$ 158.41	\$ 105.18	141	36661	24343
2010	69.3%	\$ 163.18	\$ 113.08	139	37446	25950
2011	71.7%	\$ 171.51	\$ 122.97	137	37415	26827
2012	74.50%	\$185.00	\$137.83	138	37646	28046
2013*	73.50%	\$191.48	\$140.73	141	38262	28123
2014**	73.50%	\$198.18	\$145.66	145	39515	29044
2015***	74.00%	\$205.11	\$151.78	147	39765	29426
2016	74.00%	\$212.29	\$157.10	150	40215	29759
2017	74.00%	\$219.72	\$162.59	152	40515	29981

\*Hyatt Place, Fairfield, Virgin, Staybridge and one other hotel open (several are scheduled to finish in 2013 though this is somewhat unlikely)

\*\*University of Chicago Hyatt Place, Fairfield Inn, Virgin, Langham

\*\*\*East Tower, SoHo or similar West Loop hotel open

Future openings:

The recession served to halt a great deal of new development activity in the downtown market, and cancelled or postponed over a dozen new hotel projects. Now that development groups sense a stronger market, many of these projects have begun to move forward once again. Some of the most significant and likely to occur include the following:

The **Hyatt Regency McCormick Place** is currently constructing a new 14 story tower which will house an additional 461 guest rooms, bringing the total rooms at McCormick to 1261. The project is being developed by the Chicago Metropolitan Pier and Exposition Authority and designed by Thompson Ventulett Stainback & Associates. While numerous other groups have proposed building hotels near the convention center, the sheer number of rooms at the Hyatt Regency should serve to dissuade any potential competition. McCormick is a sort of island in the middle of the city, and is actually fairly inaccessible from the rest of the city save for taxi, so the business of the new wing of the hotel is expected to consist almost entirely of convention attendees and exhibitors. The project is also expected to upgrade areas of the existing building, including the business center, fitness center, meeting rooms and food outlets. The hotel's occupancy and rate fluctuate greatly with convention business and are expected to continue to do so into the future.

White Lodging Services Corporation is constructing a 3 hotel complex downtown, north of the Chicago River, west of Michigan Avenue. The hotels are expected to share almost all back of the house functions, but will be from three different brands and service levels. Their openings are expected to be staggered as well, with the 180 room **Fairfield Inn & Suites** set to open in August of 2013, followed by the 208 room **Hyatt Place** in November, and finally the 272 room **aloft** hotel in January of the following year. Because of the range of brands, their central location, and the perception that these hotels will likely cooperate among themselves before referring to other hotels in the city, several hotel managers have expressed some trepidation about the project.

Chesapeake Lodging Trust is early in the process of reclaiming two stories of the **W Hotel Chicago City Center** used for back of the house and storage as additional hotel rooms. When complete, the hotel should add a total of 35 new rooms.

The IBM building at 330 N Wabash has long been proposed as a site of a hotel. The latest developers at the site, Oxford Capital Partners, have plans to convert floors 2 through 14 into a 330 room **Langham Hotel**, which would be a first for that particular brand in the city. The project has an expected opening date of June 2013, and as of the time of this writing, a few floors had been framed out, but not much more work was visible from the outside. It is uncertain that they will be able to meet the expected deadline.

The **Virgin Hotel** Group has plans to develop and run hotel at 203 N Wabash, after initially looking at another site downtown. The hotel would include 250 rooms in a historic structure, with style cues taken from the Virgin Airlines lounge in London. While it is not yet under construction, this project is likely to move to completion, though later than the proposed November 2013 target.

An as-yet-unnamed hotel will eventually occupy the empty shell of the StayBridge Suites building at 127 W Huron, which shut down after topping out during the recession. The building will likely require some work as it's been partially exposed, but should be able to use the same frame, unlike the now-defunct Shangri-La project along Wacker. The current owners, Oxford Capital Group (the same group developing the Langham), haven't released many specifics about this project aside from an unlikely August 2013 target date.

DRW Trading has proposed a 400 room **Park Place** hotel as part of a mixed use development including 398 residential units to be located just north of the Sheraton Hotel and Suites, with an expected open date of 2015. The hotel would be a four star luxury property, run by Lowes.

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A 320 room hotel has been proposed as part of a renovation of the top floors of the Union Station building, with plans to use the great hall as special events or meeting space. It would also likely be open in 2015 or beyond.

Other hotels in the works include a 100 room independent hotel located in west Chinatown, though the Wabash Development Group has yet to set a firm timeline; a 130 room **Hyatt Place** at the University of Chicago in Hyde Park, developed by Vermillion Development Corporation, a 150 room **SoHo** hotel by Waterton & Associates and a 50 room boutique hotel, both in the West Loop neighborhood. The hotels in Chinatown and Hyde Park aren't expected to impact downtown business as much as draw from the surrounding neighborhood, and the SoHo is only one of a number of proposed hotels in the West Loop area. We expect that only a few of these hotels will likely be seen through to completion, representing an addition of somewhere around 250 rooms in 2015 or beyond.

The general trend is clear: Chicago is once again seen as a good spot for development, though if history is any indication, after the peak of development at around 2016, the area will likely experience a cooling off period as the market absorbs the influx of new rooms. In the past, this cycle has only lasted for a few years, though the long-term results of a more severe than normal 2008 on this cycle have yet to be determined. It is expected that the new period will last from the start of recovery of the current cycle for around 8 years or so, and barring outside forces, the downturn should not be quite as bad as the previous recession.

### **About McCormick Place**

During the previous decade, McCormick Place lost several conventions to Orlando and Las Vegas, due to a number of factors, including better climate, less stringent union labor rules, lower cost of labor, increased subsidies for event organizers, and much higher marketing budgets.

Since then, there has been some effort to reform the process at McCormick, including renegotiating labor contracts, a re-organization of the tourism bureau in charge of promoting the center, and closer observation of the state politics behind previous the long delay in reforming how the center was run.

The reforms at this point appear to have been mostly successful, with new deals worked out among several unions, which seem to have at least somewhat alleviated the concerns of some convention planners and reversed the trend of conventions leaving the city for the time being.

The BookExpo America show will be returning to McCormick Place in 2016 after a dozen years away, the American Incentive & Business Travel Market Show, a convention of meeting planners will return in 2013, and the Chicago Comic and Entertainment Expo is contracted to remain downtown till at least 2014. In addition, rules changes which would allow stagehands to do AV work have generated talk about larger clients, including Microsoft, possibly hosting shows downtown.

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<b>Projected Occupancy CBD</b>									
Month	2009	2010	2011	2012	2013	2014	2015	2016	2017
January	54.00%	36.50%	44.63%	49.67%	45.55%	45.55%	45.86%	45.86%	45.86%
February	48.10%	48.65%	51.48%	55.02%	52.54%	52.54%	52.90%	52.90%	52.90%
March	61.30%	62.51%	65.82%	72.50%	67.18%	67.18%	67.64%	67.64%	67.64%
April	66.80%	70.69%	71.46%	76.36%	72.94%	72.94%	73.43%	73.43%	73.43%
May	66.70%	77.47%	75.68%	78.14%	77.25%	77.25%	77.77%	77.77%	77.77%
June	77.60%	86.71%	82.94%	91.77%	84.66%	84.66%	85.23%	85.23%	85.23%
July	82.15%	84.90%	86.17%	85.98%	84.82%	84.82%	85.40%	85.40%	85.40%
August	77.63%	80.60%	82.74%	83.67%	82.54%	82.54%	83.10%	83.10%	83.10%
September	77.64%	80.40%	79.72%	81.06%	79.97%	79.97%	80.52%	80.52%	80.52%
October	81.19%	81.80%	84.07%	83.83%	82.70%	82.70%	83.26%	83.26%	83.26%
November	66.78%	73.50%	79.76%	75.02%	74.01%	74.01%	74.51%	74.51%	74.51%
December	52.78%	52.10%	55.35%	55.47%	54.73%	54.73%	55.10%	55.10%	55.10%
Annual	67.30%	69.50%	72.01%	74.50%	73.50%	73.50%	74.00%	74.00%	74.00%
<b>Projected ADR CBD</b>									
Month	2009	2010	2011	2012	2013	2014	2015	2016	2017
January	\$137.05	\$114.10	\$121.02	\$131.43	\$138.29	\$143.13	\$148.13	\$153.32	\$158.69
February	\$138.90	\$127.20	\$129.40	\$135.53	\$147.34	\$152.50	\$157.84	\$163.36	\$169.08
March	\$147.73	\$137.06	\$149.54	\$160.77	\$164.37	\$170.13	\$176.08	\$182.24	\$188.62
April	\$168.69	\$155.72	\$156.69	\$176.10	\$184.88	\$191.36	\$198.05	\$204.98	\$212.16
May	\$177.58	\$172.48	\$195.36	\$202.32	\$205.86	\$213.07	\$220.53	\$228.25	\$236.23
June	\$179.39	\$204.58	\$219.48	\$224.17	\$222.95	\$230.75	\$238.83	\$247.19	\$255.84
July	\$157.76	\$166.26	\$169.25	\$176.92	\$183.12	\$189.53	\$196.16	\$203.02	\$210.13
August	\$150.43	\$161.38	\$171.54	\$173.91	\$180.00	\$186.30	\$192.82	\$199.57	\$206.55
September	\$172.11	\$187.70	\$192.86	\$202.46	\$209.55	\$216.88	\$224.47	\$232.33	\$240.46
October	\$193.46	\$202.74	\$211.56	\$217.45	\$225.06	\$232.94	\$241.09	\$249.53	\$258.26
November	\$171.88	\$197.23	\$202.02	\$201.47	\$208.53	\$215.82	\$223.38	\$231.20	\$239.29
December	\$142.96	\$143.95	\$142.01	\$152.99	\$158.34	\$163.88	\$169.62	\$175.56	\$181.70
Annual	\$163.79	\$169.72	\$171.73	\$185.00	\$191.48	\$198.18	\$205.11	\$212.29	\$219.72
<b>Projected RevPAR CBD</b>									
Month	2009	2010	2011	2012	2013	2014	2015	2016	2017
January	\$ 74.01	\$ 41.65	\$ 54.01	\$ 65.27	\$ 62.99	\$ 65.19	\$ 67.93	\$ 70.31	\$ 72.77
February	\$ 66.81	\$ 61.88	\$ 66.61	\$ 74.57	\$ 77.41	\$ 80.12	\$ 83.49	\$ 86.41	\$ 89.44
March	\$ 90.56	\$ 85.67	\$ 98.43	\$ 116.56	\$ 110.43	\$ 114.29	\$ 119.10	\$ 123.27	\$ 127.58
April	\$ 112.68	\$ 110.08	\$ 111.97	\$ 134.47	\$ 134.85	\$ 139.57	\$ 145.43	\$ 150.53	\$ 155.79
May	\$ 118.45	\$ 133.61	\$ 147.85	\$ 158.08	\$ 159.02	\$ 164.59	\$ 171.51	\$ 177.51	\$ 183.72
June	\$ 139.21	\$ 177.39	\$ 182.04	\$ 205.72	\$ 188.75	\$ 195.35	\$ 203.57	\$ 210.69	\$ 218.07
July	\$ 129.61	\$ 141.15	\$ 145.84	\$ 152.11	\$ 155.32	\$ 160.76	\$ 167.52	\$ 173.38	\$ 179.45
August	\$ 116.78	\$ 130.07	\$ 141.94	\$ 145.50	\$ 148.58	\$ 153.78	\$ 160.24	\$ 165.85	\$ 171.65
September	\$ 133.63	\$ 150.91	\$ 153.75	\$ 164.12	\$ 167.58	\$ 173.45	\$ 180.74	\$ 187.07	\$ 193.61
October	\$ 157.07	\$ 165.84	\$ 177.85	\$ 182.28	\$ 186.13	\$ 192.64	\$ 200.74	\$ 207.77	\$ 215.04
November	\$ 114.79	\$ 144.96	\$ 161.13	\$ 151.14	\$ 154.33	\$ 159.73	\$ 166.45	\$ 172.27	\$ 178.30
December	\$ 75.45	\$ 75.00	\$ 78.60	\$ 84.86	\$ 86.65	\$ 89.69	\$ 93.46	\$ 96.73	\$ 100.11
Annual	\$ 110.23	\$ 117.96	\$ 123.66	\$ 137.83	\$ 140.73	\$ 145.66	\$ 151.78	\$ 157.10	\$ 162.59