

TR Mandigo & Company

2010 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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TR Mandigo & Company

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2010 Update and Outlook

Nothing gets better until the rates move up.

Rate compression has resulted in a loss of 7.9% in room revenue in downtown Chicago over the past 12 months. That, in turn has caused rooms department costs to rise from historic levels of 25% to a profit bleeding 28% of rooms revenue, taking 3 full points off the bottom line. The drop has also impacted on Food and Beverage operations where departmental operating costs went from 72.1% to 75.3%, from drops in dining room revenue, shifts to complementary breakfasts and renegotiated meetings contracts.

On top of reduced departmental margins, the revenue drop also resulted in a 3 point increase in undistributed expenses and a 1 point increase in fixed expenses, for an overall drop in cash flow available for debt service of 9 percent from the 2008 level.

The statistics indicate a recovering market.

In 9 of the past 12 months the number of rooms occupied in downtown Chicago were up, with an increase of 181,500 more rooms sold than in the same 12 month period last year. In 6 of the past 12 months the occupancy in downtown Chicago was greater than during the comparable period last year, and the RevPAR was up in only 2 out of those 12 months.

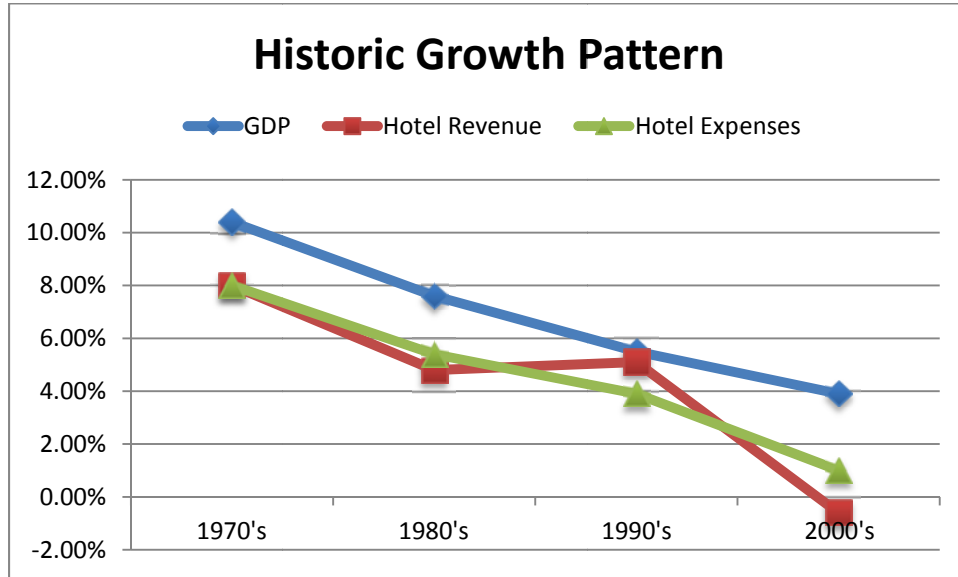
The bad news is the 11.2% decline in ADR with every single month reporting a decrease, ranging from 23.7% in September compared to the prior year to a nominal 3% decrease in May.

Recovery in ADR is slow because of contract room pricing and group sales that were booked or renegotiated during bottom of the market. This combined with the continued impact of OTA bookings keeps price resiliency in check.

Some of this rate impact is a result of shifts in demand, with drops in group sales off-set by captured leisure demand and leisure group at lower rates. Commercial demand appears to have been off by only a nominal 2% over the period, and tended to be booked at stronger but still discounted rates.

With approximately 30% of the business for the remainder of the year already committed through group pricing, contract pricing and on-the-books reservations, the prospects for a significant improvement in ADR are slim.

An interesting comparison shows the average 10 year change in GDP, Hotel Revenue and Hotel Expenses over the past four decades, reflecting a surge in hotel revenues in the 1990's a period of expansion of supply and aggressive rate increases, followed by a crash in revenues due to rate discounting and an increasingly competitive market during the 2000 decade.



Because of the recession, a number of hotel projects were delayed or cancelled in the last two years. The Shangri-La and Staybridge Suites still remain as shells, and won't be completed for many years, assuming both their legal and financial problems can be solved. Several other redevelopments, such as the Modern in the IBM building, remain vacant. In one breath, here's the carnage from the last recession:

- | | | |
|---------------------------------|----------------------|-----------------------------|
| 300 N. Michigan Hotel-Cancelled | Block 37-Cancelled | Edition-Cancelled |
| Franklin Point Hotel-Cancelled | Gansevoort-Cancelled | Graves Hotel-Cancelled |
| Mandarin Oriental -Cancelled | Modern -Cancelled | Old Post Office-Cancelled |
| Sears Tower Hotel-Cancelled | Shangri-La-Cancelled | Staybridge Suites-Cancelled |
| Union Station Hotel-Cancelled | | Waldorf Astoria-Cancelled |

While there are always plans for new hotels in Chicago, the ones in development that we feel are most likely to be completed are:

- ❖ The Hyatt Place at Clark and Grand, 216 rooms, 2012
 - The Pritzkers will eventually put up a Hyatt Place downtown so that they have representation. If it's not this location, it will be somewhere else in the city.
- ❖ The Aloft, at Clark and Illinois, 165 Rooms, June 2012
 - This hotel is already listed on the aloft website as a future site, while previous attempts at putting an aloft in Chicago never were.
- ❖ The Grand Imperial Hotel, located in Chinatown, 170 rooms, Supposedly Fall 2011
 - Though the hotel is likely to open later than their planned date, the development group already has the money lined up making this project likely to be completed.

- ❖ The Mondrian at 300 N. Wabash, 335 rooms, late 2012
 - When the Modern hotel project was cancelled, the Mondrian project stalled on State Street was proposed for this location.
 - According to sources familiar with the project, Bovis construction recently bid on this project, slated to start in fall 2010.

On the side of trends:

Hotel brands are once again in a period of growing pains, trying to appeal to gen-Y as they become part of the consumer base.

The brands to a certain extent are taking their cues from boutique and lifestyle hotels around the country but particularly in New York City. In short, boutique hotels are generally small upper upscale or greater hotels, which offer a high level of amenities and services. Lifestyle hotels specialize further, focusing on spa services or more frequently, nightlife.

Aloft and Indigo are essentially lifestyle-lite. To the extent that they have succeeded, they've done so because they're edgy, but underneath it, they're basically normal brands. The rooms aren't very different aside from the paint color and the look of the furniture. Basically, the pool table in the aloft isn't really there for people to play pool on, it's there because it's part of the image of the hotel.

Traditional brands have also learned some important lessons from lifestyle hotels. If you look at new construction or brand renovation standards, they look similar to a boutique hotel. Hotels today use more interesting furniture and bolder colors. They've already integrated most of the latest technology into their rooms. The average new or renovated hotel no longer looks like someone's grandma designed it.

A few lifestyle hotels in a market represent an alternative to traditional properties and capture guests from a theoretically untapped market. When one lifestyle hotel opens, it takes business away from say, a Courtyard by Marriott. When a second one opens, it takes business away from the first, and both need to compete to induce demand from traditional sources. When they reach critical mass, they're more likely to cannibalize each other than they are other hotels – and they may just give up the edgy image and become a normal hotel.

To an extent, it should be a somewhat self-correcting trend, because when the first rounds of major renovations are needed, we'll see how dedicated these hotels are to staying on top of the trends if it means a higher cost.

Perhaps the most surprising trend is that "Green" hotels really haven't taken off, given how much hype was behind them initially. Most of that can be chalked up to the fact that greening occurs on a hotel-by-hotel basis and there's no real consistency to it. In other words, it's a bonus, not a brand standard, and there just aren't enough people yet who base their decisions on where to stay solely on that requirement.

Moving on to forecasts:

We believe that the occupancy levels will continue to increase, resulting in an improvement of more than 2 full points over the 2009 level, to 69.5% for the full 2010 year. Rate is expected to lag considerably but the picture is improving. Pundits have projected rate decreases for the year on a national level. Based on the reduced decrease (if that is a direction) I think we will be slightly above last year, or finishing the year at \$166, a nominal growth of 1.3%.

Without the impact of pre-booked business, group rates and contract rates the ADR growth could conceivably have recovered by 5 % to 8% in the last half of the year, paralleling the recovery level experienced after the 2002 recession. In the prior recession we then saw an increase in ADR of 12 to 15% in the subsequent year. This level of rate increase is possible over the 2011 year but will require an aggressive pricing stance and control over the OTA inventory.

Charts and graphs are presented as a part of this handout to illustrate the historic trends, including the 50 year recap for the Chicago metropolitan area that clearly indicates the cyclical pattern of business and the ever deeper impact on ADR in recessions starting with a slight hiccup in 1987, to the 15% impact of the most recent downturn in the economy.

Projected Occupancy CBD

Month	2009	2010	2011	2012	2013	2014	2015
January	54.00%	36.50%	46.55%	47.54%	48.52%	49.50%	48.52%
February	48.10%	48.65%	55.64%	56.81%	57.99%	59.16%	57.99%
March	61.30%	62.51%	67.51%	68.94%	70.36%	71.79%	70.36%
April	66.80%	70.69%	71.90%	73.42%	74.93%	76.45%	74.93%
May	66.70%	77.47%	77.13%	78.76%	80.39%	82.01%	80.39%
June	77.60%	86.71%	83.78%	85.55%	87.32%	89.09%	87.32%
July	82.15%	80.05%	81.78%	83.51%	85.24%	86.96%	85.24%
August	77.63%	76.18%	77.82%	79.47%	81.11%	82.76%	81.11%
September	77.64%	78.60%	80.30%	82.00%	83.69%	85.39%	83.69%
October	81.19%	79.56%	81.27%	82.99%	84.71%	86.42%	84.71%
November	66.78%	72.15%	73.71%	75.27%	76.82%	78.38%	76.82%
December	52.78%	53.93%	55.09%	56.26%	57.42%	58.58%	57.42%
Annual	67.30%	69.50%	71.00%	72.50%	74.00%	75.50%	74.00%

Projected ADR CBD

Month	2009	2010	2011	2012	2013	2014	2015
January	\$137.05	\$114.10	\$134.15	\$144.88	\$149.95	\$155.20	\$160.63
February	\$138.90	\$127.20	\$140.42	\$151.65	\$156.96	\$162.45	\$168.14
March	\$147.73	\$137.06	\$156.54	\$169.06	\$174.98	\$181.11	\$187.44
April	\$168.69	\$155.72	\$169.69	\$183.27	\$189.68	\$196.32	\$203.19
May	\$177.58	\$172.48	\$194.26	\$209.80	\$217.15	\$224.75	\$232.61
June	\$179.39	\$204.58	\$206.86	\$223.41	\$231.23	\$239.32	\$247.70
July	\$157.76	162.45	\$170.80	\$184.46	\$190.92	\$197.60	\$204.52
August	\$150.43	\$167.25	\$165.44	\$178.67	\$184.93	\$191.40	\$198.10
September	\$172.11	\$192.17	\$198.07	\$213.92	\$221.40	\$229.15	\$237.17
October	\$193.46	\$197.97	\$211.83	\$228.78	\$236.78	\$245.07	\$253.65
November	\$171.88	\$183.38	\$196.22	\$211.91	\$219.33	\$227.01	\$234.95
December	\$142.96	\$146.58	\$156.85	\$169.39	\$175.32	\$181.46	\$187.81
Annual	\$163.79	\$166.00	\$177.62	\$191.83	\$198.54	\$205.49	\$212.68

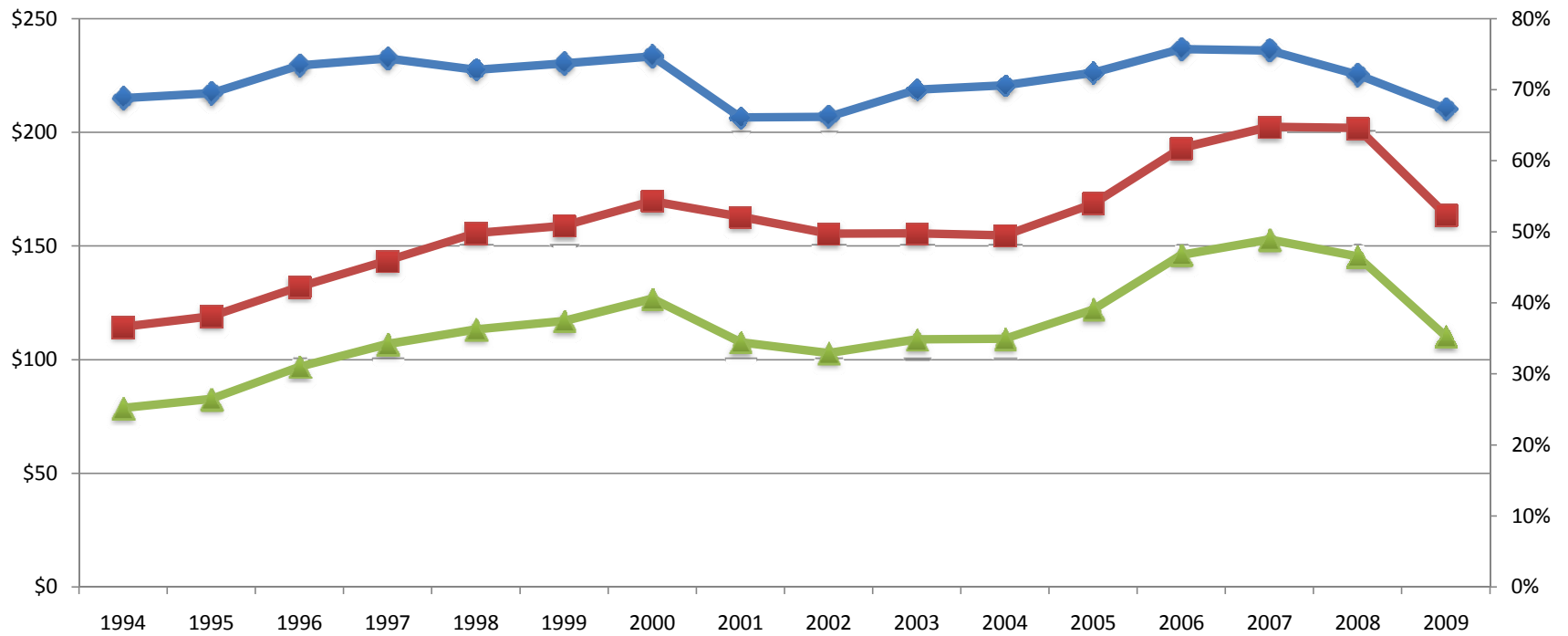
	2008	2009	2010	2011	2012	2013	2014	2015
Rooms	31,289	33,486	33,934	35,088	36,862	39,067	39,653	41,041
Supply	11,420,380	12,222,390	12,385,910	12,807,120	13,454,630	14,259,455	14,473,347	14,979,914
Demand	8,232,502	8,225,668	8,608,207	9,093,055	9,754,607	10,551,997	10,927,377	11,085,136
Occupancy	72.09%	67.3%	69.5%	71.0%	72.5%	74.0%	75.5%	74.0%
Change in Supply		7.0%	1.3%	3.4%	5.1%	6.0%	1.5%	3.5%
Change in Demand		-0.1%	4.7%	5.6%	7.3%	8.2%	3.6%	1.4%

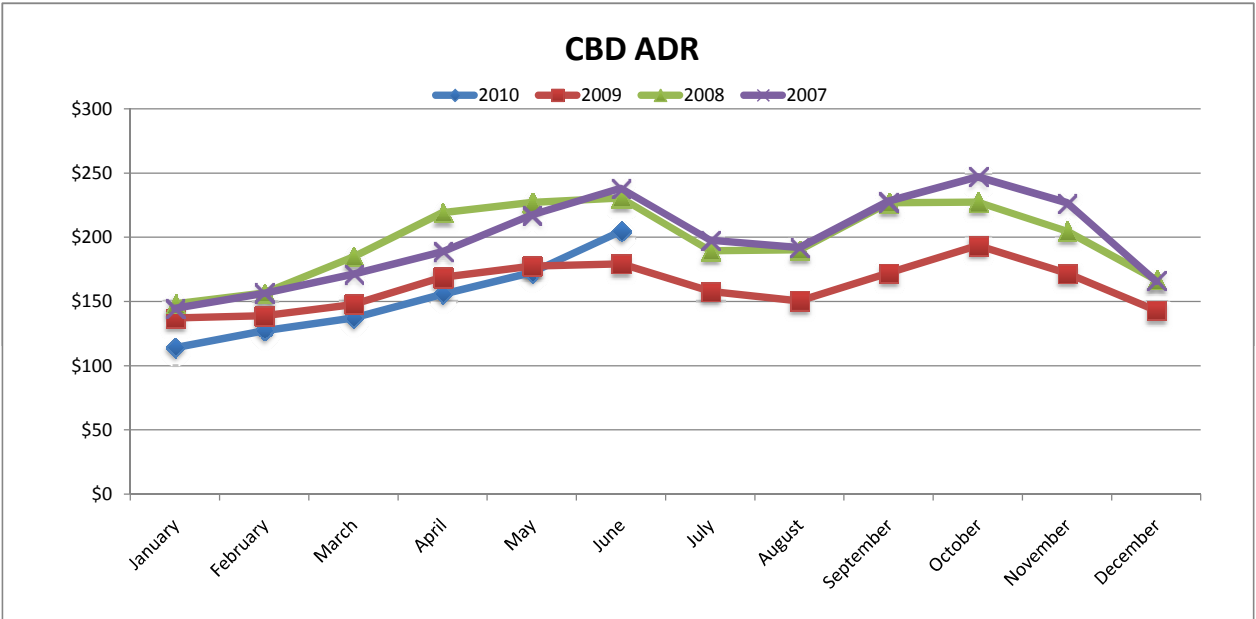
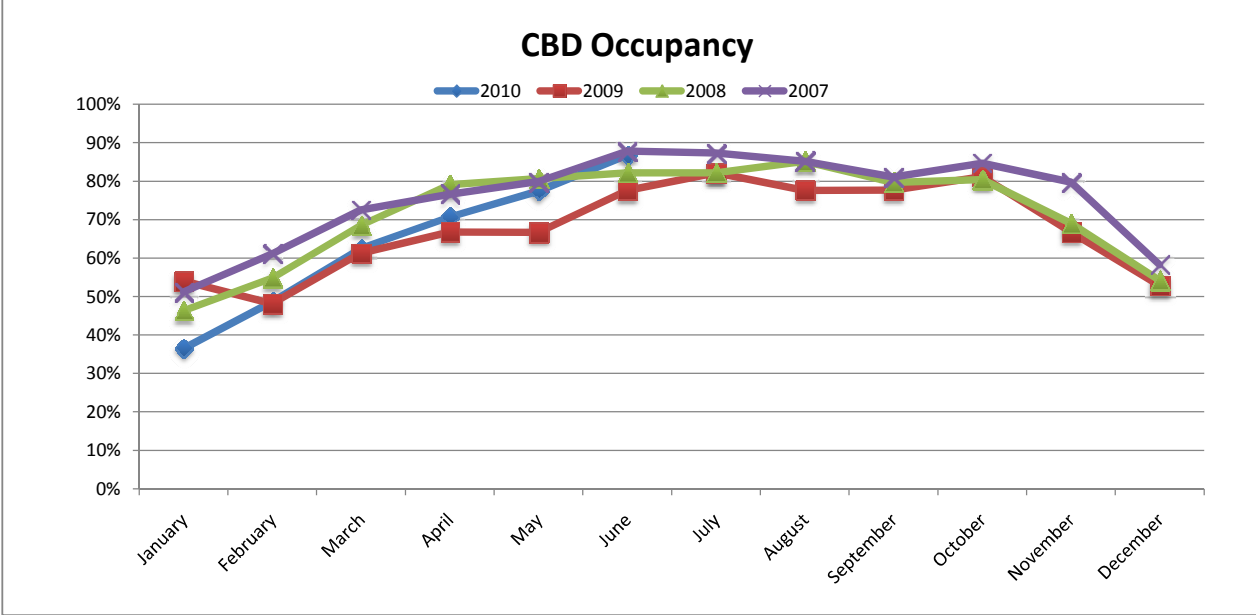
	2008	2009	2010	2011	2012
Jan	339				
Feb					
Mar	1085	230	380		
Apr		233			
May		298			
Jun	89			216	160
Jul					
Aug					
Sep	216		610		335
Oct					170
Nov		188		334	
Dec					
Total	1729	949	990	550	665

In Order of Entry into Market		
Date	Name	Rooms
Jan-08	Trump Tower	339
Mar-08	South Loop	232
Mar-08	Blackstone Renaissance	330
Mar-08	Residence Inn	270
Mar-08	Springhill Suites	253
Jun-08	Club Quarters	89
Sep-08	Hotel Dana	216
Mar-09	Hotel Felix	230
Apr-09	LaQuinta	233
May-09	The Wit	298
Nov-09	Elysian	188
Mar-10	Comfort Suites	119
Mar-10	Palomar	261
Sep-10	JW Marriott	610
Jun-11	Hyatt Place	216
Nov-11	Aqua Tower Radisson Blu	334
Jun-12	aloft	160*
Sep-12	Mondrian at IBM Tower	335
Oct-12	Grand Imperial Hotel	170

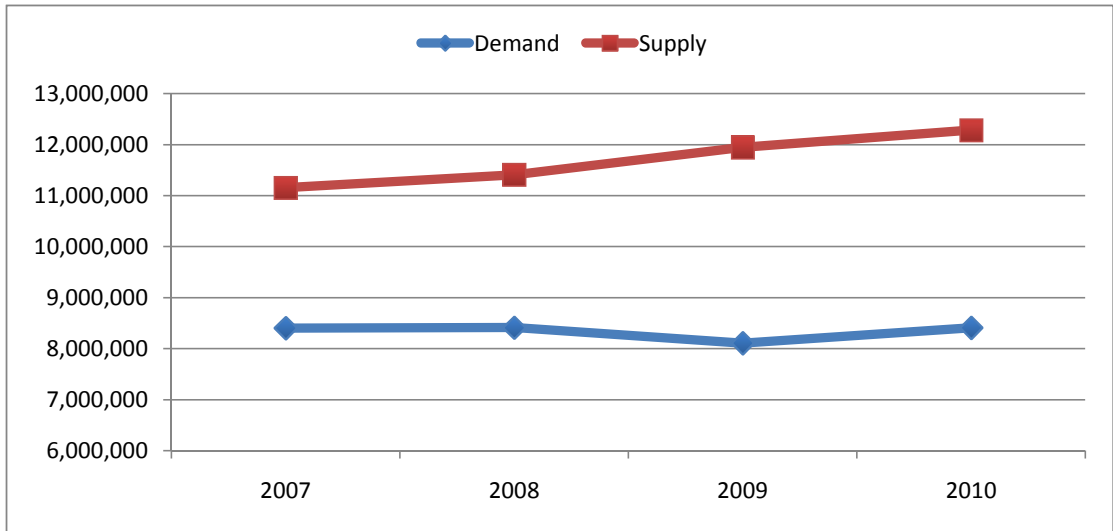
Chicago CBD Performance

ADR RevPAR Occupancy



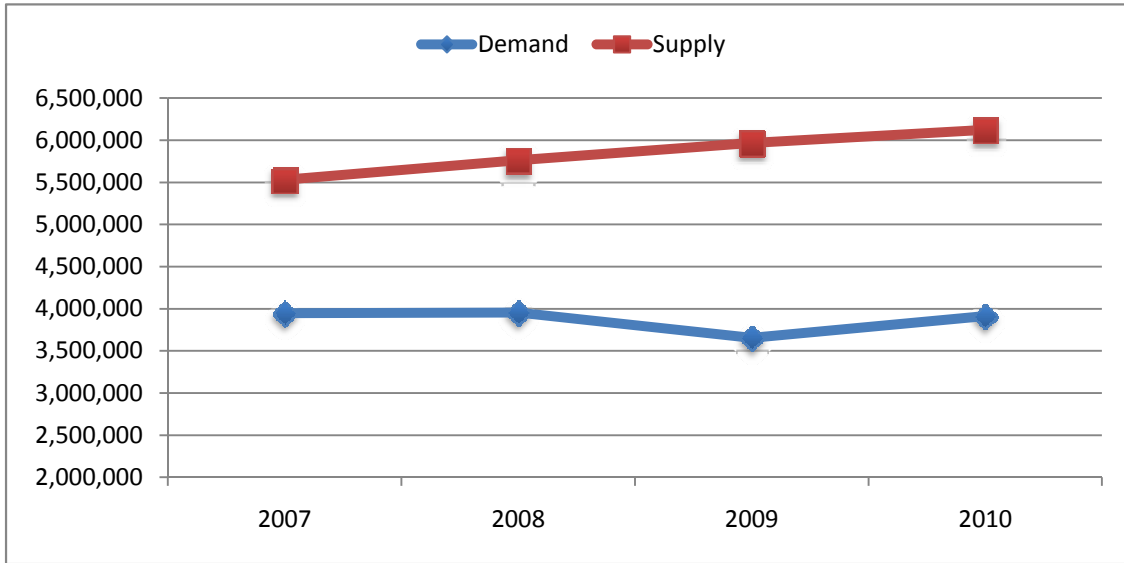


Running 12 Months - Room Supply & Demand							
	Demand				Supply		
	2008	2009	2010		2008	2009	2010
This Year	8,413,093	8,108,422	8,410,172		11,409,770	11,945,699	12,282,736
Last Year	8,403,328	8,413,093	8,108,422		11,154,375	11,409,770	11,945,699
% Chg	0.1	-3.6	3.7		2.3	4.7	2.8



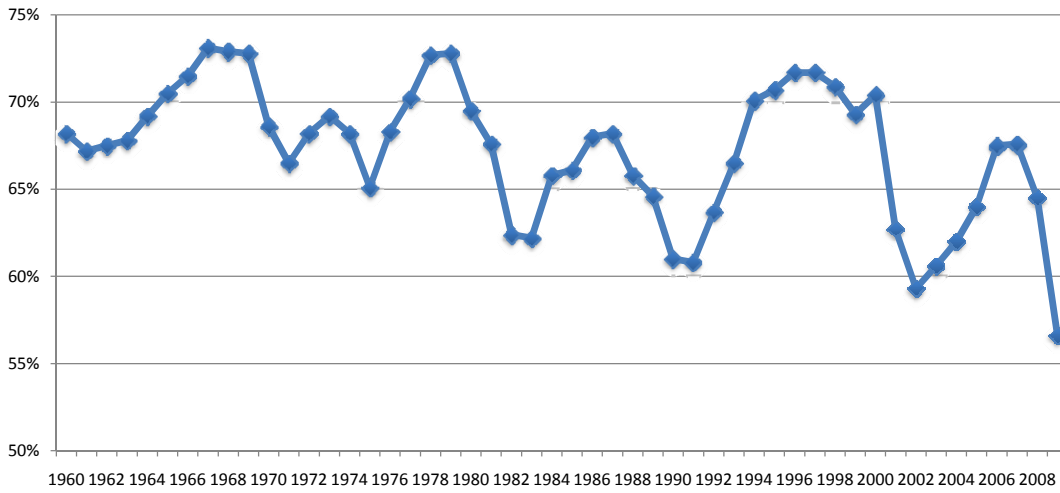
Running 12 Months					
	Demand	Supply	Δ Demand	Δ Supply	Occupancy
2007	8,403,328	11,154,375	100.0%	100.0%	75.3%
2008	8,413,093	11,409,770	100.1%	102.3%	73.7%
2009	8,108,422	11,945,699	96.5%	107.1%	67.9%
2010	8,410,172	12,282,736	100.1%	110.1%	68.5%
Loss/Gain	6,844	1,128,361			
Loss Peak to Valley	(2,921)				

Jan-June YTD - Room Supply & Demand							
	Demand				Supply		
	2008	2009	2010		2008	2009	2010
This Year	3,953,695	3,655,275	3,911,186		5,763,622	5,967,559	6,121,372
Last Year	3,948,590	3,953,695	3,655,275		5,532,167	5,763,622	5,967,559
% Chg	0.1	-7.5	7.0		4.2	3.5	2.6

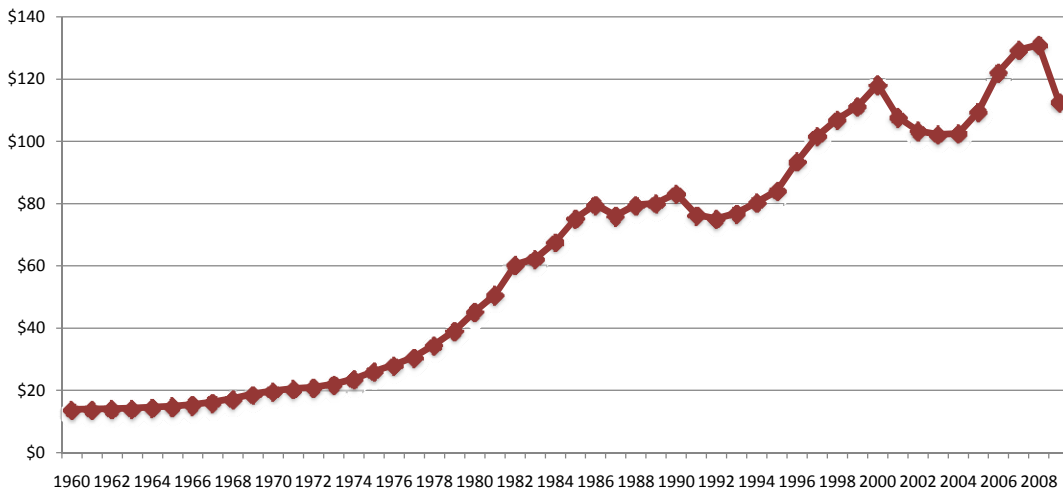


Jan-June YTD	Demand	Supply	Δ Demand	Δ Supply	Occupancy
2007	3,948,590	5,532,167	47.0%	49.6%	71.4%
2008	3,953,695	5,763,622	47.0%	51.7%	68.6%
2009	3,655,275	5,967,559	43.5%	53.5%	61.3%
2010	3,911,186	6,121,372	46.5%	54.9%	63.9%
Loss/Gain	-37,404	589,205			
Loss Peak to Valley	(42,509)				

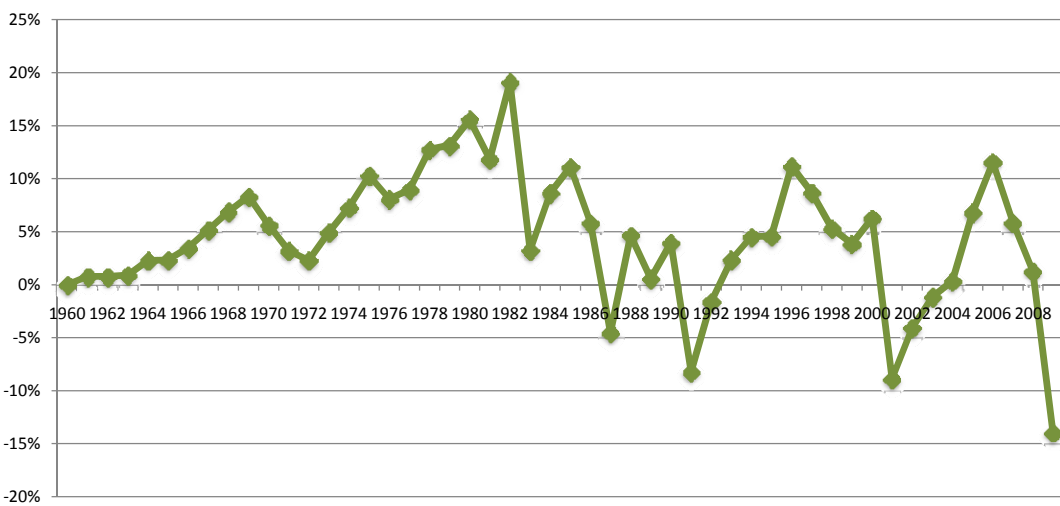
Chicago Metro Area - Percent Occupancy 1960-2009



Chicago Metro Area - ADR 1960-2009



Chicago Metro Area - Growth in ADR 1960-2009



CMA Statistics - Actual 1960-2009

Chicago Metropolitan Area

Year	Occupancy	Year	ADR	Year	Growth ADR
1960	68.20%	1960	\$13.95	1960	
1961	67.20%	1961	\$14.06	1961	0.79%
1962	67.50%	1962	\$14.17	1962	0.78%
1963	67.80%	1963	\$14.30	1963	0.92%
1964	69.20%	1964	\$14.63	1964	2.31%
1965	70.50%	1965	\$14.97	1965	2.32%
1966	71.50%	1966	\$15.49	1966	3.47%
1967	73.10%	1967	\$16.29	1967	5.16%
1968	72.90%	1968	\$17.41	1968	6.88%
1969	72.80%	1969	\$18.86	1969	8.33%
1970	68.60%	1970	\$19.92	1970	5.62%
1971	66.50%	1971	\$20.56	1971	3.21%
1972	68.20%	1972	\$21.03	1972	2.29%
1973	69.20%	1973	\$22.07	1973	4.95%
1974	68.20%	1974	\$23.68	1974	7.29%
1975	65.10%	1975	\$26.12	1975	10.30%
1976	68.30%	1976	\$28.23	1976	8.08%
1977	70.20%	1977	\$30.76	1977	8.96%
1978	72.70%	1978	\$34.69	1978	12.78%
1979	72.80%	1979	\$39.26	1979	13.17%
1980	69.50%	1980	\$45.38	1980	15.59%
1981	67.60%	1981	\$50.75	1981	11.83%
1982	62.40%	1982	\$60.45	1982	19.11%
1983	62.20%	1983	\$62.41	1983	3.24%
1984	65.80%	1984	\$67.81	1984	8.65%
1985	66.10%	1985	\$75.35	1985	11.12%
1986	68.00%	1986	\$79.73	1986	5.81%
1987	68.20%	1987	\$76.12	1987	-4.53%
1988	65.80%	1988	\$79.67	1988	4.66%
1989	64.60%	1989	\$80.13	1989	0.58%
1990	61.00%	1990	\$83.29	1990	3.94%
1991	60.80%	1991	\$76.45	1991	-8.21%
1992	63.70%	1992	\$75.23	1992	-1.60%
1993	66.50%	1993	\$77.01	1993	2.37%
1994	70.10%	1994	\$80.50	1994	4.53%
1995	70.70%	1995	\$84.19	1995	4.58%
1996	71.70%	1996	\$93.61	1996	11.19%
1997	71.70%	1997	\$101.76	1997	8.71%
1998	70.90%	1998	\$107.16	1998	5.31%
1999	69.30%	1999	\$111.30	1999	3.86%
2000	70.40%	2000	\$118.28	2000	6.27%
2001	62.70%	2001	\$107.78	2001	-8.88%
2002	59.30%	2002	\$103.39	2002	-4.07%
2003	60.60%	2003	\$102.21	2003	-1.14%
2004	62.00%	2004	\$102.57	2004	0.35%
2005	64.00%	2005	\$109.54	2005	6.80%
2006	67.50%	2006	\$122.21	2006	11.57%
2007	67.60%	2007	\$129.36	2007	5.85%
2008	64.50%	2008	\$131.00	2008	1.27%
2009	56.60%	2009	\$112.70	2009	-13.97%
Avg.	67.25%	Avg.	\$62.56	CAG	4.36%