

TR Mandigo & Company

2010 August Update for Du Page County

Presented to: Du Page Convention and Visitor's Bureau

By Ted Mandigo – Director of TR Mandigo & Company
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TR Mandigo & Company

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2010 Update and Outlook

In our previous presentation we were perhaps a little glib. We had stated that last year was terrible and that this year wasn't going to be particularly great. Well, maybe a bit more dramatically than all that.

Basically, we were just about on target. But that doesn't really help you in particular going forward. And honestly, there's nothing particularly great coming down the horizon. This recovery has been and should continue to be slow.

You hear the word "double dip recession" thrown around a lot these days. And it's a scary one: the idea that we could experience another dramatic decrease in occupancy and rate is terrifying. Fortunately, it's also bunk, at least as far as hotels are concerned. We're not in a "double dip recession". We're not even in a "V" shaped recession. If anything, it's "U" shaped, though perhaps a check mark would be more appropriate. It's not often that a hotelier can play economist, but looking at your bottom line, it's pretty apparent what's been happening.

We're recovering. Slowly. The first part of this year was pretty dismal, but if you look at the numbers for the summer months, you'll see that we're up over 14% versus July of last year. Because of a stronger second half of the year, 2010 on the whole is going to be a pretty decent year, though thanks to a weak first half and rate timidity; it's not going to be a great improvement. As we said previously, it's going to be a while until we're back to the sort of numbers we had in 2007.

We're still not seeing much of any overflow from downtown Chicago, which used to be so important. Indications are that it's probably not coming back. So hotels in the suburbs are going to have to live without the luxury of a few easy weekends during the year.

In addition, although there's nothing immediately under construction in the area, since 2008, DuPage added over 1,370 rooms, in 7 hotels. The newest hotels opened in Warrenville in May, a Hyatt Place and a Summerfield Suites, representing 123 rooms each. The largest of these was the Intercontinental O'Hare, with 556 rooms. In the year before of course, we had two 500 room hotels open, which flooded the market with additional supply that it hasn't been able to absorb. Even in normal circumstances, these hotels would still be in ramp up, and the recession has lengthened this period considerably.

We've lost around 1,000 rooms from 3 hotel closures, including the Wyndham Drake, The Wyndham O'Hare, and Coco Key. Though this almost makes up for some of the new supply, these hotels were classic underperformers, so their closure doesn't mean that they displaced enough rooms to fill up the new hotels.

All three of these hotels are likely to reenter the market at some point in the future. The Wyndham Drake is a difficult property to re-position, and it needs some significant work done, but there has already been a great deal of talk about buying and re-opening the hotel from several parties.

Coco Key, like most water resort hotels, seemed like a good idea on paper, but wound up costing a ton to maintain, while not really generating the premiums they expected. It's possible that someone could pick up the hotel for a bargain and open it when the market improves.

The Wyndham O'Hare would need some major work done to bring it back, but in the O'Hare market, nothing stays vacant for very long. In addition, the O'Hare market has been performing over 10 points higher than it was last year and there are still rumblings of new and proposed projects in the area.

Price is still a major concern for DuPage hotels. We're still down \$7 from last year which was down from the year before that. As we mentioned in January, online bookings have lowered the average rate consumers pay, even if rack rates remain unchanged. While conventional wisdom says that lowering prices increases occupancy, studies have shown that, on paper, a hotel can expect to at best keep occupancy flat by lowering rates by as much as 30%. On the flip side, by maintaining rate, a hotel can expect to lose up to 6% in occupancy. In terms of RevPAR, it's actually better to keep rates higher.

In addition, with many industries hurting, they've gone back and renegotiated contracts with hotels, frequently at lower rates. Because they're hurting for business and losing any contract is seen as troubling, hotels have been giving away corporate rates for unheard of prices. While not a bad strategy in itself, if enough companies renegotiate, suddenly a hotel is looking at a huge block of guaranteed rooms at rates low enough to hurt their bottom lines and committed for a significant period into the future.

Our January estimates were that the occupancy levels for DuPage would see a minor increase to a 51.5% in 2010 from a 2009 level of 50.6% with ADR basically remaining flat. One of the challenges faced in rate positioning is that negotiated rates are locked in for the duration, group business rates have been adjusted based on meeting planners' aggressive stance given economic conditions, and OTA business advance bookings at discounted rates already on the books, a significant portion of the rate for the balance of the year is locked in, so even if occupancies jump and rates are increased to reflect an increased optimism, the major portion of the adjustments in rate will not appear until 2011.

Occupancies should rise slightly in 2011, hitting 58.1% with minor ADR growth, and then climb slowly back up to 61%. It does not look like we will see a time in the near future when the suburbs are over 70% again.

Though so far it's been at best a sober look, there are a few bright spots.

First, while there are over 900 rooms in planned hotels for the future, all of them are on indefinite hold, giving current hotels some breathing room. Social groups and meetings continue to represent a growth sector.

If there is any real good news to take out of the recession it is twofold: First, the worst is over and there's really not much concern that it's going to get as bad as it was at the worst point. While rates may remain low for a while, conditions are improving, and rates should head back up eventually, likely in 2011.

Secondly, hoteliers have learned to run their hotels more efficiently on the whole. This means lower staffing and lower costs, so lower margins aren't as painful as they could be. A word of warning: when looking to cut costs, renovations and amenities should not be touched. They wind up costing considerably more in the long run because guests will notice quickly and suspect there's something wrong. Yes, even the bright spots still have caveats.

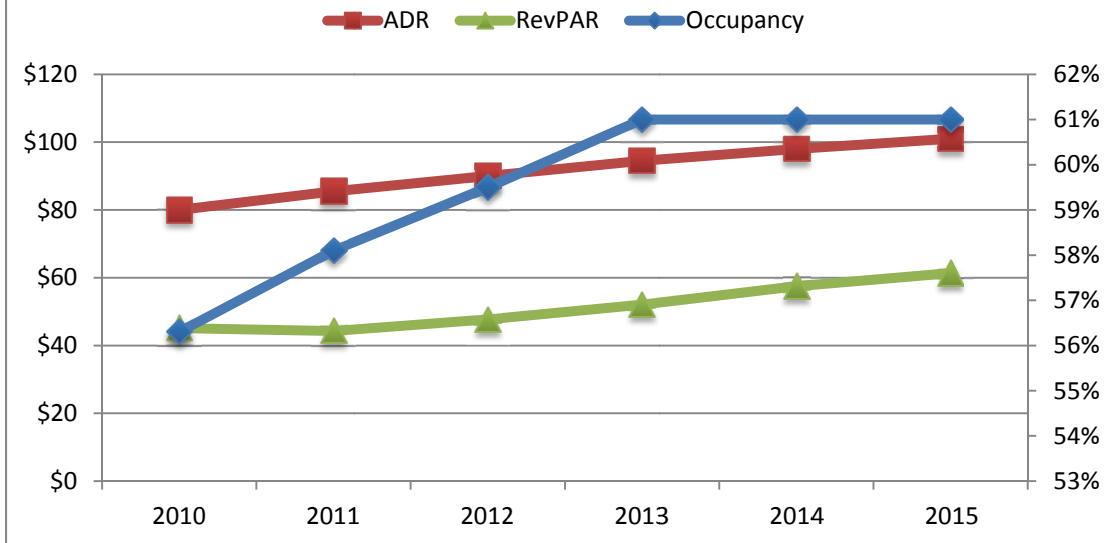
Our forecasts for the coming period are presented as a table of occupancy, ADR and RevPAR on an annual basis. We have summarized the expected performance of the market is as follows:

Our forecast assumes a stabilized financial market moving forward and does not anticipate any more additions starting construction until 2011 at the earliest, entering the market in 2013 with modest room supply additions (less than a 2% growth in supply).

DuPage Projections

Year	Occupancy	ADR	RevPAR
2010	56.3%	\$80.00	\$45.12
2011	58.1%	\$85.50	\$44.29
2012	59.5%	\$90.00	\$47.70
2013	61.0%	\$94.50	\$52.08
2014	61.0%	\$98.00	\$57.50
2015	61.0%	\$101.00	\$61.36

DuPage Performance Estimates



DuPage County Projected Occupancy

Month	2011	2012	2013	2014	2015
January	43.0%	44.0%	45.1%	45.1%	45.1%
February	49.4%	50.6%	51.9%	51.9%	51.9%
March	53.2%	54.5%	55.9%	55.9%	55.9%
April	59.0%	60.4%	61.9%	61.9%	61.9%
May	63.6%	65.1%	66.8%	66.8%	66.8%
June	69.6%	71.3%	73.1%	73.1%	73.1%
July	67.4%	69.0%	70.7%	70.7%	70.7%
August	66.0%	67.6%	69.3%	69.3%	69.3%
September	65.5%	67.1%	68.7%	68.7%	68.7%
October	64.4%	66.0%	67.6%	67.6%	67.6%
November	54.6%	55.9%	57.4%	57.4%	57.4%
December	41.4%	42.4%	43.5%	43.5%	43.5%
Annual	58.1%	59.5%	61.0%	61.0%	61.0%

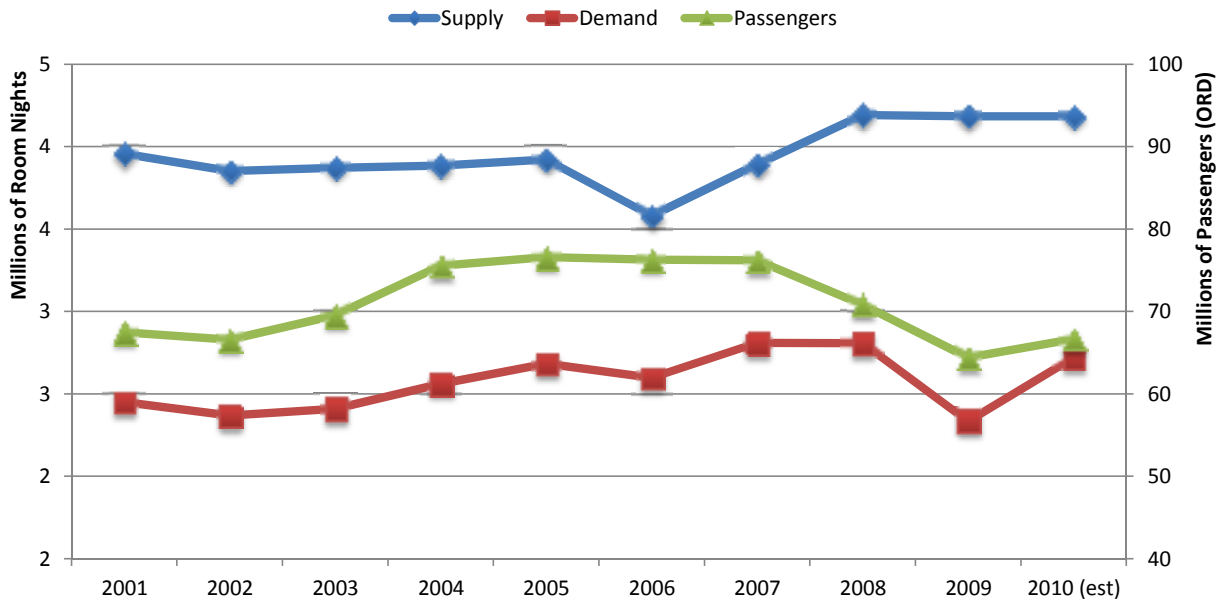
DuPage County Projected ADR

Month	2011	2012	2013	2014	2015
January	\$82.26	\$86.59	\$90.92	\$94.29	\$97.18
February	\$82.70	\$87.06	\$91.41	\$94.80	\$97.70
March	\$83.49	\$87.89	\$92.28	\$95.70	\$98.63
April	\$85.72	\$90.23	\$94.74	\$98.25	\$101.26
May	\$87.05	\$91.63	\$96.21	\$99.78	\$102.83
June	\$88.43	\$93.08	\$97.74	\$101.36	\$104.46
July	\$86.44	\$90.99	\$95.53	\$99.07	\$102.11
August	\$87.51	\$92.12	\$96.72	\$100.31	\$103.38
September	\$90.49	\$95.25	\$100.01	\$103.72	\$106.89
October	\$89.31	\$94.01	\$98.71	\$102.37	\$105.50
November	\$85.28	\$89.77	\$94.26	\$97.75	\$100.74
December	\$77.31	\$81.38	\$85.45	\$88.62	\$91.33
Annual	\$85.50	\$90.00	\$94.50	\$98.00	\$101.00

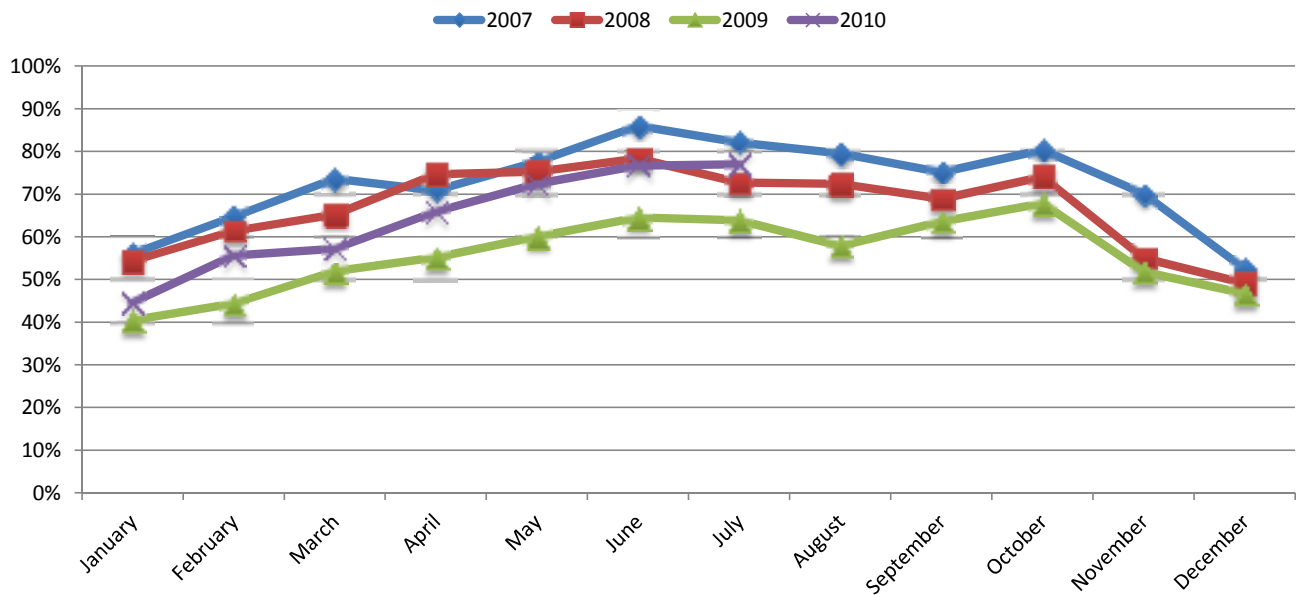
DuPage County Projected RevPAR

Month	2011	2012	2013	2014	2015
January	\$35.36	\$38.12	\$41.03	\$42.55	\$43.86
February	\$40.88	\$44.07	\$47.44	\$49.20	\$50.70
March	\$44.43	\$47.90	\$51.56	\$53.47	\$55.11
April	\$50.55	\$54.49	\$58.66	\$60.83	\$62.69
May	\$55.37	\$59.68	\$64.25	\$66.63	\$68.67
June	\$61.55	\$66.35	\$71.42	\$74.07	\$76.33
July	\$58.24	\$62.78	\$67.58	\$70.09	\$72.23
August	\$57.80	\$62.31	\$67.07	\$69.56	\$71.69
September	\$59.25	\$63.87	\$68.75	\$71.30	\$73.48
October	\$57.54	\$62.03	\$66.78	\$69.25	\$71.37
November	\$46.58	\$50.22	\$54.06	\$56.06	\$57.78
December	\$32.04	\$34.54	\$37.18	\$38.55	\$39.73
Annual	\$49.68	\$53.55	\$57.65	\$59.78	\$61.61

Supply, Demand, and O'Hare Passenger Traffic

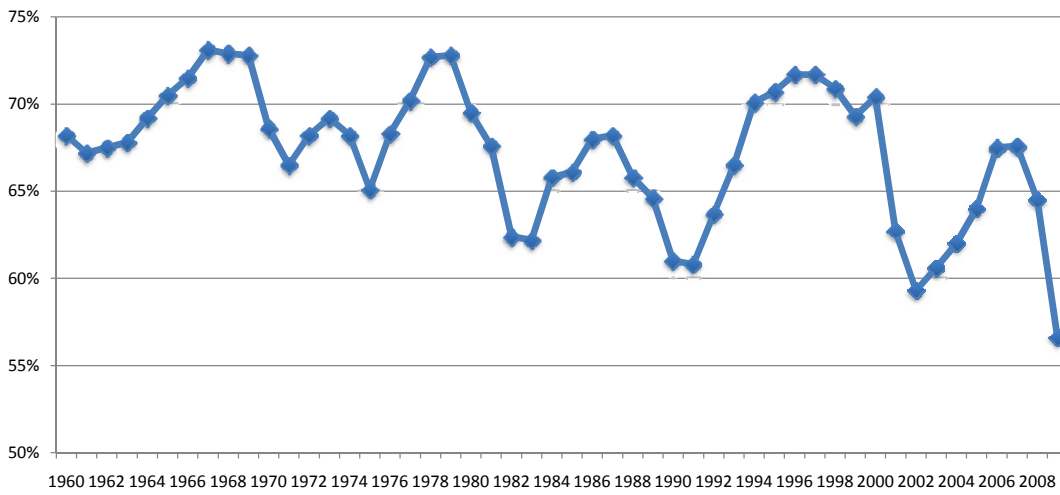


Historic O'Hare Occupancy

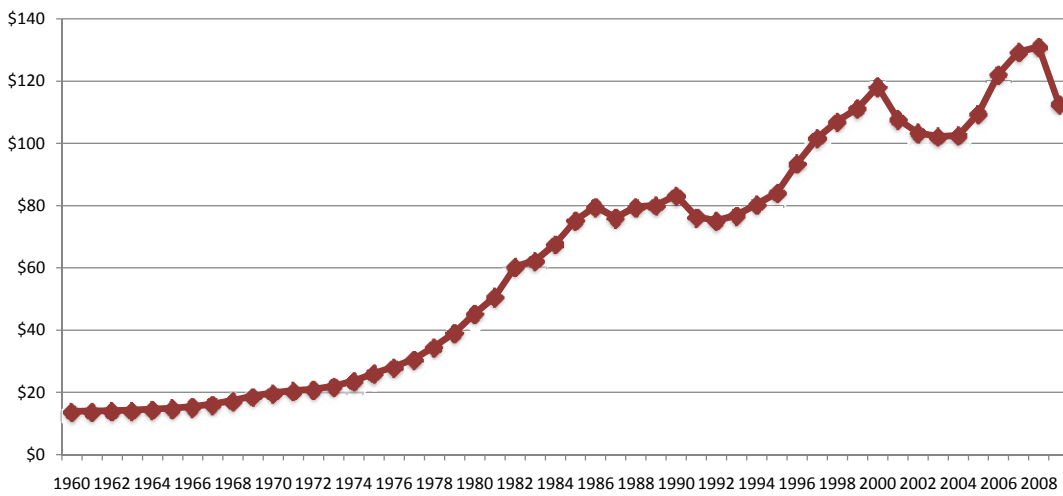


Source: STR Global, Chicago Airport Authority

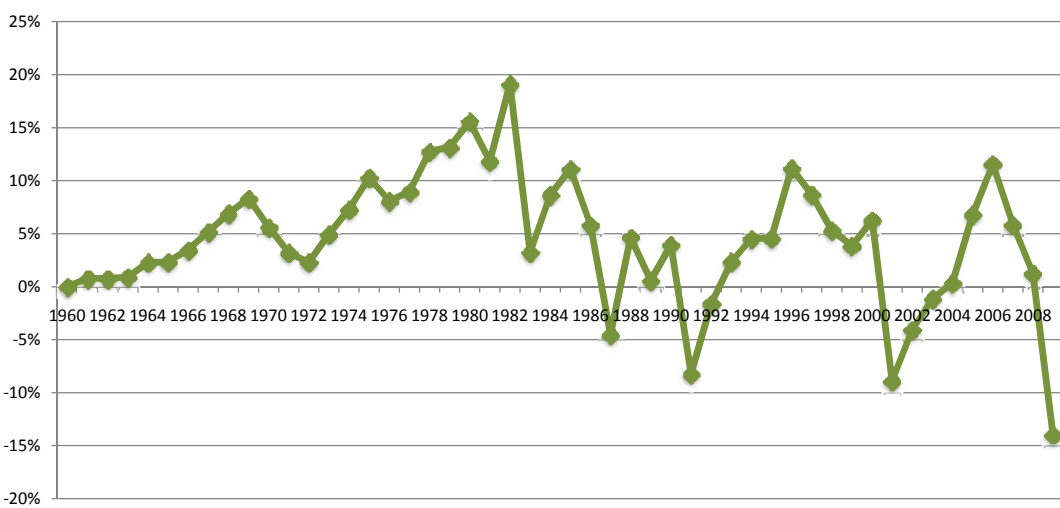
Chicago Metro Area - Percent Occupancy 1960-2009



Chicago Metro Area - ADR 1960-2009



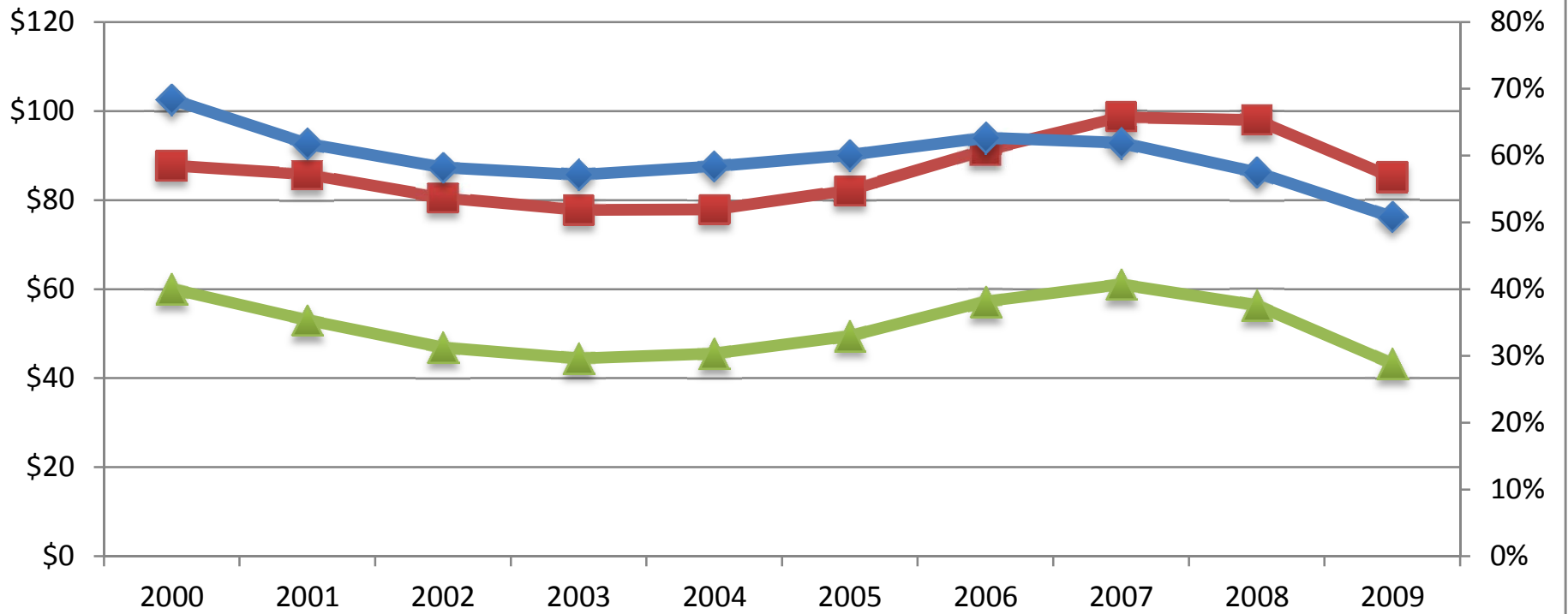
Chicago Metro Area - Growth in ADR 1960-2009



Source: STR Global

DuPage Historic Performance

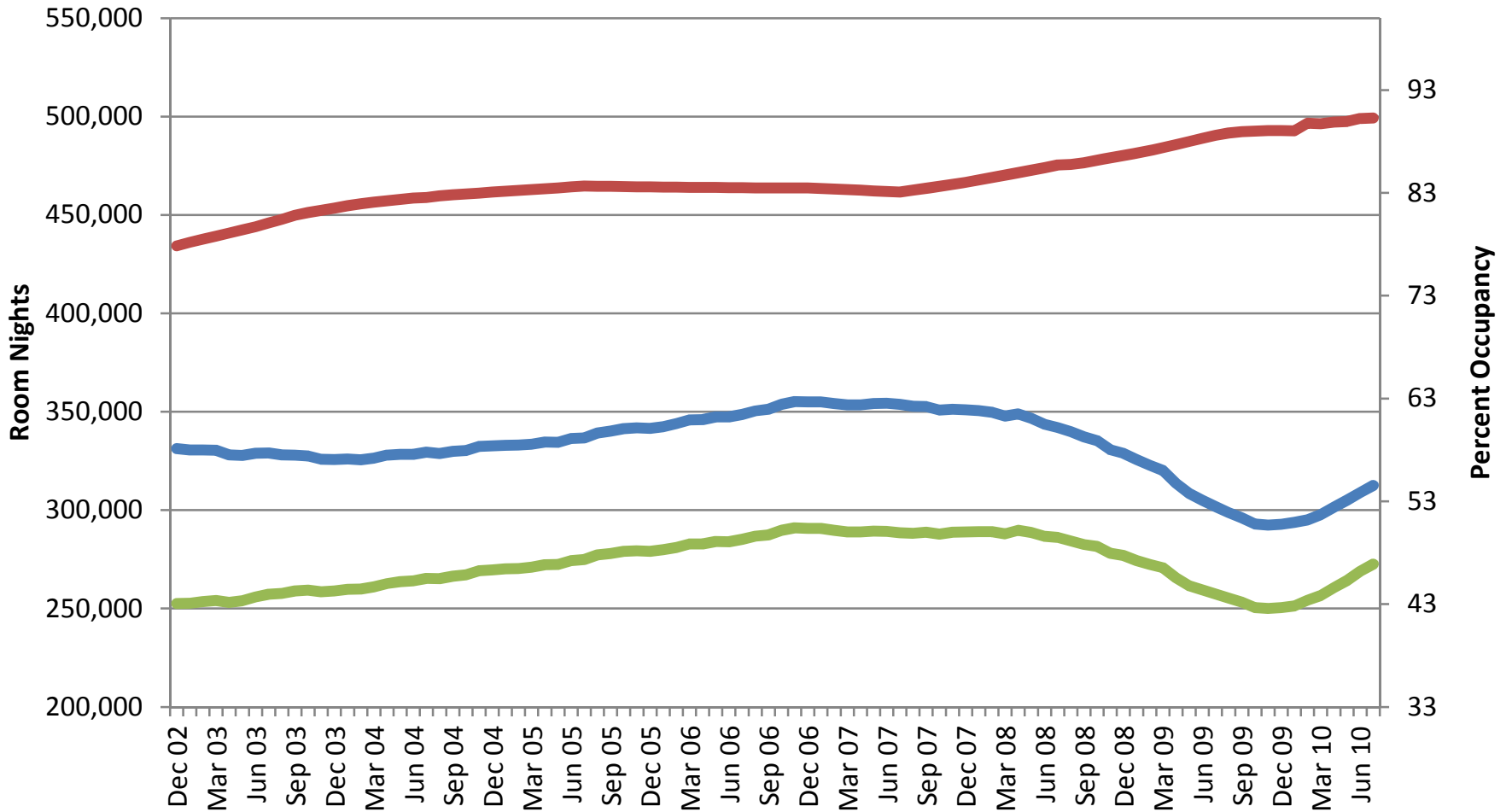
ADR RevPAR Occupancy



Source: STR Global

Supply, Demand, Occupancy 12-Month Moving Avg.

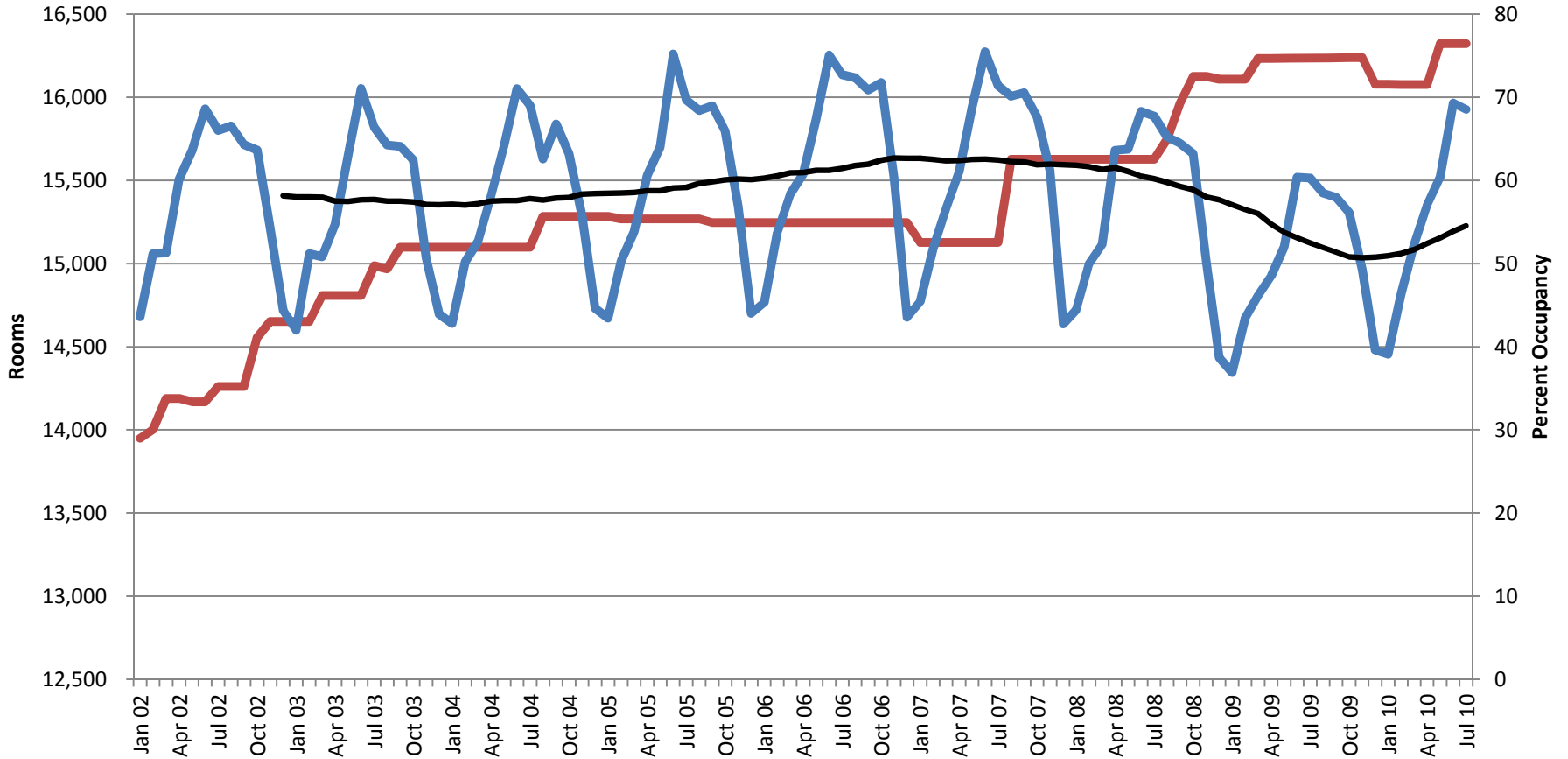
Supply Demand Occupancy



Source: STR Global

Census Room Count vs. Occupancy

— Census Rooms
 — Occupancy
 — 12 per. Mov. Avg. (Occupancy)



Source: STR Global

Pipeline Information

New Arrivals for 2008-2010			
Name of Establishment	City	Open Date	Rooms
Preferred Hotel Arista @ Citygate Centre	Naperville	Sep-08	144
Intercontinental Hotel Chicago O'Hare	Rosemont	Sep-08	556
Hilton Garden Inn Naperville Warrenville	Warrenville	Sep-08	135
Holiday Inn Express Hotel & Suites Hillside	Hillside	Mar-09	135
aloft Hotel Bolingbrook	Bolingbrook	Oct-09	155
Hyatt Place Chicago Warrenville	Warrenville	May-10	123
Summerfield Suites Chicago Warrenville	Warrenville	May-10	123
Total			1371

Projects in Discussion			
Name	Location	Rooms	Status
Aloft - Clearwater	22nd and Clearwater, Oak Brook	139	On-Hold
Aloft - Schaumburg	Schaumburg, IL	160	Planning
Cambria Suites	1000 Royce Boulevard, Oakbrook Terrace	97	On-Hold
Holiday Inn	Butterfield Road, Oakbrook Terrace	200	On-Hold
Seven Bridges	Route 53, Woodridge IL	140	On-Hold
Hinsdale Boutique Hotel	Ogden and 294, Hinsdale IL	180	On-Hold
Total			916

Closed Hotels			
Name	Location	Rooms	Status
Wyndham Drake	2301 York Road, Oak Brook	160	Closed
Wyndham at O'Hare	6810 N Mannheim Rd	467	Closed
Coco Key Water Resort	3400 W. Euclid Ave, Arlington Heights	429	Closed
Total			1056

Tab 2 - Multi-Segment Chicago

Currency: USD - US Dollar

Chicago IL CVB

For the month of: July 2010

	Current Month - July 2010 vs July 2009													Year to Date - July 2010 vs July 2009										Participation				
	Occ %		ADR		RevPAR		Percent Change from July 2009						Occ %		ADR		RevPAR		Percent Change from YTD 2009						Properties		Rooms	
	2010	2009	2010	2009	2010	2009	Occ	ADR	RevPAR	Room Rev	Room Avail	Room Sold	2010	2009	2010	2009	2010	2009	Occ	ADR	RevPAR	Room Rev	Room Avail	Room Sold	Census	Sample	Census	Sample
United States	67.9	63.5	99.14	97.83	67.35	62.10	7.0	1.3	8.5	10.5	1.9	9.0	58.1	55.4	97.53	98.94	56.65	54.82	4.8	-1.4	3.3	5.8	2.4	7.3	52452	28668	4858222	3379637
Chicago, IL	75.5	67.8	111.75	111.63	84.36	75.66	11.4	0.1	11.5	10.9	-0.5	10.8	60.4	54.8	108.06	112.34	65.26	61.61	10.1	-3.8	5.9	6.0	0.1	10.2	722	515	107864	94648
Chicago CBD	84.8	82.2	166.18	158.34	140.90	130.08	3.2	5.0	8.3	9.8	1.4	4.6	67.0	64.3	160.90	161.11	107.73	103.67	4.1	-0.1	3.9	6.4	2.4	6.5	94	84	33906	31903
Chicago North	76.1	62.3	82.66	87.52	62.88	54.49	22.2	-5.6	15.4	15.4	0.0	22.2	61.8	51.0	83.62	92.46	51.68	47.14	21.2	-9.6	9.7	9.6	-0.0	21.2	36	22	5314	4452
Chicago Northwest	69.8	58.7	71.96	74.40	50.24	43.64	19.0	-3.3	15.1	11.0	-3.6	14.7	54.1	48.0	71.41	76.68	38.62	36.77	12.8	-6.9	5.0	2.0	-2.9	9.6	105	92	12877	12218
Chicago Airport	77.0	63.5	96.11	93.13	74.05	59.13	21.3	3.2	25.2	19.1	-4.9	15.4	64.3	53.9	95.22	99.05	61.18	53.42	19.1	-3.9	14.5	9.0	-4.8	13.4	47	36	10934	10296
Chicago DuPage County	68.6	59.9	80.72	83.24	55.33	49.86	14.5	-3.0	11.0	11.6	0.5	15.1	56.3	49.4	79.94	86.84	44.99	42.92	13.9	-7.9	4.8	4.7	-0.1	13.8	109	98	16322	15623
Chicago South	68.2	60.6	80.71	81.20	55.07	49.18	12.6	-0.6	12.0	9.7	-2.0	10.4	55.1	51.9	73.99	76.09	40.74	39.50	6.1	-2.8	3.1	2.5	-0.6	5.4	114	56	9101	6103
Chicago Downtown	84.2	81.2	160.24	153.31	134.99	124.45	3.8	4.5	8.5	9.6	1.0	4.9	66.6	63.6	154.61	155.24	102.97	98.66	4.8	-0.4	4.4	6.3	1.8	6.7	138	92	36787	32426
Lake County, IL	75.0	62.5	80.38	83.48	60.31	52.18	20.1	-3.7	15.6	15.3	-0.3	19.7	58.0	50.5	78.52	84.91	45.57	42.92	14.8	-7.5	6.2	9.1	2.7	17.9	86	59	8586	7031
Chicago Southwest	64.6	61.8	81.84	85.01	52.88	52.50	4.6	-3.7	0.7	3.8	3.0	7.8	52.7	49.6	75.56	79.50	39.82	39.40	6.3	-5.0	1.1	3.7	2.6	9.1	87	60	7943	6499
Chicago, IL Luxury	79.8	75.2	152.86	146.59	121.96	110.26	6.1	4.3	10.6	10.7	0.1	6.2	64.5	60.8	148.27	149.11	95.70	90.66	6.2	-0.6	5.6	6.6	1.0	7.2	136	129	47028	46218
Chicago, IL Upscale	75.6	67.4	100.04	101.89	75.65	68.65	12.2	-1.8	10.2	10.8	0.5	12.8	60.1	53.9	96.84	103.12	58.22	55.53	11.6	-6.1	4.8	5.3	0.4	12.1	116	103	19849	17511
Chicago, IL Midprice	70.9	60.2	77.76	79.89	55.14	48.07	17.8	-2.7	14.7	12.0	-2.4	15.1	54.3	48.6	75.04	79.56	40.78	38.64	11.9	-5.7	5.5	4.4	-1.1	10.7	205	165	22053	19071
Chicago, IL Economy	70.3	60.1	53.57	57.30	37.65	34.41	17.0	-6.5	9.4	9.4	-0.0	17.0	56.1	49.2	49.24	54.62	27.62	26.86	14.1	-9.8	2.8	2.2	-0.6	13.4	139	72	10073	6681
Chicago, IL Budget	69.7	57.7	43.20	45.17	30.11	26.04	20.9	-4.3	15.6	13.5	-1.9	18.6	58.9	48.2	39.74	43.82	23.40	21.11	22.2	-9.3	10.9	8.7	-1.9	19.9	126	46	8861	5167
Chicago, IL Less Than 75 Rooms	68.3	59.7	68.90	72.96	47.09	43.58	14.4	-5.6	8.1	-3.0	-10.2	2.7	54.3	48.7	62.76	68.69	34.10	33.42	11.7	-8.6	2.0	-8.9	-10.7	-0.2	251	90	11582	5405
Chicago, IL 75 - 149 Rooms	73.9	63.6	75.19	77.26	55.54	49.18	16.1	-2.7	12.9	14.2	1.1	17.4	59.1	52.2	71.28	76.46	42.12	39.89	13.3	-6.8	5.6	7.8	2.1	15.7	271	239	30832	27524
Chicago, IL 150 - 299 Rooms	75.8	67.2	109.16	106.25	82.70	71.40	12.7	2.7	15.8	17.7	1.6	14.6	60.5	54.6	105.17	107.17	63.66	58.50	10.9	-1.9	8.8	12.3	3.2	14.4	127	116	26506	24360
Chicago, IL 300 - 500 Rooms	76.4	71.2	148.25	146.05	113.30	103.96	7.4	1.5	9.0	8.9	-0.0	7.3	61.7	56.2	143.59	147.30	88.55	82.80	9.7	-2.5	6.9	6.9	-0.0	9.7	51	49	19400	18666
Chicago, IL Greater Than 500 Rooms	81.0	77.0	154.89	150.40	125.41	115.75	5.2	3.0	8.3	8.3	-0.0	5.2	64.5	62.0	153.49	155.95	99.08	96.76	4.0	-1.6	2.4	2.5	0.1	4.1	22	21	19544	18693

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Source 2010 SMITH TRAVEL RESEARCH, Inc.