Presentation To:

Illinois Hotel and Lodging Association

August 1, 2007

Chicago Area Forecast

For the Hotel Industry

Presented by:

Ted Mandigo, CPA, ISHC

TR Mandigo & Co.
(630) 279-8144

Web Site: trmandigo.com

Outline of presentation:

Chicago Trends: YTD through July 2007 the CBD is up a nominal 0.4 points in occupancy, contrary to the decline in occupancy occurring on a national basis. The current pattern of business in the US sows a drop in occupancy of from 1 to 2 points this year.

Given the pace of new development in the area we have also forecast a slight decline in occupancy to 74.5 from the 2006 year end level of 75.7 percent. The ADR shows a year to date increase of 8 percent over the same period last year. We forecast a similar growth for this year followed by a 5 percent increase in 2008, again, conservatively forecast to recognize the number of new openings averaged in and the impact of the supply increases on the overall market.

In tracking the pattern of performance we noted substantially more variation in ADR month to month than in prior years. Yield management has resulted in higher peaks and more aggressive pricing policies especially in April – June and September – November.

The recovery in CBD is dramatic, but in the suburbs is less dramatic, resulting in an improvement in occupancy of 5.4% over last year for the first 6 months, to 66.4% in the overall metropolitan area, and an increase of $11 in ADR to an average of $116.88 for the metro area.

The suburbs are still recovering from the recession, the impact of the changes in the technology industries and some high office vacancies. We attribute the slower recovery in the suburbs to the volatility in the communications industry, such as Lucent, TelLabs, Motorola and others; as well as the significant decline in overflow of convention activity that historically pushed as much as 300,000 room nights a year into the suburban properties. That business is lost because of smaller conventions that were in the category of citywides in the past and the larger room supply in the CBD that can accommodate larger groups without pushing to the suburban properties. This leaves the suburban properties serving local markets and redeveloping a book of business from the social, leisure and local commercial activity.

However, the O'Hare Airport area is tracking the improved performance levels in the downtown, and the Lake County market is strong. Areas like DuPage County are still in the 60's, gradually improving a few points per year. They will take a couple of more strong years to recover to 2000 levels of performance, however, with the exception of a few major projects, The Westin's in Wheeling and Lombard and the Renaissance in Schaumburg, there is only limited new development activity. There are, however, several developers exploring potential developments in pocket markets. High construction costs and mediocre market performance levels discourage the level of development activity we see in the downtown market.

The larger new developments in the suburbs is putting some pressure on downtown meeting activity by offering proximate alternative accommodations that are 50 to $100 below the CBD rates, tempting the more rate conscious travelers and groups. This lag in recovery will create a buffer for continued aggressive rate increases, dropping the nearly double digit increases experienced last year and this year in the CBD to levels in the 3 to 5% range over the next few years.

We typically run a 7 to 10 year cycle of performance with a 3 to 4 year peak dropping several points over two years to a low, and taking two years to recover. The current cycle is in its fourth year, and is still exhibiting strength. I believe this peak cycle will last through 2011 to 2012 at a strong performance, then drop several points, impacted by a combination of aggressive development activity, business cycles, fuel crisis, or other factors. The chart of historic Chicago area performance since 1960, included in this packet, illustrates the cyclical nature of the industry.

We do see a moderation of occupancy level currently reflecting new properties now under construction that enter the market and impact the market performance by a point or two and project flat to slight variations in occupancy at the current plateau around 73 to 75 percent.

Attached to this package is a list of proposed properties, compiled from a variety of sources. The full list is posted on my web site and the CVB's web site with additional notes and information. The proposed properties and those under construction in the CBD bring an additional 7,571 rooms to the market, an increase of over 5% if all properties are built.

The growth in demand has been between 4 to 6 percent, so this level of increase is bound to cause a ripple in occupancy levels. The good news is that the land costs and availability of good sites in the market, combined with the pressure on construction costs through inflated levels of construction costs due to residential and international pressures on construction materials will discourage all but the most aggressive and optimistic developers. We believe that over 1/3rd of those will drop out of the development cycle, leaving approximately 5,000 properties entering the market over the next three years, or a growth of just over 5 percent annually an increase that can be absorbed by the current market patterns.

Interestingly the increase includes 1,527 in condominium hotel units. This phenomenon adds a new twist to the market. These units are purchased by investors; area residents seeking downtown facilities; or frequent travelers to the Chicago market that believe that owning a unit in the city will reduce or moderate travel costs in the long run. We believe that the current condominium hotel activity through those properties now under construction will satisfy the level of area demand and that future projects will focus more strongly on traditional development activity.

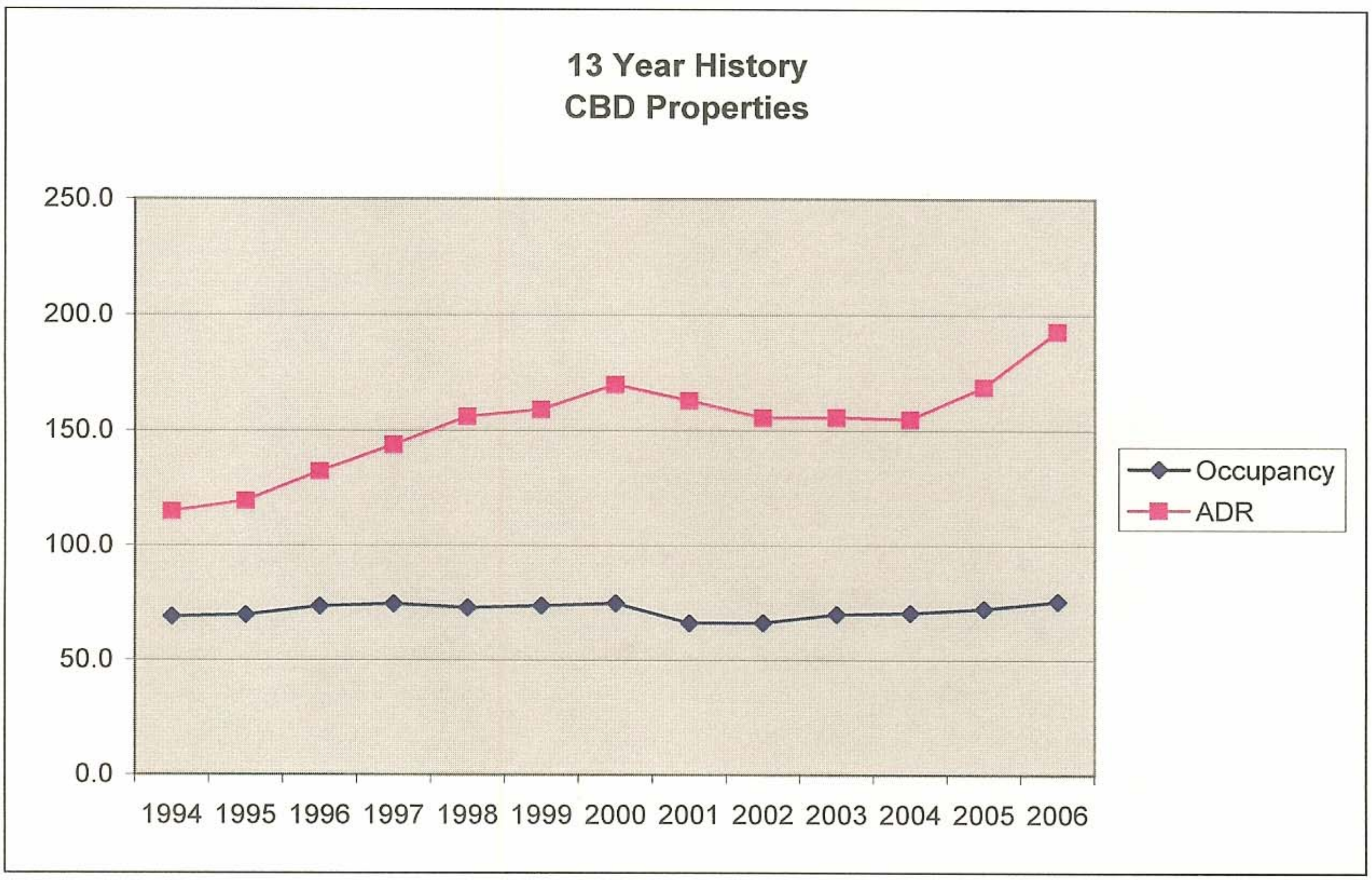
Other factors important to the local industry include:

The convention industry, with a well designed addition to McCormick Place, is coming back with strong marketing programs and some recent successes. Chicago remains the "business" destination for conventions. It's easy to have a LasVegas or Orlando convention during boom years, but business conservatism looks at these as areas with diversionary activities and a "celebratory" image, as not always appropriate. Watch the rates in Las Vegas and Orlando with continued up scaling of the market. Those prices are climbing and will be a factor that makes the Chicago market a strong competitor, even with seasonality, rough winters and some of the same labor issues we have historically encountered.

Minimum wage rates and recently concluded union contracts will impact operating costs. The challenge is that we have a more sophisticated customer who demands a higher level of personal service and technology. These issues combined with rising energy costs and high local property taxes, place continued pressure on management.

The leisure and social markets have been strong factors in the market. Much of the recovery in occupancy is attributed to the commercial market recovery and significant growth in the leisure sector with a more modest recovery in convention activity. The leisure growth is expected to remain strong, providing the weekend business that has pushed weekend occupancies to higher levels than mid-week business volume. The creative properties and those focused on this market niche (although a small percentage of the overall guest mix) will benefit as this segment continues to grow. Tables and charts included in this package illustrate the changes in market mix over the past several years, with a shift to stronger market segments in commercial and leisure business and a slightly declining percentage (but increasing room nights) in the group sector.

In summary, the package provided sets forth an optimistic picture through 2012 with some limited impact of development activity. The suburban performance will continue to temper rate growth in the CBD, checking that growth to a 5 to 7 percent level vs. the double digit numbers discussed for east and west coast properties. We are in for a good, but challenging run for the next few years-fighting our usual nemesis: real estate taxes; convention competition; energy costs and weather.

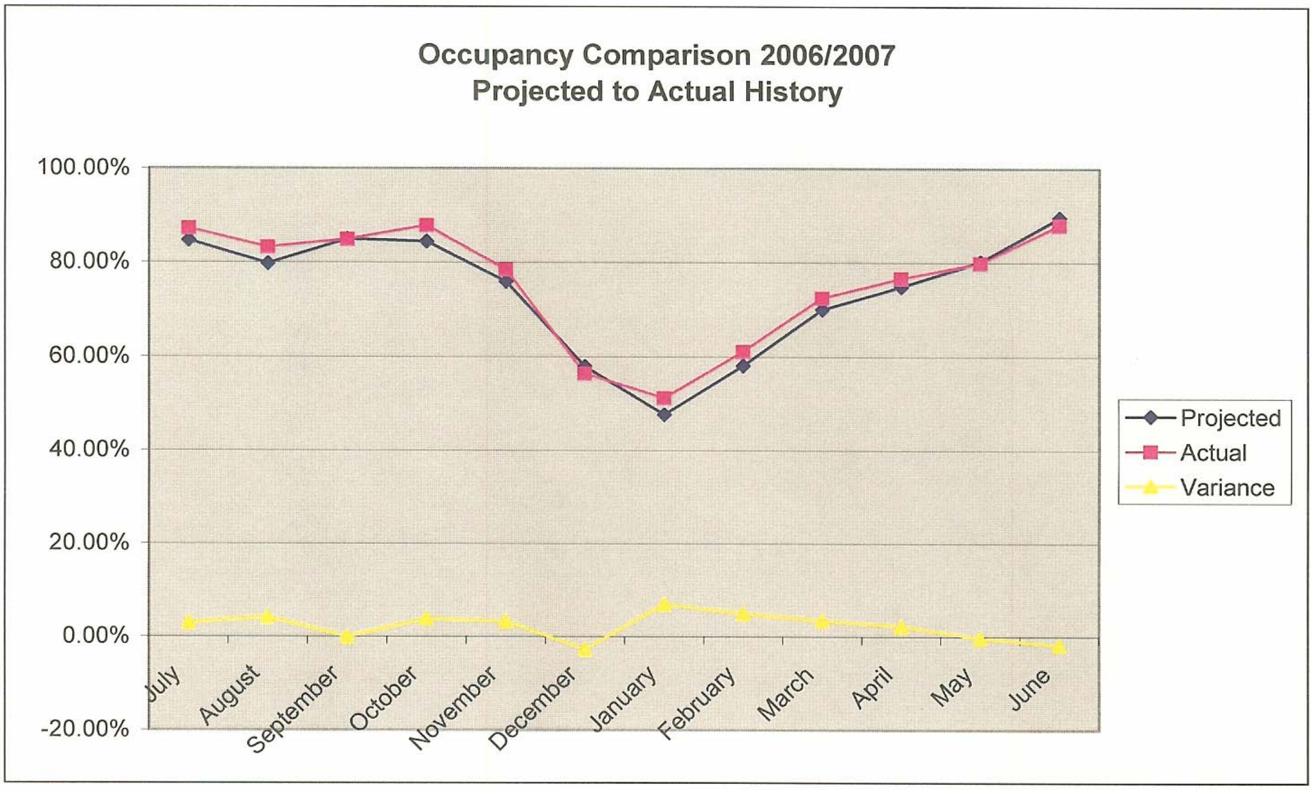

13 Year History
CBD Properties
250.0
200.0
150.0
100.0
50.0
0.0
1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006
Occupancy
ADR

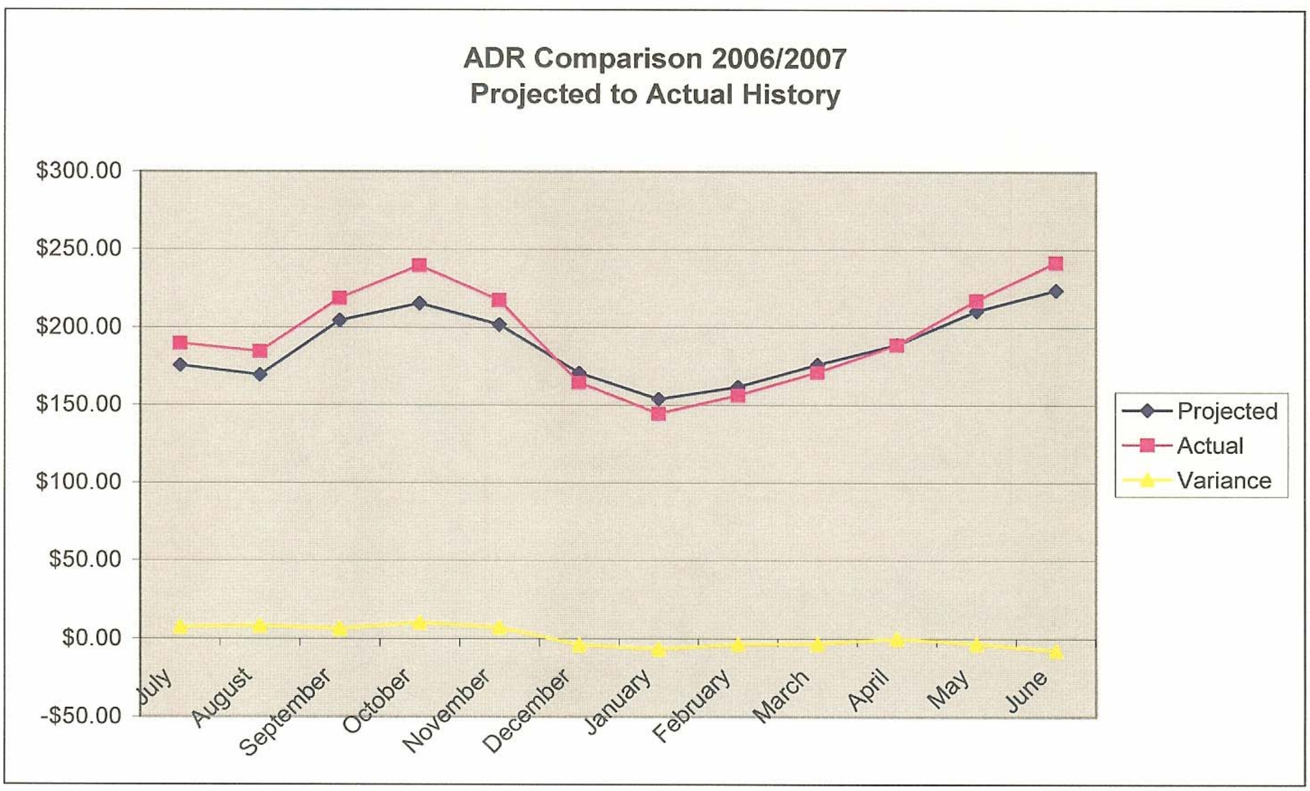
Projected Occupancy CBD

	2007	2008	2009	2010	2011	2012
January	51.20%	49.90%	49.55%	49.55%	49.90%	49.90%
February	61.10%	57.69%	57.29%	57.29%	57.69%	57.69%
March	72.50%	69.41%	68.93%	68.93%	69.41%	69.41%
April	76.60%	73.61%	73.10%	73.10%	73.61%	73.61%
May	79.90%	78.67%	78.13%	78.13%	78.67%	78.67%
June	87.90%	85.08%	84.50%	84.50%	85.08%	85.08%
July	82.50%	82.19%	81.63%	81.63%	82.19%	82.19%
August	80.00%	80.14%	79.59%	79.59%	80.14%	80.14%
September	83.18%	81.51%	80.95%	80.95%	81.51%	81.51%
October	86.28%	84.55%	83.97%	83.97%	84.55%	84.55%
November	78.79%	77.21%	76.68%	76.68%	77.21%	77.21%
December	57.21%	56.05%	55.67%	55.67%	56.05%	56.05%
Annual	74.50%	73.00%	72.50%	72.50%	73.00%	73.00%

Projected ADR CBD

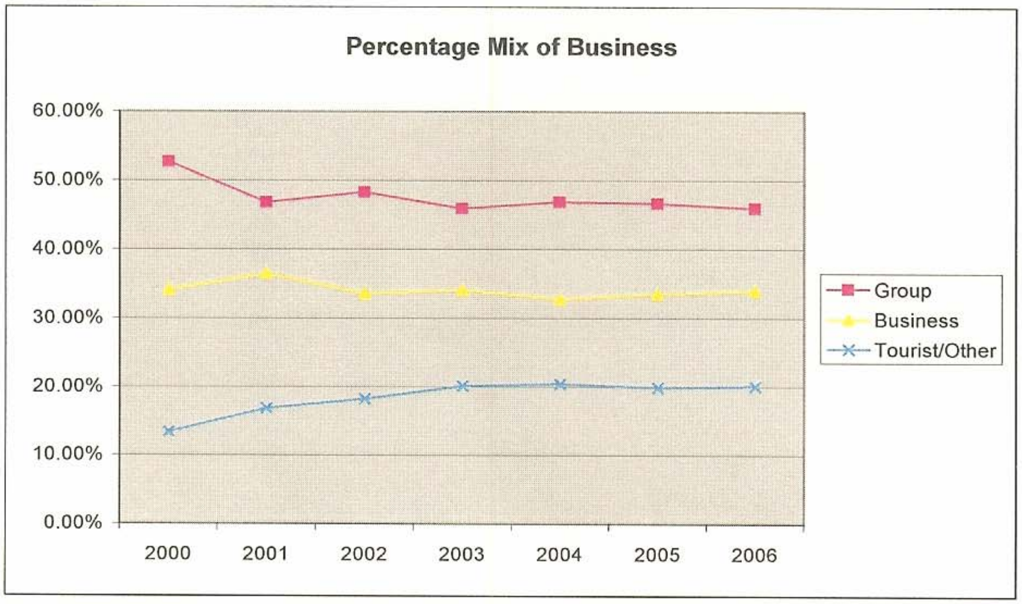
	2007	2008	2009	2010	2011	2012
January	$144.60	$172.46	$178.49	$184.74	$191.21	$197.90
February	$156.42	$178.00	$184.23	$190.68	$197.35	$204.26
March	$171.23	$195.58	$202.42	$209.51	$216.84	$224.43
April	$188.76	$215.14	$222.67	$230.46	$238.52	$246.87
May	$217.32	$237.01	$245.30	$253.89	$262.78	$271.97
June	$241.87	$246.97	$255.61	$264.56	$273.82	$283.40
July	$206.30	$208.29	$215.58	$223.12	$230.93	$239.01
August	$201.72	$203.66	$210.78	$218.16	$225.80	$233.70
September	$240.71	$243.02	$251.53	$260.33	$269.45	$278.88
October	$250.34	$257.70	$266.72	$276.06	$285.72	$295.72
November	$241.19	$243.51	$252.03	$260.85	$269.98	$279.43
December	$195.23	$200.97	$208.01	$215.29	$222.82	$230.62
Annual	$206.53	$216.86	$224.45	$232.30	$240.43	$248.85
Increase	1.07	1.05	1.035	1.035	1.035	1.035

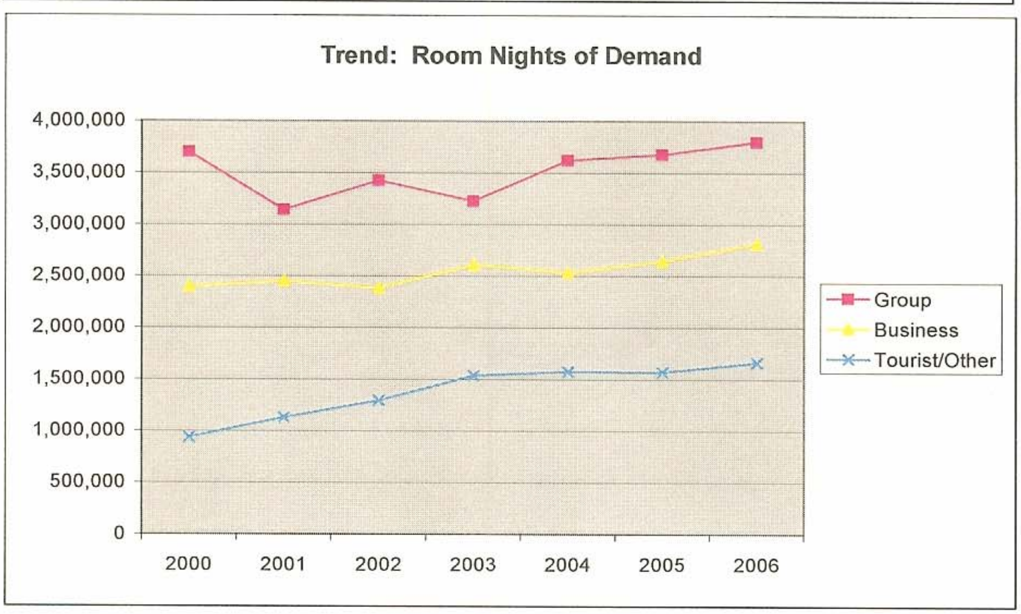

Occupancy Comparison 2006/2007
Projected to Actual History
100.00%
80.00%
60.00%
40.00%
20.00%
0.00%
-20.00%
July
August
September
October
November
December
January
February
March
April
May
June
Projected
Actual
Variance


ADR Comparison 2006/2007
Projected to Actual History
$300.00
$250.00
$200.00
$150.00
$100.00
$50.00
$0.00
-$50.00
July
August
September
October
November
December
January
February
March
April
May
June
Projected
Actual
Variance

CBD Chicago Market
Shifts in demand and mix of business

	2000	2001	2002	2003	2004	2005	2006
Rooms	25,744	27,777	29,311	29,942	29,976	29,857	29,971
Occupancy	74.70%	66.20%	66.30%	70.00%	70.60%	72.40%	75.70%
Demand	7,019,230	6,711,757	7,093,115	7,650,181	7,724,515	7,890,011	8,281,137
Mix	2000	2001	2002	2003	2004	2005	2006
Group	52.60%	46.70%	48.20%	45.80%	46.80%	46.60%	45.90%
Business	34.10%	36.50%	33.60%	34.10%	32.80%	33.50%	34.00%
Tourist/Other	13.30%	16.80%	18.20%	20.10%	20.40%	19.90%	20.10%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Mix Ratio	2000	2001	2002	2003	2004	2005	2006
Group	3,692,115	3,134,390	3,418,882	3,219,367	3,615,073	3,676,745	3,801,042
Business	2,393,558	2,449,791	2,383,287	2,608,712	2,533,641	2,643,154	2,815,587
Tourist/Other	933,558	1,127,575	1,290,947	1,537,686	1,575,801	1,570,112	1,664,509
Demand							
Weekdays	4,169,423	4,134,442	4,078,541	4,475,356	4,356,627	4,481,526	4,695,405
Weekends	2,849,808	2,577,314	3,014,574	3,174,825	3,367,889	3,408,485	3,585,732
Ratio							
Weekdays	59.40%	61.60%	0.575	0.585	0.564	0.568	0.567
Weekends	40.60%	38.40%	0.425	0.415	0.436	0.432	0.433

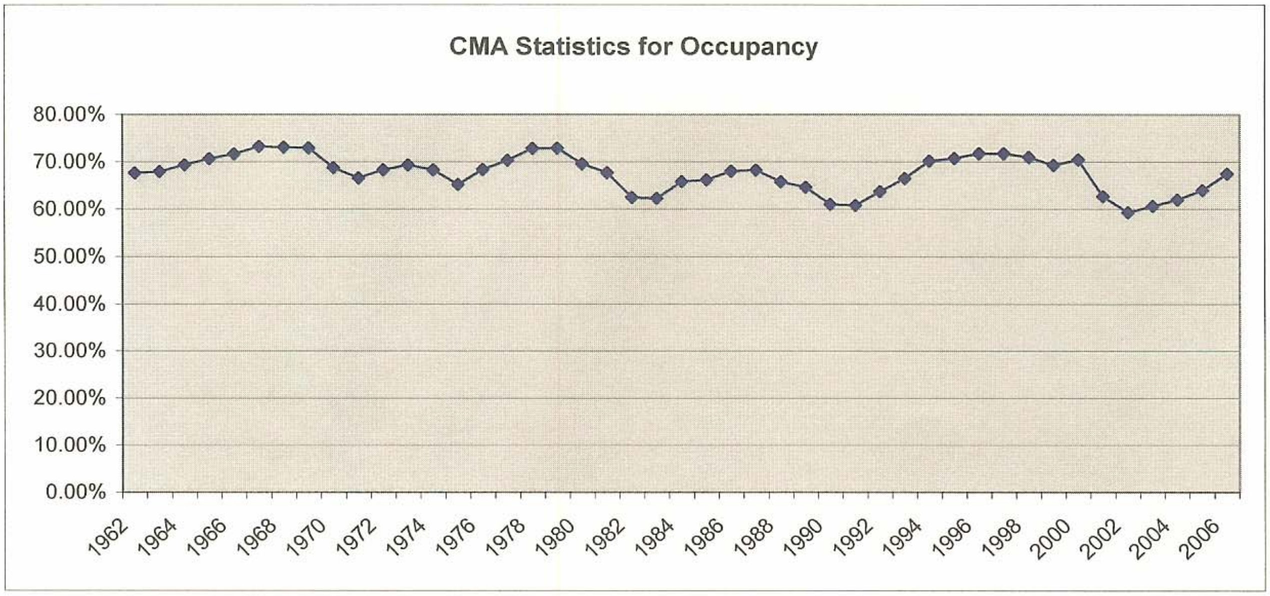


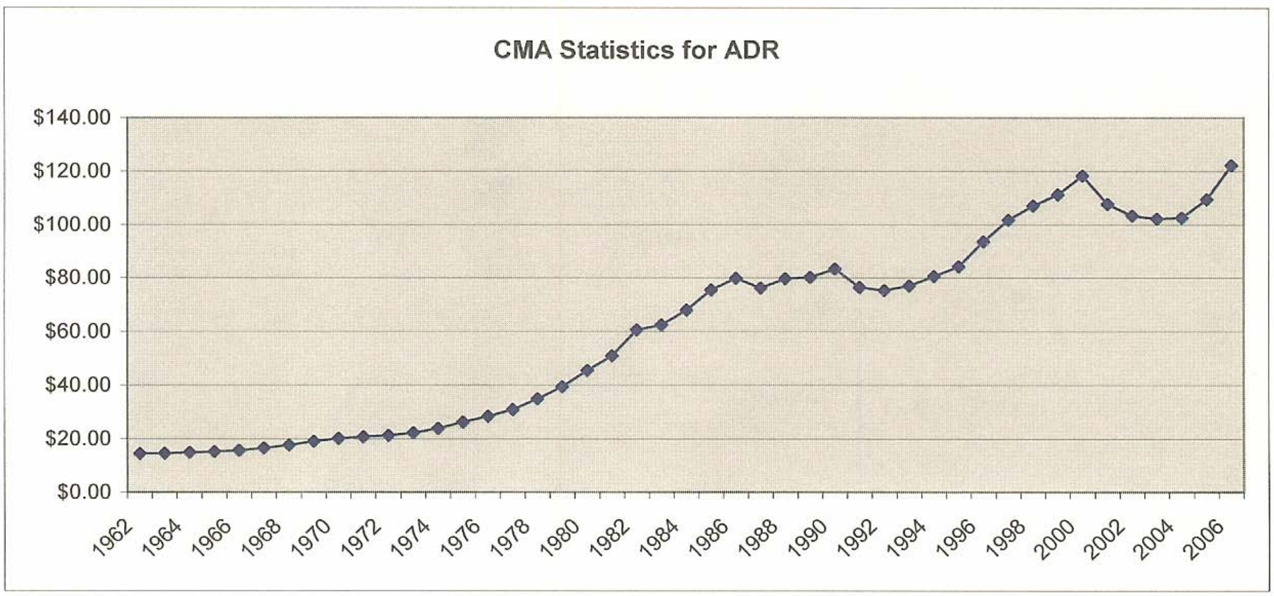


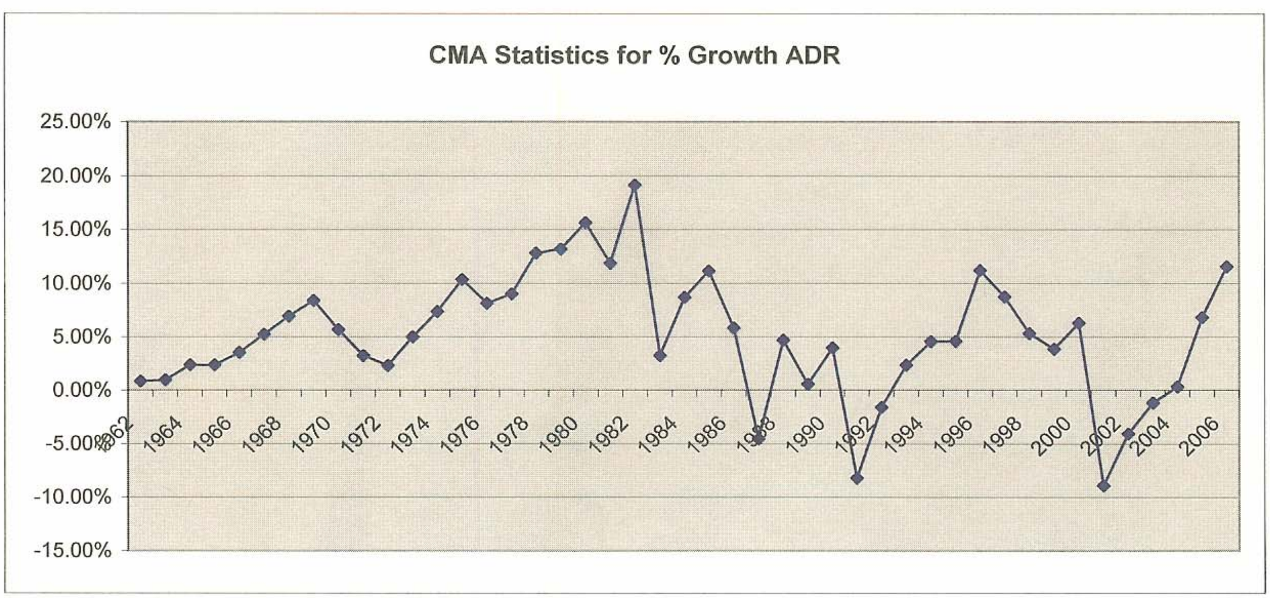
CMA Statistics - Actual 1960-2004

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%
Avg.	67.52%	Avg.	$58.61	CAG	4.75%


CMA Statistics for Occupancy
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006


CMA Statistics for ADR
$140.00
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006


CMA Statistics for % Growth ADR
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
-15.00%
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1990
1994
1996
1998
2000
2004
2006

TR Mandigo & Co	338 N Highland, Elmhurst, IL 60126	www.trmandigo.com
(630) 279-8144	**Proposed Properties List**	7/15/2007

Property Name	Address/Location	City	No. Rooms	Development Type	Location	Status	Year Open	Developer	Viability	Market Position
CBD										
Aqua Tower Development	Columbus and Lake	Chicago	200	Hotel	North Loop	Planning	?	Strategic Hotels & Resorts	Probable	
Elysian Hotel	11 East Walton St	Chicago	126	Hotel - Condo	North Michig:	Development	2009	Arcapita	Under Construction	
Mandarin Oriental	215 Michigan	Chicago	252	Hotel - Condo convers	Illinois Cente	Development	2009	Mandarin Oriental Hotel Group I	Under Construction	
Shangri-La	111 W Wacker Dr	Chicago	200	Mixed-use	Loop	Development	2010	Shangri-La	Under Construction	
Staybridge Suites	LaSalle + Huron	Chicago	206	Hotel	River North	Development	2008	Dellisart Lodging	Under Construction	
Trump Tower	401 N. Wabash	Chicago	286	Mixed-use	River North	Development	Dec-07	Trump Hotels	Under Construction	
Boutique Hotel	State and Erie	Chicago	200	Boutique Hotel	River North	Development	?		Discussion	
Residence Inn	North Dearborn	Chicago	150	Executive Stay	River North	Development	Jan-07	White Lodging Services	Under Construction	
Aloft Hotel	505 N. State St.	Chicago	250	Lifestyle	River North	Planning	Late 2007	John Buck	Probable	Lifestyle
Canyon Ranch Condo Hotel	Huron and Rush	Chicago	126	Health & Wellness	River North	Announced		Canyon Ranch Spa	Probable	725 to 950,000 per
CAA	12 S. Michigan	Chicago	150	Hotel	Loop	Discussion	2008	Snider-Cannata	Likely	Upscale Boutique
Holiday Express/Cass	640 N. Wabash	Chicago	175	Upgrade	River North	Redevelopment	Jun-07	Oxford Proerties	UC	$16 million renovati
Doubletree (Wit)	Sate and Lake	Chicago	298	Upscale	North Loop	New Constructi	May-09	ECD-Scott Greenberg	UC	$90 million
Haytt Place	Clark and Grand	Chicago	180	Hotel	River North	Announced	09	Hyatt Hotels Corp	Announced	
McCormick Place	Chicago	Chicago	600	Convention Center/Hc	McCormick	Expansion	09	McPier	Ongoing Discussion	
Three Arts Club	1300 N. Dearborn Pkwy	Chicago	90	Boutique Hotwl	Gold Coast	Redevelopment	09	M Development LLC	Purchased	$15 MM Purchase
Blackstone Hotel/Renaissance	S Michigan Ave	Chicago	327	Hotel	Loop	Redevelopment	Fall 2007	Sage Hospitality	Under Construction	
Printers Row	500 S Dearborn	Chicago	162	Hotel - Boutique	Loop	Redevelopment	Year 07	The Falor Companies	Planning	
Old Post Office	Old Post Office	Chicago	256	Hotel	Loop	Redevelopment	Jun-08	Walton Partners	Proposal Status	
LaQuinta	1 S. Franklin Street	Chicago	220	Hotel	Loop	Redevelopment	08		Under Construction	
Dumon Development	28 N. Franklin St.	Chicago	295	Hotel	Loop	New Constructi	09	Dumon/Crescendo	Proposal Status	Limited Service
Riverfront	Jackson and Chicago Rive	Chicago	350	Hotel - Condo	Loop	New Constructi	Jun-07	Mark Goodman & Assoc,	Proposal Status	
208 S. LaSalle	208 S. LaSalle	Chicago	620	Luxury Hotel	Loop	Redevelopment	Nov-09	Reschke and Mansur	Proposal Status	Luxury JW Marriott
Union Station Poss. Hilton	Union Station	Chicago	300	Hotel	West Loop	Redevelopment	NA	Jones Lang LaSalle Inc.	Permitting	
SpringHill Suites	410 N Dearborn St.	Chicago	253	Hotel	Loop	Development	Jan-07	White Lodging Services	Under Construction	
Chinatown Hotel	Clark and Archer	Chicago	175	Hotel - Condo	Chinatown	Planning	2009	See Wong, Peter Siu	Planning	Upper Upscale
Possible Embassy Suites	150 N. Riverside Plaza	Chicago	300	Hotel+665 Apts.	West Loop	Announced	2010	Reschke and Mansur	Announced	All Suites
Hines Development	200 N. Riverside Plaza	Chicago	200	Hotel-Office	West Loop	Announced	2010	Hines/Levy Project	Proposal Status	Upscale
Lakeshore East Tower	375 E. Wacker Dr	Chicago	224	Hotel - Condo	Lakeshore E:	Planning	2010	Magellan Development LLC	Proposal Status	Luxury
Mondarian Hotel	1118 N. State	Chicago	200	Luxury	Gold Coast	Agreement	2010	M-Development	Proposal Status	Luxury
McCormick Place Hotel	Cermak Road and Prairie /	Chicago	200	Hotel/Condo/Retail	McCormick	Planning	2010	Pam Gleichmen & Karl Norberg	Proposal Status	Upscale
	Rooms Added through 2010		***7571***	***6.31%***	Annual Increase if all develop					
	Condo Projects:		***1527***	***20.17%***	% of total development					