

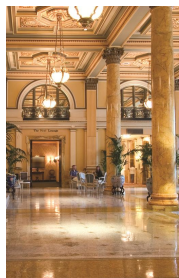


NOVEMBER 2010 | PRICE \$1,000

CHICAGO MARKET HOTEL INDUSTRY OUTLOOK: 2010 - 2013

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Chicago Market Hotel Industry Outlook: 2010 - 2013

As the national economy continued to emerge from recession during 2010, the Chicago market's hotel industry, as with many major markets throughout the United States, experienced increasing demand. Most economic indicators and hotel industry data suggest the recession may be over and the pace of improvement appears to be accelerating in the hotel industry.

This article examines recent trends and future sources of supply and demand that are expected to shape Chicago's hotel industry performance during the next three to four years. Additionally, we present findings from our annual survey of hotel managers throughout the Chicago-land area. Based on this data, HVS developed projections of hotel demand, supply, and performance through 2013.

Economic indicators for Chicago's hotel industry provide an improving outlook. Crain's Chicago Business reported a dip in Metropolitan Chicago's unemployment rate to 9.4 percent in September of 2010, a decrease from the 10.4 percent unemployment rate in same time last year¹. The Chicago Purchasing Managers reported that the Chicago Business Barometer rose slightly in September compared to the previous month, from 60.4 to 60.6, marking the thirteenth consecutive month of expansion. Moreover, all business and buying policy indexes increased in October².

Future group bookings at McCormick Place and across the Chicago hotel industry show an improvement this fall versus last fall. Interviews with hotel managers indicate that the Chicago hotel industry will continue its rebound in 2011. A macroeconomic recovery in Chicago, which started in 2010, is expected to lead to continued growth in hotel demand for 2011, 2012, and 2013 that exceeds supply growth. Overall, hotel performance is likely to continue to improve year-over-year in the near-term.

¹ "Chicago's jobless rate fell in September," [Crain's Business Chicago](#) 28 October 2010

² "Chicago Business Barometer inched upward," [Institute for Supply Management](#) 29 October 2010

HISTORICAL OVERVIEW OF THE CHICAGO MARKET

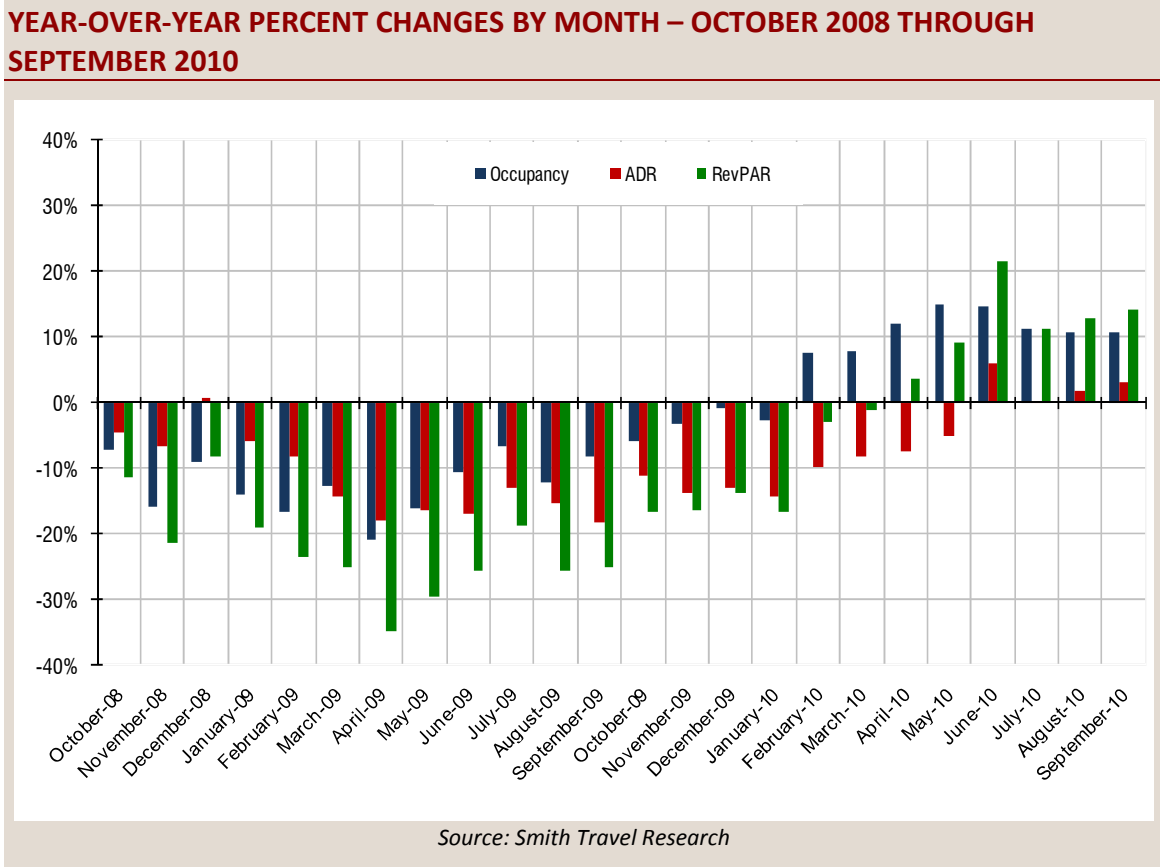
Over the past 23 years, the number of rooms in the Chicago market³ has increased by approximately 42,820 guestroom units from 1987 through the present, or about 66 percent. Most of this development occurred in two distinct periods of industry expansion. Between year-end 1987 and 1993, the market-wide hotel inventory increased by over 16,000 rooms, representing a supply increase of approximately 25 percent over the six-year period. The hotel room supply decreased by roughly 1,200 rooms between year-end 1993 and 1995. A slower, but longer-lasting, expansion period extended from year-end 1995 through 2006, when the hotel inventory grew by almost 22,000 rooms. Supply declined slightly between year-end 2006 and 2007. A third cycle of supply growth began when numerous new hotels opened in 2008 and 2009, increasing supply by more than 6,000 rooms since year-end 2007.

As interest rates declined throughout the late 1980s and early 1990s, supply grew rapidly. Supply then declined after an upward spike in interest rates in 1993 and 1994 before resuming growth in the late 1990s when interest rates began falling again. As loan-to-value ratios increased and interest rates remained low in the period between 2004 and 2007, an additional wave of projects obtained financing. Twenty-eight new hotels opened in 2008 while 14 new hotels opened in 2009. By year-end 2009 there were 107,913 hotel rooms in the metropolitan Chicago market, reflecting a modest increase from the 104,793 hotel rooms at the end of 2008. This new supply growth is partly the result of the relatively inexpensive financing that was available prior to 2008. The pace of supply growth decelerated in 2009 and is expected to decelerate further in 2010 and beyond for at least two to three years.

Demand and supply both exhibit a long-term growth trend in this market. Demand has increased in 17 of the last 22 years in Chicago, while supply has increased in 19 of these years. Although supply growth is expected to be positive each year in the foreseeable future, tighter credit conditions and lower loan-to-value ratios are severely limiting the pipeline of new supply expected to take place in the Chicago market during the next several years.

³ The market includes the city of Chicago and its suburbs in Illinois. There are a total of 845 hotels offering 108,970 rooms, as of 10/22/10.

Beginning in October of 2008, period-over-period RevPAR declines ensued for 18 consecutive months, as the following chart shows. After an unusually long recession, RevPAR finally turned positive in April 2010 for the Chicago market as a whole.

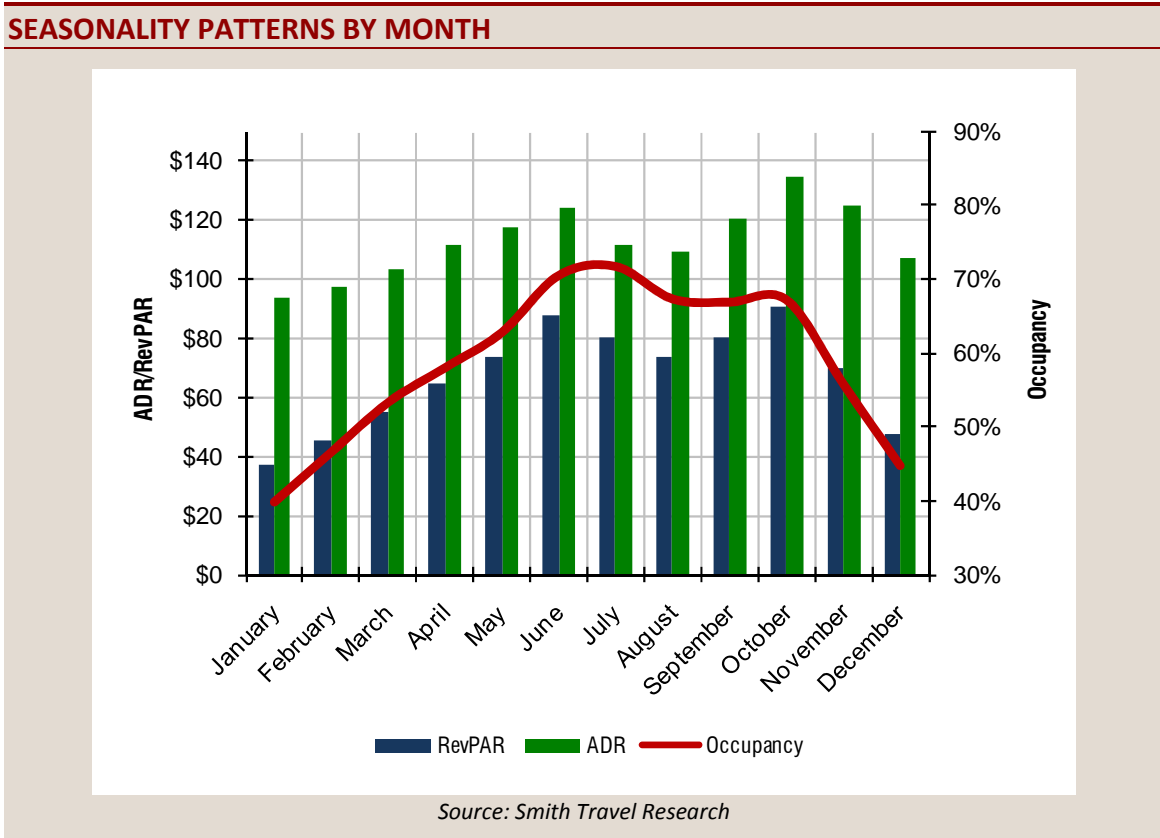


Occupancy fell in every month during 2009; however, occupancy has registered growth every month since February 2010. ADR experienced a decline in every month during 2009 and the first five months in 2010. Finally, ADR began to increase in June and every month since, along with occupancy gains. This has led to significant increases in RevPAR during the second quarter and third quarter of 2010.

SEASONAL PATTERNS

As in many markets, the Chicago hotel industry experiences significant seasonality. Market demand fluctuates somewhat predictably in monthly and weekly patterns

throughout each year. The following chart shows how occupancy levels, ADR, and RevPAR levels have fluctuated from month to month, based on historical monthly average figures during the past 24 months - from October 2008 to September 2010.

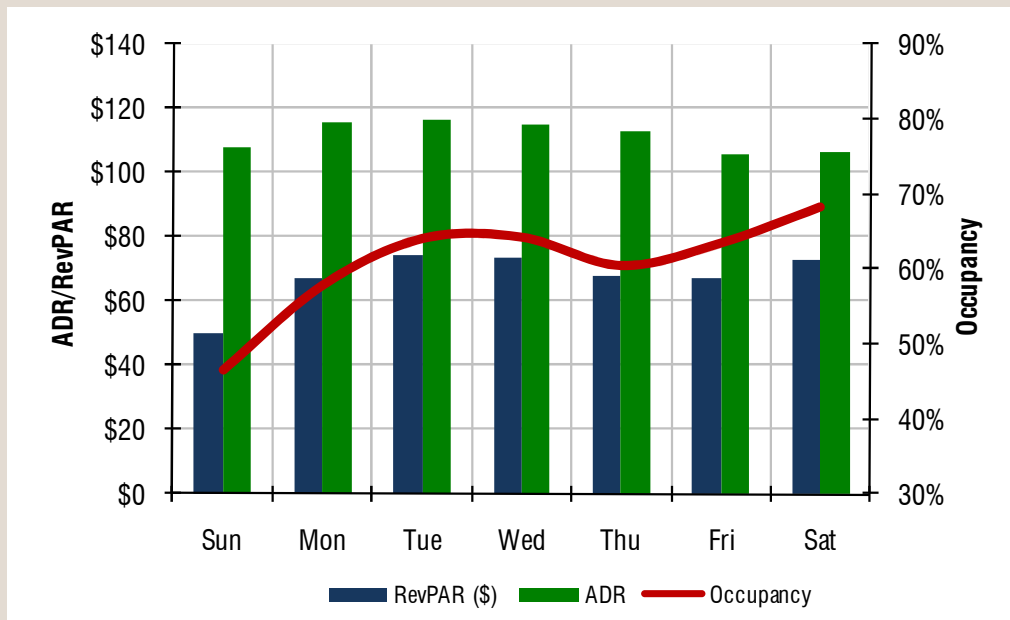


As the preceding chart shows, the summer months of June and July and early fall months of September and October represent the high seasons for the Chicago hotel industry, as measured by RevPAR. During those times of the year, meeting and group demand often peaks, and both commercial and leisure demand levels are also strong. While high occupancies are also attained in May and August, ADR levels during those months are well below those attained in the peak months. The market's low season includes the winter months of December, January, and February, when travel activity throughout all demand segments decreases.

The following chart indicates how occupancy, ADR, and RevPAR levels fluctuate from day to day throughout a typical week in the Chicago market. These figures are based on

average performance data from the period between October 2009 and September 2010.

DAY OF WEEK PATTERNS



Source: Smith Travel Research

Chicago area hotels typically attain the highest RevPAR levels on Tuesday and Wednesday, reflecting the importance of the commercial transient and corporate group demand segments. In recent years, RevPAR has also been strong during weekend periods, reflecting Chicago’s growing appeal as an affordable tourism destination. Chicago hotels typically exhibit their lowest occupancies on Sunday nights, when demand throughout all segments is weak.

TRENDS IN SUPPLY

After several years of slow or negative supply changes in Chicago, there has been a modest introduction of new supply in 2008 and 2009. During 2008, a total of 28 new hotels opened and during 2009 a total of 14 new hotels opened. However, due to the most recent economic recession and tighter lending standards for commercial real estate developers, supply growth has stalled somewhat thus far in 2010. Only five new

hotels have opened this year, namely, the Hotel Palomar, Hyatt Place Warrenville, Hyatt Summerfield Suites Warrenville, Hampton Inn Yorkville, and JW Marriott Chicago.

From 2004 to 2010, a total of 68 new hotels have opened or reopened in Chicago, representing 12,484 hotel rooms. During the same period, 43 hotels have closed, representing 4,719 hotel rooms. The following table shows the most recent supply changes, both openings and closings, occurring in 2009 and 2010.

RECENT CHANGES IN CHICAGO'S HOTEL ROOM SUPPLY FROM 2009 TO 2010

Name of Hotel	City & State	No. of Rooms	Opening Date	Closing Date
Candlewood Suites Chicago Aurora	Aurora, IL	83	Feb 2009	--
Holiday Inn Express & Stes Lake Zurich Barrington	Lake Zurich, IL	86	Mar 2009	--
Holiday Inn Express & Stes Chicago W OHare Airport	Hillside, IL	135	Mar 2009	--
Hotel Felix	Chicago, IL	225	Mar 2009	--
Hampton Inn Suites Chicago Southland Matteson	Matteson, IL	91	Apr 2009	--
La Quinta Inn & Suites Chicago Downtown	Chicago, IL	241	Apr 2009	--
Comfort Suites Grayslake	Grayslake, IL	108	May 2009	--
Doubletree The Wit	Chicago, IL	298	May 2009	--
Comfort Suites Chicago	Chicago, IL	119	May 2009	--
Candlewood Suites Elgin Northwest Chicago	Elgin, IL	83	Jun 2009	--
Hampton Inn Suites Chicago Deer Park	Deer Park, IL	104	Jul 2009	--
Hampton Inn Suites Chicago Libertyville	Libertyville, IL	96	Jul 2009	--
aloft Hotel Bolingbrook	Bolingbrook, IL	155	Oct 2009	--
Elysian Chicago	Chicago, IL	188	Dec 2009	--
Kimpton Hotel Palomar Chicago	Chicago, IL	261	Mar 2010	--
Hyatt Place Chicago Naperville Warrenville	Warrenville, IL	123	May 2010	--
Hyatt Summerfield Suites Chicago Naperville Warrenville	Warrenville, IL	123	May 2010	--
Hampton Inn Yorkville	Yorkville, IL	77	May 2010	--
Marriott JW Chicago	Chicago, IL	610	Nov 2010	--
Independent Econo Motel	Niles, IL	(49)	--	Jan 2009
Independent Grand Motel West	Chicago, IL	(110)	--	May 2009
Super 8 Franklin Park OHare Chicago	Franklin Park, IL	(87)	--	Aug 2009
Independent Super Motel	Chicago, IL	(53)	--	Aug 2009
Independent Diplomat Hotel	Chicago, IL	(95)	--	Oct 2009
Wyndham Drake Oak Brook	Oak Brook, IL	(160)	--	Nov 2009
Sheraton Hotel Chicago Northwest	Arlington Heights, IL	(426)	--	Jan 2010
Wyndham OHare Airport Rosemont	Rosemont, IL	(466)	--	Jan 2010
Knights Inn North Chicago	North Chicago, IL	(84)	--	Apr 2010
Net Change in Room Supply (past 2 years)		1,676		

Sources: HVS, Smith Travel Research

The development of new hotels does not always lead to a corresponding increase in overall room supply. As newer, better hotels enter a market, lower-rated or inferior

hotels and motels may experience significant downward pressure on room rates. This, combined with functional or economic obsolescence, can lead to the decision to close such properties, thereby reducing room supply in the market area. Alternatively, changes in the highest and best use of land can lead to conversions of hotels into other uses. In the Chicago market, the openings and closings shown in the preceding table resulted in a net gain of 1,676 guest rooms during the past two years.

NEW CONSTRUCTION & EXPANSIONS PLANNED

A total of eleven new hotel properties, representing 1,896 rooms, are expected to open between 2011 and 2013. The anticipated new supply indicates a mix of upscale boutique and nationally branded hotels as well as independently branded upscale properties. Significant barriers to entry, including increasing energy costs, a lack of available sites, and tightened credit markets continue to be key factors when considering construction of new hotels in the Chicago market. The following table sets forth the number of new rooms that are anticipated to become available through year-end 2013.

SUPPLY IN PIPELINE FROM 2011 TO 2013

Name of Hotel	City & State	Opening Date	Number of Rooms	Development Phase
Ambiance Suites	Midlothian, IL	Spring 2011	33	Under Construction
Wrigleyville Hotel	Chicago, IL	Spring 2011	42	Under Construction
Best Western	Zion, IL	Mid 2011	84	Under Construction
Radisson Blu Hotel	Chicago, IL	Late 2011	334	Under Construction
Hampton Inn & Suites	Mount Prospect, IL	Late 2011	120	Pre Construction
Harper Court Hotel @ U of C	Chicago, IL	Mid 2012	150	Pre Construction
Modern Hotel	Chicago, IL	Mid 2012	335	Pre Construction
Cambria Suites	Schaumburg, IL	Mid 2012	139	Pre Construction
aloft	Chicago, IL	Spring 2013	272	Under Development
Fairfield Inn & Suites	Chicago, IL	Spring 2013	179	Under Development
Hyatt Place	Chicago, IL	Spring 2013	208	Under Development
Net Increase			1,896	

**as of November 2010*

Sources: HVS, Smith Travel Research, Chicago Area Tourism Bureaus

Additional properties are in the late planning stages, although we do not expect them to open by 2013. These projects include the following:

- Grand Imperial Hotel (170 rooms)
- Hyatt Place West Loop (170 rooms)
- Addison Park on Clark (137 rooms)
- Hotel Castillo on Ohio (105 rooms)
- Navy Pier Hotel (300 rooms)
- Hyatt McCormick Expansion (400 – 600 rooms)

Numerous additional hotel projects are in early planning phases or have not yet obtained financing. However, it is unlikely that such projects will be realized before the end of 2013. Rather, these projects will most likely appear in subsequent forecasts of supply changes that extend into future years beyond 2013. HVS has identified five additional hotels and one expansion of an existing property in the early planning process, some of which have not yet made final branding determinations. These hotels would represent new supply in the range of 1,282 to 1,482 additional hotel rooms.

HVS projects a compounded annual growth rate in supply of between -0.1 percent and 0.8 percent during the four-year period between year-end 2010 and year-end 2013. Based on an evaluation of which projects are under construction or being planned, HVS provides the following forecast of supply changes in the Chicago market.

SUPPLY CHANGES – OPENED, UNDER CONSTRUCTION, OR PLANNED

Year	Status	Total Rooms Available	New Projects Open/Under Construction	Room Supply Change	Percent Change
2005	Actual	101,549	—	—	—
2006	Actual	101,598	—	49	0.0%
2007	Actual	101,531	—	(67)	-0.1%
2008	Actual	104,793	—	3,262	3.2%
2009	Actual	107,913	—	3,120	3.0%
2010	Forecast	107,854	—	(59)	-0.1%
2011	Forecast	108,701	5	847	0.8%
2012	Forecast	109,382	3	680	0.6%
2013	Forecast	110,188	3	806	0.7%
Total Change (2005 - 2009)				6,363	
Total Change (2010 - 2013)				2,275	
Average Annual Compound Change (2005 - 2013)					1.0%

Sources: HVS, Smith Travel Research, Chicago Area Tourism Bureaus

Eleven new hotels are under construction or under development and scheduled to open between 2010 and 2013. However, there are a number of projects that had once planned to open in 2012 and 2013 that have recently been stalled. Should any of these projects resume in the end of 2010 or beginning of 2011, there may be additional supply growth in 2012 and 2013. Taking a longer view, the average change in supply from year-end 2005 through year-end 2013 is forecast to be approximately 1.0 percent annually.

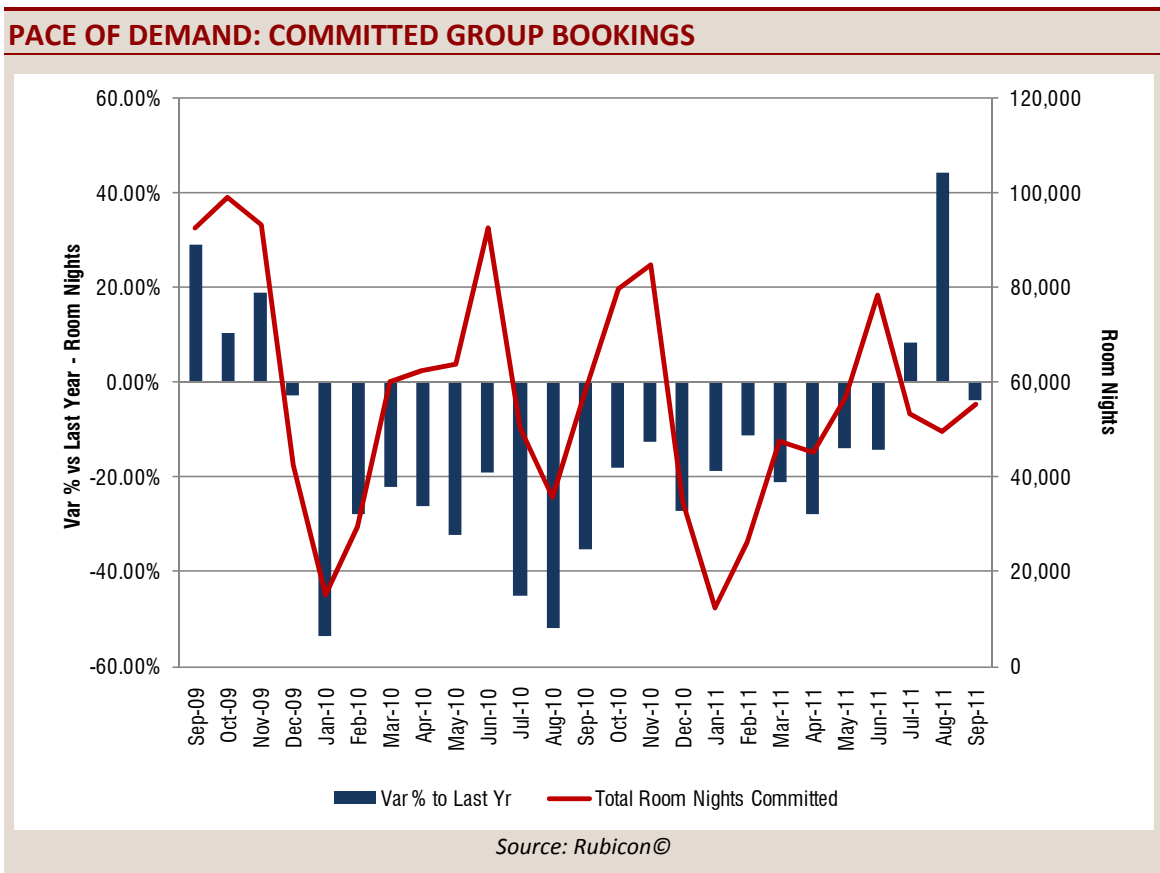
NEAR-TERM DEMAND FACTORS

Several near-term demand factors will significantly affect the outlook for Chicago hotels during the next four years. Recently, HVS surveyed the general managers of Chicago area hotels to determine which near-term demand factors they consider to be most important for the industry.

Future Booking Demand Data

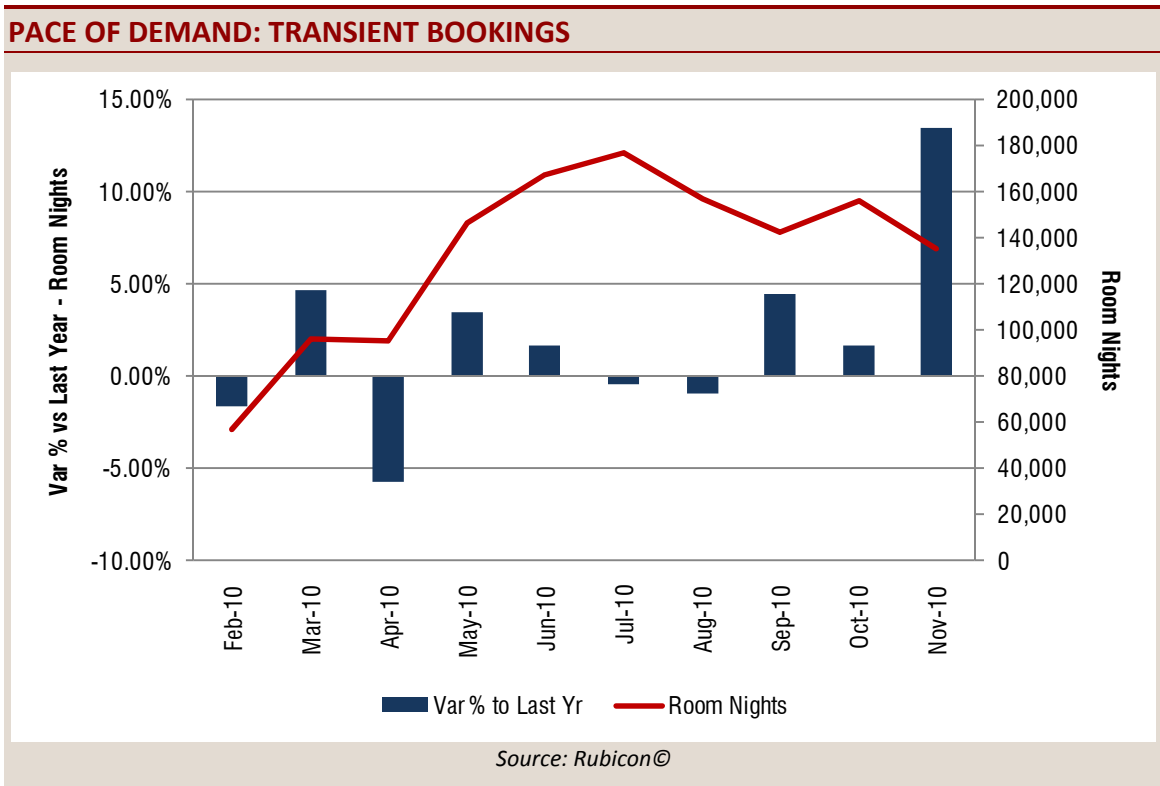
Booking trends are strengthening across all demand segments, according to interviews with hoteliers. Commercial, leisure, and in-house group demand are all showing very rapid recovery, even though convention group bookings are still sluggish. Furthermore, the first sign that the group booking windows are beginning to expand again appeared in July and August of 2010, after 19 consecutive months of shrinking booking windows for the group segment.

One of the most reliable and comprehensive sources of future booking data is Rubicon. Combined with HVS survey data from individual hoteliers, the Rubicon future booking data provides a key insight into the near-term prospects for transient and group room night demand. One indication of how much group room night demand will occur in 2011 is the number of group room nights committed in 2010 for events taking place in 2011. The following graph shows the percentage change in room nights committed one year in advance, over the same month in the previous year through September 2011.



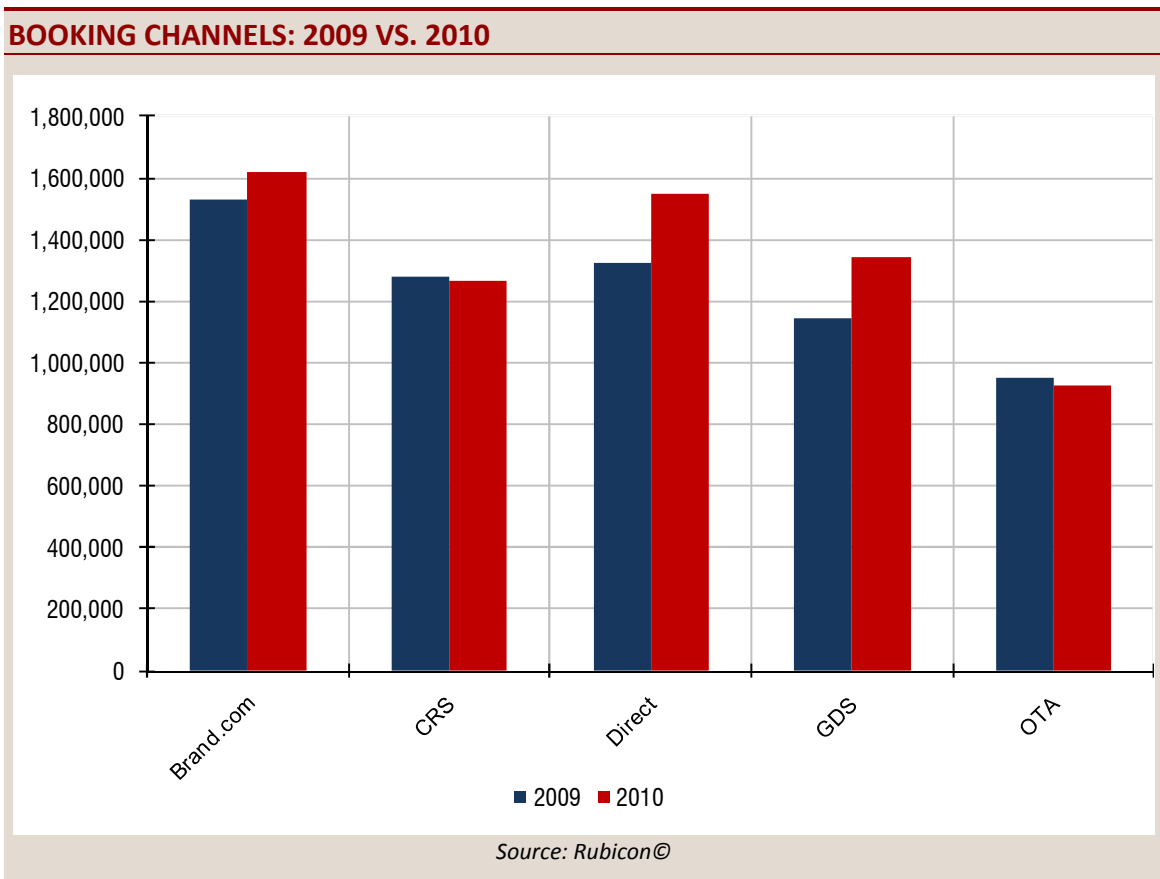
As illustrated in the preceding chart, the outlook for group room night demand finally improved in July and August of 2010, for the one-year booking window. These positive changes come after 19 months of consecutive declines and may be a possible indication that group demand will start to rebound in the second half of 2011.

The following chart illustrates the pace of demand in transient bookings, using room nights booked by the first day of the month prior, instead of the year-in-advance period shown for group bookings. This advance booking period is a more appropriate indicator for transient demand since most individual travelers do not book their travel more than one month in advance. The chart shows the percentage change in transient room nights booked by January 1st of 2010 for the month of February of 2010 compared to transient room nights booked by January 1st for the month February of 2009, and so forth through October of 2010.



The near-term outlook for transient room night demand finally improved in August, September, and October for bookings in September, October, and November of 2010. These positive changes may be an indication that transient demand is starting a more sustainable growth period during the second half of 2010 after a period of fluctuating demand in this segment.

The following chart shows the total room nights booked through December of 2011 as of October 1st 2010 compared to bookings through December 2010 as of October 1st in 2009, segmented into five major booking channels: CRS (booked through the central reservations office of the hotel company), Brand.com (booked directly on the hotel company’s web site), Direct (booked directly with the property), GDS (booked through a global distribution travel agent systems), and OTA (booked through a third party Online Travel Agency).

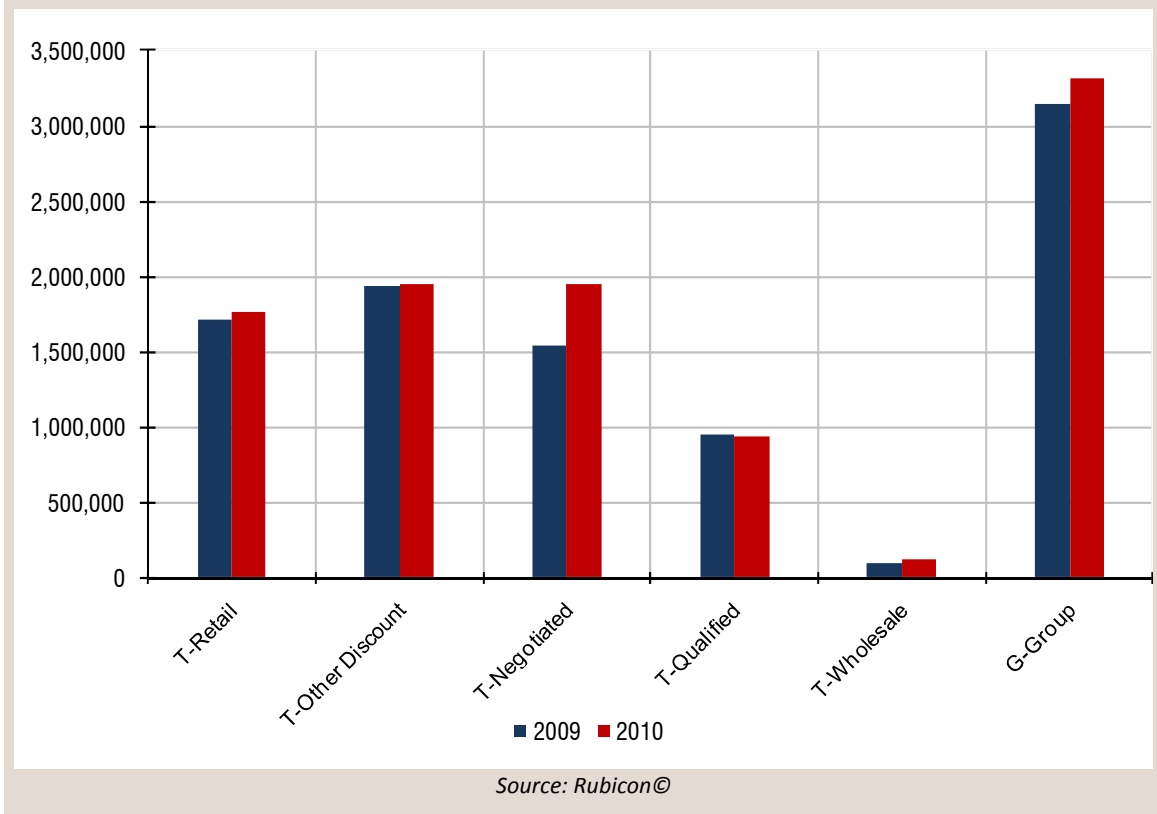


As more brands begin offering guarantees that the lowest available rates are offered only on their websites, this channel has gained market share. Similarly, the Online Travel Agency channel has lost market share.

The following chart shows the segmentation of total room nights booked through December of 2011 as of October 1st 2010 compared to booking through December 2010

as of October 1st 2009, grouped into six market segments. Transient demand is divided into five segments: retail/rack rate, negotiated (under corporate contracted rates), qualified (affiliation discounts), wholesale, and other discounts (packages, promotions).

SEGMENTATION: 2009 VS. 2010



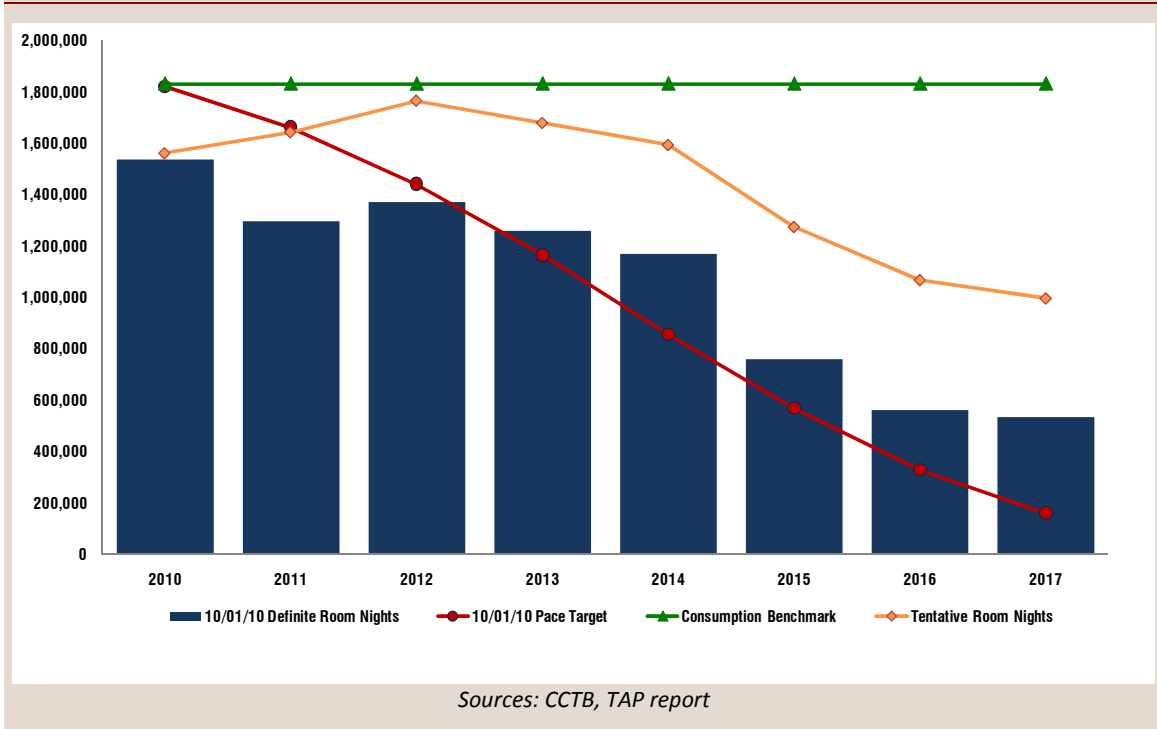
The group segment represents the largest segment with more than 3.1 million group room nights in 2009 and more than 3.3 million room nights in 2010 according to Chicago hotels that participate with Rubicon. Four out of five transient segments experienced increased demand in 2010 over 2009 — retail, other discount, negotiated, and wholesale. Total committed group bookings have increased 5.3 percent from 2009 to 2010, while all transient segments increased 23.2 percent from 2009 to 2010, demonstrating that those hotels most reliant on group business may experience slightly higher demand levels than those properties focused primarily on transient business.

Chicago Convention & Tourism Bureau

The primary marketing organization for the Chicago hotel industry is the Chicago Convention and Tourism Bureau (CCTB). One of the organization's primary goals is to attract out-of-town groups, requiring large blocks of hotel rooms, to Chicago. The Chicago hotel industry depends significantly on these "citywide" events and other group-oriented room nights sold by the CCTB. Even hotels that primarily target transient corporate or leisure travelers benefit from large volumes of demand in the group segment because fewer rooms are available to serve transient guests when certain hotels commit their rooms to large groups.

The CCTB tracks the advance room nights booked by the CCTB for 2010 through 2017, and compares these actual bookings to a "pace target" in each year. If actual bookings (blue bars) equal the pace target (red line), this would be an indication that the eventual bookings in a given year would equal the consumption benchmark (green line). The following table shows the definite room nights booked by the CCTB through October 1st of 2010 and how it compares to the pace target to meet the consumption benchmark of almost 1.85 million room nights annually.

ROOM NIGHTS BOOKED BY CHICAGO CONVENTION AND TOURISM BUREAU



The definite room nights for 2011 and 2012 indicate that the CCTB may not be able to match the consumption benchmark set for 2010. However, looking beyond 2012, the definite room night bookings appear to be ahead of the 2010 consumption benchmark. This suggests that the citywide event demand is lagging the economic recovery, which is typical in many business cycles.

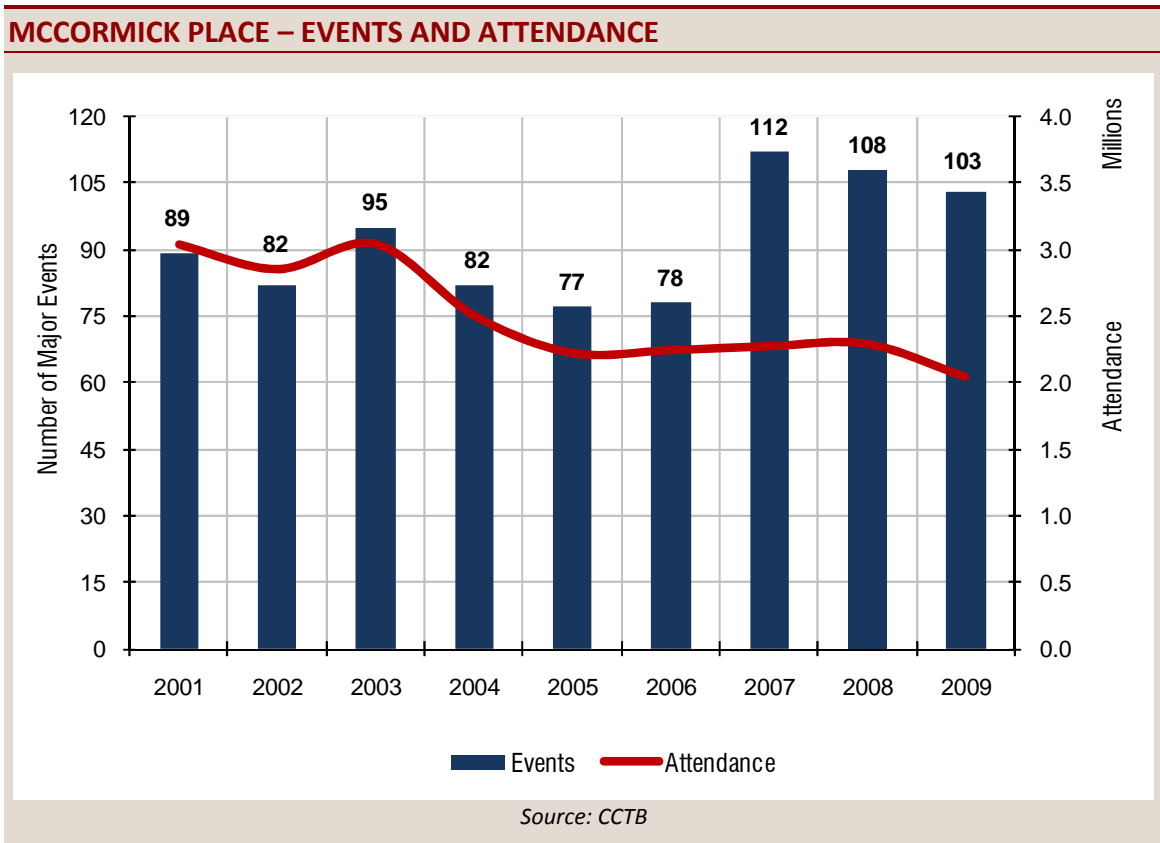
Although group demand from citywide events has softened this year in the Chicago market, several hoteliers we interviewed indicate a strong rebound in demand from in-house groups. As in-house group demand continues to strengthen and as citywide demand begins to improve, we anticipate that hoteliers will begin to experience more pricing power in the near-term.

McCormick Place

McCormick Place is the largest convention center in the United States, offering 2.7 million square feet of exhibition space. The convention center consists of four major buildings: the North and South Buildings, the Lakeside Center, and the newly opened

McCormick West Building. Originally built in 1960, McCormick Place has been an important factor in making Chicago one of the world’s premier destinations for major conventions and tradeshow.

The West Building opened in August, 2007. This most recent expansion of the convention center offers an additional 460,000 square feet of exhibition space, a 100,000-square-foot ballroom, and 250,000 square feet of additional meeting space in 61 rooms. The new facility targets mid-sized conventions and tradeshow, which allows Chicago to host multiple conventions simultaneously during periods of peak demand. The following chart shows recent trends in demand, measured by the number of major events and attendance, at McCormick Place, as reported by the CCTB.



Since the expansion of McCormick Place in 2007, the number of events hosted at the convention center increased significantly; however, due to the most recent recession,

the number of events held decreased between 2007 and 2009. The new West Building allows McCormick Place to host smaller conventions and meetings that historically have not been booked in Chicago, as well as simultaneous conventions and tradeshow. In 2009, McCormick Place hosted 103 events, drawing modestly less total attendance than in 2008. The number of events hosted each year at McCormick Place is expected to fluctuate in the near-term, but remain above historical levels, as the new facility stabilizes and the economy recovers from the recession.

Airport & Destination Travel Trends

Chicago benefits from one of the world’s busiest airports; O’Hare International Airport served approximately 64.4 million passengers in 2009. Midway International Airport, on Chicago’s southwest side, served an additional 17.1 million passengers in 2009. The following table shows the total number of passengers served by O’Hare and Midway from 2004 through September of 2010.

CHICAGO AIRPORT PASSENGER TRAFFIC STATISTICS				
Year	O’Hare Passenger Traffic	Percent Change*	Midway Passenger Traffic	Percent Change*
2004	75,534,692	—	19,719,667	—
2005	76,581,146	1.4%	17,862,838	-9.4%
2006	76,282,212	-0.4%	18,868,388	5.6%
2007	76,182,025	-0.1%	19,378,855	2.7%
2008	70,819,015	-7.0%	17,345,635	-10.5%
2009	64,397,782	-9.1%	17,089,365	-1.5%
<i>Year-to-date, September</i>				
2009	48,690,937	—	12,790,611	—
2010	50,582,768	3.9%	13,287,463	3.9%
*Annual average compounded percentage change from the previous year				
<i>Source: Chicago Department of Aviation</i>				

Although O’Hare and Midway experienced a decline in passenger traffic during 2009, the year-to-date figures through September of 2010 show modest increase to year-to-date figures from 2009, with a four percent increase in both O’Hare and Midway traffic.

Moreover, the O’Hare Modernization Program (“OMP”) will spend \$6.6 billion to reconfigure O’Hare’s runways to significantly increase capacity and reduce delays in all weather conditions at O’Hare International Airport. Federal approvals and funding are already in place for the program. Construction began in 2007 and will be continued through 2014.

Industry survey data from priceline.com supports the importance of Millennium Park as a destination. Every year before the Memorial Day holiday, priceline.com releases the results of a survey of customers booking hotel rooms through its website. The survey indicates which neighborhoods are the top destinations for travelers using priceline.com to search for hotel rooms across the country. The following table shows the top five destinations in the U.S. during the past three years.

TOP FIVE MEMORIAL DAY DESTINATIONS ON PRICELINE.COM

Rank	2008	2009	2010
1	NYC - Times Square, Theater District	Las Vegas - Strip South	Chicago - Millennium Park, Loop, Grant Park
2	Las Vegas - Strip South	NYC - Chelsea Area	Chicago - River North, Michigan Ave.
3	Chicago - Millennium Park, Loop, Grant Park	NYC - Times Square, Theater District	NYC - Times Square, Theater District
4	Las Vegas - Strip North	Boston - Copley Square/Theater District	San Francisco - Union Square West, Nob Hill
5	Chicago - River North, Michigan Ave.	Chicago - Millennium Park, Loop, Grant Park	Seattle - Downtown, Pike Place

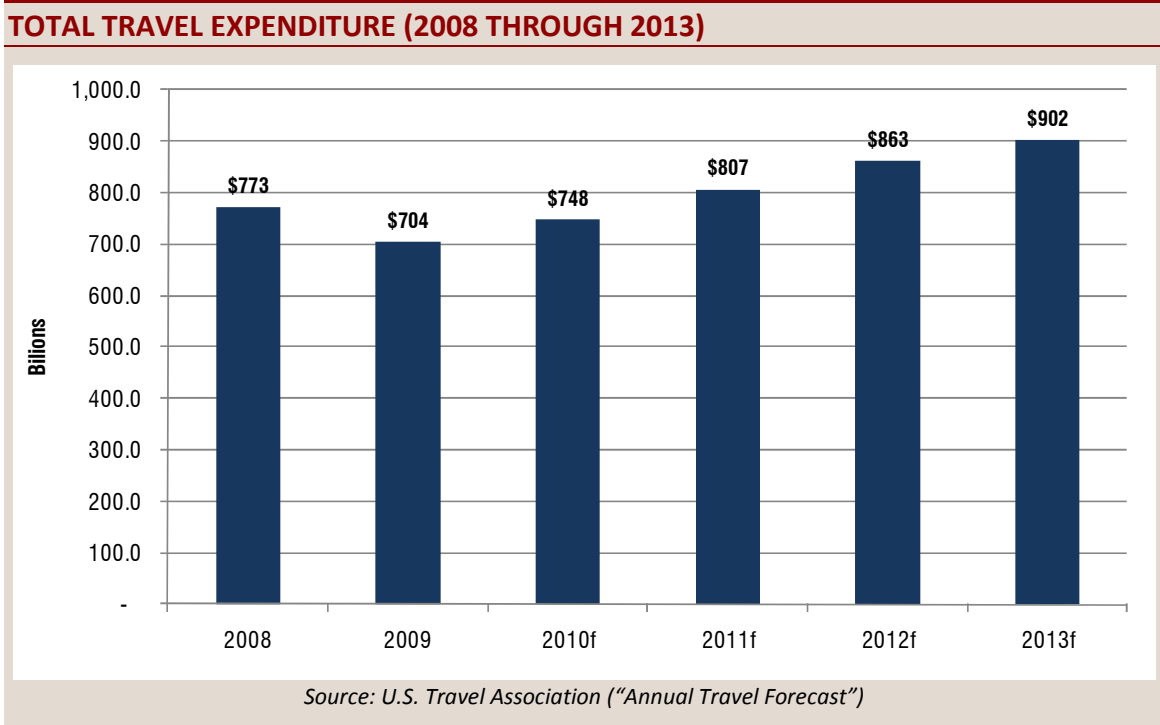
Source: Annual survey by priceline.com

Although Chicago’s Millennium Park, Loop, and Grant Park became the top neighborhood destination in the country for the Memorial Day holiday weekend during 2006 and 2007, it dropped to the third place and fifth place during 2008 and 2009, respectively. However, in 2010, this destination was ranked first, followed by Chicago’s River North and Michigan Avenue, in the top five Memorial Day destinations identified by priceline.com, reflecting Chicago’s overall destination appeal.

National Travel Industry Trends

As with prior recessions, during the early 1980’s, 1990’s, and 2000’s, the performance of the travel industry correlates with overall economic conditions. Travel demand and hotel demand are closely related. Therefore, future travel demand forecasts may serve as one indicator for future hotel demand. While travel industry trends differ from region

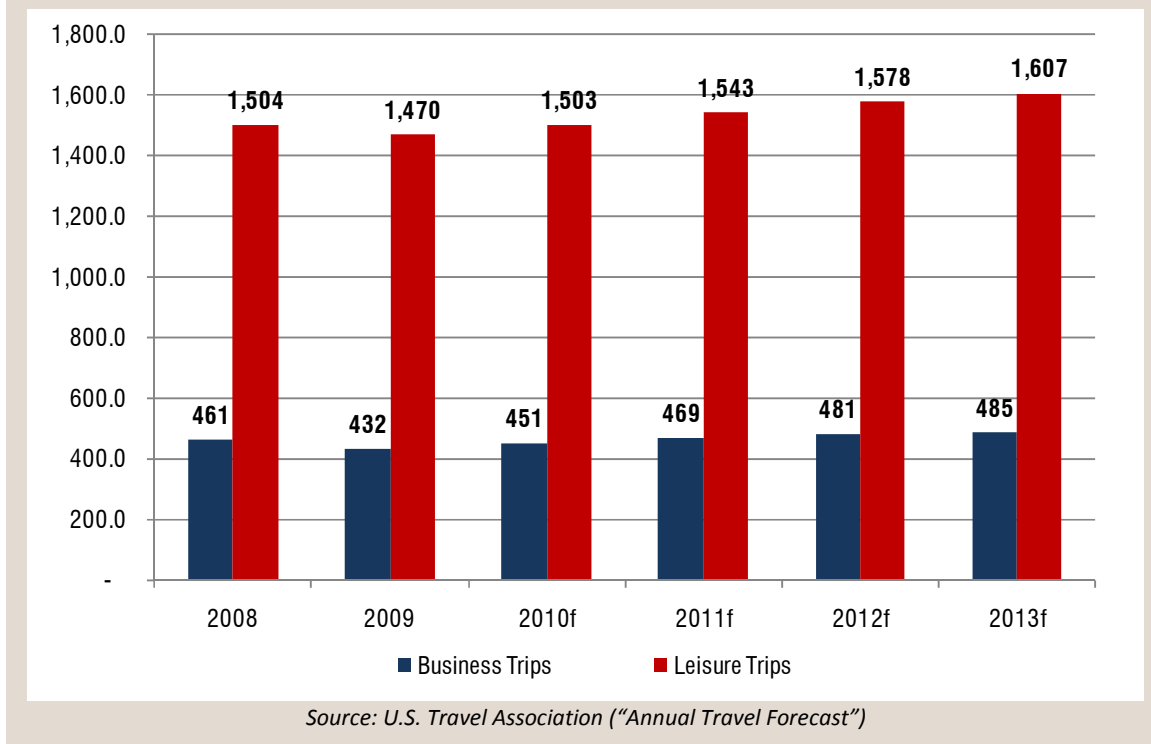
to region, overall national statistics provide an indication of growth or decline. The United States Travel Association tracks passenger traffic and travel expenditures for the country. The following table shows historical, projected, and forecasted travel price indexes, as well as total travel expenditures in the United States.



Data from 2009 shows total travel expenditures of approximately \$704 billion. The forecast for 2010 shows travel expenditures increasing to \$748 billion, representing an annual incline of six percent. Near-term forecasts indicate continued growth in travel expenditures in 2011 and beyond. Total travel expenditures are forecasted to recover to above 2008 levels by 2011.

In addition to expenditures, another measure of travel demand is the number of trips people take each year. The U.S. Travel Association tracks two basic categories of trips for leisure and business travel in the country. The following figure shows the number of person trips taken in each of these two categories during the past two years as well as forecasts for 2010 through 2013.

TOTAL DOMESTIC PERSON TRIPS (MILLIONS)



Business and leisure travel are both expected to continue modest growth in 2011, with business travel rebounding more quickly. Leisure travel is expected to exceed its previous 2008 level in early 2011. Moreover, business travel is expected to rebound to its 2008 level in 2011 as well.

Fortune Ranked Companies

The following table shows the Fortune 500 companies located in the Chicago metro area, including suburbs, in 2010.

FORTUNE 500 COMPANIES IN CHICAGO METRO AREA - 2010

Company	Fortune 500 Rank	Revenues (\$millions)	City
Archer Daniels Midland	27	69,207	Decatur
Boeing	28	68,281	Chicago
Walgreen	32	63,335	Deerfield
State Farm Insurance Cos.	34	61,480	Bloomington
Sears Holdings	48	44,043	Hoffman Estates
Kraft Foods	53	40,386	Northfield
Caterpillar	66	32,396	Peoria
Allstate	68	32,013	Northbrook
Abbott Laboratories	75	30,765	Abbott Park
Deere	107	23,112	Moline
McDonald's	108	22,745	Oak Brook
Motorola	110	22,063	Schaumburg
Exelon	134	17,318	Chicago
UAL	140	16,335	Chicago
Illinois Tool Works	169	13,904	Glenview
Sara Lee	180	12,881	Downers Grove
Baxter International	185	12,562	Deerfield
Navistar International	202	11,569	Warrenville
R.R. Donnelley & Sons	240	9,857	Chicago
Discover Financial Services	286	7,986	Riverwoods
Aon	298	7,595	Chicago
Integrus Energy Group	302	7,500	Chicago
OfficeMax	313	7,212	Naperville
W.W. Grainger	349	6,222	Lake Forest
Fortune Brands	351	6,205	Deerfield
Smurfit-Stone Container	374	5,574	Chicago
Telephone & Data Systems	416	5,021	Chicago
Anixter International	422	4,982	Glenview
United Stationers	439	4,710	Deerfield
Tenneco	446	4,649	Lake Forest
Northern Trust Corp.	497	4,193	Chicago

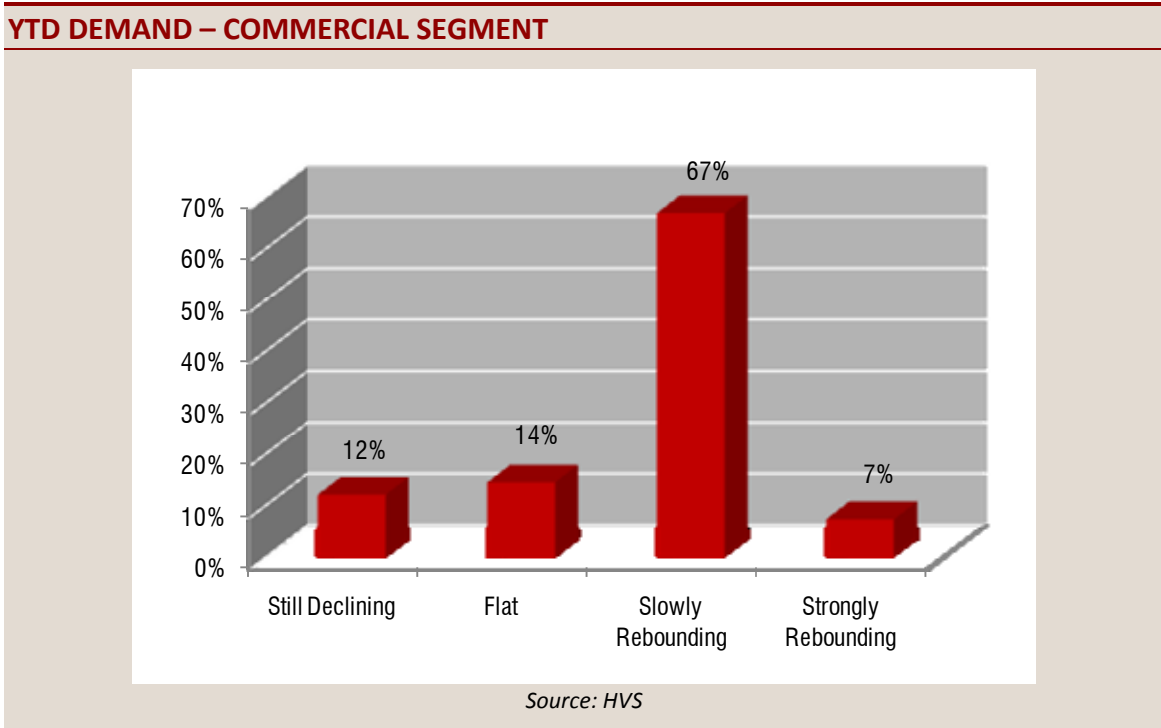
Source: Fortune Magazine

In 2010, there were 31 Fortune 500 companies in the Chicago metro area, compared to 32 in 2009, 33 in 2008, and 33 in 2007. One company, namely the Brunswick, dropped out of the list in 2010, due to the sharp decline in revenues in comparison with the previous year. Nonetheless, the large number of Fortune 500 companies in the Chicago metro area continues to act as a positive demand factor for Chicago hotels.

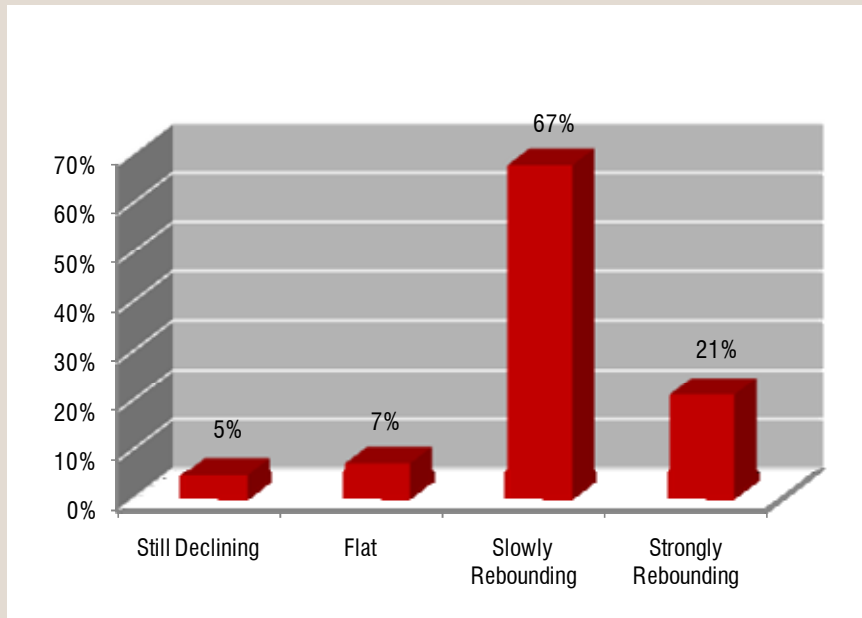
HVS ANNUAL HOTEL MANAGER SURVEY

During the third quarter of 2010, HVS surveyed hotel managers in Chicago to obtain insights about the hotel industry in Chicago.

The following five charts illustrate the year-to-date demand change compared to the same time last year in five demand segments, namely the commercial, leisure, meeting & group, extended stay, and government.

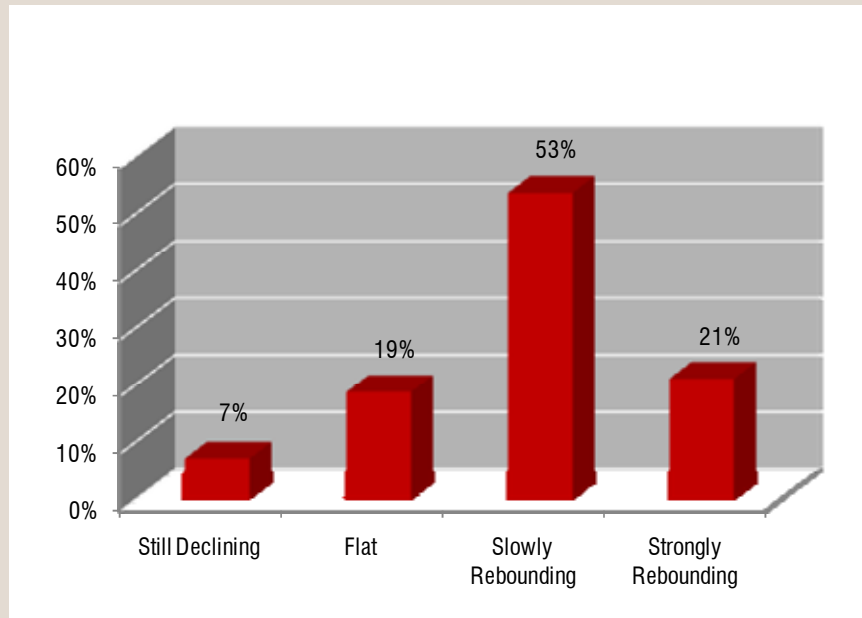


YTD DEMAND – LEISURE SEGMENT



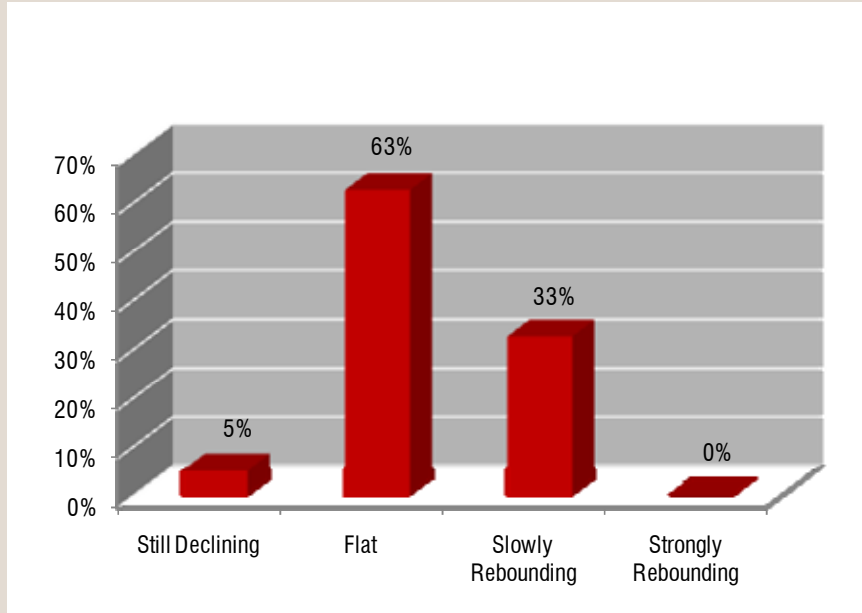
Source: HVS

YTD DEMAND – MEETING & GROUP SEGMENT



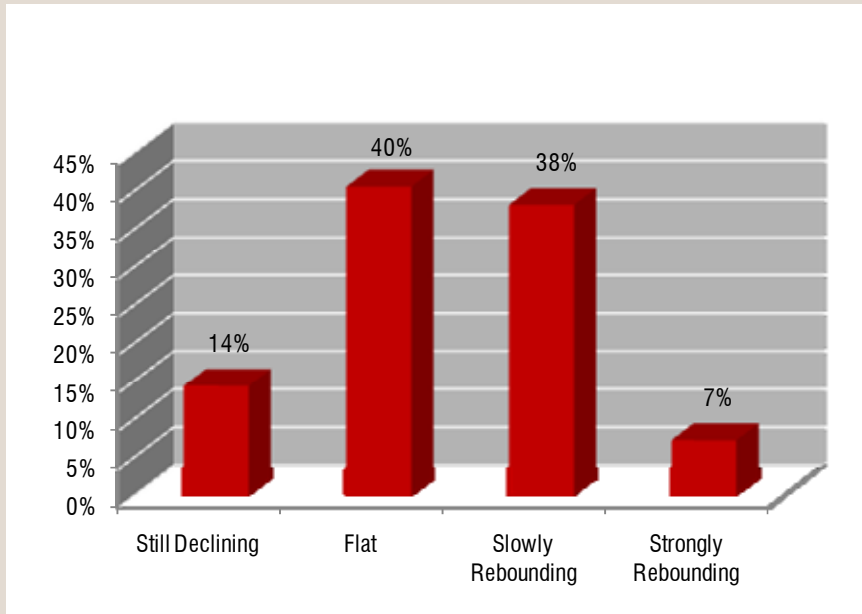
Source: HVS

YTD DEMAND – EXTENDED STAY SEGMENT



Source: HVS

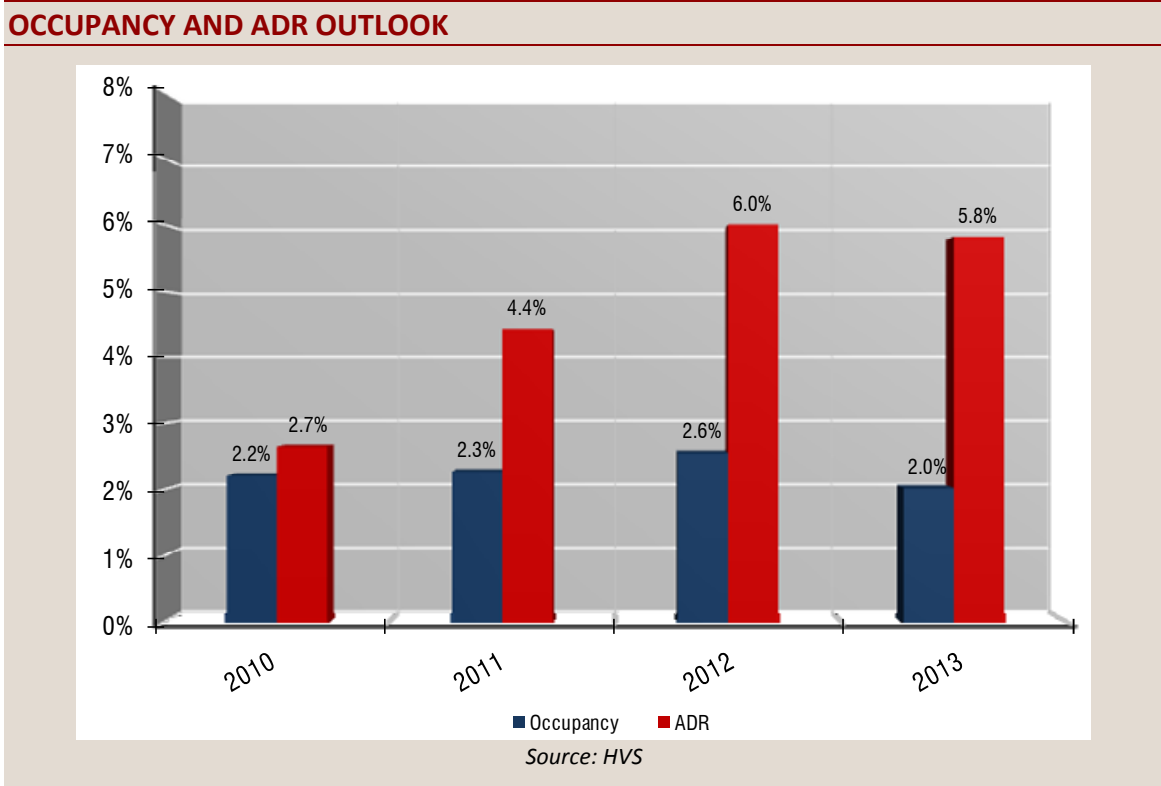
YTD DEMAND – GOVERNMENT SEGMENT



Source: HVS

Although hoteliers are generally optimistic about demand growth, they are clearly experiencing growth in the commercial and leisure segments. Most hoteliers are also experiencing growth in the meeting and group segment, primarily due to increases in in-house group demand. However, the extended-stay and government segments are still experiencing slower recovery prospects.

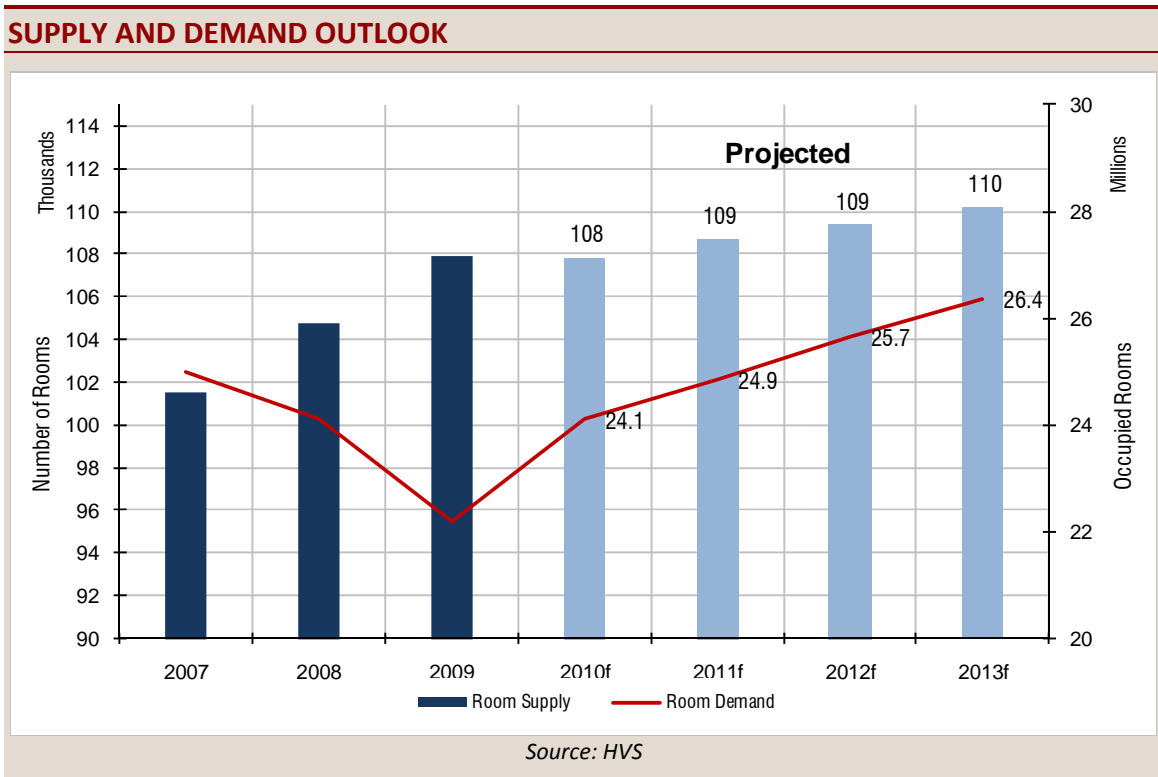
The following figure illustrates what percentage of occupancy and rate will increase during each of the next four years compared to the previous years, according to the survey participants.



As illustrated in the previous chart, the survey participants forecast a market-wide occupancy growth between 2.0% and 2.6% with average rate growth between 2.7% and 6.0%, from year-end 2010 to 2013.

INDUSTRY OUTLOOK

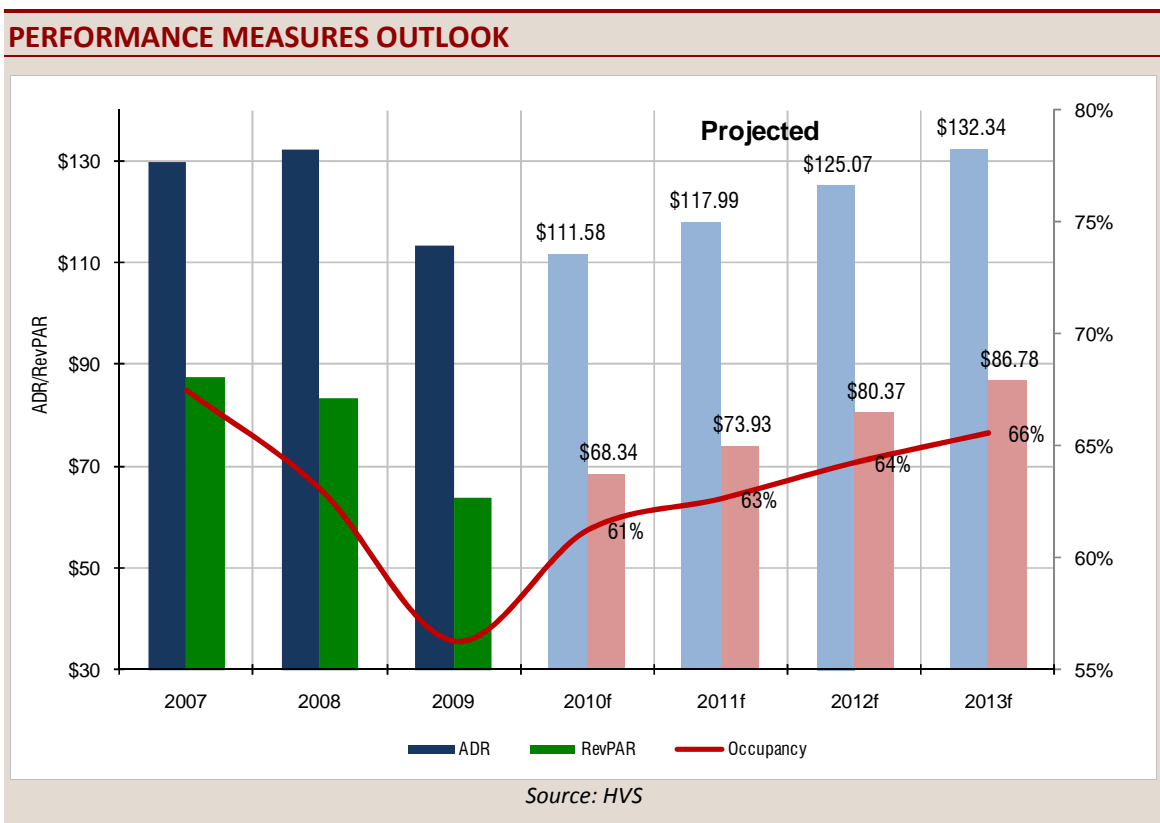
The following chart presents historical trends and our near-term forecast of room supply and demand for the Chicago hotel market through 2013.



Based on the survey findings and additional market research, demand trends are expected to increase beginning in 2010. After a small dip in 2010, supply will continue to increase as several projects currently planned or under construction reach completion by the end of 2013. During the period between year-end 2010 and year-end 2013, HVS projections show annual supply growth rates that range between negative 0.1 percent and 0.7 percent. In 2010, demand is expected to grow at much higher pace than supply. Moreover, HVS expects this trend to continue for the next three years of our forecast, but supply growth slowly catching up to demand growth. Therefore, occupancies are likely to rebound in 2010 and further increase through 2013. This is consistent with survey data that we collected from the hoteliers in Chicago.

An evaluation of near-term projects indicates that hotel room supply in the market will increase from 107,854 rooms at the end of 2010 to approximately 110,188 by the end of 2013. During the same period, we project demand will increase from about 24.1 million room nights in 2010 to approximately 26.4 million room nights in 2013.

The following chart presents historical trends and our near-term forecast of occupancy, ADR, and RevPAR for the Chicago hotel industry through 2013.



After continued supply growth and significant drops in demand in 2008 and 2009, demand has started to rebound during 2010. During the next three years until 2013, growth in demand is projected to outpace growth in supply. As a result, occupancies are expected to increase in the near-term. As occupancies recover, ADR growth should follow. By year-end 2013, ADR is projected to be slightly above the previous nominal peak level achieved in 2008, and a market-wide occupancy of 65.6 percent is projected to be slightly below 2007's peak occupancy of 67.5 percent. Therefore, RevPAR is

expected to reach approximately \$87 in 2013, slightly below its previous peak of \$88 set in 2007.

RevPAR is expected to increase more than seven percent in 2010, driven by strong growth in occupancy. In 2011, RevPAR is projected to experience even higher RevPAR growth, as occupancy grows slightly and rate grows close to six percent. Moreover, substantial RevPAR increases are projected in 2012 and 2013 as average daily rates increase significantly and occupancies continue to rebound.

Demand, supply, and performance projections may not be met if any significant shocks to the economy occur or if the anticipated economic recovery does not occur. Therefore, projections are subject to change.

ABOUT THE AUTHORS



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About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company offers a comprehensive scope of services and specialized industry expertise to help you enhance the economic returns and value of your hospitality assets.

Because hotels represent both real property and operating businesses, the founding partners of HVS decided to develop the first comprehensive valuation methodology for appraising these specialized assets. Their initial textbook on this topic entitled, The Valuation of Hotels and Motels, published by the Appraisal Institute, created the industry standard for valuing hotels and is now used by virtually every appraiser around the world. HVS continues to be at the forefront of hotel valuation methodology, having published six textbooks and hundreds of articles on this subject, which are used in appraisal courses and seminars and at leading hotel schools such as Lausanne, IMHI, and Cornell. HVS associates are constantly called upon to teach this methodology to hotel owners, lenders, and operators and to participate at industry conferences. HVS principals literally 'wrote the book' on hotel valuation, which significantly enhances the credibility and reliability of our conclusions.

Over the past three decades, HVS has expanded both its range of services and its geographical boundaries. The company's global reach, through a network of 30 offices staffed by 400 seasoned industry professionals, gives you access to an unparalleled range of complementary services for the hospitality industry:

Consulting & Valuation
Investment Banking
Asset Management & Advisory
Hotel Management
Hotel Parking Consulting
Executive Search
Food & Beverage Services
Gaming Services

Property Tax Services
Convention, Sports & Entertainment Facilities
Interior Design
Sales & Marketing Services
Shared Ownership Services
Golf Services
Eco Services
Risk Management

Our clients include prominent hotel owners, lending institutions, international hotel companies, management entities, governmental agencies, and law and accounting firms from North America, Europe, Asia, Latin America, and the Caribbean. HVS principals are regarded as the leading professionals in their respective regions of the globe. We are client driven, entrepreneurial, and dedicated to providing the best advice and services in a timely and cost-efficient manner. HVS employees continue to be industry leaders, consistently generating a wide variety of articles, studies, and publications on all aspects of the hospitality industry.

HVS is the industry's primary source of hotel ownership data. Our 2,000+ assignments each year keep us at the forefront of trends and knowledge regarding information on financial operating results, management contracts, franchise agreements, compensation programs, financing structures, and transactions. With access to our industry intelligence and data, you will have the most timely information and the best tools available to make critical decisions about your hospitality assets.

For further information regarding our expertise and specifics about our services, please visit www.hvs.com.