

HVS Market Pulse: Chicago Ascending

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Chicago continues to attract major corporations and hotel development, supported by its proximity to global transportation infrastructure and a well-educated workforce. In 2018, 57.6 million visitors came to Chicago, setting a record for city tourism. In addition to the plethora of tourist attractions in Downtown Chicago, McCormick Place continues to be a major demand generator for the ever-growing supply of hotels in the market. In the last two years, the 1,200-room Marriott Marquis, the 466-room tri-brand Hilton hotel, and the 10,000-seat Wintrust Arena all opened within one block of the convention center. After a record-breaking year for conventions in 2018, numbers are expected to decline slightly in 2019, but could once again the break record in 2020.

	Occupancy	ADR	Size of Market	New Rooms Planned
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Downtown Chicago MSA	Mid 70s High 60s	Low \$210s High \$140s	47,000 rooms 120,000 rooms	1,400+ rooms 600+ rooms
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Despite more than 2,000 rooms entering the Downtown market in 2018, occupancy was up over the previous year. Rates have once again begun to increase, after decreasing in 2017.

Top Employers	U.S. Government Chicago Public Schools City of Chicago	41,500 Employees 35,447 31,160
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Unemployment	Declining, down to 3.9% through December 2018
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Tourism	57.6 million visitors in 2018
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Conventions	86 in 2018, and more than 1,300,000 room nights booked through Choose Chicago
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Airport	Passenger activity up 2.9% in 2018; over 105 million passengers O'Hare International surpassed Atlanta's Hartsfield-Jackson International Airport for most departures and arrivals in the nation
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Source: Choose Chicago, Crain's Chicago Business, chicago.curbed.com, January 2018, BLS.gov, flychicago.com

Of the eight new hotels that entered Downtown Chicago in 2018, the largest individual hotel was the 336-room Aloft Streeterville, the largest Aloft in North America. The Hotel Zachary, a Tribute Portfolio affiliate, opened across from Wrigley Field just in time for MLB's Opening Day. It is part of Hickory Street Capital's \$250-million, mixed-use development surrounding Wrigley Field that also includes a Class-A office building, an open-air plaza, and more than 100,000 square feet of mixed retail and restaurant space. Some notable hotel redevelopments and conversions in the last year have included the Hotel St. Jane, formerly the Hard Rock Hotel; the St. Clair Hotel, a Red Collection affiliate, formerly the Red Roof Inn; and the Hotel Julian, which opened in late 2018.

A trend that continues to gain steam is the development of micro-hotel properties, with hotels focusing on a welcoming public area and a strong food-and-beverage component. This is evident in hotels such as the new Moxy River North, which opened in June 2018. The average guestroom measures less than 200 square feet and features only the absolute necessities. Both the Found Hotel and the Wheelhouse Jones (hybrid hostel hotels) also offer very small guestrooms or shared rooms with a greater focus on the public areas of the property.

Summary

Bolstered by dozens of companies relocating to the urban core and the country's largest convention center, Chicago has solidified itself as one of the most vibrant and active lodging markets in the United States.

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Although the Loop and River North have long been popular spots for hotel development, the new supply pipeline suggests that developers are moving away from these highly competitive areas. Hotels expected to open in 2019 are located primarily in the South Loop and West Loop neighborhoods. The Sophy Hotel opened in Hyde Park in 2018, kicking off this neighborhood trend. With fewer than 1,500 rooms under construction for a 2019 opening, this represents the smallest percentage increase in new supply in the last five years, and even fewer rooms are planned for 2020. Chicago continues to be a strong, stable force in the Midwest, and although RevPAR will likely decline in 2019 with fewer conventions, tourism and commercial demand will help insulate the market from losing this strong momentum.

Gain more insight into the Chicago market by joining Stacey and her team as they share their ample market intelligence and facilitate conversations with local experts to share market perspectives and expectations at our **HVS Chicago Hotel Investment Summit** on April 5, 2019.

HVS continues to regularly consult in this city, with both a Consulting & Valuation office, led by **Brian Arevalo** and a Convention, Sports and Entertainment office, led by **Tom Hazinski**, in the Loop. Brian, Tom, and their teams are ready to assist you on any consulting need you may have. **Eric Guerrero** with **HVS Brokerage** can also discuss any Chicago-area asset you may be considering selling in 2019.