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Tourists, Not Conventions, Feed Chicago Hotel Boom

By ROBERT SHAROFF

CHICAGO — After a drought in new construction dating back to the 2008 financial crisis, downtown Chicago is suddenly awash in new hotel projects.

No fewer than a dozen new hotels representing about 2,700 rooms have recently opened or are under construction, and additional projects seem to be announced on a weekly basis.

These include four- and five-star properties by international names like Langham and Loews, as well as numerous smaller lifestyle hotels by a range of independent operators. The boom, say developers and analysts, is driven by strengthening fundamentals of the market.

Adam McGaughy, managing director of the Midwest hotel business of Jones Lang LaSalle, a large real estate services firm here, said, “The city exceeded its 2007 occupancy peak of 74.4 percent last year and there’s lots of room for average daily rate growth. When that happens, new supply starts to become part of the conversation.”

Chicago is the country’s fourth-largest hotel market behind Las Vegas, New York and Orlando, Fla., with a downtown total of about 37,000 rooms. In the past, the industry has depended on the city’s lakefront McCormick Place convention complex to spur growth.

What makes this boom different is that it is being driven largely by smaller lifestyle hotels that appeal to leisure and international travelers.

Ben Weprin, president of locally based A. J. Capital Partners, who has three such projects under construction, said: “Conventions are not our primary focus. We aim for a younger demographic that likes to go out to restaurants and bars. We try to create a town square atmosphere in our properties.”

According to TR Mandigo & Company, a hotel consulting firm here, leisure travel now accounts for about 15 percent of the downtown hotel market. That is an increase from 10 percent in the early 2000s, and further increases are anticipated because of an aggressive city marketing program instituted by Mayor Rahm Emanuel.

“The mayor has made tourism a priority,” said Donald Welsh, chief executive of Choose Chicago, the city’s tourism and convention bureau. Over the last 18 months, he added, the city has opened 10 international tourism offices in countries like China, Japan, Brazil and Britain, and it is also

running 30-second television ads promoting Chicago as a vacation destination in cities throughout the Midwest.

Many of the new hotels are in areas that, until recently, were not considered tourist zones, the most notable of which is a five-block stretch of Michigan Avenue just south of the Chicago River where four new projects are under way.

John Rutledge, chief executive of locally based Oxford Capital Partners and a leading downtown hotel developer, pointed to the attractive features of the neighborhood that lend themselves to hotels. For one, he said, old classic buildings there can be adapted to intimate hotel spaces. Another asset is its proximity to popular areas, like the Loop business district, Millennium Park, Navy Pier and the North Michigan Avenue shopping district.

Mr. Rutledge recently paid \$53 million for the London Guarantee Building, a lavishly ornamented 1920s-era office building at the northern end of the district, where he plans to build a hotel with more than 400 rooms. He expects to begin construction early next year, and to be finished in fall of 2015.

Mr. Weprin of A. J. Capital also has a project in this area, a 250-room hotel carved out of the landmark Chicago Athletic Association Building on Michigan Avenue across from Millennium Park. His partner for the project is John Pritzker, founder and director of Geolo Capital, a San Francisco investment firm that specializes in hospitality and entertainment projects. Mr. Pritzker, who grew up in Chicago, is the son of the late Jay Pritzker, founder of the Hyatt hotel chain.

The Chicago Athletic Association dates from 1893 and was designed by Henry Ives Cobb, a leading 19th-century architect here. The building has a Venetian gothic facade and an extravagant interior of cast iron staircases, vaulted ceilings, elaborate tile floors and 15 working fireplaces.

“People get an amazed look on their faces when they go into that building,” Mr. Pritzker said. “They can’t believe something like that still exists.”

The hotel, which will have 250 rooms and be operated by Geolo Capital’s Commune Hotels and Resorts division, will cost \$125 million and be finished in late 2014. It has not been named yet.

Mr. Weprin’s other notable project is a new \$50 million Soho House in the west Loop meatpacking district, another emerging neighborhood known primarily for its restaurants and night life. His partners are Nick Jones, founder of the London-based Soho House, and Shapack Development of Chicago.

The hotel, which will open next spring, occupies an old industrial building on Green Street and will have about 40 rooms plus extensive restaurant, bar and spa facilities.

“We’ve been looking for the right site in Chicago for quite a few years,” said Mr. Jones. The meatpacking district, he added, is “buzzy and interesting and lots of new things” are opening there.

Not that Chicago is turning its back on the convention business or large convention hotels. A new 316-room Langham Hotel on the north bank of the Chicago River and a new 460-room annex to the Hyatt Regency McCormick Place have recently been completed.

Next up in this category is a Loews Hotel, which will occupy the lower floors of a 52-story residential building under construction on the north bank of the Chicago River several blocks from Navy Pier. The developer is the DRW Trading Group of Chicago.

The hotel to be owned by Loews will consist of about 400 rooms plus 25,000 square feet of meeting space. It will open in 2015. The hotel is costing about \$400,000 a room, or about \$160 million.

Jonathan Tisch, chairman of Loews, said, “Chicago continues to be a city that event organizers look to and — since we typically do about 50 percent group business — that should benefit us.”