

# Too many hotel rooms in Chicago? Prices and occupancy are down — good for you, bad for hoteliers.

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By Robert Channick



John Rutledge, founder, CEO and president of Oxford Capital Group, is seen Oct. 30, 2019 in the Millennium King room at the Hotel Julian, a 218-room boutique hotel in the former Atlantic Bank Building in Chicago (Jose M. Osorio / Chicago Tribune)

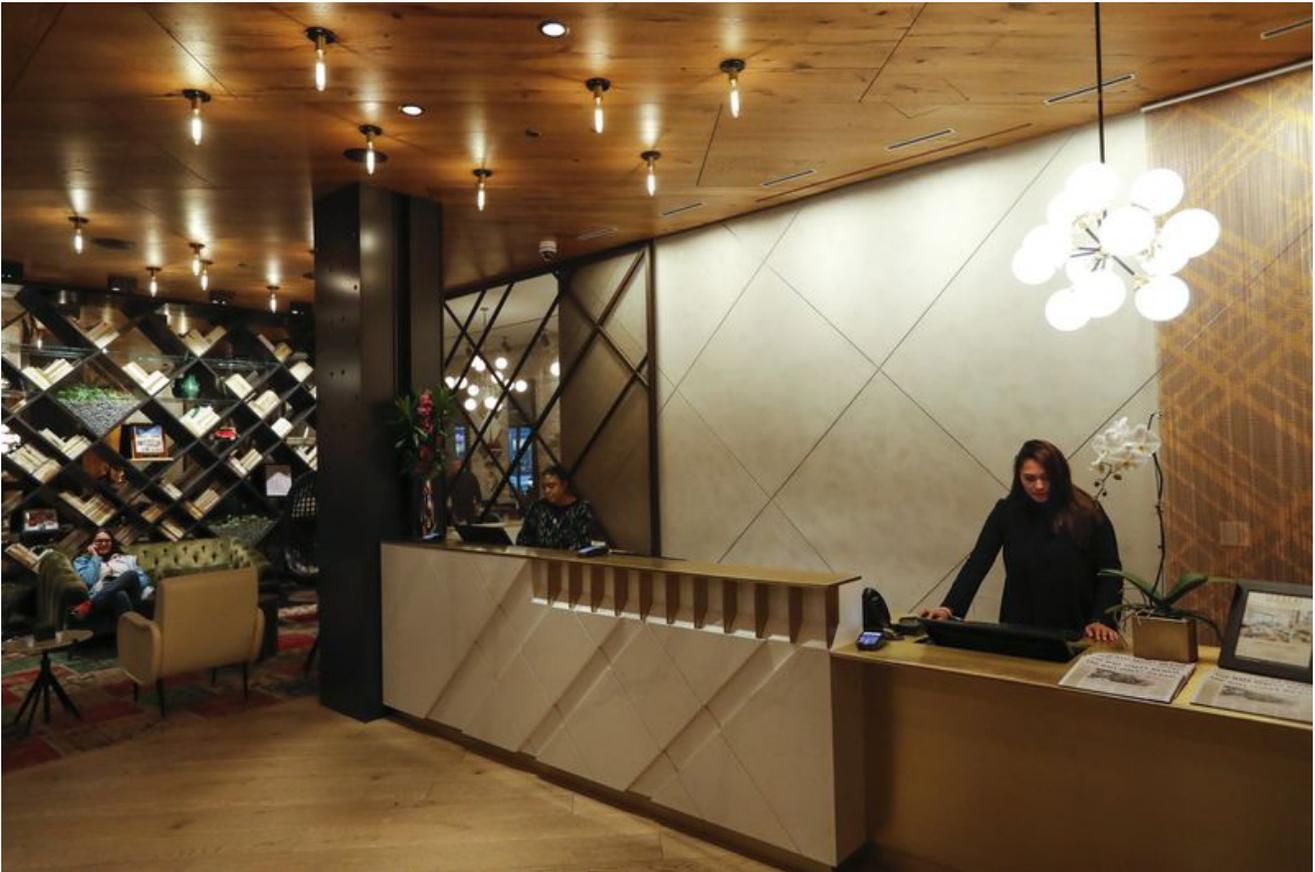
From funky boutique hotels in Fulton Market to the gleaming 1,200-room Marriott Marquis welcoming conventioners at McCormick Place, Chicago is suddenly brimming with new and diverse places to get a room for millions of annual visitors.

Dozens of recent hotel developments mean more choices for guests on where they want to stay, how much they want to pay and what amenities they might need to help them make it through the night.

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For many hotel operators, however, times are tough.

Struggling to keep up with a glut of new rooms across the city, Chicago hoteliers faced January's polar vortex, a cyclical downturn in convention business, lower rates, lower occupancy and at least one high-profile default in 2019.



The lobby and reception area at the Hotel Julian in Chicago, a project of Oxford Development. (Jose M. Osorio / Chicago Tribune)

Oxford opened two Chicago hotels in the last year: [Hotel Julian](#), a 218-room boutique hotel in the former Atlantic Bank Building on North Michigan Avenue and the redeveloped [Hotel Essex](#) on South Michigan Avenue.

But Oxford, one of the city's most prolific hotel developers, has no new Chicago projects in the pipeline heading into 2020, a reflection of a market Rutledge said is facing "heavy headwinds" in the near term from the surge in supply.

"There's only one project we're looking at in the Chicago market, in the Fulton Market area," Rutledge said. "Other than that, almost all our growth is in other states throughout the country."

There are more than 140 hotels and 45,000 rooms in Chicago's central business district, according to Choose Chicago, the city's official tourism arm.

Chicago has added 37 new hotels and more than 8,100 rooms in the past five years — a 22% percent increase. That growth includes a new wave of boutique hotels springing up in neighborhoods from Fulton Market to Hyde Park, far from the city's traditional hotel district along North Michigan Avenue.

But demand has not kept pace with supply. After a record year in 2018, hotel occupancy has fallen under 75% through September — a 2.5% year-over-year decline, according to data from research firm STR supplied by Choose Chicago.

Meanwhile, the average daily room rate in Chicago has dropped 3.2% to \$205.74, according to STR data. Revenue per available room — a key measure of profitability — is down 5.6% to \$153.41.

“The market has kind of blown up over the last five years,” said Stacey Nadolny, managing director of HVS Chicago, a hospitality consulting firm. “You reach a point of saturation, and that’s sort of where Chicago is at this point.”



Dining and lounge area at the Hotel Julian, a 218-room boutique hotel in the former Atlantic Bank Building. (Jose M. Osorio / Chicago Tribune)

The plethora of big-box hotels in Chicago — those with more than 1,000 rooms — creates downward pressure on room rates across the city when convention business declines, Nadolny said.

Chicago once was a convention town, its hotel business rising and falling with the number of major citywide events and visitors drawn to McCormick Place. In the early 1990s, convention and group business accounted for two-thirds of the hotel stays in Chicago, according to Ted Mandigo, a Chicago-based hotel analyst.

Convention and group business represents about a third of the hotel stays in Chicago this year, according to data from Choose Chicago, but the rise and fall in demand still moves the market.

In recent years, several major conventions have been on a biennial cycle, making even years stronger than odd. Most notable is the International Manufacturing Technology Show, the city's largest trade show, which in 2018 brought more than 129,000 attendees to Chicago.

That show, and several other major conventions, are scheduled to return in 2020, offering a boost to tourism and hope to hotel operators for a more robust year ahead.



The Michael Jordan statue in the the United Center atrium will be on full display during 2020 NBA All-Star weekend. (Brian Cassella / Chicago Tribune)

Another reason for a more bullish outlook in 2020 is the NBA All-Star Game, which is returning to Chicago in February for the first time in three decades.

While conventions and major events remain an integral part of hotel occupancy and rates, the city's tourism efforts are increasingly focused on the leisure and business travel segments, which now represent 67% of Chicago's hotel stays, according to Choose Chicago.

To that end, Choose Chicago has shifted its annual \$6 million leisure travel marketing budget from mostly TV commercials in adjacent Midwest states — which provide 70% of the city's visitors — to a national digital campaign targeting people in larger markets with interests such as food, architecture, theater and the LGBTQ community.

Choose Chicago also is running a \$1 million international ad campaign, Whitaker said.

A slowdown in hotel development — there are just four properties slated to open in 2020 — could help hotels increase rates and occupancy. But optimism remains muted among hoteliers and analysts alike, who are concerned it may take years to absorb the new rooms that have come online in recent years.

The most ominous sign for the Chicago hotel industry in 2019 may have been the September default of the Waldorf Astoria Chicago, a luxury Gold Coast property owned by longtime Chicago hotelier Laurence Geller. The hotel was taken over by a lender, Chicago-based Walton Street Capital.

Eric Mogentale, managing principal of Walton Street, declined to comment on the Waldorf default, as did Geller.

In 2015, a venture led by Geller Capital Partners bought the 189-room hotel from Sam Zell's Equity Group Investments for a reported \$112 million. Hotel analyst Mandigo had a simple explanation for Waldorf's financial woes.

"They basically paid too much for the property," Mandigo said. "And we've got a lot of those in the city."

Mandigo said recent projects have been expensive to build, requiring unsustainable room rates to turn a profit. He expects others to meet the same fate as the Waldorf.

"In the next five years, you're probably going to see a half dozen of the new construction properties struggling," Mandigo said. "They're going to have to either sell, go bankrupt or turn over the keys (to the lenders)."

High property taxes and the 17.4% hotel tax in Chicago — one of the highest rates in the U.S. — also may deter future development.

In an email, Geller said property tax increases have amounted to a "harsh punishment" for hoteliers, while room tax increases have added "insult to injury." At the same time, he said there has been little increase in funding for tourism marketing.

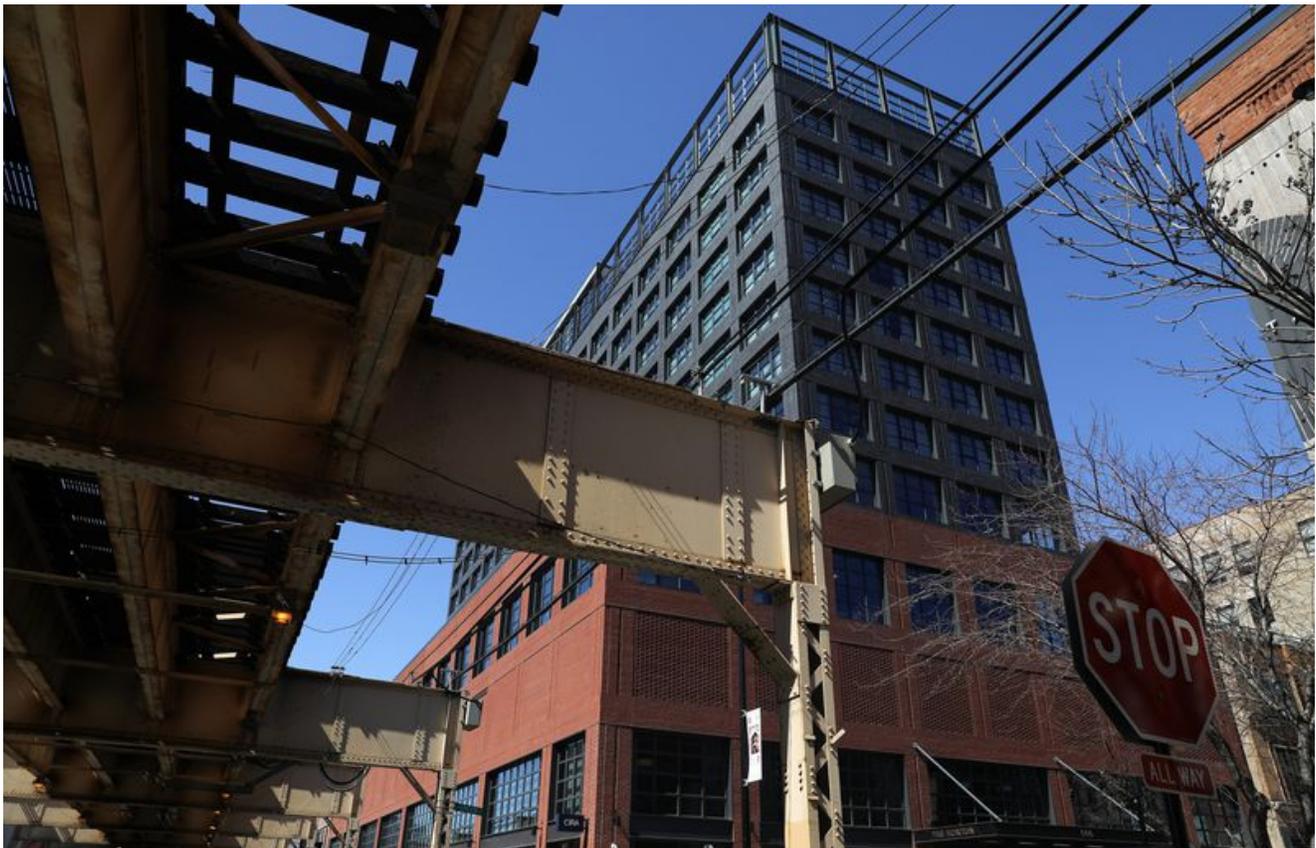
Choose Chicago said its domestic marketing budget is up from \$4 million three years ago to the current \$6 million.

“Chicago has been a very disappointing market and could have done significantly more to live up to its potential,” Geller said.

Geller’s firm also converted an office building at 101 E. Erie St., formerly home to ad agency FCB, into a 290-room Conrad hotel, which opened in 2016. He declined to comment on the current ownership status of the Conrad Chicago.

The market is clearly changing, with boutique offerings in unconventional neighborhoods transforming Chicago’s big-box hotel image and scattering guests far off the Magnificent Mile, where more than half of the city’s hotels are located.

Recent additions include the Hotel Zachary in Wrigleyville, Sophy Hyde Park and Found Hotel in River North, among other properties. The Hoxton, a 12-story, 182-room boutique hotel and British import which opened in April on the site of a former meatpacker in Fulton Market, is emblematic of the new hotels in Chicago.



The Hoxton Hotel in Chicago's Fulton Market is trying to capitalize on visitors to the neighborhood's trendy restaurants, residential developments, and marquee corporate names like new offices for McDonald's and Google. (Abel Uribe / Chicago Tribune)

Fulton Market, once the province of meatpackers and food distributors, has evolved in recent years into a booming Chicago neighborhood with trendy restaurants, residential developments, and marquee corporate names like McDonald's and Google. New hotels are

looking to leverage the influx of business and leisure visitors.

Following the trail blazed by the nearby Soho House, another British brand that opened in a renovated five-story Fulton Market warehouse in 2014, The Hoxton aims for a vibe reflective of the foodie/artsy neighborhood, with three restaurants including Cabra, a Peruvian rooftop offering from acclaimed Chicago chef Stephanie Izard. Visitors are encouraged to hang out in the hotel's lobby and tap into Wi-Fi and an assortment of cultural offerings. In November, The Hoxton will launch its own 24/7 co-working space.

"What we really want is something closer to an Airbnb than any of those typical hotel buckets," said Amos Kelsey, 37, general manager of The Hoxton in Chicago, who previously helped launch the chain's first North American property in Brooklyn.

The Hoxton is drawing business travelers, staycationers and some out-of-towners during its first six months, Kelsey said. Occupancy ramped up to about 85% in the summer and has been holding steady into the fall, Kelsey said. The hotel has been getting about \$300 a room, but Kelsey said rates will likely be cut in half during the winter.



The lobby at The Hoxton hotel in Chicago on May 15, 2019. (Terrence Antonio James / Chicago Tribune)

Squeezed between office buildings, the Hotel Julian opened in October 2018, an unobtrusive addition to the burgeoning Chicago lodging landscape. The renovated, century-old building features small, modern rooms with floor-to-ceiling windows offering decidedly urban vistas, including a neck-craning view of the kitty-corner Millennium Park.

Whimsical touches include historical photo montages of “influencers” in the elevators.

Hotel Julian will end 2019 with an occupancy rate in the high 70% range, Rutledge said. He said room rates run from about \$350 during peak season to as low as \$129 per night during the dead of winter.

Huddled on a bench wearing backpacks in the tidy lobby, a family checking in on a recent gray weekday morning represented the most elusive and valuable guests in the Chicago hotel market — international tourists.

Katrin Strasser, 22, an Austrian student attending college in Canada, met her brother and mother for a short vacation in Chicago. They chose the Hotel Julian through the travel site Orbitz.

While Oxford spent two years and \$50 million renovating the hotel, from restoring the terracotta facade to adding five floors to the historic 12-story building, the amenity which sold Strasser had little to do with those efforts.

“Location,” she said. “It’s near The Bean.”

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