



HOTEL & LEISURE ADVISORS

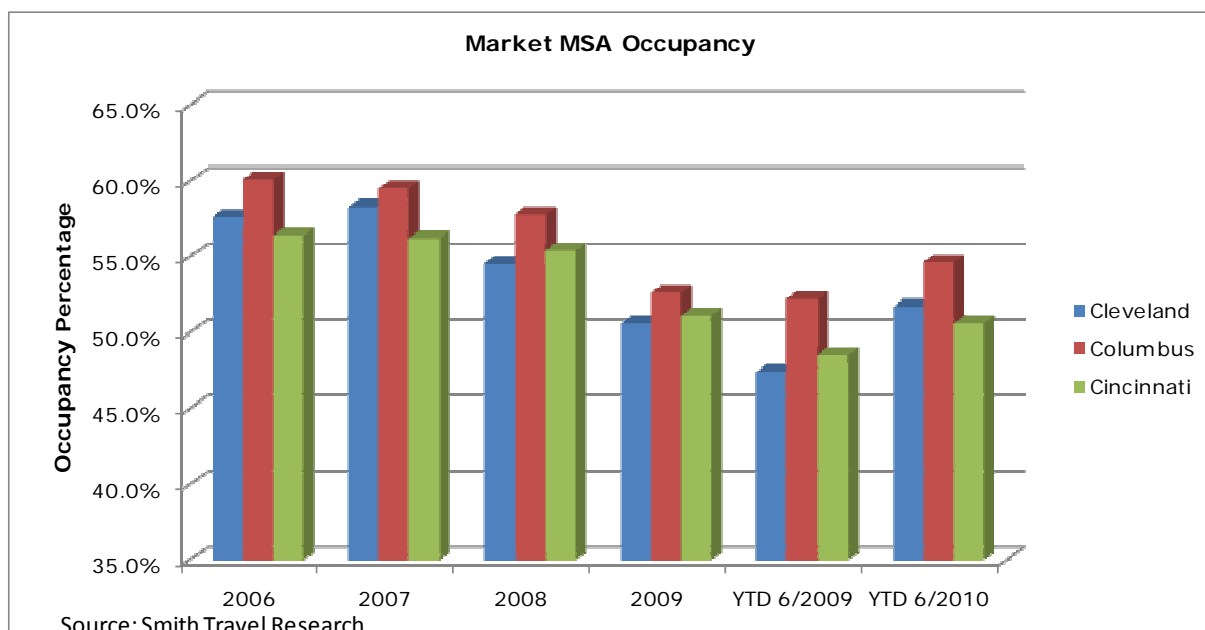
The Lodging Market is Improving in Ohio's Big Cities

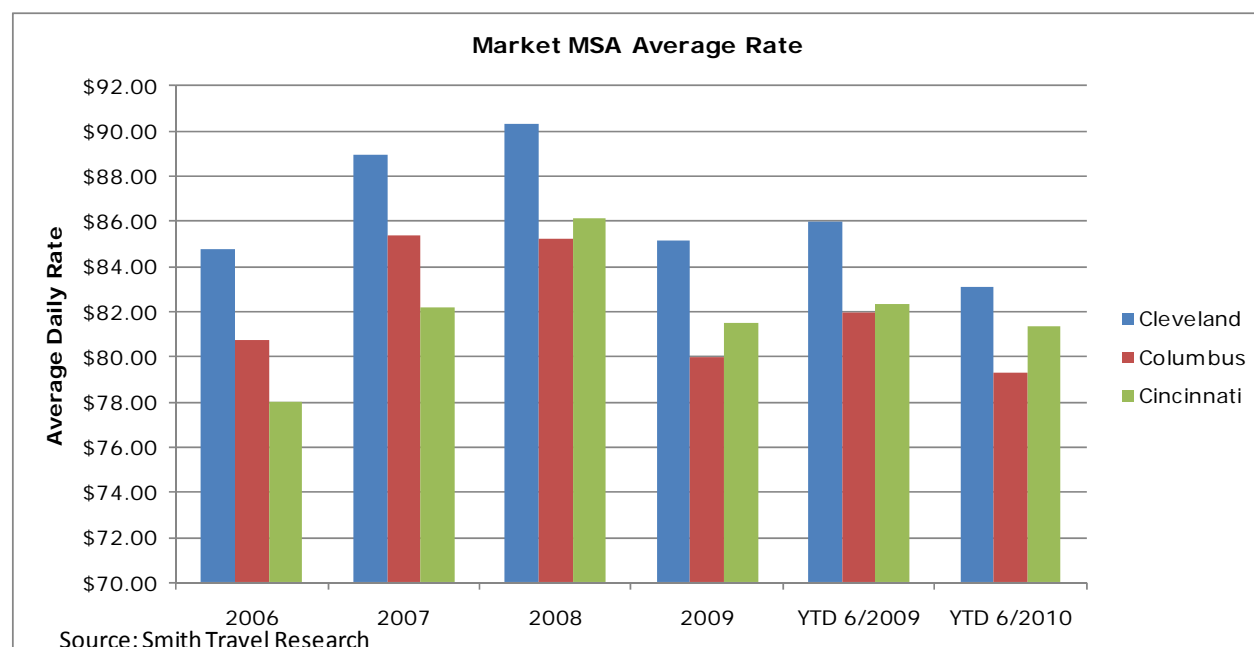
By: David J. Sangree, MAI, CPA, ISHC and Joseph Pierce

The economic upheaval of the past few years has impacted all industries. Nationwide, the hospitality industry experienced some of the sharpest declines in occupancy and average daily rate in 2009 since records have been kept. Gains in occupancy and rate that were made through the middle of the decade were erased in 2008 and 2009. Ohio did not escape the Great Recession and hospitality fundamentals took a sharp nosedive in 2009. But in 2010 those fundamentals have been improving strongly in Ohio's three largest cities: Cleveland, Columbus, and Cincinnati. The prospect for improvement in 2010 and beyond in occupancy of Ohio lodging facilities is good, but the markets continue to struggle to increase average daily rate.

CLEVELAND, COLUMBUS, AND CINCINNATI HOTEL PERFORMANCE

According to Smith Travel Research, a Hendersonville, Tennessee research firm, 1,381 hotels with approximately 125,000 hotel rooms operate in Ohio. We have focused our analysis upon the major lodging markets of Cleveland, Columbus, and Cincinnati as they comprise over 60% of the total hotel rooms in Ohio. The Cincinnati MSA contains over 252 hotels with over 27,900 guest rooms while the Columbus MSA provides over 230 hotels with over 25,800 guest rooms and Cleveland offers more than 190 hotels with over 21,700 guest rooms. The following charts show the historical lodging performance for Ohio's three largest markets.





The Columbus market has historically generated a stronger occupancy than the other major markets; however, Cleveland has generated a higher average daily rate per guest room. All three markets experienced a decline in occupancy from 2007 to 2009. In 2010, demand for hotel guest rooms has grown. Through June 2010, each market has experienced growth in occupancy with the Cleveland MSA market growing by 9.1%, while the Columbus MSA and Cincinnati MSA have grown by 4.6% and 4.3%, respectively.

While the Cleveland and Cincinnati markets advanced the average daily rate in 2007 and 2008, all three markets experienced a sharp drop in rate in 2009. Through June 2010, each of the markets continued to lose ground with the average daily rate falling below 2006 levels for both Cleveland and Columbus. Only Cincinnati has managed to maintain guest room rates above those of four years earlier.

CLEVELAND

The growth in occupancy in the Cleveland is supported by the limited amount of new supply of competitive hotel rooms in the market. While a handful of properties have opened in suburban communities since 2006, no new properties have opened in downtown Cleveland since 2003. The following table identifies the new properties that have opened in the Cleveland market since 2006.

Recent Supply Additions Cleveland MSA			
Name of Establishment	City & State	Open Date	Rooms
Value Place Cleveland Avon	Avon, OH	Apr 2010	113
Hampton Inn Suites Cleveland Mentor	Mentor, OH	Apr 2009	90
Hilton Garden Inn Cleveland E Mayfield Village	Mayfield Village, OH	Jan 2009	128
Value Place Mentor	Mentor, OH	Dec 2008	119
Homewood Suites Cleveland Beachwood	Beachwood, OH	May 2008	125
Staybridge Suites Cleveland Mayfield Heights	Mayfield Heights, OH	Mar 2007	123
Total			698

Source: Smith Travel Research

There are a number of proposals for new hotel developments in downtown Cleveland due to the major new projects planned in the downtown market as described in the following paragraphs.

- Dan Gilbert, owner of the Cleveland Cavaliers, is head of the investment group that will own and operate a casino, partnering with Harrah's Casino. The group has negotiated with Forest City Enterprises to locate the casino downtown adjacent to Tower City Center. The new casino is expected to have a significant impact on downtown hotels, restaurants, and retail stores. A temporary casino is projected to open in 2011 in the Higbee Building. The new permanent casino is expected to be completed and open by 2013. The location of the new casino in the downtown area is expected to provide additional traffic within Tower City Center and to area hotels. It is also anticipated to provide an additional marketing tool to meeting planners when selling Cleveland as a convention site.
- A new \$425 million Medical Mart and Convention Center is slated for downtown Cleveland in 2013. The Medical Mart concept is intended to leverage Cleveland's strong reputation in the health sciences by attracting medical-related events to the city. The Medical Mart facility, to be located at the northeast corner of St. Clair Avenue and Ontario Street on the site of the existing convention center, will be a glass-walled, 200,000 square foot structure with showrooms and meeting space on the ground floor and showrooms of up to 6,500 square feet on the upper floors. The Medical Mart building will connect to the L-shaped 300,000 square foot new construction Convention Center below malls B and C. Ground breaking is due to occur in the fall of 2010. MMPI, operators of the new Medical Mart, announced in September 2010 that they have achieved 32 signed letters of intent from companies and vendors wanting permanent display space, and 16 letters of intent from conferences and conventions.
- Developer Scott Wolstein has announced a far-reaching redevelopment plan for the east bank of the Flats, stretching to the edge of the Warehouse District. The \$500 million plan calls for 975,000 square feet of office space, an aloft hotel, public park, 1,200-foot boardwalk, and 430 residential units including apartments, lofts, and condominiums. The development would also include a new movie theater, gourmet market, and retail shops. In January 2010, Wolstein's development team received approval from a Cleveland city review board to begin work on the \$270 million first

phase of the project, which will include an office building, fitness center, retail stores, and parking.

- LeBron James, the National Basketball Association All-Star and league Most Valuable Player, left the Cleveland Cavaliers after the 2009/2010 season to play for the Miami Heat. Drafted out of high school in 2003, James has been an All-Star every season since 2005 and has led the Cavaliers to the playoffs from 2006 through 2010. Prior to James' arrival the Cavaliers attendance had declined to 11,497 people per game for the 2002/2003 season, the lowest in almost two decades. Since 2006, the team has averaged over 20,000 people per game, playing in an arena which seats 20,562 people. During his time in Cleveland, game day activity in downtown increased in both hotel occupancy and restaurant activity. For the 2010/2011 season the team projects solid attendance due to having presold its season tickets. However, for future years it will need to show that it can overcome the lack of a recognized super star.
- In addition to the aloft hotel mentioned earlier, there are a number of hotels proposed for the Cleveland market including:
 - Renovation of the Tudor Arms Hotel near the Cleveland Clinic into a mixed-use 157-room Doubletree Hotel and office building
 - University Hospitals and University Circle Inc. have proposed a 160 to 200 room property on the corner of Euclid Avenue and Cornell Road
 - The restoration and conversion of the Cleveland Athletic Club to a 162-room full-service hotel
 - 65-room Country Inn & Suites has been proposed for Middleburg Heights along I-71 south of Bagley Street
 - 105-room Hampton Inn & Suites has been proposed in North Olmsted near the Great Northern Mall
 - Conversion of the Schofield Building on East 9th Street and Euclid Avenue to a Kimpton Hotel with 140-rooms and 24 luxury apartments.

The Cleveland lodging market has been soft for a number of years but had been moving forward until 2008 and the slumping economy. However, the market is making a strong rebound in 2010. Current projects, such as the Cleveland State University expansion and the Euclid Corridor project, provide support to the city's hospitality industry while the future developments of the Cleveland casino, Medical Mart, and new convention center will provide the underpinning of future growth. The RevPAR increase realized year-to-date 2010 is encouraging, as the slowly improving national economy and lack of new supply in the market will allow for rate growth. For 2011, hotel operators anticipate ADR growth in addition to continued occupancy improvement.

COLUMBUS

Unlike the Cleveland market, the Columbus MSA has experienced a number of new hotels within the market. The following table illustrates the 21 properties that entered the market since 2006.

Recent Supply Additions Columbus MSA			
Name of Establishment	City & State	Open Date	Rooms
Holiday Inn Express & Suites Univ Area OSU	Columbus, OH	Apr 2010	100
Comfort Suites Columbus Airport East	Columbus, OH	Jan 2010	85
Fairfield Inn & Suites Columbus Polaris	Westerville, OH	Dec 2009	125
Rodeway Inn Columbus	Columbus, OH	Dec 2009	51
Value Place Columbus Northland	Columbus, OH	Dec 2009	121
Embassy Suites Columbus Airport	Columbus, OH	Sep 2009	198
Four Points Columbus Airport	Columbus, OH	Aug 2009	110
Holiday Inn Columbus Hilliard	Columbus, OH	Aug 2009	106
Holiday Inn Express Columbus Dublin	Dublin, OH	Jul 2009	117
Big Red's Lodges	Columbus, OH	Jun 2009	8
Cambria Suites Columbus	Columbus, OH	Jan 2009	125
Value Place Columbus	Groveport, OH	Nov 2008	121
Hilton Columbus Polaris	Columbus, OH	Jun 2008	252
Value Place Hilliard Columbus	Columbus, OH	Apr 2008	121
Hampton Inn Suites Columbus Polaris	Columbus, OH	Mar 2008	118
Residence Inn Columbus Downtown	Columbus, OH	Feb 2008	126
Hampton Inn Suites Columbus Easton Area	Columbus, OH	Oct 2007	145
Hilton Garden Inn Columbus University Area	Columbus, OH	Mar 2007	158
Drury Inn & Suites Columbus South	Grove City, OH	Nov 2006	180
Candlewood Suites Polaris	Columbus, OH	Aug 2006	122
Best Western Port Columbus	Columbus, OH	Jun 2006	87
Total			2,576
Source: Smith Travel Research			

As shown in the above table, 2,576 guest rooms have entered the market. This growth in inventory has occurred at a time when the demand for guest rooms has been declining due to the national and state economic recession. As the economy slowly moves forward, the increase in inventory will need to be absorbed before the market will stabilize. Columbus has a substantial new hotel project underway. A 532-room municipally funded Hilton Convention Center Hotel located directly across the street from the Greater Columbus Convention Center broke ground in July 2010. The \$160 million hotel is scheduled to open in the fall of 2012 and will include 48 suites, 30,650 square feet of meeting space, and an adjacent 900-car parking garage. The property will be connected to the convention center via an enclosed overhead walkway. The new property will permit the convention center to attract larger groups looking for a state-of-the-art hotel. The Hilton will also compete with downtown properties for corporate and leisure transient guests.

The Columbus MSA has a number of development projects underway and on the drawing board which will drive demand within the market:

- As one of the four sites approved in November 2009, Columbus will be the location for one of Ohio's new casinos. It will be located at the site of the former Delphi Automotive Systems plant near West Broad Street and Georgesville Road on the west side of Columbus. The relocation referendum passed over the objection of

downtown hotels and restaurants which viewed the casino as an additional attraction to complement the hospitality oriented Arena District. The Columbus casino will be developed by Penn National Gaming. The casino will include 3,000 slot machines, a poker room, and 85 tables for other games. The facility will also include a steak house, a buffet restaurant, a food court, an entertainment lounge, a sport bar, VIP lounge, and a potential future hotel. Groundbreaking on this \$400 million project is expected to occur in late 2010, and the casino is scheduled to open by the end of 2012.

- The largest convention facility in downtown Columbus is the Greater Columbus Convention Center, with 426,000 square feet of exhibit space and 61 meeting rooms. In January 2010, the Convention Center introduced the new Battelle Grand ballroom, featuring 50,000 square feet of main floor space and a 24,000 square foot mezzanine, making it the largest ballroom in Ohio.
- In June 2010, Huntington Bancshares Inc. reached an agreement with the City of Columbus to create 500 new jobs over the next five years in return for city tax breaks. These jobs will be split between the Huntington Center office tower in downtown and the Huntington campus at Easton. JPMorgan Chase has announced plans to add more than 1,100 jobs in central Ohio over the next three years. Company officials have said that most of the new telephone customer service and technology jobs will be in Columbus and the rest will be in Westerville. Both expansions will boost hotel usage.
- Nationwide Children's Hospital, a national leader in pediatric care and research, has announced an \$800 million expansion project that will create a new, 12-story, 700,000 square foot hospital building and create 2,400 jobs by 2012. This will boost demand for downtown area hotels.
- The Columbus Zoo & Aquarium is currently in the midst of a long-range expansion campaign that will more than double its size over the next several years. The facility opened the Polar Frontier exhibit in 2010 and plans to develop the African Savannah and a proposed resort hotel in future years. In 2008, the Zoo began operating the neighboring Zoombezi Bay outdoor waterpark, formerly Wyandot Lake.

The Columbus MSA is bolstered by the presence of the state government and The Ohio State University, both of which have a stabilizing effect on the regional economy. The addition of the Battelle Grand ballroom to the convention center should aid in attracting larger conventions to the market and assist in the absorption of additional guest rooms. The addition of the casino to Columbus market will provide the city with an additional attraction, but the location of the facility on the west side will lessen its impact to the downtown oriented hotels.

CINCINNATI

The Cincinnati MSA has experienced a number of new hotels within the region. The following table illustrates the 24 properties that entered the market since 2006.

Recent Supply Additions Cincinnati MSA			
Name of Establishment	City & State	Open Date	Rooms
Holiday Inn Express & Suites Richwood Cincinnati	Walton, KY	Feb 2010	76
Hilton Garden Inn Cincinnati Mason	Mason, OH	Feb 2010	110
Hampton Inn Suites Wilder	Wilder, KY	Jan 2010	94
Holiday Inn Florence	Florence, KY	Oct 2009	85
Wingate By Wyndham Cincinnati Airport Erlanger	Erlanger, KY	Aug 2009	75
Springhill Suites Cincinnati Midtown	Cincinnati, OH	Apr 2009	122
Homewood Suites Cincinnati Airport South	Florence, KY	Mar 2009	96
Value Place Florence	Florence, KY	Jan 2009	124
Springhill Suites Cincinnati Airport South	Florence, KY	Dec 2008	101
Comfort Suites Forest Park Cincinnati	Cincinnati, OH	Dec 2008	84
Value Place Cincinnati Fairfield	Fairfield, OH	Dec 2008	119
Holiday Inn Express & Suites Dayton South Franklin	Franklin, OH	Nov 2008	83
Residence Inn Cincinnati North West Chester	West Chester, OH	Nov 2008	100
Hilton Garden Inn Cincinnati Blue Ash	Blue Ash, OH	Jun 2008	122
Value Place Cincinnati Sharonville	Sharonville, OH	May 2008	120
Holiday Inn Express & Suites Cincinnati SE Newport	Bellevue, KY	Dec 2007	73
Holiday Inn Express & Suites Cincinnati Mason	Mason, OH	Dec 2007	106
Drury Inn & Suites Middletown	Middletown, OH	Nov 2007	121
Courtyard Cincinnati North @ Union Ctr	West Chester, OH	Jun 2007	126
Comfort Suites Cincinnati Airport Hebron	Hebron, KY	Jan 2007	70
Great Wolf Lodge Mason	Mason, OH	Dec 2006	401
Drury Inn & Suites Cincinnati North	Sharonville, OH	Jul 2006	180
Country Inn & Suites Wilder	Wilder, KY	Apr 2006	65
La Quinta Inn & Suites Cincinnati Airport Florence	Florence, KY	Feb 2006	74
Total			2,727

Source: Smith Travel Research

The Cincinnati market experienced the largest increase in guest rooms of the three largest Ohio cities with 2,727 units added since 2006. As with Columbus, this growth in inventory has occurred at a time when the demand for guest rooms has been declining due to the national and state economic recession. As the economy slowly moves forward, the increase in inventory will need to be absorbed before the market will stabilize. The Cincinnati MSA has a number of development projects underway and on the drawing board which will drive demand within the market:

- Cincinnati was also approved in November 2009, to be the recipient of a new casino. As with the Cleveland casino, Dan Gilbert is head of the investment group that will own and operate the casino, partnering with Harrah's Casino. The casino will be located downtown at Broadway Commons on a 20-acre site, north of East Court

Street, between Gilbert Avenue and Reading Road. The casino is projected to be a 300,000 square foot, two- or three-story structure with 5,000 slot machines and table games. The new casino is expected to be completed and open by 2012.

- The Sharonville Convention Center is undergoing an extensive renovation and expansion project that will more than double the amount of available event space. The newly expanded Sharonville Convention Center will offer a total 63,000 square feet and 19 rooms. The expanded convention center is projected to open in 2012. The lack of expansion at this facility in recent years has hurt hotels in the Sharonville market.
- In 2008, Delta Airlines, the largest carrier at Cincinnati/Northern Kentucky International Airport (CVG), merged with Northwest Airlines and began to cut flights from the Cincinnati hub. Delta has reduced CVG from 140 destinations to 70 destinations. Delta discontinued activity from Concourse A in Terminal 3 in 2010 and consolidated all activity into Concourse B. This resulted in the reported layoff of more than 800 employees. The reductions have caused a number of area companies to suggest they would relocate to other cities with more prominent airports. The reduction in flights has resulted in the decline of guest room demand within the airport market.
- A number of hotels are proposed in Cincinnati including:
 - Renovation of the Metropole Apartments into a boutique 21c Museum Hotel in downtown Cincinnati
 - Renovation of an existing downtown apartment building into an extended stay hotel
 - Proposed 200-room Holiday Inn in downtown Cincinnati at Sycamore and Eighth streets
 - Redeveloping the Old St. George Church into a boutique hotel in Clifton Heights
 - Proposed hotel in the Clifton Heights neighborhood as part of mixed-use development
- Jeffrey R. Anderson Real Estate Inc. is looking to develop a 1.1 million square foot lifestyle retail center in Butler County near the new Liberty Way interchange on Interstate 75. The plan shows three department store anchors, a 160,000 square foot outdoor sports retailer, 209,000 square feet for junior anchors, and 275,000 square feet for restaurants. New hotels proposed in the area around Liberty Township and West Chester include a new Holiday Inn and a new hotel with a to be determined brand.

The Cincinnati market has experienced sluggish occupancy for much of the decade. However, the market managed to advance rate until 2009. The year-to-date decline in rate has not been as sharp as the other metropolitan areas and it has rebound occupancy levels similar to Columbus through June 2010. A number of projects in the region have demonstrated the investment commitment on the part of private industry to the market. The Duke Energy Center has provided the market with a strong meeting center to complement the number of downtown hotels. The future casino will provide an additional amenity and promote activity within the downtown market.

SUMMARY

The three largest economies in Ohio have struggled for a number of years and have drawn the overall hospitality outlook of the state with them. But 2010 has shown to be a stronger year for all three markets and the state overall. While Ohio and the national economy are not out of the Great Recession just yet, the first half of 2010 has provided reason for optimism within the hospitality industry. The fundamentals of profitability are stabilizing and in the case of occupancy moving in a positive direction. Business travelers and groups are returning to hotels, while leisure travelers are projected to increase their visitation patterns.

Authors

David J. Sangree, MAI, CPA, ISHC is President of Hotel & Leisure Advisors, a national hospitality consulting firm. He performs appraisals, feasibility studies, impact studies, and other consulting reports for hotels, resorts, waterparks, golf courses, amusement parks, conference centers, and other leisure properties. He has performed more than 1,000 hotel studies across the United States and Canada. Since 1987, Mr. Sangree has provided consulting services to banks, hotel companies, developers, management companies, and other parties involved in the lodging sector throughout the United States, Canada, and the Caribbean. He has spoken on various hospitality matters at seminars throughout the United States and on Good Morning America and CNBC. He has written numerous articles for, and is frequently quoted in magazines, television, and newspapers covering the hospitality field. He is a 1984 graduate of Cornell University's School of Hotel Administration. He can be reached via telephone at 216-228-7000 ext. 20 or via e-mail at dsangree@hladvisors.com.

Joseph Pierce is a Senior Associate with Hotel & Leisure Advisors. He has been a hospitality consultant and appraiser since 2003 and has worked in numerous states for a wide variety of hotels, indoor waterpark resorts, restaurants, and other leisure properties nationally. He has a wide range of experience in management and accounting at a variety of Westin, Marriott, and independent hotels and resorts. He holds a MBA in Hospitality Management from Michigan State University and a BS in Accounting from the State University of New York. He can be reached via telephone at 216-228-7000 ext. 23 or via e-mail at jpierce@hladvisors.com.