

Chicagoland Council of Hotel General Managers Meeting & Networking Event

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- **Event and GM Survey:** <https://www.surveymonkey.com/r/577KFQC>
- **National Trends:** The U.S. lodging market has experienced a record period of growth since the last downturn, with many investors and owners wondering when the next correction will occur. Many markets in the Midwest have experienced record occupancy and average rates, and now, faced with rising supply, demand growth is slowing in many markets. While new supply remains a concern in markets like Detroit and Nashville, rising construction costs (labor and materials) will affect the pipeline of new hotels over the next five years.
- **Chicago Trends:** Much like the national trends, Chicagoland has experienced a period of robust growth. The Chicagoland room-night supply has only grown about 8% since 2014, one of the lowest growth rates of any major market in the U.S. However, most of that new supply opened in the CBD—18% growth since 2014. Demand has kept pace with new supply over the last five years, and year-over-year demand growth has continued into 2019, despite the decline in occupancy. The worry over new supply is now being overshadowed by the rising costs of doing business, including a tight labor market and rising wages. In 2018, Chicago's labor unions pushed hard on operators and ownership groups. Starting on September 7, 2018, 26 hotels experienced walkouts of their union staff. The negotiations were settled quickly for most properties, but the episode certainly left an impression on the market and on visitors to Chicago.
- **Rising Costs:** In February 2019, Governor JB Pritzker signed into law a \$15 statewide minimum wage, which will go into effect by 2025. The \$1 increase in 2020 will be the first increase in minimum wage since 2010, when it was raised to \$8.25. Chicago's minimum wage is currently \$12 (\$11 in Cook County), but the increases will affect these jurisdictions as well. More recently, Chicago's City Council approved the Fair Workweek ordinance in late July 2019. This law applies to businesses with 100 or more employees and restaurants with at least 30 locations. Employers will have to give 10 days' notice for scheduling, and changes in the schedule will result in fines to the employer.
- **Property Taxes:** Property taxes in Cook County have historically been some of the highest in the country as a percentage of revenue, second only to New York City. Fritz Kaegi, the new Cook County Assessor, took office in 2019 and plans to make the assessment process more transparent, basing the market values on actual net incomes of commercial properties. This has resulted in assessed values for hotels increasing an average of 120% in those markets that have already been reassessed. Although most of the property tax appeals were not successful at the Cook County Assessor's level, we will not know the success rates at the Cook County Board of Review level until they return to session in the fall. Historically, when assessed values have increased so substantially, equalized tax rates have decreased. Kaegi argues that because the reassessment process was not historically transparent, developers were passing by Chicago. Despite the increased assessments, it is unlikely that property taxes will more than double by the time taxes come due; doubling taxes of commercial properties would decimate commercial real estate values in Cook County, and new development would cease. Therefore, we believe the assessor and real estate owners will reach a middle ground.
- **Outlook:** Overall, Chicago demand is strong, although the demand is somewhat lower-rated than other major markets. New supply will enter the market at a very slow pace over the next three years, but any gain in top-line revenue has the potential to be offset by increased expenses related to low unemployment and rising wages. While other major markets lament the home-sharing sites AirBNB and Sonder, these platforms continue to have minor effects in Chicago due to heavy regulation of this industry. Chicago boasts strong and stable demand generators in both the CBD and suburban markets. Our outlook for the long-term growth in the market remains positive