MARKET REPORT

HVS Market Intelligence Report: Downtown St. Louis

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Downtown St. Louis has experienced a complete revitalization over the past several years, transforming a failing collection of empty warehouses, aging hotels, and nearly forgotten landmarks into a thriving residential, commercial, and entertainment district. Local government, area businesses, and civic organizations contributed to this decade-long, concerted effort, which garnered recognition when St. Louis received the World Leadership Award for Urban Renewal in 2006.

Downtown St. Louis is generally defined by the Mississippi River to the east, Cass Avenue to the north, Jefferson Avenue to the west, and Interstate 64 to the south. Within this approximately two and one-quarter square-mile area are three professional sporting venues, a convention center, several historic landmarks, 18 hotels, over 80 residential buildings, and hundreds of businesses. The area is accessible by Interstates 70, 64, and 55, as well as by Metrolink, the St. Louis-area light-rail system. Recent upgrades to Interstate 70 and the expansion of Metrolink have increased accessibility to the area from surrounding communities, and the recently begun upgrades to Interstate 64 will further enhance area access in the future.

The area's lodging market benefits from this revitalization and has followed suit with projects of its own. Since 2000, five new downtown hotels have opened with approximately 2,170 guestrooms, bringing the market to 18 hotels with approximately 7,020 rooms. Of the 13 previously existing hotels, four have been renovated and re-branded over the same period. The increase in room-night supply has coincided with an increase in demand levels, and this has allowed the market to maintain relatively stable occupancy levels. The upgrading of the lodging supply has spurred healthy average rate growth over the last four years, resulting in overall gains in RevPAR. The following table illustrates data compiled by Smith Travel Research during the last five years. The information is based on the reported performance of eight market hotels, ranging in size from 91 to 910 rooms.

We note that the historical occupancy levels for this selected set of hotels are not representative of the greater market. The three largest hotels in the selection are either in need of renovation or have completed a renovation too recently to have a positive effect on the data. Thus, the effects of their inferior condition have depressed the overall historical occupancy levels illustrated below:

5-Year Occupancy & Rate Trend

Year	Occupancy	ADR	RevPar
2002	53.5 %	$105.48	$56.39
2003	51.5	100.90	51.95
2004	53.2	105.83	56.29
2005	51.5	110.29	56.78
2006	52.0	112.40	58.48
Year-to-date through April			
2006	42.2	$109.69	$46.30
2007	44.0	118.76	52.29

Source: Smith Travel Research

Development is underway at the new Pinnacle Casino Complex at Lumiere Place. A former 297-room Embassy Suites, currently under renovation, will reopen as the Pinnacle

Suites, and a 200-room Four Seasons is under construction. The casino complex is being developed by Pinnacle Entertainment and is scheduled to open in November of 2007. The following tables illustrate recent hotel development and conversion activity:

Hotel Openings 2000-2007

Name	Year	Rooms
Drury Plaza Hotel	2000	355
Sheraton City Center	2001	288
Westin	2001	255
Renaissance Grand & Suites	2003	1,078
Hilton Downtown	2005	195
Pinnacle Suites	2007*	297
Four Seasons	2007*	200

Hotel Conversions 2000-2006

Currently	Formerly	Year	Reported Investment	Rooms
Hampton Inn	Ramada	2003	NA	190
Crowne Plaza	Radisson	2006	$6,000,000	440
Hilton Ball Park	Marriott Pavilion	2006	21,000,000	675
Wyndham Mayfair	Roberts Mayfair	2006	6,500,000	182

According to the Downtown St. Louis Partnership, approximately $3.5 billion has been invested in area development since 2000. An additional $500 million in construction and renovation is expected to be invested in 2007. Completed projects include approximately 3,200 newly renovated or constructed residential units, the previously mentioned hotel developments, the new Busch Stadium, the historic Old Post Office, and over 50 new retail and restaurant establishments. These and other projects have transformed downtown into a multi-faceted locale in which to live, work, shop, and play, drawing tourists and locals alike with their appeal.

Ongoing developments and future plans are expected to further enhance this revitalized area and continue the recent growth trend. Projects that are currently under construction include the previously mentioned casino complex, Ball Park Village, an expansion to the Federal Reserve building, Post Office Plaza, and approximately 1,600 residential units, including the 22-story Mayfair Tower. Projects still in the planning stages include the Bottle District, a multi-block residential and entertainment complex, and up to 2,500 new-construction residential units. Although located outside the downtown area, activities at Lambert-St. Louis International Airport have a significant impact on commercial and leisure activities downtown. The airport expanded its infrastructure earlier this decade by adding a runway and is scheduled to begin a $100-million terminal renovation in 2007.

The following table illustrates some of the recent and planned developments in the downtown St. Louis area:

Major Development Activity

Name	Investment	Started	Completion
New Busch Stadium	$387,500,000	2005	2006
Pinnacle Casino	400,000,000	2006	2008
Old Post Office	45,000,000	2004	2006
Ball Park Village	650,000,000	2007	2009*
Federal Reserve Building	85,000,000	2004	2007*
Post Office Plaza	6,500,000	2006	2008*
Roberts Mayfair Tower	62,000,000	2007	2009*
Bottle District	350,000,000	2007*	2009*
Park Pacific	125,000,000	2007*	2008*

* As Scheduled

Overall, the lodging outlook for downtown St. Louis is positive. Anticipated economic growth in the area should continue to positively impact the recently upgraded and expanded market. While hotel development appears to be slowing down, construction in other sectors, especially residential and entertainment, appears to be in full swing. Area hotels should continue to see average rate growth as this trend continues and may experience modest occupancy growth as well.