HVS

MARKET REPORT

Market Intelligence Report: Cleveland, Ohio

OCTOBER 31, 2008

Business growth is in league with happenings on the hotel front to help forge new promise for this evolving city.

Cleveland, Ohio has experienced more than its fair share of economic trouble over the past sixty years, but the city is working hard to ensure its motto of "Progress and Prosperity" does not prove vain. Though diminished from its heyday, the manufacturing industry still makes up approximately 13% of the workforce[1] in the Cleveland-Elyria-Mentor Metropolitan Statistical Area (MSA), and the city's Rust Belt roots are seeded deep within the local economy. At the same time, the northeast Ohio economy has diversified into a healthy array of industries. The 1990s brought about a multi-billion-dollar revitalization effort that continues to focus on rebuilding and re-energizing the once tired Downtown. The lingering question - one which bears heavily on the city's lodging industry - is whether these efforts will give Cleveland the momentum to become a growing metropolis once again.

In the following, we examine the growth potential for each of Cleveland's major lodging market segments: commercial, meeting and group, and leisure.

Commercial

Located on the shores of Lake Erie, where the Cuyahoga River spills into the Great Lakes, Cleveland's geographic features served as an impetus for its incorporation and rapid economic growth in the early 1800s. Like many other Rust Belt cities, Cleveland suffered a mass exodus of jobs to locations overseas following the national decline in manufacturing in the 1970s. Other major industries have since stepped in to fill the void, including firms representative of the financial and insurance, healthcare and life sciences, and advanced energy and technology sectors[2]. The area's top employers are listed below.

Top Commercial Employers in Northeast Ohio

Cleveland Clinic	28,200
University Hospitals	16,500
Progressive Corporation	9,400
Key Corp	6,400
National City Corporation	6,300
General Motors	6,300

MetroHealth	5,500
Ford Motor Company	5,500
Case Western Reserve University	5,100
Summa Health Systems	4,700

Source: Cleveland Plus

Seven Fortune 500 companies are headquartered in Cleveland, including Progressive Corporation, Eaton Corporation, National City Corporation, Parker-Hannifin Corporation, Sherwin-Williams, KeyCorp, and Lubrizol[3].

University Circle, a complex comprising 550 acres surrounding Case Western Reserve University, is the cultural, medical, and educational heart of Cleveland. University Circle is home to University Hospitals, the Cleveland Institute of Art, the Cleveland Botanical Gardens, and over 40 other institutions[4]. Adding to the activity of the area is the Cleveland Clinic, located just outside of University Circle on its own campus. In 2008, for the 14th consecutive year, the Cleveland Clinic was ranked first in the nation for heart care, according to the *U.S. News & World Report* "America's Best Hospitals" survey[5].

Drawing more than 2.5 million visitors annually[6], University Circle is severely underserved when it comes to hotel supply. With less than 800 hotel rooms, demand generated by University Circle overflows to downtown hotels, as well as to several of the suburban markets. With vacant land at a minimum, University Circle Incorporated (UCI) issued a request for proposals in June of 2008 from developers interested in a hotel site owned jointly by University Hospitals and UCI[7].

One of the most important aspects of commercial travel is accessibility. Cleveland benefits greatly from its access to several major interstates, as well as a first-class international airport. In September of 2007, Continental Airlines announced plans to increase capacity at Cleveland Hopkins International Airport by 40% by 2009. This project was originally proposed as a $130-million investment that would result in approximately 700 new jobs and add 20 new non-stop destinations. However, with the rising cost of jet fuel and instability of the airline industry, the project was scaled back in May of 2008. While 200 new jobs have already been created, Continental is cutting seven of the 20 planned routes, and the full expansion will now take place over ten years[8].

Meeting and Group

The Cleveland Convention Center, located Downtown, hosts a variety of conventions and meetings annually. With a 10,000-person capacity, the center benefits from its proximity to downtown hotels, attractions, and easy access to Interstate 90; however, the facility is aging and dated[9]. The State of Ohio created the Cleveland-Cuyahoga County Convention Facilities Authority in 2004 for the purposes of financing, constructing, and operating a new convention center in Cleveland. In late 2007, the city passed a sales tax increase, guaranteeing funding for the new convention center[10].

As Cleveland has emerged as a regional medical center, the convention center project has become aligned with the development of a "medical mart." Merchandise Mart Properties, Inc. is expected to own and operate the combination convention center and medical mart, but site selection and acquisition have been slow-going[11]. County officials are looking to cut costs for this estimated $500-million project, which would optimistically be complete in 2012. A project of this scale will bring a much needed boost to Downtown Cleveland and require the development of at least three full-service hotels to accommodate increases in demand[12]. In June of 2008, Intercontinental Hotels Group announced the development of a 140-room Hotel Indigo in Downtown Cleveland, which is expected to open in 2010. The completion of this property will bump Downtown Cleveland's hotel supply to over 4,000 guestrooms.

Leisure

The more than 40 institutions at University Circle include some of the region's most acclaimed museums and gardens. In

July of 2008, UCI premiered its new Visitors Center and began a promotional campaign offering discount passes to a variety of University Circle attractions. The Cleveland Museum of Art alone attracts over 500,000 visitors each year and is currently undergoing a $258-million, three-year expansion.

Leisure attractions are a major part of the revitalization in Downtown Cleveland, with sporting events having notable success. Downtown Cleveland houses three modern professional sports venues. Jacobs Field, home to the Cleveland Indians, opened in 1994 and offers a seating capacity of 43,000 people. The Quicken Loans Arena opened in 1994 and is home to the Cleveland Cavaliers, the Lake Erie Monsters, and the Cleveland Bulldogs. The most recent addition is the Cleveland Browns Stadium. Situated on the banks of Lake Erie, the $283-million facility opened in 1999 and has a seating capacity of 73,200. The recent success of Cleveland's sports teams has increased the popularity of sports-related travel to the city, a positive trend for area hotels.

In 1995, the Rock and Roll Hall of Fame and Museum opened on a prime spot of Lake Erie's shoreline. The museum features an unparalleled menagerie of rock-and-roll memorabilia, including interactive exhibits, films, and artifacts. Every year, the Rock and Roll Hall of Fame draws visitors from all 50 states and over 100 countries worldwide, making it a truly international destination[13].

Wrap-up

Cleveland's tenacity, born of nearly two centuries worth of blood, sweat, and steel, impels the city to forge ahead. There is no doubt that the city faces serious economic challenges, including high unemployment and the severe decline of the housing market. Yet, with one of the top medical centers in the nation, a revitalizing downtown area, gorgeous waterfront attractions, and unusually strong philanthropic support from non-profit and corporate sources[14], Cleveland's future hardly seems ill-fated. There are over $2 billion in development projects announced or underway in Cleveland, and potential for continued growth in the lodging industry abounds.

HVS regularly performs property appraisals, market and feasibility studies, and other assignments in markets throughout the Midwest. Please contact our offices in Atlanta (http://www.hvs.com/Services/Consulting/Atlanta/) or Washington, D.C. (http://www.hvs.com/Services/Consulting/Washington/) to learn how we can contribute to the success of your next lodging industry venture.

1www.bls.gov

2http://www.clevelandplusbusiness.com/ClevelandPlusBusiness/Industries/

3www.clevelandplus.com

4www.universitycircle.org

5http://my.clevelandclinic.org/us_news/default.aspx

6University Circle Incorporated

7http://www.universitycircle.org/press-detail-072908.aspx

8http://blog.cleveland.com/business/2008/05/hopkins_expansion_curtailed_wi.html

9http://www.clevelandmeetings.com/cleveland_meetings/facilities/listing.details.php?category=4059&id=3417

10Cuyahoga County Planning Commission

11http://www.cleveland.com/medical/index.ssf/2008/08/forest_city_firm_on_price_for.html

12Cuyahoga County Planning Commission

13http://www.rockhall.com/visit/about-us

14http://www.city.cleveland.oh.us/pdf/Development Strategy Full Document.pdf