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BUSINESS

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Hard Rock deal for Chicago hotel likely set in stone

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Landmark building to house travelers

The Carbide and Carbon Building is getting the Hard Rock treatment.

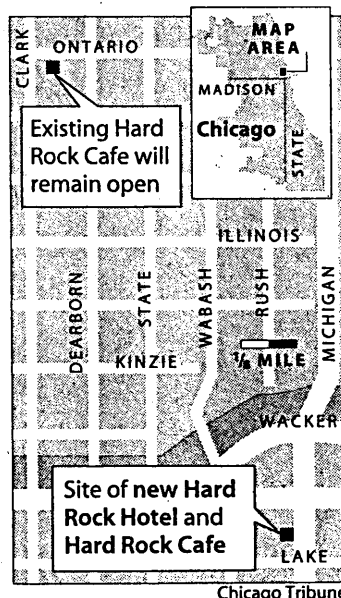
After a yearlong struggle to obtain financing, a partnership that includes Hard Rock Cafe International Inc. and Chicago-based developer Mark IV Group has a deal for an \$86 million conversion of the landmark building on Michigan Avenue into a hotel and restaurant.

Even as public confidence in air travel was shaken again by a plane crash Monday in New York, the partners are betting that tourism and business travel will recover by mid-2003, when the hotel is expected to open.

"You build these hotels for many decades, and in the long run the travel market will certainly return to the United States, and within that, Chicago will do very well, and we will do very well in the Chicago market," said Jim Biggar, senior director with Orlando-based Hard Rock.

The economic downturn and heightened anxiety about air travel might seem to make this a poor time to consider a hotel venture. In September, the occupancy rate in downtown Chicago plummeted to 57.4 percent, compared with 86.1 percent during the same month last year, according to statistics from Tennessee-based Smith Travel Research.

Work will begin soon to turn the Carbon and Carbide Building on Michigan Avenue into a Hard Rock Hotel, with a restaurant and bar in the building next door. The 385-room hotel and neighboring cafe are scheduled to open in the summer of 2003.



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But there is a contrarian logic to starting a hotel project now, some observers say.

"To have perfect timing is nearly impossible," said hotel consultant Brian Flanagan, president of Chicago-based Property Valuation Advisors Inc. "So who's to sav you



Carbide and Carbon Building (dark structure in center) will be converted to be part of a hotel-bar-restaurant complex.

shouldn't start at the bottom of the market and wait for it to come back, versus starting at the top of it and waiting for it to go down? The strong will weather the storm."

The project at 230 N. Michigan Ave. would include a 385-room hotel in the 38-story art deco tower. An adjacent building to the south would be torn down to make way for a new 4-story structure that would

house a trademark Hard Rock Cafe restaurant and bar, a ballroom and meeting rooms, said Hard Rock's Biggar.

The hotel's sign will be more "subtle" than the trademark giant guitars used to mark the restaurants, although a final decision on signs has not been made, he said. Hard Rock will continue to operate its recent-

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HARD ROCK: Project will preserve old facade

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ly renovated River North location, 63 W. Ontario St., once the hotel is open. Work is expected to start later this month.

Built in 1929, the Carbide and Carbon building is on a low-profile stretch of Michigan Avenue, between Millennium Park to the south and the Magnificent Mile shopping strip to the north.

Alicia Berg, commissioner of the city's Department of Planning and Development, said the project would preserve the building's historic facade and create "a vibrant urban entertainment destination."

The downtown hotel occupancy rate is already climbing from its September low, when the average room rate dropped 11.7 percent to \$153.42, compared with September 2000.

During the first nine months of 2001, the occupancy rate for downtown Chicago was 67.1 percent, well below the 75 percent reached during the same period in 2000, one of the best years ever for the local hotel business.

The average downtown room rate is off just 2.8 percent to \$151.37 per night, compared with the first nine months of 2000.

However, fears of an oversupply of hotel rooms have prompted lenders to require hefty equity investment of, in this case, more than 40 percent of a development's total cost.

To meet that requirement, the partnership includes an unidentified investment group that is said to be considering financing further expansion of the fledgling Hard Rock hotel chain,

Artist's rendering shows proposed hotel, with facade preserved. Adjacent structure will house a Hard Rock Café.

which already has properties in Las Vegas, Orlando and Bali.

The Michigan Avenue project is also being financed by a \$5 million tax increment finance subsidy from the Daley administration and \$11 million in federal historic tax credits. A \$49 million construction loan is being issued by a group of lenders, led by the local office of Minneapolis-based U.S. Bank, that includes two local institutions: Parkway Bank & Trust Co. of Harwood Heights, and Midwest Bank & Trust Co. of Melrose Park.

Mark IV acquired the historic, 300,000-square-foot building in 1997, and has struggled with various hotel conversion plans.

Mark IV President John McDonald notes that the fundamentals of the hotel market are much stronger than in the early 1990s, when a glut of hotel rooms pushed up vacancies and pushed down room rates. At that time, the hotel market rebounded in about 18 months to two years, which could be a gauge for the future, he added.

"We could be opening in a great market," he said, "certainly better than opening now."

