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MARKET FOCUS: DENVER, COLORADO

Four times in the last six years, Horwath HTL has been requested to prepare a Market Focus report for Metro Denver, Colorado. Per that request, this current report presents the realities that exist today in the Metro Denver marketplace.

Overview of the Denver Metropolitan Area Lodging Market

The hospitality industry in Metro Denver has experienced dynamic growth in terms of occupancy and average room rate in recent years - five to eight years ago, it was a much different story. Occupancy trends for year-end 2016 indicated that the current market had reached stabilization in terms of occupancy. This stabilized occupancy level encouraged increases in the average room rate as well as a series of new and/or under-construction hotels in Metro Denver.

Metropolitan Denver Overview

The Denver Metropolitan Area includes the Denver-Aurora Primary Metropolitan Statistical Area (PMSA), which refers to the six central counties of Denver, Adams, Arapahoe, Douglas, Jefferson, and Broomfield, and the Boulder MSA, which encompasses Boulder County. Broomfield was created as of November 2001, from sections of Adams, Jefferson, Weld and Boulder Counties. The Denver PMSA and Boulder PMSA cover more than 4,500 square miles on the eastern edge of the Front Range of the Rocky Mountains.

The Denver PMSA is also a natural market and distribution center for a large portion of the western United States, given its location and existing transportation infrastructure. Denver is located on the eastern slope of the Rocky Mountains at the junction of Cherry Creek and the South Platte River. Denver is Colorado’s state capital, as well as being its largest city. Consequently, it is the center of government, economic, transportation, retail, professional sports, and convention services in the state.

Denver is located at the intersection of Interstate Highway 25 (I-25), the major north/south arterial through the state and Interstate Highway 70 (I-70) the main east/

west arterial. In addition, Denver is the location of Denver International Airport (DIA) which opened in 1995. A map of the Denver Metropolitan area follows:



Denver’s central location in the country allows it to serve as a major transportation hub for most of the western U.S. Also, benefiting from this geographical location is the telecommunications industry. Reportedly, Denver is the largest city in the U.S. to be one satellite bounce to anywhere in the world.

The biotechnology and pharmaceutical industries have been growing recently due to recent opportunities at the \$4.7 billion, 578 acre Fitzsimons Campus (located in Aurora, Colorado), with over 15 million square feet of phased new construction and employment expected to be over 32,000 people at full build-out. The energy industry employs over 24,000 in the Denver metro area. The National Renewable Energy Laboratory (NREL) in Golden is the primary facility for renewable energy and energy efficiency R&D in the nation.

The Denver metropolitan area’s economy is not dependent on a sector. The employment base is varied, as are the major employers. Therefore, the region is typically less

susceptible to cyclical fluctuations that have occurred in other areas dominated by a single industry. The area's 15 largest major employers are listed below:

- U. S. Government
- State of Colorado
- University of Colorado Systems
- Denver Public Schools
- City and County of Denver
- HealthONE Corporation
- SCL Health Systems
- Centura Health
- Lockheed Martin Corporation
- CenturyLink
- Kaiser Permanente
- Denver Health
- Comcast Corporation
- Children's Hospital Colorado

With respect to transportation, there are several components of the area's transportation networks: the area's airport, highways/arterials and railroads.

Airport

Of considerable importance to the greater Denver market area is Denver International Airport (DIA). The main terminal building of DIA is located approximately 25 miles northeast of downtown Denver. DIA, the first totally new airport built in the United States in over 20 years, replaced Stapleton International Airport in 1995. Besides being one of the world's largest airports at 53 square miles, as of year-end 2015, DIA was also the 18th busiest airport in the world and the sixth busiest in the United States, having enplaned and deplaned approximately 54 million passengers. 2016 figures, through November 2016, were approximately 53.4 million passengers (compared to 49.4 million for the same period in 2015). DIA is United Airlines' fourth largest hub. United Airlines is the largest carrier at DIA with Southwest Airlines and Frontier Airlines also having significant market share.

Highways/Arterials/Public Transportation

In addition to air travel, Denver is served by a highway infrastructure with an extensive interstate system. Interstate Highway 70 (I-70) serves as the primary east-west route, while Interstate Highway 25 (I-25) is the north-south route. Interstate Highway 225, a north-south arterial, connects I-70 in north Aurora (east metro area) to I-25 in south Denver. C-470/E-470, the area's beltway highway system,

currently provides an additional expressway. This relatively new highway has been a catalyst for new residential and commercial development in the southeast, northeast and north quadrants of the metro area. In addition, U.S. Highway 36 connects Denver to the southeast with Boulder to the northwest and is one of the strongest growing sectors, economically, in the Denver metro area.

The Transportation Expansion Project (T-REX) was a \$1.67 billion infrastructure project that was completed in 2006. This project upgraded 17 miles of highway and created a new 19 mile light rail line connecting major employment centers throughout the metro area. Major improvements included additional lanes to portions of Interstate Highway 25 and Interstate Highway 225, widened bridges, reconstruction of eight interchanges, and thirteen light rail stations.

FasTracks is the Regional Transportation District's (RTD) comprehensive public transportation plan for the Denver and Boulder metro areas. This \$6.1+ billion project featured 122 miles of new light rail and commuter rail, 18 miles of new bus rapid transit services, 57 new transit stations, over 21,000 additional parking spaces at Park-n-Ride lots and expanded bus service throughout the region. The main hub for the rail network is Union Station in downtown Denver. As part of the FasTracks project, Union Station recently completed a major redevelopment transforming the site into a dense mixed-use, transit-oriented area (including hotel, restaurant, retail and office).

Tourism is the state of Colorado's largest private industry per a recent (2015) survey conducted for Visit Denver. The top five visitor markets (outside Colorado) for Denver are: California, Texas, Illinois, Florida and New York. It is estimated that over 16.4 million overnight visitors visit the Denver area annually.

Athletic events have become one of the most popular attractions in the Denver area as well given the existence of the Denver Broncos (football), Colorado Rockies (baseball), the Colorado Avalanche (hockey), the Denver Nuggets (basketball) and the Colorado Rapids (soccer).

Another attraction in the area is the National Western Complex and the National Western Stock Show (NWSS). The NWSS occurs each year in January and annually attracts over 600,000 livestock and rodeo fans from across the nation. Recent legislative approvals promise a new and

dynamic redevelopment of the National Western Complex; estimated to cost approximately \$856 million.

Colorado also generally enjoys a worldwide reputation for its scenic mountains, climate and diversity of recreational opportunities. Some of the world’s best snow skiing can be found within 60-to-90 minutes of Denver, along with outstanding recreational activities such as hunting, fishing, hiking, camping and white-water rafting. In addition, I-70 offers a direct route to many of the primary recreation-al areas in the Colorado Rocky Mountains including Keystone, Breckenridge, Vail/Beaver Creek and Copper Mountain.

The following chart reflects the historic occupancy and average room rate for the reporting hotels in the overall metropolitan Denver market area as presented in the Horwath HTL Lodging Market Trend Report.

Metro Denver Lodging Market Trends

Year	OCC	ARR
2009	61.0%	\$113.42
2010	66.4%	\$114.47
2011	68.0%	\$119.18
2012	69.3%	\$122.11
2013	71.1%	\$126.60
2014	75.8%	\$138.37
2015	76.2%	\$146.66
2016	74.3%	\$152.95

Year-end 2016 Metro Denver hotel statistics reflected a 74.3% occupancy with a \$152.95 Average Room Rate. The economic recession that appeared to have taken hold nationally in the second quarter of 2008 began to have a negative effect on the metro Denver Market in late 2008 and 2009 (occupancy levels decreased and average room rates declined significantly). The performance results since that time reflected a significant recovery/growth in terms of annual occupancy and eventually average room rates.

The 2016 results indicated Metro Denver has achieved one of its highest occupancy rates in the last four decades. In addition, the 2016 Average Room Rate achieved a room rate higher than at any time in its history.

Other economic and demographic highlights pertaining to the Metro Denver area include the following:

- Population has continued to increase along the Front Range and Colorado in general at an average growth rate

of 1.8 percent annually between 2007 and 2014 with 2014 population estimated to be approximately 3,002,629 within the Denver MSA. Population is anticipated to continue to grow in the next several years at an average annual rate of approximately 1.5 percent.

- Total employment in the Denver MSA, as of year-end 2015, was 1,493,995 jobs, which was significantly higher than the pre-recession rate of 1,264,000 jobs in 2008. The employment low was in 2010, at 1,196,400 jobs.
- As of December 2015, the Denver MSA had an unemployment rate of 3.3 percent compared to 3.3 percent for Colorado (this was down from a high of 8.6 percent in 2011).

The strength of the metro Denver market lies in its position as a regional center for the Rocky Mountain region. It is the focus of financial, government and industrial activity along the Front Range and in Colorado. Denver is highly ranked as a place to live and work because of its educated work force, pro-business attitude and superior quality of life.

Many real estate experts believe that Denver’s numerous attributes allow it to weather economic downturns and recover at a rate faster than other parts of the United States supported by the fact that the current/recent recession did not impact the area as strongly as it did in other parts of the country.

Metro Denver Lodging Market Overview

As of year-end 2016, there were approximately 42,048 available hotel rooms in Metro Denver. Per a survey that is produced by Horwath HTL - Denver, these lodging properties registered a year-end 2016 occupancy level of 74.3 percent with an average room rate of \$152.95.

These rooms are spread in various sectors of Metro Denver. As mentioned earlier, the Metro Denver’s lodging performance has improved significantly during the last several years. The following charts present the year-end 2012 and the year-end 2016 performance along with the YTD 2016 performance of these lodging submarkets.

**Hotel Trends For Metropolitan Denver
Year-End 2012 Compared to Year-End 2016**

	Annual Occupancy (in %)		Annual Average Room Rate (in \$)	
	2012	2016	2012	2016
Downtown	71.7	76.9	151.51	188.37
North	60.2	68.6	81.32	112.26
Northwest	68.5	75.0	111.49	130.95
South	67.6	76.4	132.82	160.19
Southeast	66.7	65.0	103.77	133.95
Southwest	66.7	73.2	98.98	123.05
West	65.4	71.3	114.49	136.47
Stapleton	69.7	81.2	84.90	107.93
DIA	72.5	77.5	102.60	138.84
Metro Area	69.3	74.3	122.11	152.95

**Hotel Trends For Metropolitan Denver
Year-End 2015 Compared to Year-End 2016**

	Annual Occupancy (in %)		Annual Average Room Rate (in \$)	
	2015	2016	2015	2016
Downtown	76.6	76.9	184.46	188.37
North	70.6	68.6	107.91	112.26
Northwest	75.3	75.0	122.90	130.95
South	78.8	76.4	154.68	160.19
Southeast	70.3	65.0	128.69	133.95
Southwest	77.7	73.2	119.85	123.05
West	70.8	71.3	132.15	136.47
Stapleton	85.4	81.2	103.04	107.93
DIA	81.0	77.5	123.61	138.84
Metro Area	76.2	74.3	146.66	152.95

As a point of interest, between 1995 and 2016, the supply of lodging accommodations in Metro Denver increased by approximately 19,800 rooms/units or approximately 89 percent.

The brightest spot in the overall Metro Denver lodging market continues to be the downtown market area.

Downtown Denver achieved one of the highest annual occupancies and the highest average room rate of any of the market sectors in Metro Denver. In 2016, Downtown Denver achieved an approximate 76.9 percent occupancy

level compared to the previously noted overall Metro occupancy level of 74.3 percent with an average room rate 23 percent over Metro area levels.

Significant reasons for downtown Denver’s continued positive performance are -- the overall positive image of downtown Denver, the continued impact of “Lo-Do” (sports, restaurants, lodging and nightlife); the revitalization taking place on 14th, 15th and 17th Street (restaurants, lodging and residential); the recent development/re-development in the River North (RiNo) District, the Denver Pavilions retail and entertainment project; the Pepsi Center; Coors Field; continued new retail and residential projects in other parts of the “larger” downtown and mid-town areas; new residential in the “Uptown” neighborhoods.

Demand in downtown Denver is driven by what one might consider seven-day a week business. During the work-week, demand is dominated by meeting/group/convention demand and commercial/corporate demand. On weekends, demand can be attributed to the activity in the downtown area including the sports teams (the football, baseball and hockey/basketball complexes are within minutes of downtown). In addition, the downtown area also offers museums, theatre, opera and various other types of entertainment. nightlife and retail are offered on Larimer Square, the Tabor Center, the 16th Street mall, the Denver Pavilions and the LoDo District.

This activity has attracted significant interest in hotel development. Downtown Denver hotels that opened in recent years include the following:

- 120-room Hampton Inn & Suites
- 182-unit Homewood Suites
- 230-room Renaissance
- 140-room loft Denver City Center
- 110-room Crawford Hotel @ Union Station
- 346-room (combined) Hyatt Place and Hyatt House

The Crawford Hotel (listed above), is a part of one of the most exciting projects (the Denver Union Station renovation) in recent years in downtown Denver. The Denver Union Station project has provided the opportunity to create a dense, mixed-use transit-oriented development adjacent to the transit facility. On-going plans call for it to include up to two million square feet of development on the site. In addition to the developments at the Union

Station site, there has been a significant amount of new development.

At its initial completion in mid-2014, Union Station has become the “Grand Central Station” of the metropolitan region as it has become the center of the regional transit system in the heart of the city. The Terminal portion of the project features more than 22,000 square feet of ground floor space divided into approximately 10 independent retail and restaurant outlets. Additionally, it features a 12,000-square foot public common area, the “Great Hall,” and 40,000 square feet of outdoor plaza space. In addition, the redeveloped Union Station houses Amtrak and RTD as well as the Crawford Hotel on the upper levels of the historic terminal building.

An additional indication of the strength of the downtown Denver marketplace is the 8-to-12 under-construction, planned and/or rumored hotels proposed for the downtown Denver area. These include chain affiliated and independent lodging properties. Some of these lodging properties are as follows:

- Hotel Indigo – 180-rooms,
- Kimpton/Hotel Born – 200 rooms,
- Le Meridian – 272 rooms,
- AC Hotel – 219 rooms,
- Staybridge Suites – 111 units,
- The Source Hotel – 100 rooms,
- The Maven @ Dairy Block – 172 rooms,
- Hilton Garden Inn – 233 rooms.

Recent additional hotel development in Metro Denver includes a variety of lodging projects. These lodging projects are adding to the dynamics of the lodging sub-markets in Metro Denver. Two lodging projects (the Westin Hotel at Denver International Airport and the Gaylord Hotel) are creating significant “buzz” in the local, regional and national marketplace.

The first one is the new Westin Hotel & Conference Center and adjacent Transit Center (both immediately adjacent to the existing Airport Terminal) are made up of independent, yet physically integrated projects, which include design/construction of the 519-room Westin hotel & Conference Center; a public transit center, which includes a commuter rail station connecting the airport with downtown Denver and a centralized pick-up/drop-off for all Regional Transportation District (RTD) buses serving Denver

International Airport; and a public plaza. The hope is that this public plaza will become a venue for programs/events where passengers/visitors can find entertainment, art and restaurants). The Hotel and Transit Center was completed in phases with the Westin Hotel opening in late 2015 and rail service starting in mid-2016.

The second one is the Gaylord Hotel project. This 85-acre development includes a 1,500-room hotel, over 1.9 million square feet of hotel, retail, commercial and convention space, indoor/outdoor recreational park and convention facility. After a long delay, due to a variety of development issues, the project is finally under-construction. Recreational facilities at the Gaylord are anticipated to include the following:

- 800-foot Lazy River;
- expansive event lawns;
- a resort style outdoor pool; and
- 22,000 square foot indoor pool venue with slides, pool bar, putting course and a basketball court.

This lodging and entertainment project, with costs that could reach \$800 million, is expected to generate 10,000 construction jobs. At 1,500 rooms, 400,000 square-feet of meeting space, multiple food and beverage outlets and a water park, the hotel near Denver International Airport would be the state’s largest.

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Mr. Montgomery has more than thirty years of hospitality industry experience, including 23 years of financial and operational consulting. Prior to Horwath HTL, he performed consulting work as a Senior Principal with an international consulting firm and most recently with Horwath HTL in variety of hospitality and real estate clients. He had operations and development experience with Hyatt Hotels Corporation and Super 8 Motels. Mr. Montgomery's experience with Hyatt Hotels Corporation involved positions as Corporate Sales Manager and Director of Sales and Marketing. His experience with Super 8 Motels was as a Vice President of Development and Operations for a large Super 8 franchisee.

Mr. Montgomery's involvement in a real estate project often begins with product conceptualization and continues through the market study, facility recommendation, financial analysis and on-going consulting phases. As a consultant, Mr. Montgomery has conducted engagements throughout various states in the Rocky Mountain Region, as well as in the southeast and southwest United States.

Mr. Montgomery's areas of specialization include the following:

- Market analysis, conceptual development and financial analysis of a wide range of hotel development projects including full-service, resort, bed and breakfast, budget, economy, limited service, all-suite, convention and historic properties.*
- Market analysis, conceptual development and financial estimates for restaurants and athletic clubs.*
- Market analysis for recreational real estate including golf courses and ski areas.*
- Operational analysis of hotels, motels, restaurants and resorts.*
- Market analysis, conceptual development and financial estimates for executive conference centers and city/state convention centers.*
- Determination of market position, budgeting requirements and marketing plans for Convention and Visitor Bureaus.*
- Litigation support and expert witness testimony*

Mr. Montgomery received his BSBA degree from the School of Hotel and Restaurant Management at the University of Denver and has a minor in secondary education from the same university. In addition, he has completed selected graduate level business courses at the Master Business Administration (MBA) program at Abilene Christian University in Dallas, Texas.

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