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Overview of the Denver Metropolitan Area 2016 Lodging Market

The hospitality industry in Metro Denver continues to experience a strong turn-around from the economic downturn that took place in late 2008 – 2010. Occupancy trends for 2015 reflected a vastly improved market with record occupancy and average room rate levels. It is believed that calendar year 2016 will reflect results similar to the record occupancy and average room rate levels achieved in 2015.

METROPOLITAN DENVER OVERVIEW

The Denver metropolitan area includes the Denver-Aurora-Lakewood Metropolitan Statistical Area (MSA), which refers to the ten central counties of Denver, Adams, Arapahoe, Douglas, Jefferson, Broomfield, Elbert, Park, Clear Creek and Gilpin and the Boulder MSA, which encompasses Boulder County. The Denver MSA and Boulder MSA cover more than 4,500 square miles on the eastern edge of the Front Range of the Rocky Mountains.

The Denver metro area is 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 within the United States 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. 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 new 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 of 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 particular 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 largest major employers and their number of employees (rounded to the nearest hundred) are listed below.

• U. S. Government	40,200
• State of Colorado	33,000
• University of Colorado System	17,400
• Denver Public Schools	12,200
• City and County of Denver	10,900
• HealthONE	12,200

In addition, Denver is home to several Fortune 500 companies including Arrow Electronics (electronics wholesaler), DISH Network (telecommunications), DaVita HealthCare Partners (health care), Liberty Interactive (internet services and retailing), Ball Corporation (packaging and containers), Newmont Mining (mining and crude oil production), Level 3 Communications (telecommunications), CH2M Hill (engineering, construction) and Western Union (financial services).

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 20 years, replaced Stapleton International Airport in 1995. Besides being one of the world's largest airports at 53 square miles, as of November 2015, DIA was also the 17th busiest airport in the world and the fifth busiest in the United States, having enplaned and deplaned approximately 50 million passengers. DIA is United Airlines' fourth largest hub. United Airlines is the largest carrier at DIA with Southwest 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; Interstate Highway 25 and Interstate Highway 225. C-470/E-470, the area's beltway highway system, currently provides an additional expressway. This new highway has been a catalyst for new residential and commercial

development in the southeast, northeast and north quadrants of the metro area.

FasTracks is the Regional Transportation District's (RTD) comprehensive public transportation plan for the Denver and Boulder metro areas. This \$6.1+ billion project features 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-Rides and expanded bus service throughout the region.

The main hub for the rail network is at Union Station in downtown Denver. As part of the FasTracks project, Union Station has undergone a major redevelopment transforming the site into a dense mixed-use, transit-oriented area (including the Crawford Hotel, numerous restaurants, retail and office). In addition, there are significant new developments (office, residential and hotels) in the neighborhoods surrounding the renovated Union Station.

Tourism is the state of Colorado's largest private industry according to a recent (2013) survey conducted for Visit Denver. The top five visitor markets for Denver are: Colorado, California, Texas, Arizona and Illinois. It is estimated that over 14.0 million overnight visitors visit the Denver area annually.

Athletic events have become one of the most popular attractions in Denver 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 Stock Show, which occurs each year in January. This event annually attracts over 600,000 livestock and rodeo fans from across the nation. A tax initiative has recently been passed to upgrade the facilities and amenities at the National Western Complex.

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 recreational areas in the 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 Lodging Market Trends

Year	OCC (%)	ARR (\$)
2010	66.1	115.03
2011	68.0	117.15
2012	69.3	122.11
2013	71.1	128.60
2014	75.8	138.37
2015	76.2	146.14

Source: Horwath HTL

The 2015 results indicated Metro Denver has achieved its highest occupancy rate in the past 30 years. In addition, the 2015 Average Room Rate was the highest it has ever been. Other economic and demographic highlights pertaining to the metro Denver area include the following:

The combined population of the Denver-Aurora-Lakewood MSA and Boulder MSA, according to a 2014 estimate, is approximately 3,068,000 and accounts for more than half of the state’s 5.4 million people.

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.

Metro Denver Lodging Market Overview

As of year-end 2015, there were approximately 40,500 available hotel rooms in Metro Denver. These rooms are spread in various sectors of Metro Denver. The following charts present the year-end 2015 performance of these lodging properties (compared to 2014 performance levels).

Hotel trends for Metropolitan Denver year-end 2015 compared to year-end 2014

	Annual Occupancy (%)		Annual Average Room Rate (\$)	
	2015	2014	2015	2014
Downtown	76.2	76.1	182.32	172.78
North	70.6	71.5	107.91	98.69
Northwest	74.9	75.1	123.01	118.04
South	79.7	81.1	157.89	149.52
Southeast	70.8	70.3	127.67	120.72
Southwest	77.6	75.9	118.51	109.57
West	71.4	71.2	132.32	124.28
Stapleton	84.5	83.2	103.45	97.19
Dia	80.6	80.4	121.75	116.81
Metro Area	76.2	75.8	146.14	138.37

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. Downtown Denver achieved an approximate 76 percent occupancy level in 2015.

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 Denver Pavilions retail and entertainment project; the Pepsi Center; continued new retail and residential projects in other parts of the “larger” downtown and mid-town areas; additional lodging and new residential in the “Lower Platte Valley” and “Uptown” neighborhoods.

Demand in this sector is driven by what one might consider seven-day a week business. During the work-week, demand is dominated by meeting/ conference/ 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. Significant downtown Denver hotels that opened in 2014/2015 include the following:

- the 230-room Renaissance Denver Downtown Hotel
- the 110-room Crawford Hotel Denver Union Station
- the 140-room aloft Denver Downtown
- the 100-room Art Hotel
- the 346-room/unit Hyatt Place/Hyatt House

The Crawford Hotel Denver Union Station 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.

It is becoming the “Grand Central Station” of the metropolitan region as it is the center of the regional transit system in the heart of the city. The Terminal portion of the Denver Union Station project features more than 22,000 square feet of ground floor space divided into approximately ten 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.

Lodging projects under development in downtown Denver include the following:

- an AC Hotel (under construction)
- a Meridian Hotel (under construction)
- the Halecon Hotel (in development)
- a Hilton Garden Inn – Platte Valley (in planning)

An additional indication of the strength of the downtown marketplace is the 8-to-10 planned and/or rumored hotels

proposed for the area. These include chain affiliated and independent lodging properties.

Two lodging projects (the Westin Hotel and the Gaylord Hotel) are creating significant “buzz” in the local, regional and national marketplace.

The new Westin Hotel & Conference Center and adjacent Transit Center (both immediately adjacent to the existing Denver International 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 will include 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 are slated for completion in phases with the Westin Hotel opening in November 2015 and rail service scheduled to open by mid-2016.

The second one is the Gaylord Hotel project. 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.

John'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 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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