From the Denver Business Journal:
https://www.bizjournals.com/denver/news/2017/10/26/markers-of-metro-denvershospitality-real-estate.html

REAL ESTATE QUARTERLY

Hotel real estate stays healthy in metro Denver

SUBSCRIBER CONTENT: Oct 26, 2017, 6:00am MDT **Updated: Oct 26, 2017, 7:34am MDT**

Like most of metro Denver's commercial real estate market, hospitality real estate is a bit cooler, but only when compared to the record year it had in 2015.

KATHLEEN LAVINE, DENVER BUSINESS JOURNAL

Mike Cahill, founder of Greenwood-Village based Hospitality Real Estate Counselors, said, "In 2016, the market was down in terms of volume, but 2017 should finish higher than 2016."

Compared to more standard years past, the traditional markers of hotel success still look healthy, according to reports and industry experts.

"2015 was considered a peak year," said Mike Cahill, founder of Greenwood-Village based Hospitality Real Estate Counselors (HREC). "In 2016, the market was down in terms of volume, but 2017 should finish higher than 2016."

Dramatic increases in both average daily rate and revenue per available room, key metrics of a hotel's profitability, occurred particularly in the second half of 2014 in metro Denver, driving major hotel transactions in 2015.

Overall in 2014, average daily rates (ADR) in metro Denver were up 9 percent to about $112 over 2013, and revenue per available room (RevPAR) rose 16 percent to about $84 on average in the same period, according to a report from CBRE Group Inc.

Both metrics rose by roughly another 8 percent from 2014 to 2015, and were coupled with small amounts of new supply coming online, although several new hotels were under construction at the time.

Out of those conditions came a few big hotel trades, capped by the November 2015 sale of the Embassy Suites by Hilton Denver Downtown-Convention Center for $170 million. The 403-room hotel sold to New York City-based real estate investment trust Carey Watermark Investors 2 for $422,000 per key, setting a new per-key record price in Denver.

But now, many of the hotels that were under construction in 2015 have been completed, making 2017 the year of new hotel deliveries rather than big investment trades, and adding thousands of new hotel rooms to the metro Denver hospitality landscape.

The Maven opened in Dairy Block in April, while Denver's first dual-branded hotel, the AC Marriott/Le Méridien, welcomed visitors in September. The CEO of Kimpton Hotels told the Business Journal in September after the opening of Hotel Born that his company would consider more expansion in Denver, noting that "this city's on fire."

And hotel development isn't finished yet. A new Hilton Garden Inn is under construction near Union Station, and new hotels are underway in Westminster and Thornton. The 1,500-room Gaylord Rockies hotel is expected to be complete in late 2018.

"New product has continued to absorb, which might make occupancy level out," Cahill said.

Hotel occupancy for metro Denver year-to-date through the first half of 2017 was 72.2 percent, according to CBRE's report, slightly lower than the 72.6 percent occupancy rate in the first half of 2016. The report forecasts an annual average occupancy rate of 71.8 percent in 2018 and 71 percent in 2019.

However, ADR and RevPAR are expected to continue growing for the foreseeable future, just at a slower rate than in 2014 and 2015.

"Hotels don't have the ability to push rates like they did in 2013, 2014 and 2015," said Chris Kraus, managing director with CBRE Group Inc.'s hotels and consulting division.

Even higher-priced hotels like those that have been completed in downtown Denver have to be competitive with their rates, Kraus said, especially during those days and months that are lighter on business travel.

A new competitor has cropped up for hotels in recent years, and while it takes up a small segment of the market, it does give people another option and is gaining popularity among different kinds of travelers.

Short-term rentals — or rooms or houses offered up on sites like HomeAway or Airbnb — have lower occupancy rates and ADRs than traditional hotels, according to CBRE's report, but are growing fast.

In 2017, Airbnb units in metro Denver had a 61 percent occupancy rate, an increase of 10 percent over the year before, according to CBRE's report, which used data from Airdna, which provides analytics for Airbnb usage around the world.

Short-term rentals have been around for more than a decade, but have really taken off as the so-called sharing economy has gained traction across the country in the last few years.

"The industry is now acknowledging that it's a viable option that competes," Kraus said of short-term rentals. "It's another segment of the market."

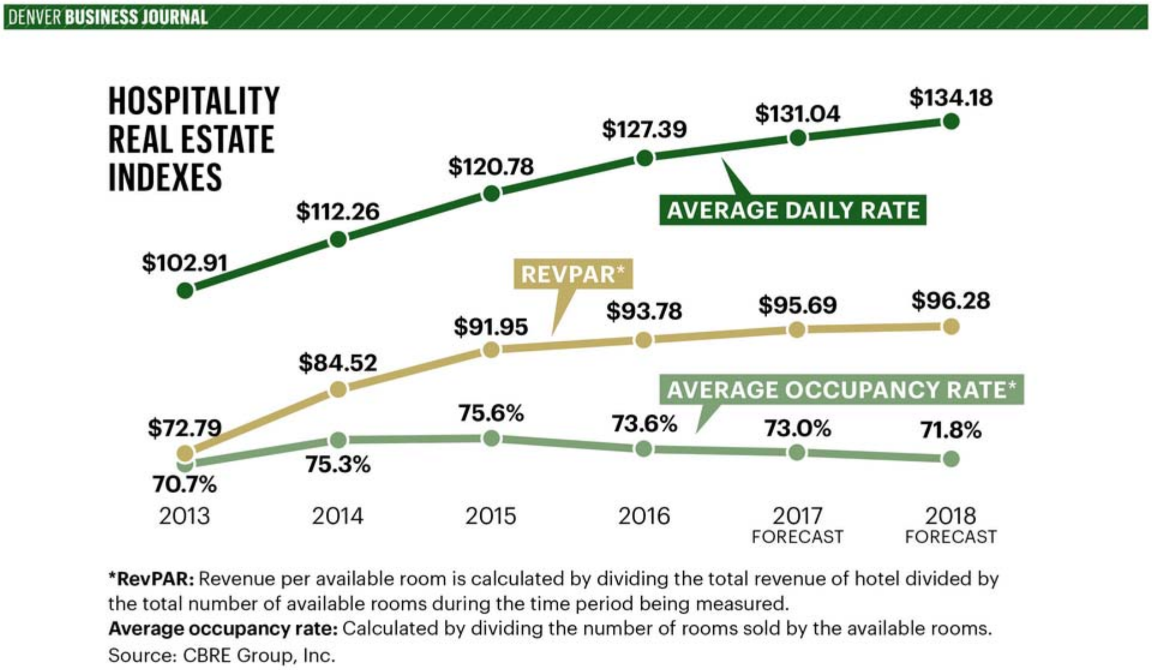
Looking beyond 2018 and into the more long-term future of metro Denver hospitality real estate, more big hotel trades are likely as properties that traded earlier in the cycle and new developments are listed, and those sales could result in more record pricing.

An added factor going forward, at least for hotels in the Denver city limits, is a special election for hotels with 50 rooms or more that will take place in November. Owners of these hotels will be asked to add an extra 1 percent to their current lodging taxes to help fund improvements to the Colorado Convention Center.

If approved, the ballot measure will establish a tourism improvement district. The proposal has run into little resistance since it was first floated in June. The Denver City Council this summer unanimously agreed to place it on the ballot.

"The TID will be beneficial to downtown," Cahill said. "Denver's a great case study in what a convention center can do, and convention centers need to [be] maintained and improved."

hospitality real estate graphic.png



Molly Armbrister
Reporter
Denver Business Journal