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Market Focus: Denver, Colorado



Overview of the Denver Metropolitan Area

Despite the national economic downturn experienced in late 2008 and 2009, the hospitality industry in Metro Denver is starting to see indications of a market “turn-around”. Occupancy trends for late 2009 indicate that the market for the most part has “bottomed” out.

Many hospitality industry professionals believe that Metro Denver will start to experience a growth in occupancy and average room rate by mid-2010. These increases of occupancy and average room rate should continue from mid-2010 through 2011 and 2012.

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. Downtown Denver is at an elevation of 5,280 feet above sea level.

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 the Denver International Airport (DIA) which opened in 1995, replacing the former Stapleton International Airport. 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. Denver is the largest city in the U.S. to be one satellite bounce to anywhere in the world. Major companies in the satellite, cable TV, and telephone industries with operations in the region include Liberty Media (Starz

Entertainment), Qwest Communications, EchoStar (Dish Network), and Comcast. The biotechnology and pharmaceutical industries have been growing recently due to new opportunities at the \$4.7 billion, 578-acre Fitzsimons Bioscience 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 major employers are listed below.

LARGEST PUBLIC SECTOR EMPLOYERS		LARGEST PRIVATE SECTOR EMPLOYERS	
Name	# of Employees	Name	# of Employees
Federal Government	37,302	Wal-Mart Stores	25,959
State of Colorado	33,700	Centura Health	13,000
University of Colorado System	14,790	Safeway	10,681
City & County of Denver	13,000	King Soopers	9,676
Jefferson County Public Schools	12,840	HCA-HealthOne	9,000
Denver Public Schools	12,580	Qwest Communications	8,300
U.S. Postal Service	6,513	University of Denver	6,189
Denver Health	5,164	Exempla Healthcare	6,104
Adams 12 Five Star Schools	5,054	Home Depot	5,958
Boulder Valley School District	4,042	Wells Fargo	5,700

Source: Denver Business Journal Book of Lists 2009/2010

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, on February 28, 1995. Besides being one of the world's largest airports at 53 square miles, as of year-end 2009, DIA was also the 10th busiest airport in the world and the fifth busiest in the United States, having enplaned and deplaned over 50 million passengers. DIA continues to be United Airlines' second largest hub (behind Chicago), as the airline leases nearly one-half of all of DIA's gates. In addition, Frontier/Republic Airlines as well as Southwest Airlines have significantly increased their market share in Denver in recent years.

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 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) twelve-year comprehensive public transportation plan for the Denver and Boulder metro areas. This \$6.1 billion project, with an estimated completion date in 2017, 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 will be at Union Station in downtown Denver. As part of the FasTracks project, Union Station will undergo a major redevelopment transforming site into a dense mixed-use, transit-oriented area.

Tourism is the state of Colorado's largest private industry valued at over \$4.1 billion according to a recent (2008) survey conducted for the Denver Metro Convention & Visitors Bureau. The top five visitor markets for Denver are: Colorado, California, Texas, Illinois and Wyoming. It is estimated that over 11 million visitors visit the Denver area annually. Pleasure trips have remained stable over the past several years however since these figures were released, these trips are expected to have dropped slightly in 2009 as a result of the national recession.

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.

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
2005	64.1%	\$ 91.10
2006	66.4	101.54
2007	67.0	111.21
2008	65.0	118.27
2009	59.0	106.85

Between 2005 and 2007, the metro Denver lodging market showed an overall increase in occupancy and a significant increase in average room rate. This is a result of several factors including a vibrant economic situation. By year-end 2008, the national economic recession that appears to have taken hold in the third quarter began to have a negative effect on the metro Denver Market as 2008 occupancy decreased and average room rate growth significantly slowed. The negative effects of the economic recession can be further evidenced through an analysis of the year-end 2009 performance when compared to the previous year. 2009 year-end occupancy decreased approximately 9.2 percent while the average room rate has decreased 9.7 percent.

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

- The combined population of the Denver-Aurora PMSA and Boulder MSA, according to the 2009 estimate, is 2,754,823 and accounts for more than half of the state's 4.98 million people. Population in the Denver metro area has steadily increased in the past ten years, with an average annual growth rate of 2.06 percent. The Denver Regional Council of Governments (DRCOG) projects that the population of the Denver metro area will increase to 3,055,896 by the year 2015, 3,321,019 by 2020, and 3,852,768 by 2030, representing an annual growth rate of approximately 1.61 percent, 1.63 percent and 1.58 percent respectively since 2000.
- Employment gains are a strong indicator of economic health and generally correlate with real estate demand. From 2002 to 2007, employment in the Denver-Aurora MSA and Boulder MSA grew at an average annual compound rate of 2.3 percent. In the last two years, total employment numbers have been decreasing, with year-over-year employment decreases of 14,681 in 2008 and 59,798 in 2009. Over the next five years, employment in the Denver-Aurora MSA is estimated to grow by a 2.8 percent average annual growth rate.
- As of December 2009, the unemployment rate for the Denver PMSA was 7.5 percent while the unemployment rate for the Boulder-Longmont MSA for the same time period was 5.7 percent. At year-end 2009, the unemployment rate in the state of Colorado was 7.5 percent, compared to 5.8 percent at year-end 2008 and 4.1 percent at year-end 2007. The national unemployment rate in January 2010 was 9.7 percent, compared to 6.6 percent one year ago.
- With respect to annual retail sales for the Denver metro area, at year-end 2005, 2006 and 2007, retail sales showed growth of 6.7 percent, 8.0 percent and 10.0 percent, respectively. Since 2007, retail sales have been experiencing smaller increases, with a 4.1 percent increase for the fourth quarter 2008, and a 0.7 percent increase for 2009. The Colorado Department of Revenue reported that retail sales in October 2009 (the most recent data available), were down 13.7 percent to \$10.1 billion, from \$11.7 billion one year earlier.
- All of the Denver commercial real estate markets continued to experience moderate declines in 2009. The problems in the

housing market are thought to be felt most in the retail market as consumer confidence and spending wanes. In office and industrial sectors, new supply for 2009 had been below historical levels and most new space came on line with 50 percent or greater pre-leasing to meet lending requirements. The development pipeline for the office and retail sectors continue to diminish with only one million and 440,000 square feet, respectively, under construction at year-end 2009. This compares to 1.7 and 2 million square feet, respectively, of new space under construction at year-end 2008.

With respect to commercial office space, as of year-end 2009, vacancy was 20.0 percent, up from 19.13 percent at mid-year 2009 and 17.1 percent as of year-end 2008. For 2009, there had been approximately 1.27 million square feet of negative absorption, which is the first full year of negative absorption in the office market since 2002. This is a substantial change from a vacancy of 15.3 percent with 2.59 million square feet of space absorbed in 2007. Seven of the eight Denver submarkets had vacancy rates in excess of 15 percent. Only 1.87 million square feet of commercial offer space sold in 2009, totaling \$209.5 million, compared to sales in 2008 of 6.49 million square feet totaling \$1.04 billion.

In the overall industrial market, as of the fourth quarter 2009, the vacancy rate was 7.72 percent, slightly higher than 7.52 percent at mid-year 2009 and 7.47 percent at year-end 2008. In 2009, absorption is negative 108,818 square feet, which is similar to the negative absorption of 110,977 square feet at mid-year 2009, and an improvement from the negative absorption of 584,343 square feet for 2008. These statistics indicate that the industrial market in Denver metro has remained relatively stable with no significant increases in the vacancy rate and low amounts of negative absorption throughout 2009.

In the retail market, the overall vacancy rate increased from 7.43 percent at year-end 2008 to 9.37 percent at year-end 2009. For 2009, absorption has become negative at approximately 46,000 square feet, compared to a positive absorption of 1.78 million square feet for 2008. At the end of the fourth quarter 2009, there was 440,000 square feet of retail space under construction, compared to over two million square feet at the end of the fourth quarter 2008, and four million square feet at the end of the first quarter 2008.

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.

As with the rest of the country, Denver has experienced a recession beginning 2008 as it is experiencing an economic slowdown generally tied to the effects of problems in the housing market. Unemployment in the Denver metro area has increased but still remains lower than the national average. However, retail sales have plummeted and at mid-year 2009, experienced the first same-quarter decrease since 2003. Commercial market segments have continued upward pressure on rents. Home sales and building permits are down significantly over recent years as the housing industry has weakened nationally with foreclosures at near record levels. While the short-term economy continues to struggle, Denver's economy and commercial real estate market are still considered well positioned from a long-term economic perspective.

As the local and national market recovers, many experts believe that Denver's numerous attributes will allow it to recover at a rate faster than the national average, 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 2009, there were approximately 37,050 available hotel rooms in Metro Denver. According to a survey that is produced by Horwath HTL - Denver, these lodging properties registered a 2009 occupancy of 60.6 percent at an average room rate of \$113.63

As of April 2010, these properties operated at 58.3 percent and an average room rate of approximately \$110.56.

These rooms are spread in various sectors of Metro Denver. The following charts present the year-end 2009 and year-to-date 2010 (through April 2010) performance of these lodging properties.

**HOTEL TRENDS FOR METROPOLITAN DENVER
YEAR-END 2009 COMPARED TO YEAR-END 2008**

	ANNUAL OCCUPANCY		ANNUAL AVERAGE ROOM RATE	
	2009	2008	2009	2008
DOWNTOWN	63.3%	69.2%	\$138.75	\$155.60
NORTH	49.4	62.1	76.86	82.96
NORTHWEST	58.7	65.8	107.60	124.58
SOUTH	65.5	69.7	115.79	134.36
SOUTHEAST	56.0	62.7	98.30	113.23
SOUTHWEST	55.2	60.5	93.30	106.92
WEST	59.5	65.5	110.19	118.62
STAPLETON	63.9	70.0	77.21	80.81
DIA	63.4	68.4	104.18	120.59
METRO AREA	60.6	66.6	113.63	128.04

**HOTEL TRENDS FOR METROPOLITAN DENVER
YEAR-TO-DATE 2010 (THROUGH APRIL 2010) COMPARED TO
YEAR-TO-DATE 2009 (THROUGH APRIL 2009)**

	YEAR-TO-DATE (THROUGH APRIL) OCCUPANCY		YEAR-TO-DATE (THROUGH APRIL) AVERAGE ROOM RATE	
	2010	2009	2010	2009
DOWNTOWN	60.3%	58.2%	\$137.02	\$140.22
NORTH	45.6	48.8	75.39	76.98
NORTHWEST	53.3	52.3	99.07	109.77
SOUTH	59.3	60.6	113.84	116.94
SOUTHEAST	54.0	49.3	94.99	101.25
SOUTHWEST	49.6	47.3	88.85	97.41
WEST	56.2	53.4	107.07	110.96
STAPLETON	67.4	64.0	78.53	84.66
DIA	67.4	62.3	100.19	106.21
METRO AREA	58.3	55.6	110.56	115.63

Between 1995 and 2009, the supply of lodging accommodations in Metro Denver has increased by approximately 14,775 rooms/units or approximately 66 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. Downtown Denver achieved an approximate 63.3 percent occupancy level in 2009 compared to the previously noted overall Metro occupancy level of 60.6 percent.

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; new residential in the "Uptown" neighborhoods.

Approximately 24.5 percent of the aforementioned number of guest rooms, approximately 9,100 rooms, are located in downtown Denver. 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 and the Denver Pavilions.

This activity in the downtown area, along with the expansion of the Colorado Convention Center, has attracted significant interest in hotel development. In spite of the current recession, there are currently approximately ten rumored and/or planned hotels proposed for the downtown area. These include chain affiliated and independent mid-priced to boutique-level priced lodging properties.