HVS

MARKET REPORT

COVID-19's Impact on the Denver Lodging Market

OCTOBER 7, 2020

Since early March, metro Denver-area hotels have suffered unprecedented declines in demand, similar to most cities in the United States, because of the COVID-19 pandemic. How far has the Denver hotel market fallen? How does this compare to the last recession? What will the recovery look like?

Amid a worldwide pandemic, the lodging industry is facing a downturn that is greater than the past two lodging-market declines combined. During the Great Recession, Metro Denver's occupancy fell roughly eight points from 65% in 2008 to 57% in 2009; this year, we forecast occupancy to drop from the 2019 benchmark of roughly 74% to 42%, reflecting a 32-point correction. Average rate declined from $106 in 2008 to $93 in 2009, a 12% drop; this year, we forecast ADR to fall 30% ($135 to $96).

Denver – 2020-2023 Forecast

	Historical		Forecast			
	2018	2019	2020	2021	2022	2023
Occupancy	73.1%	73.9%	42%	54%	70%	73%
Percent Change		*1.1%*	*-44%*	*30%*	*29%*	*4%*
Average Rate	$131.75	$135.67	$96	$112	$126	$135
Percent Change		*3.0%*	*-30%*	*17%*	*12%*	*7%*
RevPAR	$96.34	$100.27	$40	$61	$88	$98
Percent Change		*4.1%*	*-60%*	*53%*	*44%*	*12%*

Source: STR (Historical Years) and HVS (Forecast)

Major factors contributing to our forecast are summarized as follows:

- Travel contracts in Denver during the coldest winter months, and this winter will likely be no different, with travel declining to minimal, essential travel only. Limitations to indoor dining and a lack of holiday entertainment events will limit staycation weekend travel, and the cancellation of the Denver Stock Show—a typical boon in January—will take its toll. Accordingly, further ADR discounting will be expected, as is typical for the market during the winter. The early spring months will also be challenged, as group demand will remain at bay, and corporate travel is not anticipated to heat up until late spring.
- The city's budget/economy and extended-stay hotels are performing well and proving resilient during the pandemic. We expect this foundation to stay in place, with extended-stay and lower-priced demand representing the majority of

room nights generated in the October 2020–April 2021 period, in particular.

- Representatives of the Colorado Convention Center are projecting a muted 2021, as the center continues to be closed to events because it remains set up for overflow medical use; moreover, Governor Polis has limited face-to-face gatherings to 100 people (with social distancing and other requirements in place). Our contacts at the center expect the facility to reopen for public events by the summer of 2021, with some larger-scale group demand returning in the summer and fall of 2021. However, representatives report a robust convention calendar for 2022 and 2023, which will support a strong and swift recovery for the downtown market during those years.
- A stronger market is expected for the summer of 2021, relative to 2020, as the nation is anticipated to emerge from pandemic restrictions and the distribution of the vaccine should be well underway. Denver realized occupancies in the high 40% range by the end of summer 2020 (up from the April and May lows in the 20s); we expect summer occupancy to reach the mid-60% range across the Metro Denver market. In a normal year, Denver experiences occupancy in the mid-to-high 80% range in the summer, which is forecast to occur by 2023.
- The strengths of Denver's corporate and government segments will again shine through once meeting and social-distancing restrictions are eased. The city's Federal Center campus, multiple state agencies, courtrooms, and corporate headquarters should begin their path to resuming normal operations and travel beginning late next spring. Occupancy and ADR recovery will accordingly be boosted as these operations ramp up.
- The transactions market has virtually ground to a halt in Metro Denver, with just two closed transactions since March. The Rodeway Inn & Suites on Federal Boulevard sold for $10,950,000 ($119,000 per room) in May; the City of Denver purchased this hotel to be repurposed into affordable housing for the city's homeless population. The downtown-proximate Town & Country Motel on West 39th Avenue also sold in May for $3,050,000 ($117,000 per room).

We are confident the Metro Denver market will rebound upon the release and distribution of a vaccine, the retirement of group meeting restrictions, the reopening of the convention center, and the resumption of corporate and government travel. We continue to watch the factors affecting Denver lodging, and our many consulting engagements throughout the metropolitan area allow us to keep our finger on the pulse of the market. We update our forecasts monthly.

For more information, contact our Denver team: Katy Black and Ryan Mark.

City of Denver's COVID-19 Guideline Highlights (as of October 1, 2020)

- Restaurants limited to 50% indoor dining capacity or 50 people, whichever number is fewer; outdoor dining capacities will become more difficult to use once the colder weather arrives.
- Meetings are limited to 100 people, as long as a six-foot distance can be maintained between attendees. Other requirements for meetings are listed here.