

Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

**Downtown Denver's
RiNo Neighborhood:
*Denver's next great hotel
development opportunity?***

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Downtown Denver's RiNo Neighborhood Denver's Next Great Hotel Development Opportunity?

Metro Denver

The strength of the Metro Denver market lies in its position as the population and distribution center for the Rocky Mountain Region. The Metro Denver market is highly ranked as a place to live and work because of its educated work force, moderate cost of doing business and high quality of life.

The Metro Denver region is home to 3.2 million people. The population has been growing an average of 1.7 percent per year over the past ten years, or an average of 50,000 net new people each year. Net migration, or the number of people moving into the region less the number of people moving out, has been responsible for 60 percent of the population growth.

With respect to air transportation, Denver International Airport (DEN) is the 5th busiest airport in the U.S. having served approximately 64.5 million passengers in 2018 (5.1 percent more than in 2017) and that growth has continued into 2019. DIA serves over 190 nonstop destinations including 26 international destinations in 11 counties.

In general, Metro Denver is a standout region in terms of economic performance and is expected to maintain this status into the near-to-midterm. Employment in Metro Denver is estimated to have increased by 2.6 percent in 2018, representing the addition of about 42,000 jobs. Metro Denver employment growth in 2019 is likely to fall slightly to 2.1 percent.

According to STR, Inc., the Metro Denver Lodging Market occupancy for the trailing 12 months (April 2018 through March 2019) was a strong 72.9 percent with an Average Daily Rate of \$132.17. The resulting RevPAR was \$96.38.

These figures represent an increase of supply of 5.2 percent over the previous year while demand increased 4.5 percent and the ADR increased 0.7 percent. The resulting RevPAR for the metro area increased 0.1 percent of the previous year.

The pipeline remains very strong with approximately 9,300 rooms (in 73 projects) either in-construction, in final planning or in the preliminary planning stages.



Downtown Denver

Downtown Denver is the main financial, commercial, education, transportation and entertainment area of Metro Denver as well as the Rocky Mountain Region. According to the Downtown Denver Partnership, as of the mid-year 2018, downtown Denver had over 38.0 million square feet of office space (up 2.0 percent over the same period in 2017), with a vacancy rate of 11.4 percent (down from 13.4 percent in the previous year). Additionally, there is approximately 2.7 million square feet of office space currently under construction. In mid-2018, the direct average lease rate was approximately \$33.00 per square foot.

The Downtown Denver, or CBD Lodging Submarket is the metro area's strongest RevPAR performer. According to STR, Inc., for the trailing 12 months (April 2018 through March 2019) the Downtown/CBD Denver Lodging Submarket's Occupancy was a strong 76.2 percent with an Average Daily Rate of \$202.00. These figures represent an increase of lodging supply of 5.4 percent over the previous year while demand increased 5.5 percent and the ADR decreased slightly at -0.2 percent. The Downtown/CBD pipeline remains very strong with approximately 2,500 rooms (in 11 projects) either in-construction, in final planning or in the preliminary planning stages.

Downtown Denver's RiNo Neighborhood

Downtown Denver is made up of several distinct Districts or Neighborhoods. The Downtown Denver Partnership defines downtown Denver to include the following Districts: Central Business District, Golden Triangle, Auraria, Central Platte Valley (which includes Union Station), LoDo (Lower Downtown) and Ballpark (the location of Coors Field). While not included within the immediate downtown Denver boundary, surrounding areas such as RiNo (River North), Uptown, Five Points, Highlands, Jefferson Park, La Alma/Lincoln Park and Sun Valley are also considered to be part of the City Center Neighborhood Boundary.

RiNo, the River North Neighborhood (also referred to as the River North Arts District), has recently gained its identity as a District/Neighborhood developing northeast of Downtown along the South Platte River. The RiNo District is considered a hot destination for young professionals and it has exploded with new construction in recent years, as apartment buildings, brewpubs, hotels and restaurants have sprung up to meet demand.

RiNo is located adjacent to the Lower Downtown (LoDo) Neighborhood, one of the most successful urban revitalization stories in the United States. In the 1850s, LoDo was the birthplace of Denver. However, by the

1970s, LoDo had become the city's skid row, and as late as the 1980s the area was dominated by numerous vacant buildings, crumbling infrastructure and vagrants. Thanks, in part, to the creation of the Lower Downtown Historic District in 1988 as well as the development of Coors Field in the early 1990's, the area has been completely reutilized. Virtually all of the 100-plus historic buildings have been restored and the area is now dominated by lofts, shops, restaurants, nightclubs, art galleries and some of the highest property values in the city.

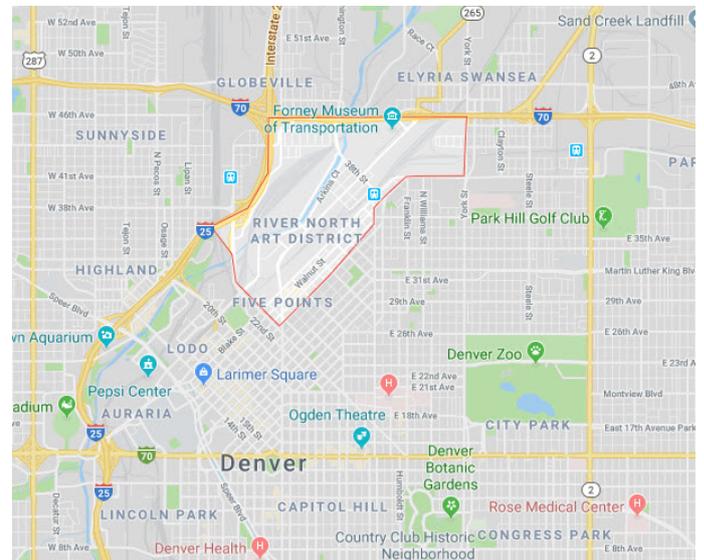
Given that most development sites in LoDo have been spoken for, development has exploded into the adjacent RiNo Neighborhood. Almost entirely industrial in nature, historically, the RiNo area was isolated from the rest of Downtown Denver by a mixture of rail yards and viaducts. However, over the last 5 – 10 years, the area has been discovered for its mix of authentic industrial grittiness and an historic urban feel that, along with the amenity of the South Platte River and a location very close to the CBD area of downtown Denver, RiNo has become one of the Denver's hottest emerging neighborhoods.

The “isolation” of the RiNo District has been largely overcome given a variety of factors:

- the development of Coors Field and growth in popularity of the LoDo and Ballpark Neighborhoods which allowed for a natural extension into the adjacent RiNo Neighborhood;
- the redevelopment of the area's major street viaducts (Park Avenue and Broadway);
- the recent development of a significant number of residential projects in the immediate area;
- the on-going Brighton Boulevard street improvements (the main traffic arterial accessing and bisecting RiNo);
- the addition of numerous breweries and brew pub operations in the Neighborhood;
- the 38th/Blake Street Station of the University of Colorado A Line (the commuter train that connects Denver International Airport with Downtown Denver (via Union Station));
- the on-going” redevelopment of Interstate Highway 70 (which borders RiNo to the north); and
- the on-going massive redevelopment of the National Western Complex (home of the annual National Western Stock Show – located on the northeast boundary of the RiNo District.

The following map presents the boundaries of the RiNo District as well as its relationship to other Districts/ Neighborhoods of Downtown Denver and surrounding areas.

RiNo District Boundaries



Source: Google Maps

One of RiNo's major attributes is its connection to the transportation links in the area. These transportation links include the following:

- Interstate Highway 70 (I-70) and Interstate Highway 25 (I-25) – Colorado's east/west Interstate Highway accessing the recreation area's in the Rocky Mountains to the west. In addition, Colorado north/south Interstate Highway, I-25 runs adjacent to the District.
- The 38th Street/Blake Street Commuter A-Line train station (the commuter train line that connects the site area to Denver International Airport to the east and downtown Denver to the west). This A-Line is also referred to as the University of Colorado A-Line.

Developments within this neighborhood include varied industrial and commercial buildings (both redeveloped and new construction) that support the area's reputation as an arts district. Historic warehouses and factories now house jazz bars, restaurants, brewpubs, art galleries and working studios. RiNo boasts a diverse mix of creative businesses ranging from visual artists, designers and furniture makers, to craft distillers and breweries.

This area also includes the redevelopment and reopening of a major wholesale market as well as a new hotel (The Source Hotel). The Platte River Bikeway and the reconstruction of the Broadway and Park Avenue West viaducts have helped reconnect the District with Downtown and RiNo's proximity to both Union Station and several future transit stations are anticipated to further tie the district the rest of the city.

The District is increasingly being known as a neighborhood for office development and expansion. CBRE reports that as of year-end 2018, within the RiNo submarket (a newly defined submarket) there was approximately 1.4 million square feet of office space, with a vacancy of 15.6 percent.

Absorption was strong at 110,000 square feet and the average lease rate was \$37.47 (one of the highest in the Denver metro area and \$4.00 higher than the Denver Central Business District). Additionally, there is currently 647,855 square feet of office space currently under construction in this neighborhood.

The area is increasingly becoming popular with high-tech start-ups (many that are health care related) as well as several big anchor tenants, such as HomeAdvisor. The City of Denver also invested in the neighborhood's future with a major infrastructure improvement project, turning two-lane Brighton Boulevard into a four-lane street with traffic signals, sidewalks and raised bike lanes. The success of the transformation so far is evident in the numerous construction projects underway throughout the neighborhood, including many historic buildings being repurposed for office.

Major projects currently under development, recently opened, or proposed, in the neighborhood:

- The Hub, located at 3601 Walnut Street (adjacent to the 38th and Blake Street commuter train station), was recently completed and is a 275,000 square foot, mixed use, transient-oriented office development. This space is home to HomeAdvisor's new corporate headquarters. WeWork will occupy one floor of this office building.
- The North Wynkoop development is a project that occupies 14 acres between 40th and 43rd Streets and the railroad tracks and Brighton Boulevard. This project, once built out, will include an 80,000 square feet

of market hall space in converted 1950s warehouse buildings, a music venue (the under-construction 3,950 capacity Mission Ballroom which is scheduled to open in Summer 2019 and run by AEG Presents), 90,000 square feet of office space, a potential hotel, residential units and affordable housing.

- The World Trade Center Denver, located at 38th and Blake Street, is a proposed mid-rise office development featuring more than 250,000 square feet of office space, 30,000 square feet of restaurant and retail space and a 40,000 square foot conference center. The master plan also includes a proposed hotel. The World Trade Center Denver project is anticipated begin construction soon with an opening in late 2020.
- Rev360, a five-story office and retail development at 3600 Brighton Boulevard will break ground next quarter. WeWork will occupy two floors of this building.
- A 50,000 square foot office building will soon be developed at 3500 Blake.
- Watershed is a proposed 167,000 square foot office building with 13,000 square feet of ground floor retail, located near RTD's 38th and Blake Street Station near 35th and Brighton Boulevard. Groundbreaking is anticipated for 2020 with opening in mid-2021. This building will feature an unprecedented amount of outdoor space (9,000 square feet).
- A project currently referred to as The Giambrocco Development is currently proposed for an eight-acre area located between 36th Street and 38th Street and between Wynkoop and Wazee Streets. This area is proposed to be developed with office and retail space, 350 residential units, a potential hotel and art studios.
- Hurley Place is a proposed development that will be located along the South Platte River on six acres between 36th and 38th Streets and Arkins and Delgany Streets. This project's developer describes it as a multi-use, multi-generational music and entertainment project featuring retail, restaurants, high-end residential and a 1,000-seat amphitheater. Initial plans call for a 12-story, 200,000 square foot speculative office building to be developed at 3515 Delgany Street.



Within this neighborhood, two high-end hotels have recently opened (the “acclaimed” Source Hotel and the Ramble Hotel), one is near ready to start construction (a Best Western VIB) and almost every proposed mixed-use development discussed includes a potential hotel component. Clearly, the hotel development community is beginning to notice the potential of this newly developing Neighborhood.

Conclusion

The overall Denver market area is considered to be very strong and diversified. Recent trends include rising employment, increasing retail sales growth, higher rents; and decreasing vacancy levels in all commercial market sectors. Unemployment continues to annually decrease. The economy and commercial real estate markets are considered well-positioned from a long-term economic perspective.

The hotel market is anticipated to remain equally strong. While STR Inc., anticipates that the overall Metro Denver lodging market supply will grow 3.9 percent in 2019 and 4.1 percent in 2020, it's also anticipates that demand will grow 4.2 percent and 4.6 percent annually respectively, Consequently, hotel market occupancy is anticipated to increase annually to levels above its already record-breaking performance. Growth in ADR is also anticipated to be positive at 1.8 percent in 2019 and 2.3 percent in 2020 resulting is 2.1 percent and 2.8 percent annual growth in RevPAR's for the same period. These growth rates far exceed that growth rates anticipated by STR, Inc. for the national hotel market. The performance of the Downtown Denver lodging submarket has a major influence in these positive growth estimates.

With respect to downtown Denver, its rise continued into 2019, establishing record highs for employment, number of residents, hotel occupancy and tech startup formation. Recent investments such as strategic planning, transit, arts and culture, technology, infrastructure, conventions and visitors are providing exceptional return and have propelled Denver into an economically powerful position within the United States.

Downtown Denver's newly developing RiNo District/ Neighborhood is positioning itself as the next great opportunity in the Denver market area. With all the commercial and entertainment related development recently completed, or anticipated to be completed in the near-to-mid-term, the opportunity for successful hotel development to follow is considerable.

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William Kottenstette (Bill) has over 37 years of industry experience including 32 years consulting experience (four years with an international consulting firm and 28 years with Horwath HTL/Montgomery & Associates) performing market feasibility research, hotel and restaurant operational analysis, financial analysis and hotel valuations, and seven years of experience in hotel and restaurant operations, including hospitality marketing, strategic planning, and hotel facility management.

Bill's areas of specialization and experience include:

- Assessment of market support for hotels and restaurants.
- Hotel Asset Management
- Preparation of Impact analysis for multiple hotel franchise companies (Marriott International, Inc. InterContinental Hotels Group, Best Western, etc.)
- Preparation of financial estimates to determine project feasibility.
- Operational studies of various hotel operating departments.
- Owner services, including development and disposition strategies, market repositioning strategies for existing hotels and restaurants and management and franchise reviews.
- Assisting with real estate appraisals and business valuations for the hospitality industry.

Bill'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.

Horwath HTL

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Our clients choose us because we have earned a reputation for impartial advice that will often mean the difference between failure and success. Each project we help is different, so we need all of the experience we have gained over our 100-year history.

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