MARKET REPORT

Marcus & Millichap

HOSPITALITY

Denver Metro Area

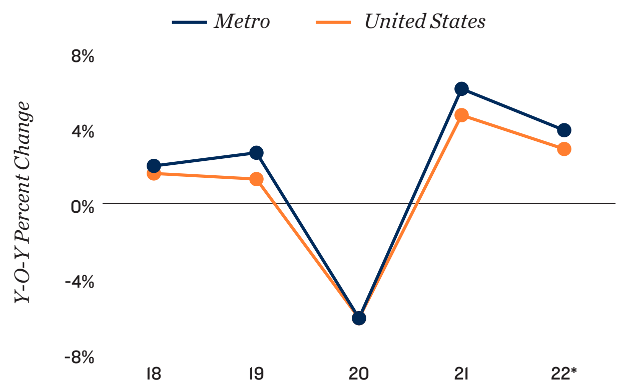
MIDYEAR 2022

Select Service Demand Nearing Pre-Pandemic Highs; Business Travel Remains a Missing Piece

Leisure recovery advances into the summer. During the initial years of the pandemic, Denver experienced sharp losses in the leisure segment, as travelers favored the state's more mountainous towns for their outdoor and nature-related activities. Emerging from omicron, hotels in Denver have begun recording the highest levels of occupancy since before the onset of COVID-19. Weekend demand is nearing 2019 levels, highlighting the metro's relatively swift recovery. Occupancy in May was only 570 basis points below the same month of 2019, with ADR above pre-pandemic levels. However, the return of business travel is a lingering tailwind for hoteliers. A resurgence in this segment would aid demand near major business hubs, such as the CBD and Denver Tech Center.

Limited service hotels record strongest demand. As leisure travelers returned to the metro and higher levels of inflation set in, the demand for lower-cost lodging recovered ahead of full service hotels. Average annual occupancy in the economy tier is within 200 basis points of the pre-pandemic level, and May occupancy in the midscale section is within 20 basis points of the 2019 recording. Furthermore, annual RevPAR in the select service portion of the market is only a fraction beneath the 2019 recording. With just over 100 economy rooms and 250 midscale rooms under construction entering June, new supply is unlikely to stand in the way of continued upward movement in this segment.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Hospitality 2022 Outlook

2,000
ROOMS
under construction

CONSTRUCTION:

Supply growth has slowed over the course of the pandemic, down from the more than 3,200 rooms under construction in May 2020. Moderate additions, in concert with recovering travel demand, point toward improving metrics in the near term.

760
BASIS POINT
change in occupancy

OCCUPANCY:

The gap between pre-pandemic and the 12-month average occupancy rate in 2022 is expected to tighten. The return of large-scale conventions, concerts and events will bring the rate to 66.6 percent.

17.7%
INCREASE
in ADR

ADR:

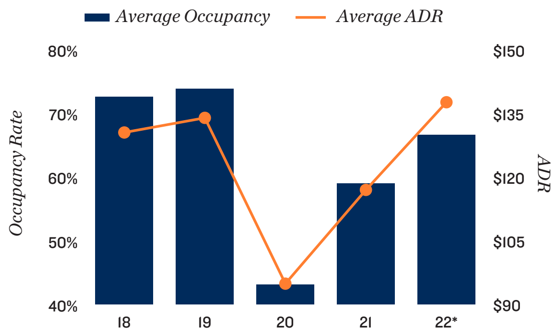
By year-end, the average daily rate measured across the entire 12-month period will exceed the 2019 level for the first time since the onset of the health crisis. The annual ADR in 2022 will reach $137.57.

32.8%
INCREASE
in RevPAR

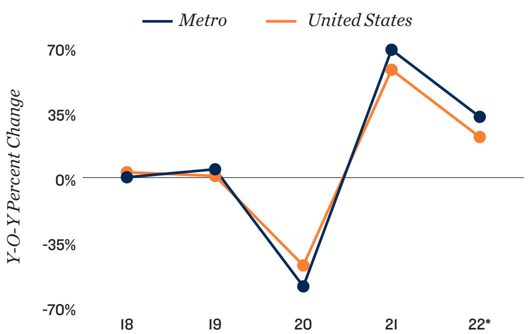
REVPAR:

Despite the rise in the ADR, below-average occupancy metrics, compared to pre-pandemic norms, will result in annual RevPAR reaching $91.63. This is about 7 percent shy of the 2019 figure, but 250 percent above the lowest pandemic-era recording.

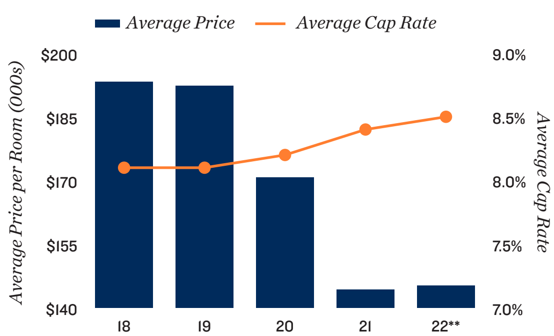
Occupancy & ADR Trends



RevPAR Trends



Sales Trends



** Forecast ** Through May*

Sources: CoStar Group, Inc.; Real Capital Analytics

May 2022 - 12-Month Period

OCCUPANCY

1,960 basis point increase in occupancy Y-O-Y

- Occupancy climbed nearly 2,000 basis points to 64.6 percent on average over the 12-month period ended in May. This leaves the metro's average annual occupancy less than 900 basis points below the pre-pandemic level.
- Notably, monthly occupancy entering May is less than 600 basis points below the 2019 level, highlighting the sharp recovery in 2022.

ADR

47.3% increase in the average daily rate Y-O-Y

- Rising occupancy helped raise the annual ADR to $128.80 during the year preceding June. However, the average nightly rate in May was $142.67, more than $10 higher than the recording in the same month during 2019.
- The Denver Airport/East and Denver West submarkets are the only locales where trailing 12-month ADR has surpassed May 2019 levels.

REVPAR

111.5% increase in revenue per available room Y-O-Y

- Despite RevPAR more than doubling the previous yearlong average, the rate sits at $83.25, more than $12.00 below the pre-pandemic average.
- Due to higher relative occupancy during the past year, economy and midscale lodging has fared best in the metro. Average annual RevPAR for economy hotels is slightly higher than it was entering 2020.

Investment Highlights

- Sparked by the strong demand recovery recorded thus far in 2022, institutional and out-of-state investors have ramped up acquisition activity of late. Portfolio sales are increasingly common here, enabling transaction velocity to surpass last year's pace. Limited service hotels have been the primary target of active buyers, contributing to the average sales price dipping 4 percent year-over-year to $145,000 per room. Still, this mean pricing represents an uptick from the year-end 2021 level.
- In the past 12 months, sales velocity has ramped up in areas of rapid population growth. In northern Denver suburbs like Westminster, investors are targeting economy and midscale hotels, with average pricing near $85,000 per room. In the southern suburbs, like Lone Tree and Littleton, midscale and upper midscale lodging trades dominate, with pricing at $90,000 per room on average.
- Deal flow is the slowest to return in the full service segment. However, some trades are occurring near the Denver Airport and the Denver Tech Center, as well as downtown. In these locales, first-year yields for full service assets are around 7.5 percent on average, about 100 basis points below the overall mean cap rate.

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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.

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