

MEMORANDUM

To: Society Turn Development Team
From: Economic & Planning Systems, Inc.
Subject: Society Turn Parcel Lodging Demand
Date: August 25, 2020

This memorandum provides additional guidance and recommendations regarding market support for lodging uses on the Society Turn parcel. Economic & Planning Systems (EPS) was originally engaged to provide recommendations relating to the market demand for a range of uses that could be accommodated on the Society Turn parcel. Specific uses evaluated by EPS included retail, restaurant, office, and lodging. EPS summarized the findings and conclusions of that analysis in a report that was submitted to San Miguel County as part of an application to amend the Telluride Regional Area Master Plan for the Society Turn Parcel, which was submitted with the County in February, 2019 (Master Plan Amendment Application). This memorandum builds on the previously completed analysis and provides additional context gathered through interviews with local entities including businesses, Medical Center representatives, community organizations, guest-related operations, and real estate professionals.

About EPS

EPS is a land use economics consulting firm that provides a full range of services addressing market support, financial feasibility, economic and fiscal impacts, public-private partnership formation, and public finance (among others). The Denver office has developed a niche consulting practice working on assignments for public and private clients in mountain resort communities. Having completed projects in nearly every resort community in Colorado as well as many throughout Wyoming, Montana, and Utah, EPS understands the issues and opportunities presented in these markets. Previous studies have focused on the layering of local, guest, and second home owner expenditure; growth patterns and cycles; economic composition; workforce housing pressure; and ways to define development that simultaneously align with market support and address community need.

The Economics of Land Use



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Summary of Previous Analysis

Study Overview

EPS submitted a final draft of the Market Overview study to the development team on February 14, 2019. This study was included as a component of the Master Plan Amendment Application. The market study completed by EPS addressed key questions relating to the development potential of specific uses on the Society Turn parcel. Specifically, the study provided a framework that allowed the development team to identify and quantify the amount of supportable development by land use type.

Based on estimated employment and population growth in the region, EPS developed estimates for additional supportable office space, retail space, and lodging uses in the Telluride region. In addition, EPS defined potential capture rates for the Society Turn parcel by development type. The findings of this analysis indicated a demand for retail, restaurant, office, flex space, and lodging rooms on the Society Turn parcel. Demand for retail and food/beverage on this parcel was estimated to range from 15,000 square feet to just under 28,000 square feet; demand for office space was estimated to range from roughly 28,000 square feet to 45,000 square feet; and demand for flex/industrial was estimated to range from 40,000 square feet to 70,000 square feet. In addition, this analysis identified demand for 100 to 250 hotel rooms on this site. The methodology focuses on the employment composition of San Miguel County and the real estate development needed to accommodate local job growth.

The demand for additional lodging space reflected market research and interviews with local real estate professionals. Based on this analysis, EPS identified a unique market opportunity for “family friendly” hotel space that provides a higher finish than “budget,” but does not compete with much of the “high end” product found throughout much of rest of the Town and Mountain Village. This recommendation has been integrated into the site plans and continues to be an integral component of the overall development plan. Additional context related to the demand for lodging in and around Telluride is summarized below.

Telluride Lodging Demand

There is a unique market opportunity for ‘family friendly’ hotel space that provides a higher finish than ‘budget,’ but does not compete with most of the ‘high end’ product found throughout the rest of the Town of Telluride and in Mountain Village. There continues to be a limited number of development opportunities for additional hotels in San Miguel County or in the Towns of Telluride or Mountain Village. The highest and best use for many of the parcels that might be developed with new hotels continues to be high end homes or condominiums, and sites approved for hotels are being modified for ownership product. The operational costs for higher end hotels are such that the resulting NOI and corresponding profit margins are insufficient to move forward with construction, particularly when compared to real estate projects with sales at time of certificate of occupancy (single family, townhomes, and condominiums). As a result, the inventory of higher end hotel rooms in the Towns of Telluride and Mountain Village has remained relatively flat over the past decade. Currently there are a few active hotels in Telluride:

the New Sheridan Hotel, the Hotel Telluride, the Columbia Hotel, Camel Garden, Ice House, and The Victorian Inn, which together have a total room count of 210 rooms, as shown in **Table 1**. There is also The Peaks Resort & Spa, The Madeline, Mountain Lodge, and Bear Creek Lodge in Mountain Village.

Table 1. Existing Hotel Inventory

Property	Room Count	Year Built	Condo Prop?	Condo Units	Percent Condo	Stated Rates	
						Smallest Rm.	1-Bed Suite
Madeline	128	2009	yes	68	53%	\$579	\$1,149
Hotel Telluride	50	2001	yes	50	100%	\$549	\$629
Peaks Hotel	172	1992	yes	172	100%	\$349	\$669
The Ice House	34	1990	yes	34	100%	--	\$450
Mountain Lodge	93	1999	yes	93	100%	\$301	\$452
Camels Garden	39	1999	yes	8	21%	\$300	\$495
New Sheridan	26	1899	no	0	0%	\$289	\$463
Bear Creek Lodge	49	2000	yes	49	100%	\$189	\$339
The Victorian Inn	40	1976	no	0	0%	\$172	\$259 (loft)
Hotel Columbia	21	1994	no	0	0%	\$313	\$550

Rates reflect nightly rate without taxes or fees based on three night stay in mid-February, 2018

Rates reflect lower end of range for all room types

Source: Economic & Planning Systems, January 2018

The hotels currently proposed for development include the Ajax and an unnamed proposal presented preliminarily on a site near the Camels Garden—have failed to move forward after a multi-year planning process. If the projects can be reactivated, both hotels are anticipated to add rooms priced at the higher end of the market and, as a result, do not represent direct competitors to the mid-priced hotel product that is recommended for the Society Turn parcel.

Short-Term Rental Market

Over the past decade, much of the growth in the demand for additional hotel rooms has been met by an increase in the number of short-term rentals in the towns. The result has been a reduction in the number of homes occupied by permanent or seasonal residents and an increase in homes that provide short-term accommodations for guests to the region through Vrbo or Airbnb. While this has helped to meet demand for short-term accommodations, it has at least partially resulted in a decrease in the number of owner-occupied housing options available in the Towns. Units that could once accommodate local families or seasonal employees have now been converted to short-term rentals in an effort to capitalize on the demand for this type of space. As the supply has been reduced, there has been greater pressure on pricing.

Development Opportunity

While the extend of the impact of COVID-19 on the national and regional demand for new hotel rooms is still unknown, prior to the pandemic, the research reflected a focus on the part of developers on luxury hotels. At the time this analysis was completed, all of the proposed hotel developments focused on the premium or luxury hotel market. None of the proposed projects focused on a moderately priced product. As a result, there is significant opportunity in the 'below \$200 rack rate' for new product of quality.

It should also be noted that few remaining parcels in the region that lend themselves to this niche. The future competition will shake out some of the current proposals, as all are focused on the upper-end segment. A proposal of this nature would face much less competition, given the lack of land. Based on the anticipated growth in the region, and broker interviews related to the near term, it appears the market can support as much as 200 to 300 rooms through 2040, typically in 100 room increments.

Recommended Lodging Types

As noted, the analysis previously completed by EPS identified demand for 100 to 250 mid-priced hotel rooms over the next 20 years. The Society Turn parcel is well positioned to capture a portion of that demand. It is likely that this site would attract interest from limited service and select service hotel operators. These types of hotels generally align with two- and three-star hotel types. Depending on the specific rating system, a two-star hotel reflects a property that has minimal additional amenities and offers only basic accommodations; a three-star rating indicates a slightly higher quality experience that potentially includes a limited number of amenities. It is important to note that a two- or three-star rating does not indicate that a hotel is substandard; it simply indicates that a hotel is more affordable and may have limited amenities. These hotel types are described in greater detail below and examples of recently developed comparable hotel types in other mountain resort communities are provided on the following page.

Limited Service Hotel

Generally, this type of hotel is defined as one without a restaurant or banquet facility. While the services and amenities offered to guests are still quite modest, what is offered has expanded over the past decade. Today, limited service hotels might offer a business center, fitness room, guest laundry facility, indoor or outdoor pool facilities, and sometimes small meeting rooms. These types of hotels are typically the most budget friendly for travelers. Depending on the design and configuration of the hotel, it is not uncommon for these types of hotels to offer their guests extended stay options. Brands that belong to this asset class typically include: La Quinta, Element, SpringHill Suites, Fairfield Inn, Homewood Suites by Hilton, Hampton Inn, Comfort Inn, Country Inn, Residence Inn, and others.

Select Service Hotel

Selected service hotels fall between limited service and full service hotel types. These types of hotels typically provide some level of restaurant and banquet facilities. However, unlike full-service hotels, these types of hotels typically do not provide more elaborate amenities such as multiple restaurants, expensive catering services, or an abundance of meetings space and/or banquet/wedding facilities. In addition, pricing for these hotels is above limited service but well below the rates charged at full service hotels. Brands that belong to this asset class typically include: aloft, Holiday Inn Select, Hilton Garden Inn, Courtyard by Marriott, DoubleTree Club, Wyndam Garden Inn, Ramada, and others.

Comparable Existing Hotels

Element

- Location: Basalt, CO (Willits Town Center)
- Type: Limited Service Hotel
- Rooms: 113 rooms
- Rating: 3.5 stars
- Amenities: Pool and hot tub, restaurant, business center, gym, and laundry
- Estimated Room Rate: \$230 per night (December, 2019)



Homewood Suites by Hilton

- Location: Steamboat Springs, CO
- Type: Limited Service Hotel
- Rooms: 84 rooms
- Rating: 3.0 stars
- Amenities: Pool, restaurant, bar, business center, gym, and laundry
- Estimated Room Rate: \$210 per night (December, 2019)



Courtyard by Marriot

- Location: Glenwood Springs, CO
- Type: Select Service Hotel
- Rooms: 101 rooms
- Rating: 3.0 stars
- Amenities: Pool and hot tub, restaurant, bar, business center, gym, and laundry
- Estimated Room Rate: \$215 per night (December, 2019)



Lodging Demand Drivers

Demand for a select service or limited service hotel on this site is driven by a variety of sources. These include both traditional sources such as guests travelling to the region for a weekend trip or a longer vacation as well as alternative sources of demand such as staff working at the Telluride Medical Center and other professionals travelling to the region for business purposes. A brief description of the primary demand drivers is provided below.

Existing Guest Demand

As previously noted, much of the increase in the demand for additional higher end hotel rooms in the Town has been met by an increase in the number of short-term rentals. In addition, many of the existing hotels have increased their average daily rates in response to the limited supply that currently exists in the market. It is important to note that many of these hotels continue to struggle with seasonality and experience significant variation in monthly occupancy rates throughout the year. Generally, annual average occupancy rates continue to be below 50 percent, further indicating the challenges associated with developing a new hotel in this market.

A new limited service or select service hotel at this location will absorb demand that is otherwise being met through alternative options in the market such as short-term rentals. Less demand for short-term rental units also has the potential to push homes that have more recently been listed for short-term rental back into the pool of long-term rental housing options for the community.

New Guest Demand

As this is a more affordable lodging option in the region, it is likely to attract some visitors that were otherwise unable to afford room rates in the Telluride region. A new hotel at this location is expected to affect total visitation slightly, within single digits of a percentage increase relative to existing visitation.

Medical Center Staff

A mid-priced hotel located in close proximity to the proposed medical center represents a tremendous advantage for the center and the hotel. This type of hotel will provide rooms for doctors, nurses, and other technical staff working at the medical center who require occasional overnight accommodations. In addition, this type of a hotel could provide outpatient accommodations for hospital patients needing follow-up visits and potential space for overflow hospital rooms should emergency purposes (like the COVID-19 pandemic) develop in the future and the space is needed.

Having a hotel of this type as an option for overnight accommodations will be especially important considering the limited amount of space in a new medical center that might be available for overnight rooms. Conversations with senior staff at the medical center and members of its board also confirmed the advantages associated with having this type of hotel in close proximity to the center. Most mountain resort medical centers rely heavily

on travelling staff to enable them to operate. Select service hotels provide a reliable and available source of housing for these staff members.

First Responders

In addition to travelling nurses and doctors, this type of hotel would also have the potential to accommodate other types of first responders, such as firefighters, paramedics, and other critical emergency workers. Many of these first responders often struggle to find adequate accommodations when responding to an emergency. This type of a hotel would not only be able to accommodate responders in the hotel rooms but also with the larger event space could accommodate additional responders and response operations.

Travelling Professionals

There are a wide range of professionals traveling in and out of the Telluride region on a weekly basis who require consistent overnight accommodations. Examples of frequent visitors include business professionals, such as accountants and CPAs who are travelling to the area to meet with clients, professionals traveling to the area for conferences or events, airline pilots, and others representing areas of expertise needed to support the Telluride business community. Due to the limited supply of available hotel rooms, many of these professionals have difficulty finding overnight lodging. Challenges in finding available rooms and higher room rates can result in project delays or additional costs being passed down to local clients and organizations. Given the weather conditions for which the Telluride region is exposed to, particularly in the winter, having a more cost effective hotel option would be helpful for workers travelling to and from the area from Ridgway, Montrose and other nearby communities who are caught up with severe weather.

Regional Professionals

In addition to business professionals travelling from outside the greater Telluride region, there is a need to accommodate demand for overnight lodging from local professionals and tradespeople. Many of these professionals are travelling within the region and in order to be closer to project locations require short-term overnight accommodations. Many of these professionals are tradesman or tradeswomen or are working in related industries and are unable to afford room rates in Telluride or Mountain Village. As a result, these professionals are forced to drive down valley to communities such as Ridgway or Montrose in order to find affordable accommodations, which in turn has an impact on total commuting time and regional GHG emissions. Some of this demand is met by the Angler Inn, located 12 miles down valley from Telluride. However, conversations with individuals familiar with this hotel's operations indicate that regional demand is more than sufficient to accommodate additional mid-priced hotels.

Sporting Events and Tournaments

Telluride accommodates a wide range of organized sports activities for adults and children of all ages. The majority of these events involve school age children ranging from age five all the way through high school. On an annual basis there are a wide range in sporting events hosted in the region that include track and field, wrestling, hockey, skiing, basketball, soccer, lacrosse, volleyball, and others. When tournaments are held for any of these sports, there is a concentrated need for reasonably priced accommodations. Many of the teams travelling for these events are coming from locations across the Rocky Mountain region and require overnight accommodations. However, due to the limited supply of lodging in the Town, teams are often forced to pay room rates that are considerably higher than in other areas or are forced to find accommodation options outside of the Telluride region, such as in Montrose. A mid-priced hotel on the Society Turn parcel would provide additional affordable options for teams travelling for these types of events and allow them to stay within the region prior to or after a specific event. Conversations with locals familiar with the challenges that many of these teams face have also indicated a clear demand for mid-priced hotel in the region.

Community Needs

While a mid-priced hotel on the Society Turn parcel would be expected to be used by “tourists” for their accommodation needs, it is equally likely that a hotel designed to these standards and services would be an important resource, capable of serving other, broader community needs beyond only tourist visitation. Further enhancement to these types of hotels could include meeting rooms that could be used not only for guests of the hotel, but also as meeting space for the community at large.