

HOTEL DEVELOPMENT ANALYSIS

PROPOSED SOCIETY TURN HOTEL
TELLURIDE, COLORADO

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SOCIETY TURN HOTEL

The Society Turn development site is conveniently located near the towns of Telluride and Mountain Village and is a good location for a hotel. It sits along Highway 145 at the primary entry point for most travelers to the area and it is one of the few potential sites outside of Telluride and Mountain Village that could house a hotel development. Given current and future market needs, a hotel component can provide solutions that would benefit both consumers and the local community.

MARKET NEEDS & DEMAND

The proposed hotel would be primarily designed to fill a niche currently underserved within the Telluride and Mountain Village communities, specifically value-priced and family-oriented accommodations. The bulk of the local hotel room supply is comprised of full-service lodging facilities in the upscale and luxury segments. Over the past two decades, with mere 209 new rooms constructed, Telluride and Mountain Village have seen fewer additions to hotel supply than any of the other high-end regional ski resorts. Meanwhile, the area has seen extensive visitation growth. Based on the analysis of the demand base within Telluride and Mountain Village, it appears evident that there is ample need for hotel room options that do not currently exist in the market. The hotel itself would not be expected to attract visitors; rather, it would be available to serve an existing, unfulfilled need for the region.

The majority of hotels in Telluride and Mountain Village cater to high-end clientele with 74% of the current room supply in the upscale and luxury full-service segment. The Society Turn site provides an opportunity to fill a void in the market for more value-priced accommodations. While many vacationers prefer the quality, service levels and locations of the current hotel offerings, there are sporting event participants, festival attendees, business travelers, emergency responders, as well as staff and patients from the new medical center at Society Turn, who simply require reasonably-priced accommodations, which are largely missing from the Telluride region.

During the winter and summer seasons, hotel occupancies often exceed 90% and in the midst of the peak ski season months, particularly over the holiday periods, the resort experiences many sellout nights. The same is true for major weekend festivals in the summer. Visitation to the region continues to grow as evidenced by the volume of air passengers as well as national park visitation. With the number of travelers on the rise, additional hotel rooms will be required to accommodate them.

Demand compression and high room rates during ski season, festivals, and sports competitions often force visitors to utilize lodging facilities in other municipalities, many of which are over an hour away. The festivals held throughout the year cater to a broad range of attendees, from affluent leisure travelers to price-conscious patrons. In many cases, the latter are priced out of the local hotel market, in which case they stay in other hotel markets like Montrose or Ouray, or they shift to campsite options. There is clear evidence that they experience demand lift when there are major events in Telluride and Mountain Village. In both 2018 and 2019, there were more than 60 days where select-service hotels in Montrose and Ouray surpassed 90% occupancy. Many of the near sellout periods coincide with festivals and events held in Telluride and Mountain Village. This provides clear evidence of demand overflow from the area. Families and participants for the various ski competitions frequently drive outside of the local market for accommodations. Sports teams for the Bridal Veil Cup and the Telluride



Baseball Festival often stay in economy and budget hotels in Ridgway and Norwood. In fact, websites for the hockey tournament and the baseball festival promote hotel accommodations outside of Telluride because of the lack of options in the area.

Emergency responders, including firefighters and FEMA representatives, occasionally require accommodations in the region. These workers typically require economical accommodations given budget limitations. For recent needs, they have reportedly stayed at properties in Montrose.

A new hotel would capture some of this demand leakage and convert day visitors to overnight guests. These new patrons would naturally have a positive impact on sales at local retail shops and restaurants. Furthermore, the hotel would contain some of the outbound and return traffic generated by multi-day festivals and events, thus reducing traffic along Highway 145 during high demand periods.

The new medical center planned for the Society Turn development is also expected to induce new lodging demand. Data provided by the Telluride Regional Medical Center estimates the new facility will produce 1,769 new room nights annually (approximately 4 occupancy points for a 125-room hotel).

DESIGN & AESTHETICS

While maintaining a streamlined operation, the property should also include a casual dining venue catering to guests as well as local workers and residents. A small amount of event and function space is also recommended for community meetings, social events and visiting sports teams.

The Society Turn site is the primary entryway to the local community for most visitors to Telluride, whether heading into downtown Telluride or up to Mountain Village. As the welcoming gateway to the destination, it will be important for the hotel to represent the community through design and facility program. A main concern in many intimate communities is the impact of a newly-constructed building within an area where most stores, restaurants and hotels are independent, historic and/or locally owned. While hotels must adhere to general standards for quality, service and amenities, there is often flexibility in the design aesthetic, which is what this project will require. This will not only create an enhanced product more cohesive with the Telluride area but also produce a unique facility whose architecture, finish level and design aesthetic blends with the local area. The design would be reviewed and approved by the project's design review board.

While the optimal product for the Society Turn site would be a hotel with a select-service orientation, the property should include features that would broaden its appeal and serve other community needs. Many recent select-service lodging facilities constructed in ski resorts across the western United States include added components like full-service restaurants and large meeting facilities which are not prototypical.

Most select service hotels contain between 80 and 150 guest rooms, while prototypes tend to range from 123 to 137 units. In many cases the room count is dependent on the rooms configuration, and in particular the ratio and size of suites. Families attending sporting events and tournaments, as well as medical staff or emergency responders residing at the hotel on occasion, would most likely prefer suites or mini-suites with separated bedroom areas, as well as refrigerators, microwaves and perhaps a small stovetop to prepare food. The layout for



such suites can vary from a large extended-stay, efficiency unit to a mini-suite. To maximize the potential for the site and satisfy the market need for affordable lodging, the proposed hotel should house approximately 125 guest rooms with a large portion of the rooms having a suite or mini-suite orientation.

As with all select-service properties, the hotel should have a breakfast lounge for a breakfast buffet and/or quick-serve meals. Depending on the arrangement for the restaurant operation, the restaurant facility can be utilized for breakfast service. At many select-service hotels in niche urban and resort markets, the food service element is often enhanced to capitalize on additional opportunities and needs within the community. The Society Turn property is capable of including a new restaurant venue that appeals to not only hotel guests, but also local residents and area workers. It is recommended that the restaurant be an independent operation, perhaps affiliated with a chef or restaurateur with local or regional experience. A food hall type arrangement is also an option given current market trends.

Select-service hotels tend to house very little meeting space, if any. Most do not have the food service capabilities or staff to oversee event venues. With an on-site restaurant, the hotel would be able to provide banquet services and handle larger events than a typical select-service hotel. To adequately handle meeting and event needs for both the outside community as well as patrons of the hotel, the property should have approximately 2,000 square feet of meeting space, preferably divisible into two or three separate rooms when necessary. A 2,000-square-foot room can accommodate over 150 people in a banquet setup or 200 people for a reception.

The overall size of the structure is expected to be in the range of 92,000 to 110,000 square feet. The final product may vary as the project moves forward in the planning process as room configurations, event requirements and operational components change over time. However, this provides guidance for the current needs within the marketplace.

FINANCING

Financing a select-service hotel project is significantly easier than a larger full-service hotel, let alone a multifaceted resort project. Due to their lower construction cost, shorter development timeframe, and higher profit margins, select-service hotel projects present a lower risk than luxury resort projects. A select-service hotel can often be developed within a 3-year timeframe, from planning to construction completion. Meanwhile, luxury resort projects can often require several years to a decade for the entire development process. With fewer amenities and a more efficient building layout, the construction cost and upfront investment is more palatable for both a developer and a lender. Thus, the development of a select-service product would appeal to a large pool of proven hotel developers as well as national lenders.