CANADIAN LODGING OUTLOOK QUARTERLY 2016-Q1

FEATURING: THE CANADIAN LODGING MARKET SHOWING REMARKABLE STRENGTH

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The Canadian Lodging Market Showing Remarkable Strength

Many industry pundits would be surprised, but the Canadian hotel industry once again set a new record for RevPAR in 2015, flying against the economic headwinds resulting from the decline in commodity and oil prices. The low Canadian dollar was able to drum up enough demand in export markets to maintain positive GDP growth nationwide, although the rate of growth was half that of 2014. Foreign investment in commercial real estate across Canada has been very strong, in part because of the attractiveness of the low dollar, but also with support from China's easing of restrictions on investing outside of Mainland China in recent years. The international investment interest in the Canadian hotel industry is changing the landscape and adding a new dimension to the composition of ownership in the country. Two recent examples of large international acquisitions are the Fairmont Le Chateau Montebello and Kenauk and the King Blue Condo/Hotel development site, both of which were acquired by large Chinese developers.

From a lodging accommodation standpoint, the low Canadian dollar induced both domestic and international travel within Canada in 2015, which helped non-resource markets to make up for the demand being lost in hard-hit oil-producing markets, principally in Alberta, Newfoundland, and Saskatchewan. Demand overall was up, but more than 5,000 new rooms entered the market in 2015, which nudged the average annual occupancy for the country slightly downward.

Room rate increases were the main driver of RevPAR growth for the country in 2015, supported by the low dollar, which diminished rate resistance among international travellers. Vancouver led the way with a stunning increase in ADR of nearly 15%, followed by Toronto with a 10% increase. Leisure markets, such as Banff and Niagara Falls, really benefited from the low dollar, with robust ADR growth of 9.3% and 8.6%, respectively. The harder hit regions mainly in western Canada had a more difficult time in 2015. Edmonton was barely able to maintain its rate integrity, registering a minor decline of just 0.4%. Calgary, however, had to deal with 900 new rooms entering the market at the same time that demand was in a tailspin; the Calgary market consequently suffered a 3.8% drop in ADR, which was the sharpest decline of any market in the country.

The national supply base increased at almost double the rate that was seen in 2014. At the same time that Western Canada saw significant supply growth, there was not nearly the same number of hotel closures for repurposing to alternative uses in 2015 as there was in 2014. With the additional supply suppressing occupancy growth, the nationwide average occupancy level for 2015 was 64.3%, down just over half a percentage point from 2014. The improvement in market performance in 2015 was thus founded on ADR growth, which, at 4.5%, is the strongest growth that the country has seen in the past 10 years. In 2015, the national ADR reached just shy of $144. Consequently, the national RevPAR improved to just over $92 which breaks all previous records (unadjusted for inflation) and reflects an increase of 3.6% over the level recorded in 2014.

The gap in economic performance between Eastern and Western Canada grew significantly in 2015 after having narrowed in 2014, but the gap is expected to widen less in 2016. The Canadian economy is expected to better adjust to the new normal of low oil prices and the potentially stronger Loonie in 2016, and be able to better take advantage of the strengthening US economy, which continues to churn at a healthy pace. Moreover, the impact of the severe cuts in capital spending within the energy sector is likely to ease in 2016, as a certain level of investment becomes imperative ,thereby lessening a major source of weakness in oil-producing provinces. According to RBC Provincial Outlook March 2016, we can expect moderately stronger rates of expansion in most oil-consuming and oil-exporting provinces in 2016 relative 2015.

Despite the economic challenges facing many regions around the world, such as the slowdown in China and the precarious state of the EU, the Canadian lodging industry is expected to again set a new RevPAR record in 2016, supported by the projected improvement in economic conditions in Canada and the US, the low Loonie, and moderate supply growth. RBC is forecasting stronger overall GDP growth for the country at 1.7% (versus 1.2% in 2015), and the Conference Board of Canada anticipates a 2.4% increase in overnight tourism visits, which is healthy although slightly slower than the 2.8% growth experienced in 2015.

Increases in the room supply will continue to suppress occupancy growth. According to STR, there are currently over 7,500 hotel rooms under construction in Canada. Most of these rooms will open in 2016, which would represent an overall increase in supply of 1.5%. This is a much more robust increase in supply than the market saw in 2015, when the national room count increased by 0.9%. The removal of older inventory for alternative uses, as we have seen in recent years, could offset some of these new rooms. For example, 482 rooms have already been taken off the market in Toronto in 2016 with the closure of the Best Western Primrose and the Hilton Garden Inn City Centre, which had 335 and 147 rooms, respectively.

The economic environment remains somewhat unsettled, but demand growth is nevertheless projected to keep pace with supply growth in 2016, keeping the national occupancy level for the year just slightly below 64%, generally in line with 2015. At the same time, the nationwide ADR is projected to grow by $5 to $149 in 2016, making ADR growth once again the main driver of RevPAR growth for the country. The resulting RevPAR of $95 that is projected for 2016 is higher than any year on record (unadjusted for inflation).

Canada - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2015	64%	$144	$92	3.6%
2016f	64%	$149	$95	3.6%
2017p	64%	$154	$98	3.5%

Although the national perspective is positive, particularly in terms of rate growth, the performance of individual markets will vary according to local and regional market forces. The recent performance and the outlook for five major markets across Canada—Downtown Vancouver, Calgary, Downtown Toronto, Downtown Montreal, and Halifax—are showcased below.

Downtown Vancouver

British Columbia is once again projected to lead the country in GDP growth in 2016. Moreover, economic activity in British Columbia is expected to accelerate modestly in 2016 relative to 2015. A hot housing market, competitively priced exports, and a healthy labour market are fuelling incomes and household spending in Vancouver.

In this positive economic climate, Downtown Vancouver is expected to sustain very strong demand growth in 2016. The weak Canadian dollar should continue to spur increases in the number of US and International travellers to the city. The Conference Board of Canada projects overnight visits to the city to increase a robust 3.4% in 2016.

Downtown Vancouver has three hotels under construction—the JW Marriott, the Autograph Hotel, and a Trump Hotel, all near BC Place Stadium. Two of the three hotels will enter the market in 2017. The Trump Hotel however is projected to open in the last quarter of 2016. The barriers to entry in the Vancouver market are very high because of the lack and cost of available land. There are many developers and brands that would like to have a presence in Vancouver; however, finding an appropriate site is extremely challenging, and occupancies continue to rise as a result.

With strong demand growth and a relative lack of new supply, the market-wide occupancy is projected to reach a new high of 78% in 2016, breaking all previous records. With the occupancy so high, the market is also expected to sustain healthy ADR growth in 2016 with an increase of 7.0% over the 2015 level. New supply is poised to enter the market, but the pent-up unaccommodated demand is so strong that the occupancy is projected to reach 79% for the first time ever in 2017, accompanied by a further $11 increase in average rate in the same year.

Downtown Vancouver - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2015	77%	$201	$155	19.8%
2016f	78%	$215	$169	8.7%
2017p	79%	$226	$178	5.2%

Calgary

The economy of Alberta has suffered a blow from the steep drop in crude oil prices, which is adversely affecting the province's vital energy sector. A turnaround is anticipated by mid 2017, but the provincial economy is projected to see negative economic growth with a decline of 1.6% in 2016; this is nevertheless less of a drop than in 2015, when the GDP contracted 1.8%. Despite the gloom in the energy sector, Alberta's crude oil production is still set to rise as large-scale oil sands projects continue to come on board.

The strength of the Calgary market prior to the correction in oil markets stimulated a surge in hotel development activity. These rooms continue to enter the market even as demand contracts sharply with the downturn in the provincial economy, compounding the downward pressure on occupancy. On a weighted basis that takes into account projected opening dates, Calgary will see the addition of roughly 900 guestrooms in 2016 and the same number again in 2017. To put this in perspective, the room supply in the Calgary market is poised to increase by 2,100 rooms in the three-year period from 2015 to 2017, which is nearly a 16% increase in overall supply. For 2016, this translates into a projected occupancy of 60%, down four percentage points from the previous year.

While the market is faced with absorbing the fallout from the energy sector and the aggressive rate of inventory expansion, Calgary is not expected to see any rate growth. The market-wide ADR is projected to decrease by $7 in 2016 and remain at that level in 2017. The drop in ADR combined with the lower occupancy results in a 10.6% drop in the projected RevPAR for 2016. At this time, no change in RevPAR is projected for the Calgary market in 2017, which is projected to be a turnaround year.

Calgary - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2015	64%	$157	$100	-11.7%
2016f	60%	$150	$90	-10.6%
2017p	60%	$150	$90	0.0%

Downtown Toronto

Developments during the past several months have been overwhelmingly favourable to Ontario's economy. The plunge in oil prices, the sliding value of the Canadian dollar and the corresponding boost to exports, the continuation of low interest rates by the Bank of Canada, and the mounting evidence of the US economy hitting its stride—all are stimulating growth in the province. According to RBC, the province's GDP growth is projected to slow slightly from an estimated 2.5% in 2015 to 2.3% this year before taking off again in 2017 at a more robust rate of 2.6%, but overall the outlook is quite strong.

Against this positive economic backdrop, the Downtown Toronto lodging market is expected to see strong growth in 2016 and slightly more modest growth in 2017. The performance recorded in the first quarter of 2016 shows that the market is tracking well in terms of ADR growth and occupancy relative to the comparable period in 2015.

The lack of available land in the downtown core is a barrier to entry into this market, and there is little additional new supply on the horizon. In fact, this year Toronto is seeing a contraction in supply, as the Best Western Primrose and the Hilton Garden Inn were taken off the market early in 2016, which is helping to buoy both occupancy and ADR levels. Depending on construction schedules, we may see the opening of the new 128-room Loews Bisha Hotel in the first half of 2017, which is what we have assumed in our projections. In 2016, the only new hotel that is anticipated to open is the 400-room Library Collection Hotel *X*, an urban resort to be located on the Exhibition Grounds at the Waterfront.

With strong demand growth and a contraction of supply, the market-wide occupancy is projected to reach a new high of 76% in 2016, breaking all previous records. With the occupancy so high, the market is also expected to sustain healthy ADR growth in 2016 with an increase of 9.0% over the 2015 level. In 2017, strong demand is projected mitigate any decrease in occupancy as new supply comes on board and to be accompanied by a further $13 increase in average rate in the same year.

Downtown Toronto - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2015	73%	$194	$141	7.7%
2016f	76%	$211	$160	12.9%
2017p	76%	$224	$170	6.5%

Downtown Montreal

Quebec stands to benefit from the plunge in oil prices since it imports all the oil that it consumes and is a large exporter of a wide array of products; however, the province's GDP grew by only 1.0% in 2015. For 2016 and 2017, RBC projects modestly stronger GDP growth of 1.4% and 1.8%, respectively. Quebec continues to deal with a shrinking pool of people of working age, weak business investment in machinery and equipment, and relatively restrictive fiscal policy amid efforts to return to a budgetary balance, which are hindering the economic output of the province.

As Montreal is the major economic engine for the province of Quebec, the health of the Downtown Montreal lodging market is tightly tied to the economic wellbeing of the province as a whole. In 2015, Montreal had a strong year both in terms of both occupancy and ADR growth with very little increase in inventory, leading to 8.8% increase in RevPAR. The low Loonie contributed to a 6.4% increase in the market-wide ADR that year.

The Downtown Montreal lodging market is expected to benefit not only from the province's more favourable economic environment, but also from a reduction in the supply of guestrooms. In July 2016, the Fairmont Queen Elizabeth Hotel will close to allow for a complete renovation and then re-open in July 2017. This 977-room decrease in inventory for the latter half of 2016 and the first half of 2017 will benefit the market, which is facing the entrance of four new hotels in 2016: the 142-room Renaissance by Marriott Hotel, which opened in February; the 90-room Mount Stephen Hotel that is set to open later this year; the 225-room Holiday Inn, which is also to open in the latter half of the year; and the 127-room William Gray, which is to open midyear.

The Downtown Montreal market will thus be in a unique position of having four new hotels open while the market-wide guestroom inventory actually decreases. As such, the market-wide occupancy is projected to increase by two points to 75% with a 4.0% gain in ADR, contributing to a 7.3% increase in the overall RevPAR for Downtown Montreal in 2016. In 2017, the events in celebration of the 375th anniversary of the founding of Montreal are expected to drive additional demand growth; the market-wide occupancy is projected to increase another percentage point to 76%, a level this market has not seen in recent memory.

Downtown Montreal - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2015	73%	$176	$129	8.8%
2016f	75%	$183	$138	7.3%
2017p	76%	$193	$146	5.9%

Halifax

Nova Scotia is poised for moderate economic growth through 2016. According to RBC, Nova Scotia's economy grew an estimated 0.9% in 2015, but it is projected to expand by 1.3% and 1.1% in 2016 and 2017, respectively. The province is relying on strong export growth and the continuation of work on the 30-year, $25-billion shipbuilding procurement contract at the Halifax shipyards as well as a number energy related projects throughout. The outlook for exports is positive given that demand from the United States continues to rise while the Canadian dollar remains weak. These developments, along with lower prices at the pump, should support job creation, and they bode well on a long-term basis, both economically and for the hotel industry.

In 2016, the Halifax lodging market will begin to benefit from the major projects that are underway in the province; however, low oil prices are making it more difficult for large players in the offshore energy sector, such as BP, Shell, and Suncor, to remain as committed to their expensive offshore exploration programs, which is suppressing the rate of economic growth in the area. The Halifax market is projected to see stable demand and modest ADR growth in 2016. Given that supply growth is expected to be limited, the RevPAR is projected to increase 2.1% to $87 in 2016.

In 2017, the intensification of economic activity related to the major energy projects that are getting underway in the province and the ongoing work related to the shipbuilding contract are expected to generate stronger increases in both occupancy and ADR for the Halifax lodging market. The RevPAR is projected to increase at a very healthy rate of 7.1% in 2017, and additional growth is expected in the years that follow as the province enters into a new era of economic vitality.

The lodging market is also poised to benefit in the future from the new 290,000-square-foot convention centre that is scheduled to open in 2017. The new facility will make Halifax much more competitive in the convention market, and it will be a boon to area hotels.

Halifax - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2015	65%	$133	$85	4.6%
2016f	65%	$137	$87	2.1%
2017p	68%	$140	$93	7.1%

Conclusion

Across the country, oil-rich lodging markets (particularly those in northern and southern Alberta) are suffering from a sharp reduction in demand resulting from the number of energy projects that have been cancelled or put on hold. At the same time, some markets are struggling to absorb a significant amount of new supply. Markets such as Calgary and Edmonton are feeling a double whammy, as they are dealing with both these factors simultaneously, which is making these markets that much softer.

Looking forward to 2016 and 2017, the healthier economic fundamentals in both the US and Canada contribute to a positive outlook for most hotel markets across the country, where the economy is more generally positioned to benefit from, rather than be hindered by, the drop in the price of oil. Lower oil prices, a weaker Canadian dollar, and rock-bottom interest rates spell good news for net oil-consuming, export-intensive provincial economies. The provinces of Ontario, British Columbia, Manitoba, and Quebec are projected to benefit the most in the area of export growth the Canadian hotel industry overall is positioned to set new records in 2016 and 2017 as we continue through a very strong part of the hotel performance cycle. For the oil producing provinces, a turnaround is anticipated by mid 2017; where higher oil prices leading to greater capital investment is projected to begin the slow upward climb back to previous levels of demand and rate growth which often were the strongest in the country.

HVS

Canadian Lodging Outlook Quarterly 2016-Q1

STR and HVS are pleased to provide you with the quarterly report of the Canadian Lodging Outlook. Each report includes occupancy (Occ), average daily rate (ADR), and revenue per available room (RevPAR) for six major markets.

If you would like a detailed hotel performance data for all of Canada, STR offers their Canadian Hotel Review. The Canadian Hotel Review is available by annual subscription. For further information, please contact: info@str.com or +1 (615) 824-8664 ext. 3504.

March 2016	Occupancy Rate (%)		Average Room Rates ($CAD)		REVPAR ($CAD)		Room Supply	Room Demand	Number of Rooms	
	2016	2015	2016	2015	2016	2015	% chg	% chg	Sample	Census
Calgary	53.3%	63.2%	$138.33	$153.04	$73.67	$96.76	7.0%	-9.9%	12,037	13,859
Halifax	60.4%	61.8%	$119.33	$119.36	$72.06	$73.77	-2.9%	-5.1%	4,811	5,653
Montreal	59.6%	58.6%	$140.90	$135.98	$83.96	$79.69	1.6%	3.3%	16,437	26,860
Ottawa	66.5%	67.1%	$144.04	$143.59	$95.81	$96.32	4.1%	3.2%	7,315	9,709
Toronto	67.1%	65.9%	$154.70	$148.65	$103.88	$98.03	-0.9%	0.9%	32,791	36,475
Vancouver	73.5%	66.8%	$150.34	$135.37	$110.51	$90.39	0.5%	10.7%	20,967	25,853
Canada	**58.3%**	**58.9%**	**$137.08**	**$132.51**	**$79.87**	**$78.04**	**1.2%**	**0.1%**	**239,998**	**428,707**

March 2016 Year-To-Date	Occupancy Rate (%)		Average Room Rates ($CAD)		REVPAR ($CAD)		Room Supply	Room Demand	Number of Rooms	
	2016	2015	2016	2015	2016	2015	% chg	% chg	Sample	Census
Calgary	49.1%	59.6%	$139.28	$153.10	$68.42	$91.22	7.0%	-11.8%	12,037	13,859
Halifax	52.9%	52.4%	$118.49	$117.45	$62.64	$61.57	-3.8%	-3.0%	4,811	5,653
Montreal	57.7%	56.6%	$139.93	$135.47	$80.69	$76.69	2.0%	3.9%	16,437	26,860
Ottawa	64.6%	64.1%	$149.01	$145.57	$96.31	$93.29	3.6%	4.5%	7,315	9,709
Toronto	65.7%	62.4%	$153.46	$141.89	$100.81	$88.56	-0.8%	4.4%	32,791	36,475
Vancouver	67.0%	62.4%	$144.35	$131.58	$96.67	$82.15	0.8%	8.1%	20,967	25,853
Canada	**54.7%**	**55.5%**	**$136.68**	**$132.14**	**$74.79**	**$73.36**	**1.1%**	**-0.4%**	**239,998**	**428,707**

About STR

STR provides information and analysis to all major Canadian and U.S. hotel chains. Individual hotels, management companies, appraisers, consultants, investors, lenders and other lodging industry analysts also rely on STR data for the accuracy they require. With the most comprehensive database of hotel performance information ever compiled. STR has developed a variety of products and services to meet the needs of industry leaders.

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About HVS

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About the Author

Monique Rosszell is the Managing Director of HVS Toronto. Upon attaining a bachelor's degree in economics from Queen's University, she subsequently enrolled in the Master's program in Hotel and Restaurant Management at the Ecole Hôtelière de Lausanne and then attained both her AACI and her MRICS appraisal designations in Canada. Monique has completed hundreds of valuations and feasibility studies, including transaction and portfolio valuations throughout Canada. She also offers litigation and expert witness support, speaks at numerous conferences, and is a trusted advisor within the lodging industry. Contact information for Monique Rosszell: Phone: (416) 686-2260 ext. 23. Email: mrosszell@hvs.com