



CANADIAN MONTHLY LODGING OUTLOOK – FEBRUARY 2012

NORTHERN CANADIAN HOTEL MARKETS



Northern Canadian Hotel Markets

Introduction

The Canadian North is a distinct and intriguing hotel market. In stark contrast to the volatile market conditions experienced all over Southern Canada, hoteliers in Northern Canadian markets reported resilient operating performances even throughout the global recession, largely because the well-diversified economy of the North provides a solid base of lodging-demand generators. The two major cities in the North, namely Whitehorse and Yellowknife, are home to the majority of the hotels in the area. Although these two cities share many similarities, there are noticeable differences between the two that have resulted in significant disparities in hotel operating performance. Hotel operators in the North face unique challenges, but the outlook for the hotel markets in Northern Canada continues to improve.

The Tale of Two Cities

The two major hotel markets in the North, Yellowknife and Whitehorse, are in a comparable geographical location and generally share similar demand generators and barriers to entry. Despite these similarities, the hotels in these respective markets are operated very differently, which has created a sharp contrast in operating performance.

FIGURE 1-1 COMPARABLE PERFORMANCE DATA – YELLOWKNIFE VS. WHITEHORSE

| | Yellowknife | | | | Whitehorse | | | |
|-------------|-------------|--------------|---------|----------|------------|--------------|---------|---------|
| | Occupancy | Average Rate | RevPAR | Change | Occupancy | Average Rate | RevPAR | Change |
| 2008 | 62.0 % | \$149.00 | \$92.38 | — | 66.0 % | \$103.00 | \$67.98 | — |
| 2009 | 58.0 | 142.00 | 82.36 | (10.8) % | 63.0 | 105.00 | 66.15 | (2.7) % |
| 2010 | 59.0 | 149.00 | 87.91 | 6.7 | 63.0 | 108.00 | 68.04 | 2.9 |
| 2011 | 69.0 | 150.00 | 103.50 | 17.7 | 63.0 | 112.00 | 70.56 | 3.7 |

Source: HVS Database

As highlighted in the table above, in 2010 the sample of hotels in downtown Whitehorse registered an average annual occupancy of approximately 63.0% with an average daily rate (ADR) of about \$108.00; the resulting revenue per available room (RevPAR) is \$68.04. For the sample of hotels in Yellowknife in the same year, the occupancy was slightly lower at 59.0% but the ADR was far higher at roughly \$149.00, producing RevPAR of \$87.91. In other words, the downtown Yellowknife sample attained a premium in RevPAR of almost \$20 over the downtown Whitehorse sample in 2010. This disparity is evident in the performance data throughout the sample period and even noted an increase in 2011. In 2011, the occupancy level of the downtown Yellowknife market surged up about 10 percentage points to reach 69.0% at the same time that the ADR grew slightly to roughly \$150.00, resulting in a substantially stronger RevPAR of \$103.50. In 2011, local hotel operators in Whitehorse indicated that occupancy remained relatively flat year over year, while rates showed growth of approximately \$4.00. This resulted in RevPAR of \$70.56, approximately \$33 below the RevPAR achieved in Yellowknife. These two Northern hotel markets sustain fairly similar demand levels, but hotels in downtown Yellowknife command significantly higher room rates. The reason for this strong disparity in room-rate performance lies in local market forces that have shaped a different culture and environment for hotel operations.

Whitehorse

The Whitehorse economy is dominated by three diverse sectors that stimulate the majority of lodging demand in the city: the government sector, which represents over 6,200 jobs in the Yukon; the mining industry, as the majority of the businesses that provide essential services to mining companies throughout Northern Canada are headquartered in Whitehorse; and tourism, which has seen consistent growth in the near past and has been bolstered by summer tour business coming from US and European tourists alike. As highlighted in the table above, hotels in this market enjoy relatively consistent occupancy levels as a result of these reliable demand generators, even with the state of the US and European economies.

This reliable demand base is also a major contributing factor for the low ADR performance of the Whitehorse market. Holland America, which is a wholly owned subsidiary of Carnival Corporation based in Seattle, Washington, operates Yukon cruise packages that target Whitehorse as a port destination during the summertime. As such, the company itself is a major generator of lodging demand in the market. Holland America also owns two of the largest hotels in the market: the 180-room Westmark Whitehorse Hotel & Conference Centre and the 99-room seasonally operated Westmark Klondike Inn. Combined, these two hotels represent over 61% of the competitive downtown market in the sample noted above. As both a major lodging-demand generator and the largest hotel operator, Holland America has largely been able to dictate rates in the market. Holland America operates its hotels with a profit motive shaped by its cruise packages, so it sets its room rates lower than what could realistically be sustained by a typical hotel operator, which has led to a lower average room rate for the market in general. The hotels in Whitehorse, for the most part, have undergone update renovations to keep the quality of the guestrooms maintained; however, as a whole guestroom renovations have been less extensive in Whitehorse than in Yellowknife. A significant guestroom renovation was recently completed at the Best Western Klondike Inn and the High Country Inn. These recent renovations have allowed these two properties in particular to drive rates up, which has been a major contributing factor for the rate growth experienced by the Whitehorse market in 2011.

Yellowknife

Four major forces play an important role in the Yellowknife economy: mine development resulting from the discovery rich diamond deposits; the exploration for natural gas and oil in the northern part of the territory; the increasing vigour and growth of tourism; and the strong presence of municipal, territorial, and national government in the area. Hoteliers in Yellowknife felt the effects of the global recession slightly more than their counterparts in Whitehorse, but the market has since rebounded strongly to levels higher than what were recorded prior to the recession.

In the absence of the cruise industry depressing average room rates, the hotel operating environment and culture is much more dynamic in Yellowknife. Commercial and government base negotiated rates in Yellowknife are much higher than in Whitehorse. In addition, the majority of hotels in downtown Yellowknife, including the Coast Fraser Tower Suite Hotel, the Explorer Hotel, the Chateau Nova Inn & Suites, and the Yellowknife Inn, have recently undergone significant capital improvement plans, raising the quality of the guestrooms in the city to a new level. This has increased the rate ceiling in the marketplace, and the outlook for future ADR growth is strong. Moreover, hotels in the market are realizing demand from guests, particularly from commercial segments, who are willing to pay higher rates for a higher-quality product.

Challenges for Future Development

Northern Canadian markets are always going to face certain obstacles that come, quite literally, with the territory. Hotel developers have been keeping a close eye on Northern Canadian markets in recent years. However, aside from the Skyy Hotel, which opened in 2009 in Whitehorse close to the airport, there have been no new hotels built in the last ten years in either Whitehorse or Yellowknife. The challenges for development in this area include high construction costs for new developments and high operation costs as a result of higher utilities expenses. With a population of approximately 21,000 in Yellowknife and 26,000 in Whitehorse, there are additional concerns about over saturating a sparsely populated region. The subarctic climate, which registers an average daily mean temperature of between -9°C and -18°C during the winter months, poses an additional challenge, as it immediately eliminates certain corporate and leisure demand segments from the area. This raises concerns about a potential ceiling for demand growth in the area. In addition, gaining access to the area from within Canada and abroad is difficult and often expensive for the individual traveller.

Opportunities

With some of the world's largest reserves of oil, natural gas, and precious metals, Northern Canada has emerged as a lucrative opportunity for both domestic and foreign investment. In addition, tourism has boomed as a result of the area's unique landscape and aboriginal and cultural heritage. These economic engines provide a strong base of room night demand for hotels in the North, and both commercial and leisure demand are forecasted to experience growth in the near future. As highlighted in the recent performance of the Yellowknife market, Northern Canadian hoteliers have the ability to grow average room rates and drive top line revenues, although this potential remains to be exploited in Whitehorse, where rate growth has been depressed. The Northern Canadian hotel market is a unique destination that showed strength during the recent economic uncertainty. Bolstered by significant resource-based investment combined with a unique tourism product and a strong government presence, Northern Canadian hotel markets are poised to continue experiencing healthy growth. The challenges highlighted above appear to have turned developers away from this area, which is highlighted by the lack of new builds in the last decade. This seems reasonable for Whitehorse, where the average room rate is too low when compared to other tertiary Canadian markets, but developers should be watching Yellowknife very carefully. Although the geographical location presents unique challenges, economies that prove to be versatile and dynamic are the ones that have a huge potential for future investment.



About the Author

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Canadian Lodging Outlook February 2012

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

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 which includes both monthly and weekly issues. Each monthly issue of the Canadian Hotel Review also includes an analysis provided by HVS. For further information, please contact: info@str.com or +1 (615) 824-8664 ext. 3504.

| February 2012 | Occupancy Rate (%) | | Average Room Rates (\$CAD) | | REVPAR (\$CAD) | | Room Supply | Room Demand | Number of Rooms | |
|-----------------------|--------------------|--------------|----------------------------|-----------------|----------------|----------------|-------------|-------------|-----------------|----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | % chg | % chg | Sample | Census |
| Montreal | 58.4% | 56.9% | \$126.35 | \$125.06 | \$73.84 | \$71.18 | -0.1% | 2.6% | 16,746 | 27,949 |
| Toronto | 61.0% | 63.0% | \$130.10 | \$128.69 | \$79.37 | \$81.05 | 2.9% | -0.3% | 31,544 | 37,466 |
| Vancouver | 57.0% | 56.5% | \$124.75 | \$126.03 | \$71.10 | \$71.25 | 1.3% | 2.1% | 19,323 | 26,509 |
| Provinces | | | | | | | | | | |
| Alberta | 61.5% | 58.6% | \$133.06 | \$128.49 | \$81.86 | \$75.31 | 1.2% | 6.2% | 38,731 | 67,999 |
| British Columbia | 54.4% | 52.8% | \$130.77 | \$128.66 | \$71.17 | \$67.93 | 0.7% | 3.8% | 35,926 | 83,863 |
| Manitoba | 63.6% | 59.7% | \$115.04 | \$111.87 | \$73.13 | \$66.84 | 2.5% | 9.1% | 5,239 | 13,562 |
| New Brunswick | 47.7% | 49.3% | \$108.97 | \$109.51 | \$51.99 | \$53.96 | 0.9% | -2.4% | 5,430 | 11,440 |
| Newfoundland | 59.3% | 56.1% | \$125.00 | \$119.63 | \$74.14 | \$67.08 | -0.8% | 5.0% | 1,789 | 5,782 |
| Nova Scotia | 52.5% | 58.5% | \$108.92 | \$120.08 | \$57.14 | \$70.25 | -1.0% | -11.2% | 6,267 | 12,773 |
| Northwest Territories | INS | INS | INS | INS | INS | INS | INS | INS | 124 | 1,388 |
| Ontario | 55.8% | 55.7% | \$120.71 | \$119.16 | \$67.31 | \$66.36 | 1.0% | 1.1% | 83,563 | 139,220 |
| Prince Edward Island | 44.5% | 51.3% | \$91.39 | \$95.07 | \$40.67 | \$48.78 | 2.0% | -11.5% | 948 | 4,163 |
| Quebec | 59.5% | 57.9% | \$129.17 | \$128.31 | \$76.88 | \$74.31 | 0.0% | 2.8% | 27,486 | 78,010 |
| Saskatchewan | 64.9% | 61.9% | \$122.57 | \$119.96 | \$79.53 | \$74.21 | 0.7% | 5.7% | 7,705 | 17,027 |
| Yukon Territory | INS | INS | INS | INS | INS | INS | INS | INS | 279 | 2,154 |
| Canada | 57.3% | 56.3% | \$125.15 | \$123.23 | \$71.71 | \$69.36 | 0.7% | 2.5% | 213,487 | 437,795 |

| February 2012 Year-To-Date | Occupancy Rate (%) | | Average Room Rates (\$CAD) | | REVPAR (\$CAD) | | Room Supply | Room Demand | Number of Rooms | |
|-------------------------------|--------------------|--------------|----------------------------|-----------------|----------------|----------------|-------------|-------------|-----------------|----------------|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | % chg | % chg | Sample | Census |
| Montreal | 52.8% | 50.4% | \$124.70 | \$123.21 | \$65.80 | \$62.06 | -0.1% | 4.7% | 16,746 | 27,949 |
| Toronto | 58.2% | 59.4% | \$128.63 | \$126.86 | \$74.82 | \$75.40 | 3.3% | 1.1% | 31,544 | 37,466 |
| Vancouver | 52.9% | 51.5% | \$123.35 | \$124.87 | \$65.27 | \$64.30 | 1.3% | 4.1% | 19,323 | 26,509 |
| Provinces | | | | | | | | | | |
| Alberta | 56.3% | 53.1% | \$131.15 | \$126.69 | \$73.86 | \$67.29 | 1.0% | 7.1% | 38,731 | 67,999 |
| British Columbia | 50.4% | 48.3% | \$130.21 | \$128.81 | \$65.65 | \$62.23 | 0.8% | 5.2% | 35,926 | 83,863 |
| Manitoba | 57.9% | 55.4% | \$113.99 | \$110.81 | \$65.96 | \$61.41 | 2.9% | 7.4% | 5,239 | 13,562 |
| New Brunswick | 44.1% | 43.9% | \$108.10 | \$107.59 | \$47.65 | \$47.26 | 0.9% | 1.2% | 5,430 | 11,440 |
| Newfoundland | 54.9% | 51.2% | \$124.04 | \$118.66 | \$68.14 | \$60.81 | -0.8% | 6.4% | 1,789 | 5,782 |
| Nova Scotia | 47.2% | 48.6% | \$107.72 | \$113.97 | \$50.86 | \$55.41 | -1.0% | -3.8% | 6,267 | 12,773 |
| Northwest Territories | INS | INS | INS | INS | INS | INS | INS | INS | 124 | 1,388 |
| Ontario | 52.0% | 51.5% | \$119.02 | \$117.28 | \$61.88 | \$60.44 | 1.2% | 2.1% | 83,563 | 139,220 |
| Prince Edward Island | 40.2% | 42.7% | \$89.15 | \$88.62 | \$35.82 | \$37.80 | 2.0% | -3.9% | 948 | 4,163 |
| Quebec | 53.1% | 51.3% | \$126.80 | \$125.69 | \$67.27 | \$64.48 | 0.1% | 3.5% | 27,486 | 78,010 |
| Saskatchewan | 61.4% | 59.3% | \$122.84 | \$120.63 | \$75.39 | \$71.58 | 0.7% | 4.2% | 7,705 | 17,027 |
| Yukon Territory | INS | INS | INS | INS | INS | INS | INS | INS | 279 | 2,154 |
| Canada | 52.8% | 51.3% | \$123.60 | \$121.57 | \$65.24 | \$62.36 | 0.8% | 3.7% | 213,487 | 437,795 |

*INS = Insufficient Data



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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