AUGUST 2011

CANADIAN MONTHLY LODGING OUTLOOK

CANADIAN HOTEL PIPELINE

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Canadian Hotel Pipeline

Introduction

The global recession has transformed the landscape of the Canadian hospitality industry, and it has had a drastic impact on the development of new hotels in the country. Prior to the recession, Canada could expect to see an increase of approximately 5,000 to 8,000 new guestrooms each year. Although this number has dipped considerably in recent years, proposed hotel projects are nonetheless going forward from coast to coast. According to the STR Comprehensive Pipeline Summary (Canada), there are a total of 194 new hotels representing 22,042 guestrooms currently in the national pipeline. As of August 1, 2011, 33 of these projects were under construction while 161 were still in the planning phases. Although this total number of new projects is a decrease of approximately 5.8% as compared to August 1, 2010, some positive trends are to be noted: the number of new projects in the final planning phase is up 52%, and the total number of new guestrooms in the construction phase is up 5.7%. Approximately 69 of the 194 new hotel projects in the pipeline are expected to open in the next three years, representing an average of about 3,000 new guestrooms per annum. Hotel development in Canada continues with increasing optimism even in the face of the economic concerns that are emerging south of the border.

Product Allocation

Every developer must make the crucial decision whether or not to affiliate a new hotel with a brand name. The advantages to brand affiliation include increased exposure through centralized reservation and marketing systems, reductions in operating costs through economic central purchasing options, and the opportunity to tap into the brand's established customer bases. Branding a property also has its disadvantages, most notably the specific construction requirements to meet certain product specifications, the refurbishment (PIP) plans to maintain the property at the level of quality required by the brand, and the physical limitations regarding how many hotels with the same brand can be permitted in the same area. Developers must decide whether the benefits of becoming affiliated with a brand name outweigh the required costs.

In the current climate, hotel developers are adopting a risk-management strategy that has resulted in a trend towards building smaller, upper mid-scale hotels with internationally recognized brands. InterContinental Hotels Group has proven to be a particularly popular option for developers, as this franchise is represented in over 13% of the total new hotels in the Canadian pipeline. The popular Holiday Inn and Holiday Inn Express brands represent 80% of the total new IHG proposed products. Hilton Hotels has over 11% of the total new hotels in the pipeline, with the Hampton Inn, Hampton Inn & Suites, and the Hilton Garden Inn leading the way for the brand. Marriott International has a similar 10% of the total new hotels in the pipeline; Courtyard by Marriott, Residence Inn, and Fairfield Inn have proven to be the most attractive Marriott brands for hotel developers. The brands mentioned above are considered appropriate in this economic environment because they provide cost-effective products that have shown strength and resilience in volatile markets.

The luxury segment has only three new hotels in the pipeline, and they are all located in Toronto: the Shangri-La Hotel Toronto, which is expected to open in August 2012 with 202 rooms; the Trump International Hotel & Tower Toronto, which is scheduled to open in the first quarter of 2012 with 261 rooms; and the Four Seasons Hotel Toronto, which is expected to open in the spring 2012 with 265 rooms. All three of these new hotels are mixed-use developments that encompass both residential and luxury hotel units.

Geographical Breakdown

When developers select locations to build hotels, they typically base their decision on supply and demand levels, the acquisition cost of the land or property (for conversions), construction costs, and the anticipated return on their investment. In this regard, it is not uncommon to see development in markets with calculated opportunity and a proven barrier to risk. This is reflected in the current pipeline of new hotel projects, in which Ontario and Alberta represent over 60% of the total number of proposed projects in the country.

Alberta has proven to be a particularly enticing location in recent times, owing in large part to the return of oil and gas activity in the region, which has driven both demand levels and average rates up significantly. Calgary and Edmonton contain the largest number of new projects in the province.

British Columbia has the third highest number of projects in the pipeline with 28 reported. In stark contrast to current development trends, approximately 75% of the hotel projects in this province are unaffiliated with a brand. The major upcoming projects in British Columbia include the Sandman Signature Hotel in Langley and the Oak Bay Beach Hotel in Victoria. These properties are expected to open in 2011 and 2012 respectively.

Conclusion

In general, lodging markets across the country have seen further average rate improvements in 2011 over and above the rebound experienced in 2010. This average rate growth, combined with continued demand recovery, has increased confidence in the lodging market as a result of the anticipated acceleration of revenue growth going forward. These factors have the ability to spur development activity across the country. Hotels are an extremely valuable component of an investment portfolio. They are desirable in that they allow for the diversification of two asset classes within one opportunity: revenue generated from operations combined with the long-term appreciation of business and land values. Among the challenges to future hotel development in Canada is the threat of a second-dip economic recession, which has been recently highlighted by the severe volatility in global markets. Nevertheless, the outlook for Canada continues to stress further economic improvement. As the downward economic trends dissipate, developer confidence should keep on increasing.

About the Author

Eric Wright is a hotel Consulting and Valuation Associate with the HVS Vancouver office in Canada. Eric received his bachelor's degree from the Hotel Institute de Montreux, Switzerland, and has spent several years in various hospitality roles in Switzerland, Thailand, the United Kingdom, and Canada

Canadian Lodging Outlook August 2011

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.

August 2011	Occupancy Rate (%)		Average Room Rates ($CAD)		REVPAR ($CAD)		Room Supply	Room Demand	Number of Rooms	
	2011	2010	2011	2010	2011	2010	% chg	% chg	Sample	Census
Montreal	75.2%	77.8%	$131.55	$136.75	$98.90	$106.46	-0.1%	-3.5%	16,815	27,928
Toronto	74.1%	76.9%	$126.93	$126.02	$94.05	$96.87	4.5%	0.7%	31,341	37,384
Vancouver	81.8%	81.4%	$155.61	$150.79	$127.27	$122.75	0.0%	0.5%	19,059	26,320
Provinces										
Alberta	68.4%	65.7%	$142.19	$141.60	$97.29	$92.99	1.8%	6.0%	37,018	67,320
British Columbia	78.3%	76.2%	$147.91	$144.53	$115.76	$110.11	0.4%	3.1%	35,873	83,828
Manitoba	71.0%	66.2%	$111.23	$109.28	$78.92	$72.39	2.5%	9.7%	5,013	13,864
New Brunswick	74.5%	77.0%	$117.11	$117.30	$87.26	$90.29	0.8%	-2.4%	5,396	11,435
Newfoundland	91.4%	86.1%	$144.25	$129.61	$131.89	$111.65	0.7%	6.9%	1,877	5,880
Nova Scotia	78.1%	79.7%	$123.21	$122.12	$96.28	$97.28	0.9%	-1.1%	6,310	13,013
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	187	1,543
Ontario	71.3%	72.6%	$123.89	$125.10	$88.38	$90.88	1.6%	-0.2%	84,490	139,031
Prince Edward Island	80.0%	81.1%	$134.47	$138.71	$107.58	$112.54	2.2%	0.8%	1,013	4,173
Quebec	76.1%	77.9%	$136.02	$138.64	$103.51	$108.07	-0.3%	-2.7%	27,597	78,111
Saskatchewan	71.7%	71.7%	$117.74	$116.64	$84.36	$83.66	1.6%	1.5%	7,485	17,009
Yukon Territory	81.7%	80.0%	$116.57	$116.52	$95.25	$93.24	0.0%	2.2%	782	2,265
Canada	**73.2%**	**73.0%**	**$132.39**	**$132.29**	**$96.85**	**$96.60**	**1.0%**	**1.2%**	**213,041**	**437,886**

August 2011	Occupancy Rate (%)		Average Room Rates ($CAD)		REVPAR ($CAD)		Room Supply	Room Demand	Number of Rooms	
Year-To-Date	2011	2010	2011	2010	2011	2010	% chg	% chg	Sample	Census
Montreal	65.3%	62.2%	$135.62	$133.61	$88.57	$83.08	-0.2%	4.8%	16,815	27,928
Toronto	68.0%	68.6%	$131.98	$133.18	$89.74	$91.33	3.3%	2.4%	31,341	37,384
Vancouver	68.7%	70.3%	$144.37	$157.05	$99.11	$110.38	0.2%	-2.2%	19,059	26,320
Provinces										
Alberta	61.4%	58.4%	$135.34	$135.69	$83.12	$79.23	2.8%	8.2%	37,018	67,320
British Columbia	63.0%	63.4%	$137.63	$149.28	$86.66	$94.63	0.8%	0.1%	35,873	83,828
Manitoba	65.3%	65.5%	$111.65	$110.89	$72.87	$72.60	1.6%	1.3%	5,013	13,864
New Brunswick	57.2%	57.7%	$112.69	$111.50	$64.50	$64.28	2.1%	1.3%	5,396	11,435
Newfoundland	72.2%	71.8%	$133.66	$128.83	$96.55	$92.46	0.4%	1.0%	1,877	5,880
Nova Scotia	61.7%	62.1%	$119.11	$117.52	$73.45	$72.99	1.3%	0.6%	6,310	13,013
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	187	1,543
Ontario	61.9%	61.4%	$122.05	$122.79	$75.51	$75.33	1.5%	2.3%	84,490	139,031
Prince Edward Island	54.8%	51.7%	$113.59	$118.48	$62.27	$61.21	0.3%	6.4%	1,013	4,173
Quebec	63.5%	61.5%	$134.65	$132.40	$85.47	$81.41	-0.3%	2.9%	27,597	78,111
Saskatchewan	67.6%	68.2%	$121.09	$118.69	$81.85	$80.91	2.6%	1.8%	7,485	17,009
Yukon Territory	65.3%	64.4%	$107.25	$106.09	$70.01	$68.32	0.0%	1.3%	782	2,265
Canada	**62.4%**	**61.5%**	**$128.17**	**$130.09**	**$79.98**	**$80.02**	**1.2%**	**2.7%**	**213,041**	**437,886**

*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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