



CANADIAN MONTHLY LODGING OUTLOOK – APRIL 2012

SOUTHEAST SASKATCHEWAN HOTEL MARKET SNAPSHOT



Southeast Saskatchewan Hotel Market Snapshot

Introduction

Southeast Saskatchewan, much like the province of Saskatchewan as a whole, is experiencing economic prosperity never before seen in the region. The land in this area of the province is extremely rich and diverse in minerals and resources: light crude oil, agriculturally rich soil, and immense amounts of coal, to name a few. As a result of this economic prosperity, the hotel market in Southeast Saskatchewan has been booming. This market quietly showed growth while other markets across the country suffered through the recession. The secret is now out, and developers are beginning to tap into the unaccommodated demand that exists in the market. Several new hotel developments have been completed in recent years, and there are new projects on the books. Nevertheless, many hoteliers and developers are wary, expecting the bubble to burst if oil drops below \$80 per barrel. Oil plays a major role in the economy in this region, but the energy and mining sector (associated with coal) and the construction sector are also on the rise and expected to fight with the major drilling operators in the region for hotel rooms in the coming years.

Weyburn & Estevan

The two major hotel markets in this region, located south of Regina, are Weyburn and Estevan, which together service the majority of the 56,000 people in the area. These two cities account for approximately 40% of the region's population, and they hold the majority of the hotel rooms. Weyburn is located approximately 90 minutes southeast of Regina, whereas Estevan is located another hour southeast of Weyburn, only 18 kilometres north of the US border into North Dakota. Weyburn and Estevan are more distant from each other than is typical of competitive lodging markets, but these two markets are highly dependent on the same demand generators. The following table presents the recent occupancy, rate, and RevPAR performance for these respective markets.

FIGURE 1 ESTIMATED HISTORICAL OCCUPANCY AND RATE – ESTEVAN AND WEYBURN

	Estevan					Weyburn				
	Supply Increase	Occupancy	Average Rate	RevPAR	Change	Supply Increase	Occupancy	Average Rate	RevPAR	Change
2009	13.2 %	74 %	\$108.00	\$79.92	—	21.7 %	70 %	\$104.00	\$72.80	—
2010	0.0	75	108.00	81.00	1.4 %	0.0	74	108.00	79.92	9.8 %
2011	31.4	76	116.00	88.16	8.8	0.0	68	112.00	76.16	(4.7)
Avg. Annual Change	14.9				5.1	7.2				2.5

The sample comprises the hotels in the area with either national or regional brand affiliations. In 2009, there were approximately 515 hotel rooms in Estevan and 309 rooms in Weyburn. As highlighted in the table above, development activity has been focussing on the Estevan area, which saw average annual supply growth of 14.9% from 2008 to 2011, according to STR. Despite this strong growth in supply, the occupancy level has grown one percentage point each year, indicating that high levels of unaccommodated demand have allowed the market to readily absorb the four new hotels that have been developed since 2008. Weyburn has seen less of an increase in supply since 2009, in part because of the lack of available land for hotel development. The most recent addition to the Weyburn market, in 2009, was the Ramada, which ramped up to an impressive occupancy level within its first operating year.

The average room rate has remained relatively low for both markets as a result of the varying product quality and the nature of the demand, which is primarily construction and oil crews limited by a company-mandated per diem for lodging. RevPAR grew steadily in both markets with the exception of Weyburn in 2011, when the construction to revitalize the Travelodge reduced the number of available rooms. As a result of the construction, some demand shifted to Estevan and much of the rest was left unaccommodated, causing the occupancy for the market to drop.

Potential New Supply

Between Weyburn and Estevan, the room supply has increased at an average annual rate of 11% per year since 2008. This growth is expected to continue through to 2014, causing the average daily room count to almost double from what it was in 2008.

FIGURE 2 NEW SUPPLY – ESTEVAN AND WEYBURN

	Room Count	Estimated Opening Date
Estevan		
Holiday Inn Express Estevan	88	August 1, 2014
Holiday Inn Estevan	110	August 1, 2013
Microtel Inn & Suites	79	August 1, 2012
Weyburn		
Microtel Inn & Suites	79	April 1, 2013
Total	356	

Source: STR

In addition to this new supply, the Travelodge in Weyburn is currently undergoing a major renovation that will add 28 guestrooms to the 56-room property. The renovation will also introduce a new full-service restaurant, additional meeting space, and brand new product to the market. With this flood of guestrooms entering the market, there is some uncertainty that the region will be able to support this significant growth in supply.

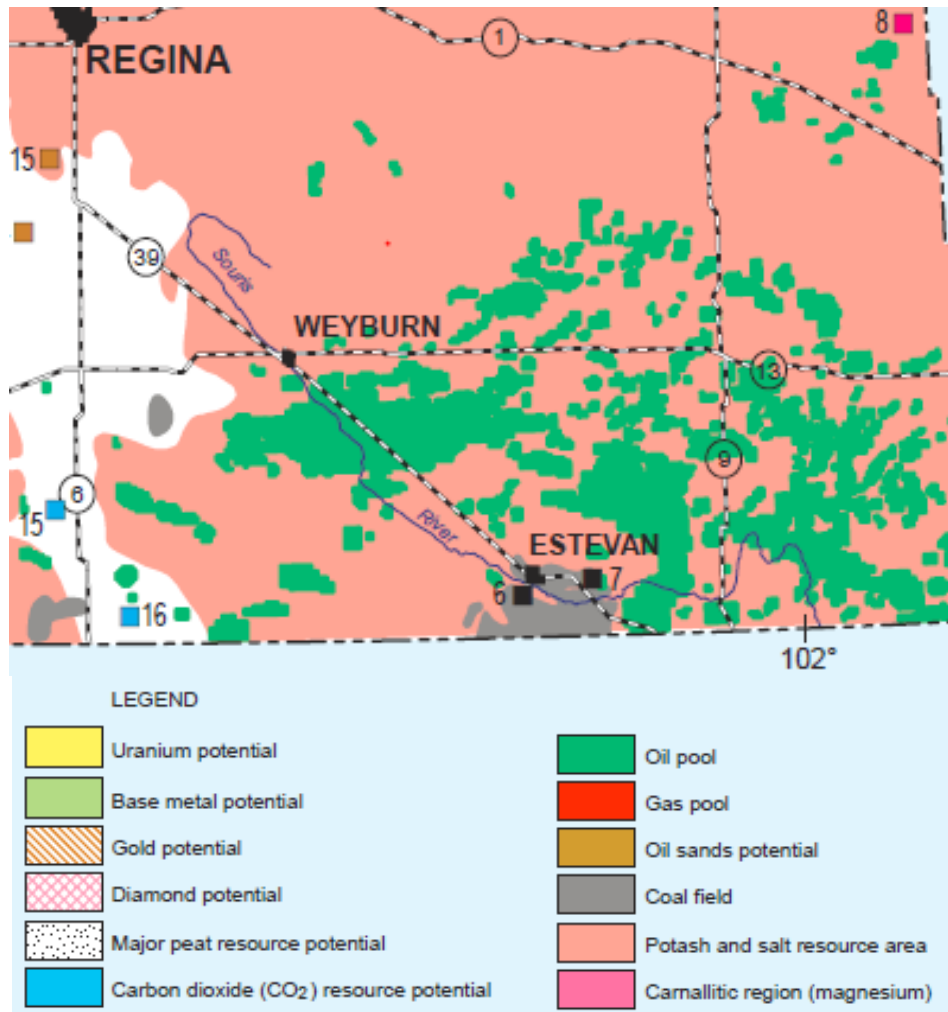
Demand Generators

The region has two main industries driving hotel demand: oil, and mining and energy.

The Estevan/Weyburn area is located directly on top of the Bakken formation, which is located in southeastern Saskatchewan, southwestern Manitoba, and northern North Dakota. The United States Geological Survey has estimated that, between the Canadian and American portions of this formation, this deposit could be possess over 400 billion barrels of oil, which is more than the known deposits of Saudi Arabia. The majority of the wells drilled in Saskatchewan are located northeast of the mid-point between Weyburn and Estevan. The greatest strength of this deposit is not its massive size but the quality of the oil found within it: highly desirable, sweet light crude. Production in the past five years has increased dramatically as a result of the horizontal drilling techniques that were first introduced and utilized in the region.

The Estevan/Weyburn lodging market accommodates a tremendous amount of demand from the oil sector, as the Estevan/Weyburn area has a significant amount of the drilling activity and is home to hundreds of oil servicing companies. The growth and decline of oil production largely correlates with the growth and decline in lodging demand in the region. The expected increase in oil drilling activity should positively affect the future growth in lodging demand in the market area. The outlook for drilling activity for 2012 and 2013 is positive, although the rate of growth is expected to be moderate.

MINERAL RESOURCE MAP OF SOUTHEAST SASKATCHEWAN



Source: Saskatchewan Ministry of Energy and Resources, 2008

The Southeast Saskatchewan region, specifically around Estevan, is rich in coal reserves, as indicated in the mineral resource map shown above. Of the three active coal mines in Saskatchewan, two are located in the Estevan region. Over 70% of the electricity in the province is provided by the three stations in southeast region, with the majority being produced by Boundary Dam Power Station, the largest coal-generated thermal electric power plant in Canada.

In addition to regular shutdown maintenance on the power stations, which brings in a significant amount of hotel demand in the form of trade professionals for two weeks annually, the construction of a clean coal project is underway at the Boundary Dam Power Station. The Government of Canada and the Government of Saskatchewan have committed a combined \$1.4-billion to the project. The clean-coal project, combined with the major refitting and upgrading of existing units, will put major demands on an already stretched labour pool. According to SaskPower and trade union representatives, there will be a significant need for labour over the course of the next two years, and it will be a challenge to find and retain the necessary labour required to complete these projects. Much of this labour will have to be sourced from outside the region. The hotel demand created by these projects will taper off towards the end of 2013 as the projects come to completion. As a result of these projects, hotels can expect to see a huge increase in demand in 2012 and 2013, although much of it will remain unaccommodated because the increases in the room supply will not keep up with the pace of demand growth.

Rate Ceiling

One of the unique factors influencing room rates in this market is the per diems offered to construction and oil trades workers. Until recently, construction trades people were only receiving approximately \$125 per day for food and accommodations. As a result, there appeared to be a ceiling for these workers, who often stayed in independent, lower-quality hotels so they could also afford food and beer. In contrast, oil trades workers were receiving higher per diems of between \$145 and \$160, depending on the company. Essentially, the per diems for the oil workers priced the construction trades out of the lodging market. As of January 2012, however, the per diems for construction trades, organized by union representatives, have been increased to compete with those of the oil drilling companies in order to offer construction trades workers an acceptable standard of living while on the job.

On the Horizon

Southeast Saskatchewan has undergone significant growth in the past few years as a result of the pursuit of its desirable light crude oil, which the introduction of new horizontal drilling technology mid-decade made highly lucrative. Oil production activity is expected to remain relatively stable in the medium term, but over the long term, growth is expected to taper off and begin to decline in the later part of the decade. An influx of major projects, including the SaskPower Clean Coal Project, will bring significant short-term growth and a demand for labour into the Estevan/Weyburn area. This temporary contracted demand, however, is expected to taper off dramatically at the end of 2013. What is extremely promising for the hotel sector is the lack of available labour in the region. Much of the labour has been sourced from out of province, and there will continue to be healthy demand for accommodations in this region for years to come, given current trends.



About the Author

Andrew Higgs is a hotel Consulting and Valuation Associate with the HVS Vancouver office in Canada. Andrew received his Bachelor of Commerce at Ryerson University's Hospitality and Tourism Management program and has spent several years in various managerial roles in Toronto's restaurant industry.

Canadian Lodging Outlook April 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.

April 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	61.2%	60.1%	\$127.20	\$126.55	\$77.85	\$76.09	-0.3%	1.5%	16,462	27,736
Toronto	62.9%	63.6%	\$128.48	\$130.75	\$80.86	\$83.13	0.4%	-0.6%	31,163	37,204
Vancouver	66.7%	62.9%	\$135.65	\$133.01	\$90.46	\$83.70	1.2%	7.2%	19,316	25,904
Provinces										
Alberta	60.1%	56.8%	\$133.05	\$128.27	\$79.90	\$72.88	0.7%	6.4%	38,181	67,388
British Columbia	59.0%	57.1%	\$128.42	\$125.10	\$75.75	\$71.49	0.1%	3.3%	36,046	81,825
Manitoba	57.8%	60.9%	\$114.95	\$111.12	\$66.45	\$67.64	3.2%	-2.0%	5,239	13,541
New Brunswick	46.4%	48.5%	\$107.93	\$106.57	\$50.10	\$51.72	-1.1%	-5.4%	5,436	10,626
Newfoundland	68.3%	65.4%	\$127.69	\$120.07	\$87.16	\$78.56	-1.7%	2.6%	1,789	5,546
Nova Scotia	56.4%	56.4%	\$112.92	\$111.02	\$63.65	\$62.63	-1.1%	-1.2%	6,267	11,084
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	124	1,365
Ontario	57.0%	57.5%	\$118.04	\$117.90	\$67.34	\$67.81	0.5%	-0.3%	83,934	136,223
Prince Edward Island	41.9%	47.8%	\$98.07	\$92.68	\$41.13	\$44.28	2.2%	-10.3%	890	3,728
Quebec	55.7%	55.5%	\$124.67	\$123.73	\$69.47	\$68.65	-0.2%	0.2%	27,202	75,097
Saskatchewan	66.3%	67.7%	\$123.43	\$121.56	\$81.84	\$82.32	2.0%	-0.1%	7,793	16,675
Yukon Territory	INS	INS	INS	INS	INS	INS	INS	INS	332	1,614
Canada	57.8%	57.3%	\$123.26	\$121.16	\$71.31	\$69.37	0.3%	1.4%	213,233	425,126

April 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	56.1%	54.7%	\$125.18	\$124.93	\$70.29	\$68.28	-0.3%	2.4%	16,462	27,736
Toronto	61.1%	62.1%	\$132.37	\$131.68	\$80.91	\$81.82	2.1%	0.4%	31,163	37,204
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New Brunswick	46.6%	47.1%	\$108.16	\$107.74	\$50.46	\$50.73	-0.4%	-1.3%	5,436	10,626
Newfoundland	60.9%	57.6%	\$125.42	\$119.25	\$76.42	\$68.67	-1.7%	4.0%	1,789	5,546
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*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.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com

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