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CANADIAN LODGING OUTLOOK

CANADIAN LODGING MARKET POISED TO SET NEW REVPAR RECORDS IN 2014 AND 2015

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Canadian Lodging Market Poised to Set New RevPAR Records in 2014 and 2015

At last, the Canadian lodging market returned to pre-debt-crisis performance levels in 2013, enabling new records to be set for RevPAR in 2014 and especially in 2015 (unadjusted for inflation). These new highs will be a continuation of the strong growth sustained in 2013, when the Canadian market realized a RevPAR increase of 3.9%, buoyed by the high RevPAR growth in oil and gas markets across Canada. Constrained growth in the national supply base, at 0.5% in 2013, has also helped to keep occupancy levels strong.

The record levels for RevPAR that are projected for 2014 and 2015 are based on the improving economic conditions in both Canada and the US, the weaker Canadian dollar, and the increase in tourism from emerging economies. For Canada, RBC is forecasting GDP growth of 2.5% and 2.7% in 2014 and 2015, respectively (up from 2.0% in 2013). Moreover, the Conference Board of Canada projects overnight tourism visits across the country to increase 2.2% and 2.7% in those respective years, which is stronger than the 1.4% growth rate sustained in 2013. These are all positive indicators for lodging demand growth in Canada.

Importantly, the gap in economic performance between Western and Eastern Canada is expected to narrow in 2014. Ontario, Quebec, and Nova Scotia are projected to make greater contributions to national economic growth than in 2013, whereas Saskatchewan in particular and Manitoba to a lesser degree are projected to see more moderate growth in 2014 and 2015. The stronger economic performance in Eastern Canada bodes well for the Canadian hotel industry as a whole.

With the general improvement in economic conditions, the room supply will start to increase at a stronger rate. The national room supply is projected to grow 0.8 % in 2014 and 1.7% in 2015, which is a marked increase relative to the 0.5% growth in supply that the country experienced in 2013, albeit still below the historical national average of 2.3%.

Demand growth is nevertheless expected to continue to outpace supply growth. The national occupancy is forecast at 64.6% in 2014, up from 63.3% in 2013, and it is projected to reach 65.1% in 2015. On the average rate side, Canada had not seen average daily rate (ADR) growth above inflationary levels since 2008, but 2013 was the turnaround year with 2.3% growth, and even stronger increases are on the horizon. Year-to-date through March 2014, the national RevPAR was 4.6% higher than in the comparable period in 2013, which is a clear sign that the market is moving into uncharted RevPAR territory.

Although the national perspective is overwhelmingly positive, 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's economy is projected to see healthier growth in 2014. The province's export market is showing greater penetration into the US and China, most particularly in resource industries such as natural gas, forestry, and mining. This growth is projected to spill over into the manufacturing and business service industries. RBC projects the provincial GDP to grow at a more respectable rate of 2.1% in 2014, and even stronger growth of 2.8% is forecast for 2015, which is higher than the national average of 2.7% that is projected for that year.

This bodes well for the Vancouver lodging market, as there is a strong correlation between growth in GDP and lodging demand. Moreover, the Conference Board of Canada projects the number of overnight visits to Vancouver to increase 2.6% in 2014 and 2.9% in 2015, outpacing the growth of 1.7% sustained in 2013. The ongoing growth in tourism to Vancouver from emerging markets is contributing significantly to hotel demand and helping to fill the gap left by the decrease in the US and European leisure demand. Year-to-date through March 2014, lodging demand in the province was up 5.6% relative to the same period in 2013, and in the Downtown Vancouver market in particular demand was 7.2% stronger in the more recent 3-month period. In this improved economic climate, Downtown Vancouver hotels are expected to see increased levels of demand in both 2014 and 2015.

The Vancouver convention market is also expected to improve considerably in 2014 and 2015 relative to the low level of activity recorded in 2013. Moreover, the outlook for the cruise market in Vancouver is also healthy. In 2013 alone, both the number of sailings and the total passenger volume increased over 20% as tracked by the Vancouver Port Authority. The weaker Canadian dollar will further help to induce both convention demand and cruise ship demand into the city.

Given the lack of available land in Downtown Vancouver, there is little new supply on the horizon. With the 55 rooms at the Coast Hotel being taken of the market this year and only two new hotels under construction—the 75-room Crystal Blue and the 187-room Trump Hotel—the room supply is set to decrease marginally in 2014 and increase only 0.3% in 2015. Additionally, the Trump International Hotel is not projected to open before 2016. The barriers to entry for new supply coupled with growing hotel demand create a positive growth outlook for the Downtown Vancouver lodging market.

The new inventory is expected to put upward pressure on room rates. The market-wide ADR is projected to increase $4 in both 2014 and 2015. With this ADR growth and the strong demand levels that are being sustained, the market will quickly absorb the modest amount of new supply that is set to open in 2015, and strong RevPAR increases of 4.6% and 5.3% are projected for 2014 and 2015, respectively.

Downtown Vancouver - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2013	71%	$169	$120	2.1%
2014f	72%	$173	$125	4.6%
2015f	74%	$177	$132	5.3%

Calgary

Alberta's economy has been robust since 2010, with no end in sight. Energy resource development will enable the province to greatly outperform any other province's GDP growth in 2014. Because of the resource development, population growth is the strongest it has been in 30 years in Alberta. The resulting growth in housing and consumer goods and services is further fuelling the economy.

Calgary is the hub for the corporate activity supporting the intensive investment into Alberta's energy sector, which has caused the city to experience extraordinary RevPAR growth in recent years. As this substantial economic momentum carries into 2014 and 2015, the Calgary hotel market will continue to post strong gains in demand. RBC is forecasting robust GDP growth for Alberta in 2014 and 2015 at 3.7% and 3.5%, respectively, which stands well above the national growth rates of 2.5% and 2.7% that are projected for those years. In addition, the Conference Board of Canada projects the number of overnight visits to Calgary to increase 4.0% and 3.1% in those respective years. Such strong growth in both GDP and overnight visitation will translate into a boost in the number of occupied room nights for hotels in the city.

The strength of the Calgary market has also caused a surge in hotel development activity. Over $18-billion in large commercial projects is in the development pipeline for the city. On a weighted basis which takes into account the projected opening dates, Calgary will see the addition of 411 guestrooms in 2014. The increase in the room supply will break all previous records in 2015, when 1,327 new rooms will enter the market. To put this in perspective, the room supply in the Calgary market is poised to increase 3.3% in 2014 and a further 10.0% in 2015.

This robust increase in the room supply will have an impact on the operating performance of the hotels in Calgary. The new supply will be absorbed in 2014 because the projected increase in demand will hold the occupancy level flat for the year at 73%; however, the market-wide occupancy is projected to decrease to 70% in 2015 when many new hotels will open in the market. The fact that the Calgary market can absorb such a huge influx of rooms and at the same time maintain a healthy occupancy of 70% is nevertheless a testament to the strength of this market.

The new inventory is expected to put upward pressure on room rates. The resulting increase in the market-wide ADR is expected to help offset the decrease in occupancy. The market-wide ADR is projected to increase $5 in both 2014 and 2015. With this ADR growth and the strong demand levels that are being sustained, the market will absorb the large amount of new supply that is set to open in 2014 and 2015 with ease and is projected to register only a small decline in RevPAR in 2015.

Calgary - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2013	73%	$162	$118	7.2%
2014f	73%	$167	$122	3.0%
2015f	70%	$172	$121	-1.2%

Downtown Toronto

Located as it is in the economic heart Ontario, the Downtown Toronto lodging market is poised to benefit from a resurgence in the provincial economy. After two straight years of sub-par growth, there are encouraging signs for Ontario's economy in 2014 and 2015. Given the close economic ties between Ontario and the US, the strengthening of the US economy and the weakening of the Canadian dollar are the main factors contributing to this optimism, as the level of exports from the province is expected to strengthen considerably. RBC projects Ontario's GDP to grow 2.5% and 2.9% in 2014 and 2015, respectively. This would represent the strongest pace of growth for the province in four years.

Against this positive economic backdrop, the Downtown Toronto lodging market is expected to see robust growth in 2014 and 2015. The performance recorded in the first quarter of 2014 shows the market to be well set on this growth track already, as the RevPAR was up 4.4% relative to the comparable period in 2013. The market is projected remain on this trajectory with RevPAR growth for all of 2014 projected at 6.9%. High occupancy levels are creating rate compression at the same time that the high-quality 5-star supply is putting upward pressure on rates in the downtown market.

Toronto is hosting the Pan/ParaPan American Games in 2015. As a result of this major event, the RevPAR for Downtown Toronto is projected to grow 10.8% in 2015 over the level that is projected for 2014. The demand from this event is projected to drive the market-wide occupancy for the year up to an unprecedented level of 78% while adding $11 to the market-wide ADR.

The lack of available land in the downtown core is a barrier to entry into this market, and there is little new supply on this horizon, which is helping to buoy both occupancy and ADR levels. In 2014, the only new hotel to open will be the 567-room Delta Toronto Southcore Financial Centre, which will be the first standalone new-build, 4-star, full-service hotel in Downtown Toronto in 25 years. Depending on construction schedules, we may see the opening of a new 128-room Bisha boutique hotel and/or the 400-room Library Collection Hotel on the Exhibition Grounds in the fall of 2015, which is what we have assumed in our projections, but these projects could be pushed back to 2016.

Downtown Toronto - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2013	74%	$170	$126	5.6%
2014f	75%	$179	$134	6.9%
2015f	78%	$190	$149	10.8%

Downtown Montreal

As Montreal is the major economic engine for the province of Quebec, the fortunes of the Downtown Montreal lodging market are tightly tied to the economic wellbeing of the province as a whole. The recent election of a federalist Liberal government brought with it a shot of economic optimism for Quebec, but the province nevertheless continues to face economic challenges. A number of factors have contributed to the slow pace of economic growth in Quebec, the most pressing of which is the rapidly slowing growth in the working-age population. This same trend is on the horizon for all the provinces in Canada and will restrain each province's economic growth going forward, but Quebec is first to the plate for having to deal with the fallout from this demographic trend. With this shift in the population base, the GDP growth rates that Quebec achieved in the past are now much more difficult to attain. The province's real GDP is estimated to have grown just 1.2% in 2013, but stronger growth of 1.9% and 1.8% is projected for 2014 and 2015, respectively. Quebec too will benefit directly from strengthening US demand and a weaker Canadian dollar.

The Downtown Montreal lodging market is expected to benefit not only from the province's more favourable economic environment but also from further reductions in the supply of guestrooms. In 2013, when the Downtown Montreal lodging market recaptured much of the RevPAR that had been lost to the student protests in 2012, the supply of rooms decreased with the closure of the 711-room Delta Centreville and the 214-room Maritime Hotel. The inventory that was removed was far larger than the number of new rooms that came into the market with the opening of the 212-room Courtyard by Marriott and the 154-room ALT Hotel in Griffintown. Two additional hotels have been converted to alternative uses in 2014: the 325-room Holiday Inn and the 139-room Quality Inn. In total, over 1,000 rooms have been removed from the Downtown Montreal market in the past two years. With this reduction in inventory, the market-wide occupancy is projected to increase by 4.7 points in 2014 to 72%, contributing to a 10.1% increase in the overall RevPAR. In 2015, the market is expected to benefit from these conversions to a more limited extent, and the RevPAR growth is projected to be more modest but nonetheless healthy at 4.8%.

Downtown Montreal - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2013	67%	$155	$104	8.0%
2014f	72%	$160	$115	10.1%
2015f	74%	$163	$120	4.8%

Halifax

Economic growth in Nova Scotia is poised for modest acceleration in 2014. RBC projects the provincial GDP to grow 2.0% in 2014 and 2.2% in 2015, which is a positive change relative to the growth of 1.2% that was sustained in 2013. Natural gas began to flow at the Deep Panuke offshore field late in the summer of 2013, and the ramping up of production is expected to lift the province's GDP growth going forward. The recent approval of the $1.5-billion Maritime Link Transmission Project between Cape Breton and Newfoundland is also a positive development for provincial economic growth. Other energy-sector developments will further support the province's upward growth trajectory. Shell recently completed seismic testing, and British Petroleum is set to begin its own seismic program in 2014; however, drilling remains a few years away if the results are positive. Work related to the 30-year, $25-billion shipbuilding procurement contract that was awarded to Halifax will begin in late 2015. These major developments in the province bode well on a long-term basis, both economically and for the hotel industry.

The Halifax lodging market will benefit from the major projects that are underway in the province, but the positive effects of these projects will not begin to be seen until 2015. The lodging market is also poised to benefit in the future from a new 290,000-square-foot convention centre, which is scheduled to open in 2017. When it does open, the new facility will make Halifax much more competitive in the convention market and will be a boon to area hotels. In the meantime, however, the market is poised for more modest growth than what other lodging markets in Canada are projected to see, particularly in 2014.

The Halifax lodging market is projected to hold steady in 2014 following the weak performance in 2013, when the RevPAR fell 2.0% from the 2012 level. The market is facing the opening two new hotels on the old Citadel Hotel site in the second quarter: a 181-room Hampton Inn and a 135-room Homewood Suites. This new supply is expected to put downward pressure on occupancy levels in the short term but will help elevate the ADR. Overall, the Halifax market is projected to see demand and average rate both grow 3.0% in 2014. After the supply growth is factored in, this results in a 1.1% increase in the RevPAR to $81.

In 2015, the Halifax lodging market will begin to feel effects of the major energy projects that are getting underway in the province and the advent of work related to the shipbuilding contract. The intensification of economic activity is expected to result in increases in both occupancy and ADR within the Halifax lodging market. The RevPAR is projected to increase at a healthy rate of 5.8% that year, and further growth is expected in the years that follow as the province enters into a new era of economic vitality.

Halifax - Recent and Projected Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2013	65%	$124	$80	-2.0%
2014f	64%	$127	$81	1.1%
2015f	65%	$131	$86	5.8%

Conclusion

With the exception of Newfoundland, hotel performance in Eastern Canada has struggled in comparison to Western Canada in recent years. The soft US economy, the challenges in the manufacturing sector (particularly in Ontario), the aging population, and the strong Canadian dollar contributed to this less-than-stellar performance. The gap between Eastern and Western Canada is now narrowing, as some moderation in economic growth is anticipated for Western Canada at the same time that Eastern Canada is poised to see stronger growth. The healthier economic fundamentals that are projected for both the US and Canada (particularly on the external trade side for Canada) contributes to a more positive outlook for hotel markets across Canada. Following the 5-year climb back to the prior peak in RevPAR performance, the hotel industry in Canada is positioned to set new records in 2014 and 2015.

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 transactions and portfolio valuations throughout Canada. She also has been involved in litigation support within the lodging industry.

Canadian Lodging Outlook – 1st Quarter, 2014

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 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. For further information, please contact: info@str.com or +1 (615) 824-8664 ext. 3504.

March 2014	Occupancy Rate (%)		Average Room Rates ($CAD)		REVPAR ($CAD)		Room Supply	Room Demand	Number of Rooms	
	2014	2013	2014	2013	2014	2013	% chg	% chg	Sample	Census
Calgary	66.6%	69.9%	$158.78	$152.53	$105.78	$106.54	4.3%	-0.5%	9,888	12,567
Halifax	59.7%	63.2%	$114.64	$114.40	$68.47	$72.31	5.4%	-0.4%	4,742	5,572
Montreal	57.7%	57.7%	$127.81	$126.10	$73.70	$72.73	-3.8%	-3.8%	15,695	26,674
Ottawa	59.9%	61.6%	$135.96	$132.33	$81.39	$81.56	-3.9%	-6.6%	7,447	10,053
Toronto	67.1%	63.1%	$148.49	$143.50	$99.68	$90.55	-1.3%	5.0%	31,312	36,117
Vancouver	63.0%	57.5%	$131.59	$122.58	$82.88	$70.44	-0.2%	9.4%	19,658	26,032
Provinces										
Alberta	66.6%	66.7%	$141.31	$137.48	$94.13	$91.69	1.7%	1.5%	41,339	69,577
British Columbia	58.5%	55.6%	$132.45	$127.43	$77.44	$70.84	0.3%	5.5%	38,774	81,255
Manitoba	61.1%	60.7%	$119.49	$114.82	$73.05	$69.74	2.6%	3.2%	6,304	14,385
New Brunswick	50.6%	49.6%	$107.97	$106.53	$54.67	$52.86	3.0%	5.1%	5,666	10,723
Newfoundland	58.9%	65.8%	$134.20	$128.64	$79.04	$84.63	4.9%	-6.1%	2,154	5,911
Nova Scotia	56.7%	58.3%	$112.61	$112.39	$63.81	$65.55	2.6%	-0.3%	6,557	10,870
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	204	1,373
Ontario	58.4%	56.0%	$127.26	$125.13	$74.31	$70.11	-0.2%	4.0%	85,208	133,130
Prince Edward Island	34.4%	29.9%	$83.31	$88.53	$28.69	$26.45	0.8%	16.1%	886	3,756
Quebec	56.1%	56.3%	$129.10	$126.92	$72.47	$71.44	-2.3%	-2.6%	26,183	73,162
Saskatchewan	63.2%	66.9%	$134.22	$132.11	$84.82	$88.41	2.7%	-3.0%	9,178	17,639
Yukon Territory	INS	INS	INS	INS	INS	INS	INS	INS	460	1,660
Canada	**59.6%**	**58.4%**	**$130.47**	**$127.53**	**$77.80**	**$74.45**	**0.3%**	**2.4%**	**222,913**	**423,855**

March 2014	Occupancy Rate (%)		Average Room Rates ($CAD)		REVPAR ($CAD)		Room Supply	Room Demand	Number of Rooms	
Year-To-Date	2014	2013	2014	2013	2014	2013	% chg	% chg	Sample	Census
Calgary	62.7%	65.4%	$158.16	$154.63	$99.09	$101.14	3.7%	-0.7%	9,888	12,567
Halifax	53.9%	55.1%	$114.14	$113.40	$61.47	$62.52	4.7%	2.2%	4,742	5,572
Montreal	55.4%	53.7%	$129.33	$126.73	$71.67	$68.07	-4.2%	-1.2%	15,695	26,674
Ottawa	60.2%	59.4%	$139.17	$135.62	$83.76	$80.58	-3.9%	-2.6%	7,447	10,053
Toronto	63.7%	61.0%	$139.29	$135.56	$88.74	$82.67	-1.0%	3.5%	31,312	36,117
Vancouver	58.9%	54.0%	$127.82	$122.88	$75.31	$66.36	-0.4%	8.6%	19,658	26,032
Provinces										
Alberta	62.3%	61.5%	$140.92	$136.80	$87.77	$84.12	1.6%	2.9%	41,339	69,577
British Columbia	53.7%	50.9%	$133.80	$129.73	$71.86	$66.00	0.3%	5.9%	38,774	81,255
Manitoba	55.4%	58.1%	$117.67	$114.77	$65.25	$66.72	2.9%	-1.9%	6,304	14,385
New Brunswick	46.7%	45.2%	$106.56	$105.92	$49.76	$47.88	1.1%	4.4%	5,666	10,723
Newfoundland	53.3%	62.4%	$132.72	$128.21	$70.79	$79.99	4.9%	-10.3%	2,154	5,911
Nova Scotia	51.0%	50.6%	$111.90	$111.12	$57.05	$56.28	2.3%	3.0%	6,557	10,870
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	5,666	10,723
Ontario	55.3%	53.5%	$123.55	$121.64	$68.38	$65.12	-0.2%	3.2%	85,208	133,130
Prince Edward Island	36.5%	32.8%	$84.82	$89.94	$30.98	$29.52	0.8%	12.1%	886	3,756
Quebec	54.4%	53.0%	$130.57	$128.11	$70.98	$67.87	-2.1%	0.5%	26,183	73,162
Saskatchewan	59.5%	63.4%	$133.08	$131.21	$79.21	$83.16	3.0%	-3.3%	9,178	17,639
Yukon Territory	INS	INS	INS	INS	INS	INS	INS	INS	886	3,756
Canada	**56.0%**	**54.7%**	**$129.23**	**$126.47**	**$72.35**	**$69.14**	**0.3%**	**2.7%**	**222,913**	**423,855**

*INS = Insufficient Data

About STR

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