

Canadian January 2004 Lodging Outlook



SMITH TRAVEL RESEARCH

Optimism Abounds at ALIS Conference

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The Americas Lodging Investment Summit (ALIS), held in Los Angeles at the end of January 2004, was attended by hotel executives, investors, lenders, developers, and consultants.

In 2003, the conference focused on the uncertainty and the major decline in travel that followed the unfortunate incidents of September 11th, 2001. Experts in the industry were unable to predict the potential rebound in each sector of the hotel industry because of the number of unknowns associated with travel. In contrast, this year's conference presented a positive outlook for the hotel industry in both the short- and long-term.

The conference opened with a panel discussion that included Mr. Randy Smith of Smith Travel Research. Mr. Smith believes that demand in 2004 will increase by approximately 4%, the largest increase in the last ten years. He stated that there is substantial "pent up" demand for travel that will be coupled with a slowdown in new supply in 2004. Also, the last quarter of 2003 showed signs of recovery in travel in the United States.

HVS International-Canada moderated a panel concerning the future of the hotel industry and the impact of SARS on Canada in 2003. The panel consisted of Mr. Bill Stone, Executive Managing Director of

Colliers International Hotels; Mr. Rick Matheson, Managing Director of RBC Capital Markets; Mr. Lyle Hall, Managing Director of KPMG's Hospitality, Leisure, and Tourism Practice; and Mr. Edward Khediguian, Account Manager of GE Capital Canada. The four panelists had a positive outlook for the industry, partly because this year "could not get any worse" than 2003.

Mr. Bill Stone gave an overview of hotel transactions in Canada in 2003. Hotel sales in the market were strong despite lower market occupancies and average room rates. Total investment was down slightly from 2002 but was up substantially if strategic acquisitions are excluded. At the same time, the price per room (excluding strategic acquisitions) was up in 2003, and the cap rate declined slightly from 2002. According to Mr. Stone, the "appetite" for hotel real estate remains strong because of anticipated improvement in profitability, the downward pressure on capitalization rates, and the slowdown in supply growth. Mr. Stone expects this to continue through 2004; with the majority of buyers being private, opportunistic investors.

Mr. Rick Matheson presented an overview of the country and showed how a recovery in the economy will benefit hotel cash flows and value. Mr. Matheson stated that low interest rates have positively

impacted real estate values, but he expects these rates to increase in 2004. From an equity standpoint, Mr. Matheson stated that Canadian equity markets enjoyed a strong rebound in 2003 that should continue in 2004. Mr. Matheson concluded with a comparison of REIT (Real Estate Investment Trust) yields among product types; he expects hotel cash flow growth to exceed that of other sectors.

Mr. Lyle Hall discussed the dramatic impact of the SARS outbreak on Canada and the city of Toronto in particular. Mr. Hall broke down the impact by city (Vancouver, Calgary, Toronto, Niagara Falls, Ottawa, and Montreal); and sector providing an overview as to the recovery of tourism in Canada. He estimates that of the six major cities some will recover faster than others in 2004. For example Toronto, the city most negatively affected by SARS and various other shocks to the Canadian tourism industry, should recover by the end of 2004. Mr. Hall also identified various challenges and opportunities lurking in the Canadian tourism industry, including the potential for involving the private sector in the rejuvenation and redevelopment of tourism assets.

Mr. Ed Khediguian discussed the lending aspects of the hotel industry in Canada and how GE Capital continues to be a leader in financing

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projects across the country. GE Capital is currently lending on limited- and focused-service properties with national brand affiliations and hotels that do not cater to pure "destination leisure travellers." Mr. Khediguian also looks at the age of the hotels, since newer properties typically achieve considerably higher RevPAR levels. GE Capital lent \$109-million in

2003, as opposed to \$10-million in 2001, and \$34-million in 2002 .

Attendees at this year's conference came away with a more optimistic outlook for the future. Most experts believe that 2004 will be an improvement from the previous year, especially in Canada where SARS and mad cow disease have had a negative impact on the

industry. The last few years have been negatively impacted by the terrorist attacks, the war in Iraq, the unstable state of the economy, cutbacks in business travel, and the continued fear of travel. The annual ALIS conference had a strong turnout this year and was attended by several Canadian hoteliers.

DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

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