



# COVID-19 Impact on the Manitoba Hotel Industry

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## Introduction

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COVID-19 has had an unprecedented impact on the hotel industry. Increased health regulations, restrictions on gathering sizes and travel have been devastating for hotels. While some federal programs have been helpful, the relief so far will not maintain the industry as it was before the pandemic struck. The Manitoba Hotel Association (MHA) engaged MNP LLP to quantify the impact that operators have been trying to explain.

MNP conducted a survey of MHA member hotels and interviewed a representative hotel operator in each type of hotel – Conference, Travel, and Food & Beverage – to understand the impact of the pandemic on their business.

MNP also prepared an economic impact analysis to illustrate the value of the industry to the province, including government revenues. In 2019 Manitoba hotels employed about 10,900 people and supported another 3,500 jobs. \$1.5 billion in industry output includes approximately \$190 million in provincial revenues plus about \$196 million from VLTs hosted in hotels. (More detail on p 11).

## Survey Findings

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Survey respondents reported devastating losses. The data provided below, and the case studies are based on analysis of 90 survey responses and is displayed on an aggregate basis. Information for Q1 and Q2 is based on actual results from January to June 2020, compared to actual results from 2019. Respondents forecast 2020 results for Q3 (July – September) and Q4 (October to December).

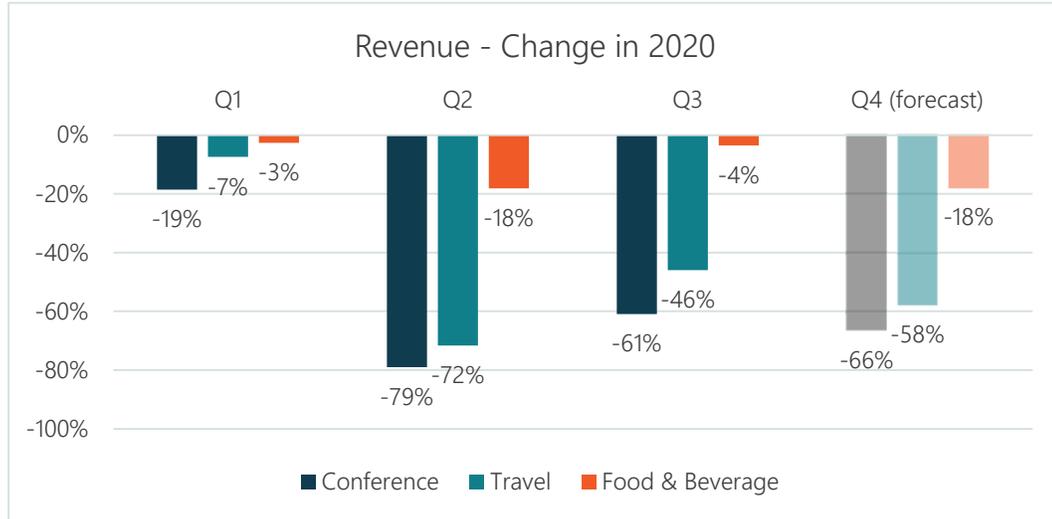
When respondents completed the survey in September the situation in Manitoba was expected to remain the same or improve. The return of increased restrictions has now created conditions more like March/April (Q2). With high fixed costs and debt obligations, many hotels may not be able to weather the sustained loss of income. Conference and Travel hotels in particular are concerned that conditions may not return to normal until 2023.



Revenue

Revenues dropped dramatically for Conference and Travel hotels in Q2 with very low occupancy. REVPAR fell by 84% and 80% respectively for these hotels, with modest recovery in Q3. All types of hotel were not expecting to recover the important seasonal revenue in Q4, making the drop in forecast revenues greater than Q3.

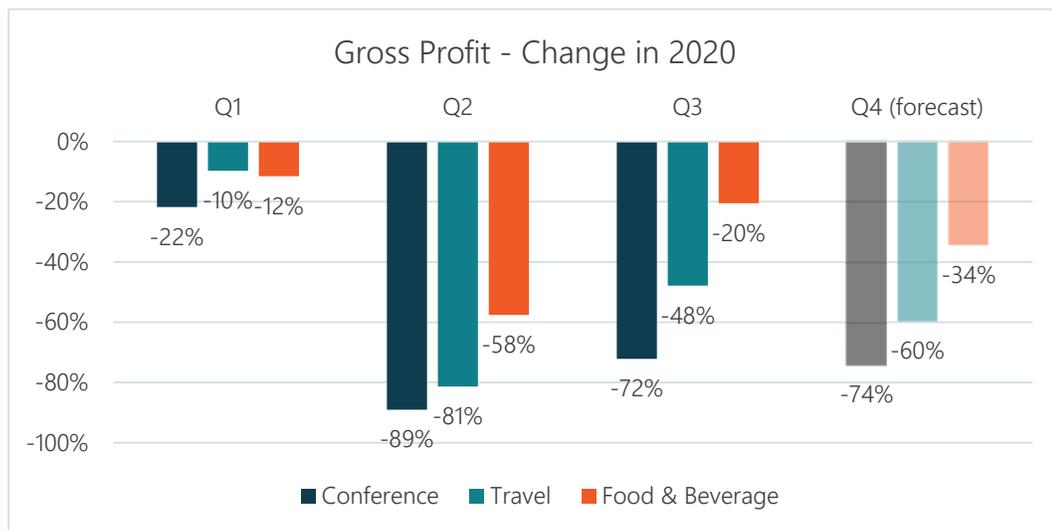
Food & Beverage hotels experienced less of a drop in gross revenue as some food and beverage activity was sustained, including vendor sales.



Gross Profit

The loss of revenue in Q2 almost eliminated any ability for Conference and Travel hotels to pay their bills. Many hotels are concerned with property taxes based on 2018 values.

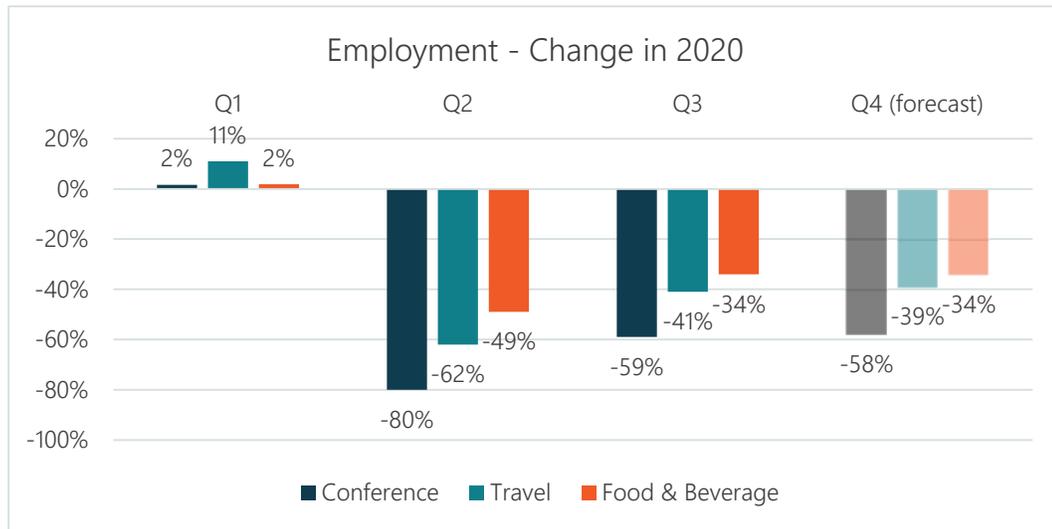
While the drop in revenue seemed comparatively minor for Food & Beverage hotels, the change in the mix of revenue meant that these hotels experienced a much more significant drop in gross profit.



Employment

Hotels had to lay off many of their staff to survive. Conference hotels reduced their workforce by 80% in Q2.; Food & Beverage hotels cut their staff by half. Employment levels are projected to remain well below normal, with one to two-thirds fewer people employed.

Hotels have expressed concern that skilled employees will not be available when the industry recovers, meaning a further period of lower productivity and higher cost.



Government Supports

Federal programs such as the Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Business Account (CEBA) have been widely accessed and useful for the hotel industry, to a degree. Survey respondents reported receiving a total of approximately \$15 million from all programs. Total wages in 2020 are estimated at approximately \$70 million. The CEWS wage subsidy was crucial to being able to pay the small number of employees that hotels were able to retain or call back throughout the spring and summer. However, with such a drastic decline in business, hotels are finding it difficult to cover the 25% of staff wages not covered by CEWS. The CEBA loan, while providing a small amount of temporary relief for smaller operations was not viewed as significant by larger hotels.

Provincial COVID relief programs such as the Manitoba Gap Protection Program (MGPP) and Manitoba Back to Work Program are not a good fit for the hotel industry. The MGPP forgivable loan (\$6,000) is only available to businesses that do not qualify for the federal programs – so very few hotels have benefitted from it. The Manitoba Back to Work Program (50% of wage costs, 20 employee limit, \$ per employee limit) is only available to support newly hired or re-hired employees whose position is not supported by any other program. Hotels laid off many of their staff, and those they kept were often supported by the federal CEWS program. Most hotels have not returned to a position where they are hiring new staff or bringing back their staff who were laid off, so this provincial program hasn't been helpful for them.

# CASE STUDY

## Conference Hotels

### The Backdrop

We have defined "Conference Hotels" as hotel operations with 10% or more of total revenue directly from conference/event packages (including room, equipment and in-conference food and beverage).

There are 16 Conference hotels in our survey sample, most located in Winnipeg. Properties of this type are reliant on conferences for over 65% of their revenue (including conference room space and equipment rental, and associated accommodations, food and beverage). Business from conferences is supplemented with weekend leisure travellers and sports teams.



Conference hotels tend to be larger operations. In our survey sample, the 16 Conference hotels account for less than 20% of total properties but over 40% of 2019 revenues and about 34% percent of employment.

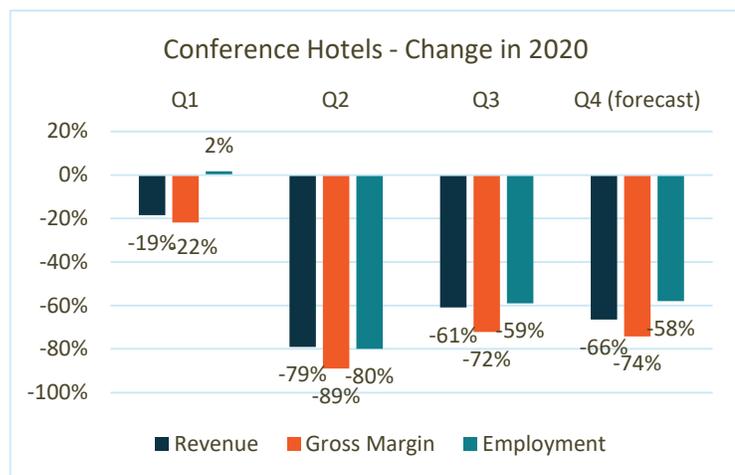
Some operators reported that prior to 2020 there had been significant growth in banquet business and investments in renovations and upgrades to capitalize on this growing segment were planned. This investment was in addition to room renovations and upgrades that had been made in prior years.

### The COVID Experience

When COVID restrictions were introduced, Conference hotel operators implemented measures to maintain the viability of their businesses. They closed restaurants and bars for several months, cancelled planned upgrades and cut discretionary expenses.

As the pandemic progressed, operators have deferred payments on long-term debt and had to make significant changes to staffing at all levels. At head office, some management staff have

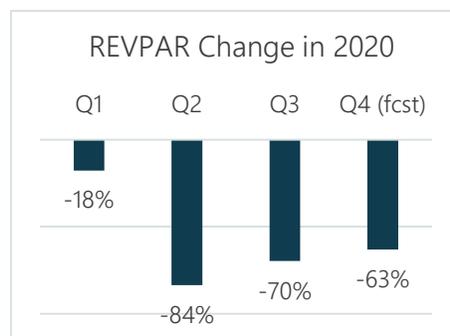
been laid off, others have had hours cut significantly. Some have had their duties realigned to fill front-line roles and vacancies have not been filled. On the front lines, banquet employees have been laid off,



sales and convention staff have been laid off, and any remaining hourly employees have had their hours reduced.

Staff have seen their incomes fall and found themselves working with skeleton crews which may feel less secure, despite the procedures that operators have taken to ensure their safety. As the current situation persists, operators continue to lose good employees, who cannot survive on a few shifts per week.

The table below illustrates the impact of the pandemic on a Conference hotel in Winnipeg. The hotel has been in operation for over 50 years and in 2019 employed an average of 266 people. While revenues are down significantly, fixed expenses have increased due to increases in property taxes and insurance. This hotel operator states that without the federal wage subsidy and bank willingness they would be out of cash in nine months.



Change 2019 to 2020	Q2	Q3
Occupancy	-86%	-61%
Employees	-91%	-71%
Revenues	-93%	-73%
Fixed Expenses (annual)	+ 8%	

## The Outlook

The pandemic has created significant financial strain for Conference hotel operators. While they have been able to access some government supports and some banks have been willing to defer debt or refinance mortgages over longer periods, hotels are viewed as too risky in the current environment and banks are unwilling to provide additional financing. In some cases, limits have been imposed on existing credit facilities.

Despite the support from government and lenders the outlook for conference hotels is bleak. Restrictions on gathering size and travel mean conferences and conventions are being cancelled and there are few other group bookings (e.g., sporting events, work crews) being made. The recent second wave of COVID-19 infections in Manitoba has erased any hope of making any gains through holiday season parties.

*"Without the federal wage subsidy and bank willingness we would be out of cash in nine months"*

# Food & Beverage Hotels CASE STUDY

## The Backdrop

We have defined "Food & Beverage Hotels" as hotel operations with over 50% of revenue from vendor, food and beverage (non-conference) sales.

There were 44 Food & Beverage hotels in our survey sample, with two thirds in rural Manitoba. On average, these hotels rely on restaurant, bar, vendor and VLT revenues for almost 80% of revenue, primarily to local patrons. Business from locals is supplemented with leisure and business travellers, and provincial work crews for those hotels located along the Trans Canada or provincial highways.

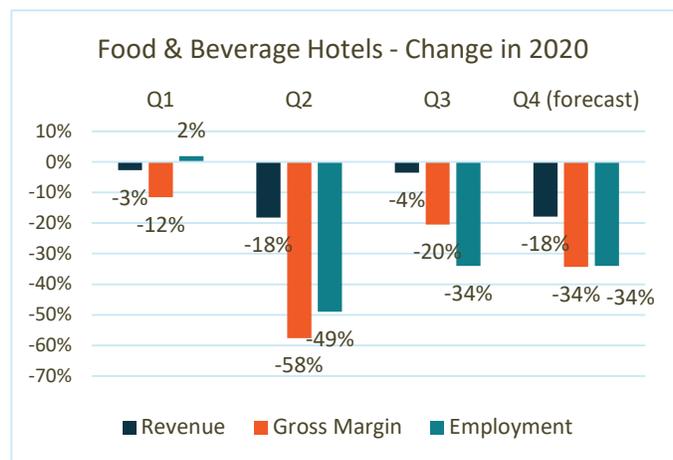


Food & Beverage hotels tend to be smaller operations, employing on average 35 staff. The largest operations, in Winnipeg and Brandon, have more than 200 staff. Almost half (49%) of survey respondent employment in Manitoba is in this hotel group. Prior to 2020, operators reported moderate growth in business and some investment in room renovations and upgrades in the last few years.

## The COVID Experience

When COVID restrictions were introduced, Food & Beverage hotel operators implemented measures to sustain their businesses. Many closed restaurants and bars for several months, with some re-opening only one or the other with a limited menu to limit expenses. Some operations cannot afford to erect barriers, so seating is limited to 50% and the number of VLTs in operation may be less than 50%.

As the pandemic progressed, operators have deferred long-term debt payments and extended terms with suppliers where they can. Some management and supervisory staff were laid off or had hours cut, and most hourly employees were laid off. Some employees were recalled throughout the summer, with reduced hours, however salaried management staff are still filling in for some front-line roles. Employment in this group dropped almost 50% in Q2 2020 and as of early October continued to be about 34% below 2019.



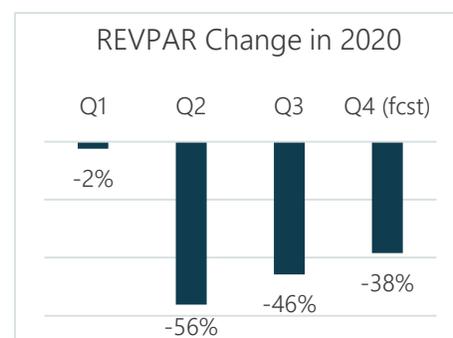
As in the other hotel sectors, staff are experiencing high levels of stress, with significant loss of income and ongoing uncertainty related to future employment. Some have left the industry to seek more stable employment.

Many Food & Beverage hotels, especially in rural communities, serve as a gathering place for community members. As an example, prior to the pandemic, one Food & Beverage hotel in rural Manitoba was at capacity every morning and lunch hour with local farmers and retirees. Sunday brunch was popular with local families and the bar often had small bookings for private events. As re-opening the restaurant with limited capacity is not feasible for this operator, they now only offer a limited menu in the bar. The closure of this hotel restaurant has left a large gap, with community members asking daily when the restaurant will be open again.

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The table below illustrates the impact of the pandemic on a Food & Beverage hotel in rural Manitoba. The hotel has been in operation for over 60 years, under the current owner for the last 10. Prior to the pandemic the hotel employed 30 people. The hotel operator was preparing to sell the business and had completed some renovations and upgrades in the last year. They had a buyer lined up prior to the pandemic, who has since backed out. This operator is concerned that with the reduced wage subsidy now available under CEWS and the mortgage deferral period over, his business is not viable. If the current situation persists, they may close the business.

Change 2019 to 2020	Q2	Q3
<b>Occupancy</b>	-100% (rooms closed)	-100% (rooms closed)
<b>Employees</b>	-80%	-80%
<b>Revenues</b>	-62%	-36%
<b>Fixed Expenses (annual)</b>	+ 4%	



## The Outlook

The pandemic has created significant financial strain for Food & Beverage hotel operators. While some banks have been willing to defer payments on debt, others view hotels as too risky in the current environment and are unwilling to provide additional financing. Some are concerned that reduced CEWS subsidies will not be enough to maintain operations. Increased costs for insurance and property taxes based on prior year revenues are of significant concern. As in other sectors, total revenues have decreased.

*"Our summer sales can't hope to carry us through the winter. Without some form of help (no debt please) we'll operate until the money runs out sometime this winter, then be closed for good."*

The outlook for Food & Beverage hotels is poor. Restrictions on capacities and gathering size, number of operating VLT's and the high cost of erecting barriers are making these operations unviable. Many operators were gravely concerned that a second wave of Covid-19 infections in Manitoba would force another round of closures and staff layoffs, which has recently become the reality.

# CASE STUDY

## Travel Hotels

### The Backdrop

We have defined "Travel Hotels" as hotel operations with limited food and beverage offerings.

There are 30 travel hotels in our survey sample, split between Winnipeg and rural Manitoba. Properties of this type cater to corporate and leisure travellers for most revenue – on average 87% of revenues are from accommodations. Some may have restaurant and lounge amenities, open limited hours.

Travel hotels tend to be smaller operations, employing on average 25 staff. A few larger operations in Winnipeg have more than 75 staff. Travel hotels in our survey sample accounted for

approximately 17% percent of revenues and employment in the hotel industry in Manitoba. Prior to 2020, operators reported that their businesses had been growing. Some had made significant investments in room renovations and amenity upgrades over the last few years.



### The COVID Experience

When COVID restrictions were introduced, travel hotel operators closed restaurants, lounges and recreational amenities like pools and play structures, and cut discretionary expenses like marketing to sustain the business.

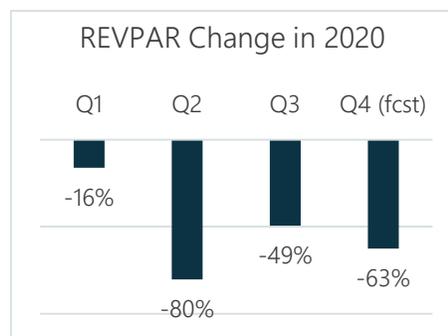
As the pandemic progressed operators have deferred long-term debt payments and had to make significant changes to staffing at all levels. Some management staff have been laid off, others have had hours cut significantly or had duties realigned to fill front-line roles. Most hourly employees were laid off, with only a small fraction being recalled to date.

Some operators have not yet re-opened kids recreational amenities and have had to reduce their rates somewhat. Some operators with food and beverage facilities had hoped to re-open these amenities in October.



The circumstances are highly stressful for staff, who have seen their incomes fall and found themselves working with skeleton crews. Employee physical and mental health are being impacted. Despite the safety precautions that operators have taken many are concerned about exposure through guests. With CERB ending and a return to work still uncertain, a number of employees have left the hospitality industry.

The table below illustrates the impact of the pandemic on a Travel hotel in Winnipeg. The hotel has been in operation for over 40 years and in 2019 employed an average of 114 people. They had completed significant upgrades to the rooms and amenities in the last few years. Through careful management, their property was seeing growth in revenues and profitability. Since the pandemic, they have found it virtually impossible to plan, as customers are booking between 15 minutes and 3 days in advance, based on the COVID news of the day.



Change 2019 to 2020	Q2	Q3
Occupancy	-97%	-74%
Employees	-86%	-84%
Revenues	-98%	-77%
Fixed Expenses (annual)	-14% (decrease in utility expenses)	

## The Outlook

The pandemic has created significant financial strain for Travel hotel operators. While they have been able to access some government supports and some banks have been willing to defer payments on debt, hotels are viewed as too risky in the current environment and banks are unwilling to provide additional financing. Like the industry as a whole, operators are reliant on CEWS subsidies and are concerned with increased expenses for insurance and taxes.

Despite the support from the federal government and lenders the outlook for Travel hotels is bleak. Restrictions on travel have had a tremendous impact on this segment, with no change in these conditions expected in the near future. Many in this segment feel it will be at least 2023 before operations are back to normal. It is unknown when Canada will re-open to cross-border and international travellers and if and when people will feel comfortable travelling.

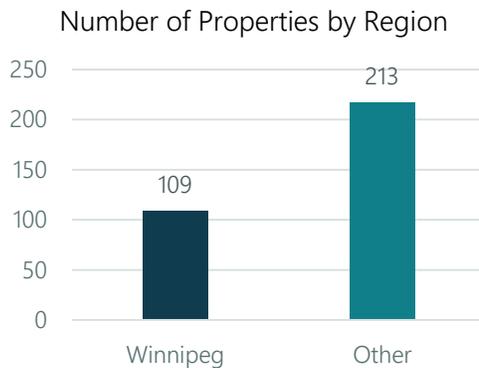
*"There will be 2 to 4 years of rebuilding. No matter what you are offering you won't get people back into your property - it's all about the willingness of people to travel."*

## Economic Impact

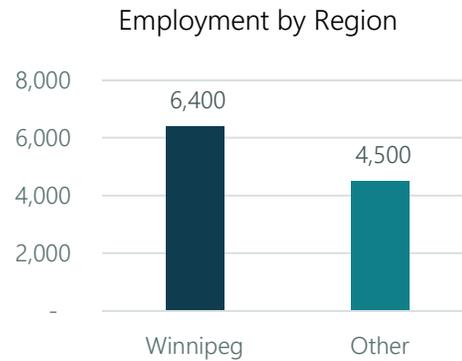
In 2019 there were 322 hotel properties in Manitoba.<sup>1</sup> These properties provide community gathering places and are important contributors to the vibrancy of the communities in which they are located. They also generate economic impacts in the form of employment for residents and tax revenues for all levels of government.

Economic impacts occur at the direct, indirect and induced levels. Direct impacts are those generated by spending at the hotel, while indirect and induced impacts arise from linkages that exist with suppliers and service providers as well as through the ripple effects of their spending within the economy.

2019



Source: Statistics Canada, Business Register (December 2019)



Source: Derived based on Survey of MHA Members and Statistics Canada, Business Register

### Estimated Economic Impact of the Manitoba Hotel Industry

	Output (Millions)	GDP (Millions)	Employment (Jobs)	Federal Revenues (Millions)	Provincial Revenues* (Millions)	Municipal Revenues (Millions)
Direct	\$940	\$400	10,900	\$47	\$140	\$30
Indirect	\$330	\$190	2,200	\$16	\$20	\$7
Induced	\$220	\$140	1,300	\$20	\$30	\$8
<b>Total</b>	<b>\$1,490</b>	<b>\$730</b>	<b>14,400</b>	<b>\$83</b>	<b>\$190</b>	<b>\$45</b>

\*Provincial Revenues include the mark-up on alcohol sold to hotels by Manitoba Liquor and Lotteries but exclude revenues from video lottery terminals located in licensed beverage rooms in hotels.

<sup>1</sup> These include motels, motor hotels, resorts and hotels. The estimate is based on Statistics Canada, Business Register (December 2019) business counts for the NACIS codes: 721111, 721112, 721113, and 721114.

Prior to the pandemic, hotels in Manitoba directly employed approximately 10,900 people and supported an additional 3,500 jobs through their spending on goods and services and the spending of wages by their employees. Hotels also directly contributed approximately \$140 million to provincial revenues through taxes and mark-up on alcohol purchases plus about \$50 million in indirect and induced impacts. Hotels contributed approximately \$30 million in direct municipal revenues through property taxes and accommodation taxes, with another \$15 million in indirect and induced revenues.

### Other Contributions

Manitoba Liquor and Lotteries' ("MBLL") core mandate is to generate revenues to support provincial programs and initiatives including healthcare, education, social services and infrastructure.<sup>2</sup> Video lottery terminals ("VLTs") are an important source of revenue for MBLL, accounting for 31.9 percent of its net income in fiscal 2019/20.<sup>3</sup>

Hotels play a key role in providing access to VLTs for customers as the majority of VLTs are located in licensed beverage rooms in hotels. For hotels, commission and contributions from hosting VLTs are an important supplementary revenue source. According to estimates prepared by the Manitoba Hotel Association, hotels received approximately \$43 million in commissions and contributions for hosting VLTs in fiscal 2019/20. At average commission rates, this would translate to revenues of approximately \$196 million to MBLL from VLTs located in hotels.<sup>4</sup>

<sup>2</sup> Manitoba Liquor and Lotteries, "Our Responsibilities". Available here: <https://www.mbl.ca/content/economic-impact> (Accessed November 5, 2020)

<sup>3</sup> Manitoba Liquor and Lotteries Annual Report 2019/20.

<sup>4</sup> Calculated based on 80 percent of revenues from City Siteholders and Rural Siteholders being generated from VLTs in hotels and effective commission of 18 percent being paid to hotels.

## Appendix: Methodologies

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### Economic Impact

In general, economic impacts are viewed as being restricted to quantitative, well-established measures of economic activity. The most commonly used of these measures are output, GDP, employment and government revenue:

- **Output** – the total gross value of goods and services produced by a given company or industry measured by the price paid to the producer. This is the broadest measure of economic activity.
- **Gross Domestic Product (“GDP”)**, or value added, refers to the additional value of a good or service over the cost of inputs used to produce it from the previous stage of production. Thus, GDP is equal to the unduplicated value of the goods and services produced.
- **Employment** is the number of additional jobs created. Employment is measured in terms of full-time equivalents (“FTEs”). One FTE is equivalent to one person working full-time for one year or one person-year of employment.
- **Government Revenues** are the total amount of revenues generated for different levels of<sup>5</sup> government. Revenues arise from personal income taxes, indirect taxes less subsidies, corporate income taxes, taxes on products, and royalties. Please note that because tax revenues can frequently change due to modifications in tax policy, the tax revenue impacts in this report are estimates only and subject to change. They should be viewed as approximate in nature.

Economic impacts may be estimated at the direct, indirect and induced levels:

- **Direct impacts** are due to changes that occur in “front-end” businesses that would initially receive expenditures and operating revenue as a direct consequence of the operations and activities of a facility or industry.
- **Indirect impacts** arise from changes in activity for suppliers of the “front-end” businesses.
- **Induced impacts** arise from shifts in spending on goods and services as a consequence of changes to the payroll of the directly and indirectly affected businesses.

To estimate the economic impacts generated by the Manitoba hotel industry, MNP employed an input-output methodology using economic multipliers published by Statistics Canada. Input-output modeling is a widely-used and widely-accepted approach, making it recognizable by many different stakeholders and audiences.

### Data Sources

The data used in the modelling was gathered through a survey of hoteliers in Manitoba and from Statistics Canada.

## Survey

A survey was distributed directly to Manitoba Hotel Association members who represent 265 hotel properties in Manitoba. The survey was open for response from September 10 to October 6.

Survey respondents were asked to report actual financial and operational data by quarter for 2019 and the first two quarters of 2020 and estimate this information for the last two quarters of 2020.

Where specific data was deemed unreliable, MNP removed it from the analysis.

### Survey response

A total of 90 survey responses were received, broken down as follows:

	Conference Hotel	Food & Beverage Hotel	Travel Hotel	Total
Rural	4	28	16	48
Winnipeg	12	16	14	42
Total	16	44	30	90

## Appendix: About MNP

### About MNP

MNP's roots are in Manitoba. Established over 60 years ago by a small group of accountants in Brandon, Manitoba, MNP is now the 5<sup>th</sup> largest accounting, tax and consulting firm in Canada. We are also the largest consulting firm and largest accounting firm in Manitoba. MNP provides world class 'big firm' expertise, niche understanding and depth of knowledge, personalized service with 'hands-on' partners and significant value for your invested dollars. You will also retain a firm whose preferred approach is to 'work with' our clients to build capacity rather than do 'something to them'. We understand how to balance the need for expert opinion and informed facilitation.

#### The Firm

- Over 80 full and part time offices across Canada
- Over 4,200 professionals and staff
- Over 835 partners

#### MNP Consulting

- Practices in Winnipeg, Victoria, Vancouver, Calgary, Edmonton, Regina, Saskatoon, Toronto, Montreal, Ottawa
- Over 300 professionals

#### Manitoba Offices

- Over 490 professionals and partners

#### Manitoba Consulting Practice

- 9 partners and over 45 professionals and staff

We are a member of the Praxity network, a global alliance of accounting and consulting firms that enables us to access a broad range of industry specific expertise worldwide.



At MNP, our professionals are the driving force behind our success. They continue to demonstrate our culture and values which is integral to the way we conduct business, both internally and externally. As such, MNP is proud to be recognized for consecutive years as one of the 50 Best Employers in Canada.



### Our Regions and Office Locations



## Our Consulting Services

In addition to a full suite of accounting and tax offerings, MNP offers a wide range of consulting services, as shown below. We are proud to serve private enterprise, the public sector and the Indigenous community. MNP has also developed deep expertise in specific industry sectors, including:

- Real Estate and Construction
- Agriculture
- Credit Unions
- Professionals
- Energy and Utilities
- Dealerships
- Forestry and Forest Products
- Food and Beverage

 <p><b>Organizational Renewal</b></p> <p>Facilitating organizational and cultural transformation</p> <ul style="list-style-type: none"> <li>• Transformation and change management</li> <li>• Corporate strategy</li> <li>• Organizational and culture transformation</li> <li>• Leadership and talent development</li> <li>• Executive search</li> <li>• Consultation and engagement</li> </ul>	 <p><b>Delivery Execution</b></p> <p>Achieving results across complex programs and portfolios</p> <ul style="list-style-type: none"> <li>• Program leadership and portfolio management</li> <li>• Program delivery and outsourcing</li> <li>• Project management</li> <li>• Project recovery</li> </ul>	 <p><b>Value Creation</b></p> <p>Driving operational improvements – Top line and bottom line</p> <ul style="list-style-type: none"> <li>• Business and operational planning</li> <li>• Financial analysis and modelling</li> <li>• Supply chain transformation</li> <li>• Performance improvement and operational excellence</li> <li>• M&amp;A integration management</li> </ul>
 <p><b>Insights and Analytics</b></p> <p>Providing economic analysis and industry/regulatory support</p> <ul style="list-style-type: none"> <li>• Economic Impact</li> <li>• Statistical and econometric forecast modeling</li> <li>• Impact benefits agreements and revenue sharing</li> <li>• Industry analysis</li> <li>• Litigation, regulatory and trade negotiation support</li> <li>• Cost of production studies</li> <li>• Market analysis</li> </ul>	 <p><b>Technology Solutions</b></p> <p>Working together to enhance your vision with a modern and measured approach to technology</p> <ul style="list-style-type: none"> <li>• Technology advisory</li> <li>• Digital enterprise</li> <li>• Customer platforms</li> <li>• Intelligent application</li> <li>• Applied data</li> <li>• Cyber security &amp; privacy</li> </ul>	 <p><b>Enterprise Risk Services</b></p> <p>Providing economic analysis and industry/regulatory support</p> <ul style="list-style-type: none"> <li>• Internal audit</li> <li>• Internal control assurance</li> <li>• Regulatory compliance</li> <li>• Environment, health &amp; safety</li> <li>• Enterprise Risk Management</li> <li>• CEO / CFO certification services</li> <li>• Technology risk services</li> <li>• Corporate governance</li> </ul>

## Economics and Research

MNP's economics and research practice provides analysis and research services that encompass a wide range of statistical, economic and program evaluation applications. Our work helps clients make strategic decisions, evaluate programs and business alternatives, determine economic and financial contributions and develop public policy. Our team of economists, statisticians and business professionals has served clients from across Canada and the United States.