

Canadian Lodging Outlook

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Canadian Lodging Market: An Overview

by Namit Malhotra

Canadian Hotel market experienced another good year in 1999, with occupancy rates increasing for the sixth consecutive year. Between 1991 and 1999, room supply grew by 0.8% compounded annually, compared to room demand, which rose by 2.1% compounded annually over the same time period. More impressively, average room rates accelerated at a compounded annual rate of 3.9%, exceeding inflation increases of 1.4% annually between 1991 and 1999. Growth in room supply has been most noticeable in Western Canada, with no measurable increases in the rest of the nation. Based on data provided by Smith Travel Research, Table 1 outlines the Canadian lodging market's performance since 1991.

The growth in the Canadian Hotel Market can be attributed to a number of factors: a low Canadian Dollar, the Open Skies Agreement, and the NAFTA agreement. The number of foreign travelers visiting Canada rose from approximately 38 million in 1991 to more than 48 million in 1998. In the first nine months of 1999, the number of tourists visiting Canada from countries other than the United States increased by 5.3%; visits by Americans rose by

3.7% in 1999 over 1998. Canada now ranks as the ninth-most popular tourist destination in the world, its highest ranking in ten years.

Healthy demand growth, coupled with minimal increases in room supply, has allowed hotel operators to achieve healthy occupancy and average rate growth. The Canadian hotel average room rate jumped by 8.5% between 1997 and 1998 and by 7.5% as of year-to-date September 1999. It is therefore not surprising that the Canadian Gross Domestic Product (GDP) has risen at a compounded annual rate of 4.2% between 1991 and 1998, and that the Canadian hotel market RevPAR has accelerated by 5.1%.

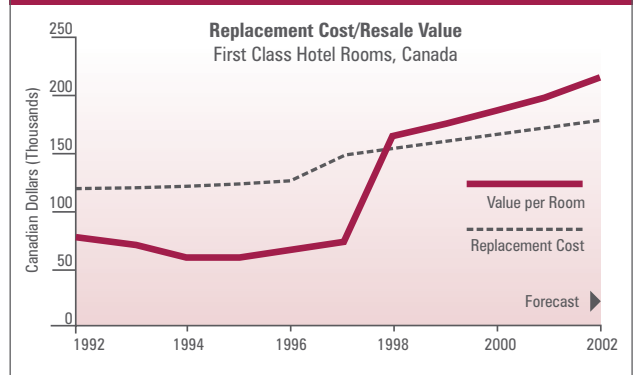
The year 2000 is expected to be a strong year for Canada, both from a tourism standpoint and an economic one. On the heels of strong economic data in the second half of 1999, most Canadian banks have adjusted their GDP forecasts for 2000 upward to around 3.5%, and have lowered their unemployment rate forecasts. Inflation is expected to remain in the 1% to 3% range.

Changes in capital markets in the third quarter of 1998 resulted in a dramatic reduction in hotel investment. While the U.S. market appears to have made a strong recovery from this downturn, the level of Canadian transactions in 1999 indicate that we have still

not returned to the activity levels of 1997 and 1998. After peaking in 1998, hotel transaction volume came to a screeching halt in 1999.

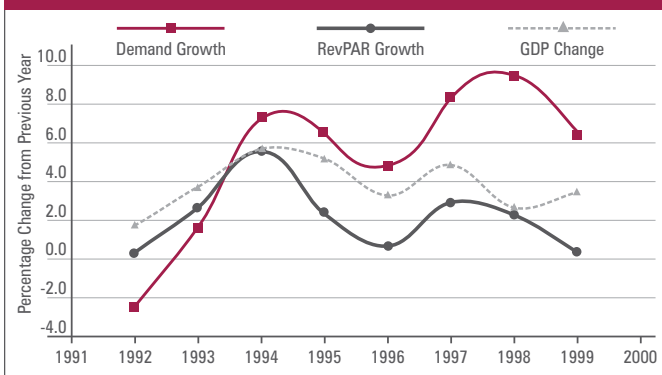
As shown in Table 2, based on the HVS Replacement Cost Survey, hotel sales prices moved above their replacement costs in 1999,

Table 2 - HVS Replacement Cost Survey Source: HVS International



a first since this trend has been tracked. The decline in acquisition activity can be partially attributed to an increase in room prices. Typically, when market value is above replacement cost, existing hotels are overly expensive to acquire and new development becomes feasible. Although this trend is now visible throughout Canada, Western Canada was already seeing new supply in light of higher room prices. The gloom and doom projected by many pundits in 1999 for the Western Canadian lodging market never materialized. Even with increases in room supply, Western Canadian hotel markets fared remarkably well in 1999. With the return of Asian demand anticipated in 2000 and 2001, these hotels are well positioned for the new millennium. Increasing RevPAR and higher profitability have also resulted in higher room prices through out Canada, a trend we expect will continue in the near term.

Table 1 - Market Performance Source: Smith Travel Research and Statistics Canada



CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA

December 1999	Number of Rooms	Occupancy Rate (%)		Average Room Rate (\$)		RevPAR (\$)		Room Supply % change	Room Demand % change
		1999	1998	1999	1998	1999	1998		
Nova Scotia Area	1,345	41.7%	40.3%	\$62.18	\$62.02	\$25.93	\$24.99	0.0%	3.6%
Halifax, NS	2,262	40.5%	39.1%	\$99.22	\$87.95	\$40.18	\$34.39	0.3%	4.0%
Montreal, QC	13,565	44.7%	49.8%	\$116.47	\$106.60	\$52.06	\$53.09	0.5%	-9.8%
Quebec City, QC	3,592	46.3%	40.2%	\$105.77	\$91.31	\$48.97	\$36.71	0.6%	15.9%
Quebec Area	3,403	41.0%	40.2%	\$69.32	\$64.54	\$28.42	\$25.95	0.0%	2.0%
Toronto Downtown	11,970	44.7%	50.0%	\$135.64	\$122.93	\$60.63	\$61.47	2.5%	-8.5%
Toronto North/East	6,014	46.9%	50.6%	\$100.01	\$87.04	\$46.90	\$44.04	0.0%	-7.3%
Toronto Airport/West	7,961	51.3%	54.4%	\$107.84	\$97.96	\$55.32	\$53.29	0.0%	-5.8%
Ottawa, ON	7,972	44.9%	45.1%	\$103.52	\$89.45	\$46.48	\$40.34	5.3%	4.9%
Ontario East	6,663	43.9%	45.1%	\$78.18	\$75.20	\$34.32	\$33.92	1.2%	-1.4%
Niagara Falls, ON	3,647	36.6%	38.2%	\$90.11	\$84.69	\$32.98	\$32.35	0.9%	-3.3%
Ontario Southwest	4,906	42.3%	43.7%	\$85.36	\$78.30	\$36.11	\$34.22	1.6%	-1.6%
Ontario North	3,026	43.4%	42.6%	\$82.22	\$77.27	\$35.68	\$32.92	0.0%	1.7%
Ontario Central	3,621	48.8%	55.2%	\$85.98	\$76.83	\$41.96	\$42.41	0.1%	-11.5%
Winnipeg, MB	3,135	50.5%	57.6%	\$81.39	\$75.76	\$41.10	\$43.64	0.0%	-12.3%
Regina/Saskatoon, SK	3,639	46.6%	48.6%	\$72.21	\$72.90	\$33.65	\$35.43	2.8%	-1.5%
Calgary, AB	6,720	45.5%	49.1%	\$109.64	\$95.75	\$49.89	\$47.01	9.0%	1.1%
Edmonton, AB	4,281	43.8%	43.4%	\$82.78	\$78.29	\$36.26	\$33.98	0.1%	1.2%
Alberta Area	4,357	44.6%	42.7%	\$74.33	\$73.66	\$33.15	\$31.45	2.8%	7.4%
Mountain Regions, AB	2,359	50.5%	54.0%	\$178.89	\$144.53	\$90.34	\$78.05	0.0%	-6.5%
Vancouver, BC	9,948	41.2%	42.9%	\$100.88	\$102.86	\$41.56	\$44.13	6.9%	2.7%
British Columbia Area	3,979	33.0%	32.7%	\$63.90	\$65.64	\$21.09	\$21.46	1.1%	2.1%
Victoria, BC	2,709	37.8%	41.1%	\$93.88	\$89.05	\$35.49	\$36.60	-1.3%	-9.2%
Provinces									
Alberta	17,816	45.6%	47.0%	\$104.53	\$95.61	\$47.67	\$44.94	3.0%	-0.1%
British Columbia	19,987	41.7%	42.7%	\$113.35	\$111.05	\$47.27	\$47.42	2.2%	-0.2%
Manitoba	3,338	50.4%	56.7%	\$80.50	\$75.11	\$40.57	\$42.59	0.4%	-10.7%
New Brunswick	2,547	45.9%	47.2%	\$68.27	\$66.28	\$31.34	\$31.28	0.2%	-2.6%
Newfoundland	1,456	40.4%	44.6%	\$87.57	\$79.88	\$35.38	\$35.63	0.0%	-9.5%
Nova Scotia	3,607	41.0%	39.5%	\$84.99	\$77.96	\$34.85	\$30.79	0.1%	3.7%
Northwest Territories	INS	-	-	-	-	-	-	-	-
Ontario	55,422	45.3%	48.1%	\$103.20	\$93.23	\$46.75	\$44.84	1.3%	-4.6%
Prince Edward Island	728	28.4%	20.8%	\$61.20	\$60.37	\$17.38	\$12.56	0.0%	36.2%
Quebec	20,918	44.4%	46.2%	\$107.23	\$97.69	\$47.61	\$45.13	0.3%	-3.7%
Saskatchewan	4,983	43.0%	45.2%	\$68.46	\$69.00	\$29.44	\$31.19	2.4%	-2.6%
Yukon Territory	384	27.7%	22.9%	\$65.38	\$67.44	\$18.11	\$15.44	0.0%	21.0%
Canada	131,186	42.2%	43.2%	\$88.38	\$82.14	\$37.30	\$35.48	1.4%	-0.9%

CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA

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Halifax, NS	2,262	73.5%	70.0%	\$106.70	\$96.70	\$78.42	\$67.69	0.3%	5.2%
Montreal, QC	13,565	69.6%	69.4%	\$120.20	\$111.74	\$83.66	\$77.55	0.6%	0.8%
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Quebec Area	3,403	58.0%	59.8%	\$74.20	\$69.91	\$43.04	\$41.81	0.0%	-3.0%
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Toronto North/East	6,014	70.2%	70.9%	\$97.89	\$88.27	\$68.72	\$62.58	0.0%	-1.0%
Toronto Airport/West	7,961	74.9%	74.8%	\$110.46	\$101.38	\$82.73	\$75.83	0.1%	0.3%
Ottawa, ON	7,972	68.7%	70.4%	\$104.13	\$94.03	\$71.54	\$66.20	1.8%	-0.8%
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CANADIAN LODGING OUTLOOK

DEFINITIONS

Occupancy:	The ratio of total occupied rooms to total available rooms.
Average Room Rate:	Defined as room sales divided by the total number of rooms occupied.
RevPAR:	The application of a hotel's average occupancy to its average room rate and a true indicator of the property's ability to generate revenue. It is calculated by multiplying the occupancy by the average room rate.
Number of Rooms:	The total number of rooms at participating hotels.



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The Hotel Association of Canada is a federation of provincial and territorial associations, hotel chains and suppliers with a mandate to represent members nationally and internationally and to provide cost-effective services that stimulate and encourage a free market accommodation industry.

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