



Does supply generate demand?

by Carrie Russell, Vice-President, HVS International–Vancouver

The simple answer to that question is yes, with supply comes demand. This is because in most mature hotel markets a certain level of latent demand exists. Latent demand is demand that is not currently being realized and consists of unaccommodated demand and induced demand.

Unaccommodated demand refers to individuals who are unable to secure accommodations in a market because all of the local hotels are filled. These travellers end up deferring their trip, settling for less desirable accommodations, or staying at properties outside the market area. If a hotel is reaching occupancy levels of 75% or greater on any given night, it is likely unaccommodated demand exists.

Induced demand represents room nights that are attracted into a market. These room nights can be induced through the opening of a new demand generator such as a convention centre or manufacturing plant, but also through the opening of a hotel. A new hotel can bring a new franchise affiliation and reservations system into a market, or unique facilities, which draw new guests. A new property will also have a sales team, which can target markets that haven't been focused on in the past. All of these factors will bring guests that haven't previously visited into the market.

When forecasting market occupancy, the challenge is trying to accurately quantify the level of latent demand that exists. The tables below summarize how new supply impacted demand growth in the Calgary Airport and

the Vancouver Airport markets, both of which have experienced significant supply increases in recent years.

In Calgary, demand growth was higher in years with supply increases, excluding 1999. In 1999, demand declined due to the impact of the slowdown in the oil and gas industry in that year. It is interesting to note, that in 2000 with the improved conditions in the oil sector, demand growth rebounded and was almost double the supply growth in that year.

The trend is similar in the Vancouver Airport market. As large increases in supply

entered this market in 1998, demand also began to increase significantly. Demand growth often does not keep pace with supply growth and both the Calgary Airport and the Vancouver Airport markets have experienced occupancy declines. But these declines would have been worse if latent demand was not present in the market.

When forecasting occupancy for a market with new supply slated to be opened, it is important to consider the level of latent demand present in order to be accurate in your forecast.

Calgary Airport

Year	Supply	Percent Change	Demand	Percent Change	Occupancy
1994	668,315		471,314		70.5%
1995	668,315	0.0%	477,504	1.3%	71.4
1996	690,580	3.3	498,854	4.5	72.2
1997	728,540	5.5	522,476	4.7	71.7
1998	728,540	0.0	533,894	2.2	73.3
1999	776,934	6.6	502,048	(6.0)	64.6
2000	816,505	5.1	551,249	9.8	67.5

Vancouver Airport

Year	Supply	Percent Change	Demand	Percent Change	Occupancy
1994	801,175		621,268		77.5%
1995	801,175	0.0%	637,578	2.6%	79.6
1996	801,175	0.0	636,336	1.4	80.7
1997	847,637	5.8	631,799	(2.2)	74.5
1998	989,771	16.8	658,671	4.3	66.5
1999	1,198,842	21.1	766,597	16.4	63.9
2000	1,399,410	16.7	854,756	11.5	61.1

Source: Smith Travel Research

CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA

February 2001	Number of Rooms	Occupancy Rate (%)		Average Room Rate (\$)		RevPAR (\$)		Room Supply % change	Room Demand % change
		2001	2000	2001	2000	2001	2000		
Nova Scotia Area	1,193	49.9%	53.8%	\$71.29	\$68.10	\$35.57	\$36.64	0.0%	-7.3%
Halifax, NS	2,286	58.3%	53.3%	\$98.60	\$99.84	\$57.48	\$53.21	0.0%	9.3%
Montreal, QC	13,622	60.9%	62.1%	\$120.42	\$112.96	\$73.34	\$70.15	1.1%	-0.9%
Quebec City, QC	3,588	64.5%	67.6%	\$106.20	\$104.19	\$68.50	\$70.43	0.2%	-4.2%
Quebec Area	3,786	51.4%	50.3%	\$75.69	\$72.01	\$38.90	\$36.22	0.0%	2.2%
Toronto Downtown	10,722	61.1%	63.5%	\$142.74	\$136.67	\$87.21	\$86.79	1.1%	-2.7%
Toronto North/East	6,449	56.7%	57.5%	\$101.04	\$99.35	\$57.29	\$57.13	1.4%	0.0%
Toronto Airport/West	8,074	73.2%	74.7%	\$117.66	\$109.26	\$86.13	\$81.62	2.8%	0.8%
Ottawa, ON	7,439	74.1%	69.7%	\$127.38	\$111.37	\$94.39	\$77.62	-1.5%	4.7%
Ontario East	4,447	51.7%	53.2%	\$83.09	\$79.53	\$42.96	\$42.31	1.5%	-1.3%
Niagara Falls, ON	5,510	37.0%	41.9%	\$85.51	\$80.57	\$31.64	\$33.76	7.2%	-5.3%
Ontario Southwest	5,575	53.6%	52.9%	\$94.60	\$90.89	\$50.71	\$48.08	0.9%	2.1%
Ontario North	4,152	55.9%	56.6%	\$83.73	\$81.26	\$46.81	\$45.99	0.3%	-0.9%
Ontario Central	6,566	55.2%	55.1%	\$84.49	\$83.35	\$46.64	\$45.93	0.3%	0.5%
Winnipeg, MB	3,230	57.5%	61.4%	\$83.73	\$82.30	\$48.14	\$50.53	3.0%	-3.6%
Regina/Saskatoon, SK	3,675	63.9%	65.6%	\$80.08	\$77.05	\$51.17	\$50.54	2.4%	-0.4%
Calgary, AB	7,457	60.2%	59.0%	\$103.48	\$104.65	\$62.29	\$61.74	6.4%	8.6%
Edmonton, AB	5,244	68.6%	63.3%	\$84.00	\$80.59	\$57.62	\$51.01	1.1%	9.6%
Alberta Area	4,979	60.3%	61.9%	\$73.12	\$70.93	\$44.09	\$43.91	1.7%	-1.0%
Mountain Regions, AB	2,744	59.0%	67.6%	\$158.49	\$143.66	\$93.51	\$97.11	0.0%	-12.8%
Vancouver, BC	11,853	58.2%	51.9%	\$110.10	\$106.26	\$64.08	\$55.15	2.7%	15.2%
British Columbia Area	4,348	38.9%	44.8%	\$68.01	\$62.47	\$26.46	\$27.99	1.2%	-12.2%
Victoria, BC	2,950	50.3%	50.2%	\$81.91	\$79.33	\$41.20	\$39.82	0.0%	0.1%
Provinces									
Alberta	20,424	62.2%	62.1%	\$97.49	\$95.56	\$60.64	\$59.34	2.3%	2.5%
British Columbia	22,598	54.5%	53.2%	\$127.01	\$115.22	\$69.22	\$61.30	1.8%	4.3%
Manitoba	3,433	57.9%	61.8%	\$82.52	\$81.07	\$47.78	\$50.10	2.4%	-4.1%
New Brunswick	2,701	53.8%	59.3%	\$80.18	\$76.06	\$43.14	\$45.10	0.0%	-9.3%
Newfoundland	1,521	61.0%	52.8%	\$83.72	\$79.61	\$51.07	\$42.03	1.3%	17.0%
Nova Scotia	3,479	55.3%	53.5%	\$89.86	\$88.48	\$49.69	\$47.34	0.0%	3.4%
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	58,495	59.2%	60.7%	\$110.48	\$105.20	\$65.40	\$63.86	1.5%	-1.1%
Prince Edward Island	784	38.0%	37.4%	\$60.51	\$58.34	\$22.99	\$21.82	0.0%	1.7%
Quebec	21,435	59.8%	60.8%	\$110.35	\$104.95	\$65.99	\$63.81	0.5%	-1.0%
Saskatchewan	5,121	57.9%	59.3%	\$76.33	\$72.67	\$44.20	\$43.09	1.1%	-1.3%
Yukon Territory	344	43.3%	31.0%	\$81.62	\$87.58	\$35.34	\$27.15	0.0%	39.7%
Canada	140,335	54.7%	55.4%	\$93.94	\$88.04	\$51.39	\$48.77	1.4%	0.0%

CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA

February 2001 Year-to-Date	Number of Rooms	Occupancy Rate (%)		Average Room Rate (\$)		RevPAR (\$)		Room Supply % change	Room Demand % change
		2001	2000	2001	2000	2001	2000		
Nova Scotia Area	1,193	47.0%	47.0%	\$70.62	\$67.05	\$33.19	\$31.51	0.0%	0.0%
Halifax, NS	2,286	53.6%	48.0%	\$99.32	\$97.41	\$53.24	\$46.76	0.0%	11.7%
Montreal, QC	13,622	55.7%	54.7%	\$122.04	\$113.50	\$67.98	\$62.08	1.1%	2.9%
Quebec City, QC	3,588	52.0%	57.3%	\$102.69	\$100.07	\$53.40	\$57.34	0.2%	-9.1%
Quebec Area	3,786	45.1%	44.0%	\$75.32	\$72.31	\$33.97	\$31.82	0.0%	2.4%
Toronto Downtown	10,722	55.6%	54.7%	\$142.85	\$136.17	\$79.42	\$74.48	1.1%	2.7%
Toronto North/East	6,449	53.2%	52.6%	\$102.58	\$99.56	\$54.57	\$52.37	1.4%	2.7%
Toronto Airport/West	8,074	71.2%	69.2%	\$115.78	\$108.51	\$82.44	\$75.09	2.8%	5.8%
Ottawa, ON	7,439	63.0%	60.8%	\$125.10	\$110.43	\$78.81	\$67.14	-1.5%	2.1%
Ontario East	4,447	47.2%	48.0%	\$83.96	\$78.80	\$39.63	\$37.82	1.5%	-0.2%
Niagara Falls, ON	5,510	32.1%	35.5%	\$83.48	\$78.97	\$26.80	\$28.03	7.2%	-3.0%
Ontario Southwest	5,575	50.8%	50.0%	\$94.50	\$89.90	\$48.01	\$44.95	0.9%	2.6%
Ontario North	4,152	50.2%	51.5%	\$83.00	\$79.94	\$41.67	\$41.17	0.3%	-2.2%
Ontario Central	6,566	52.5%	50.2%	\$85.20	\$82.72	\$44.73	\$41.53	0.3%	4.8%
Winnipeg, MB	3,230	55.4%	54.6%	\$86.65	\$83.63	\$48.00	\$45.66	3.0%	4.7%
Regina/Saskatoon, SK	3,675	59.3%	60.5%	\$80.21	\$76.58	\$47.56	\$46.33	4.1%	2.0%
Calgary, AB	7,457	55.3%	54.9%	\$104.65	\$104.89	\$57.87	\$57.58	6.4%	7.2%
Edmonton, AB	5,244	59.7%	53.4%	\$84.86	\$80.71	\$50.66	\$43.10	1.1%	13.1%
Alberta Area	4,979	55.8%	54.9%	\$74.87	\$72.19	\$41.78	\$39.63	1.7%	3.4%
Mountain Regions, AB	2,744	56.8%	61.8%	\$147.37	\$135.52	\$83.71	\$83.75	0.0%	-8.1%
Vancouver, BC	11,853	52.0%	48.5%	\$110.08	\$107.45	\$57.24	\$52.11	2.7%	10.0%
British Columbia Area	4,348	36.1%	39.5%	\$66.95	\$63.54	\$24.17	\$25.10	1.3%	-7.5%
Victoria, BC	2,950	42.9%	41.2%	\$81.10	\$80.25	\$34.79	\$33.06	0.0%	4.3%
Provinces									
Alberta	20,424	56.7%	55.5%	\$97.33	\$95.35	\$55.19	\$52.92	2.3%	4.6%
British Columbia	22,598	49.6%	48.4%	\$125.91	\$115.85	\$62.45	\$56.07	1.8%	4.3%
Manitoba	3,433	55.7%	54.9%	\$85.50	\$82.46	\$47.62	\$45.27	2.4%	3.9%
New Brunswick	2,701	49.7%	52.7%	\$80.58	\$75.90	\$40.05	\$40.00	0.0%	-5.6%
Newfoundland	1,521	55.0%	47.5%	\$87.27	\$83.29	\$48.00	\$39.56	1.3%	17.3%
Nova Scotia	3,479	51.2%	47.6%	\$89.61	\$86.41	\$45.88	\$41.13	0.0%	7.5%
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	58,495	54.5%	54.4%	\$110.05	\$104.12	\$59.98	\$56.64	1.5%	1.6%
Prince Edward Island	784	34.0%	30.4%	\$56.76	\$55.55	\$19.30	\$16.89	0.0%	11.8%
Quebec	21,435	53.1%	53.2%	\$111.51	\$104.83	\$59.21	\$55.77	0.5%	0.4%
Saskatchewan	5,121	53.5%	54.1%	\$76.24	\$72.43	\$40.79	\$39.18	1.8%	0.8%
Yukon Territory	344	35.7%	27.4%	\$76.40	\$74.84	\$27.27	\$20.51	0.0%	30.2%
Canada	140335	49.6%	49.8%	\$93.67	\$87.66	\$46.46	\$43.65	1.4%	1.0%

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.



HOSPITALITY
VALUATION
SERVICES

INTERNATIONAL

HVS is the leading consulting and appraisal firm specializing solely in the hospitality industry. HVS personnel have university degrees in Hotel Administration, or actual hotel work experience, and are taking further courses of study to obtain recognized real estate designations. HVS has consulted for over 10,000 hotels in 55 countries.



HOTELASSOCIATION OF CANADA INC.

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.

OFFICE: Anthony Pollard, 1016-130 Albert Street, Ottawa, Ontario K1P 5G4
(613) 237-7149

*If you have any questions regarding this publication please contact Kimberley Tyls, Office Manager in the HVS Vancouver office.
Web Site: www.hvsinternational.com*



SMITH TRAVEL RESEARCH

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.

OFFICE:
105 Music Village Blvd.,
Hendersonville, TN 37075
(615) 824-8664

OFFICES:

Vancouver

4235 Prospect Road
North Vancouver, BC
Canada V7N 3L6
(604) 988-9743
(604) 988-4625 fax

Toronto

Hammersmith House
2120 Queen Street East, Suite 202
Toronto, Ontario
Canada M4E 1E2
(416) 686-2260
(416) 686-2264 fax

New York

372 Willis Avenue
Mineola, NY 11501
(516) 248-8828
(516) 742-3059 fax

San Francisco

#620-116 New Montgomery Street
San Francisco, CA 94105
(415) 896-0868 x 108
(415) 896-0516 fax

Miami

#216-8925 SW 148th Street
Miami, FL 33176
(305) 378-0404
(305) 378-4484 fax

Denver

2229 Broadway
Boulder, CO 80302
(303) 443-3933 x 11
(303) 443-4186 fax

London

14 Hallam Street
London W1N 5LF
United Kingdom
+44-171-878-7700
+44-171-436-3386 fax

Mexico

Patricio Sanz 1104, Suite 6
Mexico City
03100 Mexico, D.F
011-525/575-5732
011-525/575-3907 fax

Singapore

100 Beach Road
35-00 Shaw Towers
Singapore, 189702
65-293-4415
65-293-5426 fax

India

B01/25 Safdarjung Enclave 1st Flr
New Delhi, 110029 India
+91-11-610-4644
+91-11-610-4552 fax

Brasil

HVS São Paulo
Av. Brig. Faria Lima 1912 cj. 7F
01452-001-São Paulo/SP Brasil
+55-11-3034-1091(Phone/Fax)

Argentina

HVS Buenos Aires
Arturo García Rosa, Partner
Reconquista 1056 - 10º Piso
(1003) - Buenos Aires
Argentina
54-11-4515-1461
54-11-4515-1462 (FAX)