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HVS INTERNATIONAL HOSPITALITY VALUATION SERVICES

SMITH TRAVEL RESEARCH

Niagara Falls: With Supply Comes Demand

Jon Lantz, Managing Director, HVS International–Toronto

Niagara Falls has evolved from a number of small, independent owner-operated motels to Canada's sixth largest accommodation market. The original family-run businesses were built to provide lodging for people from around the world who came to see Niagara Falls. This natural wonder is truly a magnificent site with spectacular waterfalls on both sides of the Canada/United States border. As the amusements continued to be built and more people travelled to Niagara Falls for family vacations or to get married. Niagara Falls quickly became the honeymoon capital of North America with its heart-shaped bathtubs and fireplaces.

This began to change when one of the local families decided to invest millions of dollars in constructing an upscale, full-service hotel overlooking the Horseshoe Falls. The 295-room Sheraton-Fallsview opened in 1991 in the middle of one of North America's worst recessions. The property managed to succeed in spite of this and laid the framework for a new direction for the lodging industry in Niagara Falls.

The market changed again when the Ontario government selected Niagara Falls as the site for its' second major casino. Casino Niagara was constructed between two older hotels and a retail complex, known as Mapleleaf Village at the entrance to the Rainbow Bridge. The cost of the casino was $130-million and it is considered one of the finest casinos in North America. This facility attracts more than 9- million people per year with total visitation to Niagara Falls Region around 13.4-million people.

This new demand prompted local developers to build new properties. Since the casino opened, a 285-room Marriott hotel, a 258-room Courtyard by Marriott, a 537-room Hilton Hotel, and an expanded 235-room Radisson Hotel complex were constructed. There were also several additions to existing properties including the Sheraton (formerly the Foxhead Hotel), the Sheraton-Fallsview, and the Sheraton Four Points. This added an additional 458 rooms. In total, there have been 1,773 new rooms added since Casino Niagara opened in December 1996.

In 1999, the government awarded the Hyatt Corporation the rights to construct and operate the new permanent casino and a 350-room Hyatt Hotel. This project is expected to begin construction this year with the opening approximately three years away. The Marriott is also completing a 150-room expansion.

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There are approximately 11,000 rooms in Niagara Falls, Canada. Smith Travel Research and HVS International track the operating results of 5,540 of these rooms. They represent the mid-size to larger chain-affiliated motels and hotels. In spite of the supply increase during the past four years, occupied room nights have increased by 27.0% while supply grew by only 13.2% in the sample . Equally important, is the growth in average daily rate (ADR) during this period. In 1996, the ADR was $84.09 and in 2000 this number rose to $120.36. This is a 43.0% increase in rate.

This tremendous growth reflects the ability of new properties and new venues to induce demand in what is perceived to be a stable market. The new, upscale hotels have shown that there is a segment of demand that was not being met. Additionally, Casino Niagara raised the profile of the market to be multi-dimensional. The world-class Butterfly Conservatory has added to this image as well.

There are numerous additions to supply noted by the planning department. Many of these have been of record for years and only a few new hotels will likely be constructed. The limiting factors in today's market include; the availability of land near the Falls or the Casino, the lending environment that currently exists for new hotels in Canada, and the need for a type of product that would stimulate demand.

In conclusion, this market should continue to grow and prosper. The dynamic market has demonstrated that there is latent or unsatisfied demand that can be stimulated by new hotels and new attractions. There are plans to construct a large conference centre, major theme park and several new golf courses in Niagara Falls. There is also a transition occurring on and near the older amusements/ attractions in the Clifton Hill area as owners choose to build family entertainment/retail venues such as Planet Hollywood, the Hershey Factory, and Rainforest Café.

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CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA

March 2001	Number of Rooms	Occupancy Rate (%) 2001	2000	Average Room Rate ($) 2001	2000	RevPAR ($) 2001	2000	Room Supply % change	Room Demand % change
Nova Scotia Area	1,103	59.6%	59.5%	$72.93	$70.32	$43.47	$41.84	0.0%	0.1%
Halifax, NS	2,286	69.4%	68.3%	$101.52	$98.21	$70.45	$67.08	0.0%	1.6%
Montreal, QC	13,868	63.1%	60.2%	$122.47	$113.21	$77.28	$68.15	1.1%	5.9%
Quebec City, QC	3,588	55.9%	53.5%	$98.47	$94.63	$55.04	$50.63	0.2%	4.6%
Quebec Area	3,786	49.7%	45.3%	$77.64	$73.86	$38.59	$33.46	0.0%	9.6%
Toronto Downtown	11,636	65.6%	62.2%	$146.30	$139.11	$95.97	$86.53	0.2%	5.7%
Toronto North/East	6,369	58.9%	61.4%	$106.70	$108.87	$62.85	$66.85	1.4%	-2.8%
Toronto Airport/West	8,961	68.5%	67.3%	$115.09	$111.75	$78.84	$75.21	2.8%	4.6%
Ottawa, ON	7,439	66.9%	65.0%	$124.04	$110.97	$82.98	$72.13	-1.5%	1.4%
Ontario East	4,660	52.8%	52.6%	$86.82	$80.73	$45.74	$42.46	1.5%	1.9%
Niagara Falls, ON	5,416	45.1%	48.8%	$88.56	$83.09	$39.94	$40.55	4.8%	-2.9%
Ontario Southwest	5,431	59.6%	59.5%	$97.47	$92.65	$58.09	$55.13	0.9%	1.0%
Ontario North	4,265	54.8%	55.7%	$82.64	$80.48	$45.29	$44.83	0.3%	-1.3%
Ontario Central	7,085	58.3%	57.6%	$88.51	$86.53	$51.60	$49.84	0.3%	1.5%
Winnipeg, MB	3,230	63.4%	63.8%	$89.33	$85.27	$56.64	$54.40	1.3%	0.6%
Regina/Saskatoon, SK	3,675	68.3%	73.7%	$83.36	$80.17	$56.93	$59.09	2.4%	-5.1%
Calgary, AB	7,387	64.2%	63.6%	$107.31	$105.73	$68.89	$67.24	6.4%	7.4%
Edmonton, AB	5,244	67.2%	65.9%	$86.14	$82.03	$57.89	$54.06	1.1%	3.1%
Alberta Area	5,071	66.4%	66.9%	$78.73	$75.66	$52.28	$50.62	1.8%	1.0%
Mountain Regions, AB	2,461	64.9%	74.9%	$166.24	$146.98	$107.89	$110.09	0.0%	-13.3%
Vancouver, BC	11,480	67.5%	65.5%	$119.88	$115.85	$80.92	$75.88	2.7%	5.7%
British Columbia Area	4,617	51.1%	49.6%	$70.05	$68.22	$35.80	$33.84	1.0%	3.9%
Victoria, BC	2,950	62.8%	57.9%	$89.43	$83.30	$56.16	$48.23	0.0%	8.4%
Provinces									
Alberta	20,163	65.6%	66.7%	$101.13	$98.20	$66.34	$65.50	2.3%	0.7%
British Columbia	22,391	63.9%	63.1%	$129.20	$121.90	$82.56	$76.92	1.7%	3.1%
Manitoba	3,433	63.4%	64.0%	$88.51	$84.41	$56.12	$54.02	1.3%	0.4%
New Brunswick	2,701	63.6%	66.1%	$83.44	$82.95	$53.07	$54.83	0.0%	-3.7%
Newfoundland	1,521	64.7%	60.9%	$91.85	$86.96	$59.43	$52.96	1.3%	7.6%
Nova Scotia	3,389	66.2%	65.2%	$93.13	$89.20	$61.65	$58.16	0.0%	1.5%
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	60,823	60.6%	60.5%	$111.57	$107.14	$67.61	$64.82	1.1%	1.3%
Prince Edward Island	784	43.2%	38.2%	$62.08	$59.81	$26.82	$22.85	0.0%	13.0%
Quebec	21,681	59.4%	56.4%	$111.89	$104.65	$66.46	$59.02	0.5%	5.8%
Saskatchewan	5,166	61.7%	65.4%	$78.29	$75.48	$48.30	$49.36	1.5%	-4.3%
Yukon Territory	384	51.4%	55.2%	$74.60	$78.96	$38.34	$43.59	0.0%	-7.0%
Canada	142,436	58.4%	58.4%	$95.19	$89.89	$55.59	$52.50	1.2%	1.2%

 *INS - Insufficient Data

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		2001	2000	2001	2000	2001	2000		
Nova Scotia Area	1,103	50.8%	51.3%	$71.16	$68.35	$36.15	$35.06	0.0%	-1.0%
Halifax, NS	2,286	59.0%	55.0%	$100.22	$97.75	$59.13	$53.76	0.0%	7.4%
Montreal, QC	13,868	58.4%	56.6%	$122.46	$113.34	$71.52	$64.15	1.1%	4.3%
Quebec City, QC	3,588	53.4%	56.0%	$101.05	$98.28	$53.96	$55.04	0.2%	-4.5%
Quebec Area	3,786	46.7%	44.5%	$76.18	$72.86	$35.58	$32.42	0.0%	5.0%
Toronto Downtown	11,636	59.4%	57.3%	$142.96	$137.17	$84.92	$78.60	0.8%	4.4%
Toronto North/East	6,369	55.4%	55.8%	$103.80	$103.03	$57.51	$57.49	1.4%	0.7%
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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.

HVS HOSPITALITY VALUATION SERVICES INTERNATIONAL

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