

# Lodging Outlook



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SMITH TRAVEL RESEARCH

## Insurance premiums on the rise?

By: Monique Rosszell - HVS International - Toronto

**In** Canada throughout the latter half of the 1990's hotels saw no growth or even negative growth in their property insurance premiums, as stiff competition among the insurance companies and a good investment market fostered low insurance premiums.

In early 2001, the insurance climate started to change and renewal hotel premiums began to increase according to Norman Koo, a Partner of Hunter Keilty Muntz & Beatty International Insurance Brokers in Toronto for the following reasons:

- During the latter half of 1995 claims had risen significantly and thus premiums had a lot of ground to make up;
- The economic slowdown and the devastating events of September 11, 2001 caused huge increases to losses thus straining the financial resources of the insurance and more notably the reinsurance industries;
- Insurance companies re-evaluated their hotel portfolios and found that many were seriously underrated causing some increases of more than 100% in premiums;
- In the last 12 to 24 months there have been a significant number of natural disasters causing large claims and therefore earthquake

insurance premiums have risen substantially. Properties on the west coast of Canada are seeing big increases in this area;

- With the current weak investment market insurance companies do not have the investment income they once did and are depending more on insurance premiums for their bottom lines.

What does all this mean?

Historically, property insurance premiums have been within the following ranges.

|                        | Percentage of Revenue | Amount per Available Room | Amount per Occupied Room |
|------------------------|-----------------------|---------------------------|--------------------------|
| Limited Service Hotels | 0.3%-0.5%             | \$70-\$100                | \$0.25-\$0.50            |
| Full Service Hotels    | 0.3%-0.5%             | \$150-\$250               | \$0.50-\$1.25            |

Over the next 12 months, it is generally believed within the insurance industry that hoteliers will be seeing these rates increase nationally on average 15% to 30% and thus premiums will be more likely on average in the 0.5% to 0.7% range of total revenue. In the longer term, it is anyone's guess as to what will happen but the prevailing expectation is that rates will increase at a greater rate than inflation.

Is there anything that hoteliers can do to minimize this impact?

- Shop around before your policy expires so that you have some quotes with which to compare the new premiums. Each broker has different leverage in the various markets and therefore may be able to obtain preferential rates for you.
- Supply as much accurate, current information as possible in order for the broker to provide a clear, concise "picture" to the underwriters to give them the level of comfort they need in assessing your property.
- Ensure that hotel policies promote minimal loss claims and implement procedures to reduce exposure loss.
- Do a cost/benefit analysis on increasing policy deductibles to decrease premiums; however, be prudent not to decrease policy or business income limits. In the event of a claim, a hotel needs to be adequately insured both for business income and replacement cost value.



**CANADIAN LODGING OUTLOOK**  
**HVS INTERNATIONAL - CANADA**

| March 2002            | Number of Rooms | Occupancy Rate (%) |       | Average Room Rate (\$) |          | RevPAR (\$) |          | Room Supply % change | Room Demand % change |
|-----------------------|-----------------|--------------------|-------|------------------------|----------|-------------|----------|----------------------|----------------------|
|                       |                 | 2002               | 2001  | 2002                   | 2001     | 2002        | 2001     |                      |                      |
| Nova Scotia Area      | 1,311           | 56.0%              | 55.8% | \$72.29                | \$74.46  | \$40.48     | \$41.55  | 0.3%                 | 0.6%                 |
| Halifax, NS           | 2,599           | 62.4%              | 69.1% | \$103.56               | \$102.06 | \$64.62     | \$70.52  | 5.5%                 | -4.7%                |
| Montreal, QC          | 15,271          | 58.1%              | 63.0% | \$126.30               | \$122.54 | \$73.38     | \$77.20  | 2.2%                 | -5.8%                |
| Quebec City, QC       | 3,642           | 57.9%              | 55.9% | \$103.03               | \$97.56  | \$59.65     | \$54.54  | 2.3%                 | 5.9%                 |
| Quebec Area           | 3,387           | 50.5%              | 49.6% | \$81.98                | \$76.94  | \$41.40     | \$38.16  | 0.7%                 | 2.5%                 |
| Toronto Downtown      | 12,013          | 60.1%              | 66.1% | \$143.48               | \$147.32 | \$86.23     | \$97.38  | 0.1%                 | -9.0%                |
| Toronto North/East    | 5,272           | 51.8%              | 58.9% | \$103.03               | \$106.72 | \$53.37     | \$62.86  | -1.6%                | -13.5%               |
| Toronto Airport/West  | 9,349           | 57.9%              | 68.3% | \$112.71               | \$115.11 | \$65.26     | \$78.62  | 4.3%                 | -11.6%               |
| Ottawa, ON            | 7,316           | 57.2%              | 67.8% | \$123.43               | \$123.13 | \$70.60     | \$83.48  | 1.5%                 | -14.4%               |
| Ontario East          | 5,127           | 50.8%              | 52.2% | \$87.52                | \$88.11  | \$44.46     | \$45.99  | 0.4%                 | -2.4%                |
| Niagara Falls, ON     | 5,583           | 48.5%              | 43.0% | \$93.14                | \$89.86  | \$45.17     | \$38.64  | 1.4%                 | 14.4%                |
| Ontario Southwest     | 6,538           | 56.5%              | 60.4% | \$96.98                | \$98.33  | \$54.79     | \$59.39  | 0.4%                 | -6.0%                |
| Ontario North         | 4,244           | 53.3%              | 55.2% | \$84.18                | \$84.28  | \$44.87     | \$46.52  | 0.3%                 | -3.1%                |
| Ontario Central       | 5,848           | 52.6%              | 56.6% | \$89.53                | \$87.33  | \$47.09     | \$49.43  | 1.6%                 | -5.5%                |
| Winnipeg, MB          | 3,461           | 60.9%              | 63.0% | \$90.47                | \$90.17  | \$55.10     | \$56.81  | 3.8%                 | 0.4%                 |
| Regina/Saskatoon, SK  | 3,689           | 61.6%              | 68.3% | \$83.68                | \$83.27  | \$51.55     | \$56.87  | 1.6%                 | -8.3%                |
| Calgary, AB           | 7,524           | 63.5%              | 64.8% | \$108.01               | \$105.20 | \$68.59     | \$68.17  | 1.0%                 | -1.0%                |
| Edmonton, AB          | 5,019           | 77.1%              | 69.4% | \$89.35                | \$91.45  | \$68.89     | \$63.47  | 0.0%                 | 11.1%                |
| Alberta Area          | 6,293           | 58.2%              | 65.5% | \$83.72                | \$77.56  | \$48.73     | \$50.80  | 0.5%                 | -10.8%               |
| Mountain Regions, AB  | 2,416           | 66.5%              | 66.7% | \$169.84               | \$155.81 | \$112.94    | \$103.93 | -6.8%                | -7.1%                |
| Vancouver, BC         | 12,187          | 57.6%              | 68.3% | \$108.03               | \$117.02 | \$62.23     | \$79.92  | 3.1%                 | -13.2%               |
| British Columbia Area | 4,570           | 51.6%              | 51.7% | \$72.20                | \$68.42  | \$37.26     | \$35.37  | 0.8%                 | 0.5%                 |
| Victoria, BC          | 2,731           | 58.0%              | 64.2% | \$93.59                | \$88.75  | \$54.28     | \$56.98  | 1.7%                 | -8.1%                |
| <b>Provinces</b>      |                 |                    |       |                        |          |             |          |                      |                      |
| Alberta               | 20,666          | 65.7%              | 66.4% | \$100.36               | \$97.78  | \$65.94     | \$64.93  | -0.6%                | -1.8%                |
| British Columbia      | 23,461          | 58.8%              | 64.8% | \$133.65               | \$129.54 | \$78.59     | \$83.94  | 1.6%                 | -7.8%                |
| Manitoba              | 3,783           | 61.3%              | 63.2% | \$89.25                | \$89.26  | \$54.71     | \$56.41  | 3.0%                 | -0.2%                |
| New Brunswick         | 3,066           | 54.9%              | 61.3% | \$86.59                | \$83.60  | \$47.54     | \$51.25  | 0.0%                 | -10.5%               |
| Newfoundland          | 1,526           | 56.7%              | 64.5% | \$94.09                | \$91.80  | \$53.35     | \$59.21  | 0.0%                 | -12.0%               |
| Nova Scotia           | 3,910           | 60.2%              | 64.3% | \$93.81                | \$93.53  | \$56.47     | \$60.14  | 1.8%                 | -4.7%                |
| Northwest Territories | INS             | INS                | INS   | INS                    | INS      | INS         | INS      | INS                  | INS                  |
| Ontario               | 60,851          | 55.4%              | 60.5% | \$110.50               | \$112.65 | \$61.22     | \$68.15  | 1.0%                 | -7.6%                |
| Prince Edward Island  | 887             | 31.7%              | 43.0% | \$63.09                | \$62.09  | \$20.00     | \$26.70  | 0.0%                 | -26.2%               |
| Quebec                | 22,770          | 56.6%              | 59.5% | \$116.60               | \$112.38 | \$66.00     | \$66.87  | 1.6%                 | -3.3%                |
| Saskatchewan          | 5,109           | 56.3%              | 61.9% | \$78.59                | \$78.07  | \$44.25     | \$48.33  | 1.1%                 | -8.1%                |
| Yukon Territory       | 274             | 41.9%              | 50.4% | \$68.55                | \$73.25  | \$28.72     | \$36.92  | 0.0%                 | -16.7%               |
| Canada                | 146,303         | 55.8%              | 58.9% | \$97.19                | \$96.66  | \$54.23     | \$56.93  | 1.0%                 | -4.3%                |

## CANADIAN LODGING OUTLOOK HVS INTERNATIONAL - CANADA

| March 2002<br>Year-to-Date | Number of<br>Rooms | Occupancy Rate<br>(%) |       | Average Room<br>Rate (\$) |          | RevPAR<br>(\$) |         | Room<br>Supply<br>% change | Room<br>Demand<br>% change |
|----------------------------|--------------------|-----------------------|-------|---------------------------|----------|----------------|---------|----------------------------|----------------------------|
|                            |                    | 2002                  | 2001  | 2002                      | 2001     | 2002           | 2001    |                            |                            |
| Nova Scotia Area           | 1,311              | 48.3%                 | 49.5% | \$70.31                   | \$71.77  | \$33.96        | \$35.53 | 0.3%                       | -2.2%                      |
| Halifax, NS                | 2,599              | 54.8%                 | 60.5% | \$99.37                   | \$100.98 | \$54.45        | \$61.09 | 5.5%                       | -4.5%                      |
| Montreal, QC               | 15,271             | 54.4%                 | 58.4% | \$128.51                  | \$123.04 | \$69.91        | \$71.86 | 2.2%                       | -4.7%                      |
| Quebec City, QC            | 3,642              | 53.8%                 | 53.5% | \$107.80                  | \$100.62 | \$58.00        | \$53.83 | 2.3%                       | 2.9%                       |
| Quebec Area                | 3,387              | 47.3%                 | 46.0% | \$80.43                   | \$76.79  | \$38.04        | \$35.32 | 0.7%                       | 3.3%                       |
| Toronto Downtown           | 12,013             | 56.1%                 | 59.4% | \$141.77                  | \$146.26 | \$79.53        | \$86.88 | 0.1%                       | -5.5%                      |
| Toronto North/East         | 5,272              | 49.6%                 | 55.1% | \$106.21                  | \$106.64 | \$52.68        | \$58.76 | -2.0%                      | -11.7%                     |
| Toronto Airport/West       | 9,349              | 60.4%                 | 69.8% | \$115.34                  | \$114.96 | \$69.67        | \$80.24 | 4.3%                       | -9.8%                      |
| Ottawa, ON                 | 7,316              | 56.2%                 | 64.6% | \$123.97                  | \$125.29 | \$69.67        | \$80.94 | 1.5%                       | -11.8%                     |
| Ontario East               | 5,127              | 47.5%                 | 48.9% | \$88.71                   | \$86.92  | \$42.14        | \$42.50 | 0.4%                       | -2.5%                      |
| Niagara Falls, ON          | 5,583              | 39.5%                 | 35.8% | \$92.51                   | \$86.13  | \$36.54        | \$30.83 | 1.4%                       | 11.9%                      |
| Ontario Southwest          | 6,538              | 53.3%                 | 55.4% | \$95.91                   | \$96.52  | \$51.12        | \$53.47 | 0.4%                       | -3.3%                      |
| Ontario North              | 4,244              | 49.4%                 | 52.1% | \$83.42                   | \$83.72  | \$41.21        | \$43.62 | 0.3%                       | -5.0%                      |
| Ontario Central            | 5,848              | 48.8%                 | 52.8% | \$89.63                   | \$87.31  | \$43.74        | \$46.10 | 1.6%                       | -6.1%                      |
| Winnipeg, MB               | 3,461              | 56.4%                 | 58.4% | \$88.06                   | \$89.86  | \$49.67        | \$52.48 | 2.8%                       | -0.7%                      |
| Regina/Saskatoon, SK       | 3,689              | 56.4%                 | 62.3% | \$84.00                   | \$81.61  | \$47.38        | \$50.84 | 1.6%                       | -8.1%                      |
| Calgary, AB                | 7,524              | 57.0%                 | 58.2% | \$106.81                  | \$105.81 | \$60.88        | \$61.58 | 1.0%                       | -1.0%                      |
| Edmonton, AB               | 5,019              | 69.8%                 | 63.8% | \$88.45                   | \$90.43  | \$61.74        | \$57.69 | 0.0%                       | 9.3%                       |
| Alberta Area               | 6,293              | 53.8%                 | 60.1% | \$83.52                   | \$77.38  | \$44.93        | \$46.51 | 0.9%                       | -9.7%                      |
| Mountain Regions, AB       | 2,416              | 59.8%                 | 60.0% | \$160.87                  | \$151.98 | \$96.20        | \$91.19 | -6.8%                      | -7.2%                      |
| Vancouver, BC              | 12,187             | 51.5%                 | 57.5% | \$107.63                  | \$113.68 | \$55.43        | \$65.37 | 3.0%                       | -7.7%                      |
| British Columbia Area      | 4,570              | 44.6%                 | 41.8% | \$71.54                   | \$68.30  | \$31.91        | \$28.55 | 0.7%                       | 7.4%                       |
| Victoria, BC               | 2,731              | 49.6%                 | 50.8% | \$87.76                   | \$84.84  | \$43.53        | \$43.10 | 1.7%                       | -0.6%                      |
| <b>Provinces</b>           |                    |                       |       |                           |          |                |         |                            |                            |
| Alberta                    | 20,666             | 59.6%                 | 60.3% | \$98.85                   | \$97.61  | \$58.91        | \$58.86 | -0.5%                      | -1.6%                      |
| British Columbia           | 23,461             | 52.0%                 | 55.1% | \$129.89                  | \$129.52 | \$67.54        | \$71.37 | 1.5%                       | -4.2%                      |
| Manitoba                   | 3,783              | 56.8%                 | 58.4% | \$86.85                   | \$88.88  | \$49.33        | \$51.91 | 2.4%                       | -0.4%                      |
| New Brunswick              | 3,066              | 50.7%                 | 54.0% | \$84.66                   | \$81.93  | \$42.92        | \$44.24 | 0.0%                       | -6.1%                      |
| Newfoundland               | 1,526              | 53.5%                 | 58.0% | \$95.39                   | \$92.19  | \$51.03        | \$53.47 | 0.0%                       | -7.9%                      |
| Nova Scotia                | 3,910              | 52.6%                 | 56.5% | \$90.41                   | \$91.53  | \$47.56        | \$51.71 | 1.8%                       | -5.2%                      |
| Northwest Territories      | INS                | INS                   | INS   | INS                       | INS      | INS            | INS     | INS                        | INS                        |
| Ontario                    | 60,851             | 52.6%                 | 56.6% | \$111.16                  | \$112.16 | \$58.47        | \$63.48 | 0.9%                       | -6.2%                      |
| Prince Edward Island       | 887                | 32.8%                 | 36.6% | \$62.84                   | \$60.91  | \$20.61        | \$22.29 | 0.0%                       | -10.6%                     |
| Quebec                     | 22,770             | 53.0%                 | 55.5% | \$118.30                  | \$113.10 | \$62.70        | \$62.77 | 1.6%                       | -3.0%                      |
| Saskatchewan               | 5,109              | 51.2%                 | 56.3% | \$78.87                   | \$77.01  | \$40.38        | \$43.36 | 1.1%                       | -8.0%                      |
| Yukon Territory            | 274                | 35.2%                 | 39.7% | \$68.55                   | \$76.01  | \$24.13        | \$30.18 | 0.0%                       | -11.4%                     |
| Canada                     | 146,303            | 51.3%                 | 53.4% | \$96.85                   | \$96.43  | \$49.68        | \$51.49 | 1.0%                       | -2.9%                      |

# 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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