

# Canadian October 2008 Lodging Outlook



**HVS**



SMITH TRAVEL RESEARCH

## Saskatchewan: Checking In While the National Economy Checks Out

By: Chase Melnychyn - HVS Canada

Aside from being home to the 2007 Grey Cup champions, the province of Saskatchewan is now also being recognized as a leader on another playing field: the Canadian economy. The recent provincial boom has provided a boost to a variety of sectors complementary to the resource industries, with one being the provincial lodging market. While certain regions of the country brace for a slowdown in their core sectors and industries, Saskatchewan has managed to maintain growth and a sense of optimism. With a government committed to investing into the future, a diverse resource base, and the potential of massive untapped resource reserves, the Saskatchewan hotel industry is expected to benefit, even at a time when demand is down on a national level.

According to the Royal Bank of Canada, the GDP growth of Saskatchewan is projected to increase 3.9% in 2008 and 3.5% in 2009, outpacing that of all the other provinces.<sup>1</sup> While many provinces and regions of Canada are bracing for slow times ahead owing to the economic downturn in the United States and major markets around the world, Saskatchewan is poised to weather the storm relatively well. High prices for various exports, such as grain, oil, potash, and uranium, have provided Saskatchewan with a cushion during these rocky times despite the slight decline in these commodity prices since July. Year-to-date through July 2008,

Saskatchewan's international exports increased by 49.5% to \$17.5-billion relative to the same period last year; this is the highest rate of increase of any province.<sup>2</sup> The economy of Saskatchewan is expected to slow down in 2009, but not nearly to the extent of other regions of the country, like Central Canada, which has a stronger dependence on the United States.<sup>3</sup>

While Alberta has historically relied heavily on the oil and gas industry, Saskatchewan has taken advantage of not only its oil and gas industry but also its abundance of potash and uranium. As a result of this diversification in natural resources, provincial revenues have risen sharply. This has in turn allowed for large capital projects and infrastructure spending, which promote further business investment.<sup>1</sup> In an effort to further promote the province of Saskatchewan, Premier Brad Wall announced in October a 50% boost in infrastructure spending, to \$1.5-billion. This increase in spending would also come with the most significant cut to personal income tax in the province's history.<sup>4</sup> According to a private and public investment survey that Statistics Canada conducted this year, Saskatchewan, along with Manitoba, would experience 18% growth in capital spending in late 2007 and early 2008, leading all other provinces.<sup>1</sup> Economists with the Royal Bank of Canada suggest that, with continued strength in the oil,

uranium, and potash markets, the growth in capital investments may be even higher if commodity prices continue to show upward gains.

A large percentage of the spending currently taking place in the province is in the oil and gas sector. Many companies are making significant investments for the future. According to the Saskatchewan Ministry of Enterprise and Innovation, the value of all oil and gas projects that were proposed, in the planning and design stage, or under construction in 2008 equated just under \$6.1-billion.<sup>5</sup> The high demand for crude oil has resulted in a booming oil industry around centres like Lloydminster and Kindersley, along with Weyburn and Estevan in the southeast of the province. At the end of 2007, 62% of Saskatchewan's 40,186 wells were capable of oil production, and approximately 300 oil and gas companies were operating in the province. Investment in the province's oil industry totalled \$2.6-billion in 2007.<sup>6</sup>

The Bakken formation, which spans Saskatchewan, Manitoba, and south of the border into North Dakota, South Dakota, and Montana, is being described as the next big thing for the region's oil industry. The Bakken formation is estimated to contain from 271 billion to 503 billion barrels of oil, with Saskatchewan containing as much as 25% of its reserves.<sup>7</sup> When this is compared to around 125 billion barrels at the Ghawar



field in Saudi Arabia and 7.8 billion at Alberta's Pembina Cardium, it is easy to see why there is so much optimism for this region of the province.<sup>7</sup>

With oil and gas companies moving east from Alberta as a result of royalty hikes in that province, the Saskatchewan government is cashing in on the sale of Crown petroleum and natural gas rights. In April, a single-sale record was set for the purchase of Crown land, bringing \$265-million in revenue to the province. Later in August, a sale of Crown land for \$242.7-million took place, bringing the year-to-date revenues from land sales to \$848.1-million, far surpassing the total of \$250-million for year-end 2007.<sup>8</sup> In the Fraser Institute's Global Petroleum Survey for 2008, Saskatchewan, which placed sixth, was the only Canadian jurisdiction ranked in the top ten as a result of its limited barriers to investment.<sup>9</sup>

Mining is also a major component to the province's economic landscape. Close to \$4.5-billion worth of projects were proposed, in the planning and design stage, or under construction in 2008.<sup>5</sup> Saskatchewan is the world's largest exporter of uranium, and one-third of the world's recoverable potash reserves are located there as well. Potash Corporation, the world's largest integrated fertilizer producer that is headquartered in Saskatoon, experienced substantial third quarter earnings of \$1.24-billion. This compares to \$1.1-billion the company earned for all of 2007, which had previously been a record year.<sup>10</sup> Potash exploration in Saskatchewan amounted to \$22-million in 2007 and is expected to rise to \$50-million for 2008.<sup>11</sup> Among the major projects for the industry, Mosaic has proposed a \$3.15-billion expansion to its mining operations in Esterhazy, Belle Plaine, and Colonsay to take place over the next 12 years.<sup>11</sup> Potash Corporation has also planned a \$1.8-billion expansion to increase the capacity of its Rocanville facility in the southern part of the province.

Unlike many regions throughout the country that are dependent on the market of one single industry or commodity, Saskatchewan is an international player in a third industry: uranium. Saskatchewan is home to Cameco Corp., the world's largest publicly traded uranium firm. Major uranium reserves in the province are located at McArthur River, Rabbit Lake, Midwest, Eagle Point, McClean Lake, and Cigar Lake. Commercial production at Cigar Lake, the world's second largest known high-grade ore body, is expected to begin in 2011. According to Saskatchewan's Ministry of Enterprise and Innovation, the project, which began in 2005, is expected to cost \$1.02-billion.<sup>5</sup> In addition, construction on the Midwest Uranium Project is expected to begin in 2009.

The strength of the oil, potash, and uranium industries were major catalysts in transforming Saskatchewan into a "have" province back in 2006. Through diversification, Saskatchewan is not largely dependent on the fluctuating price of oil, unlike Alberta. Aside from these traditional resource-based sectors, the province is also growing in terms of its technology and manufacturing sectors, thus creating a rounded economy. While manufacturing shipments increased by 9.9% nationally through July 2008, Saskatchewan experienced a 36.4% rise to \$1.1-billion through July 2008 relative to the same period last year. Significant increases in manufacturing occurred in "other industries," food manufacturing, machinery manufacturing, and fabricated metals.<sup>2</sup> Saskatchewan continues to be a leader in the international export of products for a variety of industries, including agriculture, communications, transportation, defence, and specialty products.

The health of the Saskatchewan economy is drawing not only capital to the region, but also labour. In the resource sectors, workers are being brought in from around the world to conduct exploratory drilling,

land surveying, technical analysis, and other business management roles. Construction workers are employed to build new facilities and infrastructure for new companies as well as new commercial and retail centres, housing, and recreation facilities. In most cases, workers are sent to various locations to work for a fixed period of time, therefore requiring temporary lodging in the form of a company-run camp, rental housing, or hotel accommodations.

As a result of the growth currently taking place in the province, along with the proposed investment and the growth forecasted for the future, the Saskatchewan lodging industry is currently one of the hottest markets in the country from the standpoint of both occupancy and rate. In Saskatoon, finding an available room during the week is becoming more difficult, causing unaccommodated demand figures to rise. For hotels in the province of Saskatchewan, occupancy grew by 8.9% in 2007, rising to 63.8%, up from 58.6% in 2006. This strong growth outpaced the growth set by the country; nationwide, occupancy rose 1.1% to 60.3% in 2007. With a demand base growing as a result of increased travel to the province in a variety of sectors, Saskatchewan has experienced the most significant demand growth of any province, with the exception of Newfoundland. Year-to-date through October, occupancy was up 5.1% over the same period in 2007, making Saskatchewan the leader in terms of occupancy growth over all the provinces and the country as a whole.

From an average rate standpoint, the province of Saskatchewan experienced strong growth in 2007. The province-wide average room rate rose 6.8% from the previous year to \$89.26. For all of 2007, Saskatchewan placed behind only Alberta, Nova Scotia, and Prince Edward Island in terms of average rate growth. Year-to-date through October 2008, Saskatchewan experienced rate growth of 8.8%,



## Saskatchewan: Checking In.... (Cont'd)

surpassing all three provinces previously mentioned, coming second only to Manitoba.

With significant increases in occupancy and average rate, the RevPAR for the province of Saskatchewan grew 16.3% to \$56.95 between 2006 and 2007, while all the other western provinces experienced increases between 8.0% and 9.0%. Year-to-date through October 2008, Saskatchewan led the entire country in terms of RevPAR growth, up 14.4% from the same period in 2007. In comparison, the national RevPAR increased by only 3.6%.

Much of the success associated with Saskatchewan's lodging market can be attributed to the strength of the province's two largest markets, Saskatoon and

Regina. Being headquarters for the world's largest uranium producer, Cameco Corporation, as well as the world's largest fertilizer maker, Potash Corp., Saskatoon acts as the main hub for the province's resource industries. In addition, Regina, the province's capital city, is home to a variety of Crown Corporations. Combined, the two centres attained an occupancy of 71.9% in 2007, up 9.3% from 2006. With the average rate increasing 7.5% to \$104.28 over the same time period, RevPAR increased a staggering 17.4% in one year. Year-to-date through October 2008, a room supply increase of 4.6% for the two centres combined resulted in no occupancy growth, but the markets are expected to absorb the new rooms with relative ease. Average rate growth remains strong, having risen 10.1% to \$110.24, thus contributing to RevPAR growth of

10.4% through the first ten months of 2008.

Saskatchewan is not completely immune to the ongoing economic slowdown. With the strength of the province's diverse resource base, however, Saskatchewan is expected to continue to experience growth into the future. As a result of the relative health of the provincial economy, the provincial lodging market should be somewhat sheltered from the volatility that is taking place. Continued investment into the province will bring in permanent and temporary workers that will fuel demand for hotels throughout the province. So while the Rider faithful may have had their Grey Cup hopes dashed in the first round of the playoffs this year, overall optimism and excitement for the entire province remains high moving forward. ▲

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### FOOTNOTES:

- 1 "Provincial Outlook," RBC Economics, October 2008.
- 2 "Saskatchewan Monthly Economic Indicators Report," Saskatchewan Ministry of Energy and Resources, Economic Analysis Branch, September 2008.
- 3 "Provincial Economic Outlook," TD Bank Financial Group, 16 October 2008.
- 4 K. Libin, "Economic Boom Makes Saskatchewan an Easy Sell," National Post, 21 October 2008.
- 5 "Major Projects Inventory," Saskatchewan Ministry of Enterprise and Innovation, 2008.
- 6 "Crude Oil in Saskatchewan," Government of Saskatchewan. Energy and Resources, <http://www.ir.gov.sk.ca/adx/asp/adxGetMedia.aspx?DocID=5871,5775,2936,Documents&MediaID=18882&Filename=crude.pdf>, Accessed 8 November 2008
- 7 J. Langton, "Bakken Formation: Will it Fuel Canada's Oil Industry," CBCnews.ca, <http://www.cbc.ca/money/story/2008/05/23/f-langton-bakken.html>, Accessed 9 November 2008.
- 8 A. Hall, "Saskatchewan Makes Second-Largest Crown Land Sale," (August 14, 2008) Canada.com, <http://www.canada.com/reginaleaderpost/news/story.html?id=91341700-ac52-476f-99c2-eb07c03a2cf8>, Accessed 8 November 2008.
- 9 "Fraser Institute Global Petroleum Survey," Fraser Institute, 2008.
- 10 "Potash Q3 profit tops income for all 2007," (October 23, 2008), The Canadian Press, CBCnews.ca, <http://www.cbc.ca/canada/saskatchewan/story/2008/10/23/potash.html>, Accessed 9 November 2008.
- 11 "Boyd Welcomes Mosaic Potash Expansion," (April 4, 2008), Government of Saskatchewan, <http://www.gov.sk.ca/news?newsId=b02f2607-cc28-4e70-8270-aa2eb8b55a2b>, Accessed 8 November 2008.

October 2008	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2008	2007	2008	2007	2008	2007		
Nova Scotia Area	1,199	62.1%	55.1%	\$101.03	\$91.35	\$62.74	\$50.33	1.8%	14.8%
Halifax, NS	4,119	68.4%	76.5%	\$137.43	\$132.41	\$94.00	\$101.29	3.7%	-7.3%
Montreal Downtown	10,137	72.7%	74.5%	\$160.56	\$150.41	\$116.73	\$112.06	2.3%	-0.2%
Montreal Area	2,248	59.1%	62.7%	\$105.44	\$101.56	\$62.32	\$63.68	0.8%	-5.0%
Quebec City, QC	3,789	79.7%	71.0%	\$183.45	\$150.17	\$146.21	\$106.62	0.0%	12.3%
Quebec Area	4,525	56.8%	58.6%	\$129.71	\$124.61	\$73.68	\$73.02	-0.2%	-3.4%
Toronto Downtown	13,902	77.7%	78.4%	\$180.24	\$175.91	\$140.05	\$137.91	0.0%	-0.9%
Toronto North/East	6,912	67.1%	70.0%	\$122.19	\$116.26	\$81.99	\$81.38	3.4%	-0.9%
Toronto Airport/West	8,076	65.3%	70.7%	\$120.75	\$118.14	\$78.85	\$83.52	3.2%	-4.8%
Ottawa, ON	6,632	76.9%	80.5%	\$145.73	\$141.91	\$112.07	\$114.24	1.7%	-2.9%
Ontario East	4,564	61.9%	60.4%	\$110.04	\$103.72	\$68.11	\$62.65	0.2%	2.7%
Windsor/ Ontario SW	2,771	54.2%	57.2%	\$116.41	\$108.58	\$63.09	\$62.11	11.5%	5.6%
London/ Kitchener	2,958	62.4%	62.4%	\$108.26	\$105.29	\$67.55	\$65.70	0.0%	-0.1%
Ontario North/ Thunder Bay	2,115	72.1%	68.2%	\$100.44	\$90.49	\$72.42	\$61.71	-0.3%	5.5%
Ontario NC/ Sudbury	4,664	65.8%	63.7%	\$111.24	\$104.93	\$73.20	\$66.84	0.6%	3.9%
Niagara Falls, ON	9,231	59.4%	59.5%	\$129.96	\$125.92	\$77.20	\$74.92	-0.2%	-0.3%
Ontario Central	3,759	59.2%	63.3%	\$113.07	\$105.96	\$66.94	\$67.07	1.2%	-5.4%
Mississauga, ON	4,606	63.8%	68.3%	\$113.17	\$110.15	\$72.20	\$75.23	-1.9%	-8.3%
Winnipeg, MB	3,410	73.1%	73.0%	\$114.73	\$103.78	\$83.87	\$75.76	-3.8%	-3.6%
Regina/Saskatoon, SK	2,180	75.6%	69.8%	\$115.24	\$102.02	\$87.12	\$71.21	3.8%	12.4%
Calgary, AB	8,228	73.8%	80.1%	\$153.92	\$144.35	\$113.59	\$115.62	0.0%	-8.0%
Edmonton, AB	8,110	76.7%	79.5%	\$130.30	\$119.84	\$99.94	\$95.27	5.0%	1.3%
Alberta North Area	3,689	63.0%	64.8%	\$152.61	\$144.93	\$96.14	\$93.91	4.6%	1.7%
Alberta South Area	7,758	61.8%	65.0%	\$133.29	\$125.44	\$82.37	\$81.54	3.7%	-1.3%
Vancouver Downtown	7,954	72.2%	77.3%	\$164.65	\$163.28	\$118.88	\$126.22	0.6%	-5.9%
Vancouver/ Burnaby Area	1,753	68.4%	67.9%	\$112.20	\$105.93	\$76.74	\$71.93	-0.4%	0.3%
Richmond-Surrey/ East Area	3,992	66.5%	76.7%	\$121.15	\$111.52	\$80.56	\$85.54	2.4%	-11.2%
British Columbia Area	5,311	48.7%	47.3%	\$131.98	\$114.07	\$64.27	\$53.96	0.4%	3.5%
Kamloops/ Kelowna Area	4,688	52.1%	55.5%	\$107.78	\$97.29	\$56.15	\$54.00	0.7%	-5.4%
Vancouver Island	4,500	63.2%	66.9%	\$114.96	\$108.95	\$72.65	\$72.89	1.2%	-4.4%
<b>Provinces</b>									
Alberta	30,029	67.4%	70.4%	\$132.83	\$121.78	\$89.53	\$85.73	3.2%	-1.2%
British Columbia	30,469	58.1%	61.1%	\$118.53	\$110.36	\$68.87	\$67.43	0.9%	-4.1%
Manitoba	4,284	66.8%	67.7%	\$102.70	\$87.02	\$68.60	\$58.91	-2.0%	-3.4%
New Brunswick	4,612	54.2%	53.0%	\$106.53	\$96.46	\$57.74	\$51.12	5.2%	7.7%
Newfoundland	1,833	79.8%	74.6%	\$117.14	\$107.78	\$93.48	\$80.40	0.5%	7.5%
Nova Scotia	5,318	61.0%	57.6%	\$124.75	\$113.47	\$76.10	\$65.36	2.6%	8.6%
Northwest Territories	124	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	77,090	64.1%	66.1%	\$125.29	\$118.06	\$80.31	\$78.04	1.1%	-2.0%
Prince Edward Island	949	53.5%	44.8%	\$92.71	\$87.92	\$49.60	\$39.39	-0.6%	18.7%
Quebec	25,895	64.8%	65.0%	\$131.46	\$119.36	\$85.19	\$77.58	1.2%	0.8%
Saskatchewan	6,285	73.3%	70.0%	\$107.75	\$90.79	\$78.98	\$63.55	1.0%	5.7%
Yukon Territory	180	INS	INS	INS	INS	INS	INS	INS	INS
Canada	187,068	62.9%	63.7%	\$123.10	\$112.25	\$77.43	\$71.50	1.4%	0.1%

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**DEFINITIONS**

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to [bmacdonald@hvs.com](mailto:bmacdonald@hvs.com)  
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**HOTEL ASSOCIATION 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.

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