Canadian Lodging Outlook
April 2009

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Destinations and Diseases

A Review of the Impact of SARS on the Canadian Lodging Market as a Model for Managing Through the Swine Flu Scare.

Reprint - By Anne R. Lloyd-Jones, CRE - HVS New York, May, 2009

Introduction

As of the writing of this article, the Swine Flu pandemic was only a few weeks old. Yet it is clear that this event is already having a significant impact on the travel industry. In the first days following the World Health Organization's (WHO) identification of the virus on April 24th, many travel companies – including airlines, cruise companies and hotels – saw decreases in their share prices. And while the WHO has yet to issue any travel restrictions or advisories, some governments have issued statements advising that citizens not travel to affected areas.

In an effort to gain some perspective on the potential impact of the current Swine Flu scare on travel, this article looks at the SARS epidemic of 2003, which is the most recent comparable situation to the present Swine Flu epidemic, and its impact on the Canadian lodging market.

The SARS Outbreak Spring 2003

Severe Acute Respiratory Syndrome (SARS) was first reported in Asia, in February of 2003. Based on further research, the earliest case was dated to November of 2002; the last cases were reported in June of 2003.

During this period, a total of 8,098 cases were reported; of these 7,324 people recovered, and 774 people died. Although the virus appeared in 37 countries, the vast majority of the cases were in Asia. The only country outside of Asia to report a significant volume of cases was Canada; most of these were in the greater Toronto area.

As it has in the present situation, the World Health Organization (WHO) issued regular bulletins as information concerning the disease and identified cases became available. The first of these was issued on March 15th, and was followed by regular updates. The bulletins generally addressed the number of cases and deaths, reported the areas affected, and discussed the progress in identifying and treating the disease and its symptoms. The WHO bulletins also addressed the issue of travel and, as it deemed appropriate based on the number of cases and the pace of new cases reported, issued travel advisories pertaining to specific regions. Notably, at no time did the WHO issue a travel restriction; the strongest advisory recommended that people "postpone all but essential travel" to specified destinations. The destinations initially specified were Hong Kong and Guangdong Province, China. Toronto, Beijing, Shang-XI Province, Taiwan and Inner Mongolia were subsequently added to the list.

Location and Number of SARS Cases and Deaths

Country	Cases	Deaths
Mainland China	5,327	349
Hong Kong	1,755	299
Taiwan	346	37
Canada (principally the Toronto area)	251	43
Singapore	238	14
Vietnam	63	5
Phillipines	14	2
All Others	104	25
Total	8,098	774

Toronto was the only region outside of Asia that was identified as an "affected area" for which the WHO issued a travel advisory. SARS was first reported in Canada in mid-March of 2003; as of March 15th, the WHO reported seven cases and two deaths. The chronology of SARS in Toronto is summarized in the following page.

The WHO identified Toronto as an "area with recent, local transmission;" this designation indicates that the cases are

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Chronology of SARS in Toronto

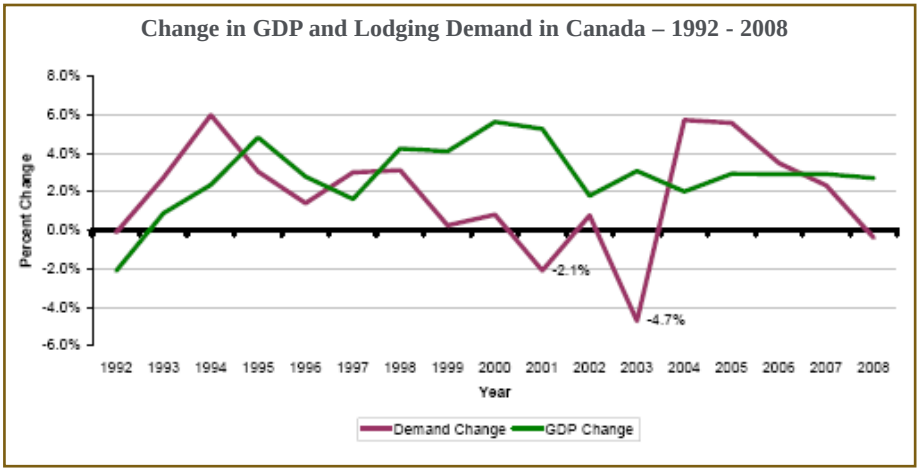
March 15	Seven cases reported in Canada
March 22	Toronto identified as an area of recent local transmission
April 23	Travel Advisory issued for Toronto, suggesting travellers postpone all but essential travel
April 30	Travel Advisory lifted for Toronto
May 14	Toronto removed from list of areas with recent local transmission
May 26	Toronto again identified as an area of recent local transmission
July 2	Toronto removed from list of areas with recent local transmission

spreading internally within the region, rather than being brought in by travelers from outside the area. This designation was in place from March 22nd through May 14th, and reinstated for a second period, from May 26th to July 2nd. The recurrence of the "area of recent local transmission" designation is significant, in that it was the result of an outbreak that occurred at a point in time when SARS was believed to be under control in that area.

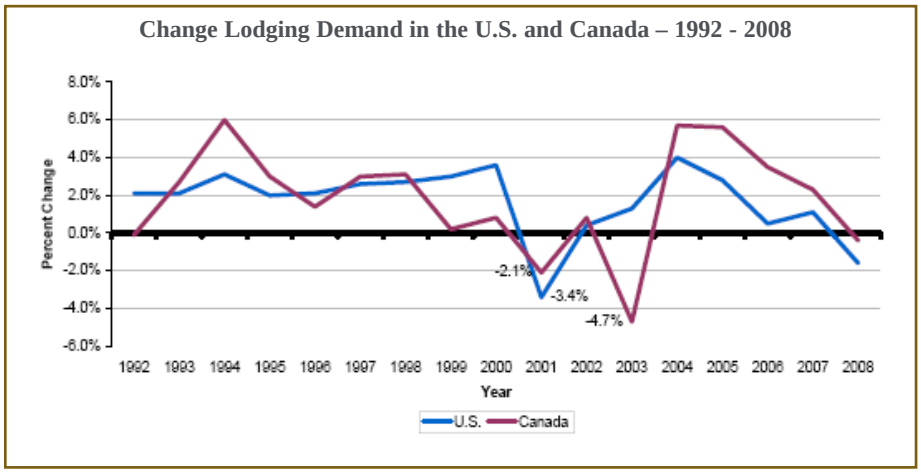
The travel advisory was in place for only one week, at the end of April. Yet even prior to the advisory, and well after it was lifted, the travel industry in Canada felt significant, adverse effects as a result of the media reports of the identification of SARS cases in the country.

Impact of SARS on the Canadian Travel Industry

Like the U.S., demand levels in Canada are most closely correlated with the Canadian GDP. The following graph sets forth changes in the GDP and changes in total demand for Canada as a whole.



The correlation between GDP and demand trends is evident through the 1990's. The first significant divergence occurs in 2001, when the onset of the U.S. recession combined with the downturn in travel in the aftermath of September 11th to cause a significant downturn in lodging demand. This pattern mirrors that evident in comparable data for the U.S., which is logical given the close economic and geographic ties between the two countries. The drop in demand was corrected in 2002, as the artificial (i.e. non-economic) decrease in travel was removed from the statistics. Visualizing this correction in the graph, it is evident that the correlation between the GDP and lodging demand levels would have been more closely maintained but for the travel restrictions and cutbacks in place immediately following September 11th.



The impact of the SARS scare is evident in the 2003 statistics; in that year, lodging demand fell by 4.7%. The attribution of this decline to SARS is made clear by a comparison of trends in demand levels in Canada with those recorded in the U.S. in the same period. This data is set forth in the following chart.

As the chart indicates, while the magnitude of the change in lodging demand differs between the U.S. and Canada, the direction and longevity of the trends are correlated. The absence of this correlation in 2003 reflects the impact of SARS on the Canadian lodging market.

Following the sharp downturn recorded in 2001, U.S. lodging demand recorded steady increases as the market recovered from the recession and adverse impacts of September 11th. The Canadian lodging market also experienced a downturn, albeit less dramatic, in 2001. Data for 2002 indicates that a recovery in this market was underway. However, in 2003 the SARS outbreak and related travel scare interrupted the market's progress. As a result of this scare, demand in Canada decreased by 4.7% in 2003; this is more than double the decrease recorded in 2001, and 40% higher than the decrease experienced by the U.S. in 2001.

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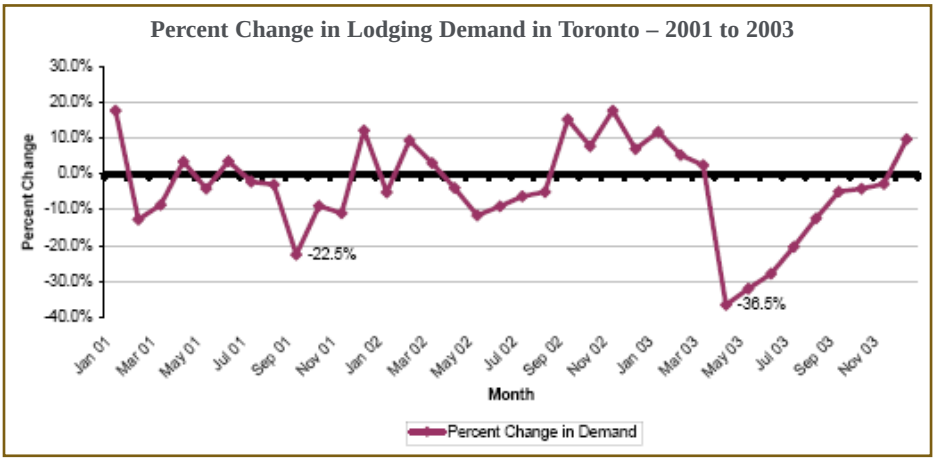
Impact of SARS on the Toronto Lodging Market

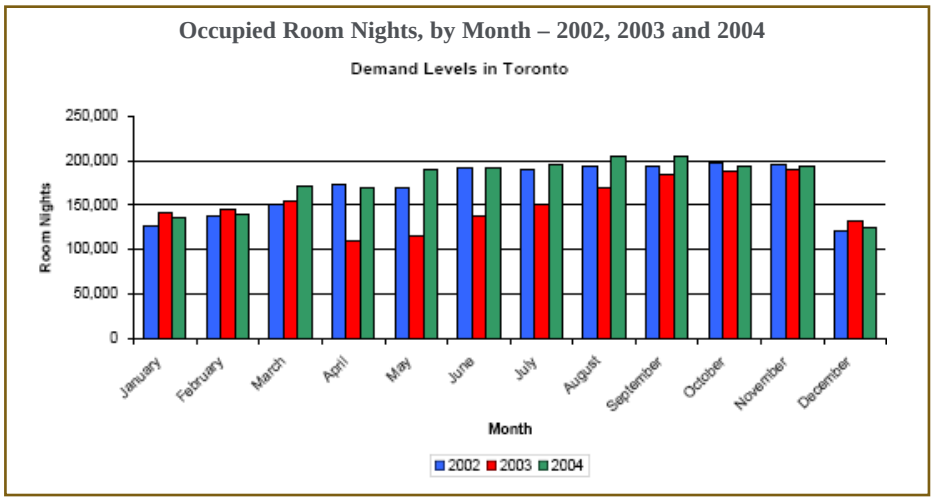
Although SARS cases were reported in several regions in Canada, the vast majority were located in the Toronto area. To gauge the magnitude of the impact of SARS on the Toronto lodging market, we have reviewed Smith Travel Research data for seventeen hotels that comprise the principal lodging facilities in downtown Toronto. The following chart presents the percent change in demand levels for this set of hotels over the period January 1, 2001 through December 31, 2003.

As the following chart clearly demonstrates, SARS had a far more dramatic impact on the Toronto lodging market than did the events of September 11th. Demand dropped by 36.5% in April of 2003 (as compared to April of 2002), the first full month when the SARS situation was known.



Although April showed the most dramatic decline, the market continued to experience demand decreases in excess of 20% through July of that year, and continued to report demand levels lower than the same month of the prior year through November. As previously noted, the city was removed from the list of "areas with recent local transmission" on July 2nd. While the decreases in demand moderated somewhat thereafter, the extended span of the downturn is striking. In all, over the period April through November 2003, the market reported over 257,000 fewer accommodated room nights than in the same period of 2002. This equates to over $83,000,000 in revenues. Over the full year 2003, demand was off by just under 220,000 room nights, and revenues were off by roundly $80,000,000.

On the demand side, the market was able to recover the lost ground within a year. As the following chart shows, the number of accommodated room nights in 2004 was on par with, or exceeded, the demand levels recorded in 2002, prior to the SARS outbreak.



The total occupied room nights in 2004 exceeded the number of room nights occupied in 2002, indicating that the market was able to recover the ground lost during the SARS scare relatively readily. However, it is not clear that the market was able to reach the levels that it could have been expected to attain by 2004, had the momentum of growth evident in the 2002 statistics been sustained. On the revenue side, the data for this set of hotels indicates that the market did not regain the revenue levels recorded in 2002 until 2006, as the lingering effects of the price discounts implemented in response to the SARS scare undermined the recovery of average rates until that year. A review of the monthly data indicates that the aggregate average rate for this set of hotels dropped by over $20.00 in April. The decline increased to over $40.00 in May, June and July; this represents a 25% decrease over the average rates reported in the previous year. Rates continued to be down, although not as dramatically, through the balance of the year. Annually, the average rate in 2003 was 14%, or almost $24.00, lower than that achieved in 2002.

What does the data suggest for the current Swine Flu scare?

The good news is that the data indicates that demand lost due to a discrete phenomenon (such as a flu scare) can be recovered relatively readily, although not as quickly as it can be lost. More problematic is the question of momentum, and the impact of such an event on

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CANADIAN LODGING OUTLOOK — HVS - CANADA

April 2009	Number of Rooms	Occupancy Rate (%) 2009	Occupancy Rate (%) 2008	Average Room Rates (in $CAD) 2009	Average Room Rates (in $CAD) 2008	RevPAR (in $CAD) 2009	RevPAR (in $CAD) 2008	Room Supply % chg	Room Demand % chg
Nova Scotia Area	1,313	41.1%	49.9%	$90.80	$88.96	$37.32	$44.39	1.8%	-16.1%
Halifax, NS	4,186	62.7%	68.3%	$118.07	$122.04	$74.03	$83.35	3.9%	-4.6%
Montreal Downtown	9,998	58.1%	64.8%	$132.93	$144.60	$77.23	$93.70	1.4%	-9.0%
Montreal Area	2,247	50.0%	54.1%	$105.29	$105.12	$52.65	$56.87	0.0%	-7.6%
Quebec City, QC	4,023	48.5%	60.6%	$116.71	$127.47	$56.60	$77.25	0.0%	-20.0%
Quebec Area	4,530	44.4%	45.8%	$123.83	$121.58	$54.98	$55.68	0.0%	-3.2%
Toronto Downtown	14,465	60.3%	69.8%	$145.07	$164.14	$87.48	$114.57	1.1%	-12.6%
Toronto North/East	6,793	53.3%	61.6%	$112.52	$122.13	$59.97	$75.23	1.4%	-12.2%
Toronto Airport/West	8,245	57.8%	68.0%	$112.33	$121.84	$64.93	$82.85	2.4%	-13.1%
Ottawa, ON	7,161	60.3%	69.8%	$133.81	$137.53	$80.69	$96.00	2.6%	-11.4%
Ontario East	4,552	46.4%	50.2%	$100.26	$99.57	$46.52	$49.98	0.7%	-6.9%
Windsor/ Ontario SW	2,700	55.8%	56.2%	$124.24	$106.66	$69.33	$59.94	11.5%	10.8%
London/ Kitchener	2,873	54.3%	62.7%	$102.58	$107.90	$55.70	$67.65	0.0%	-13.5%
Ontario North/ Thunder Bay	2,230	62.2%	65.1%	$93.44	$94.59	$58.12	$61.58	0.0%	-4.5%
Ontario NC/ Sudbury	4,760	47.1%	53.8%	$100.83	$96.84	$47.49	$52.10	2.9%	-9.9%
Niagara Falls, ON	8,703	50.5%	46.5%	$118.83	$119.95	$60.01	$55.78	-1.8%	6.6%
Ontario Central	3,924	46.1%	54.1%	$105.67	$104.39	$48.71	$56.47	3.4%	-11.8%
Mississauga, ON	4,533	56.2%	63.9%	$107.06	$113.03	$60.17	$72.23	-2.7%	-14.5%
Winnipeg, MB	3,410	70.5%	71.1%	$110.45	$106.77	$77.87	$75.91	0.0%	-0.8%
Regina/Saskatoon, SK	2,454	65.9%	71.9%	$118.23	$106.08	$77.91	$76.27	3.2%	-5.4%
Calgary, AB	8,649	62.2%	75.0%	$142.61	$154.45	$88.70	$115.84	-1.0%	-17.9%
Edmonton, AB	8,943	69.6%	77.1%	$126.75	$127.19	$88.22	$98.06	2.7%	-7.3%
Alberta North Area	3,482	35.4%	50.0%	$140.28	$145.83	$49.66	$72.92	3.9%	-26.4%
Alberta South Area	8,891	45.8%	54.1%	$123.95	$124.27	$56.77	$67.23	1.6%	-14.0%
Vancouver Downtown	8,265	65.7%	76.5%	$145.98	$152.22	$95.91	$116.45	2.1%	-12.3%
Vancouver/ Burnaby Area	1,871	61.4%	69.7%	$109.81	$111.22	$67.42	$77.52	4.5%	-7.9%
Richmond-Surrey/ East Area	3,993	56.4%	68.5%	$115.01	$116.53	$64.87	$79.82	0.0%	-17.7%
British Columbia Area	5,387	50.4%	53.5%	$153.03	$146.63	$77.13	$78.45	0.6%	-5.3%
Kamloops/ Kelowna Area	4,835	49.4%	54.0%	$102.45	$98.72	$50.61	$53.31	1.1%	-7.5%
Vancouver Island	4,648	61.3%	68.0%	$108.20	$110.14	$66.33	$74.90	1.9%	-8.1%
Provinces									
Alberta	31,813	55.1%	64.0%	$124.60	$127.21	$68.65	$81.41	1.7%	-12.4%
British Columbia	31,054	53.9%	60.6%	$114.27	$114.83	$61.59	$69.59	1.4%	-9.9%
Manitoba	4,349	62.5%	64.3%	$97.74	$88.86	$61.09	$57.14	0.1%	-2.7%
New Brunswick	4,754	46.5%	45.9%	$106.27	$99.83	$49.42	$45.82	2.5%	3.9%
Newfoundland	1,833	64.2%	67.8%	$105.80	$104.61	$67.92	$70.93	0.5%	-4.7%
Nova Scotia	5,499	52.9%	57.5%	$110.19	$112.11	$58.29	$64.46	2.7%	-5.6%
Northwest Territories	204	INS	INS	INS	INS	INS	INS	INS	IN
Ontario	77,835	51.9%	57.8%	$112.94	$117.37	$58.62	$67.84	1.2%	-9.2%
Prince Edward Island	949	49.1%	37.1%	$77.90	$73.01	$38.25	$27.09	-0.6%	31.6%
Quebec	25,984	51.6%	58.6%	$114.92	$121.97	$59.30	$71.47	1.1%	-11.0%
Saskatchewan	6,611	58.5%	63.1%	$107.18	$96.11	$62.70	$60.65	2.0%	-5.3%
Yukon Territory	281	INS	INS	INS	INS	INS	INS	INS	IN
Canada	191,166	52.1%	57.8%	$112.96	$114.01	$58.85	$65.90	1.3%	-8.6%

*INS - Insufficient Data

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Ontario Central	3,924	45.5%	52.8%	$110.40	$110.89	$50.23	$58.55	3.1%	-11.0%
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Kamloops/ Kelowna Area	4,835	42.2%	46.4%	$100.42	$95.96	$42.38	$44.53	1.2%	-7.9%
Vancouver Island	4,648	54.5%	57.8%	$101.70	$101.56	$55.43	$58.70	1.8%	-3.9%
Provinces									
Alberta	31,813	56.1%	62.8%	$126.05	$124.55	$70.71	$78.22	2.2%	-8.7%
British Columbia	31,054	51.2%	56.8%	$117.60	$120.07	$60.21	$68.20	1.4%	-8.7%
Manitoba	4,349	56.3%	62.3%	$93.72	$87.30	$52.76	$54.39	0.1%	-9.5%
New Brunswick	4,754	43.2%	42.8%	$101.41	$98.00	$43.81	$41.94	3.1%	4.1%
Newfoundland	1,833	60.8%	56.4%	$100.34	$101.73	$61.01	$57.38	0.5%	8.4%
Nova Scotia	5,499	48.9%	50.1%	$107.33	$108.50	$52.48	$54.36	2.4%	0.0%
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Saskatchewan	6,611	62.0%	61.1%	$103.32	$94.11	$64.06	$57.50	1.2%	2.8%
Yukon Territory	281	INS	INS	INS	INS	INS	INS	INS	INS
Canada	191,166	50.3%	54.0%	$114.11	$114.35	$57.40	$61.75	1.4%	-5.6%

*INS - Insufficient Data

the recovery of a market from an economic downturn. The Toronto market surpassed 2002 demand levels in 2004; however, had the market been able to maintain the pace achieved by comparable markets in the U.S., it would have surpassed 2002 levels in 2003, and achieved further growth in subsequent years.

The average rate issue is more compelling. The aggregate average rate for the Toronto hotels did not recover to 2002 levels until 2006, in large part due to the draconian discounts implemented by the hotels in the city in an immediate response to the dramatic decrease in demand. Given the reasons for the precipitous decrease in travel, it seems extremely unlikely that lower rates would induce any demand into the market. How high would the perceived value of a hotel stay have to be to overcome the fear (legitimate or not) of becoming infected with a potentially life-threatening disease? While discounting might be an effective tool once the perceived threat has passed, it is not likely to have affected demand levels during the period when fear was the dominant factor influencing travel activity.

Conclusion

Ultimately, the impact of Swine Flu on the global travel industry will depend on the course of the pandemic, the actions of the WHO and various governments and governmental agencies and, perhaps most significantly, the media's coverage of these events. All of these factors will influence the travelling public's perception of the safety (or danger) of travel.

Until the flu scare is resolved, individual markets will likely have little ability to influence the public's perception of the threat and thus people's willingness to travel to destinations that are affected. Individual properties can, however, develop a response designed to meet two objectives: minimize the depth of the downturn during the period of the threat; and curtail the degree to which the influence of the threat affects the market once the threat is resolved. The key to both of these strategies is average rate. ▲

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).

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