

Canadian January 2007 Lodging Outlook



SMITH TRAVEL RESEARCH

The Hotel Financing Environment in Canada

By: Paul Varteression - HVS Global Hospitality Services - Canada

To compose a picture of the current lending landscape in Canada we interviewed mortgage brokers and representatives from a variety of financial institutions, including major banks, credit unions, and development banks. Our research uncovered an upbeat market with ready financing available for hotel deals. This is a result of the current desirability of the real estate sector and an improvement in Canadian lodging fundamentals.

The following table summarizes the information collected in our interviews. Note that these figures represent general guidelines only. The actual terms used vary depending on the project, the location, the type of property, and the relationship established between the client and the lender.

The general financing parameters that Canadian lenders use for a typical hotel, based on our survey presented in the preceding table, are a loan-to-value ratio of 65%, a debt-coverage ratio of 1.4, a 21-year amortization, a 6-year term, and an interest rate of 6.3%. Roughly, this interest rate represents a 230-basis-point spread over the 10-year bond yield, which was listed at 3.99% on March 5, 2007 according to the Bank of Canada.

Many factors play into the structure of financing obtained by a borrower. Asset driven factors include the quality of the property, the franchise affiliation, the location as well as the age and renovation history. Non asset related factors include the existing relationship between the borrower and the lender, the client's ability

to use additional assets to secure the loan, to the client's hotel management abilities, previous loans, and the potential for the lender to gain additional business from the same client also plays an important part in the decision to lend funds.

Our research indicated that there are more players in the hotel financing arena, including US lenders and the Canadian institutions that do partake in hotel debt financing have become more sophisticated in their approach. As an example, working together, Royal Bank and GE Capital, two active hotel lenders, recently fashioned a loan product combining construction financing from one entity and take-out financing from the other. This merging of debt sources seems to represent a creative response to hotel financing as development



CANADIAN INSTITUTIONS – LENDING PARAMETERS FOR HOTELS

Institution	Recourse	Loan-to-Value Ratio (%)	Debt-Coverage Ratio	Amortization (Years)	Term (Years)	Interest
Big Five Bank	Both	60 - 65	1.5 Min.	20	5 - 10	10 Year Bond + 2.00 - 2.50
Major Bank	No	65	N/A	25	10	10 Year Bond + 1.75
Major Bank	Yes	50	N/A	15	5	5 Year Bond + 2.50 - 2.75
Credit Union	Both	62 - 64	1.3 - 1.4	20	5, 7 - 10	10 Year Bond + 2.25 - 3.00
Credit Union	Yes	65	N/A	15 - 20	1 - 7	7.25%
Credit Union	Yes	70	1.35 - 1.4	25	5 Years Max.	10 Year Bond + 2.00
Financing Corp.	N/A	75% of Cost	N/A	25	5	Prime + 0.50 or 0.75
Financing Corp.	Both	65 - 75	1.3	20 - 25	5 or 10	10 Year Bond + 2.20 - 2.60
Approximate Averages		65%	1.4	21 Years	6 Years	6.3%

CANADIAN LODGING OUTLOOK
HVS GLOBAL HOSPITALITY SERVICES - CANADA

January 2007 Year-To-Date	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2007	2006	2007	2006	2007	2006		
Nova Scotia Area	1,097	43.8%	37.7%	\$89.52	\$82.98	\$39.21	\$31.28	0.0%	16.4%
Halifax, NS	3,162	47.9%	44.7%	\$111.36	\$102.52	\$53.34	\$45.83	-2.8%	4.2%
Montreal Downtown	9,669	42.5%	41.3%	\$130.89	\$132.87	\$55.63	\$54.88	2.6%	5.7%
Montreal Area	4,717	48.5%	52.7%	\$101.98	\$104.02	\$49.46	\$54.82	1.4%	-6.8%
Quebec City, QC	3,913	40.1%	44.6%	\$109.71	\$106.95	\$43.99	\$47.70	0.8%	-9.1%
Quebec Area	5,713	45.4%	45.8%	\$127.84	\$118.98	\$58.04	\$54.49	0.6%	-0.3%
Toronto Downtown	13,146	56.0%	50.9%	\$149.23	\$141.54	\$83.57	\$72.04	0.0%	10.2%
Toronto North/East	6,279	49.5%	49.3%	\$117.20	\$113.55	\$58.01	\$55.98	3.2%	3.6%
Toronto Airport/West	8,120	65.7%	65.5%	\$118.13	\$116.47	\$77.61	\$76.29	1.1%	1.3%
Ottawa, ON	6,434	50.2%	52.7%	\$127.33	\$125.26	\$63.92	\$66.01	0.0%	-4.8%
Ontario East	4,103	40.7%	41.7%	\$96.54	\$91.70	\$39.29	\$38.24	0.3%	-2.1%
Windsor/ Ontario SW	3,037	44.4%	47.9%	\$97.63	\$98.16	\$43.35	\$47.02	0.0%	-7.4%
London/ Kitchener	5,875	47.3%	48.9%	\$100.44	\$96.09	\$47.51	\$46.99	1.9%	-1.4%
Ontario North/ Thunder Bay	1,818	50.4%	51.0%	\$86.22	\$79.71	\$43.45	\$40.65	0.0%	-1.1%
Ontario NC/ Sudbury	4,105	40.7%	42.2%	\$91.49	\$89.10	\$37.24	\$37.60	2.6%	-1.1%
Niagara Falls, ON	9,310	33.4%	32.3%	\$113.61	\$104.09	\$37.95	\$33.62	3.3%	6.8%
Ontario Central	3,171	40.5%	48.5%	\$107.22	\$106.88	\$43.42	\$51.84	4.2%	-13.1%
Mississauga, ON	5,743	48.2%	44.9%	\$109.75	\$104.77	\$52.90	\$47.04	5.2%	12.8%
Winnipeg, MB	3,792	52.5%	49.3%	\$96.36	\$89.80	\$50.59	\$44.27	-0.2%	6.2%
Regina/Saskatoon, SK	4,149	59.6%	54.9%	\$96.80	\$93.83	\$57.69	\$51.51	0.0%	8.5%
Calgary, AB	8,425	58.8%	56.7%	\$127.67	\$113.70	\$75.07	\$64.47	3.7%	7.5%
Edmonton, AB	7,376	61.5%	57.9%	\$113.54	\$101.27	\$69.83	\$58.64	0.8%	7.0%
Alberta North Area	3,073	68.0%	74.5%	\$131.80	\$112.93	\$89.62	\$84.13	2.0%	-6.8%
Alberta South Area	6,185	50.7%	49.4%	\$120.61	\$111.24	\$61.15	\$54.95	1.7%	4.2%
Vancouver Downtown	7,714	54.4%	53.0%	\$132.64	\$124.70	\$72.16	\$66.09	-2.7%	-0.1%
Vancouver/ Burnaby Area	2,228	55.7%	50.6%	\$97.06	\$91.65	\$54.06	\$46.37	0.0%	10.1%
Richmond-Surrey/ East Area	5,725	56.2%	55.4%	\$99.42	\$93.25	\$55.87	\$51.66	1.0%	2.6%
British Columbia Area	5,343	59.1%	54.3%	\$199.25	\$183.01	\$117.76	\$99.37	0.5%	9.4%
Kamloops/ Kelowna Area	4,747	37.0%	34.2%	\$86.25	\$80.73	\$31.91	\$27.61	1.8%	10.1%
Vancouver Island	3,875	43.4%	41.1%	\$90.50	\$83.62	\$39.28	\$34.37	0.8%	6.3%
Provinces									
Alberta	25,059	58.7%	57.4%	\$122.34	\$109.44	\$71.81	\$62.82	2.0%	4.2%
British Columbia	29,274	51.5%	49.1%	\$126.56	\$117.64	\$65.18	\$57.76	0.4%	5.3%
Manitoba	4,624	52.4%	48.8%	\$94.22	\$87.40	\$49.37	\$42.65	-0.1%	7.3%
New Brunswick	3,339	44.5%	44.6%	\$97.33	\$95.38	\$43.31	\$42.54	0.9%	0.7%
Newfoundland	1,839	40.7%	40.4%	\$104.39	\$106.22	\$42.49	\$42.91	1.1%	2.0%
Nova Scotia	4,259	46.8%	42.8%	\$106.09	\$97.97	\$49.65	\$41.93	-1.1%	8.2%
Northwest Territories	124	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	71,141	48.6%	48.4%	\$118.72	\$113.75	\$57.70	\$55.06	1.8%	2.2%
Prince Edward Island	951	30.8%	32.3%	\$70.65	\$64.93	\$21.76	\$20.97	0.0%	-4.5%
Quebec	24,012	44.0%	45.2%	\$120.76	\$118.68	\$53.13	\$53.64	1.1%	-1.5%
Saskatchewan	5,728	56.3%	53.3%	\$93.25	\$88.71	\$52.50	\$47.28	0.3%	5.9%
Yukon Territory	234	INS	INS	INS	INS	INS	INS	INS	INS
Canada	170,584	44.7%	44.6%	\$105.68	\$97.97	\$47.24	\$43.69	1.1%	1.1%

The Hotel Financing Environment in Canada (Cont'd)

HVS GLOBAL HOSPITALITY SERVICES - CANADA

activity in many of Canada's lodging markets continue to prosper.

We have also found that Canada's financing market continues to be more conservative than their US counterparts, where the financing arena is much more competitive and lenders are often bidding against one another to originate loans. In the US, loan-to-value ratios on first mortgages are as high as 80%, with amortization periods of up to 30-years. The interest rate is usually 120 to 140 basis points above the 10-year Treasury bond

yield, which was set at 4.51% on March 5, 2007 according to the United States Department of the Treasury.

As a result of this relatively conservative lending environment in Canada and the prosperity of many lodging markets in Canada, many US institutions have sought to capitalize on opportunities in the Canadian market. The Bank of America, Citigroup, and JP Morgan are among the US players that were recently involved in major hotel acquisitions and refinancing projects in Canada.

The outlook for hotel financing in Canada in 2007 will continue to be favourable for borrowers. Interest rates are low and the availability of debt is at an all time high. This competition among lenders should allow borrowers to continue to push for smaller spreads, higher loan to value ratios, and longer amortization periods. On the flip side, Canada is not ever anticipated to be as competitive as the US, which will benefit the hotel industry by keeping supply in check. ♦

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
Web Site: <http://www.hvs.com>*

The Canadian Lodging Outlook is a joint publication of Smith Travel Research and HVS Global Hospitality Services, Vancouver and Toronto, Canada. If you wish to reprint any of the articles presented through HVS's website, prior permission from HVS Global Hospitality Services and the respective article's author must be granted. For further information please contact info@hvs.com. Hospitality Valuation Services, HVS and HVS logo are registered service marks.



Vancouver Office
Suite 400 - 145 West 17th Street
North Vancouver, BC
Canada BC V7M 3G4
(604) 988-9743
(604) 988-4625 fax

Toronto Office
6 Victoria Street
Toronto, ON
Canada M5E 1L4
(416) 686-2260
(416) 686-2264 fax

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. For a complete list of consulting and valuation offices [click here](#).



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:
735 E. Main St.,
Hendersonville, TN 37075
(615) 824-8664



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.

OFFICE:
Anthony Pollard,
1206-130 Albert Street,
Ottawa, Ontario K1P 5G4
(613) 237-7149

If you wish to reprint any of the articles presented through HVS's website, prior permission from HVS Global Hospitality Services and the respective article's author must be granted. For further information please contact info@hvs.com. Hospitality Valuation Services, HVS and HVS logo are registered service marks.