Canadian
Lodging Outlook
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HVS

SMITH TRAVEL RESEARCH

Recession and the Canadian Hotel Industry - How Bad is RevPAR?

By Vi Thi Dang - HVS Canada

The economic downturn has negatively impacted the hotel industry and its profitability. Occupancy levels began to drop in the last quarter of 2008 and reached a new low in the first quarter of 2009. Hotels have been discounting room rates over the past six months in the hopes of attracting more business. Not only has this strategy had little effect in improving occupancy levels, it has also caused RevPAR to plunge. In Q1 2009, RevPAR in the United States plummeted by unprecedented double digits relative to the same period in 2008. Although the hit to Canadian economy has been less severe, the Canadian hotel industry has also experienced a substantial drop in RevPAR. So, how does the Canadian performance compare to the US performance?

Double-digit drops

To illustrate the system-wide drop in RevPAR, the changes in occupancy and average room rate for the major hotel chains in North America are charted in the following table.

First Quarter 2009 Performances for Major Brands in North America

Starwood's Q1 2009 RevPAR was down by 25.9% compared to the same quarter in the year before. For the same period, Marriott's RevPAR declined 16.2%, Wyndham's RevPAR dropped 14.3%, and InterContinental's RevPAR fell 9.1%. As consumers downscale in response to the economic downturn, mid-scale hotels are expected to perform better than upscale hotels. Even with this advantage, the RevPAR of the mid-scale hotel chain Choice Hotels contracted by double digits at 11.2%. These figures include the luxury, upscale, mid-scale, and economy brands of each of these chains. To say the least, these declines in performance do not inspire much confidence in the hotel industry.

Congratulations

Monique Rosszell, AACI

HVS Canada would like to extend hearty congratulations to Monique Rosszell for completing her Accredited Appraiser Canadian Institute (AACI) designation last month. Monique obtained her Honours Bachelor of Arts, Economics Degree from Queens University, and she has her Masters Degree in Hotel and Food and Beverage Management from Ecole Hoteliere de Lausanne, in Switzerland. Monique joined HVS in 2000, after working with both Four Seasons and Westin Hotels. Monique is located in our Toronto office and can be reached at 416-686-2260 ext. 23.

FIRST QUARTER PERFORMANCE FOR MAJOR BRANDS (NORTH AMERICA)

	OCCUPANCY			ADR			RevPAR		
	Q1 2009	Q1 2008	Pt. Chg	Q1 2009	Q1 2008	% Chg	Q1 2009	Q1 2008	% Chg
Starwood	58.2%	67.4%	(9.2)	$220.01	$256.55	(14.2)	$128.11	$172.95	(25.9)
Marriott	59.8%	67.3%	(7.6)	$153.37	$162.78	(5.8)	$91.74	$109.48	(16.2)
Wyndham	43.4%	48.6%	(5.2)	$68.66	$71.58	(4.1)	$29.81	$34.78	(14.3)
Choice	42.0%	46.7%	(5.1)	$67.08	$67.91	(1.2)	$28.14	$31.70	(11.2)
InterContinental	53.9%	57.2%	(6.1)	$97.32	$100.92	(3.6)	$52.46	$57.71	(9.1)

Source: HVS

Getting worse?

What's more, things may get worse before they get better. Smith Travel Research has dramatically shifted its RevPAR forecast for the US for year-end 2009, and the view is much bleaker than before. According to STR, the decline in occupancy and average room rate will be much sharper than anticipated. The revised forecast calls for an 8.4% drop in occupancy and a 9.7% decline in average rate in 2009, resulting in a 17.1% plunge in RevPAR. STR's previous forecast from April suggested that the RevPAR for the US hotel industry would be down only 9.8% in 2009.

In such a dark climate, people expect the worst, but is the Canadian hotel industry in as bad a position? Based on recent performance statistics, the Canadian hotel market is faring relatively well. The Canadian hotel market ended Q1 2009 with a RevPAR of $56.97, down 5.5% from $60.29 in the comparable period last year. Relative to the 16.3% drop in RevPAR the US industry experienced in Q1 2009, the Canadian RevPAR drop was far less drastic.

OVERALL REVPAR COMPARISON – CANADA VS. USA									
	OCCUPANCY			ADR			RevPAR		
	Q1 2009	Q1 2008	% Chg	Q1 2009	Q1 2008	% Chg	Q1 2009	Q1 2008	% Chg
Canada	49.5%	52.7%	(6.1)	$115.10	$114.40	0.6	$56.97	$60.29	(5.5)
USA	51.1%	56.7%	(9.8)	$100.13	$107.84	(7.1)	$51.17	$61.11	(16.3)
Source: STR									

Why was the RevPAR drop less substantial in Canada?

Following the US credit crunch in the summer of 2008, the world went into recession, and Canada went right along with it. The Canadian housing market began to show signs of slowdown towards the end of the summer of 2008. At the same time, the price of oil dropped to less than $50 per barrel, economic output slowed, and the unemployment rate skyrocketed. The Canadian economy has always been pegged to the US economy, but, relative to the US, the booms and busts in Canadian business cycles have tended to be of a lesser magnitude. As such, the economic headwinds have hit the Canadian economy on a different scale.

Subsequent to the credit crunch, the subprime mortgage crisis, and the bankruptcies of Goldman Sachs and Merrill Lynch, lending policies and financing approvals have been tightened and scrutinized. The profitability of Canadian banks has suffered, but we have not experienced the bankruptcies of our major lending institutions. Our GDP has been contracting, but with less severity than in the United States.

The strength of the economy directly affects the profitability of the hotel industry. Although there is no direct correlation between RevPAR and GDP growth, GDP is a measure of the health of the economy, which has an impact on both consumer confidence and hotel performance. In the first quarter of 2009, Canada's GDP contracted by 1.4% and it is expected to contract by 2.3% in 2009. Nevertheless, the Canadian economy is expected to improve in 2010, when the national GDP is projected to grow 3.0%. The US, in contrast, experienced negative GDP growth of 5.5% in Q1 2009, the year-end 2009 GDP is forecasted to improve to negative growth of 2.7%, and the positive growth projected for 2010 is a more modest 1.8%. Because the economic slowdown has been less severe in Canada, our RevPAR decline has been less striking, and the Canadian hotel market will likely recover more quickly.

Given the current state of the economy, consumer confidence is low and disposable income is limited, and so less spending and leisure travel can be anticipated. Similarly, commercial travel will be reduced and, with more limited expense accounts, we can expect to see people downgrading from luxury and upscale hotels to mid-scale brands. This trend can already be observed in the RevPAR decreases for the major hotel chains. Among the major chains shown earlier, Starwood's RevPAR has suffered the most: it was down 25.9% in Q1 2009 relative to Q1 2008. Most of Starwood's room inventory is classified as luxury, upper upscale, and upscale, so this company is most vulnerable to consumers downgrading to mid-scale or economy products. For InterContinental and Choice Hotels, in contrast, approximately 80% of the room inventory is in the mid-scale to economy range, so their decline in RevPAR was much lower, albeit still in the double digits.

Without a doubt, the economic downturn has hit the luxury and the upper-upscale brands the hardest, but this is another area in which the Canadian market has an advantage. There are only 53 luxury hotels in Canada, which accounts for only a small portion of the entire hotel supply. As such, the shift in consumer preference towards economy brands will have a much more modest affect on the Canadian hotel market.

New supply also has an impact on RevPAR erosion. STR projects that 16,000 new hotel rooms will enter the US market in 2009, accounting for approximately 3.0% of the total room supply. The new hotel supply that is expected to enter the Canadian market this year is approximately 2.5% of the national supply, but this equates to only about 8,725 new hotel rooms, or 72 new hotels. In other

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June 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	53.7%	60.3%	$99.13	$97.93	$53.23	$59.05	1.8%	-9.5%
Halifax, NS	4,184	73.0%	80.2%	$134.68	$140.50	$98.32	$112.68	3.9%	-5.5%
Montreal Downtown	10,256	66.6%	73.5%	$147.75	$190.44	$98.40	$139.97	3.1%	-6.6%
Montreal Area	2,361	54.5%	64.2%	$103.02	$111.91	$56.15	$71.85	0.0%	-15.1%
Quebec City, QC	4,027	69.4%	80.9%	$149.36	$180.30	$103.66	$145.86	0.0%	-14.2%
Quebec Area	4,466	56.6%	59.2%	$129.99	$137.64	$73.57	$81.48	0.0%	-4.5%
Toronto Downtown	14,465	77.6%	84.4%	$153.68	$188.20	$119.26	$158.84	1.1%	-7.0%
Toronto North/East	6,793	61.1%	71.6%	$110.84	$121.96	$67.72	$87.32	1.4%	-13.5%
Toronto Airport/West	8,502	55.0%	69.4%	$107.48	$117.01	$59.11	$81.20	3.5%	-17.9%
Ottawa, ON	7,161	73.6%	81.5%	$139.36	$143.23	$102.57	$116.73	2.6%	-7.3%
Ontario East	4,628	61.3%	64.5%	$108.05	$109.80	$66.23	$70.82	0.7%	-4.2%
Windsor/ Ontario SW	2,700	55.2%	55.0%	$117.55	$112.37	$64.89	$61.80	0.0%	0.5%
London/ Kitchener	2,965	58.9%	57.7%	$104.29	$104.19	$61.43	$60.12	0.0%	2.1%
Ontario North/ Thunder Bay	2,146	73.1%	74.7%	$96.51	$94.98	$70.55	$70.95	0.0%	-2.2%
Ontario NC/ Sudbury	4,707	59.4%	65.1%	$113.10	$112.23	$67.18	$73.06	4.6%	-4.5%
Niagara Falls, ON	9,372	64.4%	73.1%	$128.15	$140.46	$82.53	$102.68	0.1%	-11.8%
Ontario Central	3,854	57.6%	60.5%	$109.07	$113.35	$62.82	$68.58	1.7%	-3.2%
Mississauga, ON	4,533	59.5%	66.7%	$105.60	$111.50	$62.83	$74.37	-1.5%	-12.1%
Winnipeg, MB	3,410	74.5%	76.2%	$113.85	$113.31	$84.82	$86.34	0.0%	-2.3%
Regina/Saskatoon, SK	2,454	71.1%	73.1%	$122.49	$113.38	$87.09	$82.88	3.2%	0.3%
Calgary, AB	8,526	68.3%	80.8%	$152.50	$174.76	$104.16	$141.21	0.3%	-15.2%
Edmonton, AB	9,137	64.4%	72.6%	$124.48	$125.00	$80.17	$90.75	3.3%	-8.2%
Alberta North Area	3,607	50.1%	69.4%	$163.92	$177.12	$82.12	$122.92	5.1%	-24.2%
Alberta South Area	8,475	56.6%	68.2%	$153.16	$165.31	$86.69	$112.74	1.9%	-15.4%
Vancouver Downtown	8,153	79.4%	88.6%	$175.42	$198.24	$139.28	$175.64	1.6%	-8.9%
Vancouver/ Burnaby Area	2,002	62.1%	82.2%	$124.91	$134.16	$77.57	$110.28	4.9%	-20.7%
Richmond-Surrey/ East Area	3,993	63.8%	82.4%	$118.07	$132.10	$75.33	$108.85	0.0%	-22.6%
British Columbia Area	6,071	59.6%	64.2%	$134.96	$138.50	$80.44	$88.92	0.5%	-6.8%
Kamloops/ Kelowna Area	4,349	60.2%	68.8%	$112.90	$122.10	$67.97	$84.00	-0.1%	-12.6%
Vancouver Island	4,811	69.1%	77.4%	$134.40	$145.10	$92.87	$112.31	2.2%	-8.8%
Provinces									
Alberta	31,981	59.9%	71.1%	$136.45	$146.66	$81.73	$104.28	2.4%	-13.8%
British Columbia	30,684	62.5%	72.4%	$128.27	$136.94	$80.17	$99.14	1.1%	-12.7%
Manitoba	4,300	66.5%	66.7%	$100.08	$97.69	$66.55	$65.16	0.1%	-0.1%
New Brunswick	4,754	56.5%	61.7%	$114.07	$115.18	$64.45	$71.07	1.0%	-7.5%
Newfoundland	1,833	88.1%	80.6%	$129.26	$131.96	$113.88	$106.36	0.5%	9.9%
Nova Scotia	5,497	63.2%	68.8%	$120.69	$124.82	$76.28	$85.88	2.7%	-5.7%
Northwest Territories	325	60.7%	65.5%	$151.05	$148.10	$91.69	$97.01	0.0%	-7.3%
Ontario	78,748	61.4%	68.9%	$117.16	$125.44	$71.94	$86.43	1.4%	-9.7%
Prince Edward Island	793	49.3%	57.4%	$117.77	$117.88	$58.06	$67.66	0.0%	-14.1%
Quebec	26,631	60.0%	68.7%	$125.71	$149.32	$75.43	$102.58	1.3%	-11.6%
Saskatchewan	6,611	67.2%	73.1%	$111.39	$99.51	$74.85	$72.74	2.0%	-6.3%
Yukon Territory	784	71.3%	80.1%	$107.62	$108.03	$76.73	$86.53	0.0%	-10.9%
Canada	192,941	61.3%	68.6%	$121.57	$129.54	$74.52	$88.86	1.4%	-9.3%

*INS - Insufficient Data

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Saskatchewan	6,611	63.1%	63.4%	$105.62	$97.00	$66.65	$61.50	1.5%	1.0%
Yukon Territory	784	54.0%	52.7%	$97.89	$96.61	$52.86	$50.91	-1.7%	0.7%
Canada	192,941	53.0%	57.9%	$115.98	$118.99	$61.47	$68.90	1.4%	-7.2%

*INS - Insufficient Data

words, the Canadian hotel market will not be flooded with new supply during this economic slowdown, leaving existing hotels in a much better position. Fewer new hotels entering the market will also help the market to recover more quickly.

Not so bad after all

Year-end 2009 will undoubtedly be difficult for the hotel industry in both countries, but 2010 looks much more promising. STR projects the US industry's RevPAR to decline in 2010, but at a less striking rate of only 3.7%. Also, demand growth of 1.1% is projected for 2010, which compares favourably to the 5.5% decline in demand projected for year-end 2009.

The Bank of Canada recently announced that the Canadian economy is no longer in recession and anticipates GDP to grow at an annual rate of 1.3% in the third quarter of 2009. The US economy, on the other hand, is still in a recession with a forecasted negative GDP growth of 2.8 for Q2 2009 and a modest 0.5% positive growth in the third quarter of 2009. If the GDP growth forecasts are any indication, RevPAR could rebound more quickly in Canada than in the US. With the Canadian economy already in recovery, much stronger GDP growth, less new supply in the pipeline, and fewer luxury brands being affected by downscaling, the Canadian hotel market is well positioned for recovery. ▲

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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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.

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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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