

Trends

in the Canadian Hotel Industry

PKF
Consulting

NATIONAL MARKET REPORT • A MONTHLY PROFESSIONAL PUBLICATION

2009 MARKET FORECAST

Following four years of strong growth over the 2004 to 2007 period, national occupancy for the Canadian accommodation industry had increased from 61% to 65% by 2007. Much of the growth was led by the country's strong Western performance coupled with modest Central and Eastern Canada results. At the same time, rates increased by almost 10% from \$116 to \$127 by the end of 2007.

With the onset of Canada's recession taking effect in the latter part of 2008, accommodation demand contracted by -0.5% in 2008, which coupled with supply growth resulted in a decline in national occupancy to 63%. Largely due to positive rate increases in the first 8 months of the year, the industry managed to achieve an overall rate increase of 3% in 2008 to reach a national average daily rate of \$131.

In 2009, the industry has been and will continue to be hit hard by the recession. By year end demand is expected to have contracted by 6.5%, from where it was a year ago. Coupled with a 1.6% increase in supply, this fall-off in demand will result in a forecasted 58% occupancy nationally.

This decade's previous industry challenges of 9/11 and SARS, pale in comparison to the erosion of demand caused by the current recession. In 2001, the Canadian accommodation industry experienced a decline of -4.3% in demand, while SARS resulted in negative growth of -3.7% - compared to the steep erosion of -6.5% forecast for 2009.

MAJOR URBAN MARKET OCCUPANCY PERFORMANCE				
	2006 Actual	2007 Actual	2008 Actual	2009 Forecast
Vancouver	72%	74%	72%	64%
Calgary	74%	74%	72%	65%
Edmonton	72%	75%	73%	66%
Winnipeg	65%	68%	69%	65%
Toronto	66%	67%	66%	60%
Niagara Falls	58%	57%	55%	52%
Ottawa	69%	70%	71%	67%
Montreal	68%	67%	64%	60%
Quebec City	63%	62%	67%	56%
Halifax/Dartmouth	69%	69%	66%	61%
CANADA	65%	65%	63%	58%

This loss in demand is compounded by the unprecedented price cutting occurring across the industry. Based on year-to-date results, rates are expected to decline by almost 5%, dropping by \$6 from last year to \$125 in 2009. Even during SARS, the industry managed to keep the annual rate decreases to under 2% and \$2. The price cutting occurring now, is more akin to the 1992/1993 period where we saw rates decrease by 5% and \$4, albeit against a lower starting point. In fact of the 10 major markets, only Edmonton, Winnipeg and Ottawa have not been subject to significant price cutting in 2009. And as demonstrated by year-to-date and forecasted occupancies in the remaining 7 major markets and nationally, just like in 1992/1993, these price cutting tactics have not solved the industry's demand problems.

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MAJOR URBAN MARKET AVERAGE DAILY RATE PERFORMANCE

	2006 Actual	2007 Actual	2008 Actual	2009 Forecast
Vancouver	\$126	\$133	\$138	\$131
Calgary	\$127	\$142	\$151	\$144
Edmonton	\$103	\$113	\$122	\$122
Winnipeg	\$99	\$103	\$111	\$113
Toronto	\$135	\$136	\$136	\$126
Niagara Falls	\$143	\$144	\$140	\$129
Ottawa	\$128	\$133	\$136	\$136
Montreal	\$140	\$137	\$138	\$129
Quebec City	\$139	\$138	\$158	\$142
Halifax/Dartmouth	\$124	\$126	\$129	\$126
CANADA	\$123	\$127	\$131	\$125

As a result of the decline in both occupancy and rate, RevPAR is projected to deteriorate by -12% at a national level by year-end 2009, a \$10 drop over last year to \$73. Unlike recent history, the pain will be felt equally across the country, with the 4 Western Canadian major cities forecasted to be down by -12.7%, and the 6 major cities in Central and Atlantic Canada off by -14.3%.

MAJOR URBAN MARKET REVPAR PERFORMANCE

	2006 Actual	2007 Actual	2008 Actual	2009 Forecast
Vancouver	\$91	\$98	\$99	\$84
Calgary	\$95	\$105	\$109	\$94
Edmonton	\$74	\$85	\$89	\$80
Winnipeg	\$64	\$70	\$77	\$73
Toronto	\$90	\$91	\$90	\$76
Niagara Falls	\$83	\$82	\$77	\$67
Ottawa	\$88	\$94	\$96	\$90
Montreal	\$95	\$92	\$88	\$78
Quebec City	\$87	\$85	\$105	\$79
Halifax/Dartmouth	\$85	\$88	\$86	\$77
CANADA	\$79	\$83	\$83	\$73

PKF has continually expressed our concerns with respect to the negative impacts of discounting and price cutting. Unless the industry can minimize the impact of its pricing tactics over the balance of the year, the projected year end declines in RevPAR across the country will continue to have a significant impact on profitability and values.

Endorsed By:



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