



Why adding hotels is not necessarily good news

TORONTO—Developers love to talk about the positive impact new hotel stock can have on a community—bringing the calibre of visitors to a whole new level, or pushing up the level of offerings.

But the flip side—lower occupancy and ADR—figured in a number of examples mentioned at the PKF Outlook Conference held in Toronto and Vancouver last month.

Take Kingston, Ontario. In the past year and a half, the community of 117,000 has gained a Motel 6, a Courtyard by Marriott, a Holiday Inn and a Residence Inn—a 30 per cent increase in room supply. That makes Kingston the “most challenged” community on PKF’s list for 2011.



Kingston, Ontario has an oversupply of hotel rooms due to the opening of four properties in 18 months, including the Residence Inn Kingston Water’s Edge.

rates. In the short term, the occupancy is in the mid-50s, but it will rebound.”

Ottawa downtown core is currently a 4,000-room market. When the new 400-room Courtyard by Marriott opens, Stanford predicts that occupancy will drop.

Ottawa suffered a setback early this year—at the end of the first quarter, RevPAR had dropped 6 per cent due to proroguing of parliament. Since then, RevPAR has been up every single month. The Ottawa Convention Centre will reopen next April, which is good news for the city’s downtown core.



The PKF team at the recent Toronto Outlook Forum: top row—David Larone, Fran Hohol and Jon Lantz; bottom row—Brian Stanford and Beth Walters.

Brantford, Ontario is a 400-room market. The new Hampton Inn there has grown supply by 20 percent.

“Demand has fallen off, and the existing assets are forced to compete on rate,” said PKF’s Brian Stanford.

North Bay, population 90,000, is a 1,000-hotel-room market. The new Hampton Inn added 10 per cent to the total hotel stock. “That property is doing better than the others,” Stanford said. “The community has let occupancy slide, but they’re holding their rates.”

Despite the situations in cities like Kingston, Brantford, North Bay and Ottawa, one of the strengths of the Canadian market compared to the U.S. is that we have not been oversupplied on a national basis, PKF's David Larone told the forum.

In 2010, we'll add 7,000 rooms, or almost 2 per cent, to the national inventory. In 2011, the trend will be even more moderate, with only 4,000 rooms projected to come onstream. If you take out the luxe Toronto hotels and resorts, the count is only 3,000.

Next year's ADR is expected to rise by 2.5 per cent in 2011, compared to 3.0 per cent this year and a decline of 5.0 last year.

When you factor out special events like the Olympics in Vancouver and Whistler, the Rotarian conference and Grand Prix in Montreal, and the G20 and Indy in Toronto, 2.5 per cent is "reasonably robust," Larone noted.

In most of Canada, ADR should be back to 2008 levels by 2011—though not in cities like Toronto and Calgary.

Net income per available room was down 28 per cent nationally in 2009. PKF expects 7 per cent growth in 2010, and 5.5 in 2011. But even with those improvements, the bottom line is still almost 20 per cent lower than in 2008.

Net income per operating room varies by region. Atlantic Canada is expected to grow by 2.0 and 9.5 per cent this year and next and could almost get back to 2008 levels by 2011. Central Canada growth rates Ontario growth is pegged at 12 per cent per year this year and next, but will still be far below 2008 figures. And 2.5 per cent growth this year and none next year is predicted in Western Canada.

Montreal, Niagara, Halifax and Quebec City can expect 5 per cent RevPAR growth forecast 2011; Toronto, Calgary and Winnipeg can expect 2-3 per cent. Ottawa and Edmonton should hold steady at 0 to 1 per cent, while Vancouver is expected to slip by 9 per cent, largely due to the Olympic effect.

To download the full PKF presentation, go to www.pkf.com, PKF 2011 Outlook.



The reopening of Ottawa's Convention Centre, shown above under construction in September, will have a positive effect on occupancy in that city next year.