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REAL ESTATE

## Buyers' interest in hotels sets stage for record

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Increased buyer interest in the Canadian hotel industry is setting the stage for another record year, with as much as \$2-billion in properties trading hands in 2006, an industry conference heard yesterday.

"This is unlike anything we have seen before. We are going to see a lot of action," said Bill Stone, executive managing director of Colliers International Hotels. The flurry of activity has turned several owners into sellers, as they hope to take advantage of rising prices and the multiple bids that are being generated, even for properties in secondary markets, he said in an interview following his remarks.

Investor interest in the sector took off last year, with \$1.7-billion in trades taking place, a new record and more than the total of the previous three years combined.

Mr. Stone said activity in 2006 got off to a slow start, but is shaping up to be the same if not better than last year. Several public and private owners have a number of major assets that they are ready to sell, Mr. Stone told the Canadian Hotel Investment Conference in Toronto. Depending on when those assets become available, he predicted sales activity could range between \$1.5-billion and \$2-billion this year. "It's making for quite an interesting market," he said.

Mr. Stone said public companies were by far the most active sellers last year, accounting for about half of all transactions. He expects this year will see a wide range of owners putting product on the market. They include real estate investment trusts looking to trim their assets, closed-end funds that need to sell, and private owners doing estate planning.

Some of that activity could drive consolidation in the public markets, said National Bank Financial Inc. analyst Michael Smith, speaking on the same panel. By this time next year, Mr. Smith predicted, there will be one less hotel REIT on the Canadian market, although he did not predict which one is the most likely to be taken over by a public rival or private buyer.

On the buy side, Mr. Stone expects U.S. investors to remain active. Last year they accounted for 45 per cent of all investment. Canadian buyers accounted for about half, with the rest coming from other foreign investors.

While more Americans are looking to buy our hotels, fewer are staying at them. U.S. leisure travellers, what the industry sometimes calls the "rubber tire" market, has

fallen off since 9/11. As well, most in the industry expect tougher border rules, including U.S. plans for travellers to carry passports, will hurt this segment even more.

Neil Labatte, chief executive officer of **Legacy Hotels Real Estate Investment Trust**, owner of 24 properties, including the city-centre hotels run under the Fairmont banner, said the industry needs to look beyond this market. Business and group travel has rebounded from the lows hit in 2003, he said, and international travel is increasing.

Mr. Labatte said he believes the sector is at the beginning of an up cycle, a fact that is contributing to investor demand. At the same time, he said the industry has to keep building in check to limit supply. "Everybody in the industry needs to raise their rates," he said.

David Larone, with PKF Consulting Inc., said Canada cannot compete on value with other popular destinations for U.S. travellers, such as Mexico and the Caribbean. Instead, he said the country needs to stress quality to U.S. travellers as a way to raise business and prices.

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