

The hotel industry in Canada has not only recovered from a severe downturn in the wake of 9/11 and then the SARS outbreak, but is already well into an historic upturn. Tourists aren't driving this resurgence, at least not Americans, but rather it is based on strong business travel and portfolios massively changing hands for billions of dollars.

Hotels are hot again

By Albert Warson

Hotels as a real estate asset class can be more interesting than office buildings, shopping malls, rental apartment buildings and industrial properties, because we use them in so many different personal, business and entertainment ways. More recently they've been introduced as hotel/condo hybrids in Vancouver and Toronto.

Interesting, but they are also just as vulnerable to economic swings and real estate cycles as the other asset classes. They are even more so during catastrophic events because of their discretionary character. The strength of the Canadian dollar against U.S. currency hasn't helped. The news at the 10th annual Canadian Hotel Investment Conference in Toronto in mid-May was therefore unexpectedly upbeat.

"It's an incredibly strong [hotel] market," the like of which he has never seen, is the way Bill Stone, executive managing director, Colliers International Hotels, Toronto, described the scene for more than 400 industry delegates. The figures bear him out — there were \$540-million worth of hotel transactions across Canada in 2002, which just about tripled to a record \$1.7-billion last year. "The number of hotels that sold last year was equal to the entire downtown supply in Montreal," he noted.

Stone predicted \$1.5- to \$2-billion worth of hotels would

change hands this year, based on as yet undisclosed deals in the pipeline. There is so much "velocity" in the Canadian hotel market that investors who might have spent six weeks mulling over whether to make a play for hotel properties are probably down to six days, given the huge demand, fast turnaround and product whipped off the market.

The market is in fact buzzing with private, institutional and corporate sellers who want to cash in while prices are rising and perhaps shed non-core assets, mergers and acquisitions and "diverse and aggressive" buyers who want to acquire just about any kind of commercial real estate.

Michael Smith, senior vice-president, real estate and hospitality analyst, National Bank Canada, Toronto, noted that between 1998 and 2000 "all forms of real estate were in the doldrums because everyone was putting money into the tech industry [whose bubble subsequently burst with a large splash]. Today there is a huge reallocation of capital by investors into real estate, hotels and infrastructure."

Richard Matheson, managing director, RBC Capital Markets, Toronto, noted that hotel profits were at record highs last year, with "revenue per available room" up by 4.6 per cent. Moreover, while Canada's hotel recovery lagged the U.S. in 2005, it is

2005 Transaction Profile



Vancouver Airport Conference Resort

Rooms: 438
Date: August
List Price: \$35,000,000
Cap Rate: n/a
Buyer: Northland Properties/Sandman Inn
Seller: Allied Holdings

Vancouver

2005 Transaction Profile




Wyndham Bristol Place Hotel

Rooms: 287
Date: October
Purchase Price: \$41,400,000
Price Per Room: \$144,300
Cap Rate: 10.0%
Buyer: Columbia Sussex
Seller: Wyndham International/
The Blackstone Group

Toronto

2005 Transaction Profile

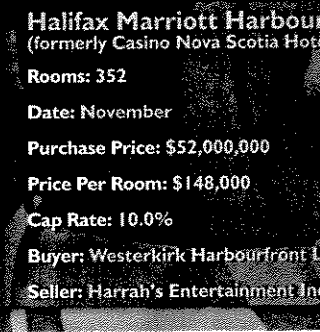


Le Royal Meridien King Edward

Rooms: 296
Date: November
Purchase Price: \$62,500,000
Price Per Room: \$211,000
Cap Rate: 5.6%
Buyer: LB SCG King Edward ULC
Seller: Meridien King Edward Limited

Toronto

2005 Transaction Profile



Halifax Marriott Harbourfront
(formerly Casino Nova Scotia Hotel)

Rooms: 352
Date: November
Purchase Price: \$52,000,000
Price Per Room: \$148,000
Cap Rate: 10.0%
Buyer: Westerkirk Harbourfront Limited (Westerkirk Capital Inc.)
Seller: Harrah's Entertainment Inc.

Nova Scotia

Previous page A 46-storey, 265-room Four Seasons Hotels & Resorts hotel and 230-room, 30-storey condo tower at Bay and Yorkville in downtown Toronto will be under construction this year. The \$500 million development is one of several new condo/hotels approved and/or proposed for downtown Toronto. Above Transaction images courtesy of Colliers International Hotels, Toronto.

expected to rebound this year. In the meantime, European and Asian travel to Canada was higher last year, taking up much of that slack.

Stone and Lyle Hall, managing director, HLT Advisory Inc., Toronto, organized the conference and are co-hosts every year.

Hall asked speakers on a panel he was moderating why there is more hotel development in the suburbs, often near airports, than in downtown cores of Canadian cities.

David Larone, director, PKF Consulting Inc., Toronto, replied that suburban hotels are more profitable – that it costs an average \$95,000 to \$125,000 a “key” or room, everything included. They charge, on average, room rates of \$105 to \$140 a night, which produces what is considered a good return on investment. By contrast, a downtown “full service” (with restaurant, lounge and other amenities) hotel costs \$250,000 to \$300,000 a key, and its average room rate is only \$20 higher. Not a terribly satisfying return. Neil Labatte, president and CEO, Legacy Hotels REIT, Toronto, said the hotel industry is not charging customers enough for hotel stays and tends therefore to subsidize development costs.

Apart from the higher price for downtown hotel develop-

ment, property taxes are generally higher and approval for building permits more challenging.

Hall asked panellists to place the hotel industry in the business cycle at this time. For Labatte, it is “at the beginning of the cycle. We don’t have [for now] leisure customers here, which in many ways have been the adrenaline push in the industry. But I see a good upside to business travel, a lot of group [travel] push in the market in North America, international demand, not a lot of supply, low cost of capital and a lot of deals getting done.”

His panel revisited a discussion by an earlier panel about the drop in numbers of U.S. tourists travelling to Canada over the past few years and their apparent preference for other destinations. Larone says Caribbean resorts and Mexico have captured much of that U.S. holiday market. “We have to go after the Americans who fly to Western Europe and spend in euros. We have to sell Canada as a quality destination.”

But it won’t be easy. Larone wondered, “If we can’t get my neighbours in Mississauga to go to downtown [and neighbouring] Toronto more than once or twice a year, how can we get people from outside the country to come here?” E