



RESORTS RETORT

Despite a difficult 2009, Canadian resorts
are optimistic about a rebound
BY J.D. NEY

Life in the Canadian resort sector last year was no vacation. A quick Google search shows dire reports about prestigious properties such as Intrawest's Whistler/Blackcomb resort and The Rosseau in Muskoka, Ont., replete with ominous details of their financial struggles. While most resorts across the country managed to keep themselves off the front pages of the business section, few escaped the effects of a crippling recession, subsequent consumer and corporate spending aversions and, ultimately, the ensuing fight over occupancy and rate integrity.

The year 2007 and most of 2008 (the economic world truly wasn't hurled into serious peril until Lehman Brothers vanished in September of that year, remember) were financially solid days for the Canadian resort market. Occupancy was at 55 and 54 per cent, respectively, ADR sat at \$192 in

2007 and spiked to \$197 in 2008, and RevPAR was a comfortable \$107 in both years, according to PKF Canada. However, as with most market-related stories at the time, the plot changed in the last quarter of 2008, and became a fully realized nightmare in 2009. In that year alone, occupancy was off five points from its 2007 high, which was difficult enough to overcome, but to make matters worse, profitability also plunged, with ADR falling \$10 from its 2008 rate and RevPAR shedding \$13.

In what might seem like piling on after the whistle, PKF also compiled what amounts to an indication of overall profitability — a calculation of net income per available room. These numbers provide the clearest view of just how difficult a year 2009 was in the resort sector. PKF's analysis showed that in 2007, resort properties earned \$18,300 per available room, which was up from 16,200 in 2006 and \$14,200 in 2005. While the decline began in earnest in the

later half of 2008, ending the year at par with 2006, it came to full fruition in 2009, where the overall segment earned \$10,800 per room, a 34.9 per cent decrease year-over-year, and down 40.1 per cent from its 2007 high.

Why dredge up all of these dour reminders? Well, thankfully, they're all in the past and Toronto-based PKF director Brian Stanford says 2010, while not achieving the soaring highs of yesteryear, will at the very least be better for the resort segment than 2009. "It was without a doubt the one segment that has seen the biggest impact from the recession. It saw demand weaken from two key areas, namely the leisure market and the meetings and conventions segment," he starts. "Now, there are expectations for modest recovery in 2010, as we're forecasting a six-per-cent gain in profitability, but as you can imagine, because the decline was so dramatic, the overall resort market still has a way to go. We won't see a fundamental change in 2010,

but we can look forward to a slow improvement," he adds.

Another industry insider who is feeling confident, albeit cautiously, about the prospects for 2010 and beyond is Ross Perlmutter, executive director at the Canadian Resort Development Association. "Last year was rough," he starts. "Our arc was pretty much on par with the U.S., although not quite as severe, and so sales across the country were off by about 30 per cent." But according to Perlmutter, surprisingly few resorts were forced to shift or shelve many of their projects, because of the long-term nature of development. In fact, even while discussing Intrawest, the company that had perhaps the most public of challenges, Perlmutter is quick to separate the issues. "There are segments within Intrawest that are doing extremely well," he says. "Their ski operation is very strong, as is most of their fractional ownership. It's more the real estate division that took a real bite out of the company," he adds. "Overall, the industry was on fire two years ago, but the recession was a bit of a wake-up call. Properties have had to re-evaluate their value propositions and deliverables. In the end, I think it will be a good thing."

A positive attitude is something many resort owners and directors are looking for, after watching their profits erode during the past two years. "First, we all have to understand that the overall yield is lacking," says Randy Heyd, general manager at Taboo resort in Gravenhurst, Ont. "Pricing has been stagnant for the past 20 months, and we haven't been able to do anything to change that. But, with the volume coming back, we're cautiously optimistic. At the very least, the market buoyancy is there."

Heyd says he's more confident on the occupancy side, because his booking data is telling him that while things could be better, compared to a few years ago, 2010 is already looking brighter than 2009. "We're happy 2009 has gone away," he says. "From here, we're looking at

the situation as a 24-month rebuild. We're estimating about a 65 per cent recovery in occupancy this fiscal year, with the rest coming in 2011. And, on the meetings and conferences front, we're finally seeing that one-year lead time coming back. For 2010, we're about 35 per cent ahead of last year's booking pace, and I'd say we're back to within five to six per cent of normal."

A rebound in conference bookings would certainly be music to the ears of any resort operator, and PKF's Stanford says, it too, is coming, albeit at a slower pace than on the leisure side. "Leisure travel should rebound faster," he says. "This season, people will think, 'Well, I still have my job, and I went without last summer, so I'll take the family on a vacation this year.' On the business front, people still need to travel, although it's usually to urban centres and not necessarily to resort markets." As a result, Stanford sees the meetings market bouncing back in the cities first, hitting the more secluded resorts further down the line. "Most business people still need to travel, but as for the meetings and conferences market, we're looking at a two or three-year recovery."

Waiting for that recovery to come full circle will be the primary challenge of resort managers though 2010 and 2011. But CEO and president of Bellstar Hotels and Resorts, Ed Romanowski, says his properties have a distinct advantage in terms of attracting guests and buyers, which has helped them over the course of the past year.

"Generally, we see business being quite strong," he starts, "but in order to succeed, you have to be [a new property]. If you look at the inventory of available resorts in Canmore or the Okanagan, you'll see some migration from the older to the newer, more highly amenitized properties."

Fortunately for Bellstar, new is what they do. The company holds management contracts with new-build resort complexes in prime resort locales across Western Canada,

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like Pemberton and Kimberly, B.C., and the recently acquired boutique property, the 41-room Adara Hotel in Whistler, therefore, the future, at least on that front, looks bright. However, Romanowski knows it's not just a flashy new player on the market that convinces someone, or a corporate entity to make the investment; it takes the full package.

"What's important to guests or buyers?" he asks, mulling the question from Bellstar's Calgary head office. "Well, you have to have access to a good F&B program, cover the basics like a pool and fitness amenities, provide connectivity through wireless Internet access — most of which must now be offered free of charge — and have programs and activities for kids. Plus, meeting facilities of any size are critical to the success of resorts looking to do conference business," he says.

And, Romanowski says it's increasingly imperative to be able to show your guests and owners environmental stewardship. "Of course, we believe that all of those amenities and features be delivered as part of an authentic, well-orchestrated environmental program, not just the platitudes of towels thrown in the bathtub," he says.

In the end, while few Canadian properties have had to resort to the kinds of Hail Mary attempts seen in the Intrawest Whistler fiasco, the bottom line is they've struggled to remain attractive investment options for savvy real-estate players. However, with occupancy and rates expected to improve through 2011, don't count out the good ones just yet. ♦