INNSIGHT
Quarterly Q2 2020
GLOBAL HOSPITALITY CANADA

Q2 2020 CAP RATE SURVEY REPORT

HOTEL CAP RATES ACROSS CANADIAN MARKETS

LEGEND » UP: ▲ DOWN: ▼ FLAT: ◄►

	VICTORIA			VANCOUVER			CALGARY			EDMONTON			WINNIPEG		
	RANGE			RANGE			RANGE			RANGE			RANGE		
Full-Service Downtown	6.00%	7.50%	▲	4.50%	6.50%	▲	7.00%	8.50%	▲	7.50%	9.00%	▲	7.50%	9.50%	▲
Full-Service Suburban	7.00%	8.00%	▲	5.50%	8.00%	▲	7.50%	9.50%	▲	8.00%	9.50%	▲	7.50%	9.50%	▲
Limited-Service Suburban	7.50%	9.00%	▲	6.50%	8.50%	▲	8.00%	10.00%	▲	9.00%	10.50%	▲	8.50%	10.00%	▲

	KITCHENER/ WATERLOO			TORONTO			OTTAWA			MONTREAL			HALIFAX		
	RANGE			RANGE			RANGE			RANGE			RANGE		
Full-Service Downtown	7.50%	9.50%	▲	4.50%	6.50%	▲	7.00%	8.50%	▲	6.50%	8.50%	▲	7.00%	9.00%	▲
Full-Service Suburban	7.50%	9.50%	▲	6.00%	7.50%	▲	7.00%	9.00%	▲	7.00%	9.00%	▲	8.00%	10.00%	▲
Limited-Service Suburban	8.00%	10.00%	▲	6.50%	8.00%	▲	8.00%	10.00%	▲	8.00%	10.00%	▲	9.00%	10.50%	▲

While the more stable asset classes have not seen an increase in rates, the hospitality and retail sectors have seen upward pressure, particularly for more vulnerable assets. The Q2 survey indicates an increase in the upper end of the cap rate range for most markets across the country. These are nominal rates which represent returns for hotels with normalized results and are a reflection of investor sentiment.

In the current market, most hotels will have modest if any net income in 2020, eliminating the Direct Capitalization method as a reliable indicator of value – Discounted Cash Flow is the preferred method to value hotels currently. There are, however, implications for the Terminal rates and Discount rates used in the preferred Discounted Cash Flow method as investors assess sector risk and liquidity post COVID.

CUSHMAN & WAKEFIELD

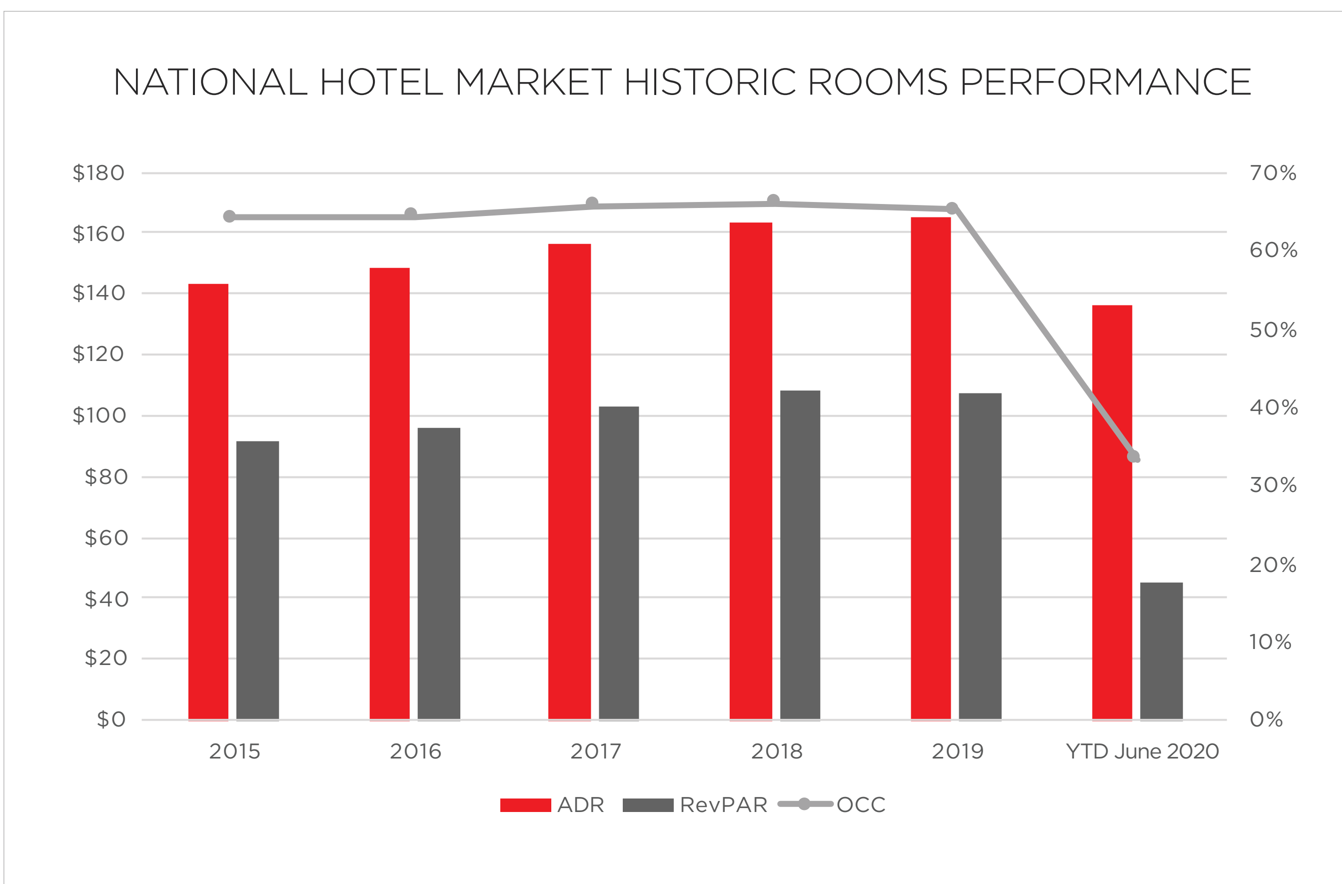
Q2 2020

MODEST RECOVERY BEGINS

As Q2 drew to a close, hotels across the country began to re-open with new safety and cleaning procedures in place. As occupancy has slowly inched upwards over the months of May, June, and July, it appears that the worst effects of COVID-19 may be behind us.

For the week ending July 25TH, the Canadian hotel market reached 35.4% occupancy, with a 30.5% decline in average daily rate, resulting in a RevPAR of $45 for the week – a reduction of 68.4% in RevPAR compared to the same week in 2019. While well below 2019 levels, these are the strongest results seen since the outbreak of the pandemic and represent a marked improvement from the low recorded the week ending April 11th, when occupancy was just 12% and RevPAR had declined by 87.6%.

In a year-over-year comparison with YTD June 2020, the Canadian market recorded an occupancy drop of 53.3% to an occupancy rate of 31.7% and an ADR decline of 18.2%, resulting in an overall RevPAR decrease of 61.8%.



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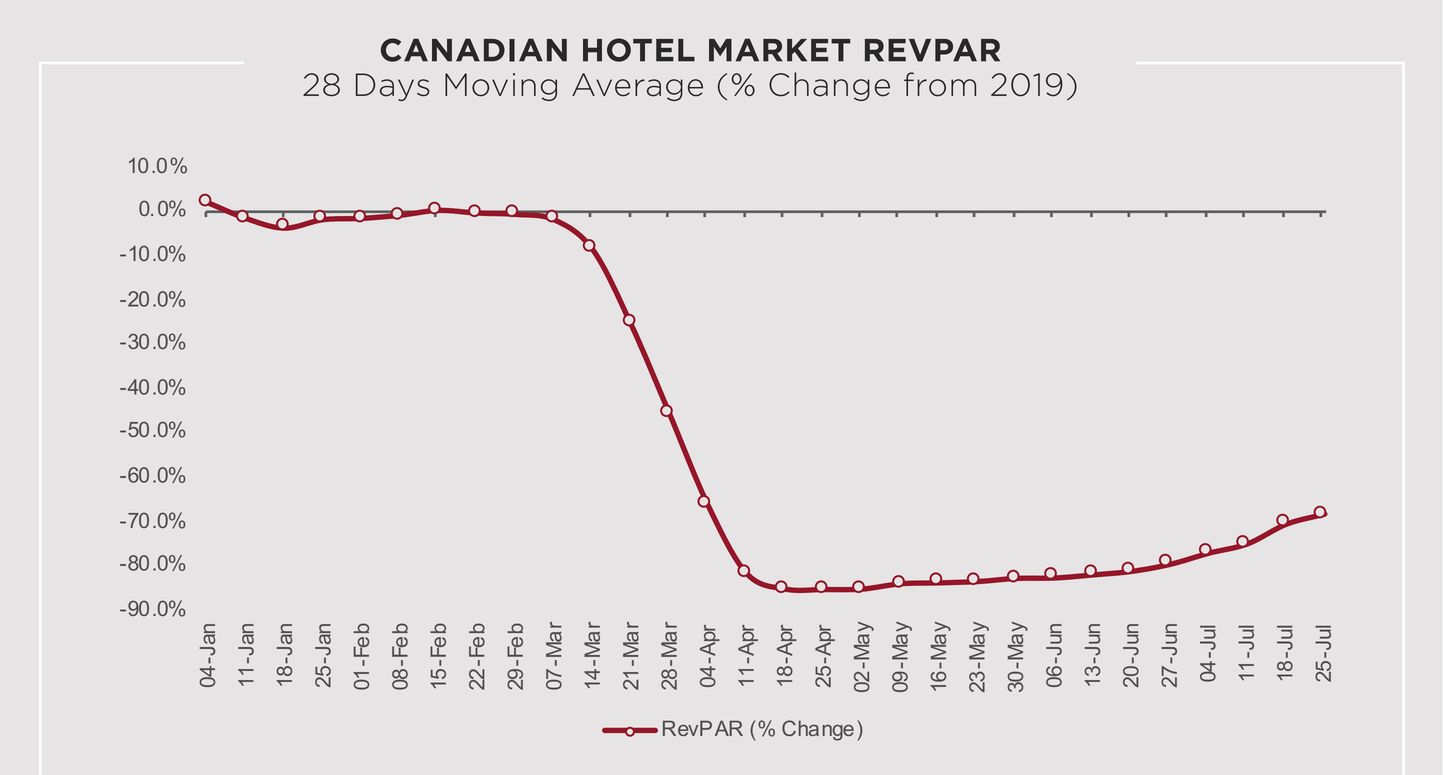
INNSIGHT QUARTERLY
CANADIAN HOTEL
TRANSACTION UPDATE
YTD Q2 2020
INDUSTRY IN CRISIS
PRESERVING CANADA'S
HOSPITALITY INFRASTRUCTURE



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RESORTS SHOW EARLIEST RECOVERY

While corporate travel remains muted, and meeting and conference demand is still almost non-existent, the bright spot in the Canadian hotel industry has been leisure travel. With many international vacation plans cancelled, and following months of lockdown and quarantine measures, many Canadians are anxious to get out of the house and re-discover destinations in their own backyards.

For the week ending July 25TH, resort locations showed the strongest occupancy rates across the country at 53.6%. Leisure demand has also helped increase hotel occupancies across all locations and property types seeing improvement in occupancy on weekends vs. weekdays.

The Thompson/Okanagan region posted the strongest occupancy across the country for the week ending July 25th at 68.1%. This was followed by Ontario North/Thunder Bay at 54.6%, Ontario East at 53.2%, and Quebec South/East and Ontario NC/Sudbury at 51.2% and 50.8%, respectively.

OUTLOOK

With the gradual reopening of offices across the country and the resumption of flight schedules, we do expect to see increased domestic corporate travel in Q3. For groups, we also expect to see some improvement in demand as group limits are increased and smaller events are able to take place. In particular, social gatherings such as weddings that were postponed in Q2 will begin to occur at a reduced size

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Canadian **Hotel**

TRANSACTION UPDATE
YTD Q2 2020

The transaction market began the year in a fairly strong position with trades and volumes similar to 2019 levels.

YTD Q2 2020 TRANSACTION VOLUME BY PROVINCE	# OF HOTELS	ROOMS	PRICE ($M)	% VOLUME	PRICE/ROOM
British Columbia	8	556	$120.40	26%	$231,900
Saskatchewan	1	76	$4.50	1%	$59,200
Alberta	9	767	$38.40	8%	$59,800
Manitoba	-	-	-	-	-
Ontario	23	1600	$264.80	57%	$109,700
Quebec	5	620	$30.40	7%	$120,000
New Brunswick	-	-	-	-	-
Nova Scotia	-	-	-	-	-
Prince Edward Island	1	63	$5.60	1%	$89,500
Newfoundland	-	-	-	-	-
Total	47	3682	$464.20	100%	$80,200

With the arrival of COVID-19 in March, transaction activity came to a halt with a number of listings pulled from the market and several deals under contract either terminated or renegotiated. During April to June, we have seen very limited sales activity and few new listings. In Q2, we recorded only 14 transactions, most of which were smaller assets or sales negotiated pre COVID.

The market is in flux at this time, transitioning from a sellers' to a buyers' market. As in any transitional period, the market will take some time to readjust its pricing expectations. Sellers who were receiving unsolicited offers at high values prior to COVID will need to adjust their pricing expectations in the post COVID period. While there are buyers in the current market – they do expect to buy at a discount to pre COVID levels.

Pricing for better quality assets should remain relatively healthy while those assets in weaker, over supplied markets will feel a greater impact. Good real estate in high barrier to entry markets will always command the highest prices. We expect hotels in markets with strong local economies will maintain their values for the most part.

Expect to see increasing levels of distress sales activity in the second half of 2020 as lenders will act on assets with poor future prospects or weak sponsorship. This type of activity has begun to occur in Q2 and will accelerate through the balance of the year.

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Industry **in Crisis**

PRESERVING CANADA'S HOSPITALITY INFRASTRUCTURE

According to the Cambridge Dictionary, infrastructure is defined as, "the basic structure of an organization or system which is necessary for its operation."

Within a real estate context, infrastructure investment typically includes essential physical assets such as roads, bridges, ports, utilities, etc. The underlying assumption is that these investments are less correlated to economic movements but underlie long term economic prospects and are relatively low risk. Travel and Tourism is a major contributor to the Canadian Economy and is supported by the infrastructure of Canada's Hospitality Industry.

Hotels and Resorts are a necessary component to any city or region that wishes to attract business and leisure travelers to support local businesses and secure tax revenue. Not only do hotels support local economies, they also provide employment for local residents. When COVID-19 struck, the hospitality industry felt the impact immediately, resulting in many property closures and job losses. With no revenues, hotel owners are struggling to pay even basic costs like property taxes and utilities.

All levels of government and hotel lenders have provided support to the industry through wage subsidies, emergency loans, and tax and loan deferrals. Unfortunately, the recovery in the sector now appears to be a longer-term proposition, likely not occurring until the later part of 2021. In the meantime, the modest improvements in business as the economy cautiously reopens will not be sufficient for some hotels to meet their basic operating expenses or debt obligations over the coming year.

For the long-range health of the economy it is important that hotels continue to receive the required governmental and lender support. The hospitality sector is cyclical and the industry has historically demonstrated its ability to recover following prior downturns. As before, industry participants will rise to the challenge and rebuild their businesses. However, given the severity of this downturn, they can't do it alone. The key areas where government needs to continue to support the industry include:

Ensure financial and business strategy support for local DMOs (Destination Marketing Offices) and convention bureaus so they can create bespoke messaging and target a variety of markets while continuing to focus on long lead time convention business.

Extend CEWS (Canada Emergency Wage Subsidy) to provide support during recovery where hotels have significantly higher costs associated with new sanitation requirements yet lower room rates as they cannot rely on higher rated corporate and cross border business.

Develop a property tax strategy since this is one of the highest fixed cost areas for hotels. Most property valuation assessments were set during peak profit periods. There needs to be a re-evaluation of assessment or an option to defer or amortize property tax payments over several years.

The Federal government will need to act as a backstop to lenders and ensure they act reasonably as repayment structures are set for deferred principal and interest on hotel loans.

Through this pandemic all businesses are suffering. However, the hotel (and restaurant!) industry have suffered significantly. The road to recovery will be long and the owners, operators, employees and multitude of suppliers within this industry need continuous support to stay solvent.

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