

INNSIGHT

Quarterly Q1 2021

GLOBAL HOSPITALITY CANADA

CUSHMAN & WAKEFIELD

Hotel Performance Update

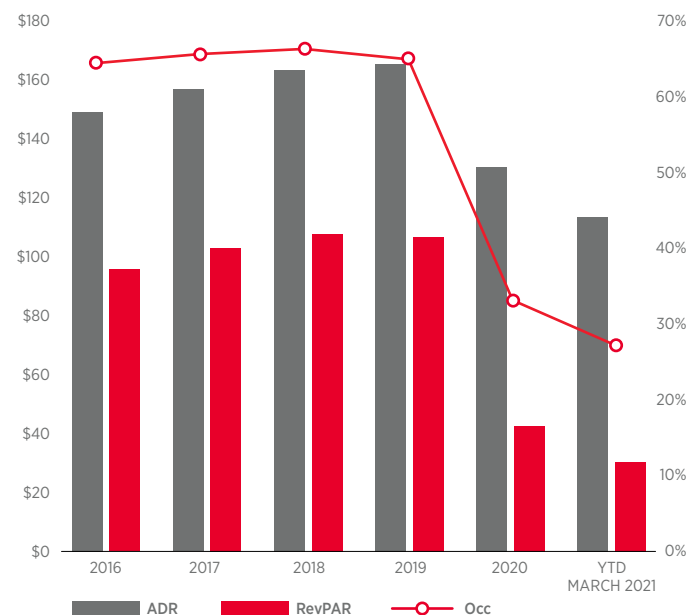
Q1 PERFORMANCE IMPACTED BY SECOND WAVE

Following a tumultuous 2020, many were hoping for a swift recovery with the onset of the vaccine rollout in 2021. However, as the country was impacted by a second wave of COVID-19 in early 2021, hotel performance continued to suffer. The resurgence of the virus, combined with the seasonality of demand in Canada, has resulted in a further decline in hotel performance across the country into the first quarter of 2021.

In a year-over-year comparison through March 2021, the Canadian market recorded an occupancy decline of 41.1% and an ADR drop of 23.1%, resulting in an overall RevPAR decrease of 54.7%. This decline is a slight improvement of the overall occupancy decline seen in calendar year 2020 (-49.2%); however, ADR has shown a bigger drop in the first three months of 2021 compared with the full year of 2020 (-21.0%).

Source: STR. Republication or Other Re-Use of this Data Without the Express Written Permission of STR is Strictly Prohibited.

CANADA MARKET HISTORICAL ROOMS PERFORMANCE



HOTEL CAP RATES ACROSS CANADIAN MARKETS

| | VICTORIA | | VANCOUVER | | CALGARY | | EDMONTON | | WINNIPEG | |
|--------------------------|----------|-------|-----------|-------|---------|--------|----------|--------|----------|--------|
| | RANGE | | RANGE | | RANGE | | RANGE | | RANGE | |
| Full-Service Downtown | 6.25% | 7.50% | 5.00% | 6.50% | 7.00% | 8.50% | 7.50% | 9.00% | 8.00% | 9.50% |
| Select-Service | 7.25% | 8.50% | 6.00% | 8.00% | 7.50% | 9.50% | 8.00% | 9.50% | 8.00% | 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% | 5.00% | 6.50% | 7.00% | 8.50% | 7.00% | 8.50% | 7.50% | 9.00% |
| Select-Service | 7.50% | 9.50% | 6.25% | 7.50% | 7.50% | 9.00% | 7.50% | 9.00% | 8.00% | 10.00% |
| Limited-Service Suburban | 8.00% | 10.00% | 6.75% | 8.00% | 8.00% | 10.00% | 8.00% | 10.00% | 9.00% | 10.50% |

HOTEL PERFORMANCE
UPDATE

NEW SUPPLY
DECLINES

THE AIRLINE INDUSTRY AND
AIRPORT HOTEL MARKETS

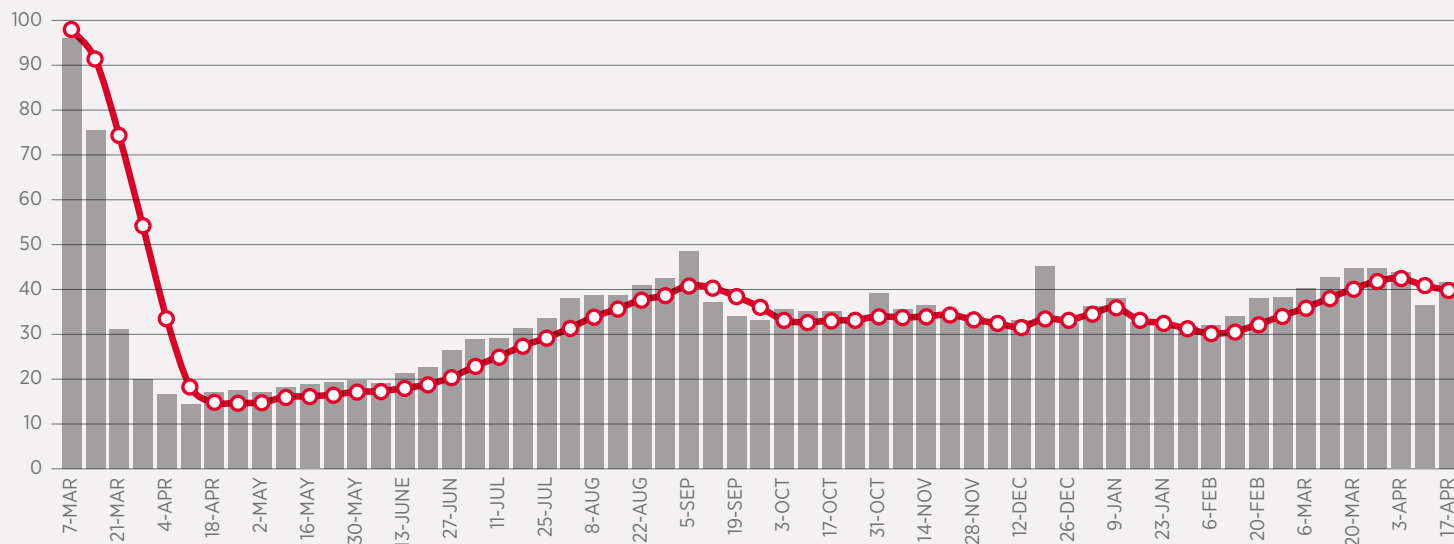
CANADIAN HOTEL
TRANSACTION UPDATE

Hotel Performance Update



CANADA MARKET RECOVERY MONITOR- Weekly RevPAR Index

Since the earliest COVID-19 impact



March 2020 through February 2021 results are indexed with the same time period in prior respective years. March and April 2021 results are indexed with the same time period in 2019.

Source: STR. | Standard Methodology | Reproduction or Other Re-Use of this Data Without the Express Written Permission of STR is Strictly Prohibited.

SLOW VACCINE ROLLOUT AND SHUTDOWNS IMPACT Q1 RESULTS

The trends of the fourth quarter of 2020 have continued into Q1 2021, with a continued lack of corporate and group travel during a period which typically produces limited leisure travel. As a result, it is unsurprising that hotel performance has declined in January through March of this year. Major markets continue to be the most impacted, while secondary and tertiary markets are able to capture some demand from essential work, crews, and construction.

For the week ending April 17th, airport locations showed the strongest occupancy across the country at 39.1%. The implementation of a mandatory hotel quarantine period for air travelers has provided a much-needed source of demand for airport markets and provided a boost for these hotels. The Toronto Airport/West market posted an occupancy rate of 54.1% for this week, followed by 44.3% in Montreal Airport, and 39.7% in Vancouver Airport.

Outside of the airport markets, Abbotsford/Chilliwack posted the strongest occupancy across the country for the week ending April 17th at 56.2%. This was followed by Vancouver South/Surrey at 43.1%, Ontario North/Thunder Bay at 38.7%, and Vancouver North and Victoria at 38.5% and 35.5%, respectively.

OUTLOOK

While 2021 is off to a slow start, there is much optimism for the rest of the year. As vaccinations ramp up across the country, many municipalities are eager to attract summer visitors and begin planning for future events, festivals, and conventions. Discussions with hoteliers indicate that the booking pace for the summer is ramping up. Resorts in particular are seeing very strong advance bookings and some are sold out for the summer- at significantly higher rates. The second half of 2021 is expected to begin to mark the beginning of a strong recovery in the Canadian accommodation sector.

New Supply Declines

PROJECTS DEFERRED & ABANDONED

As of March 2021, STR reported a national pipeline of 276 projects and 31,352 rooms. Both metrics are lower than 305 projects and 34,704 rooms reported in the pipeline before the pandemic (as of March 2020).

Over the past 12 months, the number of rooms has declined for two of the three pipeline phases: final

planning (-12%) and planning (-17%). The number of rooms in the construction phase is up by 7%. In the current environment, developers are encountering greater market uncertainty, reduced availability of financing, and higher financing and construction costs. Projects not yet under construction are more likely to be challenged.

DEFERRED AND ABANDONED PIPELINE - Q2 2020 TO Q1 2021

| NEW PHASE | TYPE | Q2 2020 | Q3 2020 | Q4 2020 | Q1 2021 | TOTAL |
|-----------|----------|---------|---------|---------|---------|-------|
| Deferred | Projects | 4 | 7 | 3 | 4 | 18 |
| | Rooms | 464 | 1,286 | 557 | 384 | 2,691 |
| Abandoned | Projects | 1 | 10 | 3 | 3 | 17 |
| | Rooms | 110 | 1,105 | 266 | 343 | 1,824 |

Source: STR

As illustrated above, 35 projects and 4,515 rooms have been deferred or abandoned since the onset of the pandemic. Nearly 40% of these rooms were planned for Niagara Falls or the Greater Toronto Area. Figures

shown exclude 6 projects, totaling 827 rooms, that are now in planning or under construction. As the pandemic continues, we believe there are additional deferred and abandoned projects not reported to STR.

The Airline Industry and Airport Hotel Markets



The International Air Transport Association (IATA), which represents some 290 airlines, reports global air travel (measured in revenue passenger kilometers) down by 70% in 2020.

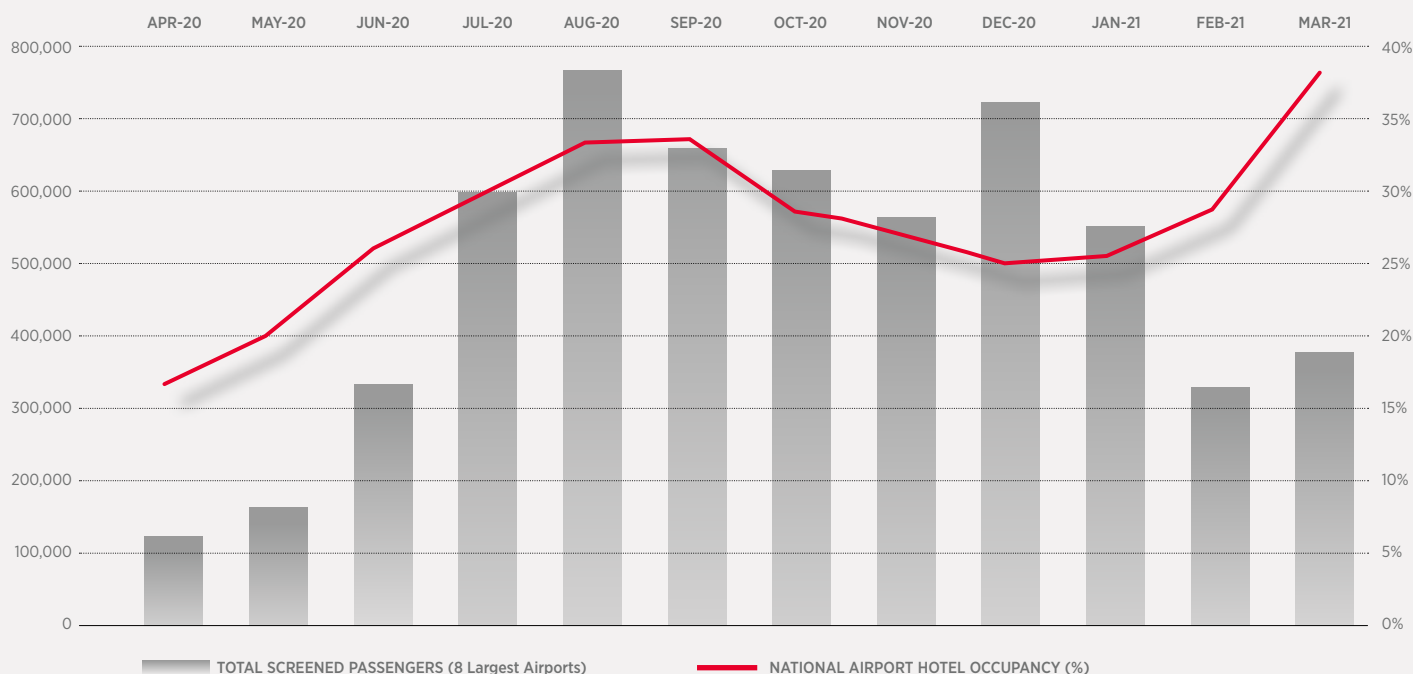
Air Canada reported a 73% passenger decline and a 67% capacity decline in 2020. In Q1 2021, it operated at about 17% capacity as compared to Q1 2020. Meanwhile, WestJet is operating at about 20% of pre-pandemic capacity.

Since March 2020, international commercial passenger flights have been generally restricted to Canada's four main airports: Vancouver, Calgary, Toronto Pearson, and

Montreal Trudeau. Canadian air travel and quarantine restrictions currently include foreign national travel bans, 14-day quarantine requirements, interprovincial restrictions, mandatory COVID-19 PCR testing, and 3-night hotel stay requirements.

The mandatory stay helped increase the average occupancy of hotels operating at Canada's four main airport markets to 45% in March. The requirement boosted the national airport hotel occupancy to 38% in March – the highest level since the start of the pandemic (see below).

MANDATORY 3-NIGHT STOPOVER BOOSTS AIRPORT HOTEL OCCUPANCY



Source: CATSA, STR. Compiled by Cushman & Wakefield ULC.

IATA predicts airline industry recovery to start later in 2021, driven by domestic travel. International air travel recovery is expected to lag due to vaccination delays and travel restrictions. IATA points to substantial pent-

up demand and disposable income but expects demand to grow by only 21% in 2021. Both Air Canada and IATA expect air travel to return to 2019 levels in three years – 2024.

Canadian Hotel Transaction Update

We observed very limited market activity in Q1, recording just 37 sales with a total volume of \$250M. This includes 11 hotels sales for alternative uses with a total value of \$196M, of which \$137M was in Vancouver alone. Traditional hotel sales volume was just \$83.0M based on 22 sales. The majority of these properties were smaller, independent properties in secondary markets.

The Canadian hotel industry continues to see strong support for the various levels of government lending stability to the market. At the same time, there are several transactions underway and activity is expected to increase in Q2 with a growing number of offerings in the market through brokers or on a direct basis.

Below is a cross section of sales from Q1

| FOUR POINTS EDMONTON EDMONTON SOUTH | THE PATRICIA HOTEL VANCOUVER | RIVERBEND INN & VINEYARD NIAGARA-ON-THE-LAKE | RED ROOF PLUS CALGARY AIRPORT |
|--|---|--|---|
|  |  |  |  |
| SOLD: March 2021 | SOLD: March 2021 | SOLD: February 2021 | SOLD: January 2021 |
| \$9,000,000 | \$63,800,000 | \$10,000,000 | \$5,500,000 |
| 139 Rooms | 195 Rooms | 21 Rooms | 150 Rooms |
| \$64,700 per room | \$327,200 per room | \$476,190 per room | \$36,700 per room |
| Property sold subject to brand mandated property improvement plan by Marriott. | Property sold for conversion to social housing. | Included 12-acre vineyard. | Sold by power of sale and was partially renovated at time of sale. |

VALUATION

Since COVID-19 arrived in March 2020, reliance was placed on Discounted Cash Flow as the primary valuation tool for hotels. This method has the benefit of quantifying the impact on value due to lower Cash Flows, timing of the recovery, deferrals, etc. It also allows for the longer-term nature of the investment.

With no in place income for most hotels and very little transaction activity, hotel valuation was challenging with a wide range of opinions on the discounts that might apply. Through our modelling the discounts from 2019 values were

estimated in the 10% to 25% range, although opinions ranged from 0% to 40%.

In Q1, a number of assets came to market and will close in Q2. The pricing indicates that values are below pre-pandemic levels but discounts are modest. Potential buyers are not seeing the types of discounts that were expected and in some cases properties are being offered at pre-academic pricing.

We do expect the see an increase in transaction activity though the balance of 2021 with heightened investor interest, more strategic dispositions, and potentially more lender driven activity in some areas.

VALUATION & ADVISORY

BRIAN FLOOD, AACI P.App., MRICS
Vice President, Practice Leader
+1 416 359-2387
brian.flood@cushwake.com

CINDY SCHOENAUER, AACI P.App., RI
Vice President
+1 604 340 9141
cindy.schoenauer@cushwake.com

CAPITAL MARKETS

CURTIS GALLAGHER*
Head of Hospitality | Principal Broker
Structured Finance
FSRA Lic. 13239
+1 416 359 2567
curtis.gallagher@cushwake.com



Cushman & Wakefield ULC
161 Bay Street, Suite 1500
Toronto, Ontario M5J 2S1