

# INNSIGHT

## Quarterly Q3 2021

GLOBAL HOSPITALITY CANADA

## Transaction Update



**CUSHMAN & WAKEFIELD**

### NOTABLE TRANSACTIONS IN Q3 2021

**A**fter several months of slow activity in hotel transactions, there has been a noticeable increase in market activity in the second and third quarters of 2021. While acquisitions for alternate uses have increased, sales of traditional hotels have also increased. Capital has been available for acquisitions for some time but, until recently, there was limited inventory available. This was partially due to the market needing time to adjust to the post COVID environment. As COVID has lingered for almost two years, seller motivation is stronger with some smaller long owners leaving the industry while larger groups make strategic decisions, exiting certain markets or non-core assets. Below are representative sales which have closed recently:

STONEBRIDGE GRANDE PRAIRIE, ALBERTA	QUBE/KING BLUE HOTEL TORONTO, ONTARIO	BEST WESTERN PLUS LAMPLIGHTER INN & CONFERENCE CENTRE	BEST WESTERN PLUS INNER HARBOUR VICTORIA, BRITISH COLUMBIA
			
<b>SOLD: July 2021</b> <b>\$12,500,000</b>	<b>SOLD: September 2021</b> <b>\$74,000,000</b>	<b>SOLD: August 2021</b> <b>\$18,650,000</b>	<b>SOLD: September 2021</b> <b>\$36,100,000</b>
125 Rooms \$100,000 per room Property sold for conversion to social housing.	115 Rooms \$643,500 per room Hotel is situated within the seven-storey tower of the King Blue Condominium Complex.	172 Rooms \$108,400 per room Well established full-service hotel with extensive meeting and recreational facilities.	74 Rooms \$487,800 per room Non-arms transaction. Sold between partners. All-suite property and newly renovated.
1. City of Grande Prairie has acquired the 125-room Stonebridge in Grand Prairie from Pomeroy Lodging GP Ltd. for a reported \$12.5 million (\$100,000 per room), in addition to \$3 million for renovations. The existing hotel will be converted into permanent supportive housing hub with an estimated 120 units.	2. Northland Properties has acquired the 115-room Qube/ King Blue Hotel from Greenland Group for a reported \$74 million (\$643,500 per room). Construction of the boutique, upscale property is in the final stages and opened in October 2021.		

Notwithstanding the impact of COVID-19, pricing has been surprisingly strong overall. The impact of weaker results due to COVID has been largely negated by strong investor demand for better quality assets in good markets. We are aware of several significant transactions currently underway which will provide further guidance on pricing. We expect traditional hotel transactions to continue to gain momentum to the end of 2021 and into early 2022.

CANADIAN HOTEL  
PERFORMANCE  
UPDATE

CANADIAN HOTEL  
PERFORMANCE  
UPDATE cont.

ALBERTA HOTEL  
MARKET RECOVERY  
MONITOR

ALBERTA HOTEL  
MARKET RECOVERY  
MONITOR cont.

ALTERNATE USE  
INCREASES,  
IMPACTING  
SUPPLY

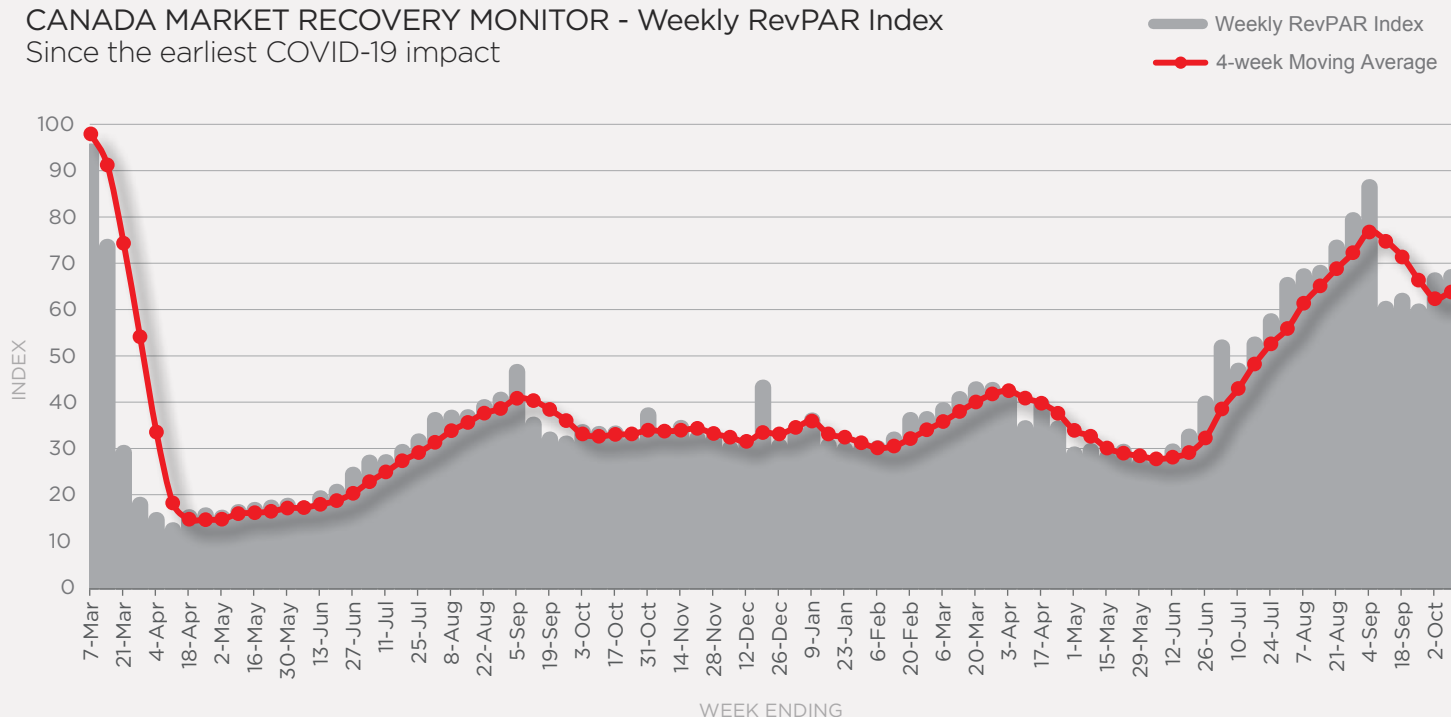
# Canada Hotel Performance Update



Following a slow start to the year, markets are showing stronger signs of recovery through to the end of Q3. With the loosening of restrictions and uptick in vaccination rates across the country, hotel performance during the summer months returned to a near 90% index in August as compared to the same period in 2019.

The following chart shows rolling national RevPAR performance indexed to the previous year, as well as the 4-week moving RevPAR average. As can be seen, results have begun to increase significantly since May with very strong performance through to the end of the summer.

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 through YTD October 2021 results are indexed with the same time period in 2019.

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

## SUMMER PERFORMANCE BOOSTED BY LEISURE TRAVEL

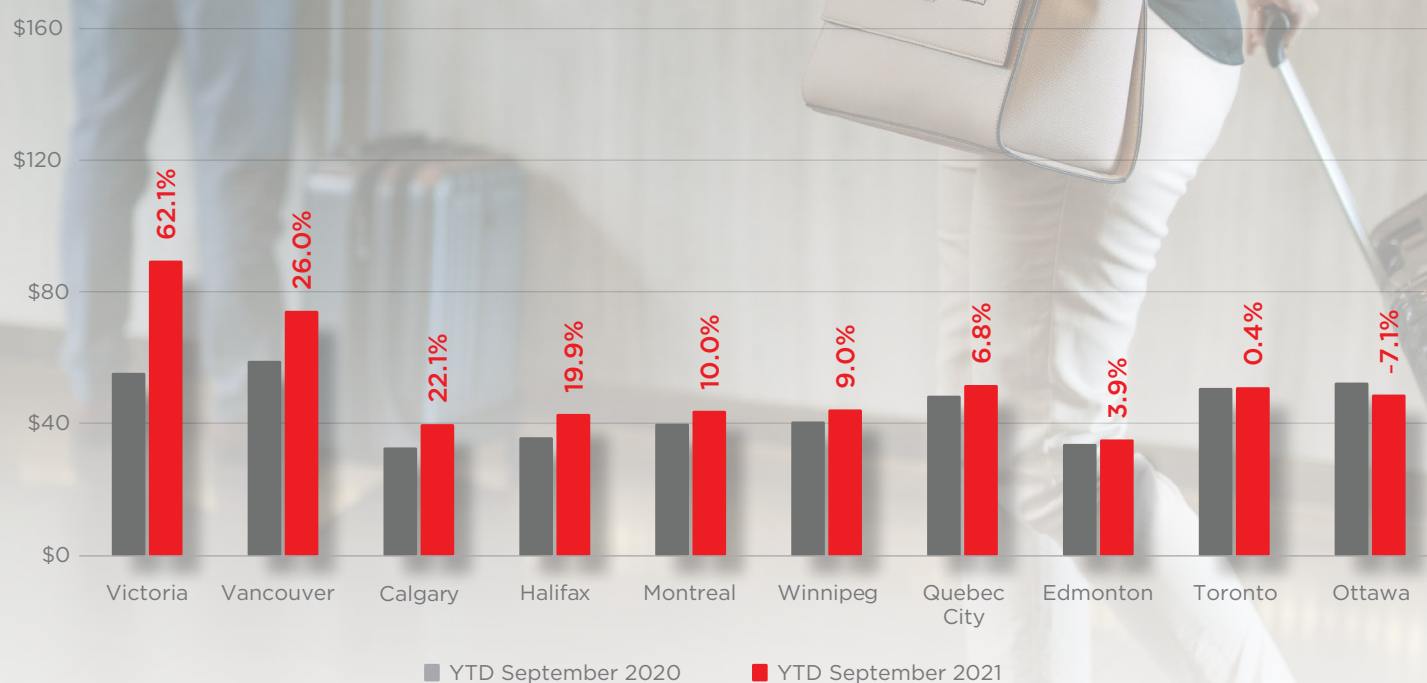
We saw a travel boom during the summer months as Canadians once again chose to explore their own country and travel locally. With strong vaccination rates and loosening restrictions, summer performance increased sharply this year, before tapering off slightly in the first week of September when school started. In addition, the Canadian border opened to fully vaccinated U.S. travelers in late July, while fully vaccinated travelers arriving by plane from overseas continued to be admitted.

For the week ending October 9th, occupancy was strongest in Abbotsford/Chilliwack with an occupancy of 76.1% followed by London (74.9%) and Ontario NorthCentral/Sudbury (74.0%). Vancouver North, Vancouver South/Surrey, Halifax, Quebec South/East, and Ontario North/Thunder Bay also all recorded occupancy in the mid to high 60% range. Only a few markets in Alberta and Saskatchewan recorded a weekly occupancy below 50% as these areas continue to struggle with a fourth wave of COVID-19.



Canada's major cities, which saw the most significant declines during the pandemic, almost all showed RevPAR growth in the year-to-date September period, with Victoria showing growth of 62.1% over 2020 and Vancouver growth of 26.0%. Toronto and Ottawa lag behind, showing 0.4% growth and a 7.1% decline, respectively. Both of these markets saw occupancy improve in the year-to-date period, but persistent declines in ADR dragged down RevPAR results.

## TOP 10 CANADIAN MARKETS REVPAR PERCENT CHANGE - YTD SEPTEMBER 2021



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## OUTLOOK

It is beginning to seem as though the Canadian hotel market may finally be emerging from the struggles brought on by the pandemic, with much optimism for the future. While the winter period will surely experience some fluctuations in demand and in many markets will still be below normal levels, recovery expectations are strong for 2022.

*A review of preliminary 2022 budgets indicates a high level of confidence for significantly improved performance in 2022 based on advance booking and positive economic outlook.*

# Alberta Market Recovery Monitor



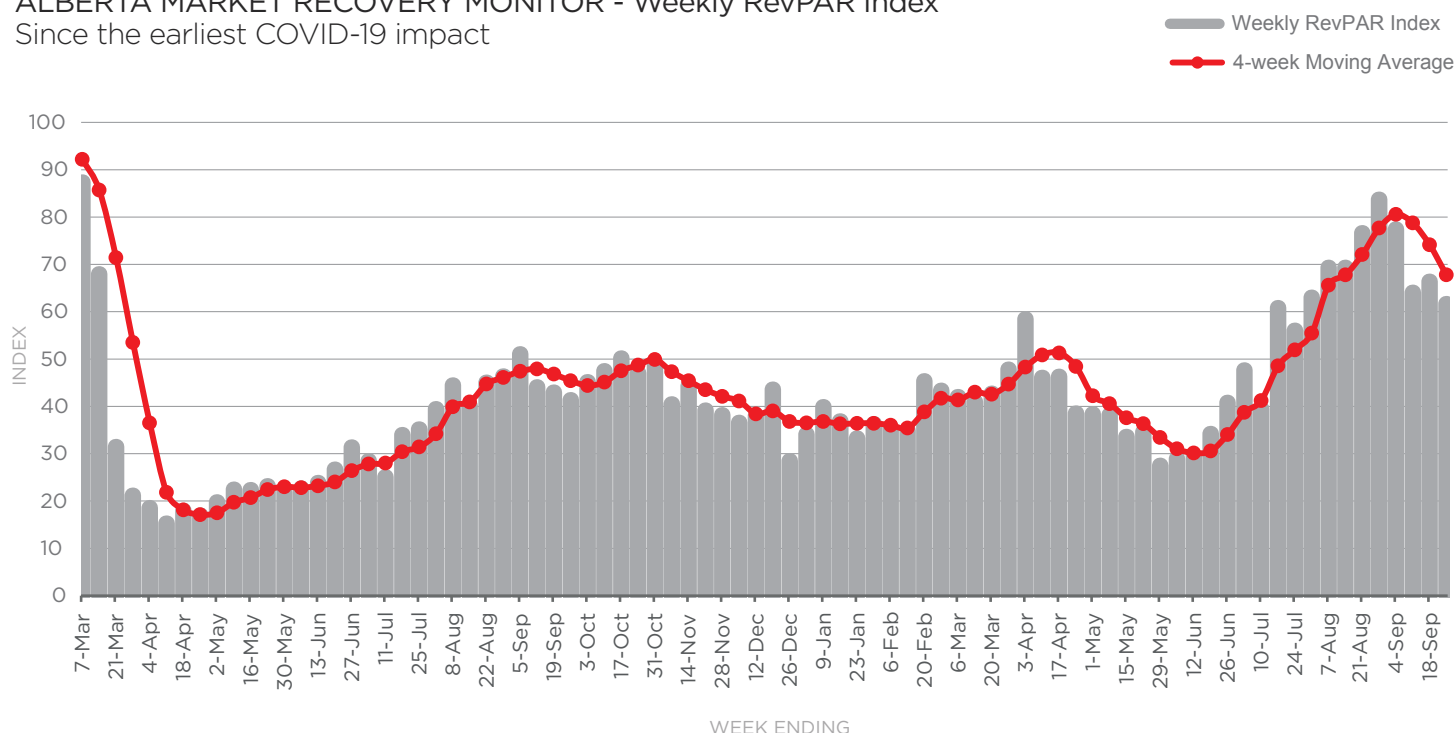
Following the collapse of oil prices in 2014, the Alberta Hotel Market suffered through several years of weak results. COVID-19 worsened the situation particularly for those hotels in urban areas which rely on group and corporate travel, as well as U.S. and International demand. In 2020, Alberta saw their lowest occupancy ever, resulting in hotel closures, job losses and receiverships.

Weekly RevPAR performance has improved significantly, beginning in June 2021 with the relaxation of mask

mandates and social distancing measures, as well as the Calgary Stampede which attracted almost 50% of its 2019 attendance levels. Alberta hotels benefitted from a strong pick up in demand levels over the summer months which was supported by seasonality of demand. The following chart shows weekly RevPAR performance beginning March 7, 2020 to October 9, 2021

## ALBERTA 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 through YTD October 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.

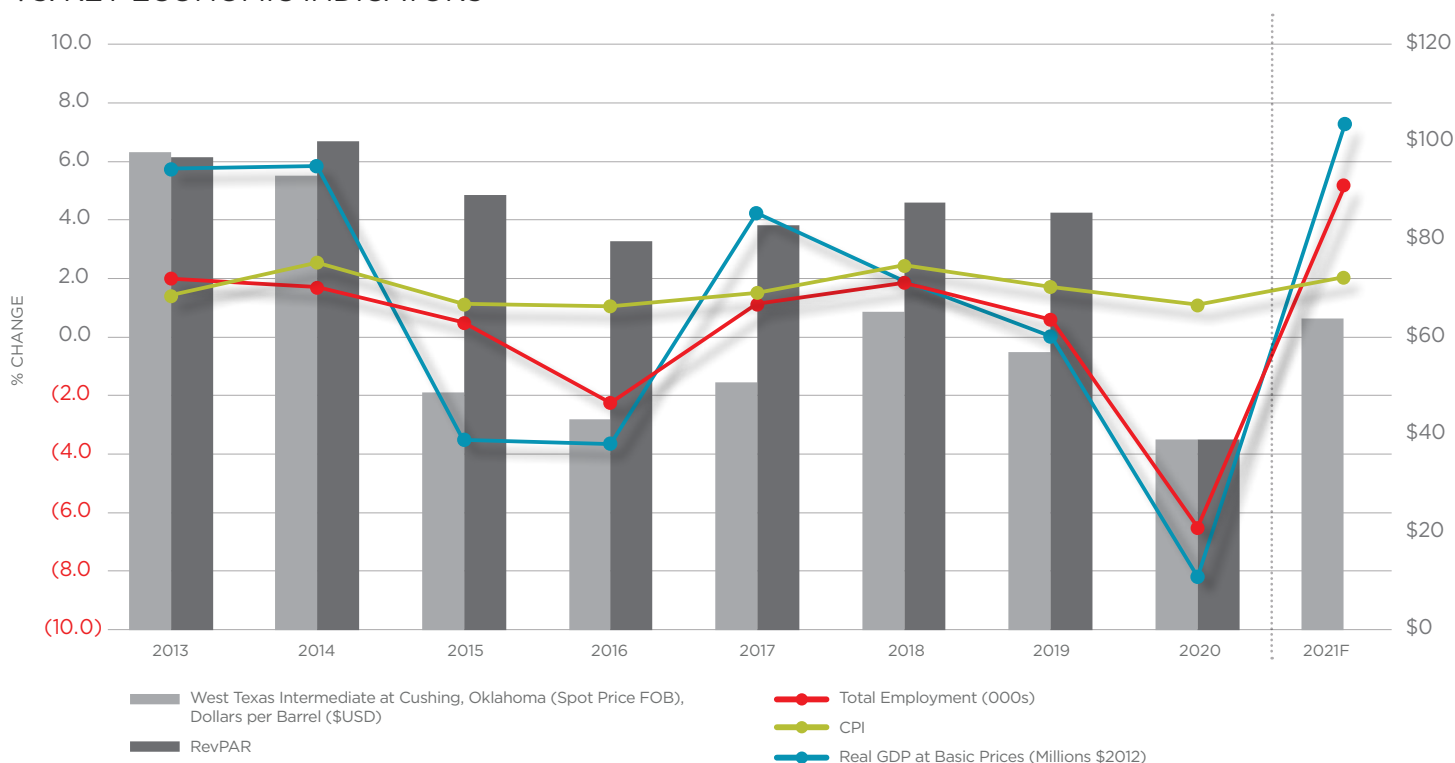




Alberta has been historically been a cyclical market, tied to the health of the Provincial economy which is dependent on the success of the oil and gas sector and pricing of this resource. The following chart shows the

correlation of WTI price of Oil, Alberta Hotel RevPAR, Real GDP at Basic Prices, Total Employment and CPI over the historic 2013 to 2020 period, as well as a forecast for 2021.

## ALBERTA HOTEL REVENUE PER AVAILABLE ROOM (RevPAR) VS. KEY ECONOMIC INDICATORS



The forecast for 2021+ assumes WTI prices will be supported by OPEC+'s commitment to restrain supply and a stronger global economy. However, the recovery in global demand could be challenged by new COVID variants.

Source: U.S. Energy Information Administration; The Conference Board of Canada; Statistics Canada

As of October 2021, the sudden rise in demand for oil and the increases in oil prices will assist the market recovery in the near term. We do expect downtown Calgary and Edmonton to see a more prolonged recovery due to its key demand generators and the impact of new supply.

Smaller markets, as well as some Calgary and Edmonton sub-markets are anticipated to see recovery that will outpace the Province in the short to mid-term due to reasonable supply levels, economic expansion, major projects in the area, tourism demand, etc.



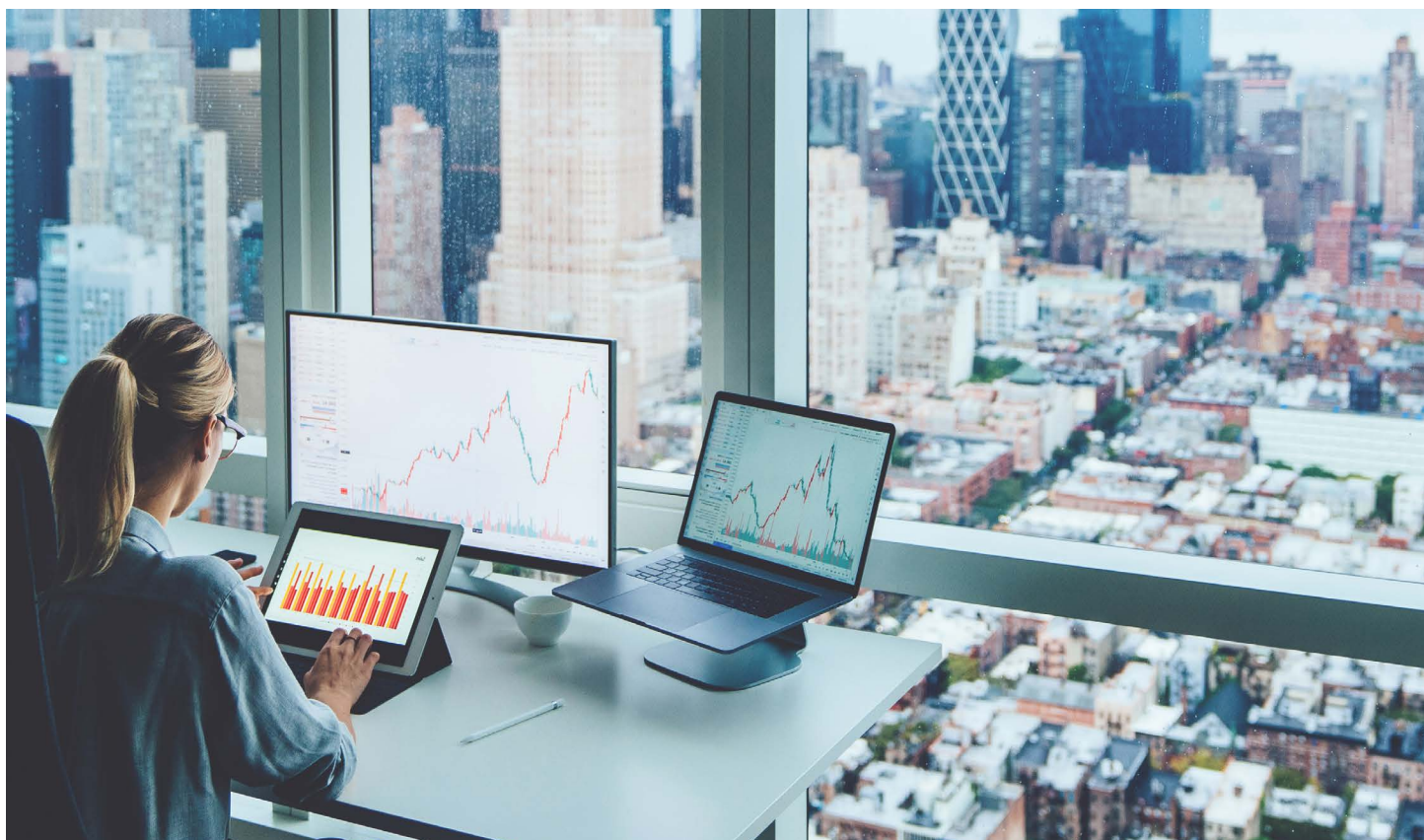
# Alternate Use **Increases** Impacting Supply

**P**rior to COVID-19, rising property values saw an increasing number of hotels acquired for conversion to alternate uses. With COVID, the pace of acquisitions increased in late 2020 and into 2021 as the need for social housing grew and as government funds became available.

Cushman has monitored these changes and tracked sales of 46 hotels across the country with a total of 3,900 rooms sold between January 2020 and September 2021. Acquisitions for alternate use often involved assets in central or urban locations which were nearing the end of their economic life. In the vast majority of cases, at an average sale price of \$225,000

per room, pricing was significantly above the value based on continued operation as a hotel. This loss of rooms accounts for a small amount of the overall inventory in Canada but we expect it will impact certain markets more heavily.

With continued stress on the hotel sector during the recovery and the challenges many older hotels face, we anticipate the rate of conversions will remain high going into 2022. Well located properties which lend themselves to other uses will be sought after.



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