INNSIGHT
Quarterly Q2 2022
GLOBAL HOSPITALITY CANADA

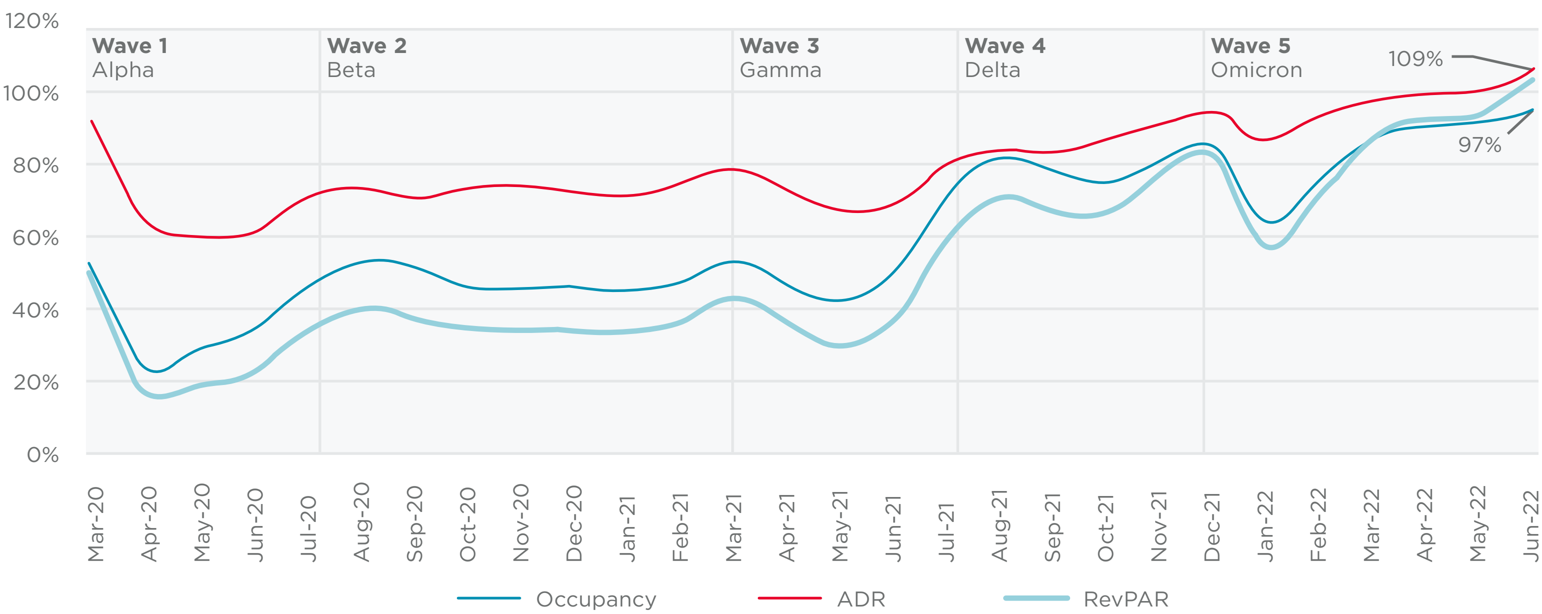
Market Recovery

Q2 2022 has seen a strong recovery in the hotel sector. While occupancy continues to improve nearer 2019 levels, the strength of ADR growth has surprised many – particularly during periods of relatively concentrated demand. Hotel performance across Canada reached 100% index in mid-June, and for the weeks ending June 18th through July 9th, RevPAR actually surpassed 2019 levels.

Several factors such as the current wave of COVID, travel infrastructure and capacity issues and increased gas prices, may result in a slight slowdown in demand growth. However, it is expected that with the absence of widespread restrictions and lockdowns, that hotel sector should continue to see improvements throughout the remainder of 2022 as group and corporate demand continue to rebuild. Overall, the hotel market is still on track for a strong recovery in 2022 with performance in most markets expected to recover or surpass 2019 performance in the next 1-2 years.

The following chart shows occupancy, ADR and RevPAR performance over the various COVID waves, as identified by Destination Canada. Performance began to increase swiftly in June 2021, and despite a decline in early 2022 due to the Omicron-variant, there has been continued growth throughout 2022.

Key Hotel Performance Metrics (relative to same month in 2019)
National ADR exceeds 2019 levels for fourth consecutive month



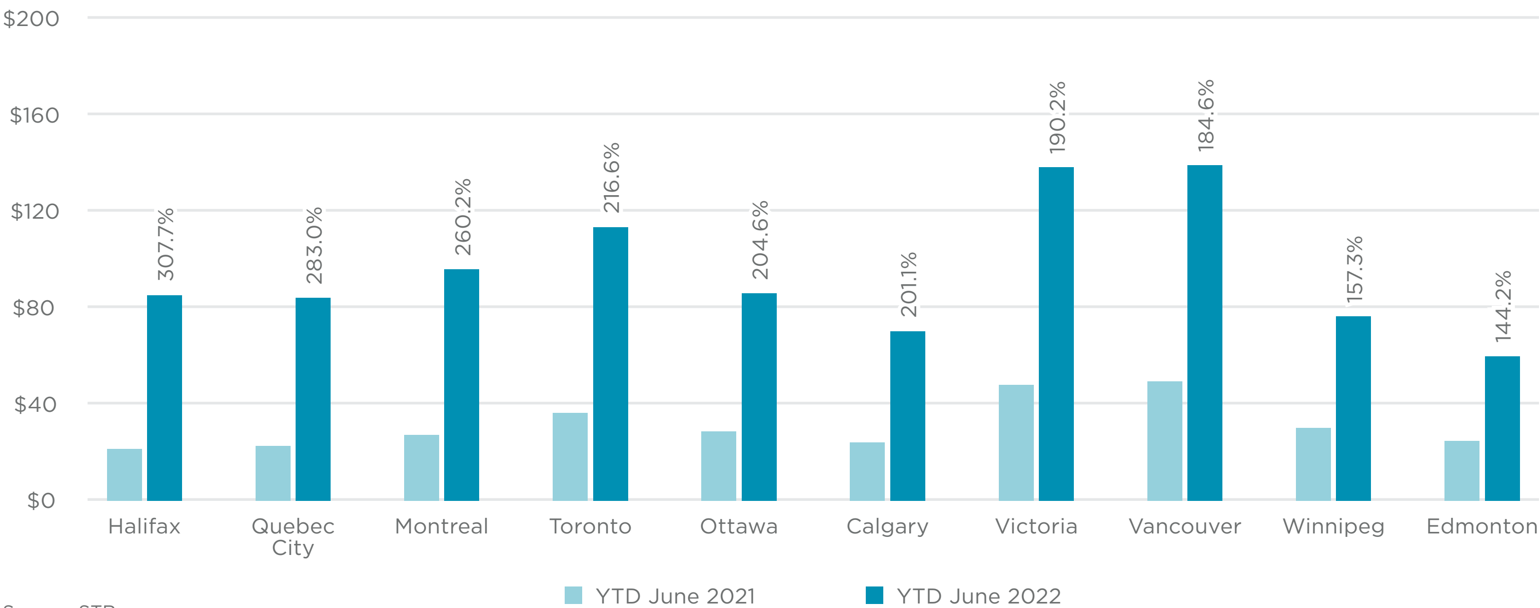
Source: STR; Destination Canada
Compiled by Cushman & Wakefield ULC.

Leisure markets continue to lead the country in RevPAR growth

In Q2 2022, we saw triple-digit RevPAR growth in all of the top 10 markets, with many downtown and leisure destinations seeing the strongest growth. Strong levels of leisure travel throughout the early summer months have driven RevPAR growth above 140% in the top 3 markets. As many Canadians become more confident with travel, they are looking to catch up on much delayed gatherings and vacations. This has fueled a surge in domestic travel, which has remained strong into Q2.

Transborder and international travel has also increased over the last few months; however, continued issues at many major Canadian airports and reduced flight schedules have impacted inbound foreign travel. Recent weeks have also seen increased corporate travel, while there has been stronger demand for small to medium sized meetings and events. While some larger conventions, conferences, and events have taken place in Q1 and Q2, hotels have reported seeing stronger demand for these types of large-scale events later in 2022 and into 2023.

Major Canadian Markets, RevPAR Percent Change - YTD June 2022



Source: STR

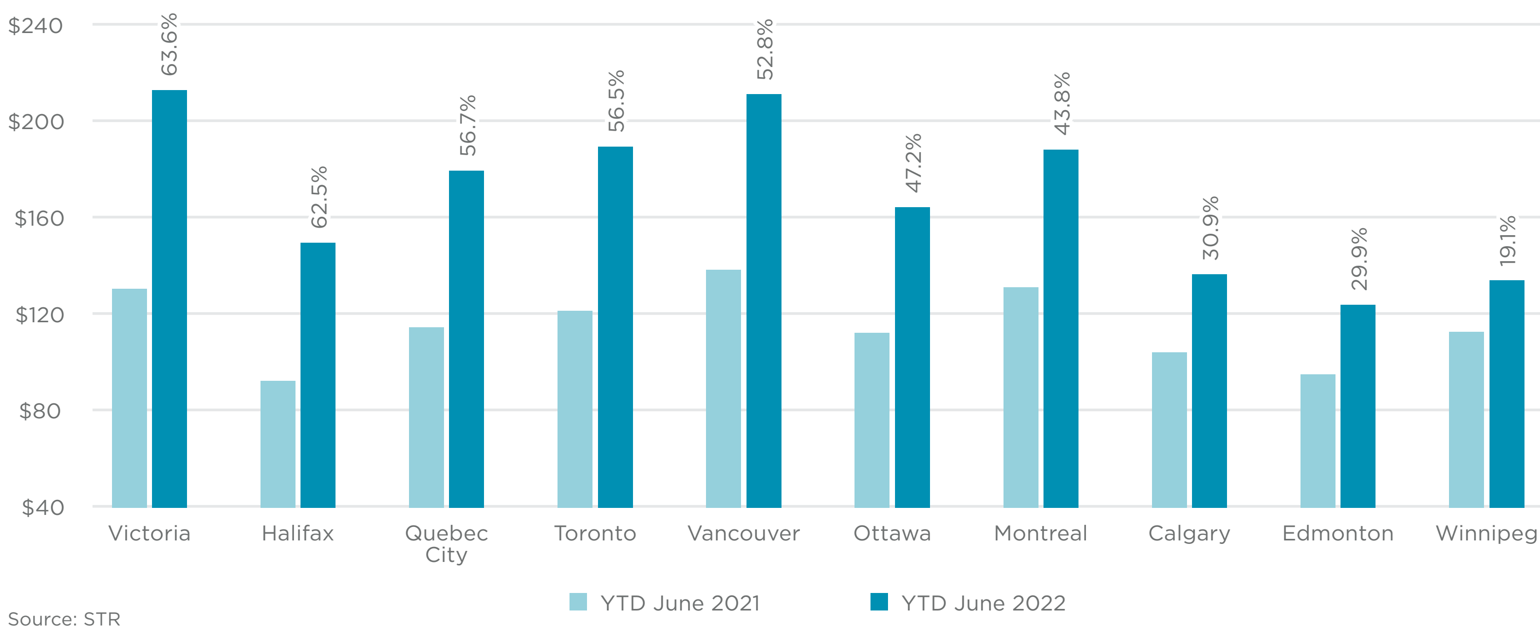
Major Cities See Recovery

Canada's major cities all showed significant RevPAR growth in the first half of 2022. The strongest growth was seen in Halifax at 307.7%, followed closely by Quebec City and Montreal at 283.0% and 260.2%, respectively. These three markets are popular leisure destinations and have been attracting both domestic and international vacationers. Montreal also had a very strong June with numerous conferences and events including the F1 Montreal Grand Prix and Lions Club International Convention. Toronto, Ottawa, Calgary, and Victoria are in the mid-range of growth between 190% growth (Victoria) and 217% growth (Toronto). The markets with the softest growth, although still notable, are Vancouver, Winnipeg, and Edmonton at 184.6%, 157.3%, and 144.2%, respectively.

ADR Recovery

Throughout the pandemic, ADR performance consistently remained stronger than occupancy, showing less significant declines and a quicker recovery. Through the first half of 2022, many major markets have shown remarkable rates of ADR growth as improvements in demand have allowed hoteliers to drive record rate growth.

Major Canadian Markets, ADR Percent Change - YTD June 2022

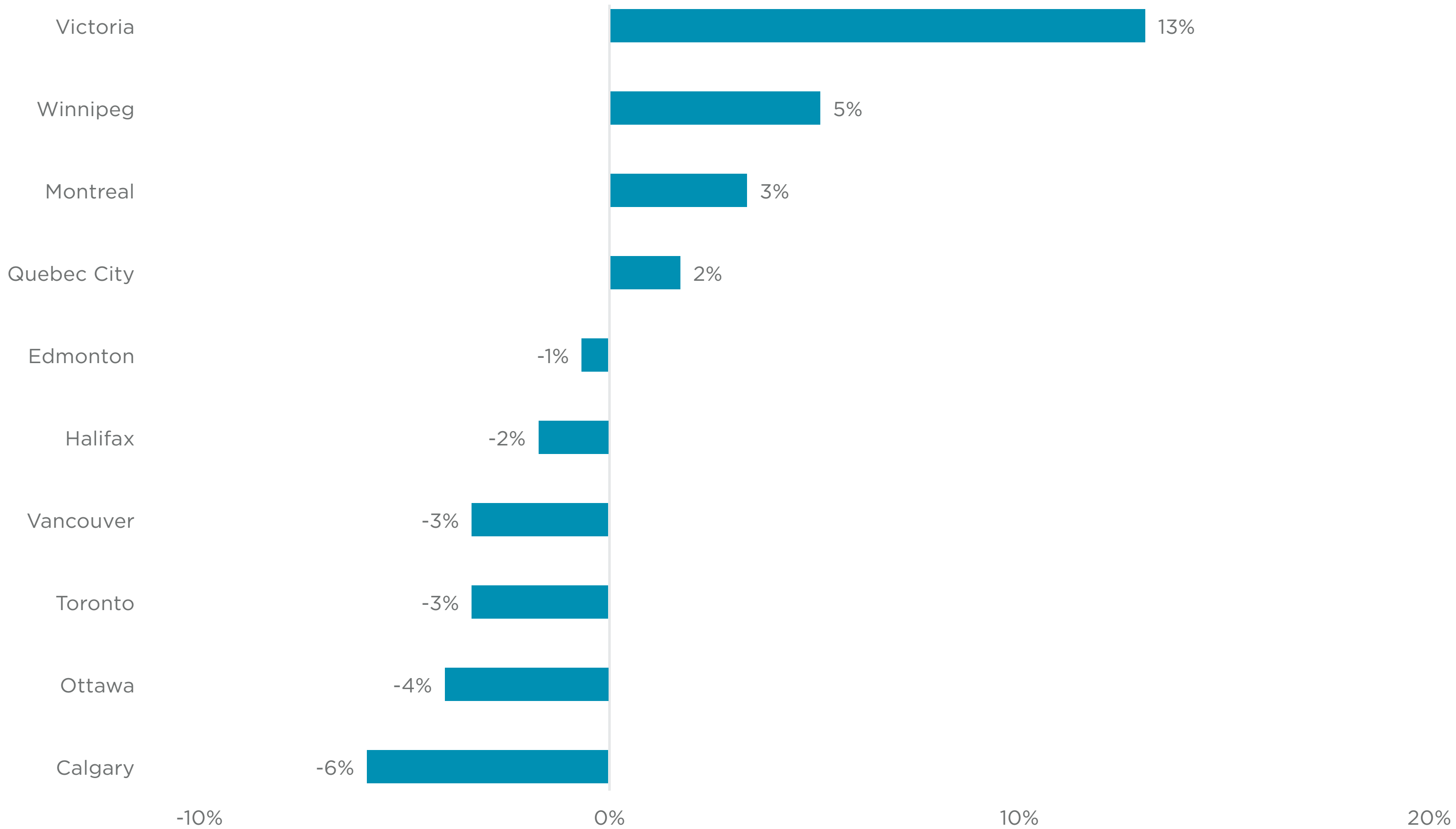


Source: STR

01 Canada Hotel Performance **Update**

In the YTD June 2022 period, 4 of the 10 major markets have seen ADR reach and surpass full-year 2019 ADR. With 6 months left in the year, including the typically strong months of July, August, and September, it is expected that more markets will reach this milestone in Q3.

Major Canadian Markets, ADR % Change - YTD June 2022 compared with Full Year 2019



Source: STR

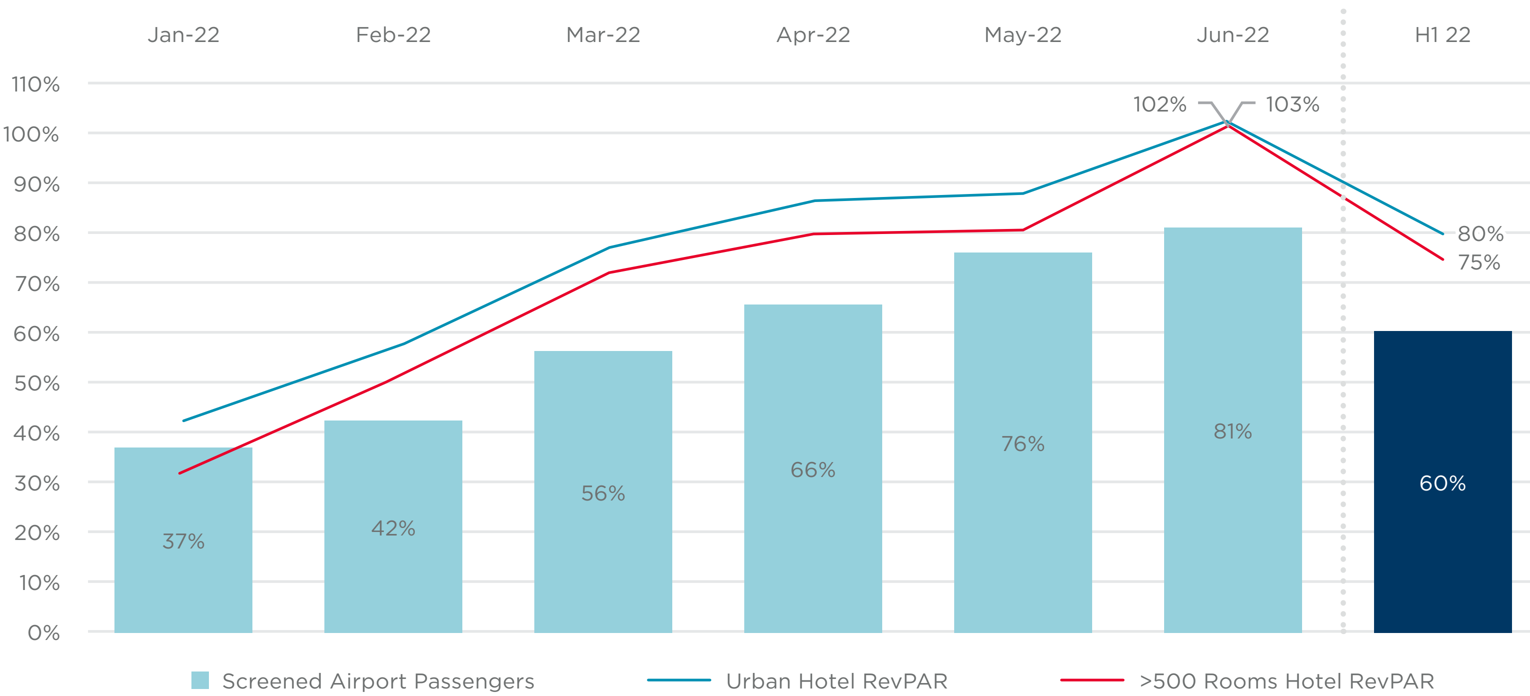
Outlook

While the path to recovery will certainly not be straightforward, the Canadian accommodation market is on the right path and is expected to see continued growth over the balance of the year. Halfway into 2022, many hoteliers are seeing pent-up demand from corporate and leisure travelers, as well as for small meetings and events. Large-scale conventions and conferences, as well as some corporate travel is expected to see stronger growth over the balance of 2022 and into 2023. Overall, the market is still on track to see around 75% of all demand recovered in 2022.

02 Urban and Convention Hotels Recovery **Article**

Urban and Convention Hotels Recovery Finally Underway

First Half of 2022 Performance - as a percentage of 2019 levels



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

In 2020 and 2021, hotels located in urban markets and convention destinations clearly lagged in recovery. These hotels rely on air travel and citywide events – demand generators that were severely impacted by border closures (international and interprovincial) and gathering limits. Many consumers also preferred hotels in resort and non-urban destinations for outdoor activities and physical distancing.

In Q1 2022, recovery was underway, albeit moderated by border pre-entry testing requirements and Omicron-related public health restrictions. As illustrated above, the volume of screened passengers at Canada's largest airports improved markedly in Q2, reaching 81% of 2019 levels in June. The increased volume reflects eased air travel requirements and removal of COVID-related restrictions, as well as continued strong leisure demand.

Meanwhile, citywide events are returning to Canada's major cities, with multiple convention centres expecting a strong 2022. The largest events include F1 Montreal Grand Prix, Toronto Collision Tech Conference, Calgary Stampede, and Vancouver TED Conference. This June, RevPAR for urban and convention hotels surpassed June 2019 RevPAR levels. For the first half of 2022, RevPAR was at 75% to 80% of first half 2019 levels.

Despite some challenges with the BA.5 variant, airline capacity issues, inflation and recession fears, the recovery outlook for the second half of 2022 remains positive as Group and Corporate demand continue to improve.

03 Investment Outlook **Article**

Hotel Investment

The strong recovery in the hospitality sector has been attractive to investors who see continued income upside in the near to mid-term. The escalation in land and construction costs has also entered the calculus for investors who see existing assets as relative bargains compared to building new hotels. Acquisitions of older assets for renovation and repositioning and the resort sector continue to attract a lot of interest. Normalized cap rates for hotels in the first half of the year remained steady as demand for investments kept rate increases in check.

In Q2 we tracked 72 sales with a total sales volume of $585M. This is volume is below the same period in 2021 when we recorded 109 sales for a total volume of $876M. The 2021 data was not truly reflective of market conditions at the time as it included 35 sales which were sold for alternate uses or redevelopment. In 2022 there were fewer sales for alternate uses and the majority of transactions continue to be properties located in secondary and tertiary markets.

Inflation

High inflation is impacting hotel operating costs as costs for labour and goods have risen sharply this year. Hotels, however, have the ability to quickly adjust prices which allows for a certain amount of protection against rising costs. Although inflation is currently at high levels, it is expected to be a short-term situation until supply issues are resolved and pent-up demand dissipates. Despite higher-than-average inflation forecasts in 2022-23, long run inflation expectations (5-10 years) have not changed significantly at this time.

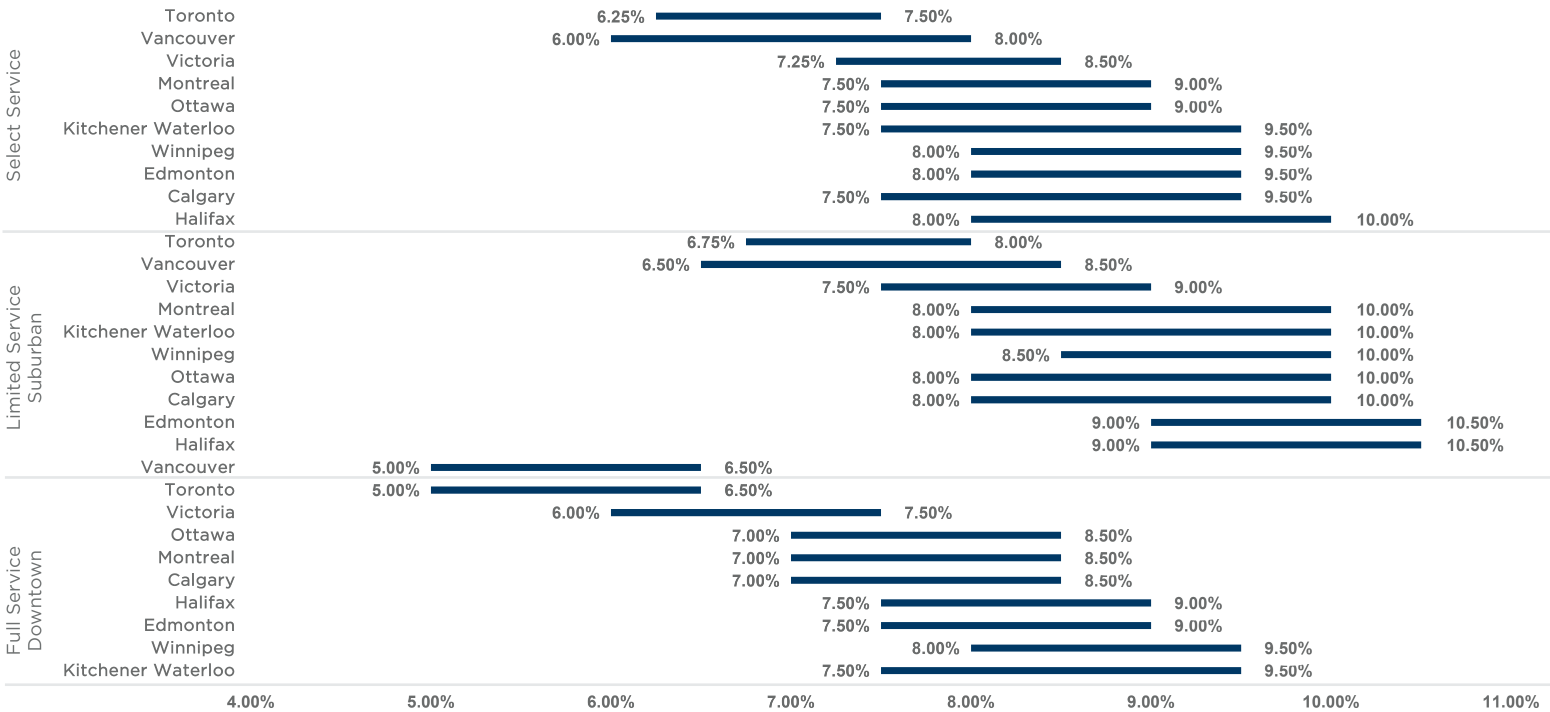
H2 Outlook

Entering the second half of the year, rising interest rates, high inflation and prospects of a recession will temper investor appetite. Since January the BOC 10-year bond yield has risen from 1.43 to 3.07% in mid July. This increase in costs is creating some challenges for disciplined investors who will need to adjust return expectations in the near term. To date, we have not seen the impact of interest rate increases reflected in market transactions given the lag time between negotiation and closing of a sale. Brokers do report deals are taking longer to finalize and most expect to see a slowdown in demand in the near term.

Cushman and Wakefield's Q2 2022 cap rate survey does indicate rising rates for lesser quality retail and office investments based on weaker market sentiment for these types of assets. Rates for hotels are outlined below:

03 Investment Outlook **Article**

Hotel Cap Rates



In terms of future movement in capitalization rates, rates are more driven by capital flows versus changes in interest rates. Cap rates also reflect the longer-term prospects for the property over an extended holding period versus limiting the value impact of short term rate increases. For hotels specifically, upward pressure on cap rates is also being offset by the current sector recovery which will result in significant income growth and continued investor interest in the sector.

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