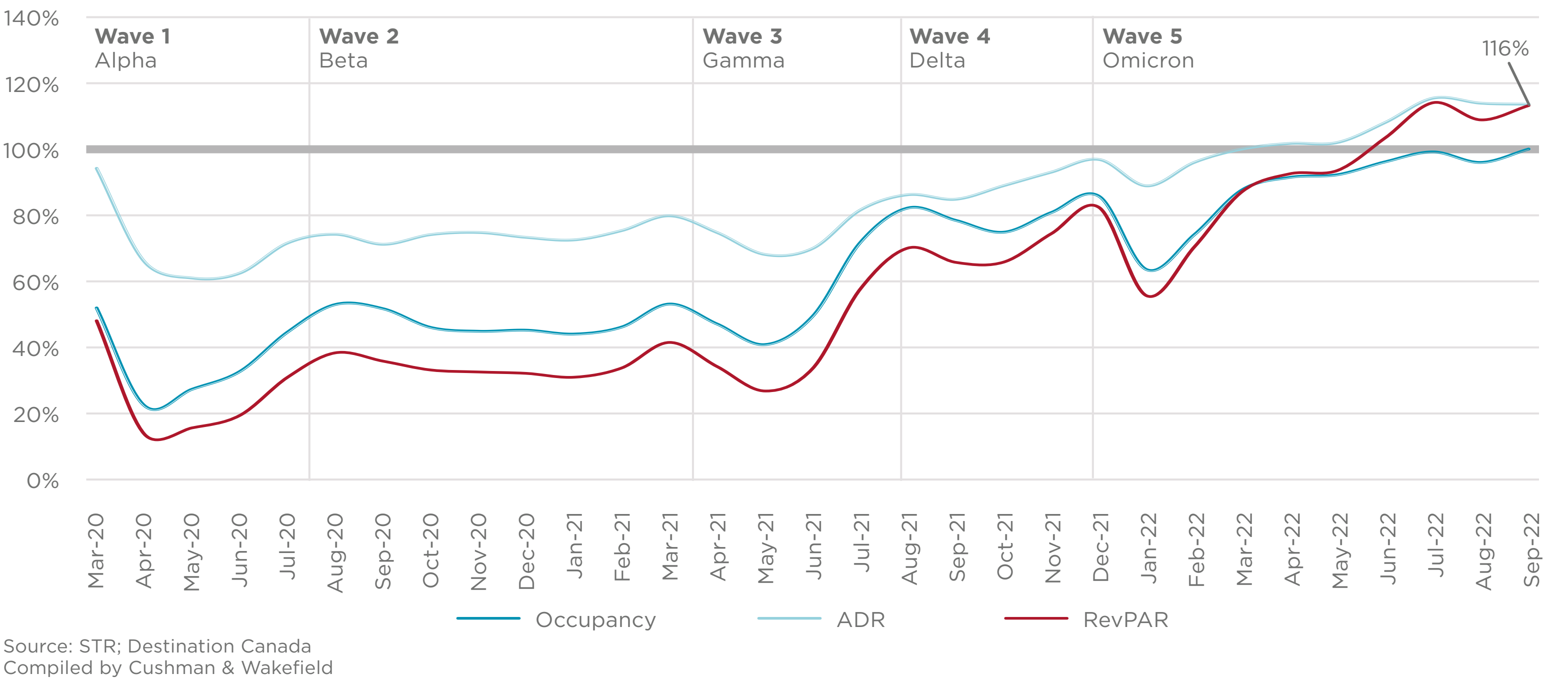
INNSIGHT
Quarterly Q3 2022
GLOBAL HOSPITALITY CANADA

Q3 2022 has seen a very strong recovery in the hotel sector with many properties and markets performing exceptionally well over the summer months. Concentrated leisure demand over the July and August periods allowed hoteliers to drive record high ADRs. By the end of September, hotel RevPAR performance across Canada reached 116% over 2019 levels; driven primarily by the strong rate performance - ADR has exceeded 2019 levels for the last 7 months.

Leisure travel continued to drive the market through the summer and early fall. September marked a modest slowdown in leisure demand but many markets began to see a return of corporate and corporate group demand. It is expected that with the absence of widespread restrictions and lockdowns, the sector should continue to see improvements throughout the remainder of 2022, albeit with a slowdown in ADR growth as lower-rated sources of demand return and leisure demand wanes. Overall, the hotel market is still on track for a strong recovery in 2022 with performance in most markets expected to equal or surpass 2019 performance.

The following chart shows occupancy, ADR and RevPAR performance through the various COVID waves, as identified by Destination Canada. Performance began to increase swiftly beginning in June 2021 and has continued to grow throughout 2022 with a sharp increase beginning in May 2022 signaling the start of the leisure travel boom.

Key Hotel Performance Metrics (relative to same month in 2019)
National ADR exceeds 2019 levels for 7 consecutive months



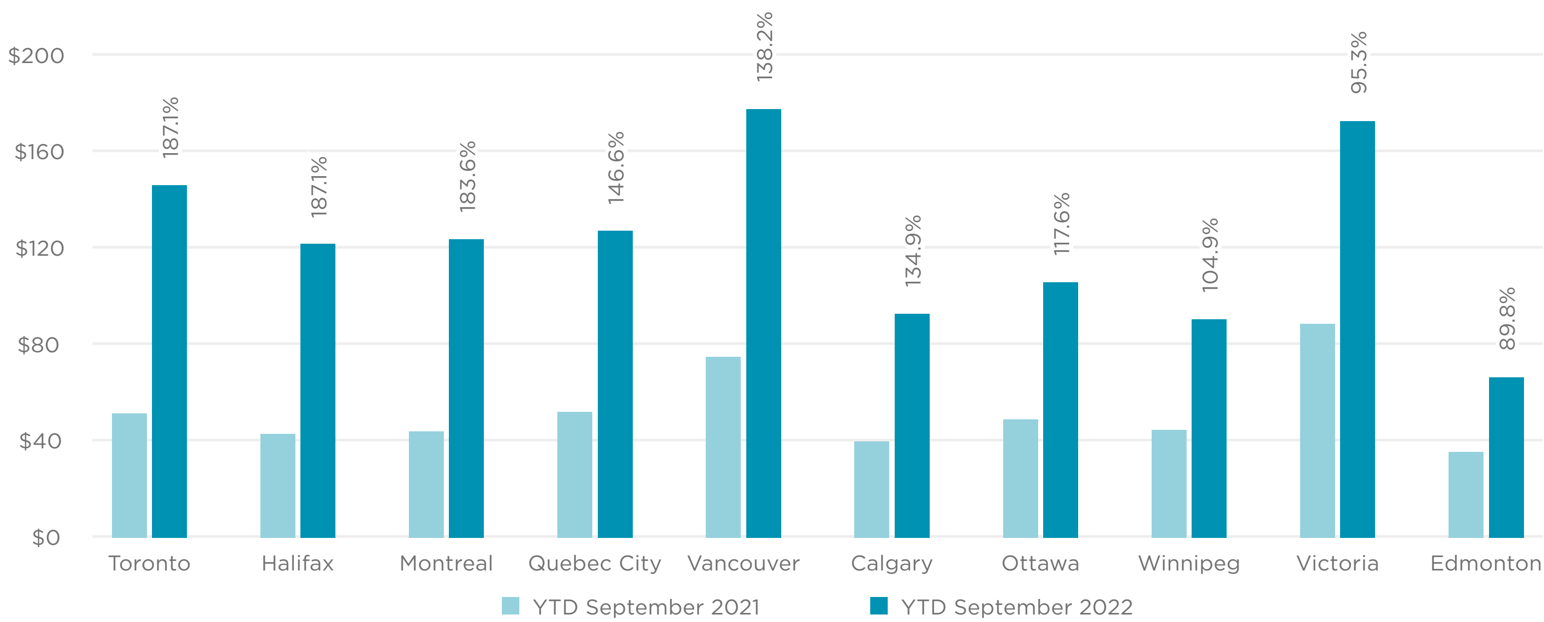
Source: STR; Destination Canada
Compiled by Cushman & Wakefield

01 Canada Hotel Performance **Update**

Major Cities See Recovery

Canada's major cities all showed significant RevPAR growth in the first three-quarters of 2022. The strongest growth was seen in Toronto and Halifax at 187.1%, followed closely by Montreal at 183.6%. These three markets are popular leisure destinations and have been attracting both domestic and international vacationers. Quebec City, Vancouver, Calgary, Ottawa, and Winnipeg are in the mid-range of growth between 147% growth (Quebec City) and 105% growth (Winnipeg). The markets with the softest growth, although still impressive, are Victoria and Edmonton at 95.3%, and 89.8%, respectively.

Top 10 Canadian Markets RevPAR Percent Change - YTD September 2022



Source: STR | Republication or other re-use of this data without the express written permission of STR is strictly prohibited.

Outlook

The Canadian accommodation industry has rebounded far quicker than predicted, driven by exceptional leisure demand over the last few months. Hoteliers continued to see very strong leisure demand and some recovery in the group and corporate segments as well. Large-scale corporate conventions and conferences and individual corporate travel have begun to see some growth in late Q3 and is expected to continue to grow over the balance of 2022 and into 2023. This will offset some of the declines seen in leisure demand from seasonality and from resistance to higher rates. While there are concerns for the economy as a result of current high inflation levels, rising interest rates and slower economic growth in 2023, the medium and longer term outlook is positive for economic, commercial, and tourism activity.

02 Western Canadian **Lodging Conference**

5 FAST FACTS Western Canadian Lodging Conference

Vancouver 2022

The conference was held in Vancouver on October 24-25th with over 275 attendees. Cushman & Wakefield's **Cindy Schoenauer** joined a panel of industry experts in the keynote session.

1 **The recovery has been faster and stronger than anyone predicted.** While demand has continued to lag, ADR will surpass 2019 levels in 2022 for all markets and categories of hotels.

2 **Despite the rise in interest rates, investor demand for hotels remains strong** – the flow of capital has kept cap rate expansion to a minimum. Brokers indicate a lack of good quality investment product is available.

3 **New room supply remains relatively low** and supply has shrunk with the removal of nearly 5,000 rooms across Canada for alternate uses. This bodes well for existing hotels in the near term.

4 **The Hotel Association of Canada made strong inroads as advocates for the Hospitality Industry**, which resulted in crucial government support through COVID. HAC continues to advocate for measures for the long-term health of the industry with several key initiatives underway.

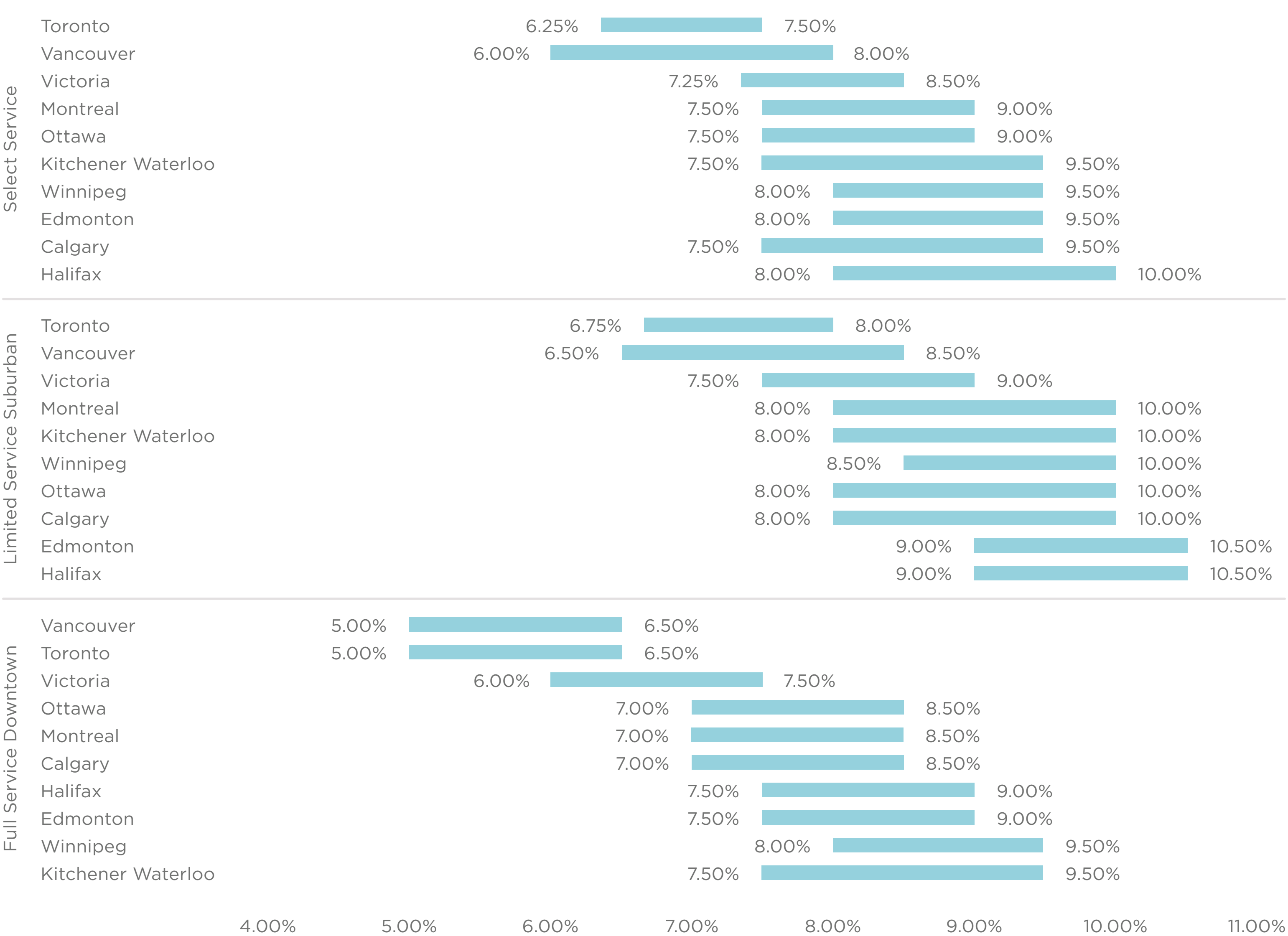
5 **Operators feel optimistic about continued recovery in 2023 and beyond** despite the expectation for recession in 2023. Recovery will be demand based versus the strong run up in ADR in 2022.

03 Cap Rate **Survey**

Capitalization Rates

Cushman & Wakefield released their Q3 Cap Rate Survey on Oct 23, 2022. The survey indicates increasing upward pressure on capitalization rates across all asset classes, driven by economic uncertainty, inflation and the rise in interest rates. Historically, we have found changes in interest rates do not drive corresponding changes in capitalization rates, rates are more directly impacted by the flow of capital to the sector and investor expectations. For Hospitality specifically, there remains good investor demand and a limited amount of hotel product available for acquisition, keeping capitalization rates relatively unchanged at this time.

A summary of capitalization rates for select markets across Canada is shown below. These rates are for properties with stabilized results – capitalization rates can differ from these rates if property income is above or below stabilized levels.



04 Weekday **Occupancy**

Weekday Occupancy for Major Downtown Markets on Pace with 2019

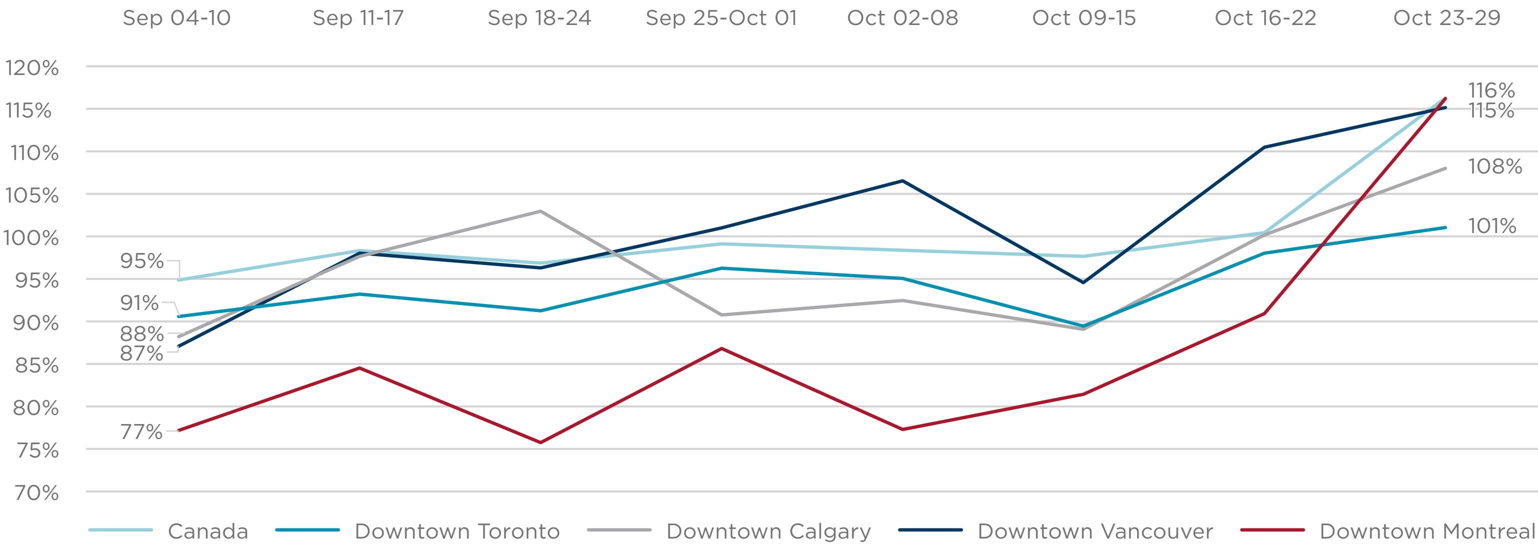
Following another strong leisure season and the return of group and conference travel, the main uncertainty entering the fall season was the rebound in business travel. Business travel – the linchpin of weekday demand for hotels – remains impacted by the prevalence of hybrid/remote work, acceleration in technology adoption, and strengthening economic headwinds.

Cushman & Wakefield reports that national office vacancy was 16% in Q3 2022, up from 9% pre-pandemic. In major downtown markets, vacancy also remained well above pre-pandemic lows; 10% for Vancouver versus 2% pre-COVID, 31% for Calgary (from 25%), 12% for Toronto (from 2%), and 14% for Montreal (from 6%).

Statistics Canada's latest national survey indicated that 16% of workers worked exclusively at home, whereas 9% had hybrid arrangements. However, economic activities in downtown markets are typically concentrated in sectors such as financial activities, professional and technical services, and public administration – sectors where jobs can be performed outside the office. Hotel operators estimate local downtown workers currently work from the office about 2 days per week.

03 Weekday Occupancy **Article**

AVERAGE WEEKDAY OCCUPANCY POST LABOUR DAY RELATIVE TO SAME WEEK IN 2019 (MAJOR DOWNTOWN MARKETS)



Source: STR. Weekday is defined as Sunday-Thursday.
Compiled by Cushman & Wakefield ULC. Data presented excludes Labour Day and Thanksgiving Day.

As illustrated above, for the 8 weeks post Labour Day, average weekday occupancy for major downtown hotel markets was on pace with 2019. Downtown Vancouver averaged 101% of its 2019 occupancy, whereas Downtown Calgary averaged 96% and Downtown Toronto averaged 94%. Downtown Montreal averaged 86% and had the largest gap from 2019. Occupancy gaps were generally wider on Monday and Tuesday. During the same period, average weekday occupancy for Canada was on par with 2019 levels.

Despite current economic challenges, elevated office vacancy, and slow return-to-office, weekday occupancy for major downtown hotel markets was relatively good in September and October. Cushman & Wakefield notes office vacancy growth continuing to slow. Hybrid/remote work allows employees to travel more and to combine business and leisure (‘bleisure’) trips. This phenomenon may replace some of the traditional business travel lost permanently since the onset of COVID.

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