INNSIGHT
Quarterly Q1 2022

GLOBAL HOSPITALITY CANADA

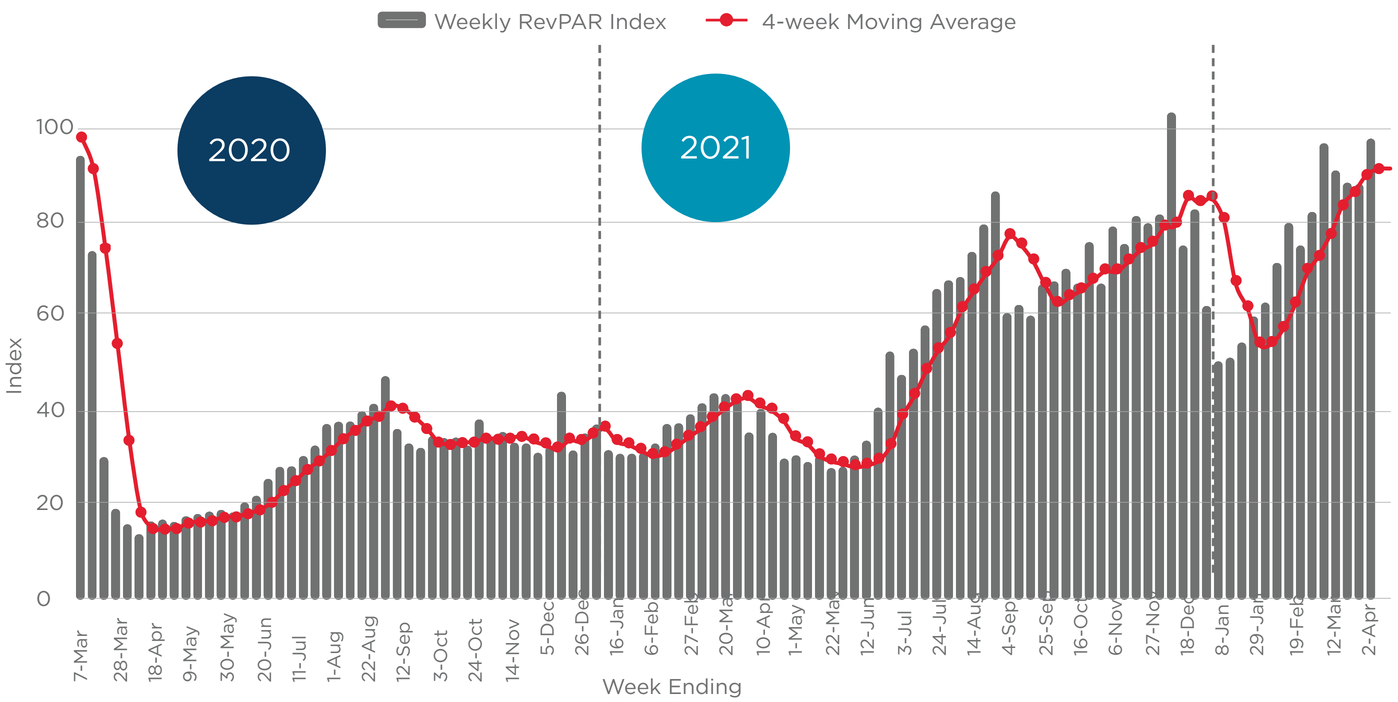
Canada Hotel Performance **Update**

CANADA HOTEL PERFORMANCE **UPDATE**
DEVELOPMENT **COSTS**
TRACKING **THE ECONOMY**

2022 HOSPITALITY RECOVERY CONTINUES

The arrival of the Omicron variant in late 2021 had an impact on early 2022 results; however, performance indicators show that the impact of this wave subsided in early February. We anticipate the Canadian accommodation market will continue with the recovery, which began in the second half of 2021, throughout the remainder of 2022. Overall, the hotel market is poised for a strong recovery in 2022 with performance in most markets expected to recover in the next 2 years to return to 2019 levels.

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 began to increase swiftly beginning in June 2021 and despite a few slowdowns, have shown continued growth into April 2022.



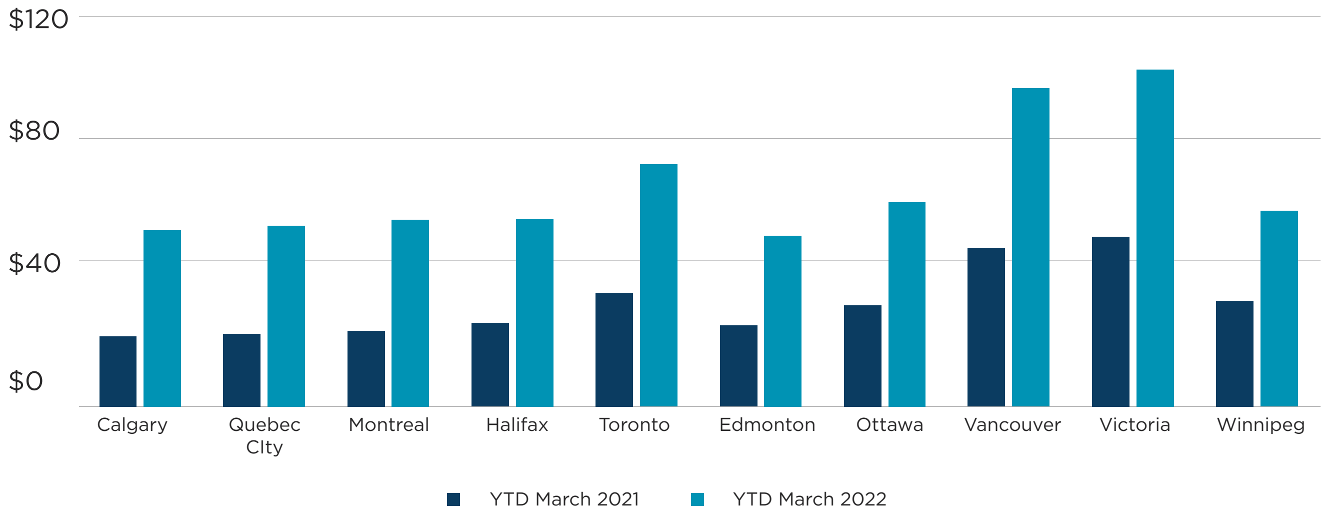
RESTRICTIONS LIFTED IN Q1 2022 PROMPTS RENEWED CONFIDENCE IN TRAVEL

In Q1 2022 we saw triple-digit RevPAR growth in 8 of the top 10 markets, with the markets that struggled the most throughout 2020 and 2021 showing the strongest improvements. The strongest Q1 RevPAR gains were for Urban and City Centre Hotels, Luxury Hotels and Hotels of over 500 rooms. This is largely a function of these markets still having a large margin for growth. Throughout Q1 2022 most travel restrictions and requirements for fully vaccinated travelers have been lifted making cross-border and international travel easier. In addition, as many Canadians return to normal activities, we have seen a pickup in corporate travel, meetings, and conferences.

Canada Hotel Performance **Update**

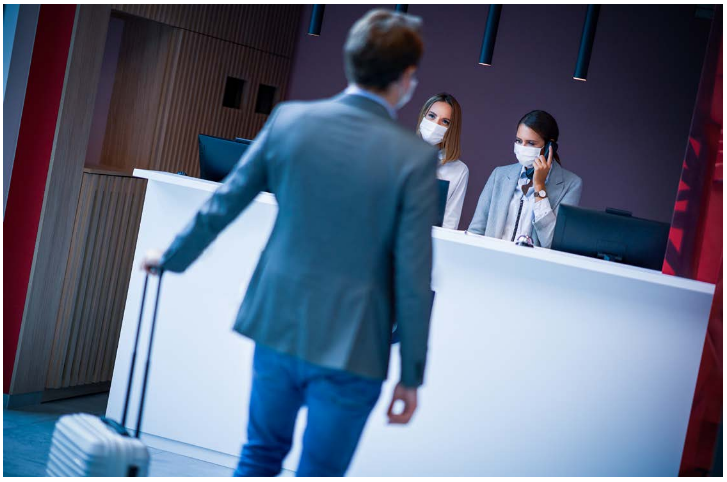
Canada's major cities all showed significant RevPAR growth in Q1 2022. The strongest growth was seen in Calgary at 151.4%, followed closely by Quebec City and Montreal at 149.2% and 148.2%, respectively. These three markets had however, showed some of the strongest declines over the pandemic. Halifax, Toronto, Edmonton, and Ottawa are in the mid-range of growth between 102% growth (Ottawa) and 124% growth (Halifax). The markets with the softest growth, although still impressive, are Vancouver and Victoria at 101.3% and 98.7%, respectively. Both cities fared relatively well during the pandemic and showed strong growth in mid-2021 as strong leisure travel destinations. Winnipeg saw the softest growth in Q1 2022 at just 85.6%.

TOP 10 CANADIAN MARKETS REVPAR PERCENT CHANGE



OUTLOOK

Following the removal of most public health restrictions, travel restrictions, and increased vaccination rates, most are optimistic that there will not be another significant setback in the accommodation market recovery. Into 2022 many hoteliers are already beginning to see the return of corporate travel and demand for groups, meeting, and conferences. Overall, we expect to see around 75% of all demand recovered in 2022, making this year a pivotal point in the recovery. The first four months of 2022 have shown significant ADR growth in many market, some even surpassing 2019 levels; however, it remains to be seen if this can be maintained.



Development **Costs**

Emerging from the pandemic we anticipated the hospitality sector would see the restarting of postponed developments along with new projects. New developments, however, now face a number of obstacles including significantly higher land costs and building costs.

Demand for land and increasing scarcity have pushed land costs in downtown and suburban areas to record highs while land in secondary and tertiary markets has also reached record high levels. In some areas, where hotels have to compete with other land uses, it can now be challenging to justify new hotel development based on the highest and best use of the land. Markets in the Greater Toronto area have seen office buildings demolished to make way for higher value industrial development or hotels demolished to allow high density residential development. With many competing uses in demand, the hotel developer faces higher land costs across the country.

Cost of land and the availability of suitable hotel development sites will be a growing issue for the industry in the coming years.

Hotel development costs are also a challenge as the cost of materials and labour have risen sharply from pre-pandemic levels. The recent Canadian Hotel Investment Conference (CHIC) in Toronto included a panel moderated by **Hugo Germain**, which highlighted some of the current challenges for developers of new hotels and owners of existing hotels who are renovating. Significantly higher costs, shortages of materials and delivery delays are among the obstacles developers and owners face.

Michael Grubsztajn of **Jemlor Hospitality** highlighted the overall increases in costs of materials and labour, and the delivery delays from overseas. Higher material costs, increased shipping costs, supplier mark ups and higher labour costs have increased some costs by up to 70% from pre-COVID levels. As an example, costs for a typical focused service hotel can range from $160 to $250 per SF depending on location, and now average over $200 per SF excluding land, FF&E and soft costs.
On a positive note, Michael did note that certain material costs have moderated of late as demand and supply balance out. He also noted that high costs and shipping delays have been a boon to many Canadian manufacturers who had been priced out of the market in recent years by cheaper, overseas manufacturers.

The cost to build a new, focused service hotel in many markets can now exceed $250,000 per room and can be over $300,000 per unit for upscale or extended stay brands. In many downtown markets, a hotel development can only work if the hotel is built in conjunction with a residential development.

In the short term, these record high costs will call into question the feasibility of new development unless there is moderation in land and building costs and/or a significant improvement in hotel performance over and above pre-pandemic results.

One side effect of higher costs has been the impact on investment decisions, since existing hotels can represent an attractive alternative to new builds. Existing hotels are often priced below their current replacement cost and can provide an immediate return on investment.

Prior to the pandemic, cost usually represented the minimum value needed to justify a new development – in today's market, anything below cost represents a bargain to buyers.

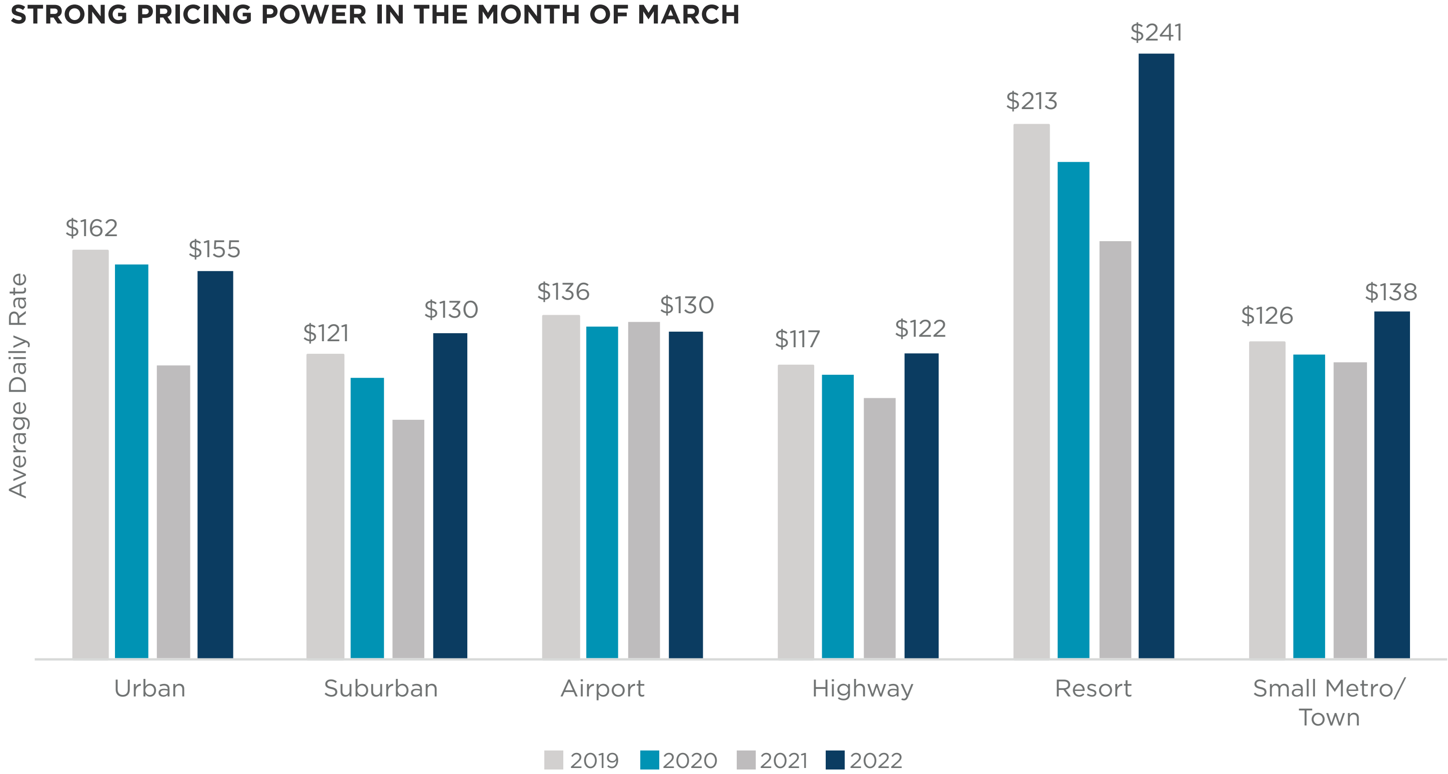
Tracking the **Recovery**

ADR GROWTH ABOVE EXPECTATIONS

While 2022 is shaping up to be a strong year in the recovery for the Canadian accommodation market, performance is expected to be varied across the country. Some markets are projected to see a recovery over the next 2 to 3 years before returning to 2019 levels, while others may reach 2019 performance as early as 2023.

The following chart shows the pricing power (ADR) by market type for the month of March 2022, compared to March results for each of 2019, 2020, 2021, and 2022.

STRONG PRICING POWER IN THE MONTH OF MARCH



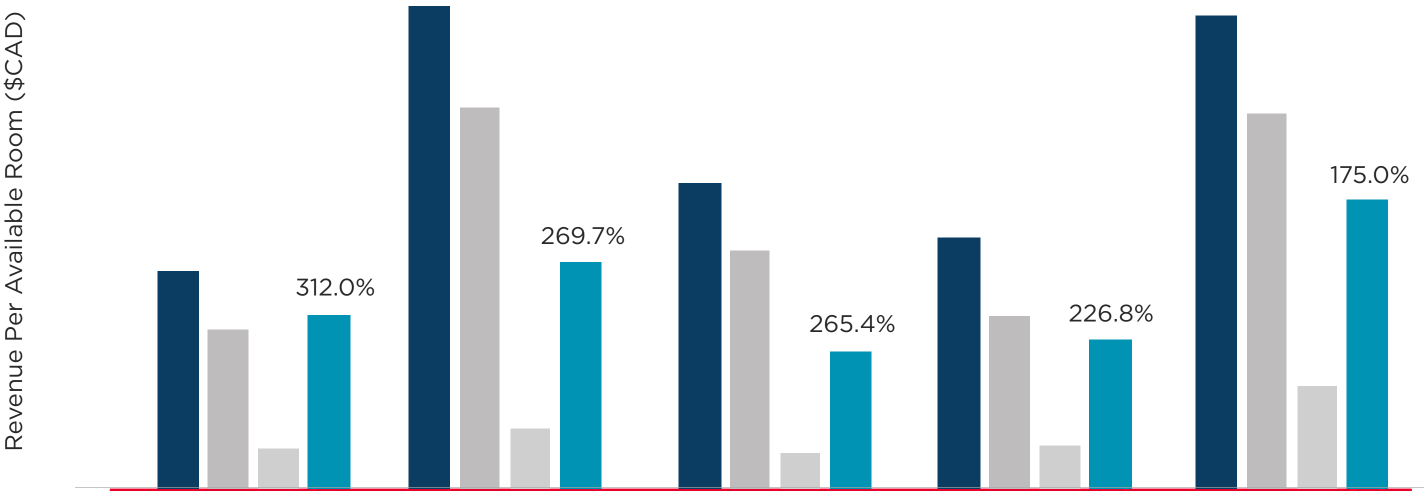
Suburban, highway, resort, and small towns already have seen March 2022 ADR results surpass those of March 2019. These markets are poised for a strong recovery throughout 2022.

Growth in urban locations indicates the beginning of recovery for these markets which should see continued improvements into Q2 and Q3 of this year, as Canadians slowly return-to-office, and large conventions and city-wide events are booked. Airport markets also lag behind 2019 ADR levels, but should see improvements as airline traffic increases. Air Canada has projected that it will take 3-4 years for total passenger volumes, including international travel, to recover to pre-COVID levels, and recently announced that they will provide 75% of their pre-COVID capacity in 2022, whereas WestJet will provide 94% of their pre-COVID capacity in 2022.

Looking at these results, all location types are close to or above 2019 ADR levels for the month of March 2022. Given seasonality of demand, March can often still be a slower month with few compression dates. Performance in this period indicates the potential for strong ADR growth throughout the balance of the year, as hotels capitalize on stronger demand during the summer months.

Tracking the **Recovery**

The following chart shows the year-over-year RevPAR growth for some markets that were challenged throughout the pandemic for the YTD March period, including Niagara Falls and Toronto, Montreal, Calgary, and Vancouver Downtown markets:



	Niagara Falls	Toronto Downtown	Montreal Downtown	Calgary Downtown	Vancouver Downtown
2019	$64	$143	$90	$74	$140
2020	$47	$114	$71	$52	$112
2021	$12	$18	$11	$13	$31
2022	$51	$67	$41	$44	$85

Large city centre markets were heavily impacted by the lack of international, group, and corporate travel, while Niagara Falls saw significant declines as a result of casino closures and lack of cross-border travel. These markets are now posting some of the strongest RevPAR growth in the country. Despite these strong RevPAR gains, most of these markets continue to be amongst the lowest occupancy submarkets in the country. While they are off to a great start in 2022, they still face a longer road to recovery.

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