CUSHMAN & WAKEFIELD

CANADIAN LODGING OVERVIEW

2023

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INTRODUCTION

In 2023, the Canadian Hospitality market reached a significant milestone, eclipsing 2019 market occupancy finishing the year at 65.7% versus 65%. ADR finished the year at an impressive 21% higher than 2019. On a National level, this recovery from COVID took just over 3 years which is remarkable given the extent of the fallout from the pandemic.

The outlook for growth continues to be positive despite a muted economic outlook and high interest rates. As shown in our Outlook, the pace of growth has slowed through the last 12 months as markets return to normalization. The majority of forecasters indicate revenue growth in the 4-5% range this year.

Despite the diminished economic outlook going into 2024, the investment market for hotels remains strong with several notable transactions occurring in the past year.
Our Outlook will recap the results for this past year, highlight some of the key transactions, and identify emerging trends.

CANADIAN LODGING OVERVIEW 2023

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HISTORIC PERFORMANCE RESULTS

The following chart illustrates key operating performance indicators of the Canadian hotel industry from 2014 through to 2023.

CANADIAN HISTORICAL OPERATING STATISTICS

Year	Room Nights	Supply	Supply % Change	Demand	Demand % Change	Occu-pancy	% Change	ADR	% Change	RevPAR	% Change
2014	203,182	74,161,430		45,164,311		64.8%		$137.36		$89.06	
2015	205,620	75,051,367	1.0%	46,474,076	0.2%	64.1	(1.1)%	142.98	4.1%	91.71	3.0%
2016	206,648	75,426,624	0.9	47,217,661	1.5	64.4	0.4	149.02	4.2	95.95	4.6
2017	207,682	75,803,757	0.8	48,209,232	3.2	65.7	2.0	156.72	5.2	102.95	7.3
2018	208,720	76,182,776	1.0	49,655,509	2.0	66.1	0.7	163.32	4.2	108.00	4.9
2019	210,807	76,944,604	1.5	49,754,820	0.1	65.0	(1.7)	165.08	1.1	107.35	(0.6)
2020	212,704	77,637,105	(3.7)	50,501,142	(51.0)	32.9	(49.4)	130.94	(20.7)	43.09	(59.9)
2021	217,169	79,266,728	2.6	33,974,701	30.3	41.8	27.0	139.19	6.3	58.17	35.0
2022	221,295	80,772,795	1.9	50,622,305	49.0	61.0	45.9	182.31	31.0	111.19	91.1
2023	222,844	81,338,205	0.7	54,925,200	8.5	65.7	7.7	200.08	9.7	131.48	18.2
Average Annual % Change			**0.7%**		**1.1%**		**0.1%**		**4.3%**		**4.4%**

Source: STR

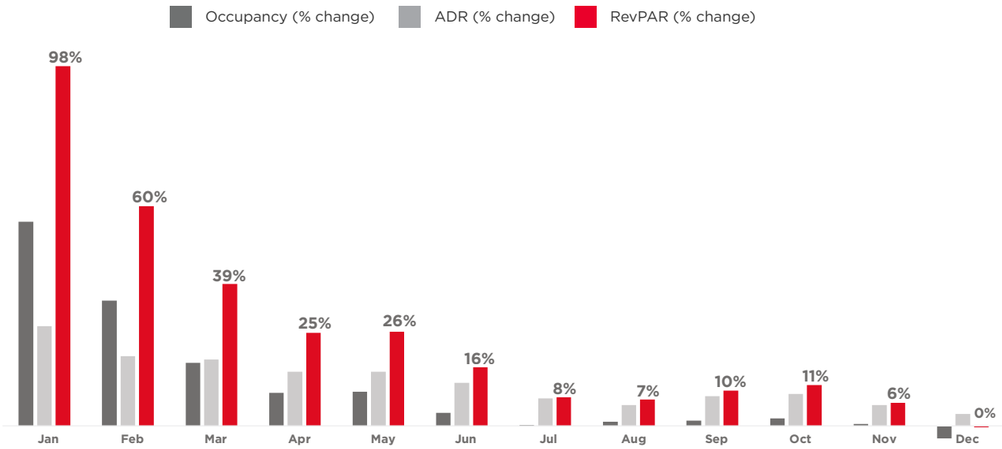
The Canadian Hospitality market continued its rally in 2023 with growth in room demand and average rates in all markets across the country. Following a good recovery of 35% in 2021, the hotel market rebounded strongly in 2022 with RevPAR growth of 91.1%. This improvement brought occupancy slightly above 2019 levels while ADR well surpassed. In 2023, we saw the pace of growth slow as the markets returned to more normalized levels, particularly later in the year. The overall increase in RevPAR was still an impressive 18.2% last year.

While 2022 got off to a slow start, 2023 began with hotels operating normally, with no government restrictions and generally adequate staffing levels. In 2023 seasonality patterns followed a typical distribution for Canada, with demand and ADR picking up during the summer and fall months before declining slightly into the winter. In 2023 occupancy surpassed 2019 levels with 8.5% demand growth and just a 0.7% increase in supply. Following exceptional growth in 2022 ADR continued to grow at a strong rate of 9.7% in the year, reaching $200.08, a historic high.

While growth in 2023 was driven by the continued market recovery from COVID, several markets also saw added demand compression due to the housing crisis, the influx of refugees, and elevated levels of distressed airline passengers, among other factors. In addition, as hotel operators face the pressures of increasing costs, wages, and capital, driving strong rate growth is a requirement for the longevity of hotel operations.

The following chart shows the monthly performance indicators for the Canadian hotel industry.

MONTH OVER MONTH IN 2023 COMPARED TO SAME PERIOD IN 2022



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Occ (2023)	51%	59%	63%	63%	69%	74%	76%	77%	75%	68%	62%	51%
ADR (2023)	$168	$175	$178	$179	$197	$222	$232	$226	$222	$196	$179	$185
RevPAR (2023)	$85	$103	$111	$112	$136	$165	$175	$175	$167	$134	$111	$95

Source: STR

As shown, performance in January and February showed very strong growth over 2022 due to Omicron and restrictions then in place. RevPAR growth remained high in March through June compared to 2022. Beginning in July, results showed growth of between 6% and 11% through to November, with December remaining flat compared to 2022.

Interestingly, as the year progressed, RevPAR growth was increasingly driven by ADR growth. In the beginning of the year RevPAR growth was led by occupancy; however, this trend switched beginning in April and throughout the balance of the year where the majority of growth was generated by ADR increases.

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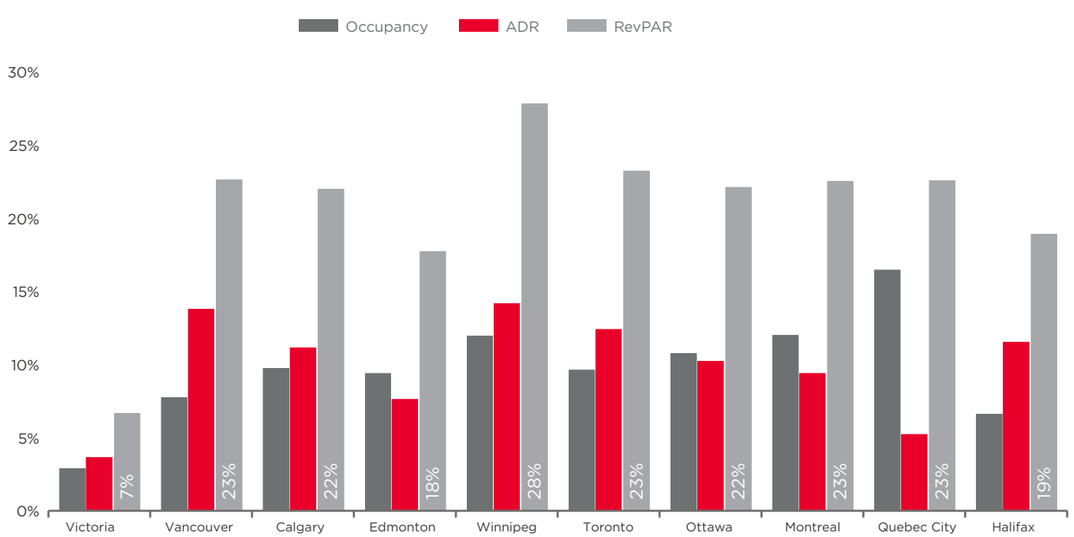
STR TOP 10 MARKETS

In 2020 and 2021, there was a reversal of many longstanding trends in the Canadian accommodation industry with the major cities of Toronto, Vancouver, and Montreal left struggling to fill rooms as travelers avoided densely populated cities and as international, group, and corporate demand fell. In 2022 and 2023, major cities have emerged as the leaders once again with a return of travel to these major metropolitan areas.

In 2023, Vancouver ($209), Toronto ($184), and Victoria ($169) lead the country in terms of overall RevPAR. However, the city that has seen the strongest growth in 2023 is Winnipeg, with an increase of 28%. Performance in this market was impacted by strong demand for emergency and refugee housing, causing compression amongst the remaining hotels.

RevPAR growth was then followed by Vancouver, Toronto, Montreal, and Quebec City, which all saw 23% growth. Both Calgary and Ottawa saw growth of 22%, followed by Halifax at 19% and Edmonton at 18%. RevPAR growth in Victoria lagged at 7%; however, this market emerged as the strongest performer over the pandemic years and has shown more modest improvements in 2023.

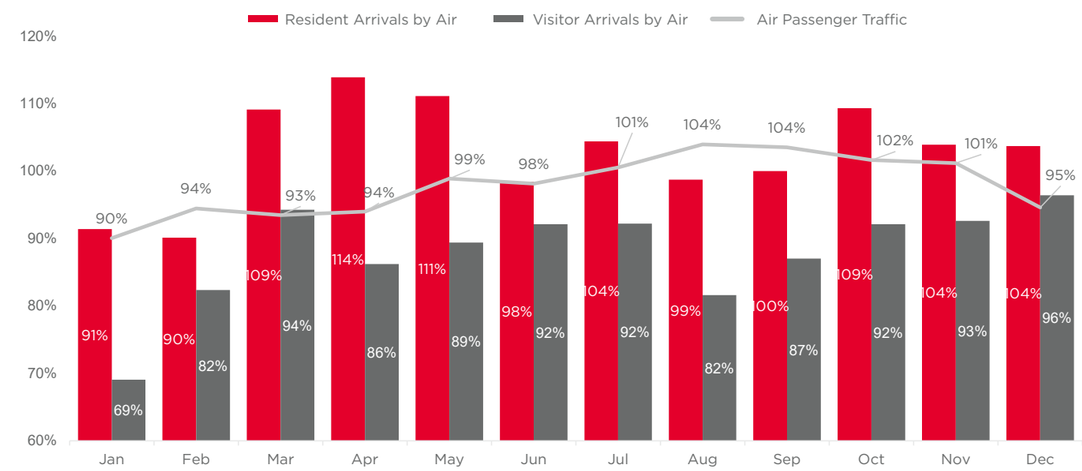
MAJOR MARKETS PERFORMANCE - YTD DECEMBER 2023% CHANGE



INTERNATIONAL ARRIVALS TO CANADA

Air traffic is a key indicator of the health of the hotel industry, particularly emerging from COVID. Below is a chart summarizing international arrivals to Canada as a percentage of 2019.

INTERNATIONAL ARRIVALS TO CANADA - AS A PERCENTAGE OF 2019



Source: CATSA, Statistics Canada. Compiled by Cushman & Wakefield ULC.

In 2023, air passenger traffic reached 98% of 2019 levels. Traffic peaked at 103% of 2019 levels in Q3.

Canadian residents had more return trips from abroad than pre-pandemic, whereas international visitors took fewer trips to Canada. While the gap was significant and averaged 15 percentage points over 2023, it narrowed to 11 and 7 percentage points in the last two months of the year.

Globally, IATA reported 2023 air passenger traffic at 94% of 2019 levels, with Q4 2023 reaching 98% of Q4 2019 levels. IATA is the International Air Transport Association representing some 320 airlines. It expects a full recovery and a return to normal growth patterns in 2024.

CANADIAN LODGING OVERVIEW 2023

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NEW SUPPLY SLOWS IN 2023

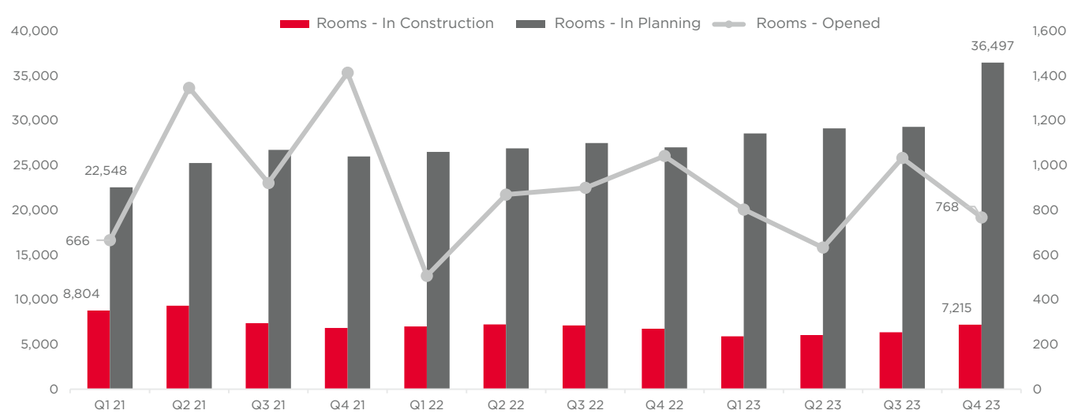
Since development lags the overall market, we have seen a slowdown in new hotel openings over the last three years. With strong market results, improvements in supply chain issues, and moderation of costs, new and postponed projects are now beginning to move forward.

New hotel room openings in Canada declined from 4,349 in 2021 to 3,319 in 2022 and 3,237 in 2023. They represent annual supply growth of 1.0%, 0.7%, and 0.7%, respectively. STR estimates that 4,173 new rooms will open in 2024 (0.9% growth).

The number of rooms in construction trended downward from mid-2021 to mid-2023. However, activity increased in the second half of 2023. Meanwhile, the number of rooms in planning steadily increased from 22,548 in Q1 2021 to 29,309 in Q3 2023. Rooms in planning has surged to 36,497 in Q4 2023 – well above pre-pandemic levels.

As of December 2023, 57% of the national pipeline rooms were in Ontario, with British Columbia a distant second at 21%. At the market level, Toronto accounted for 18% of the national pipeline rooms, followed by Ontario Central at 13% and Vancouver at 11%. By chain scale, upper midscale and upscale accounted for 30% and 19% of rooms in the national pipeline, respectively. The current national pipeline (in construction and in planning) represents nearly 10% of Canada's existing hotel room supply.

HOTEL ROOMS OPENED AND IN PIPELINE - LAST 12 QUARTERS



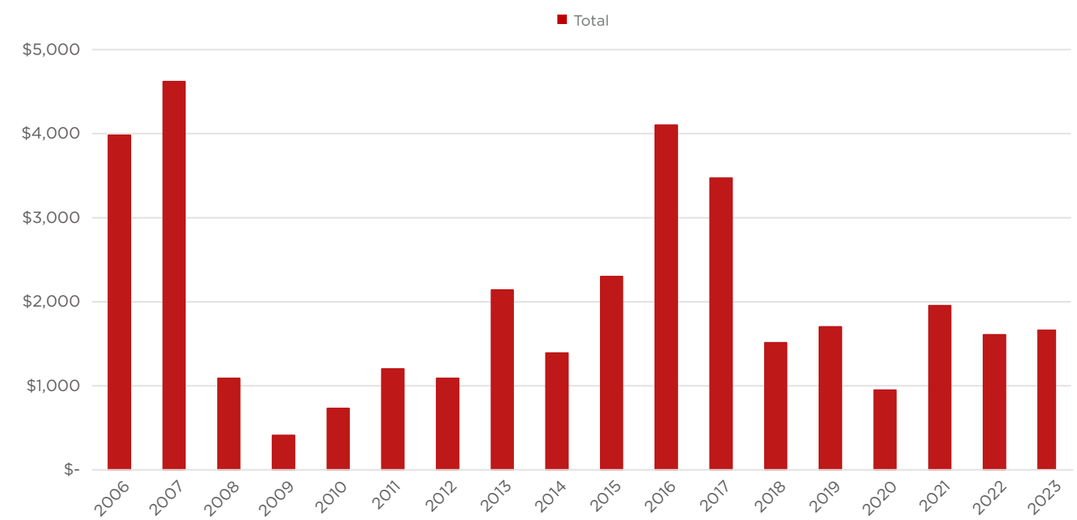
Source: STR. Compiled by Cushman & Wakefield ULC.

TRANSACTION MARKET

In 2023, Cushman & Wakefield tracked over 125 transactions, which accounted for an estimated $1.6B in total sales volume, compared to over 160 transactions at similar total volume in 2022.

The sale of several larger, prime assets located in urban and resort markets, such as the Rimrock Resort in Banff, AB (330-room, $170M), the Hazelton in Toronto, ON (77-room, $110M), the Marriott in Ottawa, ON (489-room, $86.5M) and the InterContinental in Montreal, QC (357-room, $80M) led to a new record for average price per room transacted, reaching $180k per room in 2023.

CANADIAN HOTEL TRANSACTION VOLUME - 2006 TO 2023



Source: Cushman & Wakefield I Transactions of at least $1 million.

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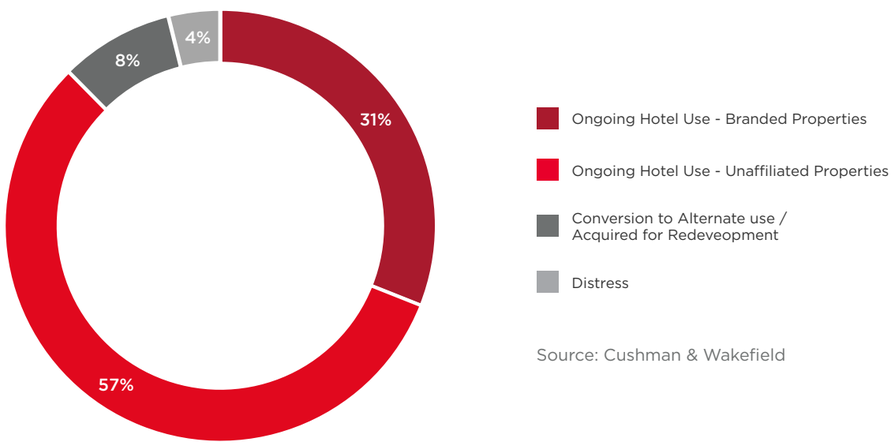
2023 TRANSACTION ACTIVITY BY SALE TYPE

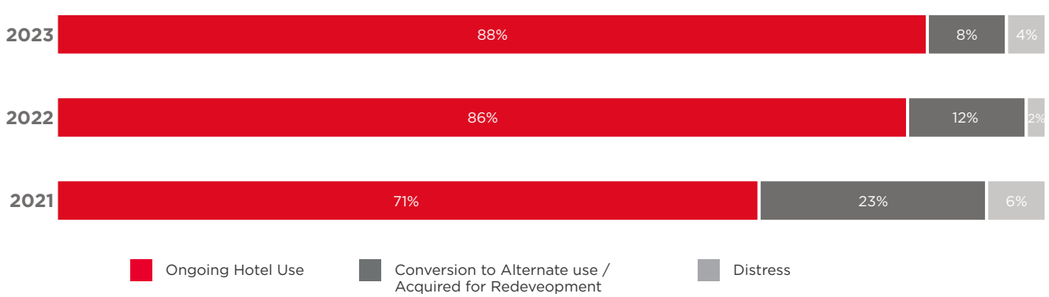
Transactions for ongoing hotel uses accounted for 88% of the total activity in 2023. Sales of hotels being sold for alternate uses, which was notable in 2022, has slowed to about 8% of overall volume in 2023. Distress sales continue to be a relatively small part of the overall sales activity.

2023 TRANSACTION ACTIVITY BY SALE TYPE
Number Of Transactions



Source: Cushman & Wakefield

TRANSACTION ACTIVITY BY SALE TYPE
Number Of Transactions



MAJOR TRANSACTIONS

Below are some of the noteworthy sales that occurred in 2023. The market saw several larger assets trade in major urban centres along with continued activity in the resort sector.

2023 TOP TRANSACTIONS

RIMROCK RESORT HOTEL
$170M
WHERE: Banff, Alberta
ROOMS: 330
PER ROOM: $515,200
DATE: June 2023
BUYER: Oxford Properties Group Jv Accorinvest

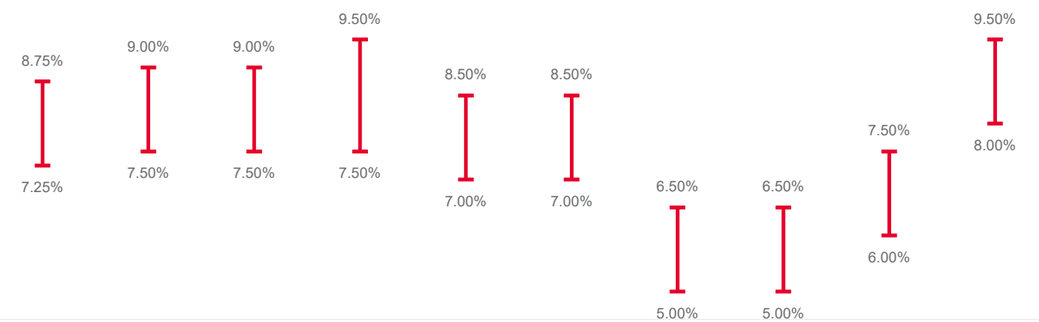
HAZELTON HOTEL
$110M
WHERE: Toronto, Ontario
ROOMS: 77
PER ROOM: $1,428,600
DATE: June 2023
BUYER: Hennick & Company

OTTAWA MARRIOTT HOTEL
$86.5M
WHERE: Ottawa, Ontario
ROOMS: 489
PER ROOM: $176,900
DATE: July 2023
BUYER: Manga Hotels

INTERCONTINENTAL MONTREAL
$80M
WHERE: Montreal, Quebec
ROOMS: 357
PER ROOM: $224,100
DATE: February 2023
BUYER: Group Mach

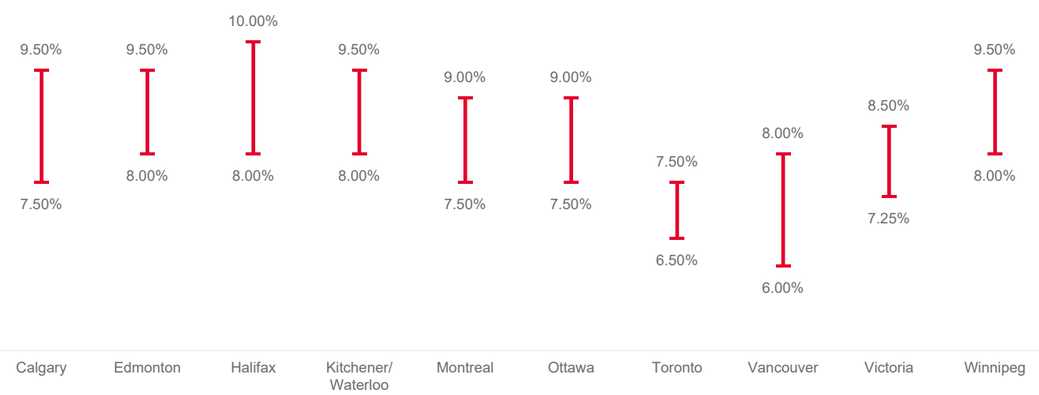
CAPITALIZATION RATES

HOTEL CAP RATES (Q4 2023)
Full-Service Downtown



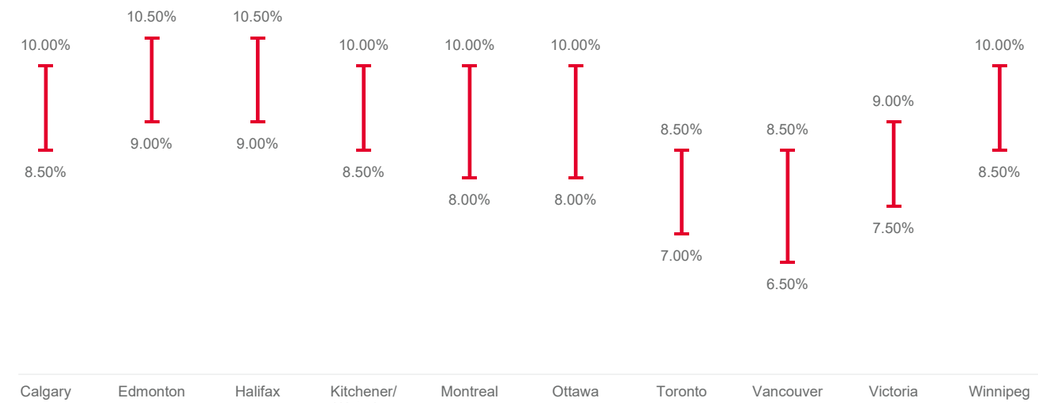
Source: Cushman & Wakefield

HOTEL CAP RATES (Q4 2023)
Select-Service



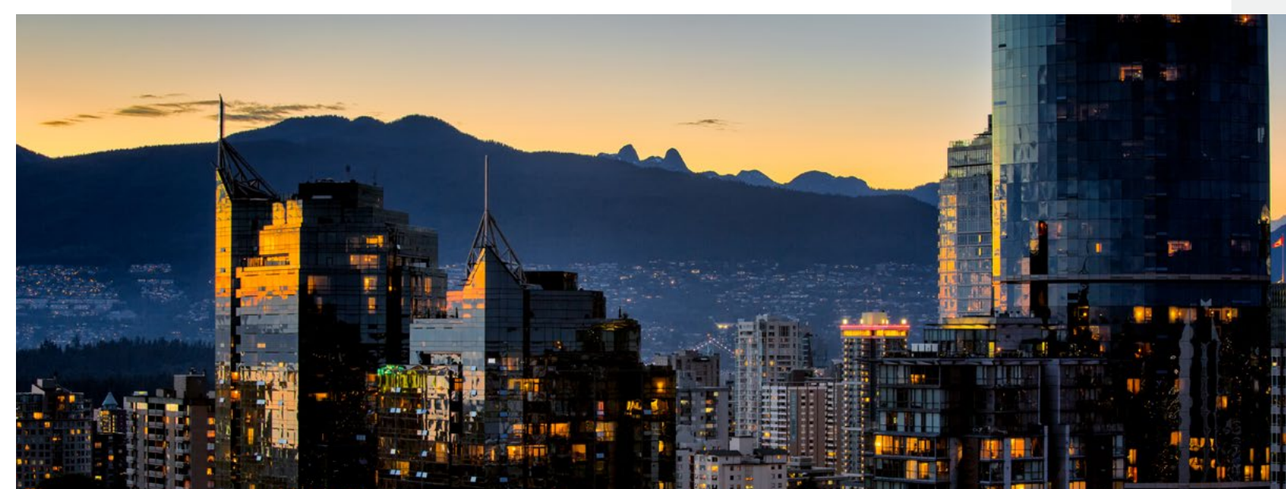
Source: Cushman & Wakefield

HOTEL CAP RATES (Q4 2023)
Limited-Service Suburban



Source: Cushman & Wakefield

Despite the rise in interest rates in 2022-2023, investor interest in hotels remained high as the strong recovery in the sector and the ability of hotels to hedge against inflation attracted investors. More recently, the economic outlook has softened and the outlook for growth in hotel revenues has returned to more sustainable levels. With higher interest rates and reduced growth expectations going into 2024, there is upward pressure on capitalization rates for most hotel types.



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RECENT CONFERENCES

1 ALIS CONFERENCE IN LOS ANGELES

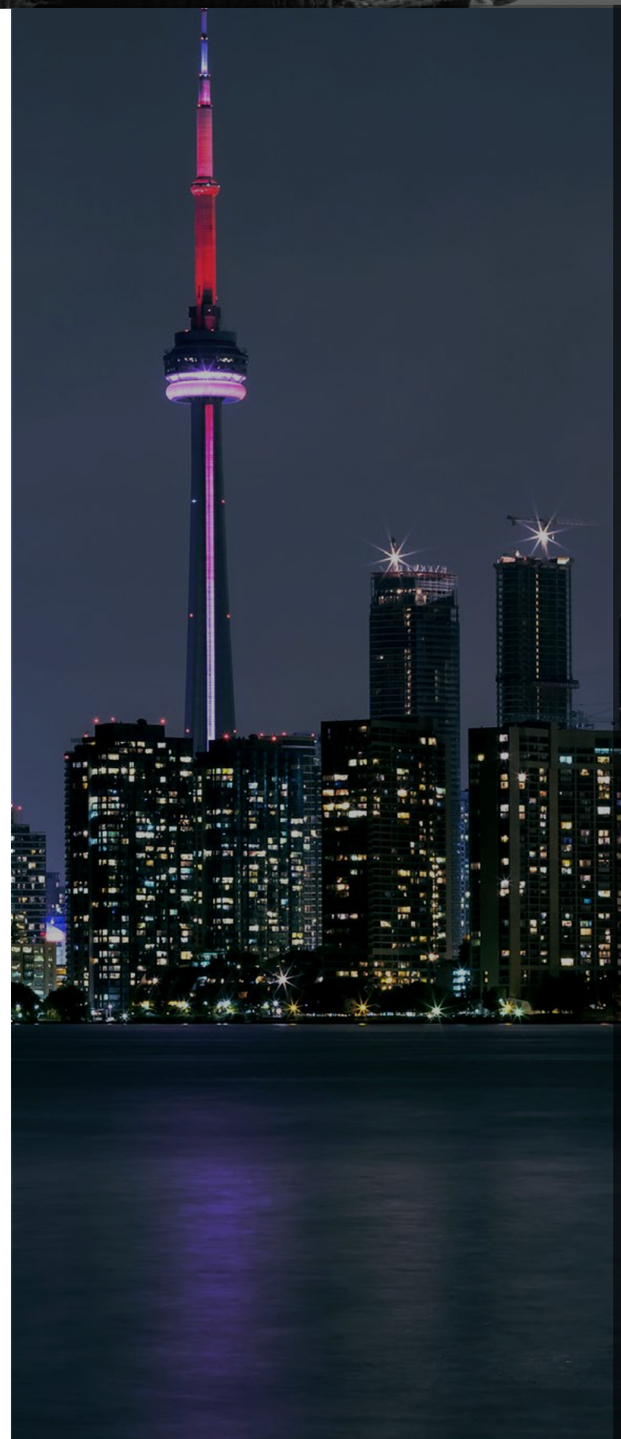
We attended the 24th annual Americas Lodging Investment Summit in Los Angeles in January 2024. The following summarizes some of the key takeaways from the conference as we look into 2024, keeping in mind that Canada's hotel markets often mirror trends in the U.S.

- There is optimism for continued corporate transient recovery into 2024 and 2025. The corporate transient demand segment will continue to improve, but ultimately stabilize at 10% below 2019 levels.
- Going forward, LARC forecasts leisure demand to be challenged in 2024 which is partly related to the declining condition of the U.S. Consumer. Overall, LARC forecasts leisure demand to stabilize at around 120% of 2019 levels. Leisure demand will still remain the post-pandemic market segment champion.
- LARC is forecasting a modest pull back in group demand in 2023, which is only slightly below 2019 levels. Group demand is forecast to improve gradually through to 2028, stabilizing at 110% above 2019 levels.
- RevPAR growth is expected to be in the 4% range in 2024 and 3.5% in 2025 largely based on ADR growth vs demand growth.

2 HOTEL CAPITAL CONNECTION CONFERENCE IN TORONTO

We attended the Hotel Capital Connection Conference in Toronto on February 1, 2024.

- The outlook for the Canadian economy is still mixed as markets continue to absorb the impact of higher interest rates and slower growth. The outlook for inflation has improved – ironically higher interest rate costs are contributing to the current inflation number.
- Supply chain issues have improved which has resulted in the moderation of costs related to hotel development. With the pause in development in 2020-23 and moderation costs – this is spurring new development as noted in our supply outlook.
- The conference was well attended by the leading lenders to the industry. Lenders are focused on sponsorship and the ability of the property to service debt. Lenders underscore the need for accurate and timely information from borrowers. About 25% of commercial mortgages will be renewed in 2025.
- Hotels are now considered a "goldilocks" asset class, not too hot and not too cold, given the strong performance levels in 2023 and going into 2024. Hotels have been an excellent hedge against inflation and have weathered the slowdown in the economy thus far.



CONCLUSION & OUTLOOK

In the last 4 years the Canadian hospitality market has survived the worst downturn and experienced the strongest recovery in its history all within a relatively short period of time. As the market has begun to reach normalization, it continues to face new challenges in 2024 with higher interest rates and a slower economic outlook. Despite all this, most forecasters see continued revenue growth in the 4% to 5% range the near to mid term.

While there is an increase of new supply in the pipeline, the expansion is modest and is much needed. Housing shortages have had an impact of the hotel sector as needs for student housing, social housing and refugee housing have increased. The impact of climate change also cannot be underestimated as floods and wildfires in the past year have displaced many across the country and created needs for temporary shelter.

As investments, hospitality is now a favoured asset class in the post COVID period. Although the overall volume of transactions did not change, there was a significant increase in average deal size as larger assets made their way to market – many of these transactions represent opportunities to create significant value. As the year progresses, the impact of higher interest rates and deferred capital will provide well capitalized investors with opportunities.

CONTACT US

Brian Flood *AACI, P.App., MRICS*

Vice President and Practice Leader
Hospitality and Gaming
Valuation & Advisory

Direct: +1 416 359-2387
brian.flood@cushwake.com

Cindy Schoenauer *AACI, P.App.*

Vice President
Hospitality and Gaming
Valuation & Advisory

Direct: +1 604 640-5862
cindy.schoenauer@cushwake.com

Vadess Johan *AACI, P.App.*

Associate Vice President
Hospitality and Gaming
Valuation & Advisory

Direct: +1 416 359-2374
vadess.johan@cushwake.com

Lauren Arnold *AACI, P.App.*

Associate Vice President
Hospitality and Gaming
Valuation & Advisory

Direct: +1 416 359-2478
lauren.arnold@cushwake.com

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