HOSPITALITY INDUSTRY | It's been a tough slog but many factors are coming back together, **Bruce Constantineau reports**

A glass-is-half-full kind of observer of the Greater Vancouver hotel industry could make a case that August was a turnaround month for the challenged sector this year.

After all, city hotels collected more two-per-cent hotel tax revenue that month than in any other month in history, about $1.2 million, an eight-per-cent increase over August 2001.

A glass-is-half-empty observer would note that total tax revenue is still down by about five per cent from last year and, in many cases, hotel occupancy figures are mediocre.

"It's not going to be a banner year by any means, but it will be better than anyone anticipated a year ago [following the Sept. 11 attacks]," said Fairmont Hotels & Resorts regional vice-president Patrick Kelly.

The Greater Vancouver occupancy rate fell to 65.2 per cent during the first 10 months of 2002 from 66.5 per cent a year ago, according to industry consultants Pannell Kerr Forster.

The average room rate held at about $124, but revenue per available room — a key industry profitability statistic — fell by nearly two per cent to $81.

In Whistler, the occupancy rate fell to 56 per cent from 57.2 and revenue per available room fell by two per cent to $115.

"Looking at the November numbers, the performances of individual properties have been all over the map," said PKF analyst Beth Walters. "In occupancy, there are hotels doing 60 per cent better than last year; others are doing 25 per cent less.

"I have rarely seen such a divergence in the range."

Kelly said the industry was so competitive in Vancouver this year that in most cases, hotels never had a second chance to compete for group business.

"If your initial rate wasn't highly competitive, you lost a customer," he said.

"I think it will be at least another two or three years before demand starts to approach supply in this city. There's nothing on the immediate horizon to suggest demand will catch up any sooner."

Westin Grand general manager Stephen Darling said smaller, non-convention hotels are generally performing stronger than large convention hotels because they are less dependent on business in large tour groups and meetings, which is flat.

Tourism Vancouver officials estimate the city was host to 50,000 delegates at 22 major conventions this year and about 40,000 delegates at 21 conventions are expected in 2003.

"Convention hotels are being very predatory to the other hotels' business," Darling said. "There has been business sucked out of the suburbs into downtown Vancouver because the large hotels need to get some business in their doors. They are either dropping room rates or cutting other fees like [meeting-room] rentals."

He has noticed a distinct downturn in the amount of weekend leisure business to Vancouver from Washington state this year and U.S. corporate business is also down but said the Westin has experienced a 22-per-cent increase in Canadian corporate business.

He expects room rates will rise slightly in 2003 as the summer season is traditionally a strong period and city convention business looks very good in May and early June and from Labour Day to mid-October.

"From June through September, there is no over-supply of rooms but there is an over-supply for the other eight months of the year," Darling said. "We probably have 3,200 more rooms than we need because we expected the expanded convention centre to open in 2003."

The often-delayed expansion to the convention centre is now expected to open in 2008. The expanded facility is expected to attract thousands more delegates to the city every year, which would help fill thousands of hotel rooms.

Darling said the occupancy rate at the 207-room Westin rose to 71 per cent this year from 69.4 per cent in 2001, but the average room rate dipped to about $170 from $175 a year ago.

Fairmont Waterfront general manager Kiaran MacDonald said the hotel realized it couldn't rely too much on convention business to drive room nights this year so it intensified efforts in other areas such as corporate and leisure business.

The occupancy rate at the Waterfront rose by one or two percentage points this year to about 75 per cent.

MacDonald said it's a rate-sensitive environment now but stressed that managers must keep a level head.

For example, many companies that once planned meetings 18-24 months in advance now require less lead time and do their planning just 6-12 months in advance.

"So you need the confidence not to press the panic button too early," MacDonald said. "You can't just look at your historical pace and figure there's not enough business coming in so you better cut your rates and intensify your advertising."

Vancouver hotel industry consultant Angus Wilkinson said occupancy in downtown Vancouver is unlikely to be very much higher than 60 per cent next year and agrees with Kelly that it will be three years before business is fairly strong again.

"That's assuming nobody else has a silly idea to build a new hotel," he said.

The 97-room Opus was the only new hotel property in the downtown this year and few new projects are planned now.

"Downtown property is being bid very high now for residential projects so it's totally uneconomic for hotels or office buildings," Wilkinson said. "The asking prices are double what hotel developers could afford to pay."

Kelly said that among the major B.C. destinations where Fairmont owns properties, Whistler is the one that took the biggest hit this year. Occupancy at the Fairmont Chateau Whistler dropped to about 65 per cent this year from 70 per cent a year ago.