



Hotel Market Update Report Western Canada 2003

As we enter 2004 and reflect back upon 2003, it is evident that the year proved to be one of the most challenging years in the history of Western Canada's hotel industry and for most other countries in the world. The lingering effects of 9/11, SARS, Mad Cow disease, the Okanagan forest fires all contributed to provide challenges to not only the hospitality industry, but the general economic climate of our region and Canada. We are optimistic that in 2004, barring any other natural or man-made disasters, we may be finally begin to see some greater confidence by travelers.

The general perception in the hotel investment market has not really changed since our third quarter market report in that, until the margin between the buyers' expectations and sellers top price narrows, few hotel transactions will take place. We believe that margin will gradually narrow in 2004. The single biggest problem facing the hotel markets is that during the past couple of years, most properties have faced a substantial decline in net operating income. As a result, asking prices with cap rates of 10% and below, (and they may be negative due to negative cash flows), are deterring investors. This trend indicates that there are a lot of hotels unofficially on the market for sale in the Vancouver area and throughout the province; however, the majority of buyers are looking for deals with upside potential. Only properties that have sufficient net income to cover debt service are likely to sell, unless receivership or bankruptcy scenarios force the sale of the hotel.

With most of Canada's chartered banks reluctant to renew hotel mortgages, more owners may be forced to sell or seek financial partners if they cannot secure replacement financing. We are working with one source of hotel financing who has funds in the \$1 - \$5 million range and are targeting hotels that have to refinance.

The announcement that Vancouver/Whistler will host 2010 Winter Olympic Games has provided some increased interest in the major markets in BC, notably downtown Vancouver, Squamish and Whistler. Vendors, however, need to maintain some sense of reality in their pricing expectations, as few buyers will be willing to pay the prices that are being asked and the demand projections associated with the Olympic Games may be overly optimistic.

According to the Pannell Kerr Forster (PKF) Trends report for 2003, RevPAR in Western Canada as a whole is down 4.2% over 2002. Saskatchewan fared the best posting a 3.6% gain, followed by Manitoba which saw a decline of 1.7%, B.C. which fell 4.2% over 2002 and Alberta saw the largest drop with a 6.1% decline over the same period in 2002. These rates compare to an overall decline in the country of 8.1%. The following are some of the highlights for 2003:

- ✚ The two market areas that saw the greatest growth this past year were Other Vancouver Island (Tofino, etc.) and Parksville/Qualicum with RevPAR growth of 15.4% and 13.9% respectively.
- ✚ In contrast, the Edmonton market has seen the largest declines with a 15.4% decline in RevPAR in the West, 11.0% in the South, and 9.5% in the downtown core. The other notable areas that suffered in 2003 were the resort areas of Alberta and Whistler which posted RevPAR declines of 5.8% and 7.7% respectively.
- ✚ Some of the secondary markets of Western Canada performed above the market in 2003 with RevPar gains of 7.5% in Kamloops, 6.0% in Prince George, 4.2% in Penticton, 4.7% in Red Deer, and 4.2% in Regina.

Downtown Vancouver

Year	2003	2002	2001
Occupancy	63.9%	63.9%	64.0%
ADR	\$133.15	\$140.93	\$146.27
RevPAR	\$85.02	\$90.07	\$93.58

Richmond (Vancouver International Airport)

Year	2003	2002	2001
Occupancy	62.2%	64.1%	64.6%
ADR	\$89.19	\$89.90	\$89.89
RevPAR	\$55.51	\$57.63	\$58.07

Greater Victoria (Vancouver Island)

Year	2003	2002	2001
Occupancy	65.9%	66.7%	66.1%
ADR	\$116.74	\$121.68	\$121.43
RevPAR	\$76.96	\$81.16	\$80.27

British Columbia

Year	2003	2002	2001
Occupancy	58.2%	59.0%	59.3%
ADR	\$114.64	\$118.03	\$118.22
RevPAR	\$66.73	\$69.67	\$70.14

Alberta (Excluding the Alberta Resorts)

Year	2003	2002	2001
Occupancy	61.2%	65.6%	65.2%
ADR	\$96.43	\$95.72	\$95.24
RevPAR	\$58.97	\$62.83	\$62.12

** These statistics are courtesy of Pannell Kerr Forster Consulting Inc.*

The investment markets in Western Canada that continue to have buyer demand are Victoria, Vancouver, and Richmond. In 2003, PKF reports that the Greater Vancouver market has declined 8.2% in RevPAR over the past three years while Vancouver Island has shown marginal growth during that period. While Greater Vancouver's decline is significant, it is important to try and understand the trends in the individual markets. According to the sample statistics collected by Tyne for year-end 2003:

- ✚ The downtown core experienced a decline in RevPAR of 8.7% in 2003 over 2002 with the 3 star hotels down by 14.7% while 4 star hotels have declined only 6.1%.
- ✚ The 5 star hotels declined over 10% in RevPAR.

- ✚ Of the 4 star hotels, two hotels saw positive gains in 2003 and the majority saw declines of less than 2.5%. But 2 hotels declined by more than 10%.
- ✚ Downtown Vancouver's 3 star hotels have the largest competitive set and only one hotel increased its RevPAR. 6 hotels reported a decline of more than 10% with 1 over 30%.
- ✚ Hotels in areas of Vancouver outside of the downtown core fared slightly better with an average decline of 6.2%.
- ✚ The Richmond, hotels were stronger than the downtown Vancouver hotels with an overall decline in 2003 of 4.2% and only 5% of hotels in that market saw a decline greater than 10%
- ✚ The suburban markets outside of Vancouver and Richmond held their own in 2003 with very minimal declines (less than 2%)

Only a small percentage of the hotels in the lower mainland are suffering from exceptional declines in RevPAR. In most of the markets, because only one or two properties have severe declines, the market averages are distorted.

Looking forward, there are two key components to investment and growth in the Vancouver market, the first being the pending groundbreaking of the expansion to the Vancouver Trade & Convention Center (VTCC). Construction is expected to begin this fall with completion in 2008. The expansion of the VTCC with an additional 419,000 square feet of meeting space (a 300% increase over the current size) will have a significant impact on the Vancouver lodging market, much more so than the Winter Olympic Games in 2010.

The second key however is far more challenging due to the escalating land prices as the city planning department allows more and more commercial sites to be rezoned for residential development. With the limited amount of good hotel sites left in the Central Business District of Vancouver, hoteliers may have to become more creative in the approach to site selection by working with condo developers to include a hotel component in a residential high-rise, by demolishing obsolete hotels or office buildings and rebuilding them with modern hotel facilities.

The price per square foot that can be justified by hotel developers are well those being paid by residential developers. Vancouver hotel prices are a bargain on the international travel scene with an average daily rate of less than \$93 (US) compared with cities like Seattle at \$130.00 (US), San Francisco at \$146 (US), New York at \$194 (US) or London at \$185 (US). While this encourages visitation to the city and region, it discourages new hotel development as the current prices of land and construction are too high for projects to be financially viable.

Supply growth has been limited during the past few years in Vancouver but the suburban markets like Richmond and Surrey continue to see new supply. In Surrey/Langely, over the past eighteen months and including the hotels that are now under construction and scheduled to open in 2004 – the Surrey hotel market will see a 73% increase in rooms and the total market supply will increase by 48%. The Surrey/Langley market ran at an occupancy of 54.4% in 2003 with an ADR of \$79.90, for a RevPAR of \$43.45, which is down 0.5% over 2002. With all the new supply that is entering the market, hotels have sold at less than replacement cost, as was evident with the Meristar REIT hotel sales.

Financing will continue to be an issue for the industry in 2004. Developers are continuing to explore alternative methods of finding financing including mixed use projects such as residential with hotel and retail. Developers are even still trying to convince investors that strata hotels are a good buy, even with law suits pending against the developer's of several British Columbia hotels.

Investment activity in the Western Canadian Hotel market in 2003 saw a total of 37 transactions. The largest sale that took place was that of the Sheraton Grande in Edmonton that was purchased by Sutton Place Hotels for seventeen million dollars. The Park Hill Hotel in Vancouver's West End, sold in 2002, and was sold again in March of 2003. It should open in the spring of 2004 as a Sandman Inn & Suites.

Probably the most note worthy sale of the year took place in December when Meristar (the largest US REIT) sold its remaining Canadian assets in a portfolio sale that included the Holiday Inn Metrotown, the Holiday Inn Calgary Airport and the Ramada Vancouver Center. A fourth property, the Sheraton Guildford is scheduled to close in February and all four properties have been purchased by a single buyer from Toronto. One of the largest Canadian hotel companies, CHIP REIT, was also active in 2003 selling off its three Imperial 400 properties in a transaction that involved CHIP carrying the debt on the properties.

Tyne Hospitality Services Limited is a commercial real estate brokerage firm specializing in the sale of hotels and resorts in western Canada. For more information, we invite you to visit our website at www.tynehospitality.com or contact us by phone, fax or email.

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Western Canadian Hotel Sales 2003

Brand / Name	City	Number of Rooms	Date Sold	Price	Price Per Room
Alberta					
North Hill Inn	Red Deer	116	15-Jan-03	\$8,750,000	\$75,431
Best Western Green Gables	Canmore	61	30-Jan-03	\$5,200,000	\$85,246
International Inn	Nisku	29	30-Jan-03	\$2,000,000	\$68,966
Ramada Crowchild	Calgary	60	1-Feb-03	\$4,450,000	\$74,167
Lord Nelson Inn	Calgary	56	1-Mar-03	\$3,500,000	\$62,500
Best Western Village Park Inn	Calgary	160	31-Mar-03	\$12,700,000	\$79,375
Days Inn	Lethbridge	91	31-Mar-03	\$3,500,000	\$38,462
Quality Inn Motel Village	Calgary	105	1-Apr-03	\$8,100,000	\$77,143
Dynasty Inn	Banff	99	1-Apr-03	\$12,525,000	\$126,515
Black Gold Inn	Drayton Valley	99	1-May-03	\$1,600,000	\$16,162
Imperial Inn	Cold Lake	72	1-May-03	\$2,814,000	\$39,083
Confort Inn & Suites	Edmonton	108	1-May-03	\$4,350,000	\$40,278
Rest E-Z Inn	Edmonton	40	1-Aug-03	\$1,000,000	\$25,000
Chateau Edmonton	Edmonton	139	15-Sep-03	\$10,125,000	\$72,842
Sheraton Grande Edmonton	Edmonton	313	23-Sep-03	\$17,000,000	\$54,313
Holiday Inn Calgary Airport (P)	Calgary	170	15-Dec-03	N/A	N/A
		1,718		\$97,614,000	\$56,818
British Columbia					
August Jack Motel	Squamish	38	1-Jan-03	\$2,050,000	\$53,947
Travelodge	Courtenay	91	1-Jan-03	\$3,450,000	\$37,912
Parkhill Hotel	Vancouver	200	15-Mar-03	\$16,500,000	\$82,500
Riviera Hotel	Vancouver	41	1-Apr-03	\$6,500,000	\$158,537
Cedar's Inn	Gibsons	46	1-Apr-03	\$1,550,000	\$33,696
Ramada Limited	Surrey	85	1-Apr-03	\$5,900,000	\$69,412
Best Western Fireside Inn	Castlegar	59	1-May-03	\$2,600,000	\$44,068
Hillside Plaza Inn	Vernon	33	1-Jun-03	\$1,160,000	\$35,152
Crystal Court	Victoria	57	1-Jul-03	\$4,000,000	\$70,175
Western Traveller Motel	Grand Forks	30	1-Aug-03	\$795,000	\$26,500
Abigail's Hotel	Victoria	23	1-Aug-03	N/A	N/A
Shoestring Lodge	Whistler	43	1-Aug-03	\$11,800,000	\$274,419
Rafter G' Hotel	Kamloops	52	1-Nov-03	\$503,940	\$9,691
Monte Carlo Motor Inn	Castlegar	48	1-Nov-03	\$1,155,000	\$24,063
Holiday Inn Metrotown (P)	Burnaby	100	15-Dec-03	N/A	N/A
Ramada Vancouver Center (P)	Vancouver	118	15-Dec-03	N/A	N/A
Mr. Sport Hotel	Vancouver	123	29-Dec-03	\$8,300,000	\$67,480
		1,187		\$66,263,940	\$55,825
Saskatchewan					
Quality Hotel	Saskatoon	185	1-Jan-03	\$5,250,000	\$28,378
Imperial 400	Prince Albert	137	1-Jul-03	\$1,050,000	\$7,664
Imperial 400	Swift Current	142	1-Jul-03	\$1,145,000	\$8,063
Imperial 400	Yorkton	153	1-Jul-03	\$1,105,000	\$7,222
		617		\$8,550,000	\$13,857
Western Canada (Total)		3,522		\$178,102,940	\$50,569

(P) Portfolio Sale