



Hotel Market Update Report Western Canada Mid Year 2004

As we reach the mid point of 2004 the long awaited optimism the hotel industry has been hoping for has finally arrived. It seems that 2003 may have been the bottom of the cycle in terms of hotel performance across the country as positive trends are emerging in most markets. The general economic climate is improving, the newly elected Liberal minority government seems to have instilled confidence, and for at least the next 12-18 months, the industry looks set for continued recovery barring any man-made or natural disaster which could potentially deter the confidence of the traveling public.

Hotel Investment Market

The positive trends in hotel performance is causing the hotel investment market to take a wait and see approach as property owners feel the increased performance will translate into higher property values. If this is the case, the period after the summer months may be a prime time for buying and selling as there is a significant amount of capital in the market chasing very little product with even fewer motivated vendors. The keys to the hotel investment market in the short to medium term include:

- Buyers must look at the upside trends and value hotel businesses based on some assumptions of future income and not just the trailing twelve months of net operating income
- The next 12 – 18 months should prove to be a busy investment market if sellers are realistic in their pricing expectations
- Cap rates below 10%, even on projected income for the next twelve months will still deter investors
- Some of the REITS are active but are setting strict purchasing criteria including newer buildings and double digit cap rates

Hotel Financing

The hotel financing markets in Canada have seen an improvement in the past six months in terms of the number of financing sources. Major banks are still shying away from hotel investments unless the clients have a historic and valued relationship. However, GE Capital advised that they had placed more than \$37 M in hotel debt across the country in the month of June which indicates a positive trend.

Franchise Update

The franchise companies have been busy during this first half of the year focusing on conversions and expansions of properties. Some of the notable changes include:

- The Best Western Poco Inn and Suites is about to undergo a \$20 M expansion
- The Canyon Court hotel in North Vancouver has recently been converted to a Comfort Inn & Suites.

- Holiday Inn Express Abbotsford is planning an expansion and will also become a Comfort Inn & Suites.
- Sandman has reopened 150 of the Parkhill Hotel's 190 suites on Davie Street in downtown Vancouver as a Sandman Inn & Suites. The balance of the rooms should be open by the end of the summer.

Winter Olympics – Vancouver/Whistler 2010

The positive effect the Olympic announcement was hoped to have had on the Whistler resort market did not materialize. This winter the resort municipality's lodging market is down 6.2% percent year-to-date through May compared to the same 5 months of 2003 that was prior to the Olympic bid announcement. Tyne will release a report in the fall detailing the effect of the Games on the hotel industry in past host cities and projections as to what Greater Vancouver might expect over the next 12 years.

Market Reports

In general, the markets across Western Canada have shown very positive trends through the first half of the year. The following are some of the highlights:

- According to the Pannell Kerr Forster (PKF) Trends report for May 2004, RevPAR in Western Canada as a whole is up 7.6% over the same time frame in 2003.
- Alberta has fared the best posting an 8.5% gain year-to-date, followed closely by Saskatchewan which saw a gain of 8.3%. B.C. rose 7.0% and Manitoba, which is recovering slower than the other Western Provinces, saw a gain of 6.4% over the same period in 2003.
- These rates compare to an overall increase in Canada of 7.5%.

Downtown Vancouver

| Year | 12 Month Averages | | | | |
|-----------|-------------------|-----------------|----------|----------|----------|
| | YTD May 2004 | YTD May 2003 | 2003 | 2002 | 2001 |
| Occupancy | 62.6% | 56.3% | 63.9% | 63.9% | 64.0% |
| ADR | \$122.88 | \$117.64 | \$133.15 | \$140.93 | \$146.27 |
| RevPAR | \$76.92 | \$66.27 | \$85.02 | \$90.07 | \$93.58 |

Richmond (Vancouver International Airport)

| Year | 12 Month Averages | | | | |
|-----------|-------------------|-----------------|---------|---------|---------|
| | YTD May 2004 | YTD May 2003 | 2003 | 2002 | 2001 |
| Occupancy | 62.1% | 55.9% | 62.2% | 64.1% | 64.6% |
| ADR | \$85.45 | \$86.59 | \$89.19 | \$89.90 | \$89.89 |
| RevPAR | \$53.10 | \$48.40 | \$55.51 | \$57.63 | \$58.07 |

Greater Victoria (Vancouver Island)

| Year | 12 Month Averages | | | | |
|-----------|-------------------|-----------------|----------|----------|----------|
| | YTD May 2004 | YTD May 2003 | 2003 | 2002 | 2001 |
| Occupancy | 65.4% | 62.6% | 65.9% | 66.7% | 66.1% |
| ADR | \$100.23 | \$95.84 | \$116.74 | \$121.68 | \$121.43 |
| RevPAR | \$65.57 | \$59.97 | \$76.96 | \$81.16 | \$80.27 |

British Columbia

| Year | 12 Month Averages | | | | |
|-----------|-------------------|-----------------|----------|----------|----------|
| | YTD May 2004 | YTD May 2003 | 2003 | 2002 | 2001 |
| Occupancy | 57.8% | 54.3% | 58.2% | 59.0% | 59.3% |
| ADR | \$112.44 | \$111.76 | \$114.64 | \$118.03 | \$118.22 |
| RevPAR | \$64.99 | \$60.73 | \$66.73 | \$69.67 | \$70.14 |

Alberta (Excluding the Alberta Resorts)

| Year | 12 Month Averages | | | | |
|-----------|-------------------|-----------------|---------|---------|---------|
| | YTD May 2004 | YTD May 2003 | 2003 | 2002 | 2001 |
| Occupancy | 61.0% | 58.7% | 61.2% | 65.6% | 65.2% |
| ADR | \$98.20 | \$94.16 | \$96.43 | \$95.72 | \$95.24 |
| RevPAR | \$59.93 | \$55.25 | \$58.97 | \$62.83 | \$62.12 |

Western Canada

| Year | 12 Month Averages | | | | |
|-----------|-------------------|-----------------|----------|----------|----------|
| | YTD May 2004 | YTD May 2003 | 2003 | 2002 | 2001 |
| Occupancy | 58.4% | 55.5% | 59.0% | 61.0% | 61.0% |
| ADR | \$106.59 | \$104.16 | \$108.72 | \$109.69 | \$110.16 |
| RevPAR | \$62.25 | \$57.84 | \$64.10 | \$66.94 | \$67.16 |

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

Tyne's sample statistics for the first 6 months of 2004 indicate:

- The downtown core has increased 17% in RevPAR over 2003 with the 4 star hotels leading the way with an increase of 19% while 5 star hotels have seen the smallest gain of only 10%

- Over 1/3 of the hotels in the downtown core have seen increases greater than 20% with only 2 hotels reporting declining RevPAR
- Hotels in areas of Vancouver outside of the downtown core have seen much more moderate growth with overall RevPAR gains in the range of 7%.
- Richmond hotels have reported an overall RevPAR increase of 12% with a significant percentage of the hotels reporting gains of greater than 20%.

Hot and Cold Markets

Across Western Canada, some cities and regions have been showing much stronger recovery trends. Some of the hot and cold markets include:

Hot

- Abbotsford/Chilliwack is up 21.7% in RevPAR through the first five months of 2004
- Downtown Vancouver is up 16.1% in RevPAR
- Kelowna is up 13.6% in RevPAR
- All of the Calgary markets have seen double digits increases in RevPAR with the exception of the airport and south Calgary hotels

Cold

- Whistler is down 6.2% in RevPAR
- Regina is down 3.6%
- Lethbridge Alberta is down 2.4%
- Edmonton West has declined 0.8% over the same period in 2003
- Surrey/Langley is up 0.4% which is notable due to the fact that the Greater Vancouver market as a whole is up 13.2% indicating that the oversupply in Surrey/Langley is taking its toll on the market, and more new supply is under construction.

Hotel Development (Supply)

The hotel industry is beginning to experience resurgence in development proposals across Western Canada, but specifically in the hot markets discussed above. This is most likely due to the improved confidence in the industry. The following highlights some of the development information pertinent to Western Canada:

- In downtown Vancouver, a wave of boutique style hotel development proposals have come forward in recent months. These projects are generally part of a mixed use development and are seldom more than 120 rooms. Some of these proposals include:
 - Shangri La Hotel at 1100 West Georgia
 - Amacon's development at 550 Bute
 - Dominion Hotel in Gastown was sold and is scheduled to be upgraded into a boutique style hotel
 - Umberto Menghi is planning a small boutique hotel on his site at 1380 Hornby next to his Il Giardino restaurant
- The Richmond market is still very popular but with the 225 room Riverport Casino Hotel opening in 2005 and a 52 room La Quinta set to open in August 2004, there is no justification to build any more rooms. That being said, there is a proposal for a 120 room

Residence Inn on Bridgeport Road and another hotel in east Richmond off Steveston Highway at Highway 99.

- Kelowna is also in the process of a development boom with a few proposals on the table. The Canada Lands site listed by Tyne has been tied up by a local developer and with limited development opportunities close to the lakeshore and downtown areas, this will be a key development for Kelowna's hotel sector. In addition, there are proposals for another waterfront hotel in downtown Kelowna called the Willow Project, a Comfort Inn and Suites on Highway 97 just south of the Highway 33 turnoff, and another proposal for a lakeshore hotel on Cedar Avenue. The Eldorado hotel has also recently expanded its operation.
- One market that is not in need of any more development is the Surrey/Langley market which is oversupplied and is not seeing the positive recovery evident in the rest of Greater Vancouver. With the Hampton Inn just recently opened in the Guilford area and a full-service Holiday Inn already under construction in the same area, it may be a few years before this market fully recovers. There is also a 77 room hotel to be constructed as part of the new Casino in the center of Langley which will be managed by Coast Hotels.
- The Pemberton Valley Lodge is a new strata hotel and is opening on August 15th. It will be managed by Atlific Hotels.

Hotel Sales

Hotel transactions during the first half of 2004 have been very quiet but the second half of the year could see more transactions if the positive trends in the industry continue. May and June were the two busiest months in the first half of the year which may indicate a positive trend. Some of the noteworthy sales so far this year include:

- Residence Inn Canmore was sold to an investor from Korea with Atlific taking over the management from CHIP REIT
- Radisson Villa Burnaby which was sold to Gateway Casinos with plans to tear down the two storey structure in order to build a new casino. During the process the entire hotel will be closed for up to 18 months.
- Days Inn YVR Richmond

Other items of interest include:

- The Ramada Limited in Richmond will be converted into a seniors residence in September reducing the inventory of hotel rooms in Richmond by 77
- CHIP REIT tried to sell the Residence Inn in downtown Vancouver earlier this year for condo development, but its efforts were unsuccessful
- The Park Royal Hotel will be closing its doors on September 9, 2004 to make way for a condo development in West Vancouver, leaving the municipality without any hotels
- Coast Hotels will take over management of the Coast YVR property in Vancouver in October



Western Canadian Hotel Sales 1st Half 2004

| Brand / Name | City | Number of Rooms | Date Sold | Price | Price Per Room |
|--|----------------|-----------------|------------|----------------------|-----------------|
| Alberta | | | | | |
| Thornton Court | Edmonton | 200 | February | \$9,600,000 | \$48,000 |
| Kananaskis Resort & Conference Center | Kananaskis | 90 | March | \$8,750,000 | \$97,222 |
| Residence Inn Canmore | Canmore | 119 | May | \$13,950,000 | \$117,227 |
| Best Western | Athabasca | 65 | May | \$4,356,000 | \$67,015 |
| Holiday Inn Downtown Calgary | Calgary | 188 | June | \$17,500,000 | \$93,085 |
| | | 662 | | \$54,156,000 | \$81,807 |
| British Columbia | | | | | |
| Viking Motel | Nelson | 44 | Jan. 2004 | N/A | N/A |
| Parksville Beach Motel | Parksville | 47 | March 2004 | \$4,800,000 | \$102,128 |
| Super 8 | Surrey | 57 | April 2004 | N/A | N/A |
| Safari Inn | Kelowna | 37 | May 2004 | \$1,725,000 | \$46,622 |
| Sheraton Guildford | Surrey | 278 | June 2004 | \$12,750,000 | \$45,863 |
| Lord Jims Resort | Sunshine Coast | 25 | June 2004 | \$1,750,000 | \$70,000 |
| Radisson Villa | Burnaby | 275 | June 2004 | \$23,500,000 | \$85,455 |
| Dominion Hotel Gas Town | Vancouver | 67 | June 2004 | N/A | N/A |
| Travelodge | Salmon Arm | 36 | June 2004 | \$1,700,000 | \$47,222 |
| Days Inn YVR | Richmond | 67 | June 2004 | \$4,400,000 | \$65,672 |
| | | 933 | | \$50,625,000 | \$54,260 |
| Yukon | | | | | |
| Yellowknife Explorer Hotel | Yellowknife | 128 | May 2004 | \$6,350,000 | \$49,609 |
| | | 128 | | \$6,350,000 | \$49,609 |
| Manitoba | | | | | |
| Radisson Suite Hotel Winnipeg Airport & Airport Executive Center | Winnipeg | 160 | Feb. 2004 | \$13,400,000 | \$83,750 |
| | | 160 | | \$13,400,000 | \$83,750 |
| Saskatchewan | | | | | |
| Super 8 | Prince Albert | 60 | March 2004 | \$4,200,000 | \$70,000 |
| Super 8 | Saskatoon | 69 | March 2004 | \$4,600,000 | \$66,667 |
| Super 8 | Meadow Lake | 48 | March 2004 | \$3,300,000 | \$68,750 |
| Best Western Inn & Suites | Saskatoon | 91 | March 2004 | \$10,900,000 | \$119,780 |
| | | 268 | | \$23,000,000 | \$85,821 |
| Western Canada (Total) | | 2,151 | | \$147,531,000 | \$68,587 |

Current Opportunities

Looking forward to the second half of 2004, we believe that the markets will continue to see a stronger than expected recovery with vendors holding onto properties as the markets recover or setting prices that reflect the upside potential. Capital for hotel investments continues to grow as we see interest from local hotel companies in acquiring more assets, but the key is that they all want properties in major markets such as Greater Vancouver, Kelowna, Victoria, Calgary and Edmonton.

Tyne Hospitality is a commercial real estate brokerage firm specializing in the sale of hotels and resorts in western Canada with a preference for working with buyers to acquire assets that suit their investment requirements. The following is a list of some of the current opportunities available in Western Canada, although not all of these are Tyne mandates:

- Days Inn Victoria Waterway with 100 rooms is for sale
- Passive Investors are being sought for a 49% stake in the Grand Okanagan Resort with management retained by Royal Host
- The owners of the Delta Vancouver Suites Hotel are also searching for passive investors with management for that property being retained by Delta.
- A 2.5 acre site suitable for hotel development is available on Highway 1 at 200th Street in Langley (the new Picadilly Interchange)
- Other resort development opportunities are available in:
 - Oliver
 - Resort Golf Community in Kamloops
 - Point Roberts, Washington State

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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