WESTERN CANADA HOTEL MARKET UPDATE

1999 Market Overview

Prepared by:
Angus Wilkinson, CGA MHCIMA

Hospitality Division
Royal LePage Commercial Inc.

PO Box 37, Robson Court
Suite 500 - 840 Howe Street
Vancouver, BC
V6Z 2M7
www.royallepage.com
Tel: (604) 683-3111
Fax: (604) 683-0432
email: awilkinson@royallepage.com

The past two years and next, have seen the greatest increase in newly built hotels in the history of Vancouver. The development was fuelled by the continued demand from visitors to come to our province. This demand is supported by even more positive statistics for the first 8 months of 1999. In spite of these positive statistics the NDP Government has announced that it will not proceed with an investment in an expanded Trade and Convention Centre and blames the federal government's lack of commitment to providing a financial contribution as the main reason for their withdrawal of support! I do not wish to prolong further elaboration on this important issue as much has already been written on this subject by the media. Let me summarize just where the demand for visiting our province is coming from and let the politicians' decide on the future of tourism in our country.

Visitors to British Columbia and Canada:

BC has recorded a 10.7% increase in visitors during the first 7 months of 1999 compared to a national increase of 5.7%. Visitors from the USA contributed the greatest volume of visitors with a 10.1% increase over 1998 but some of the Asian countries showed increases of as high as 59.5% with the UK and France posting increases of 12.4% and 54.9% respectively. To put this in perspective, BC is reported to have received 16% of all American visitors to Canada, 61% of all visitors from Asian countries and 21% of all visitors from European countries. So 26% of all international visitors to Canada are coming to British Columbia. These increases in demand continue without an expanded Trade and Convention Centre, so imagine how we might benefit with an increase in the size of this facility and more new hotel rooms of an international calibre.

The September1999 issue of Travel and Leisure magazine once again recorded a readers' poll reporting that Victoria and Vancouver were voted to be number 2 and 3 in continental North America ahead of New York City with only San Francisco out voting our cities in popularity. On the hotel scene CP Hotels Empress in Victoria was ranked in number 3 spot followed by the Chateau Lake Louise in 6th place, Chateau Whistler (18), Banff Springs Hotel (28) and Chateau Frontenac, Quebec City (38). In Vancouver, the Pan Pacific Hotel and the Four Seasons were rated in 16th and 26th positions respectively with the Four Seasons Toronto and the Ritz Carlton, Montreal both rated in the top 100 hotels. On a world wide basis The Empress hit the charts in 35th position with Chateau Lake Louise, Chateau Whistler and the Pan Pacific Hotel all ranked in the top 100 hotels.

The Vancouver International Airport terminal is continuing its expansion to cope with the international demand and this facility will have a new 400 rooms full service hotel opening in November 1999. The hotel is being built by CP Hotels but it will be named as the Fairmont Vancouver Airport, using the new brand name which CP has purchased.

The Alaska cruise ship industry continues to flourish with another season closed and more than 900,000 passengers embarking or disembarking in Vancouver. On the negative side, one cruise ship company has announced that it will sail from Seattle in the future due to the lack of cruise ship berths in Vancouver on peak days of the week.

Hotel Business Results For the 8 months ended August 1999

Downtown Vancouver:

	High	Low	Average	*Number of Hotels Over 75% Occupancy* 1999	1998
Occupancy	94.1%	58.9%	73.4%	14	17
				Number of Hotels Over $150	
ADR	$220.86	$94.19	$146.34	14	11

1999 has seen the opening of 3 new hotels, the Westin Grand, Sheraton Suites Le Soleil and the Hampton Inn and Suites. This has added 461 new rooms and suites resulting in a 4% increase in inventory. The downtown hotels have seen a 2.2% decrease in occupancy as a result of this increase in supply but the ADR has improved by $12.91 or 8.8%. Twelve hotels, however, increased occupancy over 1998 and 21 hotels increased their ADR. When examining, however, the results of the five and four diamond properties the results show a 1% increase in occupancy to an average of 78.6% with ADR jumping $11.91 or 6.6% without including the 2 new hotels which may be classified in this sector. So it would appear that the demand for full service luxury and upscale hotels continues to be high and that the new hotels entering this market have yet to impact results at this level. For the month of August 1999 downtown hotels achieved 91.4% compared to 89.2% in 1998 with ADR's averaging $179.21 compared to $167.75 10 hotels topped the $200.00 ADR level with only one hotel achieving less than 75% occupancy.

Richmond - Airport:

	High	Low	Average	*Number of Hotels Over 75% Occupancy* 1999	1998
Occupancy	85.9%	61.2%	72.0%	9	9
				Number of Hotels Over $100	
ADR	$115.98	$71.05	$92.49	5	9

3 new hotels have opened this summer compared to the 4 which opened in 1998. The Hampton Inn and Suites lead the way followed by the Vancouver Airport Hilton and the Sandman Vancouver Airport. This has added 524 rooms and suites thus increasing inventory by 16.5%. Only the Hilton hotel is a strata ownership property and is only the second hotel in Richmond's 19 hotels to be financed by this method. For the first 8 months, occupancy has held up well showing a 72% average, up 1.1% over 1998 with one hotel not yet reporting. ADR's however, have dropped by $12.60 or 13.6% and fewer hotels are achieving more than $100.00. In October, the CP Hotels project will open at the YVR terminal under the name Fairmont Vancouver Airport with 392 luxury class rooms and suites, so it will be a difficult winter season for all hotels in this market. Richmond is continuing to study proposals to build a 120,000 square foot Trade Centre financed by the new 2% room tax and if this is successful then this project may get underway in the next 3 - 5 years. Airline crews are starting to move to Richmond hotels as downtown hotels continue to increase room rates. This will assist in absorbing the increased inventory unless more new hotels are able to attract financing.

Other Lower Mainland Areas:

The areas of Burnaby, New Westminster, Surrey and other locations in Vancouver have had to bear the brunt of the new hotel inventory with declining occupancies and a further decline in ADR. The Broadway corridor hotels were not severely impacted but the areas east of Vancouver saw a drop in ADR of $8.31 or 8.7%. In October 1999 the Hilton Vancouver Metrotown in Burnaby will open with 283 rooms adding a huge 37% to the existing Burnaby inventory. In the first 8 months of 1999 7 hotels achieved more than 75% occupancy with 6 reaching an ADR of more than $100.00.

Overall Lower Mainland Market:

Out of a sample of 60 hotels, 30 reported occupancies exceeding 75% for the first 8 months of 1999, 14 hotels achieved over $150.00 ADR and a further 11 exceeded $100.00. Overall occupancy has dropped by only half a percentage point and ADR has increased by 1.7%. 6 new hotels have already opened with 985 rooms and over the next 18 months a further 5 hotels, that are under construction, will open with 1,638 rooms plus the Sandman Downtown Vancouver expanding with a 96 room tower. 889 rooms in downtown Vancouver will add 7.8% to the existing inventory and the Holiday Inn North Vancouver will add 32% to the north shore inventory.

Victoria Market:

While Vancouver has seen the continued growth of new hotels in the past 3 years, Victoria has seen only 2 new properties. The Magnolia Hotel with 66 rooms opened in 1998 and the City Garden Inn (now a Sandman Hotel) opened in May 1999. With 50% or more visitors to Victoria originating in the USA it is surprising to see none of the major US flags represented in this market and only one large convention hotel, CP's Empress Hotel. Occupancies in the first 8 months of 1999 are reported to average 74.44% compared to 72.88% in 1998, an improvement of 1.56%. The larger hotels, over 150 rooms, have outperformed the market at 83.05%, up by 3.5%. ADR continues to improve at $115.13 up by 5.03%. Again the larger hotels outperform the market with an ADR of $138.11, up by 6.2%. Demand is for the inner harbour hotels with ocean views, just as it is for Coal Harbour in Vancouver and visitors will pay a premium for these locations. Supply will increase in the next 2 years with the Clarion Hotel Grand Pacific commencing an expansion of its 4 diamond property. This will start by demolishing the Quality Crest Harbourview which has 86 rooms. They will open with the expanded facility and possibly a new flag in May 2001. Three other sites are under contract or study for the construction of new hotels, and are all in close proximity to the Victoria Conference Centre. US flags are under consideration for each of these proposed hotels, which could, if they proceed, add 485 rooms to the existing downtown Victoria inventory of 3,568 rooms, or 13.6%. With the current cost of land and construction costs all of these hotels will need to charge in the $135.00 plus range in order to be viable. It was the Empress Hotel's turn for a short strike this summer but the labour action was settled quickly with a minimum of disruption.

Hotels Under Construction
Current Opening Dates

Downtown Vancouver

Name	Rooms	Management	Estimated Opening
Sandman Expansion - Georgia Street	96	Sandman Hotels	Jan 2000
Delta Pinnacle	446	Delta Management Services	Jan 2000
Sheraton Tower II	347	Starwood Hotels & Resorts	Jan 2001
Total Rooms	***889***		
Richmond - Airport			
Fairmont Vancouver Airport	392	CP Hotels	Oct 1999
Total Rooms:	***392***		
Other Areas			
Holiday Inn (Coach House) North Vancouver	162	Owner operated	April 2000
Hilton Vancouver Metrotown, Burnaby	283	MeriStar Hospitality Corp.	Nov 1999
Westin Whistler Phase I	190	O'Neill Hotels & Resorts	Dec 1999
Westin Whistler Phase II	229	O'Neill Hotels & Resorts	Mar 2000
Total Rooms:	***864***		
Overall Total Rooms:	**2,145**		

Hotel Financing:

The Canadian chartered banks have never looked favourably on financing hotels but this past year has seen them withdraw even more from supporting this industry. The 60% loan to value ratios have been reduced to 50% with debt service ratios increased from 1.4T to 2.0T. Amortization at more than 15 years is now rare. Some banks have said that they will not finance hotels at this time unless than have a special relationship with an existing bank customer. Of course, all of these loans will be with recourse. I have just returned from a US Lodging Conference in Phoenix where eager US lenders were interviewing potential customers at a preorganized event. Within 5 days one lender has issued a term sheet to finance a new build hotel in the US with a 70% loan to value, a 10 year fixed interest rate, 25 years amortization and 1.4T debt service coverage. The loan is non-recourse! Hotel financing is difficult at best and the groups which I met have indicated a desire to only finance mid-range hotel brands and full service hotels, such as Hilton Garden Inns, Marriott Courtyards, Sheraton Four Points, etc. They require an approved franchise and an approved and established management company if a non-recourse loan is to be secured. Financing for limited service budget category hotels is not easily available due to the concern of overbuilt markets. Interest rates are currently in the 9% - 9.25% range. There would appear to be greater financing interest for the larger loans in excess of $15,000,000. Some of these lenders are now opening offices in Canada where they see an opportunity with our conservative banking system.

Hotel Franchising in Canada:

AFM Hospitality who own the Canadian franchising rights for Howard Johnson Hotels and Ramada, are aggressively looking to expand their presence in Canada. They tried and failed to negotiate purchasing a Pacific North West hotel management company from Seattle as part of their expansion plans. Executive Inns and Suites has entered the competitive franchising field and have won contracts at the Laurel Point in Victoria and a small hotel located at Whistler. Microtel Inns and Suites has also embarked on an expansion into Canada after its success in launching budget hotels throughout the US. This brand, however, requires new construction so that with the difficulty of financing is making slow progress at this time. They hope to be successful with a UK private financing group to finance a number of new Microtels across Canada with 75% - 80% funding, interest only loans and with the financier expecting to exit through refinancing in 3 - 5 years.

Hotel Sales in Western Canada:

This has been a very slow year for hotel transactions due in part to the lack of public company funds and poor financing. The following hotels have been sold in Western Canada:

	No. of Rooms	*Sale Price*	*Price Per Room*
Delta Whistler	292	Not Yet Disclosed	
Pacific Palisades, Vancouver	233	$33,500,000	$143,776
Long Lake Inn, Nanaimo	61	$ 5,200,000	$ 83,870
Best Western Bayside, Parksville	57	$ 4,700,000	$ 82,456
Oceanside Inn, Parksville ®	87	$ 3,400,008	$ 39,081
Anchor Inn, Campbell River ®	77	$ 1,968,000	$ 25,558
City Garden Inn, Victoria	100	$ 9,325,000	$ 93,250

® Receivership sale

Very few hotels are exclusively listed for sale but the number that are available for sale at the right price is growing monthly. Buyers, however, are few in number due to the generally poor performance of hotels except for Vancouver, Victoria and Whistler. The first 7 months of 1999 show the smaller centres in BC to be achieving occupancies of 54.3% at an ADR of $77.46 and excluding Victoria, the remainder of Vancouver Island is much the same story. The smaller centres in Alberta are performing much more strongly but, due to the lack of adequate financing, the hotels which are on the market are not selling.

Alberta Market:

The bloom is off he Calgary hotel markets with the number of new hotels which have now been built and opened in the past 18 months. Occupancies for the first 7 months is down by 8.4% but ADR continues to grow by 5.8%. The newly opened Sheraton Suites Eau Claire with 325 suites now leads the downtown market in ADR and is competing strongly for the best occupancy after only 6 months of full operation. A newly built Hilton Garden Inn, the first to open in Canada, opened for business this July and is now the closest hotel to the international airport. In the north west at Motel Village a Hampton inn and Suites with 96 units has opened and this area continues to lead Calgary in occupancy although down by 7.6% from the highs of 1998. New hotels have been opened in Red Deer, where Sandman Hotels are building 146 rooms, Grande Prairie, Lethbridge, Brooks, Edmonton and Canmore. In Canmore a 119 room Residence Inn by Marriott will be built and managed by Meristar Hospitality Corporation.

Canadian Hotel Performances for 7 months ended July 1999:

	Occupancy		
	1999	1998	% Variance
Greater Victoria	75.3%	71.7%	5.0%
Halifax/Dartmouth, NS	74.6%	69.5%	7.3%
Toronto Airport	74.3%	74.5%	-0.2%
Downtown Toronto	73.3%	73.2%	0.1%
Ottawa	72.2%	74.7%	-3.3%
Alberta Resorts	71.7%	71.8%	-0.1%
Vancouver Airport	71.3%	74.6%	-4.4%
St. Johns, NF	71.4%	62.7%	13.9%
N.W. Ontario, ON	71.3%	67.1%	6.3%
Calgary NW	71.1%	77.0%	-7.7%
Downtown Vancouver	70.3%	70.7%	-0.6%
Saskatoon	70.3%	75.0%	-6.3%
Downtown Calgary	69.1%	75.5%	-8.5%

	Average Daily Rate		
	1999	1998	% Variance
Whistler, BC	$176.84	$156.78	12.8%
Alberta Resorts	$174.86	$168.25	3.9%
Downtown Toronto	$146.76	$132.69	10.6%
Downtown Vancouver	$143.58	$138.32	3.8%
Downtown Calgary	$128.52	$120.43	6.7%
Greater Montreal	$118.32	$106.66	10.9%
Greater Victoria	$113.19	$108.78	4.1%
Greater Quebec City	$111.73	$104.96	6.5%
Ottawa	$107.37	$96.59	11.2%
Niagara Falls	$105.23	$96.57	9.0%
Other Vancouver Island	$103.60	$98.75	4.9%
Toronto Airport	$102.30	$93.20	9.8%
Toronto East/North	$100.84	$89.57	12.6%

Data courtesy of Pannell Kerr Foster TRENDS Publications

Western Canada continues to lead the country in ADR growth with 5 regions out of the leading 7. There is, however, a wide disparity in the rates achieved by the resort regions of Whistler and the Alberta rockies. The resort hotels achieve over $170 but the regions ranking 9th - 13th are only in the range of $100 - $107.

Victoria leads Canada with an occupancy of 75.3%, an improvement of 5% over 1998. Most other regions showed a decline in occupancy excepting Halifax, Newfoundland and NW Ontario.

The following table summarizes the Western Canada results compared to the national averages:

National Results	**66.1%**	**$105.01**	**$69.44**
Downtown Vancouver	70.3%	$143.58	$100.99
Vancouver Airport	71.3%	$91.70	$65.42
Victoria	75.3%	$113.19	$108.78
Downtown Calgary	69.1%	$128.52	$88.79
Edmonton	61.5%	$84.72	$52.10

National and International Hotel Chains:

In Canada we have seen the struggle by Royal Host REIT to merge with CHIP REIT and the ultimate result of the Belkin family purchasing a 34% interest. Westmont Hotels from Houston eventually won their take-over bid for Unihost (previously Journey's End). Canadian Pacific Hotels have achieved success with their purchase of the Fairmont Hotel management company and will rebrand some of the Canadian hotels with this brand. This deal along with the Princess Hotel chain acquisition in 1998 and Delta Hotels gives them a chain of 67 properties and 29,071 hotel rooms. Other international consolidations include ACCOR's purchase of Red Roof Inns (US$1.1 Billion), ACCOR and Blackstone & Colony Capital buying 52 Vivendi Hotels, Hilton International's purchase of the Stakis Hotel Group, CDL of Singapore purchasing the 43 hotels from Millenium Copthorne and now Hilton Corporation planning to merge with the Promus chain giving them multiple brands to market within the US and Canada (US$4 billion).

At the beginning of August, world-wide hotel stocks are still mostly declining except for Asian Pacific, where all companies are ahead of values a year ago. In Europe, Granada (Le Meriden and Forte Hotels) are the only stock trading ahead of 1998 and by a huge 25%. Both Bass and Hilton International are performing well. In North America, Four Seasons are the strongest and most consistent stock at 53% up over a year ago and Red Roof Inns with a 33% improvement. Marriott International has caught up with last years value and the only REIT that is ahead of last year is MeriStar Hospitality Corporation. Starwood Lodging, Westin and Sheraton Brands, has converted to C-Corp status but is still trading at 34% less than in 1998, but, Wyndham International (previously Patriot Hospitality REIT) is now at 75% below its 1998 value.