

**WESTERN CANADA HOTEL MARKET UPDATE
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1998 Market Overview

1998 will go down in history as the year that hotel stock values plummeted by as much as 85%. Although some of the stocks have recovered some of their value, most are still trading at less than 50% of their former highs. Starwood, the world's largest REIT, has restructured as a public "C" corporation and Patriot American Hospitality is still in the process of restructuring and is planning to sell a large percentage of its portfolio.

European hotel stock values, however, have not been as severely hit. Granada, who own the Forte and Le Meridien brands is up in value by 9.5% with Labroke (Hilton International) off by 18% and Bass (Holiday Inn and Inter Continental) off by 12%. Accor, the French conglomerate with Sofitel and Novotel brands is up 9% over 1997.

Of the Canadian hotel chains, Four Seasons has recently announced record earnings for 1998 and continues to grow its resort portfolio. Canadian Pacific Hotels acquired the Princess hotel chain in 1998 and is actively pursuing the Mexican chain Camino Real and the Fairmont Hotel Company.

In British Columbia our tourist industry continues to grow, although at a slower pace than in recent years. A 1.5% growth rate is projected for 1999 with tourist revenues estimated to top nine billion dollars. The Business Development Bank of Canada has announced its support for tourism development with a \$500 million financing fund.

Only top quality facilities to attract an international market will be financed.

AAA has published its 1999 hotel ratings guide and ranks only 9 hotels in downtown Vancouver with a 5 or 4 diamond classification. This represents only 37% of downtown hotel rooms or 21% out of the 44 properties. This lack of international quality hotels is just one reason why some of the worlds' leading hotel chains are still bullish about investing in a new build hotel. They have investigated purchasing an older 3-star property, most of which offer little flexibility for re-development to a 4 star plus international standard.

Some of downtown Vancouver's potential hotel development sites have now been passed over and are currently being proposed for stadium cinemas and office buildings. Examples include 600 Granville, 780 Granville, 900 Burrard Street, 1133 West Georgia Street and 1177 West Pender Street. This now leaves less than 5 quality 4 and 5 diamond hotel development sites in a market which has seen a considerable decrease in land values.

On the management company front, both CHIP REIT and Royal Host REIT have purchased hotel management companies from the O'Neill brothers and the Royer family respectively. This will ensure an improved return for the REIT investors.

Hotel Business Results 1998

	Downtown Vancouver			Number of Hotels Over 75% Occupancy	
	High	Low	Average	1998	1997
Occupancy	95.2%	49.8%	73.4%	11	17
				Number of Hotels Over \$150	
ADR	\$206.53	\$94.12	\$137.54	10	10

	Richmond - Airport			Number of Hotels Over 75% Occupancy	
	High	Low	Average	1998	1997
Occupancy	84.4%	58.3%	72.2%	4	9
				Number of Hotels Over \$100	
ADR	\$113.28	\$78.25	\$98.09	3	5

Vancouver's downtown hotels recorded an occupancy decrease in 1998 of 3.4% but 699 new rooms were added to inventory at varying times during the year. This was a year when owners' were working towards the repositioning of their hotels resulting in both reflagging and deflagging.

<u>Previous Name</u>	<u>New Name</u>
Hotel Georgia	Crowne Plaza
Austin Hotel	Ramada Inn & Suites
Hotel California	Howard Johnson
Landis Hotel	Residence Inn by Marriott
Best Western O'Doul's	Listel Vancouver
Niagara Hotel	Ramada Limited
Landmark Hotel	Empire Landmark

Average daily room rates continued to grow by \$5.65 or 4.3% with Vancouver maintaining its third place in the Canadian rankings behind the resort areas of Alberta and Whistler.

For the first time in many years, Vancouver does not appear in the top 12 occupancy areas in Canada.

Four new hotels opened in 1998 increasing supply to 15 properties with 5 more under construction with 1999 opening dates. The averages presented are from 10 hotels and do not include the new 1998 supply. Richmond, the historic occupancy leader in Canada, has now slipped to 8th position in 1998.

Prior to the building boom of 1997 and 1998 the airport area had 2,413 rooms. After the new hotels open in 1999 the inventory is estimated to be 4,339 rooms, an increase of 1,926 rooms or 80%. The Howard Johnson Hotel has been rebranded as the Executive Inn Express and is part of the growing Executive Inn's chain which has 6 hotels in British Columbia and one in Seattle.

Other Lower Mainland Areas

Two hotels achieved an occupancy of over 75% and 2 had an ADR in excess of \$100. Average occupancies, however, declined by 8.6% and lost \$1.44 in ADR or a decline of 1.6%.

There was no new supply added until late 1998 so the real impact will be felt in 1999 with the opening of the Executive Inn, Coquitlam and the Hilton Crystal Square. The Burnaby Villa has changed its flag again and is now a Radisson. This is the 3rd change in 5 years with Sheraton and Clarion the previous flags.

Hotels Under Construction Revised Opening Dates

Downtown Vancouver			Estimated
Name	Rooms	Management	Opening
Sheraton Suites Le Soleil	122	Independent	Mar 1999
Westin Grand	207	O'Neill Hotels & Resorts	May 1999
Sandman Expansion – Georgia Street	100	Sandman Hotels	Jul 1999
Hampton Inn	154	Owner operated	Oct 1999
Delta Pinnacle	446	Delta Management Services	Jan 2000
Sheraton Tower II	347	Starwood Hotels & Resorts	Jun 2000
Total Rooms:	1,376		
Richmond – Airport			
Sandman Inn	177	Sandman Hotels	Jun 1999
Hampton Inn	117	Owner operated	Jun 1999
Hilton Airport Hotel	237	HMS	Jul 1999
Canadian Pacific International Airport	400	CP Hotels	Oct 1999
Days Inn	70	Independent	Mar 2000
Total Rooms:	1,001		
Other Areas			
Holiday Inn Express, Langley	90	Owner operated	Apr 1999
Holiday Inn Coach House, N Vancouver	162	Owner operated	Jun 1999
Hilton Crystal Square, Burnaby	283	MenStar Hospitality Corp.	Dec 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:	954		
Overall Total Rooms:	3,331		

Focus on Alberta

All 3 Calgary areas feature in Canada's top 12 areas for hotel occupancies in 1998. Operators are starting to build at a rate close to that of Vancouver! 7 new hotels have been built or are under construction in the area of Barlow Trail in the north east of Calgary. This represents an increase of 823 rooms or 42% with a 78% increase in the number of properties. Downtown Calgary has witnessed the first new hotel in 18 years with the opening of the Sheraton Suites Eau Claire with 325 units, an Irish pub and the Red Devil Restaurant. This 4 diamond property will certainly give the more established hotels some vigorous competition. In another year the 350 room Hyatt Hotel will be opening in conjunction with the expanded convention centre. This will result in a 20.3% increase in room supply bringing the total number of rooms to 4,005 in downtown Calgary.

Alberta hoteliers are building multiple hotels and are bullish about the economic future of this province. Service Plus Inn's and Suites has built 3 hotels, 2 Greenwood Inn's have been built in Edmonton and Calgary and a Calgary hotelier is building 3 properties of the Holiday Inn Express product. Two B.C. companies are building in Alberta with an 80 room Hampton Inn at Motel Village and a 296 room Delta Hotel in Canmore.

Hotel Rankings by City Canadian Hotels – Average Results 12 Months ending December .

	City / Area	Occupancy Rate		% Change
		1998	1997	
1	Toronto downtown	75.5	73.1	
2	Ottawa	74.9	73.2	3.3
3	Calgary	74.8	75.2	2.4
4	Toronto Airport	74.2	73.2	<.5>
5	Winnipeg	74.1	68.1	1.3
6	Saskatoon	73.6	72.5	8.8
7	Calgary North West	73.1	67.2	1.4
8	Vancouver Airport	72.9	80.5	8.8
9	Halifax/Dartmouth	72.9	68.1	<9.4>
10	Victoria	72.1	69.9	7.0
11	Calgary Airport	72.1	71.9	3.2
12	Alberta Resorts	70.9	71.6	.2
				<.9>
Average Daily Rate				
1	Alberta Resorts	175.09	169.20	
2	Whistler Resort	154.29	145.34	3.5
3	Vancouver downtown	143.09	140.04	6.2
4	Toronto downtown	136.42	122.56	2.2
5	Calgary downtown	121.35	109.71	10.5
6	Greater Victoria	115.66	108.77	10.6
7	Greater Quebec City	109.93	104.27	6.3
8	Greater Montreal	107.33	100.98	5.4
9	Vancouver Island – Other	103.52	97.25	6.3
10	Niagara Falls	101.15	91.56	6.4
12	Ottawa	97.46	91.16	10.5
				6.9

Courtesy of Pannell Kerr Forster Consulting Inc. - Trends

Hotels for Sale

Several hotels have been offered for sale during the last 6 months and have not sold. Examples include the Crown Plaza in Edmonton and Delta Whistler. Now receiverships and bankruptcies are looming in our industry in B.C. with B.C. buyers more eager to purchase in Alberta or Ontario.

Royal LePage's Hospitality Group - Current Listings

World Wide Web: www.royallepage.com

British Columbia				Alberta			
Hotel	Location	Rooms	Price	Hotel	Location	Rooms	Price
Holiday Inn Express	Parksville	87	\$4,500,000	North Hill Inn	Red Deer	117	\$11,000,000
Alpine Inn	Valemount	58	\$2,950,000	Service + Inn & Suites	Red Deer	69	\$4,750,000
Fort St. John Motor Inn	Fort St. John	98	\$2,750,000	Service + Inn & Suites	Grand Prairie	99	\$6,200,000
Lord Jim's Resort Hotel	Halfmoon Bay	25	\$2,300,000	Service + Inn & Suites	Lloydminster	63	\$3,200,000
Anchor Inn	Campbell River	76	\$3,000,000	Whitecourt Motor Inn	Whitecourt	74	\$5,500,000
108 Resort	Cariboo	62	US\$7,700,000	Nomad Inn	Fort McMurray	136	\$10,950,00
Travelodge	Courtenay	92	\$3,290,000				
Best Western	Maple Ridge	61	\$4,700,000				
Tofino Dev Site – Cox Bay	Tofino	6.2 Acres	\$1,900,000				
Pemberton Dev Site	Pemberton	3.0 Acres	\$750,000				
Richmond Hotel Dev Site	Richmond	.72 Acres	\$2,080,000				