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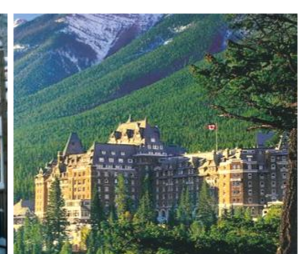
2013 CANADIAN

HOTEL VALUATION INDEX

Aaron Laurie
Consulting & Valuation Intern

Monique Rosszell, AACI, MRICS
Managing Director



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| Suite 400 – 145 West 17th Street, North Vancouver, BC V7M 3G4 CANADA

The Canadian Hotel Market

An optimistic outlook for the lodging industry marks the 2013 edition of the groundbreaking HVS Canadian Hotel Valuation Index. Following the moderate demand recovery that took place in 2012, the Canadian lodging market has seen stronger occupancy growth through 2013 in addition to gains in average room rates not seen since 2010.

The transaction side of the business has increased considerably from the nadir witnessed in 2009, when the transaction volume was a mere 10% of what had been recorded in 2007. Numerous high-profile assets have come to market, and fierce bidding is commonplace among active institutional buyers and investors. These investors are aggressively pursuing assets for which the values are seen as below their long-term potential.

As capital has become more readily available to a broader spectrum of potential investors in 2013, transaction activity has significantly increased from 2012 levels. Year to date, transaction activity is up sharply relative to the same period last year with the main contribution to this huge spike being the long-awaited transaction of the 5-hotel Westin portfolio at an acquisition cost of $765 million which took place in September. Active buyers have focussed their acquisition efforts on the full gamut of hotel assets: underperforming/distressed properties, stabilized portfolios, and individual properties, as well as trophy assets. Even though the supply in the national pipeline is limited and will likely be somewhat restricted over the near- to mid-term, development in general has resumed, particularly in resource-based markets.

The demand for discounted assets, strengthening RevPAR fundamentals, the continuation of low interest rates, and the absence of the threat of overbuilding (often the greatest and most underrated external threat to a hotel's success) paint a bright picture for the lodging industry. Unforeseen challenges may of course arise at any time, but the industry outlook is generally optimistic.

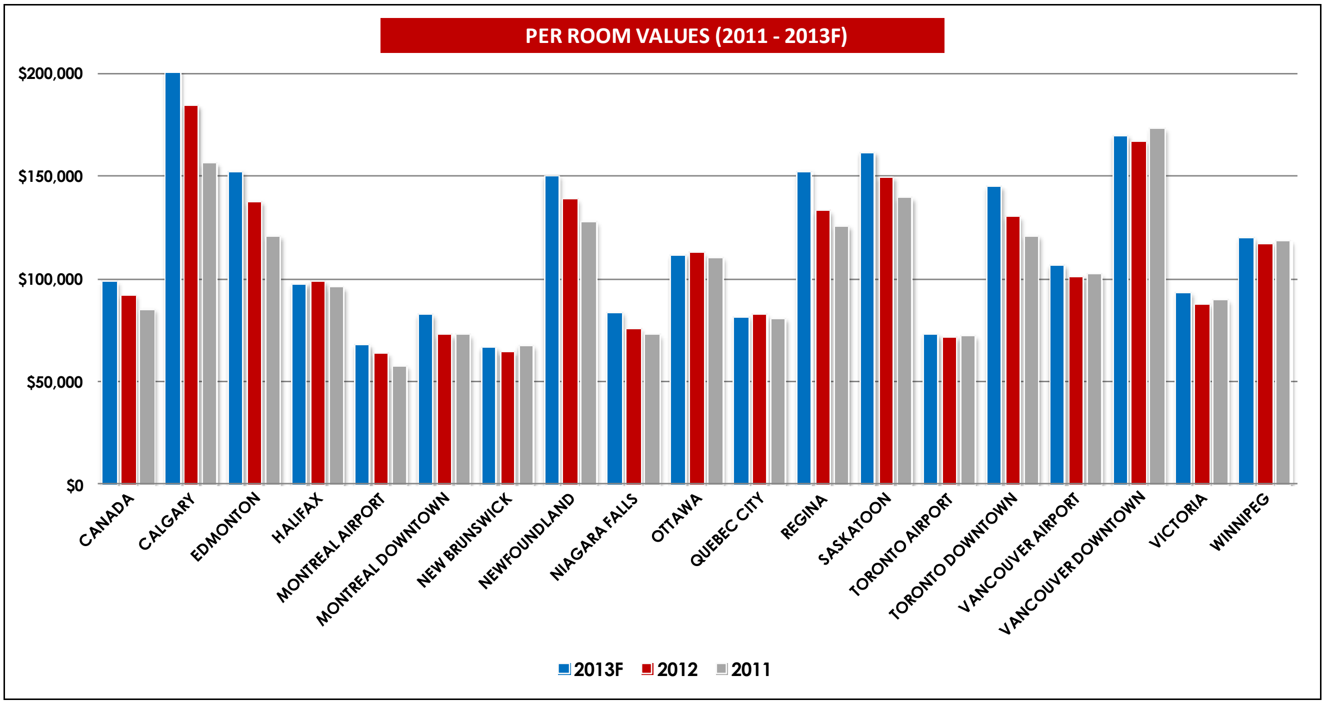
2013 HVI Highlights

The Hotel Valuation Index (HVI) which tracks hotel values in Canada, indicates that the Canadian lodging market saw a strong increase in hotel value of 8.1% in 2012, which followed on the heels of a 5.4% decrease in 2011. Canada's hotel market put in a solid performance in 2012 with RevPAR growth of 2.6%. Canada as a whole saw the hotel room supply increase by only 0.5% (the country's lowest level of growth over the past decade), but demand increased at a stronger rate of 1.6%. Of the 19 markets examined, including Canada as a whole, the city of Calgary ranked first in value growth (17.9%), followed by Edmonton (13.9%) and Montreal Airport (10.4%). For the markets included in the index, the historical percentage change in value is shown in Table 1, the historical per room value is summarized in Table 2, and the hotel valuation index is presented in Table 3.

TABLE 1 — HISTORICAL PERCENT CHANGES IN VALUE (2006–2012)

Rank	Market	2006	2007	2008	2009	2010	2011	2012
1	Calgary	28.4	6.2	-2.5	-29.6	-6.5	8.8	**17.9**
2	Edmonton	26.9	8.1	-2.5	-30.6	-7.4	2.6	**13.9**
3	Montreal Airport	4.6	1.1	-9.2	-30.1	-1.3	15.2	**10.4**
4	Newfoundland	11.0	14.5	4.9	-6.2	12.6	7.3	**8.5**
5	***CANADA***	***18.7***	***3.8***	***-6.4***	***-32.5***	***17.6***	***-5.4***	***8.1***
6	Toronto Downtown	11.1	6.0	-9.5	-38.4	41.6	-6.7	**7.6**
7	Saskatoon	17.5	20.8	14.5	-4.6	9.0	0.6	**7.2**
8	Regina	21.3	11.7	8.1	-4.3	6.7	12.1	**5.8**
9	Niagara Falls	10.2	3.9	-11.1	-30.4	21.7	-6.5	**4.2**
10	Halifax	10.7	12.3	-9.6	-19.3	11.2	-2.2	**3.2**
11	Quebec City	6.1	-1.5	20.5	-33.1	3.0	6.1	**2.8**
12	Ottawa	11.5	9.2	-7.8	-29.8	23.5	8.0	**2.1**
13	Montreal Downtown	9.1	-4.6	-7.4	-22.3	-7.0	6.0	**0.0**
14	Winnipeg	21.6	7.5	9.7	-12.6	13.0	6.4	**-0.7**
15	Toronto Airport	6.6	6.3	-10.4	-38.8	32.3	-4.9	**-0.8**
16	Vancouver Airport	28.3	10.6	-5.3	-28.7	30.8	-16.5	**-1.0**
17	Victoria	11.0	7.5	-8.3	-33.2	23.3	-9.4	**-2.4**
18	Vancouver Downtown	21.5	3.5	4.1	-36.6	35.4	-2.2	**-3.4**
19	New Brunswick	16.5	11.0	-11.0	-15.1	10.8	-8.9	**-4.7**

Source: HVS



The **CALGARY** hotel market benefits from the city's renowned energy sector and the strong growth of its financial services sector. In 2012, the market experienced both heavy increases in overnight visitation and aggressive average rates, resulting in healthy RevPAR growth of 13.0%. The booming energy sector combined with a number of major events, including the 100th anniversary of the Calgary Stampede, the Canadian Track & Field Championships, and the World Junior Hockey Championships, contributed to this robust growth. The market's investor appeal resulted in solid trading activity, earning Calgary a 2012 17.9% increase in hotel value over 2011, at a price of $184,100 per room, the highest value of any Canadian city.

As the market normalizes following the major events in 2012, the growth in overnight visits to Calgary is expected to moderate in 2013 but nevertheless continue to grow from 2014 through 2016. The number of occupied room nights is projected to grow at a compound annual rate of 4.3% from 2013 to 2016. With the resource market expected to remain strong, approximately 2,700 rooms are in the supply pipeline and are set to enter the market over the next four years. Even with this influx of supply of 22%, Calgary is expected to remain the country's market leader with the highest value per room at $225,200 by 2016. (Table 4)

In 2012, **TORONTO** saw moderate growth in the downtown market but negative growth in the airport market. Growth in the city's tourism sector was held back by government spending cuts and lower visitation from Europe and the US. Despite this, domestic trips increased modestly under the influence of increased air access, the various cultural and sporting events that took place, and the steady increase in the supply of world-class hotels. Toronto's downtown market exhibited 2.5% RevPAR growth and led the country with the highest RevPAR at $119.12, whereas the airport market demonstrated weak RevPAR growth of 0.9% and attained a lackluster RevPAR of $69.87. The airport market is struggling to absorb the glut of new supply that opened in the greater airport area over the past few years, which is proving difficult without the return of major US corporate head office demand and a more aggressive increase in passenger traffic at the airport. The downtown Toronto market ranked sixth overall in value change with a notable increase of 7.6%. This stands in sharp contrast to the Toronto airport market, which ranked fifteenth with a value change of -0.8%.

Toronto's sports and entertainment sector is expected to drive demand over the next few years with such events and developments as the opening of the Toronto Aquarium in 2013, the WorldPride event in 2014, and especially the 2015 Pan American Games. With the heavy demand that the Games will induce in 2015, the downtown market is projected to see RevPAR growth of 9.9%, which is nearly matched by the 7.0% growth that is projected for the airport market. Even with the 1,313 new rooms that will enter the downtown market within the next four years, both the downtown and the airport markets will flourish in 2015. Toronto's downtown is projected to achieve an approximate value of $178,500 per room by the end of 2016, in contrast to an approximate value of $91,500 per room for the airport market in the same year.

TABLE 2 — HISTORICAL PER ROOM VALUE (2005–2012)

	2005	2006	2007	2008	2009	2010	2011	2012
Calgary	$163,800	$210,400	$223,500	$217,800	$153,400	$143,400	$156,100	$184,100
CANADA	***$98,500***	***$116,900***	***$121,400***	***$113,600***	***$76,600***	***$90,100***	***$85,200***	***$92,100***
Edmonton	$137,100	$173,900	$188,000	$183,300	$127,200	$117,800	$120,800	$137,500
Halifax	$97,100	$107,500	$120,800	$109,200	$88,000	$97,900	$95,800	$98,800
Montreal Airport	$75,900	$79,400	$80,300	$72,900	$50,900	$50,200	$57,850	$63,852
Montreal Downtown	$98,600	$107,600	$102,600	$95,000	$73,800	$68,600	$72,728	$72,733
New Brunswick	$68,600	$79,900	$88,700	$78,900	$67,000	$74,200	$67,600	$64,500
Newfoundland	$84,400	$93,700	$107,300	$112,600	$105,600	$118,900	$127,700	$138,500
Niagara Falls	$90,400	$99,600	$103,500	$92,000	$64,000	$77,900	$72,800	$75,900
Ottawa Gatineau	$104,900	$117,000	$127,700	$117,800	$82,700	$102,100	$110,200	$112,500
Quebec City	$87,600	$92,900	$91,500	$110,300	$73,800	$76,100	$80,800	$83,000
Regina	$74,900	$90,800	$101,400	$109,700	$105,000	$112,100	$125,700	$132,900
Saskatoon	$81,900	$96,200	$116,300	$133,100	$127,000	$138,500	$139,400	$149,400
Toronto Airport	$92,600	$98,700	$104,900	$94,000	$57,500	$76,100	$72,400	$71,800
Toronto Downtown	$139,300	$154,800	$164,000	$148,400	$91,400	$129,500	$120,900	$130,000
Vancouver Airport	$97,400	$125,000	$138,200	$130,900	$93,400	$122,100	$102,000	$101,000
Vancouver Downtown	$157,200	$191,000	$197,700	$205,800	$130,500	$176,600	$172,800	$166,800
Victoria	$110,100	$122,100	$131,300	$120,500	$80,400	$99,200	$89,800	$87,662
Winnipeg	$78,500	$95,400	$102,600	$112,500	$98,300	$111,000	$118,200	$117,300

Source: HVS

VANCOUVER'S downtown and airport hotel markets both experienced negative growth in 2012 and ranked in the bottom five for hotel value growth among the 18 major markets for that year. (Table 1) Weaker demand and slight rate erosion in the downtown core contributed primarily to weaker RevPAR as high construction costs and the lack of available land caused hotel development to remain in check in the downtown core.

As a result of the expansion to the convention centre in 2010, Vancouver had a strong city-wide convention year in 2011, which allowed the market to retain most of the demand gains that were noted in 2010 with the Olympics significant new supply and the Convention Centre expansion. Bookings were not as solid in 2012, however, and this coupled with continued global uncertainty tempered the demand from leisure travellers, resulting in a slide in demand in that year. Unlike the downtown Vancouver market, the airport market managed a 4.9% increase in number of occupied room nights in 2012, with new supply contributing to this growth. Unfortunately, the airport market had difficulty maintaining room rates, which left the RevPAR in a weakened position despite the growth in demand. The RevPAR for the airport market changed by -1.7%, in line with the change of -1.8% seen in the downtown.

In 2013, Vancouver is projected to see growth only in the airport market, fuelled mainly by stronger demand coupled with a decrease in supply from the closing of the 81-room Executive Inn Express. The downtown market is projected to see a 3.0% rate recovery in 2014, slightly stronger than the 2.0% rate increase that is projected for the airport market, reflecting general RevPAR growth in both markets. Development will remain dormant with the exception of the long-awaited Trump Vancouver hotel-condo tower, which is to arrive in 2016. Downtown Vancouver's value per room is expected to reach approximately $193,300 that year, in contrast to the value of approximately $125,400 per room for the airport market.

MONTREAL was hit in 2012 with an unexpected series of events that negatively impacted the performance of the downtown market. Following the student protests that lasted more than three months in the downtown area and led to significant demand cancellation, union contract negotiations forced several Montreal hotels to close for several weeks. As a result, the downtown RevPAR fell nearly 4.7% in 2012, and the Montreal downtown market saw no growth in its value per room. Conversely, Montreal's airport market saw RevPAR growth of 4.8% in 2012, as it absorbed some of the demand displaced from downtown market. The airport market consequently boasted a 10.4% increase in value per room in 2012.

Following this year of anxiety for hoteliers in downtown Montreal, the market is projected to rebound in 2013 with 3.0% growth in occupied room nights accompanied by substantial growth in room rates. From 2013 to 2016, the downtown market is expected to see a compound annual increase in RevPAR of approximately 4.7%. The airport market is projected to grow at a slightly slower pace than the downtown. By 2016, both markets are projected to see significant growth in hotel values. The per-room value is forecast at approximately $106,000 for a typical Montreal downtown hotel and at $84,100 for a hotel in the airport market in 2016.

The **NEWFOUNDLAND & LABRADOR** hotel market continued to grow at an aggressive pace throughout 2012, built upon demand induced by the provinces' well-equipped oil and gas sector and the recent Statoil offshore discovery. Hotel development has remained relatively inactive since 2009, and the market saw a less-than-one-percent increase in supply in 2013; the closing of the Battery Hotel offset the opening of the Fairfield Inn and Suites. The province is leading the country in non-resident visitation sparked by its oil, gas, and mining industries, and there is a dearth of hotel rooms given the high construction costs. Consequently, demand is outpacing the growth in supply. With an occupancy of 73.7%, the province was the strongest performer among the 19 major markets, and it is on track for the same position in 2013. Strong demand complemented by aggressive average rates resulted in an 8.5% increase in value per room in 2012, the fourth highest increase among the markets in the sample. Newfoundland & Labrador's oil rich ocean floor is creating strong commercial demand in the market, which is projected to increase the province's hotel value per room to $150,400 in 2013, the sixth highest in the country.

The market will see a further 4.0% increase in supply in 2014 with the opening of the Hampton Inn and the Steele Hotel, the first significant increase in available rooms since 2009. The additional supply will help satisfy the unaccommodated demand that is currently in the market, allowing occupied room nights to grow by roughly 5.0% and the occupancy to reach 76.8% in 2013. Although approximately 1,015 rooms will enter the market within the next four years, the market is expected to promptly absorb the new supply. The per-room value for a typical hotel in the market is projected to reach approximately $168,200 by 2016.

TABLE 3 — HOTEL VALUATION INDEX (2005–2012)

	2005	2006	2007	2008	2009	2010	2011	2012
Calgary	1.66	2.14	2.27	2.21	1.56	1.46	1.58	1.87
CANADA	***1.00***	***1.19***	***1.23***	***1.15***	***0.78***	***0.91***	***0.87***	***0.94***
Edmonton	1.39	1.77	1.91	1.86	1.29	1.20	1.23	1.40
Halifax	0.99	1.09	1.23	1.09	0.89	0.99	0.97	1.00
Montreal Airport	0.77	0.81	0.81	0.74	0.52	0.51	0.59	0.65
Montreal Downtown	1.00	1.09	1.04	0.96	0.75	0.70	0.74	0.74
New Brunswick	0.70	0.81	0.90	0.80	0.68	0.75	0.69	0.65
Newfoundland	0.70	0.81	0.90	0.80	0.68	0.75	0.69	0.65
Niagara Falls	0.92	1.01	1.05	0.93	0.65	0.79	0.74	0.77
Ottawa Gatineau	1.07	1.19	1.30	1.20	0.84	1.04	1.12	1.14
Quebec City	0.89	0.94	0.93	1.12	0.75	0.77	0.82	0.84
Regina	0.76	0.92	1.03	1.11	1.07	1.14	1.28	1.35
Saskatoon	0.83	0.98	1.18	1.35	1.29	1.41	1.42	1.52
Toronto Airport	0.94	1.00	1.07	0.95	0.58	0.77	0.73	0.73
Toronto Downtown	1.41	1.57	1.67	1.51	0.93	1.31	1.23	1.32
Vancouver Airport	0.99	1.27	1.40	1.33	0.95	1.24	1.04	1.03
Vancouver Downtown	1.60	1.60	1.94	2.01	2.09	1.32	1.79	1.75
Victoria	1.12	1.24	1.33	1.22	0.82	1.01	0.91	0.89
Winnipeg	0.80	0.97	1.04	1.14	1.00	1.13	1.20	1.19

Source: HVS

Hotel Value Forecast

By the end of the forecast period in 2016, most markets in Canada are expected to achieve higher values than at their peak in 2006/2007 (Table 4). The biggest winners in value increases across the country are most notably the resource-rich markets, with Halifax and Winnipeg also benefitting from strong economic fundamentals going forward.

In contrast to what one might expect, both Calgary and Edmonton are projected to see slowing increases in hotel values by 2016, as the surge of new supply will suppress the growth despite the robust economic activity in these regions. The Ottawa and Downtown Montreal markets are projected to remain below their peak value levels in 2016; these two markets have not experienced notable increases in supply, but soft room night demand is holding down growth in values. Other markets that are not projected to outperform their peak levels include Vancouver, Victoria, Toronto Airport, and New Brunswick. These markets are dealing with softer demand from both the commercial and leisure sectors, which is holding down value growth even though no significant new supply is in the pipeline for these markets.

TABLE 4 — HOTEL VALUE FORECAST (2013–2016)

		2013F	2014F	2015F	2016F
Calgary	Per Room Value	$203,900	$217,500	$220,700	$225,200
	y/y % Change	10.76%	6.67%	1.47%	2.04%
	Index	2.0701	2.2081	2.2406	2.2863
CANADA	***Per Room Value***	**$99,000**	**$104,200**	**$112,900**	**$118,200**
	y/y % Change	**7.49%**	**5.25%**	**8.35%**	**4.69%**
	Index	**1.0049**	**1.0581**	**1.1458**	**1.1996**
Edmonton	Per Room Value	$152,600	$162,900	$169,800	$185,600
	y/y % Change	10.98%	6.75%	4.24%	9.31%
	Index	1.5492	1.6538	1.7239	1.8843
Halifax	Per Room Value	$97,700	$100,800	$113,800	$129,700
	y/y % Change	-1.11%	3.17%	12.90%	13.97%
	Index	0.9915	1.0238	1.1550	1.3165
Montreal Airport	Per Room Value	$68,300	$72,600	$79,400	$84,100
	y/y % Change	6.97%	6.30%	9.37%	5.92%
	Index	0.6933	0.7367	0.8057	0.8539
Montreal Downtown	Per Room Value	$83,100	$91,100	$96,700	$106,000
	y/y % Change	14.25%	9.63%	6.15%	9.62%
	Index	0.8435	0.9245	0.9822	1.0767
New Brunswick	Per Room Value	$67,100	$67,400	$68,100	$68,400
	y/y % Change	4.03%	0.45%	1.04%	0.44%
	Index	0.6810	0.6840	0.6917	0.6940
Newfoundland	Per Room Value	$150,400	$156,600	$166,900	$168,200
	y/y % Change	8.59%	4.12%	6.58%	0.78%
	Index	1.5267	1.5896	1.6941	1.7077
Niagara Falls	Per Room Value	$84,000	$91,500	$98,900	$105,500
	y/y % Change	10.67%	8.93%	8.09%	6.67%
	Index	0.8528	0.9289	1.0041	1.0711
Ottawa Gatineau	Per Room Value	$112,000	$115,100	$118,100	$125,800
	y/y % Change	-0.44%	2.77%	2.61%	6.52%
	Index	1.1370	1.1690	1.1992	1.2776

Source: HVS

TABLE 5 — HOTEL VALUE FORECAST (Continued) (2013–2016)					
		2013F	2014F	2015F	2016F
Quebec City	Per Room Value	$81,800	$89,000	$95,900	$100,100
	y/y % Change	-1.45%	8.80%	7.75%	4.38%
	Index	0.8309	0.9035	0.9737	1.0167
Regina	Per Room Value	$152,600	$152,400	$157,300	$158,800
	y/y % Change	14.82%	-0.13%	3.22%	0.95%
	Index	1.5492	1.5472	1.5970	1.6122
Saskatoon	Per Room Value	$161,900	$167,500	$171,300	$176,400
	y/y % Change	8.37%	3.46%	2.27%	2.98%
	Index	1.6437	1.7005	1.7391	1.7909
Toronto Airport	Per Room Value	$73,500	$77,900	$84,900	$91,500
	y/y % Change	2.37%	5.99%	8.99%	7.77%
	Index	0.7462	0.7906	0.8618	0.9293
Toronto Downtown	Per Room Value	$145,300	$160,700	$179,300	$178,500
	y/y % Change	11.77%	10.60%	11.57%	-0.45%
	Index	1.4747	1.6318	1.8201	1.8124
Vancouver Airport	Per Room Value	$107,100	$115,500	$121,000	$125,400
	y/y % Change	6.04%	7.84%	4.76%	3.64%
	Index	1.0870	1.1731	1.2284	1.2731
Vancouver Downtown	Per Room Value	$170,200	$175,700	$181,400	$193,300
	y/y % Change	2.04%	3.23%	3.24%	6.56%
	Index	1.6937	1.7281	1.7839	1.8417
Victoria	Per Room Value	$93,700	$102,200	$107,800	$113,500
	y/y % Change	6.89%	9.07%	5.48%	5.29%
	Index	0.9513	1.0376	1.0944	1.1523
Winnipeg	Per Room Value	$120,300	$121,300	$127,200	$130,900
	y/y % Change	2.56%	0.83%	4.86%	2.91%
	Index	1.2210	1.2312	1.2915	1.3289

Source: HVS

HALIFAX is expected to see compound annual growth in hotel value of 7.0% from 2013 to 2016, the sixth highest rate of growth in the country. This city is projected to see double-digit annual GDP growth in the near future under the auspices of its oil exploration sector and mega shipyard contract. In 2016, Halifax is projected to experience the country's highest change in hotel value per room—a 14.0% increase from 2015.

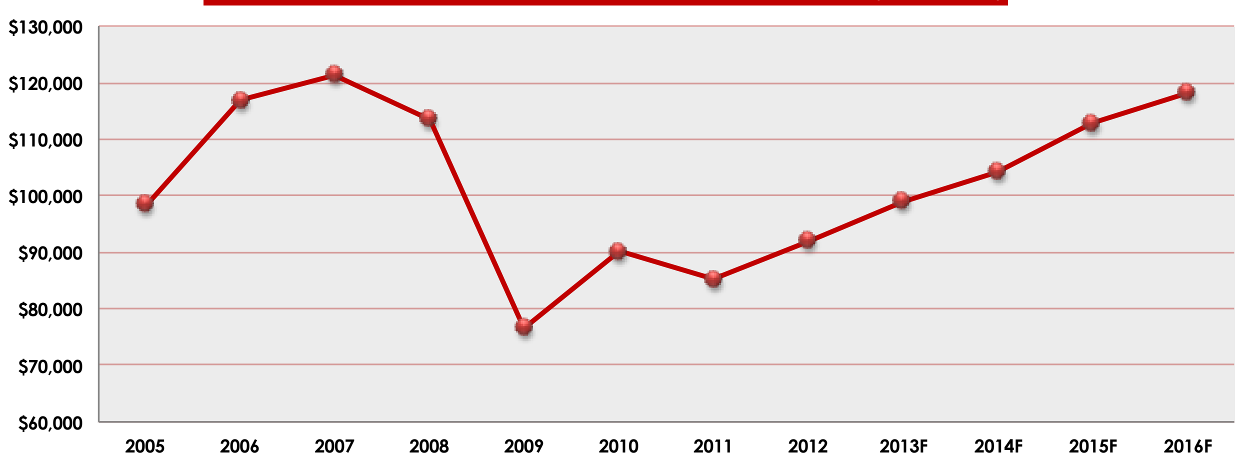
Western Canada will continue to experience strong growth in hotel values in major metropolitan areas and cities such as Vancouver, Calgary, Regina, and Saskatoon. The general outlook for **SASKATOON** is optimistic. The region's resource-driven industries and strong government and healthcare sectors remain the cornerstones of the market. Saskatoon's steady growth in hotel room demand and investor appeal is allowing hotel values in the market to flourish. In 2013, Saskatoon is expected to rank third highest in hotel value per room in the country. **REGINA** also has a positive future, as the Regina market will be tied with Edmonton and host to the fourth highest per room value in the country in 2013 as a result of an aggressive push in RevPAR. Developers will bring significant supply into the market over the next four years, increasing the room supply 9.2% in 2014 and a further 8.9% in 2015, which will moderate growth year over year through 2016.

TABLE 6 — CANADIAN VALUE TREND (2005–2016F)

Year	Value Per Room	Percent Change
2005	$98,500	—
2006	116,900	18.69%
2007	121,400	3.80%
2008	113,600	-6.42%
2009	76,600	-32.54%
2010	90,100	17.61%
2011	85,200	-5.43%
2012	92,100	8.10%
2013F	*99,000*	*7.46%*
2014F	*104,200*	*5.29%*
2015F	*112,900*	*8.29%*
2016F	*118,200*	*4.69%*

Source: HVS

TABLE 7 — PER ROOM VALUE TREND FOR TYPICAL CANADIAN HOTEL (2005–2016F)



Volatility Index

Hotel investor sentiment relies on the ability to balance risk and return. Every hotel is confronted with risks derived from both the micro and macro environment, such as excess supply in the market, an economic recession, natural disasters, incompetent management, and so forth. These factors exhibit a direct correlation with the hotel's ability to generate a bottom-line profit (return).

The volatility index of the HVI provides a way for investors to quantify to some extent the overall level of risk associated with a hotel investment. The volatility index is a good indicator of investment risk, as it provides a measure for variation in asset prices over time. Higher volatility implies higher risk, but there are certain factors which can influence the level of volatility, such as one-time large events like the Olympics or a natural disaster, which can have an extremely negative effect on a market.

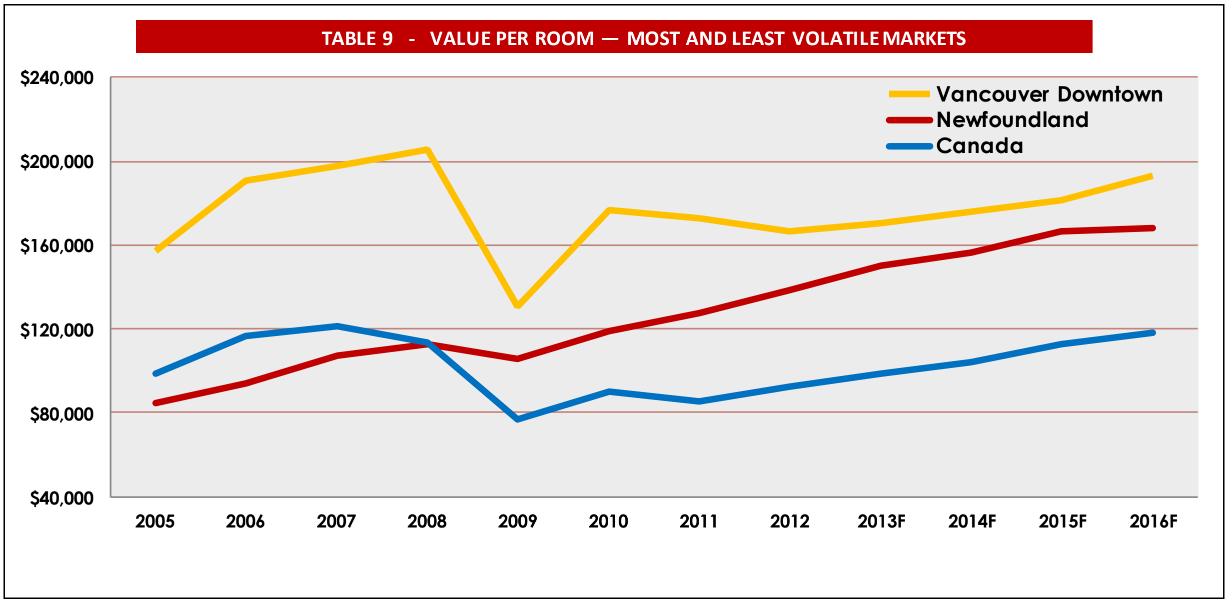
We have measured the level of volatility for the aforementioned markets by calculating the standard deviation of the capital appreciation/depreciation in value divided by the average value over the period from 2005 to 2016. The result is then indexed to the volatility of a typical hotel in Canada. For example, Quebec City has a volatility of 6.4% , meaning that the city's hotel values are 6.4% more volatile than the value of a typical hotel in Canada. Hotels with negative volatility indexes represent stable markets.

TABLE 8 — VOLATILITY INDEX
MOST AND LEAST VOLATILE CITIES (2005–2016F)

Rank		
1	Vancouver Downtown	19.1%
2	Toronto Airport	18.2%
3	Toronto Downtown	18.0%
9	**CANADA**	**0.0%**
17	Regina	-59.3%
18	Saskatoon	-61.9%
19	Newfoundland	-67.0%

Source: HVS

Although the appreciation of hotel values and volatility are indicators of potential return and risk, hotel investment is influenced by a much broader spectrum of factors. As noted in the preceding Table 8, the Vancouver Downtown market ranks as having the highest volatility at 19.1% while Newfoundland ranks the lowest at -67.0% Through the following Table 9, one can see the hotel values in the downtown Vancouver market experienced strong growth prior to the debt crisis in 2008, a plunge during the economic downturn, and a strong ramp up as a result of hosting the 2010 Vancouver Winter Olympics coupled with the expansion of the Convention Centre. Even with the growth during the Olympics, the market has yet to return to the peak value level it set in 2007. In contrast, Newfoundland is a market that has seen relatively stable growth in hotel values. The market suffered far less during the recession than other markets across the country. Commercial demand related to the province's oil and gas industry is projected to remain strong. The Hebron Project, an oil field estimated to have 400 to 700 million barrels, is a major factor in the high demand growth that is projected for the next few years.



Outlook

The resource-rich regions of Canada have caught the attention of many investors and developers and as the Canadian economy and the Canadian lodging market continue to pick up steam, demand for hotel assets is anticipated to increase, particularly with international investment interest. Based upon our discussions with hotel investors, lenders, and brokers, as well as the recent trends in occupancy, average rate, and low supply levels in the pipeline, we anticipate a marked improvement in NOI in the next four years as RevPAR growth is projected to well outpace inflation. With the greater market stability and the consistent macroeconomic growth that are anticipated both in Canada and globally, the Canadian lodging industry is expected to reach new heights.

As highlighted in this report, Canadian hotel values peaked in 2007 at $121,400 per room. The low point during the recent downturn occurred in 2009, when values dropped to $76,600 per room but have slowly regained ground marking $92,100 per room in 2012. We project that Canadian hotel values will increase to $99,000 per room in 2013 reaching $118,200 per room in 2016 (Table 6), not quite reaching the peak values set in 2007.

Understanding the HVI

The Hotel Valuation Index (HVI) tracks hotel values in 19 major markets, including Canada as a whole. Derived from an income capitalization approach, the HVI utilizes market area data provided by Smith Travel Research (STR) combined with historical operational information from HVS's extensive global experience in hotel feasibility studies and valuations. The data are then aggregated to produce a pro-forma performance for a typical hotel in each respective Canadian market. Based upon our experience of real-life hotel financing structures gained from valuing hundreds of hotels each year, we then apply appropriate valuation parameters for each market, including loan-to-value ratios, real interest rates, and equity return expectations. These market-specific valuation parameters are applied to the net operating income for a typical full-service hotel in each city.

The HVI is an indexed value that uses the 2005 value of a typical Canadian hotel (2005 = 1.0000) as a base. Each market area is then indexed off this base with a number showing the value relationship of that market area to the base. For example, the index for the downtown Toronto market in 2005 was1.41, which means that the value of a hotel located in downtown Toronto was approximately 40% higher than that of a similar hotel in Canada as a whole in 2005.

The HVI allows one to not only compare the value of hotels in local markets against the national market, but also value differences between hotels in two different Canadian cities. For example, say that a hotel in Ottawa, Ontario, sold in 2008 for $100,000 per room. If a similar hotel were situated in Calgary, Alberta, it would probably have sold for $184,990 per room in 2008. This figure is calculated by taking the 2008 HVI for Calgary and dividing it by the 2008 HVI for Ottawa to determine the value adjustment.

$$\frac{\textbf{2008 HVI Calgary (2.2118)}}{\textbf{2008 HVI Ottawa (1.1956)}} = \textbf{1.8499}$$

The 2008 sale price of $100,000 per room is then multiplied by the amount of the previously calculated factor of 1.8499, yielding the estimated 2008 sale price per room for Calgary.

$100,000 x 1.8499 = $184,990

The HVI can also be used to determine the percentage change in value in the same market over time. To calculate, divide the HVI for the last year by the HVI for the first year and then subtract 1 from this calculation. For example, the HVI for Edmonton was 1.7657 in 2006 and 1.8613 in 2008. To calculate the estimated percentage change in value for a typical Edmonton hotel from 2006 to 2008, divide the 2008 HVI for Edmonton by the 2006 HVI and then subtract 1 to get an approximate 5% increase in value from 2006 to 2008.

(1.8613/1.7657) - 1 = 0.0541, or roundly 5%

Interpreting the HVI

HVS routinely receives numerous inquiries as to how the Hotel Valuation Index data can be interpreted by hotel owners, investors, and lenders considering their own assets and investment strategies. The Canadian HVI tracks hotel values in Canada as a whole, as well as for 18 lodging markets. It is calculated using occupancy and average rate data provided by Smith Travel Research (STR) for each of the markets reviewed. These market data represent the aggregate performance of the vast majority of hotels within the defined geographic market.

The HVI is an index, a statistical concept reflecting a measure of the difference in the magnitude of a group of related variables compared with a base period. As such, it is a measure of broad market trends rather than a conclusion as to the specific value of any asset, and it cannot be applied to an individual asset. A good comparison is the Consumer Price Index. While this index provides a reliable measure of the overall rate of inflation in a region, it does not indicate how the price of milk has changed at one grocery store.

In any market, the aggregate nature of the STR occupancy and average rate data limits its comparability to an individual asset. In the case of the STR data used in developing the HVI, the breadth of the sample included in the report is a material factor. The sample for each market area includes virtually all the hotels in the defined market, ranging from economy to luxury properties; limited-service to full-service operations; assets in poor to excellent condition; and a wide array of locations, from Tier 1 urban settings to peripheral locations in tertiary submarkets. The resulting data, while an excellent measure of the overall trends in the market as a whole, cannot be applied to any individual submarket or asset group, much less any one hotel. For example, the addition of new supply, or a change in the performance of an individual submarket within the broader market, can cause that submarket to have significantly different results than the market as a whole.

Numerous factors influence the value of an individual asset, including the property’s age, condition, location, amenities and services, brand, management expertise, and reputation. These factors must all be considered in the context of the hotel’s specific competitive market, including the nature, strength, and trends in demand generators, the character and competitive posture of the existing hotels, and the potential addition of any new properties. The value of any individual asset can only be concluded after a thorough investigation of all these factors. That conclusion will invariably differ, often materially, from the index indicated by the HVI.

How, then, can the HVI be of use to an individual investor? Although the HVI cannot tell you what a particular hotel is worth, it does provide excellent “big picture” data, indicating which market areas are experiencing positive trends and may thus present good investment opportunities. The HVI for Canada is a measure of the strength of the lodging industry as a whole and, specifically, the hospitality investment market. The HVI for the various identified markets can provide a basis to evaluate and compare different geographic regions.

About HVS

HVS is the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries. Established in 1980, the company performs 4500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 30 offices and 450 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry www.hvs.com

HVS Canada performs major portfolio appraisals and single-asset consulting assignments and valuations from Coast to Coast. Our professional team is expert in appraisal work, feasibility studies, market studies, portfolio valuation, strategic business planning, and litigation support. Managing partners in both the Toronto and Vancouver practices have their AACI, MAI, and MRICS/FRICS appraisal designations, and all associates are candidate members of the Appraisal Institute of Canada. HVS partners and associates are also members of the Appraisal Institutes of Alberta, New Brunswick, and Nova Scotia. Our bilingual associates also enable us to work in French, which is of utmost importance in the provinces of Quebec and New Brunswick.

Superior Results through Unrivalled Hospitality Intelligence. *Everywhere*.

About Authors

Aaron Laurie is a one year intern with HVS Canada splitting his internship between both the Toronto and Vancouver offices. He is currently enrolled as a third year student at the University of Guelph, working to earn his Bachelor of Commerce degree majoring in Hotel & Food Administration. Prior to his internship with HVS, Aaron held various positions in hotel operations with companies including Fairmont Hotels & Resorts, IHG, and Wyndham Hotel Group.

Monique Rosszell is the Managing Director of HVS Toronto. Upon attaining a bachelor's degree in economics from Queen's University, she subsequently enrolled in the Master's program in Hotel and Restaurant Management at the Ecole Hôtelière de Lausanne and then attained both her AACI and her MRICS appraisal designations in Canada. Monique has completed hundreds of valuations and feasibility studies, including transactions and portfolio valuations throughout Canada. She also has been involved in litigation support within the lodging industry.

Contact information for Monique Rosszell:
Phone: 416-686-2260 x23
Email: mrosszell@hvs.com