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## 2016 CANADIAN

# HOTEL VALUATION INDEX


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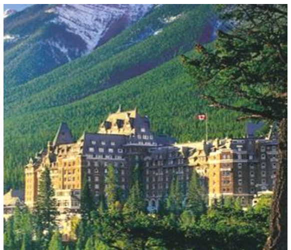


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# The Canadian Hotel Market

The **CANADIAN LODGING MARKET** is having another record-breaking year in 2016, but the strong overall performance comes with stark regional contrasts.

The Canadian hotel market finished 2015 with only moderate supply growth of 1.0%, similar to what is projected in 2016, but this nonetheless outpaced the rate of demand growth that year, resulting in RevPAR growth of 3.6%.

The 2015 HVI report projected 5.4% growth in hotel values nationally in 2015. With the greater severity of the downturn in the performance of resource-based markets towards the end of the year, the actual growth came in at a slightly more modest 4.6%. At $114,000, the national per-room value for 2015 was just above the value seen in 2008, prior to the debt crisis.

Building on growth in the average daily rate (ADR), the revenue per available room (RevPAR) for the country is projected to reach a new high of $96.24 in 2016, well above the previous record of $92.29 set the year before. The Canadian market overall continues to outperform previous projections with strong growth most notably in average rate. Consequently, the RevPAR is projected to increase 4.3% in 2016 outperforming 2015.

Although the overall numbers are positive for 2016, the contrast in performance between high-performing provinces and those provinces suffering from oil-induced recessions remains deeply entrenched. The provinces that are dependent on the oil industry—Alberta, Saskatchewan, and Newfoundland and Labrador—are struggling amid low revenues and corporate belt-tightening. In contrast, oil-consuming provinces are enjoying growing opportunities with the depreciation of the Canadian dollar, the decrease in the price of energy commodities, and the continuation of low interest rates. According to RBC, Canada's GDP is projected to continue with positive growth at 1.3% in 2016 and 1.8% in 2017 despite the challenges in some regions.

Among the major Canadian markets, Regina will see the largest increase in room supply in 2016 at a rate of 9.2%, followed by Saskatoon and Calgary. These are the very markets experiencing soft demand and so are struggling to absorb this new supply. In contrast, the Toronto Downtown market will see the greatest supply decrease in 2016 with a change of -2.8%; this is due to the closure of the 335-room Best Western Primrose and the 147-room Hilton Garden Inn.

The Toronto Downtown, Vancouver Downtown, and Vancouver Airport lodging markets are expected to see the strongest RevPAR growth in 2016 with increases of 17.1%, 13.2%, and 13.0%, respectively. In contrast, the urban centres in oil-producing provinces are losing ground in RevPAR; Calgary, Saskatoon, and Edmonton are projected to see reductions in RevPAR of -18.5%, -18.1%, and -15.6%, respectively.

## What does 2017 hold?

According to RBC forecasts, there will be a greater degree of balance in the economic performance of the provinces in 2017 than was the case in 2016. Alberta and Saskatchewan are expected to return to a positive GDP growth while the growth in British Columbia is expected to be more moderate. The healthy economic growth in Manitoba and Ontario is expected to boost the overall economy of Canada; these provinces are expected to see relatively strong GDP growth of 2.4% that year, well above the projected national average of 1.8%.

In 2017, the national room supply is projected to increase 1.4% (or by 6,390 rooms). The majority of the new supply is centered in resource-based markets, which is acutely affecting hotel values in these respective markets; with demand already down, the entrance of new supply is putting occupancy levels in these markets into a downward spiral. From the national perspective, however, the Canadian market is projected to absorb this increase in supply. Even with these new rooms, the national occupancy level is projected to increase 0.4 percentage points in 2017 to 64.9%.

Most of the RevPAR growth that is projected for the country in 2017 will be built from an increase in ADR. The depreciated currency is enabling hotel owners more latitude with increasing ADR. On this basis, the national ADR is projected at $153.74 for 2017, which represents a 3.0% increase over the 2016 level. On the basis of the projected growth in occupancy and ADR, the national RevPAR is projected to increase by 3.6% to reach a new record of $99.72 in 2017.

## Strong operating performance is fuelling transaction activity

Canada had a very strong year for transaction activity in 2015—one of the strongest since the previous peak in 2007. Moreover, 2015 marked only the fourth year on record that hotel investment in Canada surpassed $2 billion, the total for the year being $2.2 billion.

Foreign investors, particularly those from Mainland China, accounted for a significant percentage of buyer activity. With the increased availability of debt, many financiers were eager to finance acquisitions in Canada, particularly for high-quality and ideally located properties.

The transaction activity in 2015 included several large transactions, such as the sale of the Fairmont Hotel Vancouver, which sold for $180 million to Larco Enterprises, and the sale of the Fairmont Royal York Hotel, in which InnVest REIT and KingSett Capital purchased an 80% interest from Ivanhoe Cambridge for $186.5 million.

In 2015, there was a significant shift that saw Eastern Canadian markets generally outperforming Western markets in transaction volume. Through the second quarter of 2016, this shift became even more pronounced: 70% of the transaction volume took place in Eastern Canada in comparison to 65% in 2015 and only 35% in 2014.

As per Colliers Hotels, the transaction volume in Canada for year-to-date through June 2016 is $717 million with a number of large assets currently under purchase and sale contracts. This is down from the same period in 2015 which had $915 million in hotel transactions. In 2016, transaction volume is projected to be on the same level as 2015 or between $2 billion and $2.5 billion.

The demand for discounted assets, the strengthening of RevPAR fundamentals, the low Loonie, and the continuation of low interest rates all contribute to a positive outlook for hotel transaction activity in Canada. Unforeseen challenges may of course arise at any time, but all indicators show the overall outlook for hotel transaction activity in Canada to be extremely favourable.

## 2016 HVI Highlights

The Hotel Valuation Index (HVI) is a metric used for tracking hotel values for 19 markets across Canada, including Canada as a whole. It is based on market performance and overall hotel profitability margins, as well as the current lending environment.

According to the HVI, the Canadian lodging market saw a strong  increase in hotel values in 2015, and an even stronger increase of 9.4% is projected for 2016. Over the next three years, the national per-room value is projected to steadily rise.

Of all the markets in 2015, Vancouver Downtown realized the highest growth in hotel value with an increase of 20.7%. Vancouver Airport followed in second place with comparable growth of 19.6%, and Niagara Falls was in third place with a 19.4% increase. At the other end of the spectrum, Calgary suffered the largest decrease in hotel value in 2015 with a drop of 16.9%, and Edmonton was not far behind with a 13.8% decline.

The HVI for 2016 indicates that Vancouver Downtown will again see the strongest increase in market value with growth for the year projected at 25.3%; this market retains its first-place position with a value of $288,471 per room. This year, Toronto Downtown has snuck into second place in terms of growth, overtaking Vancouver airport with a 23.0% projected increase in the per-room value, which is forecast at $226,862. In comparison, the projected growth in the national per-room value is 9.4%, reflecting a value of $124,667 per room.

**TABLE 1 — CANADIAN VALUE TREND (2006–2019P)**

| Year | Value Per Room | Percent Change |
|---|---|---|
| 2006 | $116,900 | 18.7 % |
| 2007 | 121,400 | 3.8 |
| 2008 | 113,200 | (6.7) |
| 2009 | 76,600 | (32.4) |
| 2010 | 90,100 | 17.6 |
| 2011 | 85,400 | (5.2) |
| 2012 | 91,900 | 7.6 |
| 2013 | 99,100 | 7.9 |
| 2014 | 108,900 | 9.9 |
| 2015 | 114,000 | 4.6 |
| *2016P* | *124,700* | *9.4* |
| *2017P* | *130,900* | *5.0* |
| *2018P* | *134,100* | *2.4* |
| *2019P* | *135,200* | *0.9* |

Source: HVS

**TABLE 2 — VALUE PER ROOM RANKINGS (2015 VS. 2019P)**

| | 2015 | Value | 2019 | Value |
|---|---|---|---|---|
| Vancouver Downtown | **1** | $230,200 | **1** | $327,600 |
| Toronto Downtown | **2** | 184,400 | **2** | 254,328 |
| Calgary | **3** | 164,600 | **6** | 150,542 |
| Vancouver Airport | **4** | 140,600 | **3** | 191,700 |
| Saskatoon | **5** | 137,800 | **17** | 109,300 |
| Edmonton | **6** | 134,100 | **16** | 115,530 |
| NewFoundland | **7** | 133,800 | **10** | 137,967 |
| Ottawa | **8** | 126,300 | **4** | 152,900 |
| Winnipeg | **9** | 121,600 | **7** | 146,390 |
| Regina | **10** | 120,900 | **14** | 125,857 |
| Victoria | **11** | 119,100 | **5** | 150,900 |
| **Canada** | **12** | **114,000** | **12** | **135,200** |
| Montreal Downtown | **13** | 106,800 | **8** | 138,300 |
| Halifax-Dartmouth | **14** | 106,100 | **13** | 132,200 |
| Niagara Falls | **15** | 103,300 | **9** | 138,200 |
| Toronto Airport West | **16** | 98,100 | **11** | 135,300 |
| Quebec City | **17** | 96,200 | **15** | 121,300 |
| Montreal Airport | **18** | 83,100 | **18** | 104,900 |
| New Brunswick | **19** | 73,200 | **19** | 86,426 |

Source: HVS

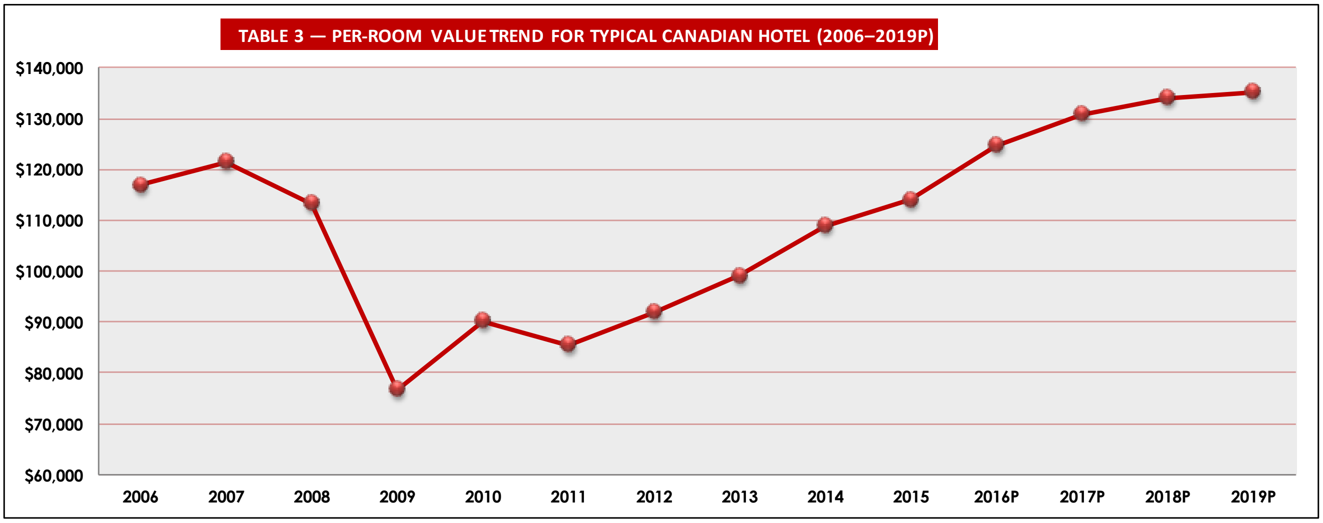
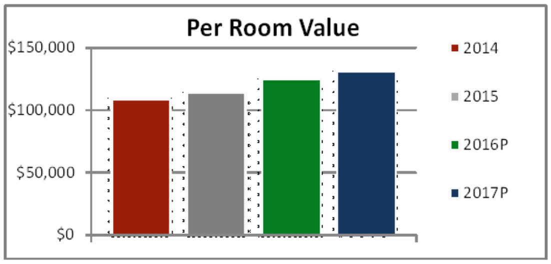


**Table 4 — Canada Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $113,248 | $76,607 | $90,100 | $85,388 | $91,875 | $99,140 | $108,936 | $113,991 |
| **y/y % Change** | -6.7% | -32.4% | 17.6% | -5.2% | 7.6% | 7.9% | 9.9% | 4.6% |
| **Index** | 1.15 | 0.78 | 0.91 | 0.87 | 0.93 | 1.01 | 1.11 | 1.16 |

**Table 5 — Canada Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $124,667 | $130,927 | $134,096 | $135,242 |
| **y/y % Change** | 9.4% | 5.0% | 2.4% | 0.9% |
| **Index** | 1.27 | 1.33 | 1.36 | 1.37 |



**CALGARY** is home to the majority of Canada's oil and gas production companies. Economic growth contracted in 2015 and continues to contract in 2016 while low oil prices undermine the economic performance of the city. Oil companies have reduced capital expenditures and downsized their operations, which is negatively affecting all sectors of the local economy. RBC is forecasting a 2.9% decline in GDP for Alberta in 2016 over and above the 3.5% contraction that the province suffered in 2015. The wildfires in Fort McMurray have contributed to this projected decline.

As a result of the weak economic environment, the per-room value for the Calgary market dropped considerably in 2015. We projected a 12.5% decrease in the per-key value for 2015 in the last HVI report, but with the final year-end performance taken into account, the per-key value actually saw a more severe drop of 16.9%. Even with this decline, the per-key value is nonetheless higher than the values that this market achieved between 2009 and 2011. The per-room value for Calgary is projected to decrease another 20.4% in 2016 to $130,986. The Calgary market continues to experience a double whammy in terms of high supply growth coupled with contracting demand, which is causing the RevPAR to freefall—it is expected to decrease 18.5% to $81.64 in 2016.

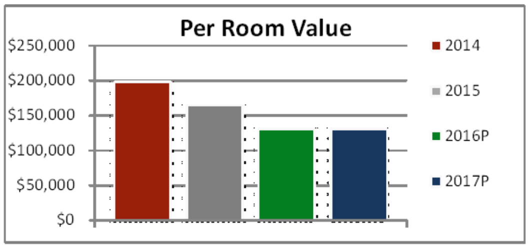
The outlook for the Calgary lodging market is more positive for 2017. Both ADR and occupancy are projected to climb with the expectation that oil prices will begin to recover. Moreover, fiscal stimulus and the rebuilding work after the wildfires are expected to have a positive impact on the Alberta economy. With the local economy expected to move towards recovery, the per-room value is projected to increase to $150,542 in 2019, which is nonetheless a loss in value relative to 2015. The Calgary market is projected to rank sixth among all the Canadian markets in value in 2019, down from third position in 2015.

**Table 6 — Calgary Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $217,849 | $153,371 | $143,436 | $156,180 | $184,030 | $202,241 | $198,150 | $164,564 |
| **y/y % Change** | -2.5% | -29.6% | -6.5% | 8.9% | 17.8% | 9.9% | -2.0% | -16.9% |
| **Index** | 2.21 | 1.56 | 1.46 | 1.59 | 1.87 | 2.05 | 2.01 | 1.67 |

**Table 7 — Calgary Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $130,986 | $130,743 | $146,501 | $150,542 |
| **y/y % Change** | -20.4% | -0.2% | 12.05% | 2.76% |
| **Index** | 1.33 | 1.33 | 1.49 | 1.53 |



**EDMONTON**'s economy, although quite diverse, has been negatively affected by the drop in oil prices, which translated into a decline in an array of sectors for the city in 2015. The economy is expected to struggle through 2016 because investments in most other sectors have followed the same downward trajectory as oil and gas investment.

According to Conference Board of Canada, the city's GDP declined by 1.5% in 2015, and it is projected to contract another 0.6% in 2016 as oil prices remain weak. With the expectation that oil prices will start to climb, Edmonton is projected to see a resumption of growth in 2017, when the GDP is projected to increase by 1.8%.

In 2015, the RevPAR for Edmonton fell sharply by 10.9% to $83.22, down from $93.39 in the previous year. A slight decrease in ADR, a sharp drop in demand, and new supply entering the market resulted in this loss in RevPAR. The same pattern is projected to recur in 2016 with a 15.6% decline in RevPAR, which at $70.22 would be the lowest since 2006.

Consequently, the per-room value for the Edmonton market likewise fell in 2015, by 13.8%. This was greater than the 10.2% drop that we projected in the 2015 HVI because the final year-end performance of the market was softer than anticipated.

For 2016, the per-key value is projected to fall another 18.6% to $109,160, the lowest annual value that we have seen in this market.

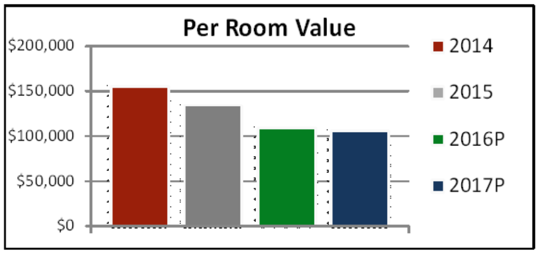
Growth in the per-room value is projected to resume in 2018, but the pace of growth is expected to be slow with a large amount of new supply still entering the market—the room supply is expected to increase 10.9% between 2016 and 2019. The new rooms will make it difficult for this market to realize the same performance levels as it had before the downturn in the oil and gas industry. With this loss in value, the Edmonton market is projected to drop from sixth position in 2015 to the rank of sixteenth in 2019 with a per-room value of $115,530.

**Table 8 — Edmonton Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Per Room Value | $183,327 | $127,180 | $117,752 | $122,243 | $138,560 | $155,204 | $155,536 | $134,089 |
| y/y % Change | -2.5% | -30.6% | -7.4% | 3.8% | 13.3% | 12.0% | 0.2% | -13.8% |
| Index | 1.86 | 1.29 | 1.20 | 1.24 | 1.41 | 1.58 | 1.58 | 1.36 |

**Table 9 — Edmonton Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| Per Room Value | $109,160 | $105,833 | $113,067 | $115,530 |
| y/y % Change | -18.6% | -3.0% | 6.8% | 2.2% |
| Index | 1.11 | 1.07 | 1.15 | 1.17 |



The **HALIFAX-DARTMOUTH** hotel market benefits from non-energy exports, off-shore energy and the manufacturing industry. Moreover, the combination of good weather, the low Loonie, and cheaper gas helped to bring more American and domestic tourists to Halifax in 2016 relative to 2015.

According to RBC, Nova Scotia's economy grew by 0.9% in 2015, and it is expected to grow at a comparable rate of 1.2% in 2016 and 1.1% in 2017. Halifax-Dartmouth in particular has been in a period of increased economic output since 2014, and the Conference Board of Canada projects a strong GDP growth of 2.8% for the city in 2016. The increase in economic activity is largely due to the start of work on the $26-billion federal shipbuilding contract at the Halifax Shipyard, which is driving the growth in the manufacturing sector.

In 2015, the Halifax-Dartmouth hotel market attained a RevPAR of $85.06, which reflects an increase of 4.6% over the previous year. Given the strong demand growth taking place in the market on top of a small decline in supply, RevPAR growth of 9.0% is projected for 2016. The room supply in the Halifax-Dartmouth market is expected to decrease 0.7% in 2016 with the closure of the 139-room Days Inn Dartmouth and the 84-room Dartmouth Oceanview Hotel in 2015.

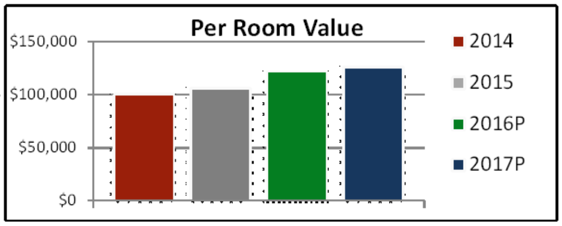
As a result of this positive environment, the per-room value for Halifax increased 5.8% to $106,141 in 2015, which is higher than the 4.2% growth that we projected in our previous HVI report. The market value is projected to grow at a moderate pace in the coming years—an increase of 14.8% is projected for 2016. With this growth, Halifax-Dartmouth is expected to rank thirteenth for per-room value in 2019, up from fourteenth in 2015.

**Table 10 — Halifax-Dartmouth Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $109,153 | $88,036 | $97,874 | $95,758 | $98,757 | $97,913 | $100,338 | $106,141 |
| **y/y % Change** | -9.6% | -19.3% | 11.2% | -2.2% | 3.1% | -0.9% | 2.5% | 5.8% |
| **Index** | 1.11 | 0.89 | 0.99 | 0.97 | 1.00 | 0.99 | 1.02 | 1.08 |

**Table 11 — Halifax-Dartmouth Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $121,849 | $126,118 | $129,335 | $132,197 |
| **y/y % Change** | 14.8% | 3.5% | 2.6% | 2.2% |
| **Index** | 1.24 | 1.28 | 1.31 | 1.34 |



The **MONTREAL AIRPORT** market is driven mainly by airport demand, but local pharmaceutical, aerospace, telecommunication, and information technology companies also generate significant demand for area hotels.

In 2015, the Montreal Airport market achieved a record-breaking RevPAR of $83.20, up 6.3% from 2014. The market experienced an increase in tourism activity because of the weak Canadian dollar and low gas prices.

As these conditions are expected to persist, the market is expected to realize another year of growth in 2016. The RevPAR is projected to improve to $89.30, reflecting growth of 7.3% over the year before. Demand is expected to grow 3.0%, supported by the temporary closure of Downtown Montreal's 982-room Fairmont Queen Elizabeth in June 2016, which will create compression in the downtown market to the benefit of the hotels in the airport area. There is also no new supply anticipated for the Montreal Airport market.

In 2017, a good year is expected for the Greater Montreal Area. A strong convention year is on the books, and the celebrations of Montreal's 375th anniversary and Expo 17 are slated to take place, bringing a wave of additional visitors. In addition, Montreal will host the World Short Track Speed Skating Championships in 2018.

In the previous HVI report, the Montreal Airport market was projected to see a 6.8% increase in the per-room value. Given the strong performance of the market, however, the per-room value for the market actually increased by 10.9%, reaching $83,143.

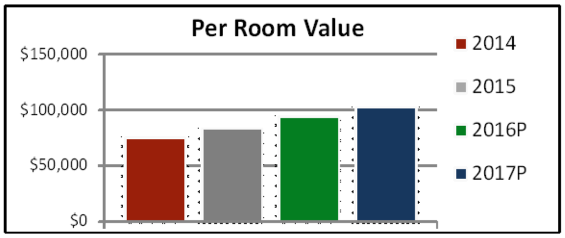
Overall, the Montreal Airport market is projected to sustain healthy increases in RevPAR from 2016 to 2019. Against this backdrop, the per-room value for the market is projected to increase 8.7% in 2017 to $102,256, finally breaking the $100,000-per-room barrier. The Montreal Airport market is projected to remain in eighteenth place for per-room value among all the major markets in Canada in 2019, just above New Brunswick.

**Table 12 — Montreal Airport Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Per Room Value | $72,868 | $50,917 | $50,234 | $58,265 | $63,852 | $68,234 | $74,987 | $83,143 |
| y/y % Change | -9.2% | -30.1% | -1.3% | 16.0% | 9.6% | 6.9% | 9.9% | 10.9% |
| Index | 0.74 | 0.52 | 0.51 | 0.59 | 0.65 | 0.69 | 0.76 | 0.84 |

**Table 13 — Montreal Airport Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| Per Room Value | $94,090 | $102,256 | $103,058 | $104,923 |
| y/y % Change | 13.2% | 8.7% | 0.8% | 1.8% |
| Index | 0.96 | 1.04 | 1.05 | 1.07 |



As Montreal is the major economic engine for the province of Quebec, the performance of the **MONTREAL DOWNTOWN** lodging market is closely tied to the economic wellbeing of the province. The Montreal Downtown hotel market is mainly driven by the business-services and life-sciences sectors.

The weak Canadian dollar and low oil and gas prices have contributed to the health of the market. In 2015, the Downtown Montreal lodging market achieved a RevPAR of $128.60, which reflects growth of 8.8% cobbled together from increases in both occupancy and ADR. With flat growth in room supply, the market enjoyed a 2.5% increase in demand. Given the favourable economic performance in 2015, the market realized a per-room value of $106,765 that year, up 9.8% from the 2014 level, which is in line with what we had projected in the 2015 HVI report.

In 2016, a 2.1% reduction in the room supply is projected for the market because the 982-room Fairmont Queen Elizabeth was closed in June for a renovation that is expected to take a full year to complete. However, the entrance of four new hotels with a combined inventory of 665 rooms in 2016 and early 2017 will offset some of the decrease in supply in the market from the closure of the Fairmont.

Against this backdrop, the market-wide occupancy is projected to grow by 2.4 percentage points in 2016 while the ADR is projected to increase by 5.0%, resulting in a RevPAR of $139.46, up 8.4% over the 2015 level. With the healthy economy and strong performance, the per-room value for the Montreal Downtown market is projected to jump to $123,190 in 2016, a 15.4% increase from the 2015 level.

The performance of the market is projected to be positive over the next four years. In 2017, when the city will celebrate its 375th anniversary, the market is expected to have a record-breaking year. Demand is projected to grow 5.0% that year, elevating the market-wide occupancy level to 76.5%.

Over the next four years, the room supply is expected to increase by approximately 9.8%. This includes the re-opening of the Fairmont Queen Elizabeth and the opening of the new 163-room Four Seasons Montreal. Following the strong growth in 2016, the per-room value for the Montreal Downtown market is projected to increase to $131,333 in 2017.

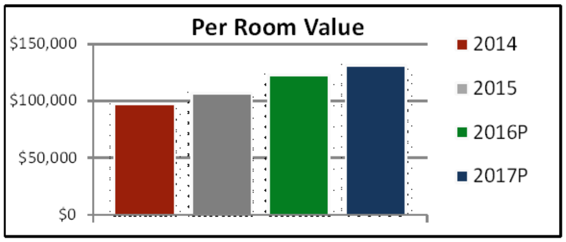
In 2018, the market's per-room value is projected to see only modest growth, mainly because of the influx of new supply into the market and the normalization of market conditions following the 375th-anniversary year in 2017. In 2019, the per-room value is projected to reach $138,251. With this growth, the Montreal Downtown market is projected to jump to eighth place for per-room value among the major markets in Canada in 2019, up from thirteenth in 2015.

**Table 14 — Montreal Downtown Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Per Room Value | $95,012 | $73,804 | $68,632 | $72,728 | $70,166 | $79,069 | $97,277 | $106,765 |
| y/y % Change | -7.4% | -22.3% | -7.0% | 6.0% | -3.5% | 12.7% | 23.0% | 9.8% |
| Index | 0.96 | 0.75 | 0.70 | 0.74 | 0.71 | 0.80 | 0.99 | 1.08 |

**Table 15 — Montreal Downtown Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| Per Room Value | $123,190 | $131,333 | $135,817 | $138,251 |
| y/y % Change | 15.4% | 6.6% | 3.4% | 1.8% |
| Index | 1.25 | 1.33 | 1.38 | 1.40 |



The **NEW BRUNSWICK** lodging market is driven largely by activities within the mining and forestry sectors. In 2015, according to RBC the province realized healthier GDP growth of 1.9% following on negative growth of 0.3% in 2014. Stronger forestry exports brought on by the low Canadian dollar and a healthier housing industry in the United States contributed to the economic growth in the province. As the growth in output within the forestry sector will be offset by the shrinking mining industry, RBC projects flat GDP growth for the province in 2016 with marginal growth of 0.5% projected for 2017.

In 2015, the New Brunswick lodging market benefited from an increase in tourism demand as a result of the low Canadian dollar, leading to a RevPAR of $65.29, up 4.5% over the 2014 level. In the 2015 HVI report, the per-room value of the New Brunswick lodging market was projected to increase by 3.0% in 2015, but it actually increased at a healthier rate of 5.4% to $73,152 with the stronger year-end performance of the market.

In 2016, the New Brunswick lodging market is projected to realize record-breaking demand growth of 6.0% because of the leisure demand being induced by the low Canadian dollar. Consequently, the RevPAR is projected to grow 7.1% to $69.95 that year. With the opening of 103-room Hampton Inn & Suites Fredericton, the market-wide room supply is expected to increase by 1.0%. The per-room value is projected at $81,324 for 2016, up 11.2% over the level achieved in 2015.

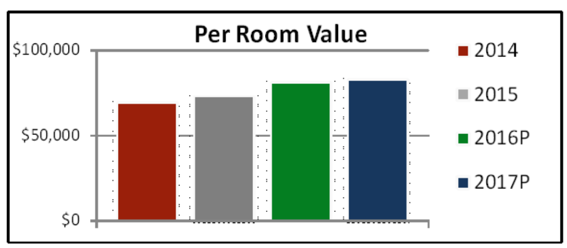
Over the next four years, approximately 540 rooms will be added in the market. In this period, the province-wide per-room value is projected to see continuous growth, reaching $86,426 in 2019. Even with this improvement, the market is projected to rank last for per-room value out of all the major markets in Canada in 2019, the same place the market had occupied in 2015.

**Table 16 — New Brunswick Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $78,944 | $67,038 | $74,246 | $68,032 | $64,079 | $67,275 | $69,435 | $73,152 |
| **y/y % Change** | -11.0% | -15.1% | 10.8% | -8.4% | -5.8% | 5.0% | 3.2% | 5.4% |
| **Index** | 0.80 | 0.68 | 0.75 | 0.69 | 0.65 | 0.68 | 0.70 | 0.74 |

**Table 17 — New Brunswick Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $81,324 | $83,160 | $84,841 | $86,426 |
| **y/y % Change** | 11.2% | 2.3% | 2.0% | 1.9% |
| **Index** | 0.83 | 0.84 | 0.86 | 0.88 |



The fortunes of the **NEWFOUNDLAND & LABRADOR** hotel market rest largely upon the state of the province's offshore oil and gas industry, although the marine biotechnology and mining sectors also play a role. According to RBC, the province's real GDP decreased by 2.2% in 2015, mainly because of a decline in oil production.

Despite the low Loonie and increased production at Vale's hydromet nickel-processing plant, the manufacturing sector is projected to decline 12% in 2016 because of a major fire at a fish-processing plant and weak prospects for fabricated metals. In addition, a weaker performance for the construction sector is anticipated for next two years because of a decline in the residential housing sector. With these factors in mind, RBC projects the province's GDP to decline a further 0.2% in 2016 and another 1.5% in 2017.

In 2015, market-wide declines in both occupancy and ADR resulted in a lower RevPAR of $97.51, down 6.4% from the 2014 level. The number of accommodated room nights was down 4.0% that year. In the 2015 HVI report, the per-room value for the Newfoundland & Labrador lodging market was projected to decrease by 2.0%. Given the weaker-than-anticipated economic situation, the per-room value, at $133,841, was actually down by 5.4% from the year prior.

In 2016, the Newfoundland & Labrador lodging market is projected to again see negative growth because of the ongoing recession. Moreover, the room supply will be up by 1.8% with the opening of 110-room Holiday Inn Express St. John's Airport. In all, the RevPAR is projected to decline by 3.9% to $93.67. In this context, the per-room value is projected at $126,138, down 5.8% from the 2015 level.

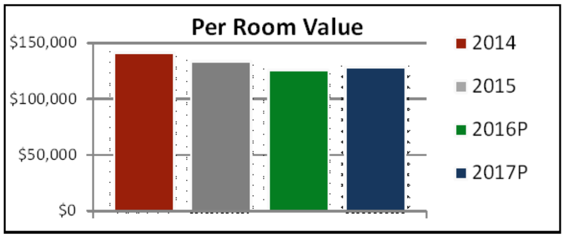
From 2015 to 2019, the room supply is projected to increase with the addition of 900 new rooms. The market's per-room hotel value is projected to see modest growth in 2017 followed by stronger growth of 6.9% in 2018, as oil demand is projected to return. The province's per-room value is projected to reach $137,967 in 2019, which is roughly on par with the 2012 value. This puts the province in tenth place among the 19 Canadian lodging markets that year.

**Table 18 — Newfoundland Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $112,595 | $105,617 | $118,937 | $127,652 | $138,540 | $147,663 | $141,462 | $133,841 |
| **y/y % Change** | 4.9% | -6.2% | 12.6% | 7.3% | 8.5% | 6.6% | -4.2% | -5.4% |
| **Index** | 1.14 | 1.07 | 1.21 | 1.30 | 1.41 | 1.50 | 1.44 | 1.36 |

**Table 19 — Newfoundland Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $126,138 | $128,717 | $137,553 | $137,967 |
| **y/y % Change** | -5.8% | 2.0% | 6.9% | 0.30% |
| **Index** | 1.28 | 1.31 | 1.40 | 1.40 |



The **NIAGARA FALLS** lodging market is highly driven by tourism activities. The market welcomes approximately 12 million tourists annually. The lower Canadian dollar and the healthier US economy are giving a boost to this lodging market.

In 2015, the market achieved a record-breaking RevPAR of $97.39, up 14.6% from the 2014 level. At the same time, the market saw a 0.9% decrease in the room supply because the 185-room Comfort Inn Clifton Hill was taken off the market in November 2015 to allow for the construction of a new recreation complex.

In the 2015 HVI report, the per-room value of the Niagara Falls lodging market was projected to increase by 16.1%; however, the record-breaking performance in fact pushed the per-room value up by 19.4% to $103,304, moving the market up one position point to fifteenth place among the 19 major Canadian lodging markets in the sample.

In 2016, the market is expected to have another record-breaking year because the weak Canadian dollar and low gas prices are inducing strong increases in US and domestic leisure demand. The market-wide RevPAR is projected to improve to $109.03, up 12.0% from the 2015 level, supported by increases in both occupancy and ADR. The market-wide per-room value is forecast at $120,495 for 2016—a notable 16.6% increase over 2015.

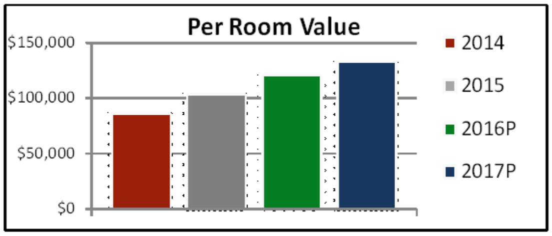
Over the next four years, the room supply is expected to increase by 3.6%. Despite the increase in rooms, hotel values in this market are projected to continue on an upward trajectory because the Niagara region is becoming much more of a year-round destination. By 2019, the per-room value for the Niagara Falls lodging market is projected to reach $138,193, putting the market in ninth position among the 19 major lodging markets in Canada, up six positions from 2015.

**Table 20 — Niagara Falls Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Per Room Value | $91,953 | $63,973 | $77,859 | $72,790 | $75,647 | $77,410 | $86,509 | $103,304 |
| y/y % Change | -11.1% | -30.4% | 21.7% | -6.5% | 3.9% | 2.3% | 11.8% | 19.4% |
| Index | 0.93 | 0.65 | 0.79 | 0.74 | 0.77 | 0.79 | 0.88 | 1.05 |

**Table 21 — Niagara Falls Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| Per Room Value | $120,495 | $132,680 | $135,019 | $138,193 |
| y/y % Change | 16.6% | 10.1% | 1.8% | 2.4% |
| Index | 1.22 | 1.35 | 1.37 | 1.40 |



The **OTTAWA-GATINEAU** lodging market is highly driven by government demand given that Ottawa is Canada's capital city. From 2012 to 2015, the market experienced slow economic growth, mainly because of the previous government's cuts to the public service. According to the Conference Board of Canada, the new federal government is expected to give a modest economic boost to the market area. The economic outlook for 2016 is positive with increased levels of activity in the public, construction, and service sectors resulting in a 1.6% projected increase in GDP.

In 2015, the Ottawa-Gatineau lodging market realized a record-breaking RevPAR of $109.83, up 8.8% over the previous year. This growth was driven primarily by a 3.2% decrease in the room supply from the closure of the Holiday Inn and the Minto Suites in 2014, which helped increase in the market-wide occupancy in 2015. Given the stronger performance, the market achieved a per-room value of $126,323 in 2015, up 8.0% over the previous year, which is above the projection we made in the 2015 HVI report of 4.9% growth.

In 2016, the market-wide RevPAR is projected to grow 2.9% with a 4.5% increase in room demand. The anticipated RevPAR growth takes into account a projected 4.7% increase in the room supply with the opening of four new hotels, including the newly opened Andaz Ottawa and Alt Hotel Ottawa.

The numerous major projects taking place in the area, such as the $5.1-billion light-rail transit project and the $3-billion Parliament Buildings renovation project, will support demand growth going forward. The local hospitality and tourism industry will also benefit from the thousands of Canadians that are expected to visit the capital to celebrate the country's 150th birthday in 2017. Overall, the nation's capital has a very positive economic outlook.

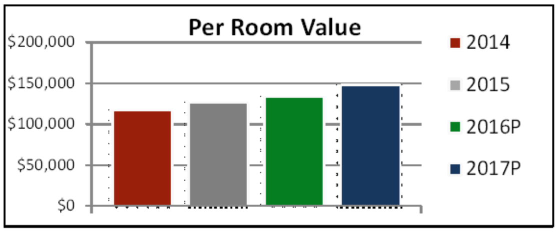
From 2016 through 2019, the market is projected to experience an 11.0% increase in supply. Nevertheless, hotel operating performance and demand are also expected to strengthen during this period, resulting in growth in the per-room hotel value of the market. The per-room value is projected to reach $152,931 in 2019, pushing the Ottawa-Gatineau market into fourth position among 19 major Canadian lodging markets, up from eighth in 2015.

**Table 22 — Ottawa-Gatineau Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $117,764 | $82,673 | $102,069 | $110,195 | $112,539 | $111,334 | $116,948 | $126,323 |
| **y/y % Change** | -7.8% | -29.8% | 23.5% | 8.0% | 2.1% | -1.1% | 5.0% | 8.0% |
| **Index** | 1.20 | 0.84 | 1.04 | 1.12 | 1.14 | 1.13 | 1.19 | 1.28 |

**Table 23 — Ottawa-Gatineau Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $133,165 | $147,813 | $149,899 | $152,931 |
| **y/y % Change** | 5.4% | 11.0% | 1.4% | 2.0% |
| **Index** | 1.35 | 1.50 | 1.52 | 1.55 |



The **QUEBEC CITY** lodging market is driven largely by provincial government demand. In 2015, according to RBC, the province realized GDP growth of 1.1%, RBC while according to the Conference Board of Canada, Quebec City sustained slightly stronger GDP growth of 1.4%. A stronger performance in manufacturing and the service sector contributed to this growth. The low Canadian dollar was largely responsible for fostering increases in manufacturing and tourism activities within the province.

The Quebec City lodging market achieved a RevPAR of $104.01 in 2015, up 4.3% from the 2014 level, driven mainly by ADR growth. A 0.8% increase in the room supply and softer convention activity were responsible for the decrease in the market-wide occupancy. In the 2015 HVI report, the per-room value of the Quebec City lodging market was projected to increase by 5.0%; however, the year-end performance was slightly weaker than had been anticipated, and the per-room value actually increased at a slightly more moderate rate of 4.5% to $96,184.

The market is expected to see stronger economic growth in 2016. RBC projects the provincial real GDP to grow 1.3% in 2016 and a further 1.6% in 2017. In 2016, the room supply is projected to increase 0.7% as a result of the newly opened 160-room Courtyard Quebec City. Given the favourable economic conditions, the market is expected to achieve a RevPAR of $111.71 in 2016, up 7.4% over the previous year, supported by increases in both occupancy and ADR.

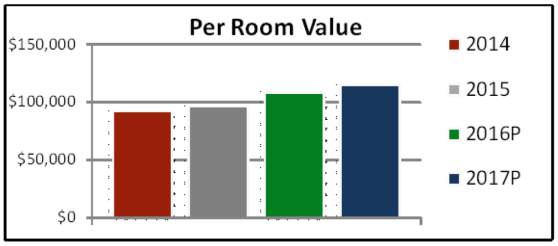
Over the next four years, the market-wide room supply is expected to see only limited growth. The 100-room Hampton Inn & Suites Quebec City Saint-Romuald is projected to open in 2017, but no other new supply is on the horizon. With the supportive operating conditions, the per-room hotel value for the market is projected to reach $108,595 in 2016, similar to the previous peak of $110,304 achieved in 2008 when the 400th anniversary of the city was celebrated. The per-room hotel value of the Quebec City lodging market is projected to reach $121,283 in 2019, putting the market into fifteenth place among the major lodging markets in Canada, up two positions from 2015.

**Table 24 — Quebec City Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $110,304 | $73,847 | $76,082 | $80,755 | $82,942 | $79,873 | $92,065 | $96,184 |
| **y/y % Change** | 20.5% | -33.1% | 3.0% | 6.1% | 2.7% | -3.7% | 15.3% | 4.5% |
| **Index** | 1.12 | 0.75 | 0.77 | 0.82 | 0.84 | 0.81 | 0.93 | 0.98 |

**Table 25 — Quebec City Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $108,595 | $114,579 | $117,855 | $121,283 |
| **y/y % Change** | 12.9% | 5.5% | 2.9% | 2.9% |
| **Index** | 1.10 | 1.16 | 1.20 | 1.23 |



The **REGINA** hotel market is driven largely by the agriculture sector and the oil and gas industry. As the capital city of Saskatchewan, the market also benefits from government demand.

The drop in oil prices negatively affected the mining sector, which contributed to a 0.5% drop in the city's real GDP in 2015. RBC projects that the provincial real GDP will contract a further 0.9% in 2016, but the provincial economy is expected to recover in 2017 and realize positive growth of 1.6% once oil prices increase. According to the Conference Board of Canada, the city's real GDP is projected to grow 0.7% in 2016.

With the decline in economic activity, the Regina lodging market suffered losses in both occupancy and ADR in 2015, resulting in a lower RevPAR of $79.61, down 9.6% from the previous year. A 5.9% increase in the room supply was largely responsible for the significant decrease in occupancy.

In the 2015 HVI report, the per-room value for the Regina hotel market was projected to decrease by 10.4%, which is in line with the actual market performance—the per-room value for the market in fact dropped 10.2%. The market's per-room value for 2015 occupies tenth place among the 19 major lodging markets.

In 2016, the freefall in the market-wide RevPAR seen in 2015 is projected to come to an end, although a modest decline of 1.8% is anticipated, brought about by slight decreases in both occupancy and ADR. The market is still struggling to absorb the large influx of new rooms that have entered the market since 2014. However, market-wide demand is projected to grow by 8.0%, which will nearly offset the 9.2% increase in supply in 2016. From 2016 to 2019, the room supply is projected to grow a further 6.3%; approximately 610 rooms are expected to enter the market in this period.

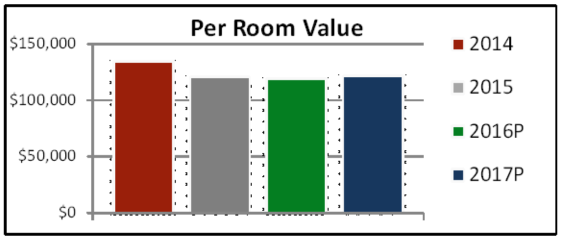
Since peaking at $151,012 in 2013, the Regina market's per-room value has been on a downward slide with the softening of market conditions and substantial increases in the room supply. This trend is expected to continue in 2016, when market's per-room value is projected to decrease by 1.3%, settling at $119,281. Nevertheless, growth is projected to resume in 2017 after oil prices come back. The per-room value is projected to reach $125,287 in 2019, which puts the market in fourteenth position among the 19 major markets in Canada.

**Table 26 — Regina Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $109,674 | $105,003 | $112,124 | $125,976 | $132,881 | $151,012 | $134,616 | $120,879 |
| **y/y % Change** | 8.1% | -4.3% | 6.8% | 12.4% | 5.5% | 13.6% | -10.9% | -10.2% |
| **Index** | 1.11 | 1.07 | 1.14 | 1.28 | 1.35 | 1.53 | 1.37 | 1.23 |

**Table 27 — Regina Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $119,281 | $121,793 | $123,928 | $125,857 |
| **y/y % Change** | -1.3% | 2.1% | 1.8% | 1.6% |
| **Index** | 1.21 | 1.24 | 1.26 | 1.28 |



**SASKATOON** is the largest city in the province of Saskatchewan. The market is driven by an array of sectors, including agriculture, mining, and biotechnology, as well as government and healthcare demand.

In 2015, economic activity slowed, and the city experienced negative real GDP growth of 1.3%, according to Conference Board of Canada. The decline in oil and gas prices and the increased volatility in commodity prices have affected the regional economy. This trend is expected to continue in 2016, when slow GDP growth of 0.9% is projected.

In 2015, the market-wide RevPAR fell by 12.1% from the 2014 level. The room supply increased by 6.3% that year even as room demand fell. Consequently, the market-wide occupancy and ADR both declined. In the 2015 HVI report, the per-room value of the Saskatoon market was projected to decrease by 7.5%. The actual year-end performance was much softer than anticipated, and the per-room value actually decreased by 11.6% to $137,803. The market nonetheless ranked as fifth highest in per-room value in 2015.

The Saskatoon lodging market is projected to remain soft through 2016. The market-wide RevPAR is forecast at $75.91, which reflects a drop of 18.1% from the 2015 level. This large decrease in RevPAR is due to an 8.7% increase in the room supply contributing to a 7.1 percentage points drop in occupancy. On top of this, the ADR is projected to fall another 8.0%. In this context, the projected per-room value for 2016, at $111,873, is down 18.8% from the level recorded in 2015.

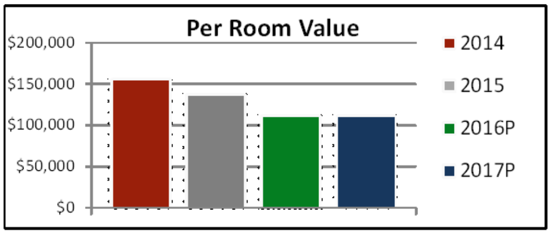
With the expectation of a recovery in oil prices, the Conference Board of Canada projects positive GDP growth of 3.0% for the city of Saskatoon in 2017. Despite the positive GDP growth, the market is expected to see further decreases in value during the next four years, mainly because of new supply. For 2019, the per-room value is projected to reach $109,271, the lowest this market has seen, which puts the market in seventeenth position among the 19 major markets in Canada, down 12 positions down from 2015.

**Table 28 — Saskatoon Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Per Room Value | $133,017 | $127,013 | $138,545 | $140,253 | $150,457 | $159,780 | $155,897 | $137,803 |
| y/y % Change | 14.4% | -4.5% | 9.1% | 1.2% | 7.3% | 6.2% | -2.4% | -11.6% |
| Index | 1.35 | 1.29 | 1.41 | 1.42 | 1.53 | 1.62 | 1.58 | 1.40 |

**Table 29 — Saskatoon Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| Per Room Value | $111,873 | $111,474 | $110,996 | $109,271 |
| y/y % Change | -18.8% | -0.4% | -0.4% | -1.6% |
| Index | 1.14 | 1.13 | 1.13 | 1.11 |



The **TORONTO AIRPORT WEST** market relies on demand from the airport, conventions, and local commercial activity.

In 2015, the Toronto Airport West market realized a robust 9.2% increase in RevPAR. Toronto Pearson International Airport, the largest and busiest airport in Canada, had nearly 2.5 million additional passengers that year, which increased passenger traffic by 6.4% over the 2014 level. With no change in supply, room demand swelled as a result of the Pan Am Games in the summer, the low Canadian dollar, and compression in the Toronto Downtown market.

In the 2015 HVI report, the per-room value of the Toronto Airport West market was projected to increase by 13.8%. The performance of the market was actually stronger than expected, and the per-room value increased by 16.1% to $98,100. This put the market in sixteenth position for per-room value among the 19 major markets in the country that year.

The Toronto Airport West market is projected to see another year of strong growth in 2016 with the weak Loonie and low oil prices creating a push for travel. In this environment, the market-wide RevPAR is projected to increase at a very strong rate of 12.3% this year.

Over the next four years, the market-wide room supply is expected to increase by 7.2%. The new hotels in the pipeline include the Element Toronto Airport, the Residence Inn Toronto Mississauga, the Courtyard Toronto Mississauga, the Hyatt Place Mississauga Centre, and the Residence Inn Toronto Mississauga North. Nonetheless, demand growth is expected to keep pace with the supply increases, allowing the new rooms to be readily absorbed into the market.

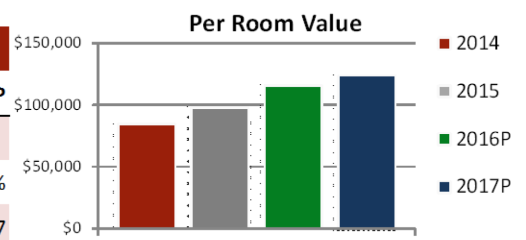
Given the strong market fundamentals that are in place, the per-room value of the Toronto Airport West market is projected to increase by another 18.2% in 2016 to $115,985. For 2019, the per-room value is projected to reach $135,307, placing the market in eleventh position among the 19 major lodging markets in Canada.

**Table 30 — Toronto Airport West Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $94,019 | $57,516 | $76,073 | $72,358 | $71,612 | $74,178 | $84,473 | $98,100 |
| **y/y % Change** | -10.4% | -38.8% | 32.3% | -4.9% | -1.0% | 3.6% | 13.9% | 16.1% |
| **Index** | 0.95 | 0.58 | 0.77 | 0.73 | 0.73 | 0.75 | 0.86 | 1.00 |

**Table 31 — Toronto Airport West Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $115,985 | $123,841 | $131,604 | $135,307 |
| **y/y % Change** | 18.2% | 6.8% | 6.3% | 2.81% |
| **Index** | 1.18 | 1.26 | 1.34 | 1.37 |



The city of Toronto is an international centre for business and finance. In 2015, the **TORONTO DOWNTOWN** lodging market enjoyed strong growth in RevPAR, which was up 7.7% from the 2014 level, even though a 1.4% increase in the room supply contributed to a slight decline in occupancy. The market also suffered a decline in demand during the Pan Am Games, as people had a fear of traffic and so avoided staying in the Toronto Downtown market during the months of July and August. As a result, a large amount of convention activity took place outside of the downtown market in this period. Nevertheless, the market enjoyed solid growth in the tourism sector thanks to the weakened Canadian dollar and low gasoline prices.

In the 2015 HVI report, the per-room value of the Toronto Downtown market was projected to increase by 12.2%. Given the strong year-end market performance, our revised numbers indicate an actual increase of 17.6% to $184,450—the second-highest per-room value in the country that year.

In 2016, the city is expected to enjoy another year of solid growth with an upswell in convention and leisure activity. As numerous international events are taking place in the city, including the 2016 NBA All-Star Game, the 104th Grey Cup, and the 2016 World Cup of Hockey, a 17.1% increase in the market-wide RevPAR is projected for 2016. In support of this, the room supply is projected to decrease by 2.8% with the closure of Best Western Primrose and the Hilton Garden Inn Toronto Downtown. In this context, the per-room value for the Toronto Downtown market is expected to reach $226,862 in 2016, reflecting record-breaking growth of 23.0% over the 2015 level.

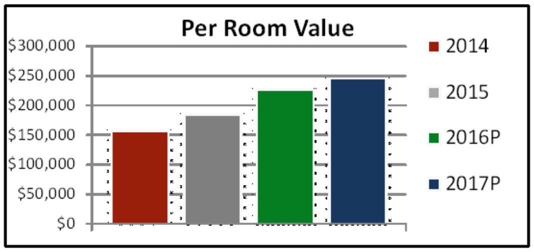
Over the next four years, the Toronto Downtown market is expected to see a 6.8% increase in the room supply. Given the size of the market and the continuous increases in demand, the market is expected to easily absorb the new room supply. Against this background, the market-wide per-room value is projected to reach $254,328 in 2019. This positions the Toronto Downtown market with the second-highest per-room value among the 19 major markets in Canada.

**Table 32 — Toronto Downtown Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $148,449 | $91,388 | $129,552 | $120,787 | $130,197 | $143,708 | $156,909 | $184,450 |
| **y/y % Change** | -9.5% | -38.4% | 41.8% | -6.8% | 7.8% | 10.4% | 9.2% | 17.6% |
| **Index** | 1.51 | 0.93 | 1.32 | 1.23 | 1.32 | 1.46 | 1.59 | 1.87 |

**Table 33 — Toronto Downtown Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $226,862 | $245,735 | $250,569 | $254,328 |
| **y/y % Change** | 23.0% | 8.3% | 2.0% | 1.5% |
| **Index** | 2.30 | 2.49 | 2.54 | 2.58 |



In 2015, the **VANCOUVER AIRPORT** lodging market realized a strong increase in demand at the same time that the room supply slightly decreased. Additionally, Vancouver International Airport served more than 20 million passengers in 2015, which represents a 4.9% increase over the previous year. The strong increase in lodging demand, alongside the growth of the ADR, resulted in a substantial 13.8% increase in RevPAR over the previous year.

According to the Conference Board of Canada, the economy of Metro Vancouver grew by 3.4% in 2015, and strong economic growth is projected for the region in the coming years—Metro Vancouver is expected to be the GDP growth leader among the 15 largest CMAs in Canada through to 2020. Construction activity is expected to lead the way in 2016 as the fastest-growing sector, followed by manufacturing.

In this context, the per-room value for the Vancouver Airport lodging market increased by 19.6% in 2015 over the previous year and reached $140,575. This is in line with the projection we made in the 2015 HVI report, where we forecast an 18.6% increase. The per-room value of the Vancouver Airport market is by far the highest among the Canadian airport markets tracked in the HVI.

The outlook for the Vancouver Airport market is positive. Airport passenger traffic is on the rise, and no new rooms are expected to enter the market from 2016 to 2018. In 2019, the room supply is expected to increase 1.9%, but the market should be able to absorb these new rooms and still see RevPAR growth.

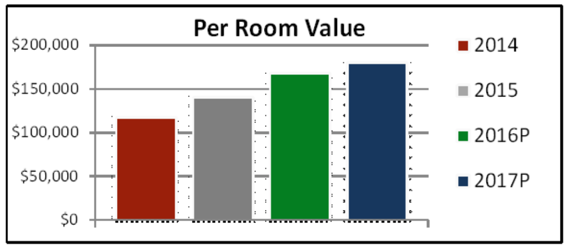
The $1.8-billion expansion to Vancouver International Airport is expected to support market-wide demand growth over the next few years—a $213-million terminal expansion already opened in January 2015. In this positive operating environment, the per-room value is projected to increase a robust 19.4% in 2016 to $167,910 and then grow more moderately through 2019. The Vancouver Airport market is positioned with the third-highest value among the 19 major markets in 2019, which is notable for an airport market given that urban markets typically have higher land costs and performance levels.

**Table 34 — Vancouver Airport Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Per Room Value | $130,882 | $93,435 | $122,168 | $98,722 | $97,523 | $105,373 | $117,586 | $140,575 |
| y/y % Change | -5.3% | -28.6% | 30.8% | -19.2% | -1.2% | 8.0% | 11.6% | 19.6% |
| Index | 1.33 | 0.95 | 1.24 | 1.00 | 0.99 | 1.07 | 1.19 | 1.43 |

**Table 35 — Vancouver Airport Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| Per Room Value | $167,910 | $179,947 | $186,496 | $191,664 |
| y/y % Change | 19.4% | 7.2% | 3.6% | 2.8% |
| Index | 1.70 | 1.83 | 1.89 | 1.95 |



In 2015, the **VANCOUVER DOWNTOWN** hotel market realized impressive RevPAR growth, putting together strong increases in both demand and rate alongside the closure of some competitive supply. The year-end performance of this market was in line with our expectations; the per-room value increased 20.7% to $230,223 in 2015. This per-room value was the highest in the country that year.

RBC forecasts a 3.0% increase in GDP for British Columbia in 2016. This is the highest rate of growth of any province in Canada, which reflects the strong economic development that is taking place in the province. The low Canadian dollar is boosting the manufacturing and construction demand coming from the US, which is nurturing the economic growth taking place in BC.

The Vancouver Downtown market is projected to see increases in demand and ADR in 2016 and through the next several years. For 2016, the RevPAR is projected to increase 13.2% to a record-breaking high of $175.59. A slight drop in occupancy is nonetheless projected for 2017 and 2018 because of the new room supply that is poised to enter the market with the 147-room Trump Tower condo-hotel, which is set to open at the end of 2016, the 188-room Autograph Collection-The Douglas and the 350-room JW Marriott Vancouver, which are expected to open in 2017.

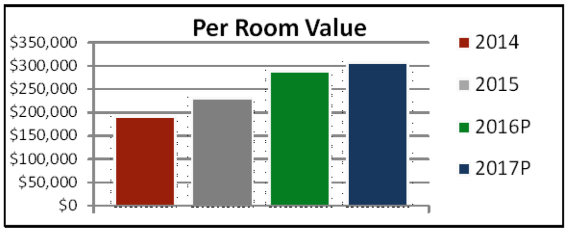
In 2016, the per-room value for the Vancouver Downtown market is projected to increase 25.3% to $288,471. The per-room value is then projected to increase more moderately through 2019. The Vancouver Downtown market is projected to retain the highest per-room value of all the major markets in the country in 2019 by a considerable margin.

**Table 36 — Vancouver Downtown Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Per Room Value | $205,773 | $130,475 | $176,599 | $172,060 | $166,844 | $173,901 | $190,802 | $230,223 |
| y/y % Change | 4.1% | -36.6% | 35.4% | -2.6% | -3.0% | 4.2% | 9.7% | 20.7% |
| Index | 2.09 | 1.32 | 1.79 | 1.75 | 1.69 | 1.77 | 1.94 | 2.34 |

**Table 37 — Vancouver Downtown Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| Per Room Value | $288,471 | $306,732 | $313,994 | $327,553 |
| y/y % Change | 25.3% | 6.3% | 2.4% | 4.3% |
| Index | 2.93 | 3.11 | 3.19 | 3.33 |



The **VICTORIA** hotel market has been improving steadily since recovery got underway in 2013. The market-wide RevPAR increased 10.4% to $98.30 in 2015. The resurgence of American travel to Canada with the downward slide in the Loonie, combined with a surge in the number of travellers from China, supported this growth. With the strength of the market, the per-room value increased by 10.1% to $119,113 in 2015, which is close to the values supported prior to the recession, and also to our projection of $120,750 made in the previous HVI.

According to the Conference Board of Canada, Victoria will realize stronger GDP growth in 2016 than in any year since 2008; the city's real GDP is projected to grow 2.3% that year. The market outlook for Victoria is thus positive for 2016. Although the market-wide occupancy is projected to decrease slightly as a result of new supply entering the market, with a Holiday Inn Express and Suites and a DoubleTree by Hilton, the RevPAR is nonetheless projected to increase at a strong rate of 8.3% to $106.42 with the help of gains in ADR.

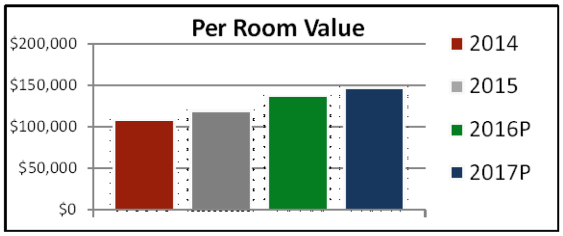
With the expected improvement in operating performance, the per-room value for the Victoria lodging market is projected to increase strongly and steadily over the coming years with growth of 15.1% and 7.3% in 2016 and 2017, respectively. By 2019, the Victoria lodging market is projected to have the fifth-highest per-room value in the country at $150,923, up from eleventh highest in 2015; this represents the largest projected upward shift in ranking among the markets studied.

**Table 38 — Victoria Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Per Room Value** | $120,412 | $80,437 | $99,143 | $90,156 | $88,852 | $97,111 | $108,197 | $119,113 |
| **y/y % Change** | -8.2% | -33.2% | 23.3% | -9.1% | -1.4% | 9.3% | 11.4% | 10.1% |
| **Index** | 1.22 | 0.82 | 1.01 | 0.92 | 0.90 | 0.99 | 1.10 | 1.21 |

**Table 39 — Victoria Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| **Per Room Value** | $137,098 | $147,165 | $149,866 | $150,923 |
| **y/y % Change** | 15.1% | 7.3% | 1.8% | 0.7% |
| **Index** | 1.39 | 1.49 | 1.52 | 1.53 |



As Manitoba is relatively unexposed to the energy sector, the decline in oil prices has not negatively affected the economy of **WINNIPEG** to the same extent as other cities in the Canadian Prairies. In 2015, the Winnipeg lodging market experienced gains in both average rate and occupancy as a result of favourable economic conditions, stronger agricultural and manufacturing activity, and continued infrastructure growth. According to the Conference Board of Canada, in 2016, Winnipeg is projected to see GDP growth of 2.3%, which would be the strongest rate of growth since 2008. Moreover, RBC forecasts more general growth in the GDP of Manitoba at a rate of 1.9% in 2016 and 2.4% in 2017—the outlook for Winnipeg is thus generally positive.

The market-wide ADR is projected to remain stable at $122.19 between 2015 and 2016 as the large amount of new supply that entered the market from 2013 to 2015 (a 7.9% increase in the room count) is absorbed. With demand projected to be up 3.0%, the RevPAR is projected to reach $79.64 in 2016, a 2.7% increase from last year.

The per-room value of the Winnipeg lodging market is projected to grow another 5.4% in 2016 to $128,247 after having increased 5.2% in 2015 to $121,625. The growth in value seen in 2015 was in line with our previous projection of 5.1%.

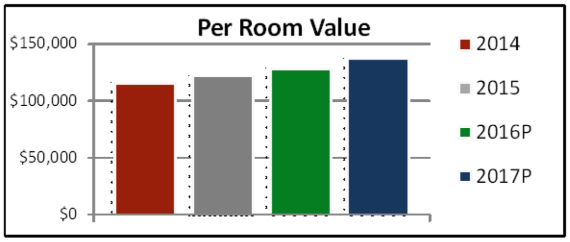
Over the next four years, the room supply in the Winnipeg hotel market is projected to increase a further 3.0%, which represents a more modest pace of supply growth than the last few the years. As such, the performance of this market is expected to improve in this period. The Winnipeg hotel market is expected to go from having the ninth-highest per-room value in the country in 2015 to the seventh highest in 2019.

**Table 40 — Winnipeg Historical Values (2008–2015)**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| Per Room Value | $112,439 | $98,255 | $111,007 | $118,591 | $117,303 | $113,346 | $115,589 | $121,625 |
| y/y % Change | 9.6% | -12.6% | 13.0% | 6.8% | -1.1% | -3.4% | 2.0% | 5.2% |
| Index | 1.14 | 1.00 | 1.13 | 1.20 | 1.19 | 1.15 | 1.17 | 1.23 |

**Table 41 — Winnipeg Forecasted Values (2016–2019)**

| | 2016P | 2017P | 2018P | 2019P |
|---|---|---|---|---|
| Per Room Value | $128,247 | $136,932 | $142,606 | $146,390 |
| y/y % Change | 5.4% | 6.8% | 4.1% | 2.7% |
| Index | 1.30 | 1.39 | 1.22 | 1.21 |



## HOTEL VALUE FORECAST

With the exception of resource-based markets, Canadian lodging markets generally saw an increase in per-room values in 2015. By the end of the forecast period in 2019, most markets are expected to achieve higher values than at the previous national peak in 2007.

The markets with the highest projected rate of growth in value in 2019 over 2015 are Vancouver Downtown, Toronto Downtown, and Toronto Airport West, with Vancouver Airport and Niagara Falls both following closely in behind. Vancouver Downtown is projected to retain the highest per-room value in the country while New Brunswick remains at the bottom with the lowest per-room value.

As a recovery in energy prices is expected to get underway in 2017, the lodging markets in the major cities connected to oil production—Calgary and Edmonton—are projected to return to positive growth in values as of 2018. Regina too is projected to see a turnaround in the direction of values. Saskatoon, however, is projected to see a further drop in per-room values while the market digests the surge of new room supply that has entered the market. Although a turnaround is projected for resource-based markets, it will nevertheless take a number of years before they return to the historical peak values seen in 2013 and 2014. This will be highly dependent on the timing and speed at which the oil industry is able to bounce back.

The regional contrasts in the performance of lodging markets across the country are expected to slowly diminish. More temperate growth is projected for those provinces currently benefitting from weak oil prices and the low dollar at the same time that a slow recovery is expected to get underway for the regions that suffered from the downturn in the oil sector. This should lead to more consistent and stable pattern of hotel-value growth across the country.

## INDUSTRY OUTLOOK

The decline in oil and gas prices has pushed investors and developers into taking a greater interest in Eastern Canada’s lodging markets. According to Colliers International Hotels, Eastern Canada accounted for 70% of the transactions in Canada in the first six months of 2016—and the transactions in Ontario alone accounted for 62% of all the transactions in the country.

Overall, the Canadian lodging market has benefitted from the drop in the Canadian dollar, which has stimulated more lodging demand. As such, another record-breaking year is projected for 2016 in terms of improvement in NOI and higher RevPAR. With interest rates and the Loonie both low, interest in acquiring hotel assets is very strong. Global investors in particular want to jump into the market as they see big bargains with the devalued Canadian dollar.

The value of a hotel room in Canada peaked in 2007 at $121,400. With the recession in 2009, the value fell sharply to $76,600, a drop of 32.4%. Since 2011, the overall value of a hotel room in Canada has steadily risen. In 2015, the Canadian per-room value reached $114,000.

The Canadian lodging industry is poised to continue in a very positive stage of its lifecycle. In 2016, the per-room value of a hotel in Canada is projected to surpass the previous peak value set in 2007 for the first time with a per-key value of $124,700. Moreover, the value is projected to rise steadily through to 2019, reaching $135,200 in that year. The strongest growth in the cycle is projected for 2016. Less extreme market performance differences are projected throughout the country as of 2017 given the anticipated revival in the oil industry. Global economic fragility also will continue to mitigate future growth in the lodging industry.

# 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 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 proforma performance for a typical hotel in each respective Canadian market. Based on 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 Toronto Downtown market in 2005 was 1.41, 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.

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

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.

$$\$100{,}000 \times 1.8499 \ = \$184{,}990$$

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.

$$\left(\frac{1.8613}{1.7657}\right) - 1 = 0.0541, \text{or } 5\%$$

# 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 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 for investment purposes.

HVS

## About HVS

**HVS**, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary last year. Established in 1980, the company performs 4,500+ 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 40 offices and more than 350 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. **HVS.com**

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**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. The 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 enable us to work in French, which is of utmost importance in the provinces of Quebec and New Brunswick.

## About Authors

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**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 transaction and portfolio valuations throughout Canada. She also offers litigation and expert witness support, speaks at numerous conferences, and is a trusted advisor within the lodging industry in Eastern Canada.


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