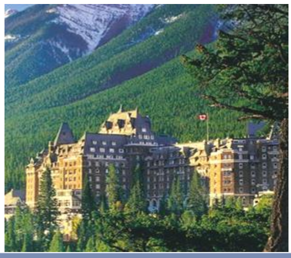
NOVEMBER 2017

2017 CANADIAN
HOTEL VALUATION INDEX



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The Canadian Hotel Market

The **CANADIAN LODGING MARKET** is again having a record-breaking year in 2017. Moreover, the disparities in performance among regional markets is slowly closing now that a recovery is getting underway in resource-based markets.

According to STR, the Canadian hotel market finished 2016 with strong 5.0% increase in revenue per available room (RevPAR), owing mainly to a 4.3% increase in average daily rate (ADR). A 1.5% increase in demand outpaced supply growth of 0.9%, adding further support to the gain in RevPAR.

The 2016 HVI report projected a 9.4% increase in the national per-room hotel value in 2016. The market actually ended the year in a slightly stronger position than what had been projected with overall growth of 9.5%.

Again building on strong growth in ADR, the RevPAR for the country is projected to reach $104 in 2017, well above the average rate of $97 recorded last year. The performance of the Canadian market as a whole has strengthened considerably this year with strong growth in ADR, a doubling of market-wide demand in 2017 over 2016, and less new supply in the market. On this strong foundation, the RevPAR is projected to increase by 7.6% in 2017, and this growth comes on top of the already strong performance that was recorded in 2016.

The economic indicators are all generally positive for 2017, fuelled by the growth in oil-producing provinces, which are beginning to pull ahead after suffering from a severe two-year downturn in the global energy sector. Both Alberta and Newfoundland are projected to have positive RevPAR growth in 2017, all the while absorbing new supply. Saskatchewan, however, continues to experience negative RevPAR growth; soft demand and an abundance of new supply are creating challenges for this market. At the same time, oil-consuming provinces are taking advantage of opportunities that are flowing from the depreciation of the Canadian dollar, the persistence of low interest rates, and the benefits of visa-friendly federal travel policies, which are bringing international travellers to Canada in unprecedented numbers.

As per the *RBC September Provincial Outlook* report, Canada is projected to achieve a 3.1% increase in GDP in 2017, which is 0.5 percentage points higher than what was previously projected in June report. The growth is largely being driven by the turnaround in Alberta and improved prospects for growth in British Columbia, Ontario, Quebec, and Prince Edward Island. Economic activity in Newfoundland and Labrador is expected to decline slightly at 1.0%but a notable difference from the positive growth in 2016 but stronger than 2015. In 2018 the economy is projected still to have negative GDP growth albeit at a slower rate.

Economic activity in energy-linked markets—Calgary, Edmonton, Saskatoon, Regina, and Newfoundland and Labrador—is still suffering from the downturn in the oil and gas sector, but some of these lodging markets are now beginning to experience positive occupancy growth despite steady increases in supply. The Calgary market is leading the pack. For 2017, Calgary is projected is see demand growth over 4%, which is slightly stronger than the supply growth that is anticipated, allowing the Calgary market to finally see a marginal increase in occupancy and RevPAR—the first positive movement in three years. Some markets have yet to fully absorb the new supply that has come through the pipeline, but these markets appear to be moving in the right direction and are expected to follow in Calgary's footsteps in the near future.

Among the major Canadian markets, Edmonton will see the largest increase in room supply in 2017 at a rate of close to 6%, followed by Calgary and Regina. Since these markets are still struggling with soft demand, the task of absorbing this new supply is delaying the recovery of the market. In contrast, the Halifax market will see the greatest supply decrease in 2017 with a 6.0% reduction in guestroom inventory because some hotels have closed temporarily for renovation or rebranding. The newly opened Delta Hotel by Marriott and DoubleTree Hotel by Hilton in Dartmouth are both examples of area hotels that were closed temporarily as part of a brand-conversion initiative.

In contrast to 2016 when the greatest RevPAR growth was seen in major urban markets, the greatest RevPAR growth is projected in the Montreal Airport, Halifax-Dartmouth, and the Vancouver Airport lodging markets in 2017 with projected increases of 16.6%, 11.5%, and 13.1%, respectively. At the same time, the urban centres in oil-producing provinces are still losing ground in RevPAR, although the rate of decline has slowed for Regina, Edmonton, and Saskatoon.

What does 2018 hold?

According to RBC forecasts, there will be less disparity in economic performance among the provinces in 2018, fuelled by the slow comeback in energy-linked markets where energy-related activities are projected to recover at a steady pace. Alberta is projected to be the national frontrunner with GDP growth of 2.9%, and Saskatchewan and Manitoba occupy second and third national positions with projected GDP growth of 2.8% and 2.4%, respectively. Newfoundland and Labrador is the only province that is projected to see negative GDP growth in 2018; nevertheless, the projected decline is just 0.7%, which is a slight improvement relative to the negative growth that the province recorded in the previous year.

In the 2016 HVI report, the national market was projected to see a 1.4% increase in supply in 2017, but the actual growth came in at a much softer rate because of hotels being closed or repurposed, which helped to offset the new-build hotels coming out of the pipeline. Based on the year-to-date data, the national market is projected to finish 2017 with only a 0.5% increase in supply. In 2018, the national room supply is projected to again increase less than 1.0%. Given the escalation in land prices across Canada, particularly in large urban centres, the majority of the new supply is taking place in secondary markets that do not have as large a base of inventory to absorb the supply; however, the demand growth in these markets is expected to largely mitigate the impact of the new supply coming on board. In supply growth, there is now a shift away from the western markets—the supply growth leaders in 2018 are expected to be Ottawa and Newfoundland and Labrador, which are tied with a projected increase of 7.2%, and Halifax-Dartmouth, which is not far behind with projected supply growth of 7.1%. Even with these new rooms, the national occupancy level is projected to increase by slightly more than one percentage point in 2018 to 67.8%.

Most of the RevPAR growth that is projected for the country in 2018 will be founded on an increase in ADR. The weak Loonie and rising occupancy rates are giving hoteliers more latitude to push for ADR increases. On this basis, the national ADR is projected at $161 for 2018, which represents a 3% increase over the level projected for 2017. With this healthy increase in ADR, the national RevPAR is projected to increase by 4.8% in 2018.

Strong operating performance is fuelling transaction activity

Canada had a very strong year for transaction activity in 2016. The market finished with $4.1 billion in transaction volume, the second highest on record. The robust transaction activity has continued this year. The transaction volume is projected to exceed $3.0 billion in 2017, buoyed by the sale of the SilverBirch Hotels & Resorts portfolio for more than $1 billion; this sale closed in the first quarter of the year.

Foreign buyers are actively investing in the Canadian lodging market; Asian capital in particular is flowing into the country. Despite the overseas investment regulations that the Chinese government issued to control outbound capital in the real estate and hotel industries, cross-border capital from China continues to account for a significant portion of the transaction volume. As the new measures issued in August specifically restrict firms from acquiring real estate in foreign markets, the effect of the new measures on the pace of investment from Mainland China in the future is uncertain.

The transaction activity in 2016 included several large transactions, including the sale of the Four Seasons Hotel Toronto to Shahid Khan for $225 million and the acquisition of InnVest REIT by Bluesky Hotels & Resorts for $2.1 billion.

In 2016, Eastern Canadian markets outperformed Western markets in transaction volume to the same extent as in 2015: 60% versus 40%. According to Colliers Hotels, Ontario remained the top spot for hotel investment, accounting for 40% of the total volume—the equivalent of the entire transaction volume of Western Canada.

As per Colliers Hotels, the transaction volume in Canada for year-to-date through October 2017 was $2.6 billion, representing 129 hotels that transacted at an average guestroom price at $161,000. Strategic transactions accounted for more than 40% of year-to-date volume and are to some degree driving the growth. In 2017, transaction volume is projected to reach between $3.0 and $3.5 billion.

The outlook for hotel transaction activity in Canada is positive given the persistence of the weak Loonie, the favourable investment environment for foreign capital, the rebound that is underway in energy-dependent markets, and expected improvements in the energy and export sectors that historically low debt costs are supporting. Unforeseen challenges may of course arise at any time, but all indicators are pointing towards an extremely favourable outlook for hotel transaction activity in Canada.

2017 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 and the appetite for hotel acquisitions.

The HVI shows that the Canadian lodging market saw a strong increase in hotel values in 2016 and that an additional robust increase is taking place 2017. The national per-room value is projected to steadily rise over the next three years.

Of all the markets in 2016, Vancouver Downtown realized the highest growth in hotel value with an increase of 25.4%; this was the second consecutive year that this market realized the strongest value growth of any major market in Canada. Toronto Downtown followed in second place with comparable growth of 22.5%, pushing the Vancouver Airport market into third position with growth of 20.6%. At the other end of the spectrum, Calgary suffered the largest decrease in hotel value in 2016 with a drop of 19.9%, although Saskatoon was not far behind with a decline of 18.4%.

For 2017, the HVI indicates that Vancouver Airport has snatched the first-place position for growth with a projected increase of 17.6%; this market will also retain its third-place national value position with a value of $199,381 per room. Vancouver Downtown has been pushed into second place in terms of value growth with an increase of 16.2%; the value per room for this market reached $335,309, the highest in the country. Coming in third place for growth is the Halifax-Dartmouth market with an increase of 14.8%; this market also attained the fifth highest per-room value of all the major markets at $140,902. In comparison, the national per-room value is projected to grow 8.0% to $134,798 in 2017.

TABLE 1 — CANADIAN VALUE TREND (2007–2020P)		
Year	Value Per Room	Percent Change
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
2016	*124,800*	*9.5*
2017P	*134,800*	*8.0*
2018P	*141,200*	*4.8*
2019P	*145,200*	*2.8*
2020P	*149,000*	*2.6*

Source: HVS

TABLE 2 — VALUE PER ROOM RANKINGS (2016 VS. 2020P)				
	2016	**Value**	**2020**	**Value**
Vancouver Downtown	**1**	$288,700	**1**	$448,700
Toronto Downtown	**2**	225,900	**2**	318,700
Vancouver Airport	**3**	169,500	**3**	251,500
Victoria	**4**	139,100	**4**	181,600
Ottawa	**5**	134,000	**6**	160,800
Calgary	**6**	131,800	**8**	151,300
Winnipeg	**7**	128,800	**10**	148,900
Canada	**8**	**124,800**	**9**	**149,000**
Montreal Downtown	**8**	124,800	**11**	147,600
NewFoundland	**10**	124,500	**13**	136,900
Halifax-Dartmouth	**11**	122,800	**5**	161,700
Niagara Falls	**12**	120,200	**12**	140,900
Regina	**13**	118,300	**18**	108,300
Toronto Airport West	**14**	117,700	**7**	159,000
Saskatoon	**15**	112,400	**17**	110,300
Edmonton	**16**	109,800	**16**	116,400
Quebec City	**17**	109,200	**14**	129,600
Montreal Airport	**18**	95,900	**15**	119,000
New Brunswick	**19**	80,900	**19**	94,900

Source: HVS

TABLE 3 — PER-ROOM VALUE TREND FOR TYPICAL CANADIAN HOTEL (2007–2020P)

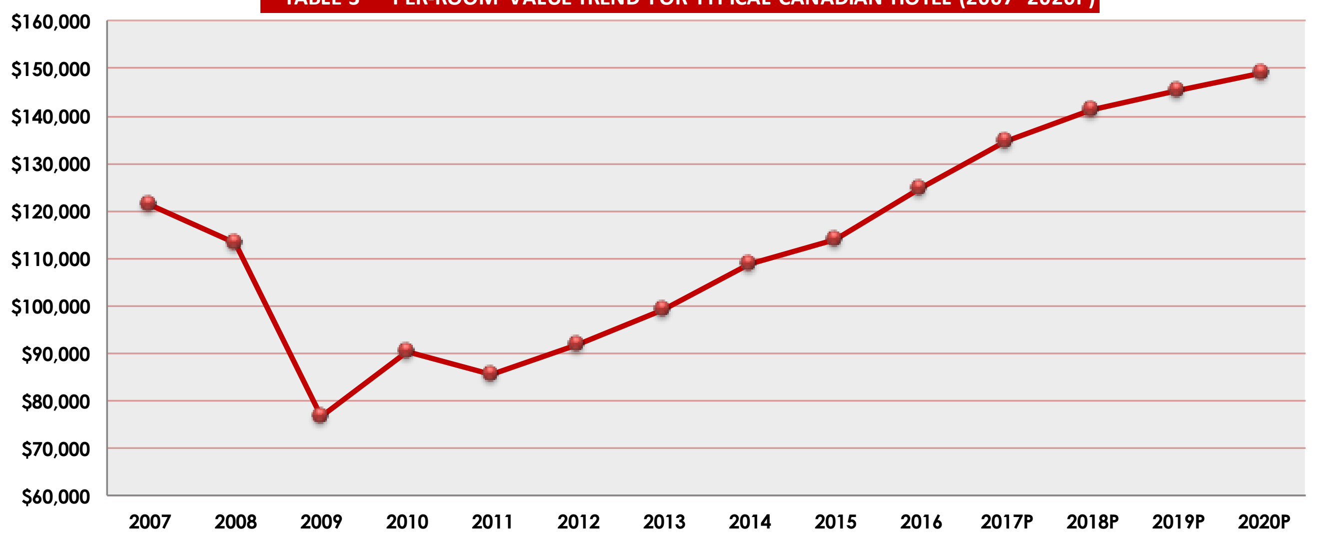
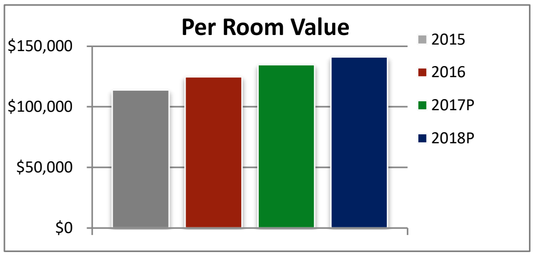


Table 4 — Canada Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$76,607	$90,100	$85,388	$91,875	$99,140	$108,936	$113,991	$124,765
y/y % Change	-32.4%	17.6%	-5.2%	7.6%	7.9%	9.9%	4.6%	9.5%
Index	0.78	0.91	0.87	0.93	1.01	1.11	1.16	1.27

Table 5 — Canada Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$134,798	$141,249	$145,151	$148,981
y/y % Change	8.0%	4.8%	2.8%	2.6%
Index	1.37	1.43	1.47	1.51



CALGARY is home to the majority of Canada's oil and gas production companies. With the collapse in oil price in late 2014, Alberta experienced two consecutive years of severe decline in every sector of the local economy. OPEC reached an agreement to cut oil production at the of 2016, which has boosted oil prices in 2017. This has in turn led to renewed investment and increased drilling, which are spurring growth in the primary and utilities sectors and manufacturing. At the same time, the construction sector is benefitting from rising activity in both the residential and non-residential markets. According to the Conference Board of Canada, the Calgary economy is set to expand by 4.6% in 2017.

In 2016, the per-room value for the Calgary market dropped considerably, undermined by the weak economic environment. A 20.4% decrease in the per-room value was projected for 2016 in the previous HVI report, but with the final year-end performance taken into account the per-room value actually fell 19.9% to $131,835. In 2016, the Calgary market experienced strong supply growth coupled with a contraction of demand, which caused the RevPAR to decline by 15% to $84.

In 2017, the economic outlook is much more positive, supported by the strengthening of oil prices and the recovery of the housing market. In this more supportive environment, the per-room value for the Calgary is expected to increase by 1.8% to $134,197. A moderate but healthy increase in occupancy is projected, as demand is projected to outpace the new supply in the market, including the 142-room Element Calgary Airport South and the 122-room Homewood Suites Calgary Downtown. In all, the market-wide RevPAR is projected to increase to $85, reflecting an increase of 1.0%.

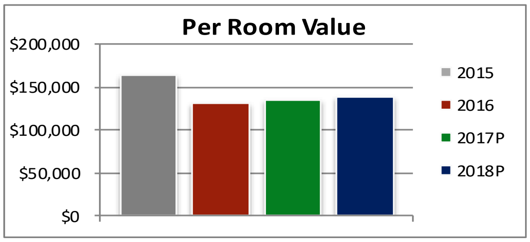
With the local economy gradually moving towards recovery and the return of healthy real GDP growth, the outlook for the Calgary lodging market over the next three years is much more positive. The lodging market is expected to respond to the recovery of economy slowly while the recent growth in supply is absorbed. In all, the market is expected to seen improvement in both ADR and occupancy, and the per-room value is projected to increase to $151,293 in 2020. The Calgary market is projected to rank eighth in value among all the Canadian markets in 2020, down from sixth position in 2016.

Table 6 — Calgary Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$153,371	$143,436	$156,180	$184,030	$202,241	$198,150	$164,564	$131,835
y/y % Change	-29.6%	-6.5%	8.9%	17.8%	9.9%	-2.0%	-16.9%	-19.9%
Index	1.56	1.46	1.59	1.87	2.05	2.01	1.67	1.34

Table 7 — Calgary Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$134,197	$138,866	$143,809	$151,293
y/y % Change	1.8%	3.5%	3.6%	5.2%
Index	1.36	1.41	1.46	1.54



EDMONTON's economy, although well diversified, has been negatively affected by the drop in oil prices, which translated into a decline in an array of sectors for the city in 2016. According to the Conference Board of Canada, the city's real GDP declined by 3.4% in 2016. As oil prices have begun to climb, Edmonton is projected to see a resumption of growth in 2017, when the GDP is projected to increase by 3.9%. Higher oil prices have led to renewed economic growth in Edmonton this year, as oil companies have increased investment and drilling activity.

In 2016, the RevPAR for Edmonton fell to $74, down 11% from $83 in the previous year. A drop in both ADR and demand, combined with the addition of new supply to the market, resulted in this loss in RevPAR. Although the same pattern is projected to recur in 2017, the decline is projected to moderated by an improvement in ADR. The hotels in the pipeline include JW Marriott Edmonton, the Element Edmonton West, the Four Points Edmonton West, and the TownePlace Suites Edmonton Sherwood Park. With this new supply, the RevPAR is projected to drop another 5% to $70 even with a 1% increase in ADR.

With the downturn in the local economy, the per-room value for the Edmonton market fell by 18.1% in 2016, which is in line with what we projected in the 2016 HVI report.

In 2017, the Edmonton lodging market is projected to see a 6% increase in supply at the same time that demand is projected to decline. In light of this, the per-room value is projected to fall another 2.8% that year to $106,742.

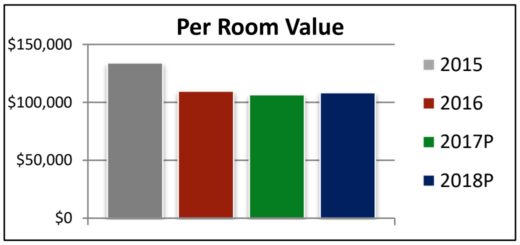
Growth in the per-room value is projected to resume in 2018, but the pace of growth is expected to remain slow with a large amount of new supply still entering the market—the room supply is expected to increase by 8% between 2017 and 2020. The new rooms will make it difficult for this market to realize the performance levels it had seen before the downturn in the oil and gas industry. Consequently, the Edmonton market is projected to remain in sixteenth position in 2020, the same as in 2016; the per-room value is projected to reach $116,406, well below the levels recorded prior to the downturn in the market.

Table 8 — Edmonton Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$127,180	$117,752	$122,243	$138,560	$155,204	$155,536	$134,089	$109,840
y/y % Change	-30.6%	-7.4%	3.8%	13.3%	12.0%	0.2%	-13.8%	-18.1%
Index	1.29	1.20	1.24	1.41	1.58	1.58	1.36	1.12

Table 9 — Edmonton Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$106,742	$108,443	$111,010	$116,406
y/y % Change	-2.8%	1.6%	2.4%	4.9%
Index	1.08	1.10	1.13	1.18



The **HALIFAX-DARTMOUTH** hotel market benefits from non-energy exports the construction industry and the manufacturing industry, particularly with regard to shipbuilding. In addition, the combination of good weather, the low Loonie, and cheaper gas helped to bring more US and domestic tourists to Halifax in 2017 than in 2016.

The decline in offshore natural gas production is negatively affecting the local economy, but Halifax nevertheless continues to outperform the rest of Nova Scotia. According to the Conference Board of Canada, the city is projected to realize a 1.4% increase in real GDP in 2017, which is similar to the growth of 1.5% that was seen in 2016. The manufacturing sector is the main driver of the increase in economic activity, largely because of the ongoing shipbuilding contract at the Halifax Shipyard. At the same time, the services sector has experienced healthy growth with an expected increase of nearly 2% over the output level seen last year.

In 2016, the Halifax-Dartmouth hotel market attained a RevPAR of $93, which reflects a 10% increase over the previous year. The market saw strong demand growth coupled with the largest inventory decline in the country. The supply that was temporarily closed has re-opened and is coming back on board in 2018. The outlook for 2017 is very positive—the per-room value for the Halifax-Dartmouth market is projected increase 14.8%.

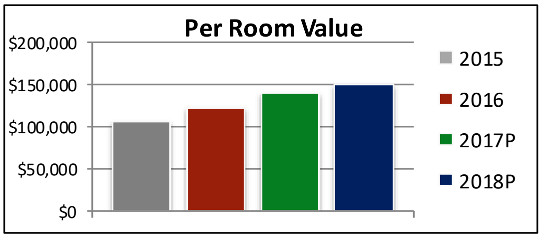
The per-room value for Halifax increased by 15.7% to $122,788 in 2016, and with the strong performance in 2017 the per-room value is projected to reach $140,902. The Conference Board of Canada projects positive real GDP growth of about 2% annually through 2021. The value per room is projected to grow at a moderate pace in the coming years—an increase of 4.7% to $161,744 is projected for 2020. With this growth, Halifax-Dartmouth market is projected to have the fifth highest per-room value in the country in 2020, a significant advance from eleventh position in 2016.

Table 10 — Halifax-Dartmouth Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$88,036	$97,874	$95,758	$98,757	$97,913	$100,338	$106,141	$122,788
y/y % Change	-19.3%	11.2%	-2.2%	3.1%	-0.9%	2.5%	5.8%	15.7%
Index	0.89	0.99	0.97	1.00	0.99	1.02	1.08	1.25

Table 11 — Halifax-Dartmouth Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$140,902	$150,648	$156,852	$161,744
y/y % Change	14.8%	6.9%	4.1%	3.1%
Index	1.43	1.53	1.59	1.64



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.

Montreal is the second-largest city in Canada, and Montreal–Pierre Elliot Trudeau International Airport is seeing a record number of passengers this year. Year-to-date through August 2017, more than 12 million passengers landed at the airport, up 9.6% from the comparable period in 2016. The overall health of the Canadian economy and events marking the 150th anniversary of Canadian Confederation, the 50th anniversary of Expo 67, and the 375th anniversary of the city of Montreal have all contributed to the increase in visitation this year. New direct flights to China through Shanghai and Peking have also played a role in the rising passenger count at the airport.

In 2017, Montreal remains attractive for real estate investors and also technology investment. Montreal is also the second-largest hub for artificial intelligence (AI)research in the world. Following Google in establishing AI lab in 2016, both Microsoft and Facebook have chosen Montreal for their AI research labs.

In last year's HVI report, the per-room value for the Montreal Airport market was projected to increase by 13.2% to $94,090 in 2016. Given the strong performance of the market, the actual per-room value increased to $95,943, slightly above what had been projected. With gains in occupancy and ADR, the RevPAR increased by 9% in 2016, reaching $91.

The Montreal Airport lodging market has experienced a very strong year for visitation in 2017 with the celebration of the city's 375th anniversary. The RevPAR is projected to improve to $108, up 18% from the level achieved in 2016. The decline in supply with the closure in December 2016 of the 214-room Best Western Plus Montreal Airport for major renovations has contributed to the improvement in RevPAR.

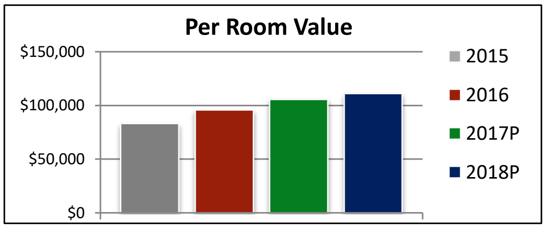
Overall, the Montreal Airport market is projected to sustain healthy increases in market value from 2017 through 2020. Two new Hilton-branded hotels are in the pipeline and expected to open in 2018 with more than 200 rooms in total. In 2020, the per-room value is projected to reach $119,047 per room. With this strong performance, the Montreal Airport market is projected to move up to fifteenth place for per-room value among all the major markets in Canada in 2020, up from eighteenth place in 2016.

Table 12 — Montreal Airport Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$50,917	$50,234	$58,265	$63,852	$68,234	$74,987	$83,143	$95,943
y/y % Change	-30.1%	-1.3%	16.0%	9.6%	6.9%	9.9%	10.9%	15.4%
Index	0.52	0.51	0.59	0.65	0.69	0.76	0.84	0.97

Table 13 — Montreal Airport Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$105,613	$111,224	$113,313	$119,047
y/y % Change	10.1%	5.3%	1.9%	5.1%
Index	1.07	1.13	1.15	1.21



For the **MONTREAL DOWNTOWN** lodging market, business services and life sciences sectors are the main drivers of lodging demand. The numerous major projects that are taking place in the area, such as the $5.5-billion light-rail transit project and the $300-million residential Destination YUL project, are expected to support demand growth going forward.

In 2016, the Montreal Downtown lodging market achieved a RevPAR of $141, which reflects growth of 8.2% cobbled together from increases in both occupancy and ADR. A 1.8% reduction in the room supply from the closure of the 950-room Fairmont Queen Elizabeth in June 2016 supported the improvement in operating performance. Given the favourable economic performance in 2016, the market realized a per-room value of $124,768 that year, up 16.9% from the 2015 level, which is stronger than what we had projected in the 2015 HVI report.

In 2017, the room supply is projected to increase by 4.0% because the 950-room Fairmont Queen Elizabeth re-opened in July 2017 and the 90-room Mount Stephen Hotel and the 221-room Holiday Inn & Suites Montreal Downtown West also opened. Market-wide demand is projected to grow at a stronger pace than supply, and the market-wide ADR is projected to increase by 7%, resulting in a RevPAR of $155, up 9% from the previous year. With this strong performance, the per-room value for the Montreal Downtown market is projected to jump to $141,257 in 2017, a 13.2% increase from the 2016 level. The city has had a record-breaking year in terms of visitation, ADR, and occupancy, owing largely to the city's 375th anniversary celebrations.

The performance of the market is projected to be positive over the next three years with healthy demand growth. A significant influx of new supply into the market in 2018 will put downward pressure on occupancy rates, resulting in negative value growth that year, but positive growth is projected to resume in 2019. The new supply will include the 269-room Hotel Monville, the 150-room AC by Marriott Hotel, the 120-room Birks Hotel, the 170-room Four Seasons Hotel, and the 193-room Autograph Hotel by Marriott.

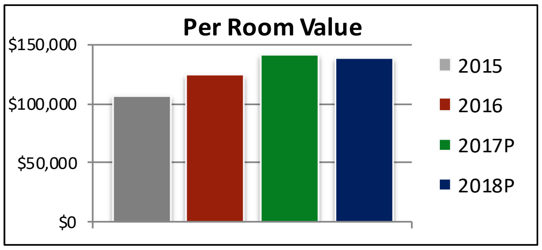
The per-room value for Montreal Downtown is projected to only see modest growth overall over the next three years as the market works to absorb the new guestroom supply and market conditions normalize following the 375th anniversary year in 2017. By 2020, the Montreal Downtown market is projected to have the eleventh highest per-room value among the major markets in Canada, down from eighth position in 2016.

Table 14 — Montreal Downtown Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$73,804	$68,632	$72,728	$70,166	$79,069	$97,277	$106,765	$124,768
y/y % Change	-22.3%	-7.0%	6.0%	-3.5%	12.7%	23.0%	9.8%	16.9%
Index	0.75	0.70	0.74	0.71	0.80	0.99	1.08	1.27

Table 15 — Montreal Downtown Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$141,257	$138,568	$143,410	$147,556
y/y % Change	13.2%	-1.9%	3.5%	2.9%
Index	1.43	1.41	1.46	1.50



The **NEW BRUNSWICK** lodging market is benefitting from the province's slow but steady economic growth and increases in the number of overnight travellers. As per RBC, the province realized GDP growth of 1.4% in 2016, supported by a solid performance in non-residential construction and tourism-related industries. In 2017, both tourism and overall economic growth have been strong despite of the uncertainty surrounding the trade dispute with the United States over softwood lumber. As such, RBC is projecting a 1.6% increase in real GDP for the year.

In 2016, the New Brunswick lodging market benefitted from an increase in tourism demand stemming from the low Canadian dollar. This resulted in a stronger RevPAR of $70, up 6% over the 2015 level. In the 2016 HVI report, the per-room value of the New Brunswick lodging market was projected to increase by 11.2%, but it actually increased at a slightly lower rate of 10.6% to $80,873 with the year-end performance of the market taken into account.

In 2017, the New Brunswick lodging market is projected to realize a 4% increase in demand, supported by the celebration of Canada 150 and favourable summer weather. With gains in both demand and ADR, the market-wide RevPAR is projected to grow 8% to $75. In light of this, the per-room value is projected at $88,243 for 2017, up 9.1% over the level achieved in 2016.

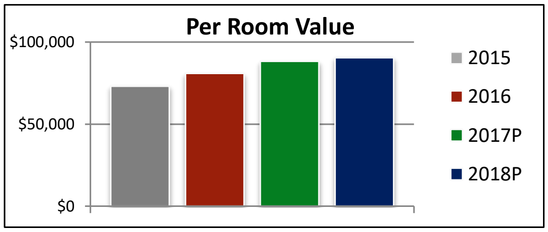
Over the next three years, approximately 600 rooms will be added in the province, the bulk of which will be in Moncton. A number of hotels are in the pipeline, including the Holiday Inn Express & Suites Moncton, the Hilton Garden Inn Fredericton, the Wesley Boutique Hotel Moncton, and the Radisson Hotel Fredericton. The province-wide per-room value is projected to grow steadily, reaching $94,862 in 2020. Even with this improvement, the market is projected to rank last for per-room value out of all the major markets in Canada in 2020, the same place the market occupied in 2016.

Table 16 — New Brunswick Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$67,038	$74,246	$68,032	$64,079	$67,275	$69,435	$73,152	$80,873
y/y % Change	-15.1%	10.8%	-8.4%	-5.8%	5.0%	3.2%	5.4%	10.6%
Index	0.68	0.75	0.69	0.65	0.68	0.70	0.74	0.82

Table 17 — New Brunswick Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$88,243	$90,423	$91,367	$94,862
y/y % Change	9.1%	2.5%	1.0%	3.8%
Index	0.90	0.92	0.93	0.96



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 increased an estimated 1.9% in 2016, mainly because of a surge in oil production. Offshore oil production was up nearly 23% in 2016 relative 2015. Even though the upward trend in oil production is expected to continue, driven by the Hebron field coming on line in late 2017, the real GDP is projected to decline by 1.0% for 2017, mainly because of a soft labour and housing markets.

In 2016, market-wide declines in both demand and ADR resulted in a lower RevPAR of $93, down 5% from the 2015 level. In the 2016 HVI report, the per-room value for the Newfoundland & Labrador lodging market was projected to decrease by 5.8%. The per-room value, at $124,502, was actually down by 7.0% from the year prior, largely because of softer-than-anticipated demand and an increase in new supply, coupled with a weaker ADR.

Based on the year-to-date performance, the market is projected to see positive growth in lodging demand in 2017, mainly because of the growth in oil production and the 2017 Tim Hortons Brier that was held in St. John's in March. With this improvement in demand, the Newfoundland & Labrador lodging market is projected to see positive RevPAR growth for the first time in three years. The room supply will increase in 2017 and 2018 with the opening of 175-room Best Western Plus St. John's Airport Hotel & Suites, the 148-room Alt Hotel St John, and Sandman St John's. Despite the new supply, the RevPAR is projected to increase to $93 in 2017, reflecting a gain of 0.6% over the previous year, and the following year it is projected to reach $94.

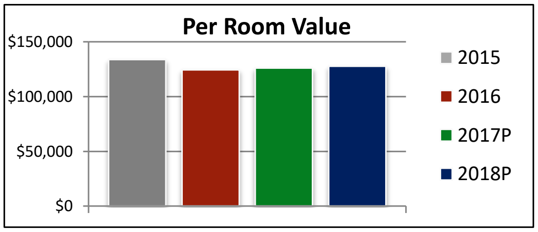
In this context, the per-room value is projected at $126,164 in 2017, up 1.3% from the 2016 level. The market's per-room hotel value is projected to see a comparable gain in 2018, as oil-related demand is projected to return and the new supply gradually becomes absorbed. The province's per-room value is projected to reach $136,942 in 2020, which puts the province in thirteenth place among the 19 Canadian lodging markets that year, down from tenth place in 2016.

Table 18 — Newfoundland Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$105,617	$118,937	$127,652	$138,540	$147,663	$141,462	$133,841	$124,502
y/y % Change	-6.2%	12.6%	7.3%	8.5%	6.6%	-4.2%	-5.4%	-7.0%
Index	1.07	1.21	1.30	1.41	1.50	1.44	1.36	1.26

Table 19 — Newfoundland Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$126,164	$127,817	$131,625	$136,942
y/y % Change	1.3%	1.3%	2.98%	4.04%
Index	1.28	1.30	1.34	1.39



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 2016, the market achieved a record-breaking RevPAR of $104, up 10% from the 2015 level, mainly because the low Loonie contributed to an increase in domestic and international traffic to this destination. At the same time, the only increase in supply was the expansion at the Embassy Suites Niagara Falls Fallsview, which added 40 rooms to the market.

In the 2016 HVI report, the per-room value of the Niagara Falls lodging market was projected to increase by 16.6%, and the actual growth was roughly in line with our projection. This moved the market to twelfth place among the 19 major Canadian lodging markets in the sample in 2016.

In 2017, the market is expected to have another good year because the weak Canadian dollar and friendly visa policies are inducing strong increases in international leisure demand even though the rainy summer negatively affected leisure demand in Niagara Falls. The market-wide RevPAR is projected to improve to $110, up 3.0% from the 2016 level, supported by increases in both demand and ADR. The market-wide per-room value is forecast at $123,812 for 2017, reflecting a 3.0% increase over 2016, which is a much more modest rate of growth relative to what the market achieved in 2016. No new supply has been confirmed for this market, but a number of large projects are percolating in the pipeline.

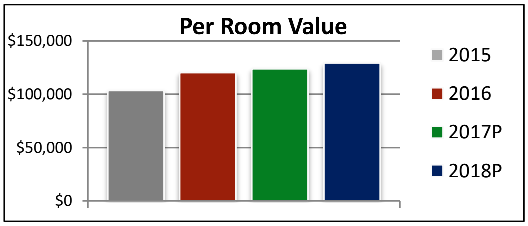
Hotel values in this market are projected to remain on an upward trajectory because the Niagara region is becoming much more of a year-round destination. By 2020, the per-room value for the Niagara Falls lodging market is projected to reach $140,866, allowing the market to remain in twelfth position among the 19 major lodging markets in Canada in that year.

Table 20 — Niagara Falls Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$63,973	$77,859	$72,790	$75,647	$77,410	$86,509	$103,304	$120,197
y/y % Change	-30.4%	21.7%	-6.5%	3.9%	2.3%	11.8%	19.4%	16.4%
Index	0.65	0.79	0.74	0.77	0.79	0.88	1.05	1.22

Table 21 — Niagara Falls Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$123,812	$129,373	$135,396	$140,866
y/y % Change	3.0%	4.5%	4.7%	4.0%
Index	1.26	1.31	1.37	1.43



The **OTTAWA-GATINEAU** lodging market is highly driven by government demand because 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. The Conference Board of Canada is projecting real GDP growth of 2.5% for Ottawa-Gatineau in 2017. The resumption of hiring in the public administration sector is fuelling this growth. The new federal government has also introduced billions of dollars in new spending measures, which is creating positive spinoffs for the local Ottawa economy.

In 2016, the Ottawa-Gatineau lodging market realized a record-breaking RevPAR of $114, up 3% over the previous year. Gains in both market-wide demand and ADR contributed to this growth. Given the stronger performance, the market achieved a per-room value of $133,979 in 2016, up 6.1% over the previous year, which is higher than the increase of 5.4% that we projected in the 2016 HVI report.

In 2017, the market-wide RevPAR is projected to grow 13%, mainly because of rate growth, but a 5.0% increase in room demand is also projected, spurred by festivities associated with Canada 150, which brought thousands of Canadians to the National Capital Region. The local lodging industry is also set to benefit from other special events, including the Juno Music Awards, the 105th Grey Cup, and a four-day tribute to the Stanley Cup. The anticipated RevPAR growth takes into account a projected 2.0% increase in the room supply, which stems from the recent opening of the 119-room Holiday Inn Express & Suites Gatineau as well as the balance of the new supply which entered the market in 2016 with the openings of the 200-room Andaz by Hyatt and the148-room Alt by Germain. A number of major projects are also taking place in Ottawa, such as the $5.1-billion light-rail transit project and the $3-billion Parliament Buildings renovation project, which will support demand growth going forward. With this improvement in market performance, the per-room value is expected to advance significantly at a rate of 13.2% in 2017.

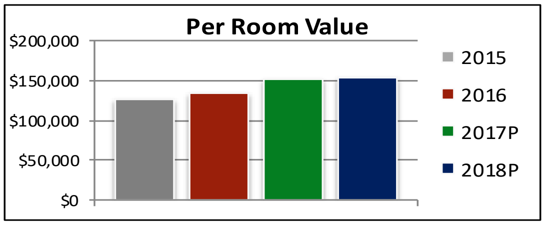
From 2017 through 2020, a slew of new hotels are slated to enter the market. The hotels in the pipeline include the Homewood Suites Ottawa Airport, the Hilton Garden Inn, the Holiday Inn Express & Suites Ottawa, the Best Western Glo, and the Hotel Le Germain, as well as new supply at the airport. Nevertheless, 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 $160,733 in 2020, making the Ottawa-Gatineau market fall by one ranking to sixth position among 19 major Canadian lodging markets, in behind the Halifax-Dartmouth market.

Table 22 — Ottawa-Gatineau Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$82,673	$102,069	$110,195	$112,539	$111,334	$116,948	$126,323	$133,979
y/y % Change	-29.8%	23.5%	8.0%	2.1%	-1.1%	5.0%	8.0%	6.1%
Index	0.84	1.04	1.12	1.14	1.13	1.19	1.28	1.36

Table 23 — Ottawa-Gatineau Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$151,712	$154,108	$156,255	$160,773
y/y % Change	13.2%	1.6%	1.4%	2.9%
Index	1.54	1.56	1.59	1.63



The **QUEBEC CITY** lodging market is driven largely by provincial government demand—Quebec City is the provincial capital and so the provincial government has a strong influence on the local economy. The Conference Board of Canada estimates the total number of overnight visits in Quebec City to have increased by 4.4% in 2016. The increase in the number of overnight stays is largely due to a significant rise in international and US visitation, for which the low Canadian dollar is mainly responsible.

The Quebec City lodging market achieved a RevPAR of $112 in 2016, up 9% from the 2015 level, driven mainly by ADR growth. In the 2016 HVI report, the per-room value of the Quebec City lodging market was projected to increase by 12.9% in 2016; however, the year-end performance was slightly stronger than had been anticipated, and the per-room value actually increased at a rate of 13.5% to $109,191. Given the favourable economic conditions, the market is expected to achieve a RevPAR of $120 in 2017, up 7% over the previous year, founded upon increases in both occupancy and ADR.

Over the next few years, the market-wide room supply is expected to see only limited growth. The Le Phare mixed-use project has been postponed several times since being announced, and the public consultations have not yet commenced. The first phase of the new hospital complex of the CHU of Quebec City on the Enfant-Jesus Hospital site is currently under construction. The entire project has an estimated price tag of $1.967 billion and is planned for completion in 2025.

Quebec City has many attractions that drive tourism activity. The iconic Chateau Frontenac will be celebrating its 125th anniversary in 2018, and a number of festivals and events bring tourists to the city on a year-round basis. The market will also benefit from the G7 occurring in Charlevoix in May 2018; this event will require 3,000 rooms for three days. In addition, Tourism Quebec has increased government funding to maintain its aggressive marketing campaign that promotes Quebec to drive-in markets along the Eastern Seaboard. With these factors in place, modest growth is anticipated for 2018, and the outlook for the market area is positive.

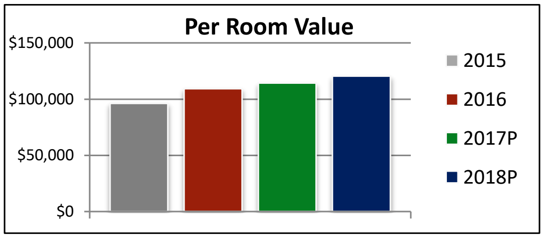
In this prosperous climate, the per-room hotel value for the Quebec City market is projected to reach $114,218 in 2017, which exceeds the previous peak of $110,304 achieved in 2008 when the 400th anniversary of the city was celebrated. The per-room hotel value for Quebec City is projected to reach $129,648 in 2020, putting the market into fourteenth place among the major lodging markets in Canada, up three positions from 2016.

Table 24 — Quebec City Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$73,847	$76,082	$80,755	$82,942	$79,873	$92,065	$96,184	$109,191
y/y % Change	-33.1%	3.0%	6.1%	2.7%	-3.7%	15.3%	4.5%	13.5%
Index	0.75	0.77	0.82	0.84	0.81	0.93	0.98	1.11

Table 25 — Quebec City Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$114,218	$120,553	$124,614	$129,648
y/y % Change	4.6%	5.5%	3.4%	4.0%
Index	1.16	1.22	1.27	1.32



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 improvement in oil prices is fuelling economic activity this year. A modest recovery is taking hold in the province, driven in large part by a sharp increase in export activity. Energy exports are rebounding strongly, but non-energy exports are also solid, led by impressive gains in the output of industrial machinery. RBC is projecting a 1.4% increase in GDP for the province as a whole in 2017. For Regina more specifically, the Conference Board of Canada is projecting even stronger GDP growth of 2.9% this year.

In 2016, the Regina lodging market was faced with a decline in economic activity and a significant increase in supply, resulting in losses in both ADR and occupancy. Consequently, the market-wide RevPAR dropped to $74, a decline of 6% from the previous year. The 10.5% increase in the room supply was largely responsible for the erosion of RevPAR that year. In this environment, the per-room value for 2016 decreased to $118,289, which put the market in thirteenth place among the 19 major lodging markets in 2016.

In 2017, the Regina economy is showing positive growth for the first time since 2014; however, this has not as yet translated into positive growth for the local lodging market. The Regina hotel market is still projected to suffer losses in both demand and ADR, pushing the RevPAR down to $66, a 10% drop from the previous year. Against this backdrop, the per-room value for the Regina hotel market is projected to decrease by the largest drop witnessed to date for this market at 16.8% to $98,406 in 2017.

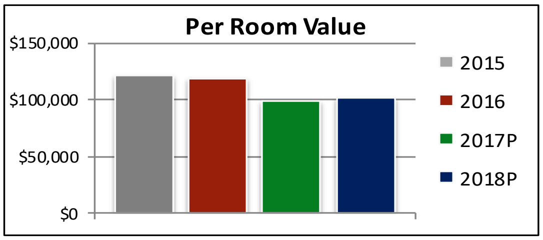
Since peaking at $151,012 in 2013, Regina's per-room value has been on a downward slide in response to softening of market conditions and substantial increases in the room supply. This trend is expected to end in 2018, when the RevPAR is projected to increase by 3% and the new supply pipeline is anticipated to slow significantly. Moreover, RBC is projecting stronger GDP growth for the province in 2018 at a rate of 2.8% with the anticipated growth in the energy, agriculture, and mining sectors. The per-room value is projected to increase steadily, reaching $108,257 in 2020. This puts the market into eighteenth position among the 19 major markets in Canada in 2020, five positions down from the 2016 ranking.

Table 26 — Regina Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$105,003	$112,124	$125,976	$132,881	$151,012	$134,616	$120,879	$118,289
y/y % Change	-4.3%	6.8%	12.4%	5.5%	13.6%	-10.9%	-10.2%	-2.1%
Index	1.07	1.14	1.28	1.35	1.53	1.37	1.23	1.20

Table 27 — Regina Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$98,406	$101,358	$105,453	$108,257
y/y % Change	-16.8%	3.0%	4.0%	2.7%
Index	1.00	1.03	1.07	1.10



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

In 2016, the economy suffered a second year of negative growth, but this trend is projected to end in 2017 with the strengthening of oil prices. The Conference Board of Canada is projecting GDP growth of 3.6% for the city in 2017 on the basis of growth in both goods and services.

In 2016, the market-wide RevPAR fell 15% from the 2015 level. The room supply increased by 5% that year even as room demand fell. Consequently, the market-wide occupancy and ADR both declined. In the 2016 HVI report, the per-room value of the Saskatoon market was projected to decrease by 18.8%. The actual year-end performance was similar to what had been anticipated: the per-room value actually decreased by 18.4% to $112,433. The market ranked fifteenth for per-room value in 2016.

Even with the revival of the economy, the Saskatoon lodging market is projected to remain soft through 2017. The market is still faced with absorbing new supply, which will slow the market's ability to respond to the improvement in market conditions. The market-wide RevPAR is projected at $75 for 2017, which reflects a drop of 5% from the 2016 level. This decrease in RevPAR is due to losses in ADR, which have continued even as demand has picked up. In this context, the projected per-room value for 2017, at $109,431, is down 2.7% from the level recorded in 2016.

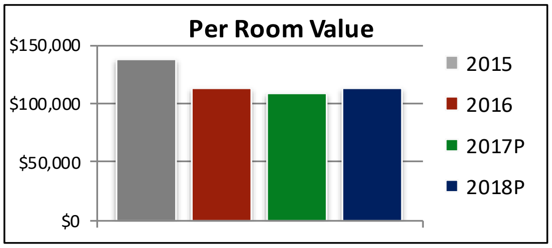
With the expectation of growth in demand, RevPAR growth is expected to finally resume in 2018. In the climate of positive GDP growth, the market is projected to see a 4.0% increase in RevPAR, and the per-room value is projected to increase to $113,841. Nevertheless, the per-room value is projected to once again decrease in 2019, to a level of $110,952, and an additional decrease, albeit much more modest, is also projected for 2020. The addition of more new supply is largely responsible for this negative growth. The projected per-room value for 2020, at $110,304, puts the market in seventeenth position among the 19 major markets in Canada.

Table 28 — Saskatoon Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$127,013	$138,545	$140,253	$150,457	$159,780	$155,897	$137,803	$112,433
y/y % Change	-4.5%	9.1%	1.2%	7.3%	6.2%	-2.4%	-11.6%	-18.4%
Index	1.29	1.41	1.42	1.53	1.62	1.58	1.40	1.14

Table 29 — Saskatoon Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$109,431	$113,841	$110,592	$110,304
y/y % Change	-2.7%	4.0%	-2.9%	-0.3%
Index	1.11	1.16	1.12	1.12



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

In 2016, the Toronto Airport West market realized a robust 12% increase in RevPAR. The market-wide ADR increased at a very strong rate of 8%, mainly as a result of hoteliers being more selective in taking on higher-rated demand. Hotel operators have shifted their focus away from low-rated leisure and airline-crew demand in favour of corporate accounts that are showing little rate resistance.

In the 2016 HVI report, the per-room value of the Toronto Airport West market was projected to increase by 18.2% in 2016. The performance of the market was actually stronger than what had been expected, and the per-room value increased by 20.0% to $117,679. This put the market in fourteenth 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 strong year in 2017, driven by an increase in demand from large events, such as the Invictus Games and the NHL's Centennial Classic Games, combined with the growth in passenger traffic at Pearson International Airport, which saw the passenger count increase by 7.5% in the first eight months of 2017 relative to the comparable period in 2016. Given the robust increase in demand and the growth in ADR, the market-wide RevPAR is projected to increase by 11.0% this year.

On the supply side, the new opening of the Courtyard Toronto Mississauga/West added 120 rooms to the market, and the Travelodge Toronto Airport was converted to a DoubleTree, bringing nine new rooms to the market in the process. The room count of the Holiday Inn Toronto International Airport also increased by five rooms following a renovation. The new hotels in the pipeline include the Element Toronto Airport, the Holiday Inn Express Toronto Airport, the Residence Inn Toronto Mississauga, the Hyatt Place Toronto Airport.

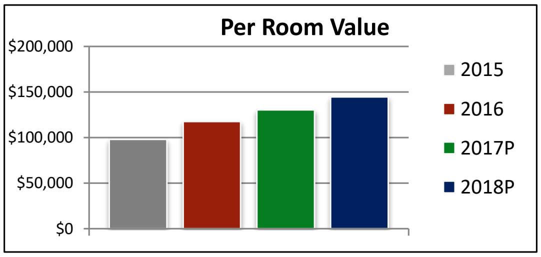
Given the strong market fundamentals that are in place, the per-room value of the Toronto Airport West market is projected to increase by another 10.8% in 2017 to $130,396. For 2020, the per-room value is projected to reach $159,015, placing the market in seventh position among the 19 major lodging markets in Canada, up seven positions from the 2016 ranking.

Table 30 — Toronto Airport West Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$57,516	$76,073	$72,358	$71,612	$74,178	$84,473	$98,100	$117,679
y/y % Change	-38.8%	32.3%	-4.9%	-1.0%	3.6%	13.9%	16.1%	20.0%
Index	0.58	0.77	0.73	0.73	0.75	0.86	1.00	1.19

Table 31 — Toronto Airport West Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$130,396	$144,463	$151,355	$159,015
y/y % Change	10.8%	10.8%	4.77%	5.06%
Index	1.32	1.47	1.54	1.61



The city of Toronto is an international centre for business and finance. In 2016, the **TORONTO DOWNTOWN** lodging market enjoyed record-breaking growth in RevPAR, which was up 16% from the 2015 level to $165, mainly because of a 1.5% decline in the room supply with a robust increase in ADR. The ADR advanced because the weakened Canadian dollar has been putting local hotel managers in a position to negotiate better rates with international accounts, especially those from the United States.

In general, the hospitality and tourism industry is getting a boost from the low Canadian dollar, which is encouraging tourism both domestically and from abroad. City-wide events, including the NBA All-Star Game, the Microsoft Worldwide Partner Conference, and the World Cup of Hockey, also contributed to demand growth.

In the 2016 HVI report, the per-room value of the Toronto Downtown market was projected to increase by 23.0%. Given the year-end market performance, our revised numbers indicate an actual increase of 22.5% to $225,874—the second-highest per-room value in the country that year.

In 2017, the city is expected to enjoy another year of solid growth supported by an increase in convention and tourism activity. According to the Conference Board of Canada's *Travel Market Outlook*, US and overseas travellers to the city will increase significantly from now through 2020. Despite the slight increase in supply with the opening of the new 96-room Bisha Hotel and the 58-room Broadview Hotel, an 8.0% increase in the market-wide RevPAR is projected for 2017. In this context, the per-room value for the Toronto Downtown market is expected to reach $261,684 in 2017, reflecting growth of 15.9% over the 2016 level

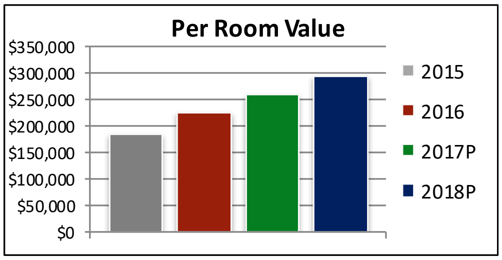
Over the next three years, the Toronto Downtown market is expected to see a 6% increase in the room supply. Given the size of the market and the steady growth in demand, the market is expected to easily absorb the new room supply. Against this background, the market-wide per-room value is projected to reach $318,663 in 2020, which 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 (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$91,388	$129,552	$120,787	$130,197	$143,708	$156,909	$184,450	$225,874
y/y % Change	-38.4%	41.8%	-6.8%	7.8%	10.4%	9.2%	17.6%	22.5%
Index	0.93	1.32	1.23	1.32	1.46	1.59	1.87	2.29

Table 33 — Toronto Downtown Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$261,684	$294,716	$307,274	$318,663
y/y % Change	15.9%	12.6%	4.3%	3.7%
Index	2.66	2.99	3.12	3.24



In 2016, 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 22 million passengers in 2016, which represents growth of 9.7%, the highest increase of the past ten years. The strong increase in lodging demand, alongside growth of the ADR, resulted in a significant 13% increase in RevPAR over the previous year.

The Conference Board of Canada estimates that the economy of Metro Vancouver grew by 4.1% in 2016. More moderate but nonetheless healthy economic growth is projected for the region in the coming years. The real GDP is projected to grow at a more moderate pace of 3.2% in 2017 because the foreign buyers tax levied by the BC government is slowing down construction activity.

Given the stronger year-end performance, the per-room value for the Vancouver Airport lodging market increased by 20.6% in 2016 over the previous year and reached $169,530, which is higher than the projection that we made in the 2016 HVI report, where we forecasted a 19.4% 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 for 2017. Airport passenger traffic is on the rise. Year-to-date through July 2017, the airport served more than 13 million passengers, surpassing the previous year's record by 8.2%. At the same time, no notable change in supply is expected, although a 100-room Super 8 closed earlier in 2017. 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. The launch of new flight services also contributed to growth in passenger traffic

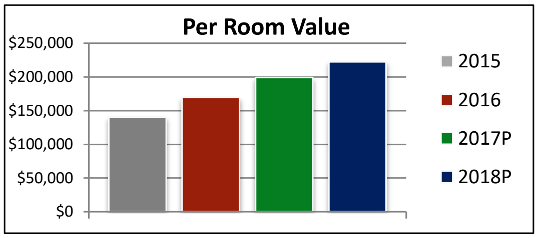
In this positive operating environment, the per-room value is projected to increase a robust 11.6% in 2018 to $222,453 and then at a more moderate pace through 2020. The Vancouver Airport market is positioned with the third-highest value among the 19 major markets in 2020, which is notable for an airport market given that urban markets typically have higher land costs and performance levels.

Table 34 — Vancouver Airport Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$93,435	$122,168	$98,722	$97,523	$105,373	$117,586	$140,575	$169,530
y/y % Change	-28.6%	30.8%	-19.2%	-1.2%	8.0%	11.6%	19.6%	20.6%
Index	0.95	1.24	1.00	0.99	1.07	1.19	1.43	1.72

Table 35 — Vancouver Airport Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$199,381	$222,453	$241,808	$251,481
y/y % Change	17.6%	11.6%	8.7%	4.0%
Index	2.02	2.26	2.46	2.55



In 2016, the **VANCOUVER DOWNTOWN** hotel market realized impressive RevPAR growth, putting together strong increases in both demand and rate. Although the RevPAR growth for this market was slightly weaker than we expected in 2016 HVI report, the increase was nevertheless strong. The market finished the year with a RevPAR of $172, representing an increase of 11%.

According to RBC, the GDP growth in Bristish Columbia was 3.6% in 2016, which was the highest rate of growth of any province in Canada, reflecting the strong economic environment 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 a robust 8% increase in ADR in 2017 even though the supply is projected to increase by 1.1% with the opening of the 350-room JW Marriott, the 188-room The Douglas Autograph Collection, and the 147-room Trump International Hotel & Tower Vancouver. Given the closure of the 358-room Empire Landmark Hotel and the 199-room Coast Plaza, the market is expected to absorb the new supply with relative ease. In this environment, the RevPAR is projected to increase 7% to a record-breaking high of $185 in 2017. The occupancy is nevertheless projected to remain relatively stable in 2017 and 2018 because of the new room supply that is poised to enter the market.

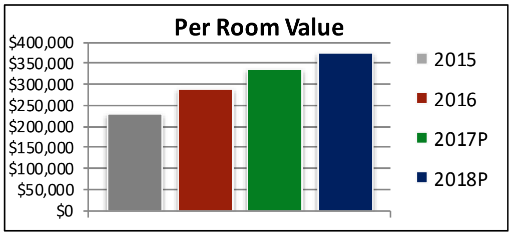
In 2016, the per-room value for the Vancouver Downtown market increased by 25.4% to $288,664 which is in line with the projection we made in the last year's HVI report. The per-room value is then projected to grow aggressively through 2020, reaching $448,721 in that year. The Vancouver Downtown market is projected to retain the highest per-room value of all the major markets in the country in 2020 by a considerable margin.

Table 36 — Vancouver Downtown Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$130,475	$176,599	$172,060	$166,844	$173,901	$190,802	$230,223	$288,664
y/y % Change	-36.6%	35.4%	-2.6%	-3.0%	4.2%	9.7%	20.7%	25.4%
Index	1.32	1.79	1.75	1.69	1.77	1.94	2.34	2.93

Table 37 — Vancouver Downtown Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$335,309	$377,004	$411,921	$448,721
y/y % Change	16.2%	12.4%	9.3%	8.9%
Index	3.40	3.83	4.18	4.56



The **VICTORIA** hotel market has been improving steadily since a recovery got underway in 2013. The market-wide RevPAR increased by 11% to $108 in 2016. 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. In 2016, Victoria had its highest-performing year for hotel occupancy and average rate since 2008. With the strength of the market, the per-room value increased by 16.7% to $139,056 in 2016, which is close to the values supported prior to the recession.

According to the Conference Board of Canada, Victoria's economic growth is expected to moderate but remain healthy; the GDP is projected to grow 2.4% in 2017 and 2.2% in 2018. The market outlook for Victoria is thus positive for 2017, supported by lower fuel prices, which have supported an increase interprovincial traffic, and the weaker Canadian dollar, which will continue to attract more international visitors. The outlook for convention activity is also positive. In this environment, the market-wide occupancy is projected to increase significantly, especially since the market will see a decrease in supply with the closure of 180-room Harbour Towers Hotel & Suites. With the help of strong gains in ADR, the market-wide RevPAR is projected to increase by 7% to $116 in 2017.

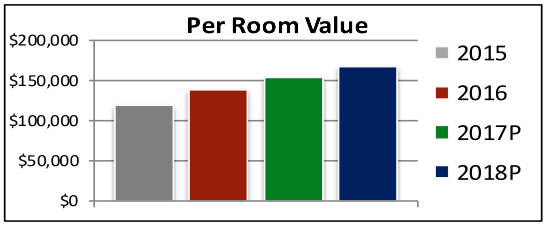
With the expected improvement in operating performance, the per-room value for the Victoria lodging market is projected to increase strongly and steadily over the coming years—growth is projected at 11.1% and 8.7% in 2017 and 2018, respectively. By 2020, the Victoria lodging market is projected to have the fourth highest per-room value in the country at $181,625.

Table 38 — Victoria Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$80,437	$99,143	$90,156	$88,852	$97,111	$108,197	$119,113	$139,056
y/y % Change	-33.2%	23.3%	-9.1%	-1.4%	9.3%	11.4%	10.1%	16.7%
Index	0.82	1.01	0.92	0.90	0.99	1.10	1.21	1.41

Table 39 — Victoria Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$154,451	$167,841	$176,301	$181,625
y/y % Change	11.1%	8.7%	5.0%	3.0%
Index	1.57	1.70	1.79	1.84



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. The Conference Board of Canada is projecting the real GDP to increase by a solid 3.6% in 2017; this would be the strongest growth in nearly 20 years, and it follows on the growth of 3.2% realized in 2016. Despite a slight decline in ADR, the Winnipeg market sustained a 4% increase in RevPAR in 2016.

The outlook for the Winnipeg lodging market in 2017 is positive given the strong economic growth being seen in the market coupled with the moderate ADR growth that has taken place. Based on the year-to-date performance, the RevPAR is projected to grow by 10% this year. Some new supply has entered the market with the opening of 127-room Hilton Garden Inn Winnipeg South and the 80-room Super 8 Winnipeg; however, the closure of the 106-room St. Regis Hotel has helped to soften the impact on market performance.

The per-room value of the Winnipeg lodging market is projected to grow another 10.3% in 2017 to $142,099 after having increased 5.9% in 2016 to $128,812. The growth in value seen in 2016 was slightly stronger than our previous projection of 5.4%.

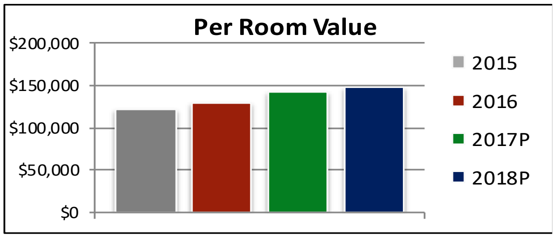
Over the next three years, the room supply in the Winnipeg hotel market is projected to increase. As a result, the growth in the per-room value for the market is projected to grow at a pace more moderate than what the market has seen over the past few years. With the slowdown in growth, the Winnipeg hotel market is expected to go from having the seventh-highest per-room value in the country in 2016 to the tenth highest in 2020.

Table 40 — Winnipeg Historical Values (2009–2016)

	2009	2010	2011	2012	2013	2014	2015	2016
Per Room Value	$98,255	$111,007	$118,591	$117,303	$113,346	$115,589	$121,625	$128,812
y/y % Change	-12.6%	13.0%	6.8%	-1.1%	-3.4%	2.0%	5.2%	5.9%
Index	1.00	1.13	1.20	1.19	1.15	1.17	1.23	1.31

Table 41 — Winnipeg Forecasted Values (2017–2020)

	2017P	2018P	2019P	2020P
Per Room Value	$142,099	$148,104	$148,906	$148,858
y/y % Change	10.3%	4.2%	0.5%	0.0%
Index	1.44	1.27	1.23	1.31



HOTEL VALUE FORECAST

With the exception of resource-based markets, Canadian lodging markets generally saw an increase in per-room value in 2016. By the end of the forecast period in 2020, 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 2020 over 2016 are Vancouver Downtown and Vancouver Airport, followed by Toronto Downtown and Toronto Airport West, with Halifax-Dartmouth ranking fifth in the country. 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 major lodging markets in areas connected to oil production—Calgary, Edmonton, and Newfoundland and Labrador—are projected to return to positive value growth as of 2018. Regina too is projected to see a turnaround in the direction of value. Saskatoon, however, is projected to see a further drop in per-room value 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 be a number of years before they return to the historical peak values seen in 2013 and 2014. This will be highly dependent on the 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 61% of the transactions in Canada through the third quarter of the 2017—and the transactions in Ontario alone accounted for 49% of all the transactions in the country.

Overall, the Canadian lodging market has benefitted from the drop in the Canadian dollar and welcoming immigration/travel policies, which have stimulated more lodging demand. As such, another record-breaking year is projected for 2017. With a higher RevPAR comes an improvement in NOI. Interest rates and the Loonie are both low, which is fostering a very strong interest in acquiring hotel assets. Global investors in particular want to jump into the market because they perceive big bargains by virtue of 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 2016, the Canadian per-room value reached $124,800, surpassing the previous peak.

The Canadian lodging industry is poised to continue in a very positive stage of its lifecycle. In 2017, the per-room value of a hotel in Canada is projected to reach a new high of $134,700. Moreover, the value is projected to rise steadily through to 2020, reaching $149,100 per room in that year. The strongest growth in the cycle is projected for 2017. On a more somber note, global economic fragility and current geo-political unrest could potentially mitigate future growth in the Canadian lodging industry going forward.

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.

About HVS

HVS, the world's leading consulting and services organization focussed on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 37th anniversary in 2017. Each year, HVS performs more than 4,500 assignments for hotel and real estate owners, operators, and developers around the world. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 40 offices and 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. HVS Canada will celebrate its 25th year in 2018. Our professional team is expert in appraisal work, feasibility studies, market studies, portfolio valuation, strategic business planning, and litigation support. The managing partners in the Calgary, Montreal, 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

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. She is also a member of the International Society for Hospitality Consultants (ISHC) Monique has completed hundreds of valuations and feasibility studies throughout Canada, including transaction and portfolio valuations. 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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