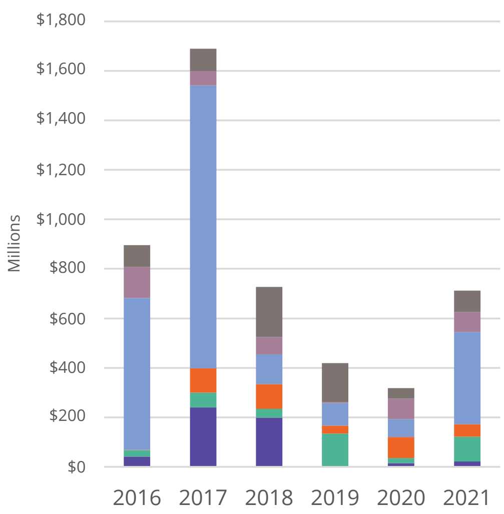
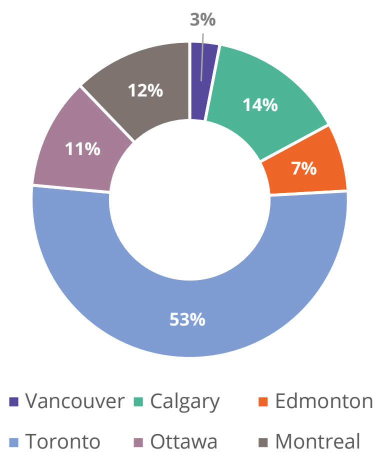
2021 Review and 2022 Outlook

Canada Hotel Market

Annual hotel investment sales volume by market



2021 hotel investment sales volume by market

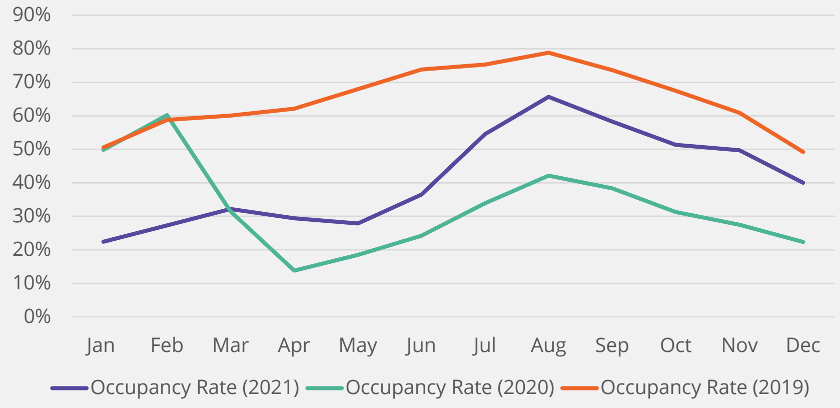


The Canadian Hospitality market has completed another year under the shadow of the COVID-19 pandemic. Throughout the year, the hospitality industry was tested, but some optimistic trends were observed as year-end approached. Government support programs have provided relief to hoteliers that have been struggling through these trying times. Hotel transaction sales volume in Canada's six major markets totaled approximately $712 million in 2021 – up 124% compared with 2020, and the highest annual result since $726 million in assets changed hands in 2018.

There are a variety of reasons for this bump in transaction velocity, such as some investors using capital that had been allocated for 2020 but was not spent, lenders being proactive on non-performing assets which needed to be liquidated, and continued change-of-use opportunities. A large volume of smaller assets was sold across the country (there were 92 trades in 2021 compared with 75 in 2018, reflecting averages of $7.7 million and $9.6 million per trade, respectively).

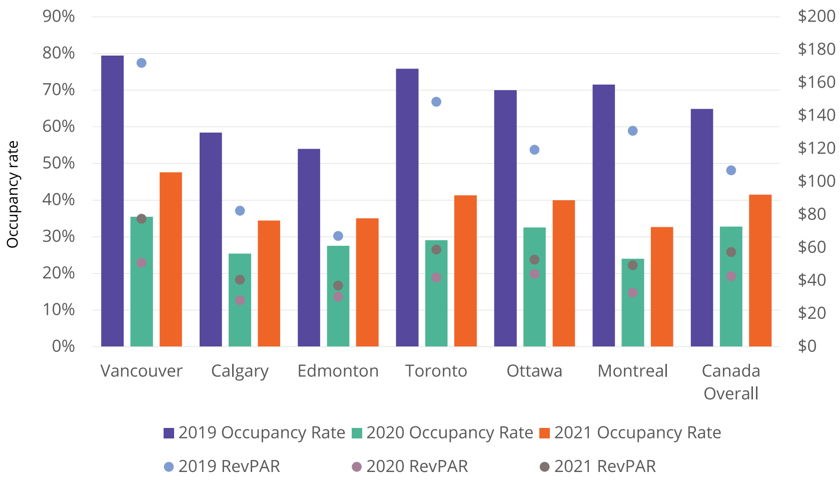
Toronto (GTHA) and Calgary were the most active markets, accounting for 66% of 2021 sales volume. The largest hospitality transaction of 2021 by sale price in these 6 major markets was the sale of the QUBE Hotel in downtown Toronto's entertainment district for $74 million. Purchased by Northland Properties, the 120-room hotel sold for approximately $617,000 per room. Another notable sale which occurred near the end of 2021 was that of the Courtyard & Residence Inn by Marriott Montreal Airport, which was purchased by Knightstone Capital Management for $69.6 million. Although outside of the major market areas covered in this report, one of the most notable resort transactions of 2021 was the acquisition of a portfolio of Ontario resort properties (including Deerhurst Resort, Horseshoe Resort, and the remaining development lands at Blue Mountain Resort) by Freed Hotels & Resorts from Skyline Developments for $330 million. These significant hospitality transactions demonstrate keen investor interest in the marketplace.

National occupancy rate 2019-2021

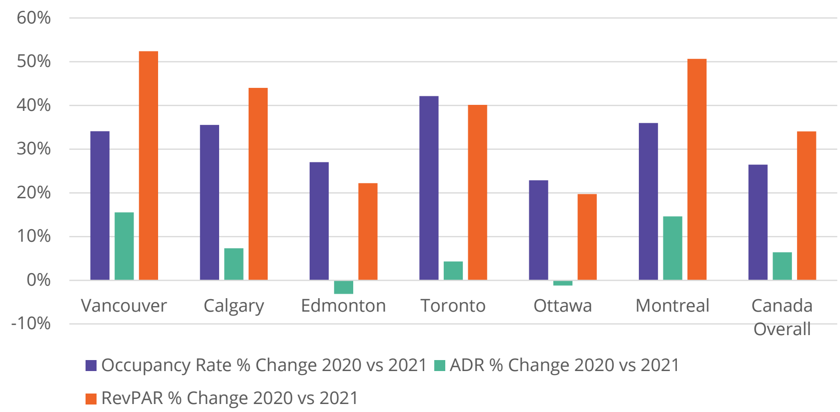


Monthly occupancy levels in Canada showed significant growth in 2021 compared with the struggles of 2020 – still not in line with 2019, but a positive sign of what lies ahead. In August 2021, the national occupancy level reached 65.6% – the highest since October 2019. At $106.22, August also represented the highest RevPAR since October 2019.

RevPAR and occupancy rate by market



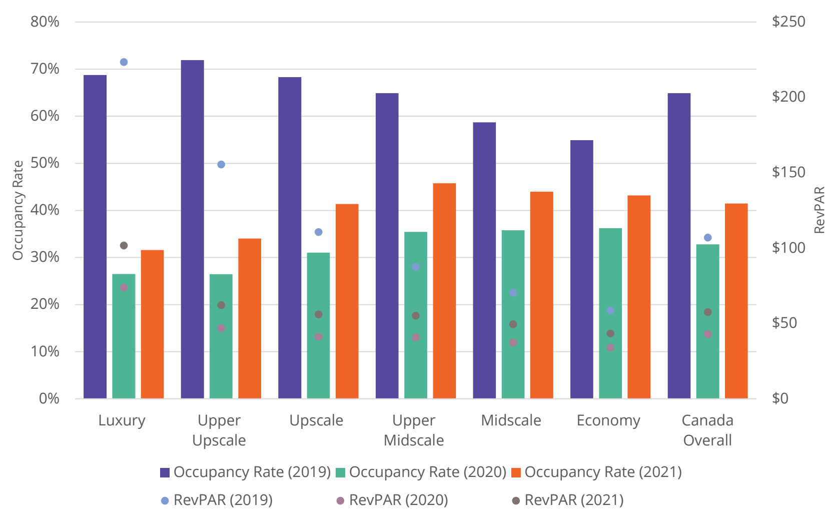
Occupancy, ADR and RevPAR by market Change from 2020 to 2021



2021 performance in Canada's major markets

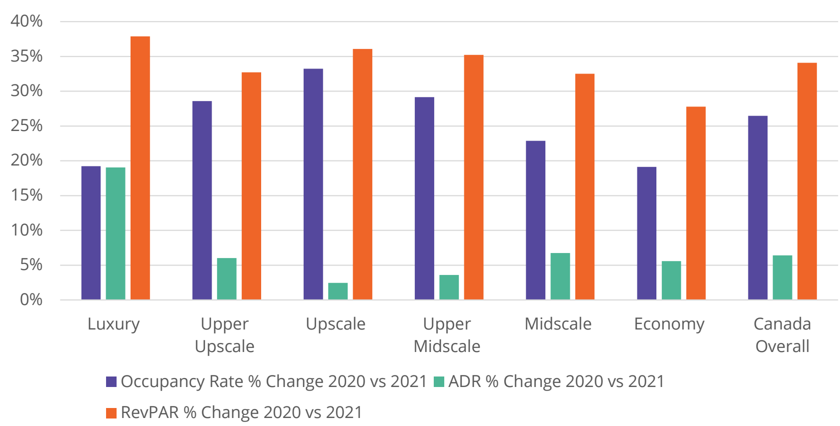
In 2021 overall, Vancouver experienced the strongest performance metrics among Canada's six major markets, with a 48% occupancy rate, $156.35 ADR and $77.65 RevPAR. Conversely, Montreal posted the lowest occupancy rate (33%), while Edmonton reported the lowest ADR and RevPAR figures with $103.80 and $37.16, respectively. Compared with 2020's results, Toronto experienced the largest percentage change in occupancy with 42.1% year-over-year, while Vancouver posted the strongest increases in ADR (16%) and RevPAR (52%). Edmonton and Ottawa were the only cities to experience declines in ADR from 2020 (-3% and -1%, respectively); however, both markets enjoyed a bump in RevPAR, reporting 22% and 20% growth in RevPAR respectively.

RevPAR and occupancy rate by class



By hotel class, Upper Midscale hotels experienced the strongest occupancy rate in 2021 (45.8%) while Luxury hotels posted the highest ADR and RevPAR figures at $305.08 and $101.75, respectively. However, Luxury hotels reported the lowest occupancy rate of any class (31.6%), while Economy assets posted the lowest ADR and RevPAR figures with $97.29 and $43.36, respectively. Compared with the 2020 average metrics by hotel class, Upscale experienced the largest increase in occupancy (33.2%), while Luxury reported the biggest leaps in ADR (19%) and RevPAR (38%).

Occupancy, ADR and RevPAR by class Change from 2020 to 2021



Key impact factors

Staffing

Government support programs

Lenders' perspective

COVID-19 status

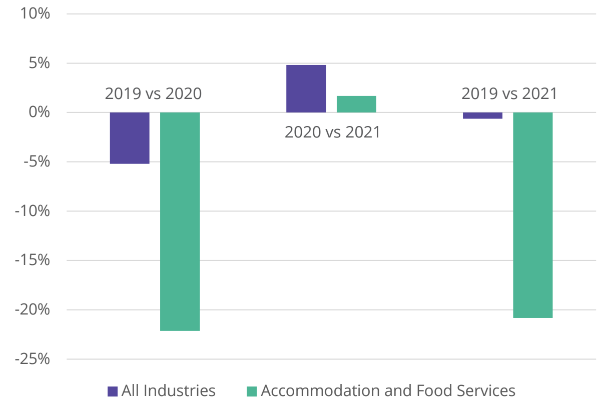
Staffing

Some hoteliers found themselves turning down business when occupancy levels started to rise in 2021 as staff shortages became a major issue. Pre-pandemic, the Accommodation and Food Services sector accounted for 6.4% of the Canadian Labour force. In 2021, this percentage fell to 5.1%. Employment in Accommodation and Food Services fell 20.8% from 2019 to 2021 – the greatest decline of any sector, according to Statistics Canada. Hotel owners report that staff either moved to other industries with more secure employment, or that it made more financial sense for some workers to continue collecting government aid. The public and private sectors must find ways to address the issue of staff shortages.

On December 17, 2021, the Minister of Employment, Workforce Development and Disability Inclusion announced up to $67 million in funding to support Canada's tourism and hospitality sector through the Sectoral Initiatives Program (SIP). Budget 2021 committed $1.8 billion over three years through several new initiatives that could help create almost 500,000 new job and training opportunities for workers over the coming years. The Government of Canada had earlier committed to creating more than 1 million jobs, restoring employment to pre-pandemic levels.

Until the hospitality industry is allowed to operate without the restrictions of COVID-19 protocols, this will likely be a lingering issue.

Labour Force % Change



Source: Statistics Canada

Government support programs

Several government support programs are being offered to the hospitality sector, such as the Tourism and Hospitality Recovery Program (THRP), which can be applied for by organizations with more than 50% of eligible revenue coming from one or more of the tourism, hospitality, arts, entertainment, or recreation activities this program supports. Applicants must demonstrate a 12-month average revenue drop from March 2020 to February 2021 of at least 40%. Qualification is more stringent than the previous iteration of the program, meaning hotel owners must fund more of the shortfall on their own.

Other government programs include the Hardest-Hit Business Recovery Program Wage subsidy (HHBRP - Wage), Canada Recovery Hiring Program (CRHP), and Canada Emergency Wage Subsidy (CEWS). The major unknown is when these programs are going to come to an end. Currently these programs are set to expire by May 7, 2022.

Lenders' perspective

The lending community remains cautious when considering the hospitality sector. Active hotel lenders contemplating financing opportunities require strong sponsors with a meaningful track record and assets with significant market presence. Lenders are looking to see more clarity in the marketplace. The cost of capital is still low, yet bond yields are trending upwards. To manage inflation, interest rates are likely going to rise but the significant unknown are by how much, and how quickly? Fortunately, hotels are somewhat resilient to inflation as daily rates can be adjusted swiftly.

"2022 is shaping up to be another challenging year for hotel owners across all fronts including acquiring additional debt for their existing and prospective properties," says Cameron Woof, AVP Hotels & Syndication, CWB Franchise Finance. "While the majority of Canadian lenders with exposure to the space are demonstrating commitment to supporting their existing client exposures, the recent recovery setbacks due to the Omicron variant will likely extend the 'wait and see' approach currently being employed by most lenders as it relates expanding appetite. This has made sourcing equity via leveraging of existing assets extremely difficult over the past two years – a difficulty that is expected to continue through 2022."

Woof continues: "That being said, with challenges come unfolding opportunities that have caught hotel investors' attention, namely the expected increase in the volume of asset sales triggered by owners aimed at rebalancing their portfolios and injecting liquidity into their balance sheets. Partnering with a lender who is active, understands the hotel space, and has demonstrated an ability and commitment to deliver unique debt structures throughout the pandemic will be imperative to success in 2022. This will be true for both sourcing stable and patience capital for existing maturities and reinvestment in assets, as well as taking advantage of opportunistic acquisitions. While debt will continue to remain scarce through 2022, there are select lenders who are still active in the space and comfortable structuring robust facilities for nimble borrowers."

COVID-19 status

Effective December 15, 2021, Health Canada has recommended to avoid non-essential travel outside of Canada. Meanwhile, travelers entering Canada must provide proof of a COVID-19 negative molecular test result to enter Canada, or proof of a previous positive test result taken between 15 and 180 days earlier (starting January 15, 2022, between 11 and 180 days earlier). Travel rules and regulations continue to change as this situation is rapidly evolving.

Looking ahead

For the last two years, the hospitality industry has been extremely challenged by the ebbs and flows of government lockdowns and lack of clarity on a path to recovery. This has been taxing those invested in the hospitality industry but there are signs of improvement on the horizon. Performance metrics in 2021 were stronger than in 2020 and, over the past year, vaccines have been proven to curb the worst impacts of the virus for most people. The resort industry continued to be in high demand as consumers sought regional escapes and this is expected to continue in the near term.

Prior to the impact of the Omicron variant, restaurants were getting busier, and workers were starting to return to their offices, albeit not in droves. Domestic and international air travel started to pick up, although travel to Canada was limited due to restrictions.

The busiest day for cross-border travel in December 2019 recorded 33,806 travelers, while December 2020's high point was 1,984 – representing a 94% drop. However, the high point in December 2021 was 20,599 daily travelers – demonstrating a significant bounce-back in tourism activity, but still 39% below 2019 levels.

As vaccination programs continue, hospitalizations decline and health effects of the pandemic wane, consumer confidence is expected to return, leading to increasing travel both for business and leisure.

Laura Baxter, Director of Hospitality Analytics, Canada for CoStar Group, offers some perspective on the outlook for the hospitality sector in 2022: "The national forecast prepared by STR expects full-year occupancy in 2022 to be 60% and ADR to reach $156 resulting in revenue per available room (RevPAR) of $93, up 61% on 2021," said Baxter. "When compared to 2019 results, occupancy is forecast to be down only five percentage points while ADR and RevPAR are expected to be 5% and 13% lower than pre-pandemic results, respectively."

Some factors that could impact hotel performance and valuations in 2022 include:

- The anticipated rise in interest rates
- Inflation due to continued supply chain issues and increased consumer demand
- Inventive government stimulus programs such as the Ontario "staycation" tax credit
- Persistent labour challenges
- The impact of depleted hotel capital reserve accounts
- Availability of active hospitality lenders across markets and asset classes
- Owners' ability to fund operating shortfalls in the absence of government support programs
- Creative use of space (indoor and outdoor) to capture new revenue sources
- The pace of event and group booking activity

A slow recovery is anticipated in the first two quarters of 2022, but activity is expected to pick up significantly into the summer months and finish the year strongly.

Notable Canadian hotel transactions - 2021

Property	Region	Transaction Date	Total Price	Price per Room	Purchaser	Vendor
Freed Hotels & Resorts Portfolio*	Ontario	12/14/2021	$330,000,000	N/A	Freed Hotel & Resorts	Skyline Investments Inc.
QUBE Hotel Toronto	Toronto, ON	9/28/2021	$74,000,000	$616,667	Northland Properties Corporation	Greenland Group
6600-7000 Robert-Jones Place	Saint-Laurent, QC	12/21/2021	$69,600,000	$211,550	Courtyard par Marriott Aeroport de Montreal	Hotel Cavendish Limited Partnership
The Carleton Suite Hotel	Ottawa, ON	6/30/2021	$44,000,000	$248,588	161 Laurier Properties GP Inc.	Gillin Engineering and Construction
Rundlestone Lodge	Banff, AB	1/12/2021	$27,606,000	$281,648	Banff Lodging Company	Irwin's Mountain Inn
Toronto East Inn	Toronto, ON	10/29/2021	$25,400,000	$132,984	Sunray Group	Trillyan Investment Limited
222 Spadina Avenue	Toronto, ON	4/15/2021	$22,250,000	$244,505	City of Toronto	Toronto 8 Hotel Inc.
Four Points by Sheraton Hotel et Centre de conferences	Gatineau, QC	4/30/2021	$21,800,000	$108,458	Brigil Construction Inc.	Four Points by Sheraton Hotel et Centre de conferences Gatineau-Ottawa

This transaction falls outside the 6 major markets that we track and does not contribute to the sale transactions volumes above.

Get more market information

Contact our hospitality group for investment sale, debt placement, and asset advisory services.

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