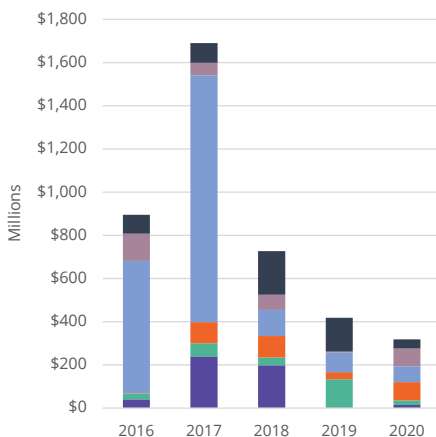


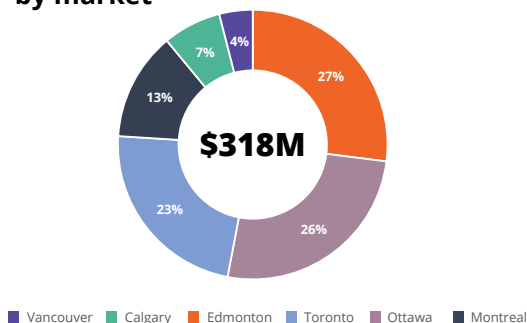
# Canada Hotel Market



## Annual hotel transaction volume by market



## 2020 hotel transaction volume by market



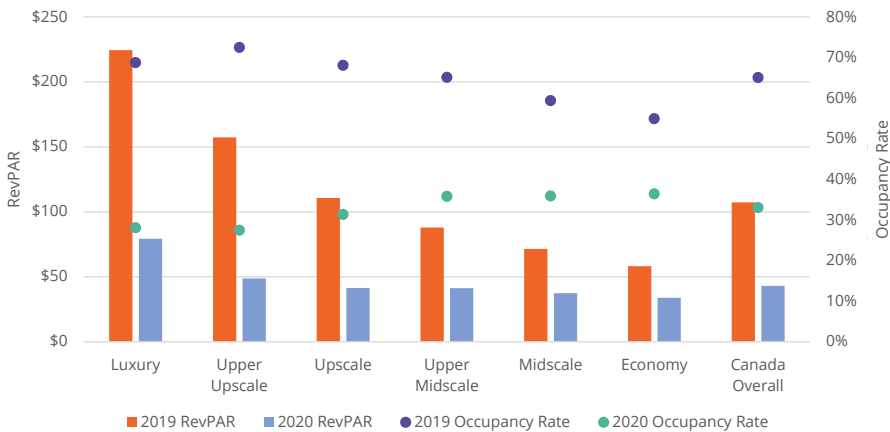
The Canadian hospitality market was hit harder than most other commercial real estate asset classes during 2020. Given that the industry relies on business and leisure travel, conferences and human interaction, it is no surprise that it has been severely challenged by the COVID-19 pandemic.

Hotel transaction sales volume in Canada's six major markets totaled \$318 million in 2020 – down 24% year-over-year and representing the third consecutive year of declining volume following a peak of nearly \$1.7 billion traded in 2017. The overall number of hotel transactions also fell, from 35 in 2019 to 24 in 2020. Edmonton led the way in terms of dollar volume, posting nearly \$85 million in sales (27% share of total dollar

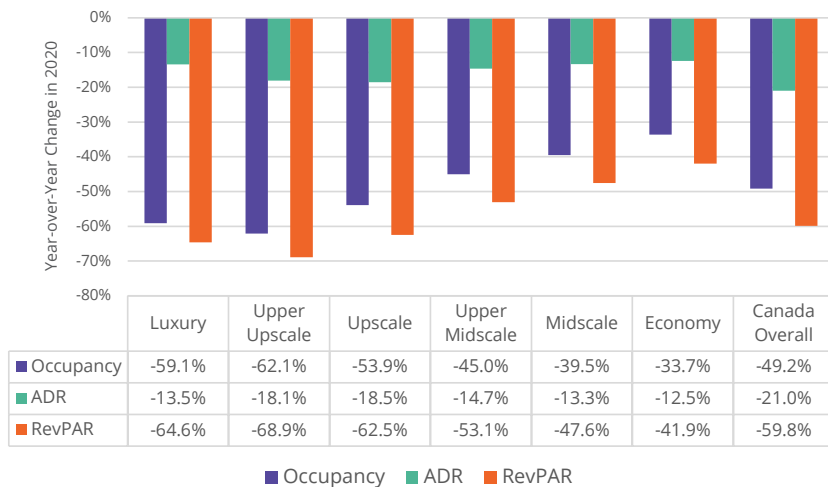
volume), although Montreal recorded the greatest number of transactions, with seven.

The country's largest hospitality transaction by sale price in 2020 was that of the Westin Edmonton, a 416-room downtown hotel purchased by MH Hotels (WEDM) Inc. for nearly \$66.2 million (representing \$159,100 per room). Other notable transactions during the year included the sale of The Albert at Bay Suite Hotel in Ottawa (acquired by Albert / O'Connor Properties GP Inc. for \$58.5 million or just under \$297,000 per room), and that of a 40% interest in the Hazelton Hotel at 118 Yorkville Ave. in Toronto by First Capital Realty for \$29.8 million, or nearly \$969,000 per room on a 100% basis.

### RevPAR and occupancy rate by class 2019 vs. 2020



### Occupancy, ADR and RevPAR by class year-over-year change in 2020



### Occupancy, ADR and RevPAR in Canada's major markets

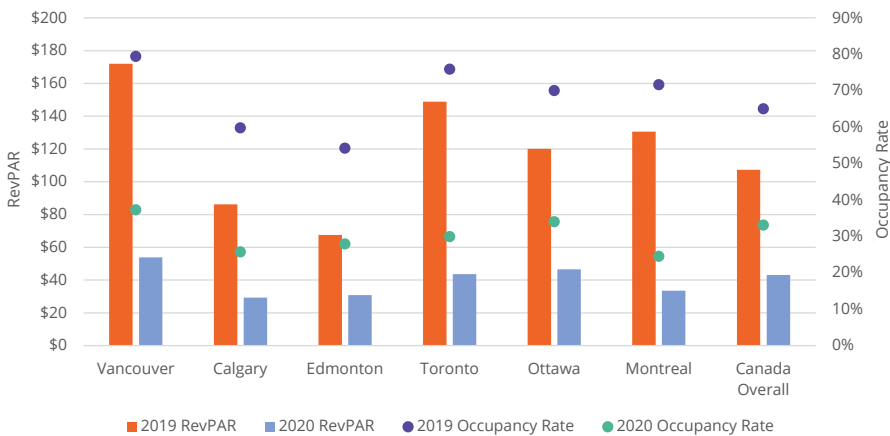
According to STR, in 2020, the Canadian hotel market experienced a 51% decrease in demand and a 49.2% decrease in occupancy rates compared with 2019, resulting in 21% and 59.8% decreases in ADR and RevPAR, respectively.

Although every class of hotel property was affected by the pandemic, luxury and upscale properties posted the biggest declines in occupancy and revenues. Occupancy declined 54.1% year-over-year at full-service hotels and 39.6% at limited-service properties. The smallest declines in occupancy rates were in the economy (-33.7%) and midscale branded hotel (-39.5%) sectors. In comparison, occupancy in luxury hotels declined 59% year-over-year.

RevPAR for economy brands was \$58.31 in 2019 but fell to \$33.86 in 2020 – down 42% year-over-year. The luxury brand sector fared worse, with RevPAR falling from \$224.47 to just \$79.36 – a year-over-year decrease of 65%. Significant drops in RevPAR were reported across the luxury and upscale brand sectors.



### RevPAR and occupancy rate by market 2019 vs. 2020



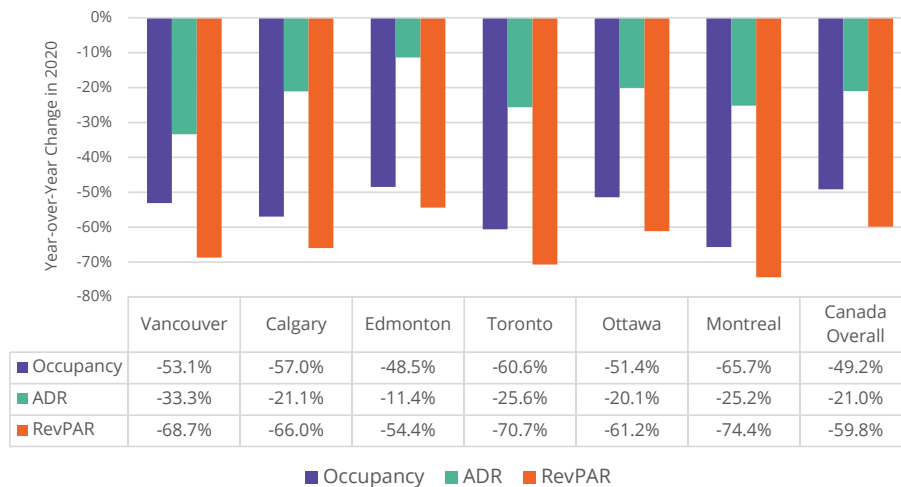
### Occupancy and RevPAR in major markets

In 2020, Vancouver had the highest occupancy rate and RevPAR among the six major Canadian markets (37.3% and \$53.84, respectively). Conversely, Montreal had the lowest occupancy rate at 24.5%, while Calgary posted the lowest RevPAR at \$29.28. Montreal suffered the greatest year-over-year declines among the major markets in both occupancy (-65.7%) and RevPAR (-74.4%).

### What to expect in 2021

At the time of writing, numerous travel restrictions remain in place – both internationally and between some Canadian provinces – and travel is further discouraged by stay-at-home orders, high COVID-19 case counts in many regions, and new virus variants circulating in the community. However, some progress is being made on the roll-out of vaccines to help protect the population. As such, there are hopes that the Canadian economy could begin to recover in late spring or early summer of 2021.

### Occupancy, ADR and RevPAR by market year-over-year change in 2020



A successful vaccination program and the resultant re-opening of borders could unleash significant pent-up demand for travel and tourism that would have an immediate positive impact on the hotel sector. Recovery in the commercial travel segment is likely to lag behind as companies determine their travel plans and budgets for the balance of the year.



### Market impacts and looking to the future

The hotel sector is experiencing the most challenging period in its recent history as a result of the pandemic. The current trends would be devastating for the industry if it were not for the forbearance of most lenders in the hotel space, government assistance and the current low interest-rate environment.

While the pandemic is far from over, owners and lenders alike are determining what their investment strategies will be in a post-COVID-19 world and there is a diversity of opinions as to whether they will increase or decrease their exposure to this asset class.

The lenders that are showing a willingness to participate in the market are interested in the major metro markets where performance was strong before the pandemic,

and some large institutional lenders are looking to take advantage of potential opportunities in these markets. However, most lenders have paused their hotel lending activities and are focused primarily on evaluating current loans and aiding existing clients. Some lenders plan to exit the hospitality space altogether, with many stating they will not be issuing new loans in the near future.

Industry commentators expect a rise in distressed asset sales in the near- to mid-term, especially where borrowers have become overly extended. Many borrowers will face the reality of bankruptcy if current trends continue.

Nevertheless, there is at least one bright spot on the horizon. It is expected that consumers who have been working from home and saving cash that would otherwise be spent on commuting, eating out

and entertainment activities now find themselves with additional cash savings, and many will look to travel as one of their first activities post-COVID-19. Furthermore, despite low occupancy rates, the hotel industry has been doing its part in the fight against the virus, with some hotels being used as quarantine or isolation facilities, and others offering lodging to healthcare workers.

Under the current circumstances, owners of Canadian hotels are in the position of having to decide whether to hold on to existing non-performing assets in the hope that the industry's return to pre-pandemic performance will be rapid, or disposing of assets at a discount in order to remain solvent. The likelihood is that market fundamentals will eventually return to pre-COVID-19 levels down the road, but the sector is still in for more pain in the short term.

### Notable Canadian hotel transactions - 2020

Property	Total Price	Price per Room	Purchaser	Vendor
The Westin Edmonton	\$66,182,936	\$159,094	MH Hotels	SCG Squarius Edmonton Hotel, Inc.
The Albert at Bay Suite Hotel, Ottawa	\$58,500,000	\$296,954	Albert / O'Connor Properties GP Inc.	Albert At Bay Suite Hotel Ltd.
The Hazelton Hotel (40% interest), Toronto	\$29,834,773	\$968,661	First Capital Realty	Mastercraft Starwood
Loews Hotel Vogue, Montreal	\$23,168,000	\$163,155	Hotel Vogue Inc.	Loews Hotels Group
Best Western Plus Victoria Park, Ottawa	\$20,900,000	\$169,919	Albert / O'Connor Properties GP Inc.	Victoria Park Suites Ltd.

**Get more market information**

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