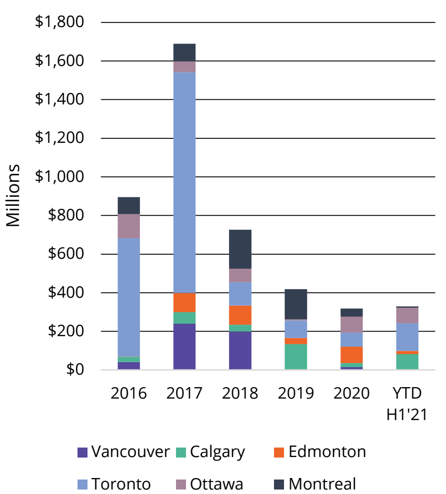
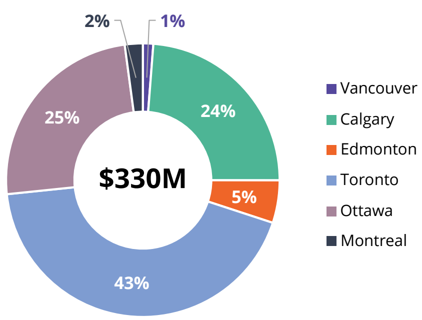
Mid-Year 2021 Review

Canada Hotel Market

Annual hotel investment sales volume by market



First-half 2021 investment sales volume by market

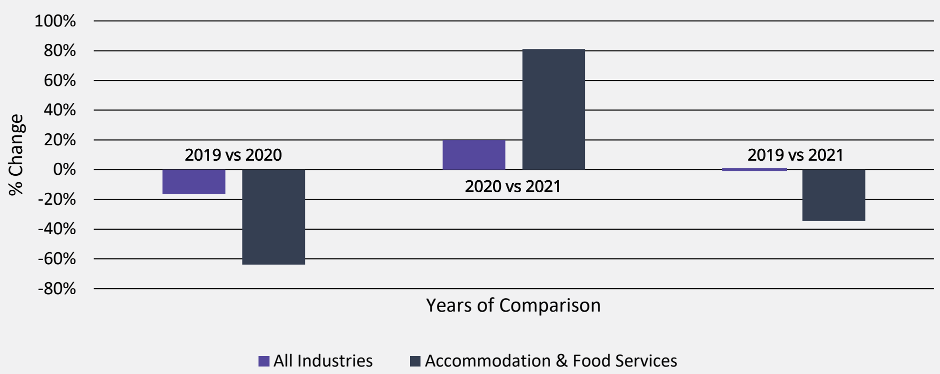


The summer is upon us and brighter times seem to be on the horizon for the hospitality sector. Over the course of the COVID-19 pandemic the hospitality sector has been hit harder than any other commercial real estate asset class. Government programs coupled with lender support initiatives have allowed hoteliers to survive and accommodate debt service and other financial obligations. However, the future landscape of the hospitality industry in Canada could be impacted significantly depending on how the various levels of government choose to phase out the current financial assistance programs and how quickly the Canadian-U.S. border can fully reopen.

Among the government emergency assistance programs that have provided significant financial relief to the hospitality industry, the Highly Affected Sectors Credit Availability Program (HASCAP) has been a hot topic of discussion for industry stakeholders. This program provides loans from $25,000 to $1 million to small and medium-sized businesses whose revenues decreased at least 50% as a result of COVID-19. Some commentators have questioned how these funds are being allocated, as it appears that a significant portion is being used for repayment of mortgage debt and other financial obligations with less emphasis on expanding current operations.

As we near the finish line on the current government subsidies, it remains to be seen how the industry will bounce back. A great deal will depend on the rollout of vaccination programs across Canada and worldwide, the return of workers to the hospitality sector, and the lifting of current travel restrictions.

GDP percentage change



(Source: Statistics Canada)

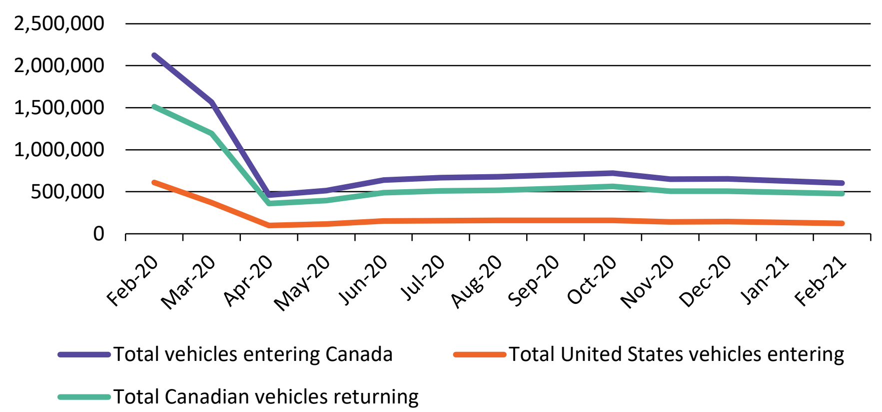
Sector's recovery still pending

Canada's overall GDP growth from 2019 to date in 2021 was slightly positive (+0.15%). During the same period, the accommodation & food services industry endured a decline of 34.64%. This underlines the scale of the problem the industry must overcome, but with significant pent-up demand likely to materialize during the last half of 2021, these metrics are expected to change substantially by year-end.

Cross-border travel

Cross-border travel between Canada and the U.S. has decreased substantially since the start of the pandemic. In February 2020, before the onset of the pandemic lockdowns, 609,309 U.S. vehicles crossed the border into Canada. In February 2021, only 124,675 crossed – a decrease of 80%. Overall border crossings (by both Canadian and American vehicles) were down 61% over the same time frame, as border restrictions for essential travel were implemented.

Number of vehicles travelling between Canada and the United States



(Source: Statistics Canada)

In mid-June, the Canadian Travel & Tourism Roundtable called on the federal government to release a comprehensive Canada-wide plan for re-opening the economy and the U.S. border, allowing Canadians to travel freely within the country, and implementing a vaccination certification program to allow entry to international travelers. The group sees these measures as being critical to the recovery of the country's travel and tourism sector as well as the economy as a whole.

The federal government's mandatory quarantine rules for fully vaccinated Canadians and Permanent Residents returning to Canada were relaxed beginning July 5th, 2021. It was later announced that this would be extended to include fully vaccinated U.S. citizens and Permanent Residents starting August 9th, and, if the situation continues to improve, all fully vaccinated international travelers by September 7th, subject to a negative COVID-19 test. No date has been announced for the border to reopen fully, but government representatives from both countries have indicated a reopening during the coming months is the goal. Officials speculate that some form of vaccine passport, multiple negative COVID-19 tests or some combination thereof will be required in order to travel across the border for non-essential purposes.

Downtown visitor volume – a cross-border comparison

Avison Young's proprietary analytics platform, AVANT, shows the weekly visitor volume in the downtown areas of Montreal, Toronto and Vancouver – giving an indication of how quickly these major downtown areas are returning to life. This also gives some indication of the potential for increase in demand for hospitality services within these markets.

Representative major downtown hotels (The Fairmont Queen Elizabeth in Montreal, The Fairmont Royal York in Toronto and The Fairmont Hotel Vancouver) have all experienced a marked decrease in foot traffic since the start of the pandemic: Montreal has 17.7% of the pre-pandemic foot traffic, Toronto has 6.8% and Vancouver has 16.5%.

Visitor volume related to hospitality, recreation and tourism remained depressed in Canada's major cities as of mid-June, compared with some major cities in the U.S., where the post-pandemic re-opening is further advanced. For example, visitor volume in this sector in Toronto (where lockdown restrictions have been long-lasting) was still down 79% compared with pre-pandemic levels from March 2020, while Vancouver's (where lockdown measures have been less severe) was down 44%. In comparison, similar figures for New York and Los Angeles show a decline of 31% and 32%, respectively.

Demand for hospitality is likely to remain limited until workers return to the office and travel restrictions are eased. For these to happen, vaccinations must be rolled out to most of the population. Canada is now making good progress on this front with the expectation that most eligible Canadians will receive a dual vaccination by the end of the summer.

In the U.S., Memorial Day occupancy and RevPAR numbers were better than those posted during the 2019 Memorial Day holiday weekend, reaffirming that when it comes to travel, people are looking to make up for lost time. This is a trend that will likely also take place in Canada, but several months behind the U.S.

According to a survey conducted by the Travel Health Insurance Association of Canada, 80% of Canadians hope to travel in 2021, with 59% saying they would travel inside Canada because of worries they could contract COVID-19 traveling abroad. Even once the pandemic is over, 37% of respondents still reported that Canada would be their first destination – a good sign for the domestic hospitality market.

The leisure segment of the hospitality industry will likely have the quickest recovery, while markets that rely on corporate bookings will struggle until organizations relax business travel restrictions.

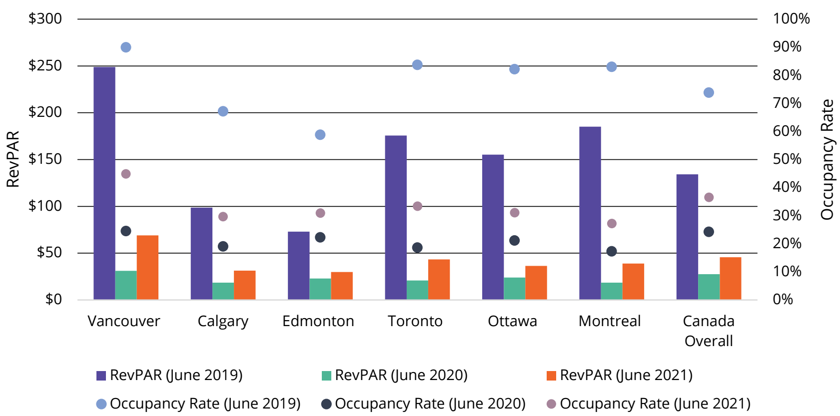
2021 performance in Canada's major markets

Canadian Occupancy, ADR and RevPAR figures from the pandemic period indicate a strong correlation between government lockdown restrictions and hospitality performance metrics.

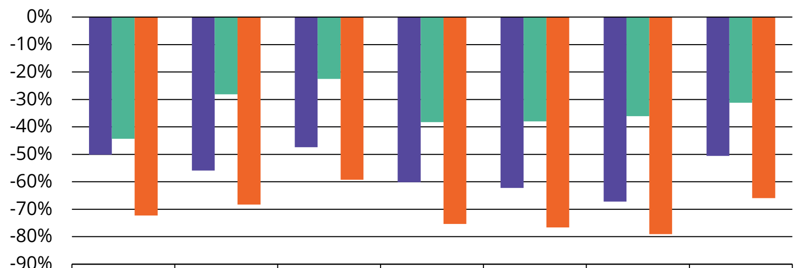
In June 2021, Vancouver had the strongest occupancy rates among the Canadian major markets at 44.8%; however, this is down 50% compared with June 2019 levels. All other markets were below the Canadian average of 36.5%, with Toronto ranked second, at 33.4% occupancy in June 2021. Montreal has been hit the hardest with 27.2% occupancy in June 2021. The market with the least percentage change in RevPAR compared with June 2019 was Edmonton (down 59%), while Montreal was most affected – down 79%.

By hotel class, the lower end of the market (economy, midscale and upper midscale hotels) continued to post the strongest occupancy rates across Canada in June 2021 – with rates between 39% and 43% – but the rates are still down 38%, 38% and 42%, respectively, compared with June 2019 levels, while RevPAR in the economy and midscale classes posted the least decline during the same period (down 49%). The luxury class was hardest hit with 21.4% occupancy in June 2021, and the greatest decline in RevPAR by class (down 78%).

RevPAR and occupancy rate by market
June 2019 / June 2020 / June 2021



Occupancy, ADR and RevPAR by market
Change from June 2019 to June 2021



	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal	Canada Overall
Occupancy	-50.2%	-55.9%	-47.4%	-60.2%	-62.2%	-67.2%	-50.5%
ADR	-44.4%	-28.2%	-22.5%	-38.3%	-38.0%	-36.1%	-31.2%
RevPAR	-72.3%	-68.3%	-59.2%	-75.4%	-76.6%	-79.0%	-66.0%

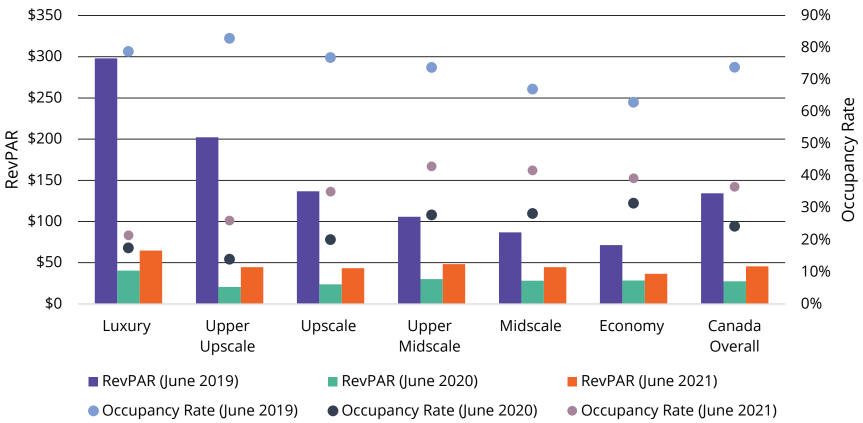
Occupancy ADR RevPAR

Investment sales activity

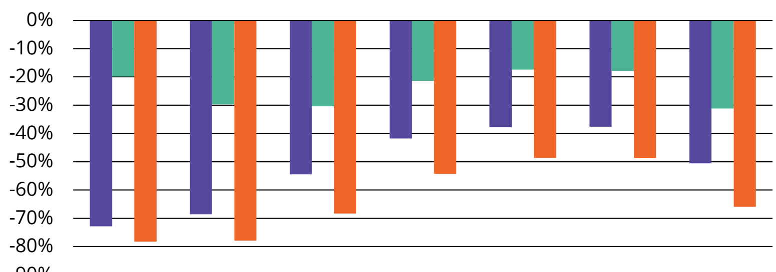
Investment volume has been reduced since the onset of the pandemic. Government relief programs coupled with lenders offering forbearance to their borrowers have allowed owners to maintain ownership of their hotels. In addition, the availability of new debt capital for acquisitions has become restricted. Most lenders within the hotel industry are still in a 'wait-and-see' mode before committing new capital to this asset class unless they are dealing with existing clients with a strong financial track record. Many lenders have been working hand in hand with their borrowers to come up with strategic solutions while they navigate what they hope will be the tail end of the pandemic.

Total investment dollar volume in Canada's major markets (Vancouver, Edmonton, Calgary, Toronto and the Golden Horseshoe area, Ottawa and Montreal) totaled nearly $330 million in first-half 2021 – up 22% year-over-year compared with the first half of 2020.

RevPAR and occupancy rate by class
June 2019 / June 2020 / June 2021

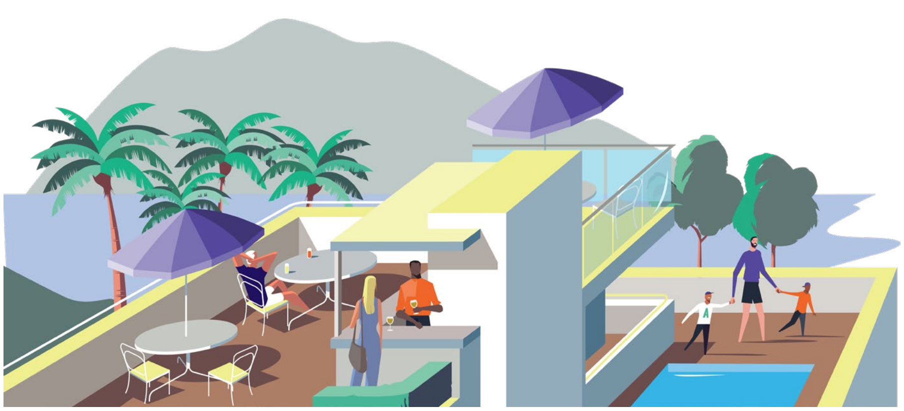


Occupancy, ADR and RevPAR by class
Change from June 2019 to June 2021



	Luxury	Upper Upscale	Upscale	Upper Midscale	Midscale	Economy	Canada Overall
Occupancy	-72.9%	-68.6%	-54.4%	-41.8%	-37.8%	-37.6%	-50.5%
ADR	-19.9%	-29.6%	-30.4%	-21.4%	-17.5%	-17.9%	-31.2%
RevPAR	-78.3%	-77.9%	-68.3%	-54.3%	-48.7%	-48.8%	-66.0%

Occupancy ADR RevPAR



The Toronto and surrounding Golden Horseshoe-area market accounted for 43% of the year-to-date 2021 total, followed by Ottawa (25%) and Calgary (24%).

No significant discounts on pricing were evident among the notable transactions that did occur during the first half of 2021. Most of the hotels involved either had a leisure component or were purchased for alternative uses such as conversion to affordable housing (for example, 222 Spadina Ave. in Toronto). Hotel conversions could, in some cases, offer solutions to the country's shortage of affordable housing, seniors' housing or other residential uses – provided the existing suite designs are suitable and appropriate for an alternative use. For now, assets are unlikely to trade unless buyers are willing to pay close to pre-COVID-19 asset values, but this could change depending on the timing of the withdrawal of government support for the sector. The market could look completely different if owners aren't able to service their debt.

Looking ahead

Several key challenges still await hoteliers as the pandemic comes to an end. Among the most important will be how the various levels of government choose to support the industry. Most government assistance programs are set to expire in September. Hoteliers emphasize that they require 30% to 35% occupancy for limited & select-service, and 40% to 45% for full-service, to break even on their costs. This guidance is based on EBITDA without government subsidies. With Vancouver the only market above 40% occupancy in June 2021, and Toronto, Ottawa and

Edmonton just above 30%, the hospitality sector is trending toward that break-even point.

The best-case scenario is that hotel performance metrics will rebound with the easing of COVID-19 restrictions. Canada's goal is to have the majority of the eligible population fully vaccinated by the end of the summer. At the end of June, nearly 70% had received at least one dose, with 35% fully vaccinated. The hope for most hoteliers lies with the promising performance metrics south of the border, where states that have fully re-opened have experienced a powerful resurgence in hospitality demand.

For example, the Tampa hotel market shows just how quickly the market rebounded during the first half of 2021. According to STR, Tampa had the nation's highest occupancy level in June 2021 (76.2%, 3.2% higher than the 2019 benchmark). Oahu recorded the country's highest ADR (US$227.22) and RevPAR (US$171.40) levels. Even the worst-performing U.S. metro markets such as San Francisco/San Mateo and Washington, DC (with 50% and 50.8% occupancy, respectively) are outperforming Vancouver, Canada's best-performing market at 44.8% in June 2021.

Another important concern for hoteliers is attracting staff back to the industry. Canada-wide, employment in accommodation and food services remained almost 22% below its pre-pandemic level as of June 2021 (representing 263,000 jobs) and some of those workers will not return, even as businesses re-open. Operators will need to hire and train new staff, which will take time and money.

Finally, economists generally anticipate a significant uptick in the economy through the last half of 2021 and 2022 as the effects of the pandemic dissipate and the majority of Canadians become fully vaccinated. The economic recovery will be led by consumers as they deploy pent-up capital – as much as a quarter of a trillion dollars, according to some predictions. The hospitality industry will certainly benefit from such a major injection, but there will also be a lengthy period of debt repayment to consider, and ongoing low interest rates will be of some benefit to the sector. Distressed-asset sales have not been a major factor to date – but will be something to keep an eye on in the second half of the year and into 2022.

Notable Canadian hotel transactions - first-half 2021

Property	Total Price	Price per Room	Purchaser	Vendor
Gillin Portfolio, Ottawa	$59,000,000	$208,481	161 Laurier Properties GP Inc. / 123 Metcalfe Properties GP Inc.	Gillin Engineering and Construction
Irwin's Mountain Inn – Banff Lodging Co. Portfolio, Banff	$45,474,000	$278,982	Banff Lodging Company	Irwin's Mountain Inn
222 Spadina Avenue, Toronto	$22,250,000	$244,505	City of Toronto	Toronto 8 Hotel Inc.
Four Points by Sheraton, Gatineau	$21,800,000	$108,458	Brigil Construction Inc.	35 Laurier Limited Partnership
5871 Ellen Avenue & 5257 Ferry Street, Niagara Falls	$14,282,346	$119,020	Sunray Group	Palm Niagara Inc.

Get more market information

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