

CBRE HOTELS UPDATE

Q4 2019

This quarterly report provides a focused look at performance Canadian major markets and the variances across the provinces and major markets.

The data shows the 2019 year end results of the Canadian lodging sector in addition to CBRE Hotels' revised 2020 forecast.

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2020 PROJECTIONS

With 2019 behind us, CBRE Hotels' projections for 2020 are detailed throughout this Quarterly Update.

Supply & Demand

Delays in hotel openings to later in the year and into early 2021 will decrease supply growth to about 7,500 new rooms in 2020, still represents an increase of about 1.5%. This is still a historic high relative to new room inventory coming into the market. The lower level of new supply is good news, as overall demand growth levels are now projected to be softer as well, in balance with supply growth in that same 1.5% range.

National Hotel Performance

As a result, our current forecast suggests occupancy nationally will remain flat at 65% in 2020, in line with 2019, but down 1 point from the 2017 and 2018 industry highs of 66%, and still strong relative to historic levels. The pressure on rate growth in 2019 is anticipated to lead to continued pressure in 2020, but not to the same extent, with growth of 2.5% in ADR forecasted, resulting in a forecast for 2.5% growth in RevPAR.

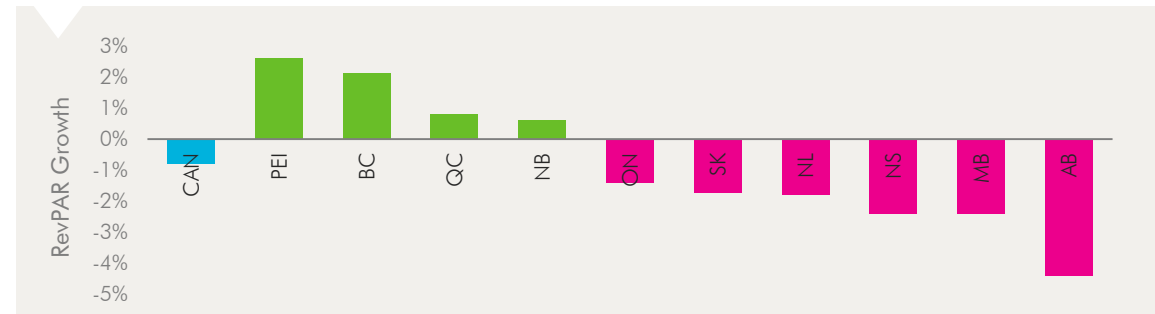
NATIONAL OVERVIEW

Hotel markets across the country finished 2019 below expectations. Nationally, RevPAR declined 1% over 2018 as the modest 0.8% rate gains were not enough to offset the 1 point decline in occupancy. Looking forward to 2020, with the uncertainties surrounding the COVID-19 virus and continued downward pressures on rate growth, CBRE is projecting national occupancy to hold at 65%, with rate gains in-line with inflation, and a 2.5% increase in RevPAR.

NATIONAL	2019	2020 Forecast	2019 - 2020
OCCUPANCY	65%	65%	0.1 pts ▲
ADR	\$164	\$167	2.4% ▲
RevPAR	\$107	\$109	2.5% ▲

YTD Q4 2019 REVPAR GROWTH

Softer occupancies and minimal rate growth across the country deterred RevPAR growth in 2019. PEI maintained its lead—though by a smaller margin than earlier in the year—finishing 2019 with 2.6% RevPAR growth. British Columbia, Quebec, and New Brunswick also maintained their modest growth with RevPAR growth between 2.1% and 0.6%. Newfoundland regained RevPAR with only -1.8% decline by year end, while Alberta’s soft 4th quarter saw RevPAR decline further to -4.4%. While the balance of the provinces did not regain RevPAR decline since Q3, they did not fall further into decline; Ontario and Saskatchewan finished 2019 with approximately -1.5% decline with both Nova Scotia and Manitoba at -2.4% decline.



Q4 2019 CANADIAN CAP RATES

The following table summarizes the fourth quarter cap rate survey results for hotels in the major Canadian markets. Transaction volumes for the Canadian hotels sector are poised to reach an estimated \$1.9 billion in 2019. This total is in-line with the 10-year average. RevPAR performance for 2019 is expected to finish down about 1.0% — well below the 4.0% growth originally forecasted. While there was a moderate amount of softness in demand in 2019, ADR growth was deflated more significantly by new supply affecting pricing confidence. As a result, many operators saw minimal growth in 2019. Despite the softness on RevPAR, capitalization rates have held for the 4th consecutive quarter and investor interest remains strong across primary and secondary markets.

	VANCOUVER	CALGARY	EDMONTON	WINNIPEG	TORONTO	OTTAWA	MONTREAL	HALIFAX
DOWNTOWN FULL SERVICE	4.50% - 6.00%	6.75% - 8.50%	7.00% - 8.50%	7.00% - 8.50%	4.50% - 6.00%	7.00% - 8.00%	7.00% - 8.00%	7.25% - 8.75%
SUBURBAN LIMITED SERVICE	6.50% - 7.50%	7.75% - 9.00%	8.25% - 9.25%	8.00% - 9.50%	7.00% - 8.50%	7.75% - 8.75%	7.75% - 8.75%	8.00% - 9.00%
FOCUSED SERVICE	6.00% - 7.50%	7.25% - 9.00%	7.75% - 9.25%	7.50% - 8.75%	7.00% - 8.00%	7.50% - 8.50%	7.50% - 8.75%	7.50% - 9.00%

Hotel Performance

EASTERN | Q4 2019

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EASTERN OVERVIEW

Atlantic Canada stayed afloat in 2019 amidst 2018's wave of new supply, finishing the year at -1.2% RevPAR decline. Central Canada tells a similar story with Ontario finishing at -1.4% RevPAR decline and Quebec at 0.8% growth. We expect 2020 occupancies to hold as another wave of supply comes into Eastern markets. As downward rate pressures continue to dampen rate growth, we expect modest RevPAR gains of 2% to 4% in 2020.

CENTRAL CANADA	2019	2020 Forecast	2019 - 2020
OCCUPANCY	69%	69%	0.1 pts ▲
ADR	\$166	\$170	2.5% ▲
RevPAR	\$114	\$117	2.7% ▲
ONTARIO			
OCCUPANCY	69%	69%	0.2 pts ▼
ADR	\$163	\$167	2.5% ▲
RevPAR	\$112	\$114	2.1% ▲
QUEBEC			
OCCUPANCY	68%	69%	0.8 pts ▲
ADR	\$176	\$180	2.5% ▲
RevPAR	\$120	\$125	3.7% ▲
ATLANTIC CANADA			
OCCUPANCY	61%	61%	0.0 pts ◀▶
ADR	\$138	\$141	1.9% ▲
RevPAR	\$85	\$86	1.9% ▲

URBAN ANALYSIS

In Eastern major urban centres, Montreal and Quebec City finished 2019 in the lead with RevPAR growths of 3.0% and 0.4% respectively due to modest rate growth. Toronto and Ottawa's occupancies declined over 2018, causing -1.6% RevPAR decline for Toronto and -4.4% for Ottawa in 2019. Halifax and St. John's finished the year at -2.2% and -1.3%; both cities managed to salvage occupancy levels by discounting rates. Forecasting into 2020, we expect continued slight declines in occupancy as additional supply enters the markets coupled with modest rate growth, resulting in moderate RevPAR growth.

TORONTO	2019	2020 Forecast	2019 - 2020	QUEBEC CITY	2019	2020 Forecast	2019 - 2020
OCCUPANCY	75%	74%	0.5 pts ▼	OCCUPANCY	69%	70%	0.4 pts ▲
ADR	\$184	\$188	2.5% ▲	ADR	\$177	\$181	2.5% ▲
RevPAR	\$137	\$139	1.8% ▲	RevPAR	\$122	\$126	3.2% ▲
OTTAWA				ST. JOHN'S			
OCCUPANCY	71%	71%	0.7 pts ▼	OCCUPANCY	56%	56%	0.1 pts ▲
ADR	\$167	\$170	2.0% ▲	ADR	\$133	\$136	2.0% ▲
RevPAR	\$119	\$120	1.0% ▲	RevPAR	\$74	\$75	2.2% ▲
MONTREAL				HALIFAX			
OCCUPANCY	73%	72%	0.4 pts ▼	OCCUPANCY	70%	68%	2.4 pts ▼
ADR	\$183	\$189	3.2% ▲	ADR	\$155	\$158	2.0% ▲
RevPAR	\$133	\$137	2.6% ▲	RevPAR	\$108	\$107	1.5% ▼

Hotel Performance

WESTERN | Q4 2019

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WESTERN OVERVIEW

With a soft Q4, Western Canada finished the year with -0.8% RevPAR decline. BC managed to hold its lead, finishing at 2.1% RevPAR growth, while Alberta's occupancy and rate declines lead to a -4.4% RevPAR decline. Saskatchewan and Manitoba both declined in occupancy with little to no rate growth, finishing at -1.7% and -2.4% respectively. Looking to 2020, we are expecting modest RevPAR gains between 0.6% and 3.2%.

WESTERN CANADA	2019	2020 Forecast	2019 - 2020
OCCUPANCY	62%	62%	0.1 pts ▼
ADR	\$164	\$168	2.4% ▲
RevPAR	\$102	\$105	2.3% ▲
BRITISH COLUMBIA			
OCCUPANCY	71%	71%	0.2 pts ▲
ADR	\$193	\$198	3.0% ▲
RevPAR	\$136	\$141	3.2% ▲
ALBERTA (Excl. Resorts)			
OCCUPANCY	54%	54%	0.0 pts ◀▶
ADR	\$129	\$132	2.0% ▲
RevPAR	\$70	\$71	2.0% ▲
SASKATCHEWAN			
OCCUPANCY	56%	56%	0.1 pts ▲
ADR	\$119	\$121	1.5% ▲
RevPAR	\$66	\$67	1.5% ▲
MANITOBA			
OCCUPANCY	67%	67%	0.9 pts ▼
ADR	\$125	\$128	2.0% ▲
RevPAR	\$84	\$85	0.6% ▲

URBAN ANALYSIS

Save for Saskatoon and Vancouver, all of Western Canada's metro areas finished the year with RevPAR declines due to losses in both occupancy and rate. Vancouver's RevPAR growth cooled through Q4, but finished with 3.3% while Saskatoon finished at 0.6%. Winnipeg only declined -0.6% in RevPAR while Calgary declined -3.9%, Regina declined -4.7%, and Edmonton declined -7.4%. Looking into 2020, we expect occupancies to fall slightly in most major urban markets. This decline, partnered with rates projected to rise near inflation levels, results in moderate RevPAR gains for some markets with slight declines for others.

VANCOUVER	2019	2020 Forecast	2019 - 2020	REGINA	2019	2020 Forecast	2019 - 2020
OCCUPANCY	80%	80%	0.1 pts ▼	OCCUPANCY	57%	58%	0.6 pts ▲
ADR	\$219	\$227	3.5% ▲	ADR	\$120	\$122	2.0% ▲
RevPAR	\$175	\$181	3.4% ▲	RevPAR	\$68	\$70	3.0% ▲
CALGARY				SASKATOON			
OCCUPANCY	61%	61%	0.4 pts ▲	OCCUPANCY	61%	60%	0.6 pts ▼
ADR	\$145	\$148	1.9% ▲	ADR	\$125	\$126	1.0% ▲
RevPAR	\$88	\$90	2.4% ▲	RevPAR	\$76	\$76	0.1% ▼
EDMONTON				WINNIPEG			
OCCUPANCY	56%	55%	0.5 pts ▼	OCCUPANCY	70%	68%	1.7 pts ▼
ADR	\$126	\$129	2.1% ▲	ADR	\$128	\$130	2.0% ▲
RevPAR	\$70	\$71	1.4% ▲	RevPAR	\$90	\$89	0.6% ▼

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