

NATIONAL MARKET REPORT

November 2018

- Hotel cap rates have continued to hold at record lows in Q3 2018
- The national hotel cap rate for all classes was 7.80% in Q3 2018.
- There continues to be considerable investor interest in major markets across the country but this is not being met with a scarcity of product coming to market.

Q3 2018 – Q4 2018 CAP RATE TRENDS

Overall, industry fundamentals continue to be strong, with a relative balance between supply and demand in 2018. These strong fundamentals are driving increasing development interest and capital to the sector and as a result in 2019 new supply is expected to close in on projected demand growth. While there will be limited bottom line growth in some markets, the overall improvement in profits in 2019 will still be strong.



While there has been considerable interest when assets come to market (multiple bidders), transaction volumes through the end of Q3 were modest at just over \$1.0 Billion. Owners seem reluctant to sell given performance and profitability levels and as a result there has been a noticeable scarcity of supply on the transaction market through the first three quarters of the year.

As noted, cap rates across the country held in Q3 as the sector has continued to perform at record levels, both top and bottom line, on a national level. Through to the end of Q3 National RevPAR was tracking up 5.8% with national occupancy at 68% and ADR growth of almost 5.0%.

Q3 2018 CANADIAN CAP RATES

	Vancouver	Calgary	Edmonton	Winnipeg
Downtown Full Service	4.50%-6.00% ◀▶	7.00%-8.75% ◀▶	7.25%-8.75% ◀▶	7.00%-8.50% ◀▶
Suburban Limited Service	6.50%-7.50% ◀▶	8.00%-9.25% ◀▶	8.50%-9.50% ◀▶	8.00%-9.50% ◀▶
Focused Service	6.00%-7.50% ◀▶	7.50%-9.25% ◀▶	8.00%-9.50% ◀▶	7.50%-8.75% ◀▶

	Toronto	Ottawa	Montreal	Halifax
Downtown Full Service	4.50%-6.00% ◀▶	7.00%-8.00% ◀▶	7.00%-8.00% ◀▶	7.25%-8.75% ◀▶
Suburban Limited Service	7.00%-8.50% ◀▶	7.75%-8.75% ◀▶	7.75%-8.75% ◀▶	8.00%-9.00% ◀▶
Focused Service	7.00%-8.00% ◀▶	7.50%-8.50% ◀▶	7.50%-8.75% ◀▶	7.50%-9.00% ◀▶

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The strong market performance is being driven by strong fundamentals in British Columbia, Ontario and Quebec. Capitalization rates in Toronto and Vancouver are as low as 4.50% for Full Service Hotels driven by considerable investor interest in these markets, as well as a limited supply of sites and the high cost of development constricting supply growth. Additionally, by the end of 2019, bottom lines in these markets are projected to have seen growth of between 40% - 55% since 2016.



In Montreal and Ottawa, while demand fundamentals are still strong these markets do not have the same barriers to entry as Toronto and Vancouver resulting in higher cap rates on similar assets. Capitalization rates in these markets range from 7.0% to 8.0% for Downtown Full Service Hotels.

The outlook for hotel investment is positive in most regions of the country with steady top line growth predicted, a good supply of capital and continued strong investor appetite. At the same time, there is uncertainty ahead with some concerns about a slowing global economy in 2019.

Further insight into Q4 capitalization rates can be obtained from CBRE's Q4 2018 Canadian Cap Rates & Investment Insights report, which is expected to be released in mid-January 2019.

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