

NATIONAL MARKET REPORT

October 2018

- In October 2018, the CBRE national hotel sample achieved a 70.3% occupancy level, a 1.3 percentage point increase from October 2017.
- In October 2018, the national average daily room rate for hotels tracked by CBRE increased by 3.4% from October 2017 to \$158.50.
- Revenue per available room for CBRE's sample increased by 5.4% to \$111.42 in October 2018 from \$105.73 in October 2017.

THE 2019 TO 2023 OUTLOOK

We are approaching the end of 2018 and it is proving to be another stellar year for the Canadian accommodation industry. Nationally, RevPAR growth of 5.8% is projected, which exceeds our initial 2018 forecast of a 4.7% increase for the year.

In our CBRE Hotels Outlook presented in September 2018, National bottom lines were forecast to grow by 11% over 2017 results, to \$15,700 per available room. At this point, National bottom lines are expected to be slightly better than our original forecast based largely on stronger than anticipated ADR growth.



In Central Canada, adjusted net operating income increased by a very strong 22% in 2017, with performance in many markets within Ontario and Quebec contributing to the improvement. Our September 2018 forecast was for a further increase of 8.5% for the calendar year 2018, to \$15,900 per available room. The YTD (January to October) RevPAR performance in Central Canada shows that this region is on track to finish the year on par with our forecast and thus our bottom line projection is attainable. For 2019, more moderate RevPAR growth is projected in comparison with 2018 performance, but bottom lines in Central Canada are still looking to increase by more than 6%.



RevPAR growth in Atlantic Canada in 2017 was 9% and ANOI growth was at a very high 19%, reaching \$10,300 per available room. In our September 2018 Outlook Presentation, year-end 2018 was projected to finish with RevPAR growth of 2.3%. Based on year-to-date October performance, occupancy results for 2018 may be lower than forecast and thus projected ANOI may also fall below our forecast. Significant growth in room supply in 2018 along with slow, steady room demand growth is resulting in a small decrease in occupancy percentage which, coupled with moderate ADR increases, is resulting in the sluggish RevPAR performance. In 2019, RevPAR growth of 2.6% and ANOI growth of 3% are projected.



In 2017, ANOI growth in Western Canada was predominantly due to gains in British Columbia offsetting weak financial performance in Alberta and Saskatchewan. In 2018, financial performance in BC will again lead ANOI growth throughout western Canada, but Alberta will also make a more significant contribution. Our original forecast for 2018 was for Western Canada to achieve RevPAR growth of 5%, leading to ANOI growth of 7% for the year, from \$15,000 per available room in 2017 to \$16,100 per available room in 2018. However, based on year-to-date results to October, the Western Region will likely exceed the initial 2018 RevPAR forecast and thus also the projected ANOI.

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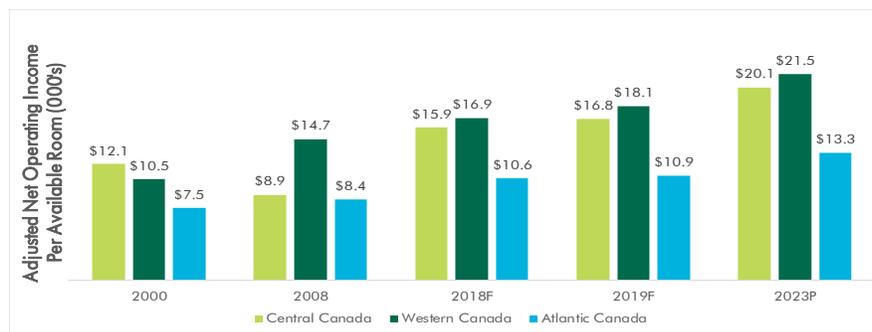
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BC continues to generate very strong RevPAR growth, leading the country in year over year performance amongst the provinces. The strong results in Alberta, generated through solid gains in room demand, are also contributing to the stronger than forecast performance. In 2019, ANOI growth is projected at a more modest 7% for Western Canada. Alberta will struggle with significant growth in room supply, contributing to the slower pace of ANOI growth.

ANOI results for British Columbia far exceed those of other key leading provinces. This has resulted from strong annual RevPAR growth translating to higher bottom lines year over year. Ontario and Quebec should not be overlooked, as they are both projected to finish 2018 strong and are also forecast to have improvements in bottom line performance in 2019. Alberta will continue to struggle to improve ANOI. At \$10,600 per available room in 2019, the accommodation sector's profitability in that province will be nearly half of what was achieved in 2014.



From 2019 through 2023, all three regions are projected to achieve strong improvements in ANOI. Central Canada is expected to see ANOI in 2023 being 26.8% higher than for year-end 2018. In Western Canada, continued growth in British Columbia plus a gradual increase in performance among the other three provinces will result in the 2023 ANOI being 27% higher than year-end 2018. In Atlantic Canada profitability is projected to pick up in 2020 through 2023, leading to an ANOI increase overall of 26% over the 2018 result. Nationally, profitability is forecast to go from approximately \$15,700 per available room in 2018 to \$19,800 per room in 2023, an increase of 26%. Operators must continue to increase rates and push for higher annual ADR growth in order to help achieve the ANOI increases projected.



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