TRENDS
IN THE CANADIAN HOTEL INDUSTRY

CBRE HOTELS

The World's Leading Hotel Experts.

NATIONAL MARKET REPORT • A MONTHLY PROFESSIONAL PUBLICATION

NATIONAL MARKET REPORT

May 2019

- In May 2019, the CBRE national hotel sample experienced a 67.5% occupancy level, a 0.5 percentage point decrease in occupancy from May 2018.
- The May 2019 average daily room rate for hotels tracked by CBRE increased by 2.7% to $165.70 compared with $161.36 in May 2018.
- Revenue per available room for CBRE's sample increased by 1.9% to $111.90 in May 2019 compared with $109.81 in May 2018.

Q1 2019 – Q2 2019 CAP RATE TRENDS

Across the country, through the end of May, indications are for 2019 top line performance growth to be more moderate than initially expected. As projected, occupancy is holding flat relative to 2018, however ADR growth to the end of May has been more modest than the 4.0% forecast, at about 2.0% restricting RevPAR growth to about 1.0%. Stronger growth is expected over the balance of the year, however it is unlikely that the original 4.0% RevPAR growth forecast nationally for 2019 will be met.

Amongst the major banks and economists, the consensus seems to be that the country is entering a period of more tempered economic growth as GDP forecasts have been revised downward and are in the range of 1.0%-1.5% for 2019. The uncertainty with respect to geo-political conditions, interest rates and major infrastructure spending are driving a cautious outlook. Similarly, while the forecast for overnight travel nationally is still positive, growth is projected to be more moderate, at 2.0% in 2019.

While there are many markets across the county which are still operating at peak or near-peak occupancy levels, after significant historic year over year increases, ADR growth in 2019 has been constrained by perceived rate sensitivity from both Corporate and Leisure demand.

Additionally, in markets, where new supply is making an impact there is evidence of existing properties using discounting, in an attempt to mitigate a loss in demand. With top line growth moderating, expectations are for profitability growth to slow in a similar manner.

In spite of the moderation in top and bottom line growth, profitability in the accommodation sector remains high, and the sector is expected to continue to attract investment as interest rates remain low and overall returns in the sector still offer a premium over other asset types.

As in 2018, there continues to be a limited pool of assets available for purchase as owners are still enjoying the low costs of financing and the strong profitability level environment, with many hotel investors still taking a wait and see approach to asset disposition.

While investors have capital to deploy and are actively looking for acquisition opportunities, transaction volume is trending below the ten year average of $1.8 billion annually, down to $515 million YTD June from $889 million in the first half of last year, based largely on the limited product available for acquisition. While there are a few significant transactions expected to close in the last half of 2019, it is unlikely that transaction volumes will meet the $1.5 billion generated last year.

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Hotel Association of Canada
Association des Hôtels du Canada

We find ourselves in a very unique position with respect to investment in the hotel sector in Canada:

- We remain at all-time highs in profit levels, tempered with slowing growth in performance, which is in part ADR sensitivity driven and in part new supply driven.

- We have strong investor interest, an abundance of equity to invest, and access to low cost debt, offset by the lack of available investment product, limiting transaction activity.

As a result, cap rates are expected to hold steady and remain at the lowest levels they have ever been. Further compression or an increase in cap rates is not anticipated in the short-term.

The question going forward for the mid to long term, assuming no dramatic shifts in the economy or in the cost of debt, is whether the tempering of industry profits, will see investor expectations/cap rates hold and values decline, or whether we will see values hold with a tempering of investor expectations/cap rates.