TRENDS
IN THE CANADIAN HOTEL INDUSTRY
CBRE HOTELS
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NATIONAL MARKET REPORT • A MONTHLY PROFESSIONAL PUBLICATION

NATIONAL MARKET REPORT November 2019

- In November 2019, the CBRE national hotel sample achieved a 61.5% occupancy level, a 1.5 percentage point decrease from November 2018.
- In November 2019, the national average daily room rate for hotels tracked by CBRE increased by 0.3% from November 2018 to $148.00.
- Revenue per available room for CBRE's sample decreased by 2.1% to $91.01 in November 2019 from $92.99 in November 2018.

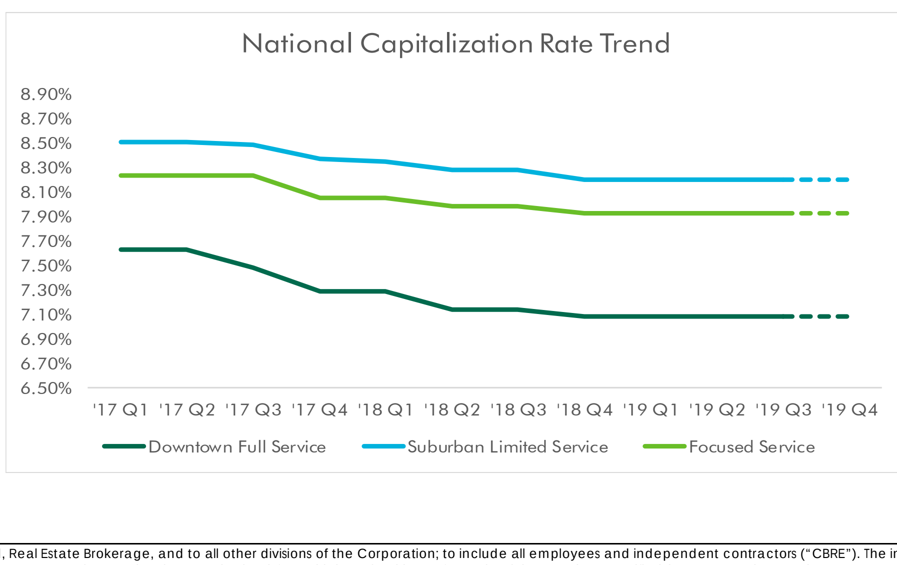
Q3 2019 – Q4 2019 CAP RATE TRENDS

As we look to the end of the year, indications are that 2019 top line performance will decline with RevPAR expected to contract by about 1.0%. This is a significant change in performance relative to the 4.0% RevPAR growth which was forecasted initially. Going into the year the expectation was that supply and demand would be largely in balance, however there has been little to no demand growth while supply has grown as expected. As a result, occupancy nationally is expected to decline about 1 point. Compounding the decline in occupancy has been the softness on the ADR with indications that ADR growth in 2019 will be 1.0%.

With national occupancy still at near peak levels, the inability to generate RevPAR growth in 2019 has been tied to the inability to grow ADR. There are many markets across the country which are still operating at peak or near-peak occupancy levels but supply pressures and perceived rate sensitivity from Corporate and Leisure travelers has constrained ADR growth.
Given the lower RevPAR expectations, it is likely that in 2019 operators will see little or no bottom-line growth and depending on local market factors even some erosion in bottom lines.

In spite of these conditions, overall profitability levels in the accommodation sector remain high and there continues to be considerable interest in investment as interest rates remain low and overall returns are still at a premium over other asset classes.
With a number of significant single asset deals and small portfolios closing in the second half of the year, transaction volumes for 2019 are estimated to be $1.9 Billion up over $400 million from 2018. While there are investors with capital to deploy and an interest in acquisition opportunities, both vendors and purchasers seem to be taking a wait and see approach.

As a result, cap rates are expected to hold steady and remain at the lowest levels they have ever been. Barring an unforeseen event or a significant shift in market fundamentals, cap rates are not expected to see additional compression or inflation in the short-term.



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Over the mid to longer term it will be interesting to see whether investors will adjust their expectations/cap rates and hold values or whether they will hold cap rates and accept lower values in light of the slower or stagnating industry profits.

Further insight into Q4 capitalization rates can be obtained from CBRE's Q4 2019 Canadian Cap Rate & Investment Insights report, which is expected to be released in mid-January 2020.

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