

## The Canadian Hotel Industry, 1989 to 1999: A Decade in Review

By Marius Gomola, Lyle Hall, and Bill Stone

When Isadore Sharp, Chair and CEO of Four Seasons Hotels proclaimed in a 1990 edition of *Hotelier* that the 1990s would be a "*white knuckle decade [in which] the field of struggle [will be a] shifting for world domination,*" he probably had no idea of the profound changes the decade would actually hold for the Canadian and international hotel industry. The last ten years have indeed seen remarkable changes in operating practices, market share, the profile of hotel ownership and industry economics.

In the time from 1989 to 1999, almost a full economic cycle has left its mark on the hotel industry. The 80s ended on an upbeat note with occupancies and average rates peaking in most markets. Unfortunately, a significant supply increase coupled with an economic downturn (felt mostly everywhere but the West Coast), resulted in significant occupancy and rate declines during the first two years of the new decade.

By the end of 1992, occupancy rates in major markets such as Calgary, Toronto and Montreal had bottomed out, while a recovery that began in 1993 turned out to be a painstakingly slow process. Only during the last few years have occupancies edged above the telltale 70 per cent level. And today, in markets such as Toronto and Ottawa, even after taking into account seasonal demand fluctuations, annual occupancy rates of 75+ per cent have been achieved a clear indicator of a hotel room shortage, particularly in the summer months.

With room shortages now on the radar screen, can new supply be far behind? Adding to the current pressure for new hotel space was the modest supply increase over much of the 90s. The numbers tell the story between 1991 and 1998, only 3,300 rooms were added in Canada's major cities. Vancouver added 2,050 in that seven years; Calgary 910; Montreal, 350; Halifax 250, and Toronto actually lost a net 240 hotel rooms. By comparison in the three years between 1989 and 1991, Toronto alone added over 5,000 new hotel rooms.

The Canadian industry is also seeing a shift in average rates. In 1999, for the first time in six years, Toronto will resume its position as leader in average rate, surpassing Vancouver which had held the title for having the most expensive Canadian hotel rooms over much of the decade. Indeed, excepting Vancouver, all major markets are expected to ring in the new millennium with the highest average rates of this decade.

The combination of strengthening average rates and occupancy levels has had the obvious, positive impact upon REVPAR. With new supply expected to begin entering

the market through 2001/02, all major markets, again except for Vancouver, are expected to produce stronger REVPARS.

Investor confidence in the hotel industry was particularly tentative through most of the 90s. Clearly, the impact of the decade's depressed occupancy levels and average rates had a dramatic, roller coaster effect on hotel values. For example in Montreal, hotel values based on the single transaction in 1993 reached a low of \$25,000 per room! Again, as with REVPAR, the end of the 90s is delivering a turnaround in 1998, the average value per room for the six downtown Montreal hotels that changed hands was closer to \$70,000.

Values peaked in Vancouver last year at \$148,000 per room. Toronto is expected to take the crown as highest-cost market over the next year or two given that new supply is expected to be virtually absent until at least 2003 and as a result of exceptionally strong general market conditions in the city.

Demand for hotel rooms was driven by several key factors over the past ten years. Business and convention visitors accounted for a significant proportion of hotel stays, while group-leisure visitors were big business in both the large urban markets and the major resort destinations such as Whistler and Banff. Based on KPMG research undertaken for Tourism Toronto, we estimate that the convention/group leisure market accounted for 42 per cent of total room per night sales in Toronto hotels between 1993 and 1998. In absolute figures, the increase in room nights sold over the same time period to convention/leisure guests totaled 179,400.

International, leisure-motivated visits have been on the increase in Canada. In 1996, 65 per cent of foreign hotel guests to Canada were here looking for fun an increase of 5 per cent, or 1.9 million trips, over 1988. Generally, international tourist arrivals in Canada have shown growth over the past ten years, with 3.38 million, or 12.2 per cent, more international person trips in 1998 than a decade earlier. Certainly we can attribute such increased visitation, in part at least, to the relative value of the Canadian dollar.

If the start of the decade under review the late 80s and early 90s was the era of limited partnerships, then we leave the decade in the realm of the public company, particularly the Canadianized version of the Real Estate Investment Trust (REIT). Yes, on the West Coast "hotel strata ownership," with units sold most often to Asian-based investors became a (briefly) successful vehicle for raising capital, but REITS have been the ownership story of the past two years.

Since the creation of Canadian Hotel Investment Properties REIT in June, 1997, CHIP, Royal Host and Legacy REITs have acquired 85 hotels worth \$1.65 billion. Such a rush to consolidate ownership of assets by well capitalized REITs and some private

investors, has had a correspondingly upward push on hotel values. Share value, on the other hand, has been another story. The Canadian (and U.S) REITs together with Canadian listed public companies, such as UniHost and AFM Hospitality, have seen a retrenchment of investor interest result in languishing stock values.

It also seems we'll be seeing consolidation among the consolidators. Witness

W-Westmont's offer to purchase UniHost Corporation—a transaction that would make Westmont (backed by Goldman Sachs) the owner of more hotels in Canada than any other organization. A fact made even more interesting when one considers that prior to the mid 1990s, Westmont did not own a single Canadian hotel.

The geographic origin of single and multiple asset hotel buyers has changed dramatically over the past ten years. In 1988, buyers from the Far East accounted for some 32 per cent of transaction value; in 1998 Asian buyers made up less than 2 per cent of transactions. Over the same time period, the share of Canadian buyer origin increased from 53.7 per cent to more than 74 per cent.

The last ten years have also proven there is still plenty in a name. In today's competitive business environment, the ability to generate room nights, sell franchises and sometimes even demonstrate management capability is increasingly a function of brand strength. Contrary to popular belief, branding is generally as prevalent in Canada as in the United States—particularly for full-service hotels and for all hotels with more than 100 rooms. In fact, 76 per cent of Canadian hotel rooms (in hotels with 100 or more rooms) are branded.

Branding anew is less common than switching brands. Smith Travel Research notes that the number of individual hotel brand affiliation changes in North America has grown tenfold each year since 1987. The number of brand conversions reached 1,500 in 1997. While an argument could be made that the volume of brand change has a confusing impact upon the customer, hotel owners choosing to switch brands are likely doing so in order to address certain operating issues or deficiencies.

National brand names represented in Canada, for the most part, reflect the U.S. environment, with the exception of Canadian Pacific and Delta. A relative absence of several well known U.S. brands such as Marriott and Hyatt, is being addressed through a significant expansion strategy that is currently underway.

Looking back as we head forward to the new millennium reveals a decade of change and transition for the Canadian hotel industry. Reflections and reviews such as this always beg forecasts for the future, and as a new century races toward us this inclination is even stronger. However in considering where the industry is headed in

1999 and beyond, one might recall Bob Hazard, CEO for Choice Hotels International who predicted in 1990 that "only eight to 10 chains will survive the 1990s." With that lesson for seeing into the future learned, we can only ask, predictions for the next decade, anyone?

---

*Lyle Hall, ISHC is the National Director of KPMGs Hospitality, Leisure and Tourism Industry practice and Marius Gomola is Director, Accommodation in that practice. Bill Stone is the Managing DirectorCanada for Colliers International Hotel Realty.*