

Hospitality Research

2018 INVESTMENT FORECAST

Greater Toronto Area

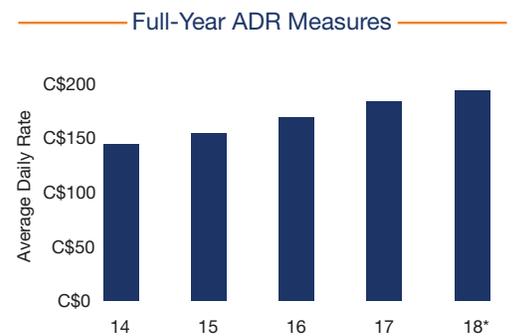
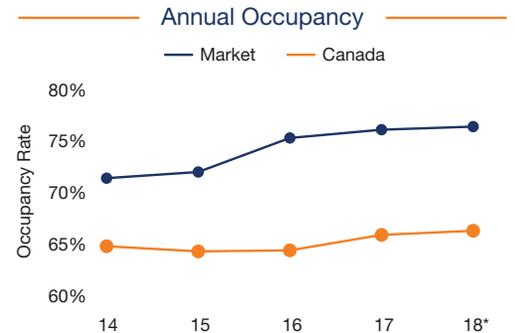
Large Events Draw Travelers to Toronto, Bolstering Investor Interest

Heightened tourism drives occupancy, revenue growth throughout the Greater Toronto Area (GTA). Record-breaking visitation to Toronto in 2017 spurred significant increases in hotel occupancy, RevPAR and ADR. International visitation to the area reached a high last year, aided by a jump in visitors from Mexico as visa requirements to visit Canada from the country were eliminated. Large conferences and major events, including the Invictus Games and North American Indigenous Games, drew travelers to Toronto last year. The trend should continue into 2018 as Canadian and international travelers increasingly visit the area. Around 25 citywide events and meetings are scheduled throughout this year, the most Toronto has ever hosted in a single year, boosting demand for hotels from overnight visitors. Heightened room demand will bolster another year of occupancy improvement and strong growth in the average daily rate and RevPAR.

City of Toronto lures investors, lifting property values. Strong occupancy and RevPAR growth have held investor interest steady in the Greater Toronto Area over the last two years. Limited listings have fueled competition for available properties, placing upward pressure on property values. Last year, the average price per room rose roughly 70 percent to C\$212,000, with the city of Toronto leading increases. Owners looking to capitalize on these higher prices may consider bringing their assets to market this year, particularly as the area attracts significant attention from buyers. As a result, sales nearly doubled in the city during 2017. Here, hotels change hands with average first-year returns in the low-5 percent band, nearly 250 basis points lower than properties in the overall GTA.

2018 Market Forecast

- Occupancy** up 30 bps ➤ Increased visitation and the rising number of citywide conferences will support a 30-basis-point gain in hotel occupancy this year to 76.4 percent. Last year, an 80-basis-point advance was recorded.
- ADR** up 5.5% ➤ Strong room demand will support a jump in the average daily rate to C\$193.90 in 2018. Last year, ADR soared 9.0 percent, led by an 11.6 percent gain in ADR near Toronto's airport area.
- RevPAR** up 6.2% ➤ Following a 10.1 percent climb last year, RevPAR will reach C\$148.55 this year, supported by rising occupancy and ADR.
- Investment** ○ The city of Brampton, which is located northwest of downtown Toronto, is home to several museums and a major performing arts center. Overnight travelers to concerts will likely stay in nearby hotels, benefiting occupancy rates. The proximity to numerous cultural attractions also underpins room demand, potentially attracting investor interest this year.



* Forecast
Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Real Capital Analytics

Peter Nichols | National Director
National Hospitality Group
(212) 430-5100 | peter.nichols@marcusmillichap.com

For information on national hospitality trends, contact:
John Chang First Vice President | National Director
Research Services
Tel: (602) 707-9700 | john.chang@marcusmillichap.com

Statistical Summary Note: Hotel chain scale definitions are based on information available as of December 2017. Average prices and cap rates are a function of the age, type and geographic area of the properties trading and therefore may not be representative of the market as a whole. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; AH&LA; AARP Research; Altus Data Solutions; Bureau of Economic Analysis; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; PKF Hospitality; Real Capital Analytics; STR Inc.; Trepp; U.S. Bureau of Labor Statistics; U.S. Census Bureau; U.S. Treasury Department.