Marcus & Millichap

Hospitality Research Canada Report

Midyear 2017

Rising Performance Measures Show Resilience of Canada Hotels

Key economic drivers remain supportive of strengthening hotel performance. Canada's labor market continues to grow, with unemployment reaching 6.3 percent at the end of July, a low not seen since 2008. Healthy job growth reflects a generally positive outlook on business, which benefits hotel occupancy during the workweek as individuals travel to job interviews and meetings. Rising tourism to Canada has also driven occupancy improvements nationwide as international arrivals jumped 16 percent in 2016. Domestic travel should also rise this year as visitors traveled to many of the nation's largest metros to celebrate events held for the country's 150th birthday.

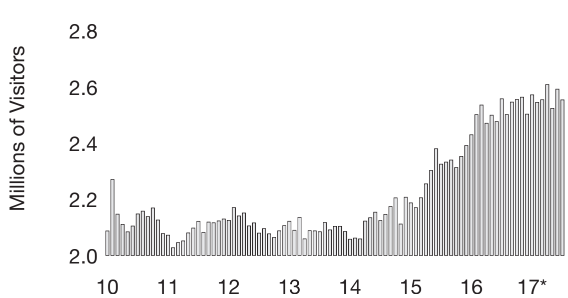
Vancouver and Toronto post strong revenue metric gains. Nationwide occupancy, ADR and RevPAR rose in the second quarter behind minimal construction and an increase in occupied rooms. The metros of Toronto and Vancouver each posted revenue growth above the national level and generated healthy occupancy increases during this time period. In Vancouver, increased visitors from Australia, China and Mexico should continue to bode well for metro hotels. Additionally, the approaching ski season will benefit occupancy and revenue metric growth through the end of the year.

Hotel Performance Through 2Q

Market	Occupancy	Y-O-Y Basis Point Change	RevPAR	Y-O-Y Change
Alberta	52.4%	0	$74.10	6.7%
Brit. Columbia	67.4%	200	$112.43	9.1%
Canada	62.1%	130	$92.53	7.0%
Ontario	65.5%	90	$182.05	9.8%
Toronto	72.9%	100	$127.64	11.7%
Vancouver	75.0%	70	$130.82	7.2%

Sources: Marcus & Millichap Research Services; STR Inc.

International Tourist Volume



* Through February

Investment Trends

- The Bank of Canada raised its short-term rate 0.25 percent in July and September to the target of 1.0 percent. The yield on the country's 10-year benchmark ranged from 1.4 percent to 1.7 percent in the first half of this year.
- The low value of the Canadian dollar compared with the U.S. dollar is enhancing the appeal of Canadian vacations for U.S. citizens but may also stimulate greater interest from U.S.-based hotel investors. The Canadian hotel sector appears positioned for a higher rate of RevPAR growth than the U.S. in 2017 and faces less strenuous pressures from new hotel supply.
- With hotel prices generally rising in major markets, additional investors may increasingly consider conversions of other property types to hotels or new development.

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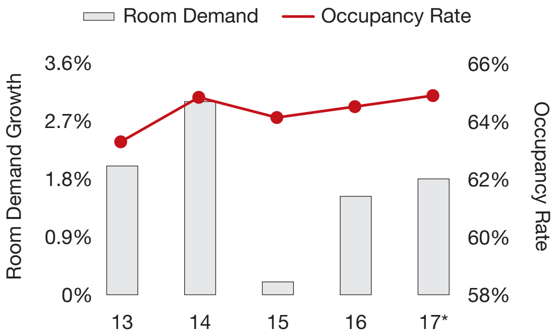
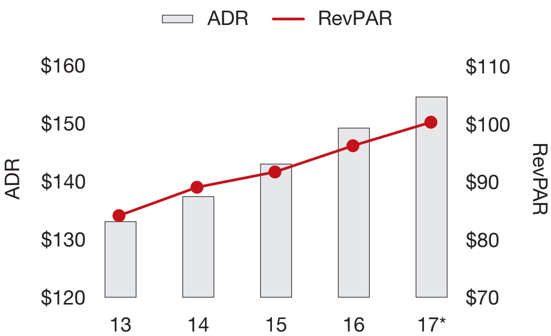
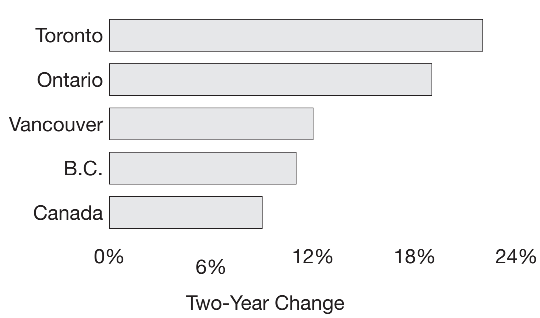
National Annual Occupancy



Annual Revenue



RevPAR Growth



* Forecast
Sources: Marcus & Millichap Research Services, STR Inc.

Occupancy Trends

- Healthy room demand in Canada lifted occupancy 130 basis points during the first half of 2017 to 62.1 percent in June. Limited construction translated to a 0.7 percent increase in rooms available while rooms sold climbed 2.9 percent during this time.
- In Vancouver, room nights increased 1.0 percent while rooms available remained flat, lifting occupancy 70 basis points during this time to 75 percent. The Vancouver Airport area had the highest occupancy of 79.1 percent after rising 260 basis points year over year. Room nights in the area rose 1.5 percent while rooms available declined 1.9 percent.
- Toronto also registered significant occupancy improvement with the rate climbing 100 basis points to 72.9 percent. The Toronto North-East area posted the largest gains of 210 basis points year over year to 70.2 percent. Rooms available in the area declined slightly while room nights edged up 2.9 percent during the previous six months.

Revenue Trends

- National ADR increased 4.7 percent in the first quarter this year from the corresponding period in 2016. RevPAR in Canada rose 7.0 percent during this same time frame.
- Montreal, Ottawa and Toronto set the pace in RevPAR growth in the first half of the year as each metro posted an increase in excess of 10 percent during the period. RevPAR advanced 15.3 percent in Montreal while the rate rose 10.2 percent and 11.7 percent in Ottawa and Toronto, respectively. Vancouver also registered healthy growth, with RevPAR climbing 7.2 percent from the previous period.
- Toronto led the major metros in the average daily rate with a 10.1 percent increase to $175.18 during the first half of this year. The metro of Ottawa followed closely behind as the rate climbed 9.4 percent to $171.96. Vancouver and Montreal posted ADR growth in the 6 percent area during this same time.

Sales Trends

- Canadian hotels have enjoyed a period of elevated RevPAR growth, a driving force for higher property valuations. RevPAR gains above 10 percent were registered in the provinces of British Columbia, Ontario and Quebec during the previous 12 months ending in the second quarter. RevPAR in Ontario had the highest growth of 17.4 percent during this time.
- Transaction and dollar volume grew over the past 12 months, aided by an inflow of foreign capital and low interest rates on acquisition loans.
- Several properties traded in the Greater Toronto Area over the past year, and pricing typically far exceeded $100,000 per room. Full-service hotels in Toronto garnered the highest prices, but focused-service assets in municipalities including Mississauga and Oakville also commanded six-figure prices per room. Asset pricing varied more greatly in Vancouver, with assets in the city recording some of the highest levels.

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