

Demand Surges For Canadian Hotels Amid Heightened Tourism

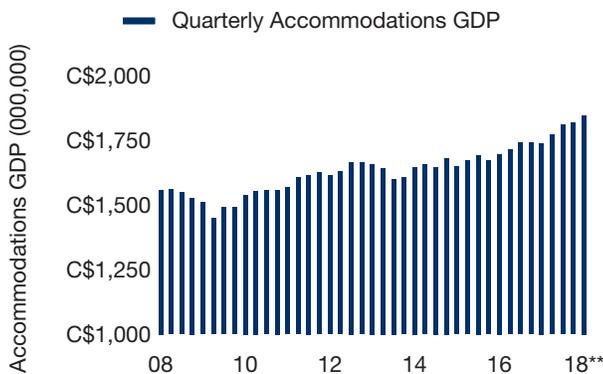
International tourism strengthens, boding well for hotels.

Strong tourism is benefiting hotel property performance in Canada as travelers fill hotels. International travel, in particular, remains an important driver for hotel demand in the country. Between January and May, trips of one or more nights from non-residents rose 1 percent from the same time the prior year as a record 5.9 million international visitors traveled here. Tourism to Canada from China, in particular, is increasing at a much faster pace, rising 14.8 percent during this same time frame. Canada's new tourism campaign hopes to double the number of Chinese visitors and boost the number of international tourists by 30 percent by 2021, likely boding well for room demand from these travelers.

Room demand strong across Canada, raising occupancy.

Healthy room demand from travelers has improved hotel occupancy 250 basis points during the prior two annual periods ending in June, advancing RevPAR 15 percent during this same time. Nearly all provinces and major markets registered strong occupancy and growth in revenue metrics since July 2017. Vancouver and Toronto, in particular, continue to lure visitors, enhancing hotel occupancy. The rate in each market rose more than 100 basis points during the year ending in June.

Tourism Drives Accommodations Demand*



* Seasonally adjusted with 2007 constant prices

** Through 1Q18

Sources: Marcus & Millichap Research Services; Statistics Canada

Annual Hotel Performance Through 2Q



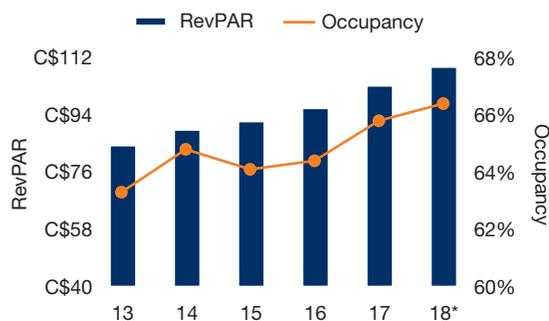
Market	Occupancy	Y-O-Y Basis Point Change	RevPAR	Y-O-Y Change
Edmonton	56.3%	150	\$71.53	1.9%
Montreal	72.0%	-230	\$127.15	2.8%
Ottawa	74.8%	260	\$128.92	8.1%
Toronto	77.1%	120	\$146.66	9.7%
Vancouver	79.1%	130	\$157.29	12.7%
Canada	66.4%	150	\$106.05	7.5%

Sources: Marcus & Millichap Research Services; STR Inc.

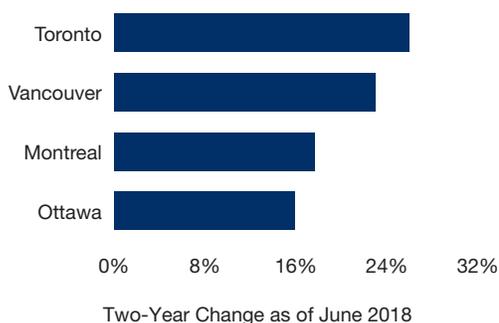
National Highlights

- New regulations for short-term rentals in Vancouver could aid hotels. The rules that went into effect September 1 state that homeowners can only put their primary residence on sites like Airbnb. Owners must also have a yearly license to list their properties. As a result of the new regulations, the number of listings on Airbnb has been cut from 6,600 in April to 3,700.
- Wildfires throughout British Columbia are affecting tourism in the area as visitors change plans and shorten trips to avoid the smoke. The B.C. government issued a state of emergency because of the fires in mid-August.
- Yukon is expecting another year of record tourism in 2018. Air travel is up 6 percent year to date in July, compared with the prior year. Many travelers are attracted to the area's recreational activities and indigenous communities.

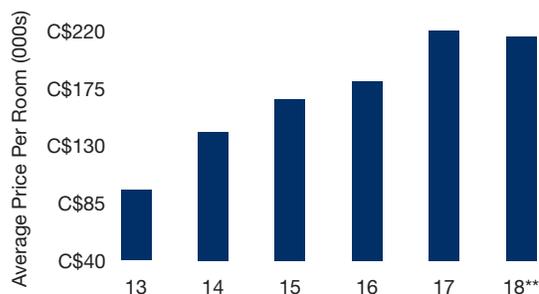
Annual Occupancy & RevPAR



RevPAR Growth



Hotel Sales



* Forecast
 ** Trailing 12 months through 2Q
 Sources: Marcus & Millichap Research Services; STR, Inc.

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Occupancy Trends

- Annual occupancy in Canada jumped 150 basis points during the past 12 months to 66.4 percent as room demand climbed 3.4 percent. Among provinces, the Northwest Territories led occupancy growth with the rate surging 280 basis points to 73.1 percent during this same time. Quebec and Newfoundland and Labrador registered the only declines.
- Ottawa led occupancy growth among Canada's largest markets. Here, the annual rate climbed 260 basis points during the past four quarters to 74.8 percent. Occupancy in Toronto and Vancouver registered similar increases during this time, rising 120 basis points to 77.1 percent and 130 basis points to 79.1 percent, respectively. Vancouver maintains the highest occupancy of the major markets. Montreal posted the only decline, falling 230 basis points to 72.0 percent.
- Amid hotel chain classes, midscale hotels outperformed the national average with occupancy surging 220 basis points during the past 12 months to 60.5 percent in June. Upper midscale hotels also garnered attention from travelers, as occupancy in this segment jumped 170 basis points during the same time period to 66.9 percent.

Revenue Trends

- Strong room demand is supporting growth in ADR and RevPAR. During the year ending in the second quarter, ADR climbed 5.1 percent to C\$158.11 while RevPAR jumped 7.5 percent to C\$106.05. During the prior year, ADR and RevPAR edged up 4.8 percent and 6.8 percent, respectively.
- Toronto and Vancouver led gains in revenue metrics during the past four quarters. In Toronto, the average daily rate increased 8.1 percent to C\$188.59 while RevPAR edged up 9.7 percent to C\$146.66. The Toronto Airport/West submarket drove these increases as ADR surged 11.3 percent and RevPAR jumped 12.4 percent. ADR in Vancouver climbed 10.6 percent during the past 12 months to C\$194.47 while RevPAR advanced 12.7 percent to C\$157.29. Every submarket in Vancouver registered RevPAR increases above 10 percent during the year ending in June.
- Luxury hotels posted the largest increase in ADR during the past 12 months, lifting 6.3 percent to C\$302.17. The rising rate contributed to a 7.3 percent increase in RevPAR to C\$216.42.

Sales Trends

- Strong revenue growth and occupancy improvement continue to sustain demand for Canadian hotels, elevating property values. During the past four quarters, hotels traded for C\$216,000 per room on average, up 5.9 percent year over year.
- The number of hotels changing hands declined from the prior 12-month period amid limited listings.
- Toronto remained a popular target among investors during the last four quarters. The majority of properties that traded here contained more than 100 rooms and were flagged hotels.

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