The State of Hotel Performance in Western Canada

Carrie Russell, Senior Managing Partner, HVS

Looking at the RevPAR growth numbers for Canada in 2018, the actual performance has exceeded our forecasted expectations, with growth expected to end the year at 5.5%. This is impressive given that 2017 was a record year for RevPAR growth in Canada at 7.7%. Demand growth remained solid and average room rate growth was driven by the compression created by rising occupancy levels. The disparity among the regions was not as pronounced in 2018 as it was in 2017 as the performance of the resource-rich provinces of Alberta and Saskatchewan improved, and only Newfoundland noted a sharp decline in RevPAR as significant new supply opened at a time of deep decline in demand.

While it is difficult to predict the pace of growth for 2019, given the recent volatility of the markets, the trade issues that are creating economic uncertainty, and potential impact of rising interest rates, there is no doubt that the Canadian hotel industry is in a very healthy position.

Looking at the fundamentals, we expect that demand growth will continue to outpace supply growth resulting in increasing occupancy rates; although it is notable that supply growth nationally is expected to increase by 1.7% in 2019, the largest increase in over 10 years. We expect a slight moderation in average room rate growth with this bump in new rooms and an increase in competition in some areas. However, we expect the overall trend to remain positive.

The country continues to benefit from the low Canadian dollar and is still the safe and welcoming destination that enjoys a positive reputation in the tourism and convention markets.

National Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2017	65.9%	$157	$103	—
2018f	66.5%	$164	$109	5.5%
2019f	67.0%	$170	$114	4.8%

Source: Historical data – STR Inc.; Forecast data – HVS

The recent performance and outlook for four major markets in Western Canada—Downtown Vancouver, Calgary, Saskatoon, and Winnipeg—are discussed below.

Downtown Vancouver Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2017	78.3%	$235	$184	—
2018f	80.2%	$259	$207	12.6%
2019f	80.2%	$277	$222	7.1%

Source: Historical data – STR Inc.; Forecast data – HVS

Downtown Vancouver RevPAR performance continued to amaze in 2018. There has long been a belief that there is a rate ceiling in the city (or country for that matter) and it appears that hoteliers are breaking through that perception and have been for several years now. RevPAR growth for the last five years has averaged just shy of 12% annually, with the vast majority of that growth coming from average room rate gains.

The city benefits from a wide range of factors and is a well-diversified market. Roughly one-third of each of accommodated demand segments comes from leisure guests, meeting and group guests, and corporate/commercial travelers. The fundamentals for each of these segments are strong and the outlook continues to be positive. Leisure travelers are drawn to the city as it continues to gain international cache and value provided by the low Canadian dollar. The convention centre has hit its stride and year over year is delivering on the goal of hosting numerous high-quality international events. The corporate/commercial element of demand is benefiting from the activity in the movie and television sector, the increasing high-tech market in Vancouver, and the activity that will be driven by the $40-billion LNG infrastructure project announced for the Kitimat region.

The big question for 2019 is this: Will hoteliers be able continue to surprise and push towards another year of double-digit RevPAR growth? Our projections for the market are somewhat tempered given the economic uncertainty facing the country, but with a forecast of 7.1% RevPAR growth for 2019, Vancouver is still expected to be leading the country in growth.

Calgary Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2017	60.1%	$143	$86	—
2018f	63.1%	$146	$92	7.3%
2019f	62.9%	$148	$93	0.7%

Source: Historical data – STR Inc.; Forecast data – HVS

On the whole, Calgary has had a strong 2018, posting RevPAR growth of 7.3%. Demand has increased by almost 4% city-wide and by a notable 10% in the airport market. Average room rates also moved from declines in 2017 to close to inflationary growth in 2018. The city experienced a robust convention year, with the largest increases in demand noted in the months of May and June, followed by a successful Stampede in July, and a strong tourism month in August. Calgary also benefits from the pre/post connections made by travelers primarily visiting Banff and the Mountain Parks.

While hotel owners and investors might be tempted to breathe a sigh of relief , the outlook for Alberta's resource economy is highly uncertain and it is unlikely that this growth pattern will repeat in 2019. While there was some optimism mid-year, as oil prices were moving higher and new capital spending on an oil sands project was announced, that optimism waned in the latter part of 2018 as oil prices slumped and all the pipeline projects that will stimulate prices for Alberta crude remain stalled.

This uncertainty also comes at a time when many developers who had expected a stronger economic rebound by now will be opening new hotels. In 2019, we expect an increase of seven new hotels and over 1,000 guestrooms; this is an 8.4% increase in supply. With this uncertain economic picture and the increase in supply, the RevPAR outlook for 2019 is expected to remain flat at best; if hoteliers get antsy and start to drop rates, we could potentially move into declining RevPAR territory.

Saskatoon Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2017	60.2%	$125	$75	—
2018f	61.1%	$122	$75	(0.9%)
2019f	63.5%	$123	$78	4.8%

Source: Historical data – STR Inc.; Forecast data – HVS

There are both some positives and negatives to note in the Saskatoon market in 2018. It was a good convention year for the city and overall demand increased by almost 5%. Supply has also increased with the opening of a dual-branded hotel at the University of Saskatchewan, but overall occupancy noted an increase. Unfortunately, the four-year trend of decreases in average room rates continued for another year, which off-set the occupancy gains, resulting in virtually no growth in RevPAR.

Growth on all fronts is expected in 2019 as there will be a limited increase in new supply in the market and the upward movement in demand continues. While strong average rate growth is not anticipated, the declining trend should cease and RevPAR is expected to increase for the first time since 2014.

It will also be a year of renovations for two major hotels downtown as the Delta undertakes a major update and rebranding to the Autograph Collection and the Radisson's renovation will convert that property to a Delta Hotel. For 2019, this means compression in the city's downtown as rooms are taken out of service and, longer term, average rate growth given an improved quality of product in the city.

Winnipeg Hotel Performance

Year	Occupancy	Average Rate	RevPAR	% Change
2017	71.1%	$123	$87	—
2018f	69.3%	$125	$87	(0.8%)
2019f	69.2%	$127	$88	1.9%

Source: Historical data – STR Inc.; Forecast data – HVS

Historically, Winnipeg has been one of the most stable markets in the country. In 2018, the market's performance was muted with a slight decline in RevPAR resulting from a softer demand growth year. This dip was anticipated as the market had experienced the strongest demand growth in the country in 2017 and construction activity was winding down on a major infrastructure project and in the residential sector. It was good to observe average room rates increasing by almost 2% in 2018, following two years of flat performance.

Looking ahead, relative stability is expected to continue for Winnipeg. There are rooms under construction in the city and supply growth is forecast at 3%. The manufacturing sector is healthy and benefits from the reassurance provided by the re-negotiation of Canada's trade deal with the US and Mexico. All this should allow demand growth to keep pace with these new rooms, resulting in stable occupancy levels. Coupled with inflationary average room rate growth, RevPAR should end the year at $88.

Conclusion

Overall, Western Canadian Lodging market had a strong year in 2018. Both Vancouver and Calgary outperformed expectations for the year. Vancouver was driven by the ability of hotels to increase their average room rates, while Calgary got a solid demand bump pushing occupancy levels up. Saskatoon and Winnipeg's performance was generally flat.

The national trend towards increasing supply of rooms will be most evident next year in Calgary and Winnipeg, which will keep performance forecasts for these cities subdued in 2019. Saskatoon is not anticipating any new hotel openings, thus the city's performance outlook is the best it has seen since 2013. Vancouver continues to lead the country in revenue growth and is not expected to move from one of the top spots nationally in 2019. The city benefits from a range of demand generators and high land cost that restrict the amount of potential new supply.

On the whole, the Canadian lodging industry is poised to continue in a positive stage of its life-cycle in 2019, although the on-going uncertainty around global economic growth could potentially impact the industry moving forward.

Carrie Russell (crussell@hvs.com) is a Senior Managing Partner at HVS Canada (www.hvs.com), a hotel consulting and appraisal firm with associates in Vancouver, Calgary, Toronto, and Montreal. She has an AACI and MAI real estate designations and has been part of the real estate and hotel industry for more than 21 years. At HVS, Carrie is involved with asset management, contract negotiation, due diligence, feasibility studies, and appraisals for hotels and resorts across Canada. Carrie obtained a Bachelor of Commerce, specializing in Tourism Management, from the University of Victoria and a Diploma in Urban Land Economics from UBC.