

Canadian October 2006 Lodging Outlook



SMITH TRAVEL RESEARCH

Going Beyond RevPAR To Determine Value

Reprint - By: Steve Rushmore, June 2006 - HVS International - New York

Many hotel consulting firms collect and publish occupancy, average rate and RevPAR data for major hotel markets around the world. While these room revenue statistics are interesting, they only provide a partial picture of a market's economic health. HVS takes this data two steps further and develops a hotel profit and loss statement for each market, and using this information, then estimates the value of a typical hotels in that market.

When these values are updated annually, hotel investors clearly can see value trends by market and also can compare the relative values among several markets. Bottom line profit and value information is always more beneficial than just revenue data.

HVS tracks hotel value trends around the world. This month I will focus on the major hotel markets in Europe and Asia. The following table shows the annual percentage change in hotel values for a number of markets.

The year 2005 was very good for value growth. Out of the 29 hotel markets tracked in Europe, only five registered a decline in hotel values during 2005. In Asia, only two out of 14 markets had a value loss. The largest loss for both continents was a 15% decline in Bali, which was the result of the two terrorist bombings in Kuta and Jimbaran in October 2005. Going back to 2003, 25 markets in Europe and 13 markets in Asia had hotel value declines. During 2005, the average hotel in Europe increased 5% in value, and in Asia hotel values rose 4%.

Because hotels possess operating leverage, during periods of strong occupancy and rate growth, value enhancement is amplified.

This was the case in 2005 when a typical hotel in Istanbul increased 32%, Moscow 22%, Budapest 12%, Hong Kong 10% and Singapore 10%. Operating leverage also can be reversed, as was the case in Jakarta during 1998 when hotel values declined more than 180% because of local political problems.

Looking in to the future, hotel values should continue to increase in most European and Asian markets. The global economy is growing, and for the most part, new hotel development is proceeding at a slow to moderate rate.

In Europe, the availability of debt financing and improved hotel operating performance eventually will lead to overbuilding, but with the typically long project approval process, it will be a number of years before many of the European hotel markets will actually become over built. The availability of debt also has been a positive factor in overall value growth as

HOTEL VALUES - % CHANGE

ASIA	1997	1998	1999	2000	2001	2002	2003	2004	2005
Tokyo	n/a	-25	8	2	-5	3	-2	4	4
Hong Kong	n/a	-63	4	20	-8	6	-5	11	10
Seoul	n/a	-21	20	5	-6	7	-4	1	4
Singapore	n/a	-9	5	10	-9	2	-6	6	10
Shanghai	n/a	-23	-12	11	3	9	0	9	5
Average	n/a	-39	4	8	-5	3	-4	6	4
Bangkok	n/a	-10	3	8	4	10	-3	5	4
Beijing	n/a	-30	-16	5	3	5	-6	13	8
Taipei	n/a	-83	5	1	-8	-3	-3	4	3
Phuket	n/a	-10	15	9	-3	-5	-5	-5	-9
Bali	n/a	-54	4	14	-3	-15	-6	14	-15
Kuala Lumpur	n/a	-77	1	23	-2	2	-5	8	5
Manila	n/a	-58	-9	-16	-13	-4	-7	0	3
Jakarta	n/a	-184	0	13	6	-12	-6	18	6
EUROPE	1997	1998	1999	2000	2001	2002	2003	2004	2005
Istanbul	34	0	-21	26	-10	-20	-10	17	32
Moscow	n/a	-20	-35	14	23	13	9	22	22
Budapest	n/a	4	11	2	-1	-3	-14	8	12
Copenhagen	16	5	8	8	-6	-3	-8	-3	10
Geneva	1	5	12	2	10	4	-8	-8	9
Zurich	n/a	10	5	6	4	-7	-5	6	8
Warsaw	n/a	2	1	1	-2	-15	-11	-13	8
London	38	2	-1	10	-13	-5	-6	12	7
Manchester	n/a	3	-3	4	3	1	-6	7	7
Dublin	n/a	-3	9	10	-8	-2	2	2	7
Paris	23	11	1	10	-6	4	-7	4	7
Amsterdam	13	11	13	22	-7	-5	-5	0	6
Stockholm	11	2	17	10	-11	-6	-7	2	5
Europe	14	6	4	11	-2	-2	-4	3	5
Brussels	13	8	2	15	-4	-8	-4	3	5
Prague	n/a	2	18	31	-1	-4	2	18	4
Vienna	-3	11	1	3	0	-1	6	1	4
Birmingham	n/a	2	5	1	-1	3	-4	8	3
Rome	16	11	1	8	-3	-2	-2	5	3
Milan	n/a	17	11	16	7	4	-1	-3	1
Madrid	17	11	10	12	-3	3	-6	-11	1
Hamburg	n/a	3	5	10	-9	4	0	1	1
Frankfurt	6	3	4	13	6	-7	-2	-4	0
Edinburgh	n/a	-1	-1	9	-5	3	-3	9	0
Berlin	11	0	15	20	4	1	-3	1	-1
Munich	n/a	16	10	10	5	-7	-8	12	-1
Barcelona	28	22	15	9	-2	1	-5	-8	-5
Athens	18	12	-5	11	-3	6	-3	7	-7
Lisbon	3	13	-3	12	0	-2	-4	3	-10

Source: HVS International



**CANADIAN LODGING OUTLOOK
HVS INTERNATIONAL - CANADA**

October 2006	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
		2006	2005	2006	2005	2006	2005		
Nova Scotia Area	1,199	62.6%	63.2%	\$97.03	\$85.10	\$60.74	\$53.78	2.0%	1.1%
Halifax, NS	3,162	74.9%	77.8%	\$130.39	\$130.45	\$97.66	\$101.49	0.0%	-3.7%
Montreal Downtown	9,844	73.2%	79.0%	\$154.13	\$159.12	\$112.82	\$125.70	2.7%	-4.8%
Montreal Area	5,034	69.4%	68.8%	\$105.50	\$100.81	\$73.22	\$69.36	0.4%	1.4%
Quebec City, QC	3,833	71.2%	71.9%	\$147.10	\$143.35	\$104.74	\$103.07	0.0%	-1.1%
Quebec Area	5,661	58.2%	58.4%	\$114.98	\$112.45	\$66.92	\$65.67	0.6%	0.2%
Toronto Downtown	13,242	73.7%	76.0%	\$181.19	\$170.05	\$133.54	\$129.24	0.5%	-2.5%
Toronto North/East	6,279	67.8%	67.5%	\$118.79	\$112.47	\$80.54	\$75.92	3.2%	3.5%
Toronto Airport/West	7,897	69.0%	67.9%	\$115.36	\$113.58	\$79.60	\$77.12	3.3%	5.0%
Ottawa, ON	6,434	77.5%	73.0%	\$135.39	\$134.95	\$104.93	\$98.51	0.0%	6.1%
Ontario East	4,089	59.8%	64.9%	\$101.53	\$96.06	\$60.71	\$62.34	0.3%	-7.6%
Windsor/ Ontario SW	2,997	53.1%	55.5%	\$96.30	\$96.88	\$51.14	\$53.77	1.1%	-3.3%
London/ Kitchener	6,102	64.5%	64.5%	\$103.00	\$99.37	\$66.44	\$64.09	1.9%	2.1%
Ontario North/ Thunder Bay	1,702	66.8%	64.6%	\$90.65	\$82.32	\$60.55	\$53.18	0.0%	3.3%
Ontario NC/ Sudbury	4,179	65.7%	65.8%	\$102.05	\$99.34	\$67.05	\$65.37	1.8%	1.6%
Niagara Falls, ON	9,115	65.1%	64.1%	\$131.13	\$129.32	\$85.37	\$82.89	4.0%	5.7%
Ontario Central	3,125	58.1%	58.8%	\$105.88	\$95.71	\$61.52	\$56.28	5.2%	3.9%
Mississauga, ON	5,766	60.8%	60.4%	\$109.55	\$105.45	\$66.61	\$63.69	4.1%	4.7%
Winnipeg, MB	3,792	72.8%	69.6%	\$96.84	\$95.84	\$70.50	\$66.70	0.0%	4.6%
Regina/Saskatoon, SK	4,344	71.0%	69.6%	\$103.51	\$93.92	\$73.49	\$65.37	0.0%	2.1%
Calgary, AB	8,418	75.4%	73.3%	\$129.65	\$116.91	\$97.76	\$85.70	0.9%	3.7%
Edmonton, AB	7,277	75.6%	70.4%	\$110.77	\$103.75	\$83.74	\$73.04	1.8%	9.4%
Alberta North Area	2,513	75.2%	74.6%	\$134.92	\$116.14	\$101.46	\$86.64	1.3%	2.1%
Alberta South Area	6,537	65.4%	68.0%	\$118.05	\$115.46	\$77.20	\$78.51	1.9%	-2.0%
Vancouver Downtown	7,411	75.3%	71.0%	\$150.26	\$145.56	\$113.15	\$103.35	0.0%	6.0%
Vancouver/ Burnaby Area	2,228	69.9%	62.7%	\$101.46	\$94.73	\$70.92	\$59.40	0.0%	11.6%
Richmond-Surrey/ East Area	5,762	69.8%	63.5%	\$100.43	\$89.27	\$70.10	\$56.69	-3.5%	6.0%
British Columbia Area	5,587	45.5%	44.5%	\$113.33	\$106.37	\$51.57	\$47.33	1.8%	4.0%
Kamloops/ Kelowna Area	4,681	53.4%	50.1%	\$93.69	\$86.70	\$50.03	\$43.44	1.8%	8.5%
Vancouver Island	3,991	65.4%	60.5%	\$112.16	\$104.83	\$73.35	\$63.42	0.8%	8.8%
Provinces									
Alberta	24,745	72.8%	71.2%	\$121.68	\$112.69	\$88.58	\$80.24	1.5%	3.8%
British Columbia	29,413	63.5%	59.7%	\$117.79	\$111.69	\$74.80	\$66.68	0.8%	7.1%
Manitoba	4,687	69.9%	66.9%	\$95.72	\$92.98	\$66.91	\$62.20	0.0%	4.5%
New Brunswick	3,700	63.0%	61.1%	\$105.00	\$102.68	\$66.15	\$62.74	0.9%	4.1%
Newfoundland	1,751	65.4%	68.4%	\$117.80	\$113.62	\$77.04	\$77.72	1.1%	-3.3%
Nova Scotia	4,361	71.5%	74.2%	\$122.34	\$120.89	\$87.47	\$89.70	1.2%	-2.4%
Northwest Territories	66	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	70,927	67.1%	67.2%	\$128.85	\$123.89	\$86.46	\$83.25	2.0%	1.8%
Prince Edward Island	889	53.4%	54.4%	\$102.17	\$97.33	\$54.56	\$52.95	0.0%	-1.9%
Quebec	24,372	68.6%	71.2%	\$135.15	\$136.52	\$92.71	\$97.20	0.8%	-2.8%
Saskatchewan	5,910	69.8%	66.6%	\$98.04	\$89.35	\$68.43	\$59.51	0.3%	5.0%
Yukon Territory	181	INS	INS	INS	INS	INS	INS	INS	INS
Canada	171,002	61.9%	60.5%	\$109.43	\$103.07	\$67.74	\$62.36	1.2%	3.6%

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Quebec Area	5,661	58.3%	59.5%	\$121.52	\$118.34	\$70.85	\$70.41	0.7%	-1.3%
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CANADIAN LODGING OUTLOOK HVS INTERNATIONAL - CANADA

the lower cost of capital depresses hotel capitalization rates and pushes values up.

The Asian hotel market appears to have fully recovered from the effects of the tsunami. Avian influenza continues to have a minor impact on some markets, and potential for continued terrorist attacks is always on people's minds. Off setting these negative influences is the proliferation of budget airlines throughout the region, which enables more of the area's middle-class to start traveling.

In addition, many Asian countries, especially China and India, are making huge investments in infrastructure such as highways, airports and convention centers, which will further encourage tourism, business and convention travel. As with Europe, the threat of over building does not seem to be an issue. While some markets might be approaching saturation in the 5-star hotel category, I think there is plenty of development opportunity with mid-market product. The global hotel

industry is thriving. Having attended many of the hotel investment conferences around the world, almost everyone is very optimistic about future value trends. We have learned that events such as terrorist attacks, outbreaks of flu and disasters like tsunamis have only a brief, transitory effect on hotel values. In the long run, hotels offer an excellent investment vehicle for those looking for value enhancement. ♦

DEFINITIONS

Occupancy:	Rooms sold divided by rooms available.
Room Revenue:	Total room revenue generated from the sale or rental of rooms.
Average Daily Rate (ADR):	Room revenue divided by rooms sold.
Room Revenue Per Available Room (RevPAR):	Room revenue divided by rooms available (occupancy times average room rate will closely approximate RevPAR).

*If you have any questions regarding this publication please send a message to bmacdonald@hvsinternational.com
Web Site: <http://www.hvsinternational.com>*

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Vancouver Office
Suite 400 - 145 West 17th Street
North Vancouver, BC
Canada BC V7M 3G4
(604) 988-9743
(604) 988-4625 fax

Toronto Office
6 Victoria Street
Toronto, ON
Canada M5E 1L4
(416) 686-2260
(416) 686-2264 fax

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OFFICE:
735 E. Main St.,
Hendersonville, TN 37075
(615) 824-8664



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OFFICE:
Anthony Pollard,
1206-130 Albert Street,
Ottawa, Ontario K1P 5G4
(613) 237-7149

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