

Canadian Construction Pipeline At a High in Q1 2008 with 265 Projects/33,964 Guestrooms

2008-05-21

Lodging Econometrics (LE) announced that Canada's Construction Pipeline totaled 265 projects and 33,964 guestrooms at the end of Q1 2008, a high for the cycle.

LE President Patrick Ford noted, 'Hotel construction in Canada has been solid. The total number of guestrooms in the Pipeline grew for an eighth consecutive quarter, and is up 14.2% year-over-year.' All projects included in the LE Pipeline have dedicated land parcels, are being actively pursued by developers and have been verified by the brands.

Total Construction Pipeline – Canada							
	At Q1 07		At Q1 08		Variance		YoY % Change
	Projs	Rms	Projs	Rms	Projs	Rms	Rms
Under Construction	95	11,936	89	12,340	-6	404	3.4%
Scheduled Starts Next 12 Mos	83	9,906	93	11,649	10	1,743	17.6%
Early Planning	69	7,905	83	9,975	14	2,070	26.2%
Total Construction Pipeline	247	29,747	265	33,964	18	4,217	14.2%

Source: Lodging Econometrics, Portsmouth, NH, USA, The Global Authority for Hotel Real Estate.

Ford said, 'The total Pipeline appears to have reached its peak, as project and room counts have held steady for the past three quarters. Those to Start Construction in the Next 12 Months, 93 projects/11,649 rooms, and those in Early Planning, 83 projects/9,975 rooms, are at highs for the cycle. Meanwhile, the totals for Under Construction, 89 projects/12,340 rooms, are down from the cyclical peak established in Q2 2007.'

Several Factors Have Developers Becoming Cautious

Certain dynamics have aligned to cause developer caution. The Bank of Canada instituted three consecutive decreases to its key interest rate since December 2007, down a quarter-point in both December and January, then a further half-point in February, indicating concern about a slowing in the economy. Hotel operating statistics were strong in 2006 and 2007, however, a continued decline in visitors from the United States due to the low US Dollar, higher gasoline costs and reductions in discretionary spending, along with indications that domestic travel is apt to decline as well, mean that guestroom demand is likely to soften moving forward.

With these emerging concerns, it appears that hotel developers are taking a cautious approach for the moment. The number of New Projects announced into the Pipeline, 15 projects/2,038 rooms in Q1 2008, represents a 58.3% decrease from Q4 2007 for both projects and rooms. It is the smallest count seen in over three years.

Construction Starts for Q1 2008 totaled just 9 projects/1,329 guestrooms. Although first quarter Construction Starts are historically slower than the rest of the year, the counts for Q1 2008 are at a very low level. Projects already in the Pipeline are proceeding at a sluggish pace, with projects backlogged in the Scheduled Starts and Early Planning stages, suggesting that developers are more conservative and taking a wait-and-see approach.

LE's Forecast for New Hotel Openings

LE's Forecast for New Hotel Openings estimates that 82 projects having 9,554 rooms will come online in 2008, while 88 projects/10,807 rooms are slated for 2009, with 12,340 rooms already Under Construction. This represents a gross growth rate of 3.5% and 3.8%, respectively, before any guestrooms are removed from inventory. Net New Supply grew 2.0% in 2006 and 1.9% in 2007. Currently, The Pipeline, growing throughout the decade, is beginning to unfold just as demand is modestly starting to soften.

Development is Concentrated in Key Markets

Of the 33,964 rooms in the total Pipeline, only 16% of those rooms are full-service, with 57% in the select or limited service segments. Another 27% is currently designated as Independent. Approximately 70% of those rooms in the Independent segment will choose a brand prior to opening, mostly in the select and limited service category.

The bulk of hotel development is in the Central and Western regions. Ontario leads the Central provinces in terms of pipeline counts, with 94 projects/14,072 rooms, while Quebec has 25 projects/3,800 rooms. In the Western Region, Alberta, with 61 projects/6,457 rooms, and British Columbia, with 44 projects/5,430 rooms, have the largest provincial pipelines.

Ten markets have the significant share of the Pipeline. In these markets, there are 123 projects/18,902 rooms, or 56% of the total Pipeline. In Ontario, Toronto leads with 34 projects/5,946 rooms, with Niagara Falls second at 13 projects/3,013 rooms. In Quebec, Montreal's pipeline stands at 11 projects/1,786 rooms. For the Western Region, Vancouver, at 19 projects/2,628 rooms, Edmonton, at 13 projects/1,526 rooms, and Calgary, at 10 projects/1,486 rooms have the largest pipelines. All other markets have six or fewer projects.

Global Brands Lead the Way

Global brands currently make up 72% of projects within the total Pipeline. InterContinental leads with 55 projects/5,626 rooms, with 40 Holiday Inn Express' and 9 Holiday Inns. Marriott International has 28 projects/4,115 rooms under development, 15 of which are Residence Inn and Fairfield Inn properties. Hilton Hotels follows, with 24 projects/3,701 rooms, then Starwood Hotels & Resorts with 15 projects/3,021 rooms. Super 8 accounts for 31 projects/2,184 rooms of Wyndham Worldwide's total pipeline, most of which are being developed by master franchisor, Superior Lodging Corporation.

It's a Time of Transition

After rapid growth mid-decade, the Construction Pipeline may be at its cyclical peak. The economy appears to be moderating and lodging demand slowing, yet New Openings flowing from the Pipeline will be accelerating throughout 2008 and 2009.

Developers have sensed the economic transition and turned cautious, as both New Project Announcements and movement within the Pipeline are slowing. It's early in the transition. More time will be required to assess trends for the near term.

Lodging Econometrics (LE) of Portsmouth, NH is the global authority for hotel real estate. LE conducts Supply Side research for all markets, developers and brands and companies in: U.S., Canada, Mexico, Central America and the Caribbean, Europe, Asia, Middle East, South America, and Africa.

This article comes from Hotel News Resource

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