

# Canadian August 2008 Lodging Outlook



## HVS



SMITH TRAVEL RESEARCH

## Toronto Hotels Go Lux

By: Paul Varteressian - HVS Canada

Commencing in 2009, eight boutique and luxury hotels of the highest quality will enter the Toronto lodging market. The new supply will be geographically dispersed and will undoubtedly enhance the overall quality of Toronto's lodging market. From an economic perspective, however, the luxury and boutique markets will both face a surplus of supply with unproven demand to match the high-end market in Toronto is fairly small at the moment, and the onslaught of new supply will entirely redefine the city's lodging landscape. As such, market equilibrium will elude Toronto's high-end lodging market for some time.

Since the Hazelton Hotel opened in August 2007, it has enjoyed a monopoly on Toronto's most affluent lodging clientele because of its well-deserved title as the only five-star property in the city. The Hazelton will soon face healthy competition when the luxury segment expands dramatically, commencing in 2010 with the addition of four luxury hotels, all of which are currently under construction and moving forward.

The luxury hotel market will comprise the existing 77-unit Hazelton Hotel, the new 260-key Four Seasons, the 267-key Ritz-Carlton, the 200-key Shangri-La Hotel, and the 256-key Trump International Hotel & Tower. By 2013, five luxury hotels and 1,060 lavish guestrooms will compete on a daily basis for affluent transient and group demand; however, a

dramatic expansion of the boutique market, which also targets the wealthy, will further complicate this competitive environment.

Numerous boutique hotels have been developed in Toronto over the past several years, but this segment is still in its infancy. Beginning in 2009, however, Toronto's boutique market will begin to expand with the opening of the 120-key Thompson Hotel in Toronto's entertainment district. The 160-key Hotel Le Germain Maple Leaf Square, the 161-key Boutique Hotel at One Bloor Street East, and the 150-key Hotel Gansevoort will soon follow.

Three distinct geographic areas have been deemed appropriate for luxury and boutique hotel developments: Toronto's entertainment district, the financial and primary business district, and Yorkville/Bloor Street. These areas are considered to be either affluent or trendy and proximate to the city's primary corporate and leisure demand generators, which are so important to the success of a hotel.

Can lodging demand growth keep pace with a market that will be required to absorb an additional 1,574 luxury and upscale boutique guestrooms daily, or 574,510 guestrooms annually, by 2013? Historically, the upper-upscale and boutique markets combined have achieved annual occupancies around the high sixty

percent range, which is relevant to predicting the future performance of the market at a stabilized level; however, it must be kept in mind that Toronto's upper-upscale boutique and luxury hotel markets are mostly unproven relative to the upscale market. There is some evidence that supports the potential success of the new product, notably the stabilized performance of the Hotel Le Germain and the SoHo Metropolitan, which have been able to capture more than their fair share of overall demand while achieving average room rates at the top end of the market.

Construction pipelines can change, particularly in a liquidity crisis and a credit crunch, but, assuming that all eight projects are adequately financed, at least one luxury or boutique hotel will open every year for five years starting in 2009. The bulk of the rooms are scheduled to open in 2011 and 2012. This means that occupancies will contract as each new hotel is added. The industry will require additional time to stabilize, and it will be a slow process before all eight hotels are performing to the high standard set by their aesthetic values and quality.

It is an exciting time for Toronto's hotel industry. As the skyline slowly changes, an entirely new hotel market is being born. Nevertheless, those invested in the success of either the luxury or boutique market will need patience to see it through to profitability and stabilization. ▲

August 2008	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply	Room Demand
		2008	2007	2008	2007	2008	2007	% chg	% chg
Nova Scotia Area	1,619	76.1%	81.9%	\$118.21	\$114.91	\$89.96	\$94.11	3.1%	-4.2%
Halifax, NS	3,561	84.8%	81.4%	\$142.89	\$131.64	\$121.17	\$107.15	-1.3%	2.8%
Montreal Downtown	10,010	81.3%	81.7%	\$152.70	\$145.30	\$124.15	\$118.71	2.5%	2.0%
Montreal Area	5,898	72.6%	74.1%	\$103.46	\$106.52	\$75.11	\$78.93	5.4%	3.2%
Quebec City, QC	4,164	91.8%	83.1%	\$191.21	\$156.86	\$175.53	\$130.35	2.7%	13.3%
Quebec Area	5,797	73.8%	73.6%	\$135.13	\$132.48	\$99.73	\$97.51	-0.1%	0.1%
Toronto Downtown	13,826	81.5%	77.4%	\$153.13	\$157.24	\$124.80	\$121.70	0.0%	5.3%
Toronto North/East	6,800	76.8%	78.0%	\$115.52	\$114.79	\$88.72	\$89.54	2.0%	0.4%
Toronto Airport/West	8,076	70.0%	72.1%	\$107.64	\$108.02	\$75.35	\$77.88	3.2%	0.2%
Ottawa, ON	6,728	78.6%	75.0%	\$130.66	\$128.75	\$102.70	\$96.56	1.7%	6.7%
Ontario East	4,455	73.3%	77.0%	\$119.67	\$117.02	\$87.72	\$90.11	1.0%	-3.8%
Windsor/ Ontario SW	3,757	61.1%	63.2%	\$112.49	\$107.14	\$68.73	\$67.71	7.0%	3.5%
London/ Kitchener	7,425	59.1%	65.2%	\$107.82	\$104.72	\$63.72	\$68.28	3.3%	-6.4%
Ontario North/ Thunder Bay	1,975	79.2%	79.8%	\$98.99	\$95.08	\$78.40	\$75.87	-0.4%	-1.1%
Ontario NC/ Sudbury	4,568	74.4%	73.0%	\$125.56	\$123.20	\$93.42	\$89.94	0.0%	2.0%
Niagara Falls, ON	9,659	89.7%	86.9%	\$174.09	\$176.50	\$156.16	\$153.38	-0.8%	2.4%
Ontario Central	3,959	75.3%	71.2%	\$118.76	\$117.22	\$89.43	\$83.46	2.4%	8.3%
Mississauga, ON	5,907	67.7%	70.9%	\$107.45	\$105.63	\$72.74	\$74.89	0.3%	-4.2%
Winnipeg, MB	3,419	72.2%	68.8%	\$108.63	\$98.93	\$78.43	\$68.06	-0.9%	4.0%
Regina/Saskatoon, SK	4,573	72.2%	73.3%	\$114.38	\$102.33	\$82.58	\$75.01	2.2%	0.8%
Calgary, AB	8,486	79.0%	80.3%	\$146.12	\$140.81	\$115.43	\$113.07	0.9%	-0.7%
Edmonton, AB	8,293	75.8%	79.8%	\$119.31	\$121.22	\$90.44	\$96.73	4.9%	-0.4%
Alberta North Area	3,623	74.2%	79.9%	\$185.71	\$185.69	\$137.80	\$148.37	4.2%	-3.3%
Alberta South Area	9,608	78.0%	79.4%	\$176.44	\$176.56	\$137.62	\$140.19	2.8%	1.0%
Vancouver Downtown	8,361	87.6%	88.5%	\$193.05	\$192.45	\$169.11	\$170.32	0.9%	-0.2%
Vancouver/ Burnaby Area	1,853	88.7%	91.5%	\$136.75	\$130.02	\$121.30	\$118.97	0.0%	-3.1%
Richmond-Surrey/ East Area	6,232	79.5%	82.9%	\$124.34	\$122.08	\$98.85	\$101.20	1.1%	-3.1%
British Columbia Area	6,369	67.5%	71.6%	\$140.87	\$140.23	\$95.09	\$100.40	0.0%	-5.7%
Kamloops/ Kelowna Area	4,304	79.9%	82.6%	\$139.15	\$136.83	\$111.18	\$113.02	0.7%	-2.5%
Vancouver Island	4,202	83.2%	85.8%	\$158.74	\$166.32	\$132.07	\$142.70	1.5%	-1.6%
<b>Provinces</b>									
Alberta	30,010	76.0%	78.1%	\$141.36	\$138.43	\$107.43	\$108.11	3.2%	0.4%
British Columbia	30,532	78.1%	80.8%	\$139.63	\$136.06	\$109.05	\$109.94	0.7%	-2.6%
Manitoba	4,342	67.0%	69.3%	\$95.69	\$82.60	\$64.11	\$57.24	-0.5%	-3.8%
New Brunswick	4,428	73.4%	73.9%	\$111.83	\$106.88	\$82.08	\$78.98	6.9%	6.1%
Newfoundland	1,833	89.3%	87.9%	\$119.69	\$115.64	\$106.88	\$101.65	0.0%	1.5%
Nova Scotia	5,180	77.8%	73.7%	\$126.40	\$117.74	\$98.34	\$86.77	1.4%	6.9%
Northwest Territories	58	INS	INS	INS	INS	INS	INS	INS	INS
Ontario	77,135	73.7%	74.2%	\$122.91	\$120.78	\$90.58	\$89.62	1.2%	0.5%
Prince Edward Island	1,004	84.9%	83.9%	\$131.09	\$126.36	\$111.30	\$106.02	-0.6%	0.5%
Quebec	25,869	77.0%	76.2%	\$128.09	\$120.53	\$98.63	\$91.84	1.6%	2.7%
Saskatchewan	6,334	75.9%	71.5%	\$96.40	\$90.79	\$73.17	\$64.91	1.2%	7.3%
Yukon Territory	731	75.5%	78.7%	\$110.78	\$109.00	\$83.64	\$85.78	-3.2%	-7.1%
Canada	187,456	75.5%	76.0%	\$128.87	\$123.90	\$97.30	\$94.16	1.5%	0.9%

August 2008 Year-To-Date	Number of Rooms	Occupancy Rate (%)		Average Room Rates (in \$CAD)		RevPAR (in \$CAD)		Room Supply % chg	Room Demand % chg
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Halifax, NS	3,561	68.2%	69.6%	\$130.61	\$126.19	\$89.08	\$87.83	1.3%	-0.7%
Montreal Downtown	10,010	64.2%	66.7%	\$149.81	\$149.84	\$96.18	\$99.94	2.8%	-1.0%
Montreal Area	5,898	60.7%	64.0%	\$106.04	\$106.82	\$64.37	\$68.36	4.6%	-0.9%
Quebec City, QC	4,164	70.7%	64.3%	\$156.84	\$136.06	\$110.89	\$87.49	1.9%	12.0%
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Windsor/ Ontario SW	3,757	54.2%	53.9%	\$107.07	\$101.85	\$58.03	\$54.90	2.8%	3.2%
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**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@hvs.com](mailto:bmacdonald@hvs.com)  
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