

Canadian hospitality trends 2016

Observations from the Toronto
Hospitality Sector Roundtable



About this report

EY surveyed representatives from the hospitality sector in Canada, including hotel owners, operators, developers and consultants, and brought together six Canadian-focused hospitality brands, eight international focused hospitality brands, as well as other market contributors to discuss the survey results and other industry trends.

Our survey results focused on investment, development, supply, technology and operations affecting the Canadian hotel market.

All respondent and participants' names have been kept confidential, and their responses were only used in combination with others to protect anonymity.

EY would like to thank those who took time to complete the survey and who attended our Toronto Hospitality Sector Roundtable.

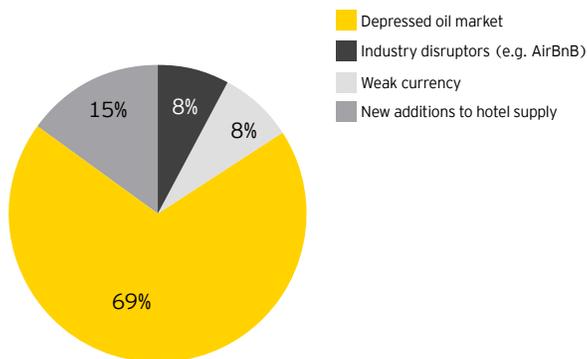
If you have questions about the survey or the Hospitality Sector Roundtable, please contact Zach Pendley at zach.pendley@ca.ey.com.



Market trends and investment

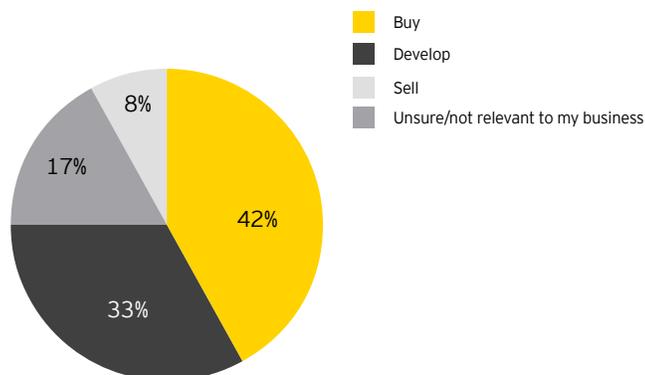
The sustained impact of oil prices has the continued attention of hospitality leaders, not only in Canada, but globally. Survey results indicated that 69% of respondents felt that the depressed oil markets were currently having the greatest impact on their business.

Which of the following has the greatest implication on your business?



Despite this, the national outlook for the market remains positive, with over 75% of respondents indicating that they plan to explore purchasing or developing new properties in 2017.

Which of the following do you anticipate your investment strategy to be in 2017?

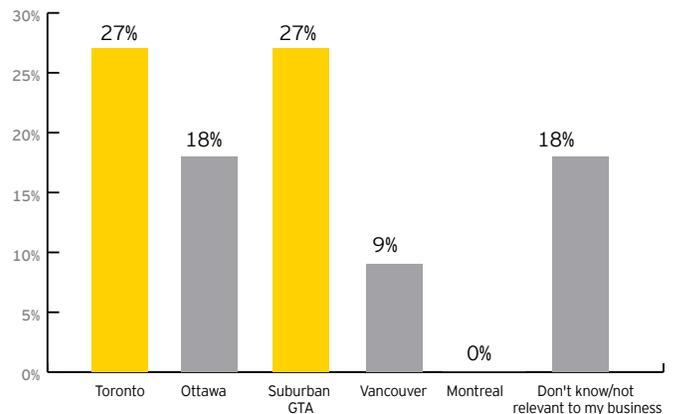


Outside of Calgary, the general consensus was that markets in Canada will remain strong under moderate supply growth as demand continues to increase and RevPAR continues on an upward trend.

It is important, however, to pinpoint where this development and investment may be likely to occur.

Certainly, it is evident that investment in Alberta properties is slowing for the foreseeable future, and the survey results also show a lack of potential activity in Montreal. Investors seem keen on increasing their focus on markets outside of urban centres as responses related to the suburban Greater Toronto Area (GTA) indicate. The expansion of public transit, as well as the ability to “chase businesses vacating the downtown core,” paint a compelling portrait of the potential for increased demand in these markets.

Which Canadian market is ripe for development in 2017?



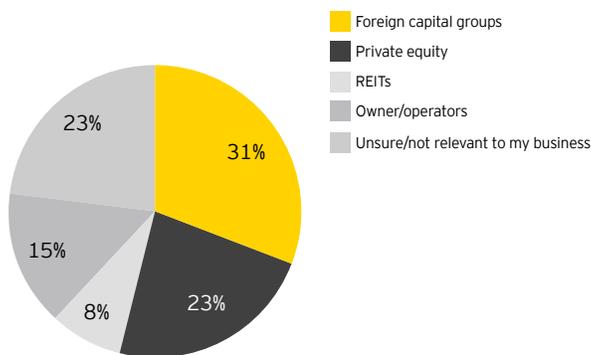


Transactions/Capital Markets

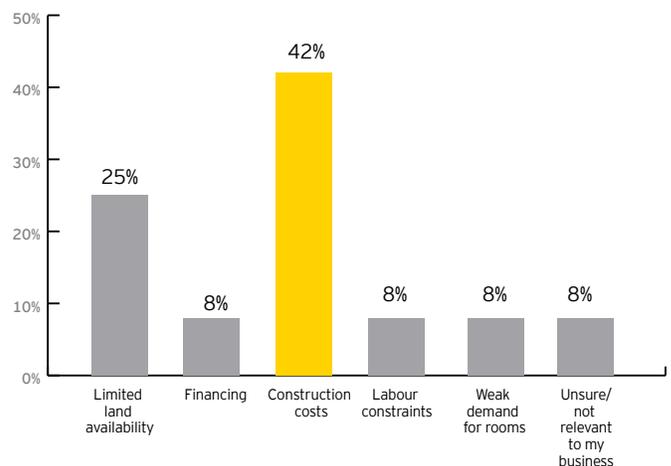
Although foreign inbound capital has been making major headlines in the past two years, the domestic attitude towards transactions remains robust. However, foreign buyers may be pushing up the price of existing stock.

The weak Canadian dollar that helps operational revenue may be having an adverse effect on the ability of Canadian companies to purchase hotels. At the same time, the scarcity of land and prohibitive construction costs may be forcing owners to remain competitive acquirers of existing properties, as opposed to developers of new ones.

Which of the following investment groups have you faced the greatest competition in terms of acquisitions pricing?



What represents the biggest hurdle to domestic development?



Total hotel purchases in Canada in 2015 totalled \$2.3b, with an estimated 8% to 9% coming from Asian investors.¹

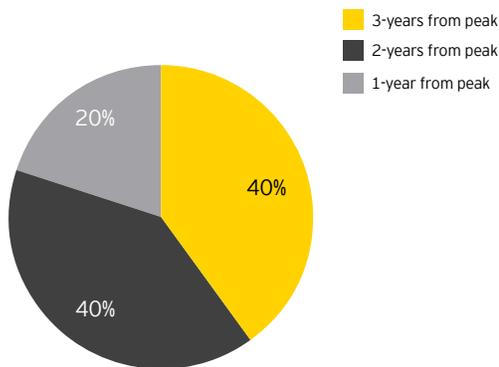


¹ http://business.financialpost.com/news/property-post/hong-kongs-bluesky-buys-invest-reit-for-2-1-billion-winning-stake-in-canadas-most-historic-hotels?_lsa=d6a3-a6e9



According to survey results, the lodging market is likely two to three years away from being at peak, with not a single respondent believing that the market was already there.

Where are we currently in the lodging cycle?

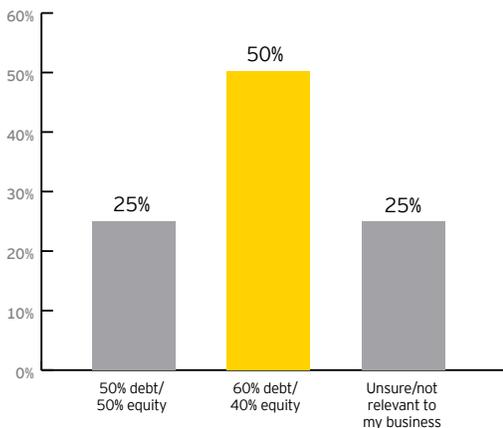


Taking into consideration that brands tend to no longer be grown “organically,” the availability of capital – both debt and equity – and the prevailing perception that market fundamentals remain strong, acquisitions that result in the creation of scale remain on the front burner for many organizations.

YTD 2016 transactions have totalled \$717.1m (which does not include the impact of Bluesky’s acquisition of InnVest REIT). Taking that \$2.1b acquisition into account, transaction volume in 2016 is on a record pace.²



For those acquiring hotels over the past 18 months, which of the following most closely represents the capital structure of the deal?



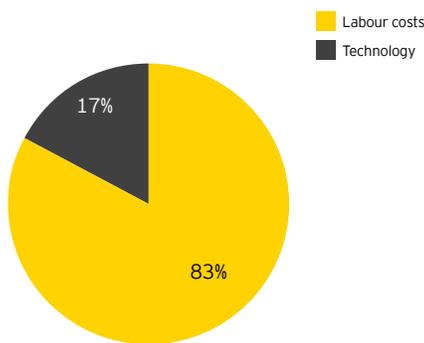
² Colliers INNvestment Canada, Q2-2016 mid-year transaction report



Operations

Labour costs were identified in the survey as top-of-mind as it relates to generating profit, but in an increasingly competitive market, customer loyalty cannot be ignored.

Which of the following costs have the greatest impact on the bottom line?



Rewards programs have been identified as a crucial tool in driving brand loyalty and customer data gathering. A successful and well-run loyalty program can add tremendous value to a brand and be an effective tool in winning customers in a world where disruptors have become fierce competitors.

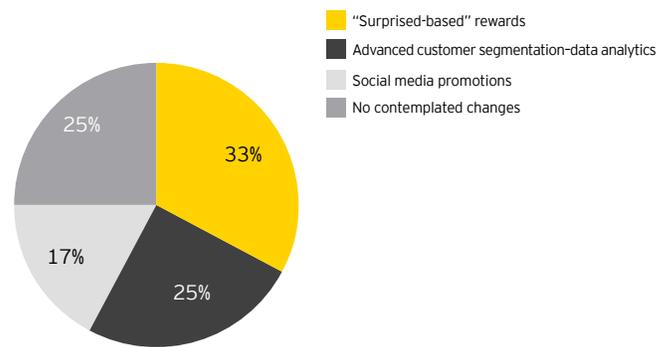
Several major chains have taken an approach where top-tier loyalty status can now become easier to achieve in the hopes it will have an even greater impact on customer retention. In addition, rewards programs have been expanded beyond the “free night” model.

“One reason Marriott has been aggressively campaigning for the deal was Starwood’s highly successful loyalty program.”³



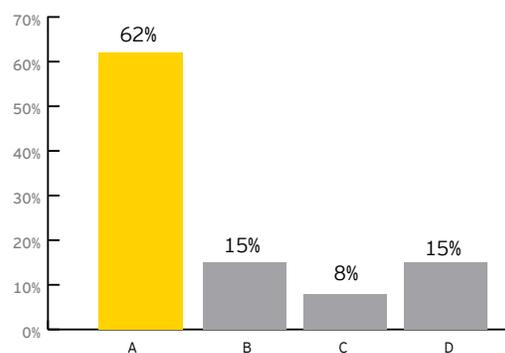
Customers now expect more from loyalty programs, and providers have responded by offering “experiential rewards.”

What enhancements are you currently exploring to your loyalty programs to attract and retain guests?



Although loyalty programs are widely used, guest satisfaction remains paramount to the industry. Survey respondents agreed that this cannot be achieved without experienced operators at the helm.

In your experience, which of the following investments has the greatest return on guest satisfaction?



A: Deployment of experienced operators to drive engagement at properties.
 B: Mobile applications to understand guest preferences.
 C: Data analytics to understand guest preferences.
 D: Use of social media/peer review sites to solicit guest feedback.

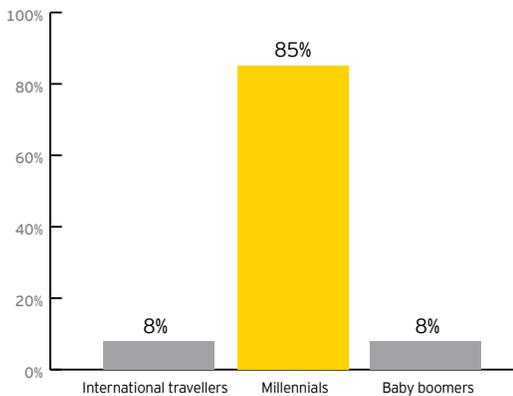
³ <http://fortune.com/2016/04/01/marriott-ceo-tells-starwood-points-holders-not-to-worry/>



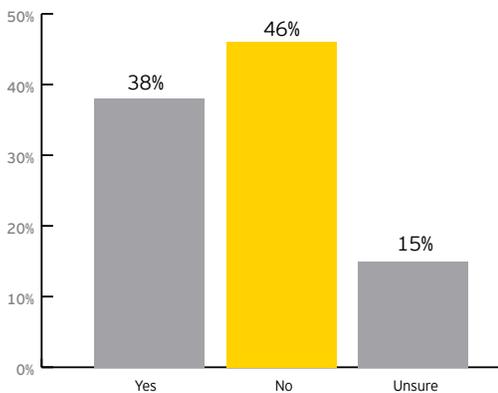
Industry focus

A large majority (85%) of survey respondents indicated that millennials have caused them to rethink their business models and view “sharing economy” platforms such as AirBnB as a legitimate threat to their business.

Which of the following groups have made you rethink your existing business model?



Do you view the “sharing economy” (e.g., AirBnB) as a threat to your properties' performance (e.g., lost market share)?

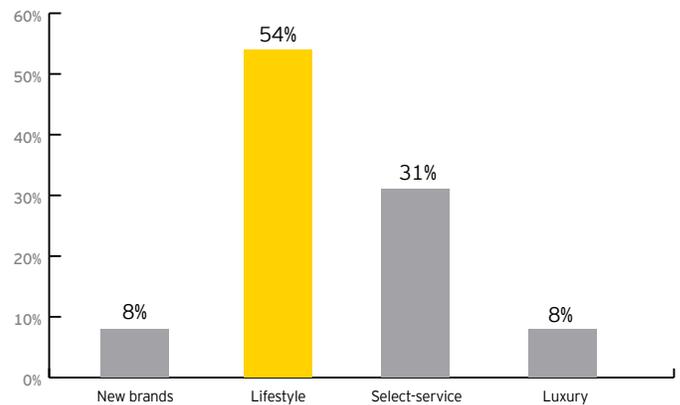


Attendees noted that a mobile app created a new way to communicate with and gather data on customers, and could entirely change the operating platform of the hotel, allowing such changes as the potential elimination of the front desk and ultimately a savings in overhead.

Operators and owners have become increasingly concerned with developing mobile apps and new innovative experiences in order to attract this “very unloyal” group of customers.

Respondents identified lifestyle brands as an investment priority, seemingly indicating that this would be the preference of this customer base.

Which lodging product is ripe for investment in 2016?



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