



Horwath HTL

Hotel, Tourism and Leisure

MARKET REPORT

Canada Hotel Market: *1st Quarter 2019*

*The Price Divide - Identifying the Sweet
Spot within the Luxury Hotel Market*

MAY 2019

Introduction

Within the hospitality real estate sector, it is commonplace for hotel developers, owners, and lending institutions to target to optimal product positioning for the hotel asset under consideration.

The question remains as to where should a hotel asset be positioned, and how does that positioning relate to the overall competitive marketplace. This is even more pertinent within the luxury hospitality landscape, where several jargons make it virtually impossible for an outsider to differentiate between the various levels of luxury in the hotel industry.

According to Smith Travel Research (STR), luxury hotel brands represent the top 15% of hotels globally and are those with the highest recorded average daily rate (ADR) worldwide. However, digging deeper, even within this segment, we note the existence of several pricing levels.

This special market report aims to elaborate and to differentiate between the high-end luxury hotels as compared to the boutique luxury hotels, both operating within the Canadian landscape. The report also aims to determine key performance indicators, with a focus on the cities of Toronto and Montréal.

High-End Luxury Hotels

At the core of the high-end luxury hotel marketplace, we noted three distinguishing value traits:

Uniqueness of Product:

Physical attributes are key in allowing such hotels to operate within this niche market space, and involve obtaining a distinctive location (either a bespoke remote location or within the heart of a bustling city), the integration of luxurious materials within the premises, and operating the hotel with established and somewhat traditional skills and knowledge corresponding to the calibre of the product.

Brand Imagery:

Hotel product image is as important, if not more important, than the physical product itself. What the brand is able to convey through advertising, marketing campaigns and communication to the consumer is an important aspect when choosing a brand.

Consumers often associate brand names with a certain class and level of service, and this aspect extends itself to the various aspects of luxury marketing and not just hotels.

Brands such as Ferrari cars and Rolex watches immediately conjure an image of luxury within the mind of the consumer. A hotel brand associated with a high level of service, luxurious product and amenities effectively allows its hotels to differentiate themselves from the others within the marketplace.

High Price Point:

Apart from the structural and service aspects of the hotel component, the high price point is a key differentiator for high-end luxury hotels. The price-based approach ensures that a brand maintains exclusivity in attaining a certain level of affluence in clientele, while supporting this with adequate levels of service and amenities.

Hotels positioned within the high-end luxury marketplace are usually characterised by the following concepts, amenities and services:

- Typically benefiting from a landmark location, or an extremely discreet / remote location for a resort.
- Typically range in size between 200 and 300 guestrooms.
- Typically feature classical or traditional design, softer tones in fabric and furniture, and elegant and sophisticated art features.
- Service is typically discreet, with personnel pre-empting the needs of the hotel guests.
- Global brand standards are strictly adhered to, especially in terms of design and service.
- High focus on amenities within the guestrooms and public spaces. These hotels typically include a luxury spa and signature food and beverage (F&B) concepts, amongst others.

Renowned brands within the high-end luxury marketplace include Four Seasons, Ritz-Carlton, Shangri-La Hotels, St. Regis, Mandarin Oriental, Waldorf Astoria, Rosewood Hotels, Grand Hyatt, and several others across the globe.



Ritz Carlton, Toronto



Rosewood, Vancouver



Shangri La, Toronto

High-End Luxury Hotels: Key Trends

Trends within the high-end luxury marketplace are geared towards ensuring a hassle-free and much more personalised experience. Apart from ensuring that the latest and most useful technology is implemented throughout the hotel premises, the key trends recently witnessed within these hotels include:

- Loyalty is still pertinent:** Loyalty programs, and their continued marketing, are still relevant to this customer. The “Aman Junkie” and the “Fans of Mandarin Oriental” refer to a certain type of client that is brand loyal and that identifies with the associated product image. A large number of loyalty programs are combined with other amenities, and as such, reaching a status of importance within the loyalty program is usually important to these guests.
- Higher degree of Privacy:** Guests who use this type of luxury hotel are seeking private luxury accommodations, discreet check-ins and check-outs, and discreet service in restaurants and public areas, all combined with a hassle-free yet efficient service.
- Personalised Services:** Though not really a new trend, operators continue to emphasise their ability to cater to this clientele by providing personalised service that considers personal tastes, choices and habits, all of which are looked after during each guests’ stay.
- Exclusive Experiences:** Whether visiting a city location or a destination resort, guests at these high-end luxury hotels usually require concierge services in order to book private tours and private dining experiences, amongst others, during their stay. A key trend that continues to be highly sought after.
- Less Ostentation, More Sustainability:** The target customer in this case is seeking simple services and products, with clean lines yet luxurious in materials and amenities. As such, a sustainable product that is environmentally friendly is what is truly sought after in these cases. Among the high-end luxury brands renowned for such an experience is the Six Senses, for example.

Luxury Boutique Hotels

The development of the North American boutique hotel concept, the latter that has spawned a generation of new lifestyle hotels around the globe, it thought to have commenced with the launch of the Kimpton Hotels & Resorts back in the early 1980's. Boutique hotels have gained significant momentum since.

In the luxury marketplace, boutique hotels are characterised by several primary concepts, including the following:

- Usually present in key high-density areas, within landmark destinations or gateway cities.
- Properties are typically less than 200 rooms.
- Typically feature high-impact visual design with one of a kind furnishings and fixtures, including works of art that are typically unique and imposing.
- Distinctive signature restaurants, typically accompanied with a high-traffic bar or a roof top bar and lounge.
- Typically, service is personalized, effectively connecting staff and customers on a personal level.
- Many of the hotels aim to capture and present the local essence of their neighbourhood, city or surroundings.
- Typically caters to a much younger clientele.

Today, every major hotel development or franchise company has a brand within their portfolio that is dedicated to the boutique/lifestyle theme, with Andaz, Hotel Indigo, W hotels, Kimpton, Edition, Thompson, and Canopy, among others, all available within this segment of luxury hotels.

The common denominator for all boutique hotels is that they typically reflect the personality of the developer/owner, are stylish in design and are marketed as a destination for both hotel guests and locals.



W Lobby, Montreal

Luxury Boutique Hotels: Key Trends

Technology is Essential: Be it Amazon's Alexa™ in the rooms, or an Apple iPad with the guests' personal music and movies, or a subscription to Netflix™, technology and its respective utilization throughout the hotel is essential, if not the most important aspect within the boutique hotel.

As technology trends change, hotels will be forced to adapt to the latest technology and applications within their premises.

- **Using Extremely New Marketing Techniques:** Boutique hotels typically focus marketing efforts into new marketing applications, be it advertising through an influencer on Instagram™, or blogging, with older marketing techniques being less frequently utilised.
- **Immersive Experiences:** Travellers are typically seeking locally inspired and culturally attuned experiences that are unique but not necessarily exclusive.
- **Less Discreet Services:** Personalised service remains the norm for the boutique luxury hotels, however discretion is not necessarily the priority as some of these hotels are designed as "seen and be seen" opportunities. Hotel staff will continue to interact and seek to please through knowledge of the location, with personalised opinions.



Le Germain, Toronto



St Regis, Toronto

High-End Luxury Hotels vs. Luxury Boutique Hotels - Canada

Referring to the aforementioned analysis, the luxury hotel sector in Canada can be easily segmented into two niche sub-markets.

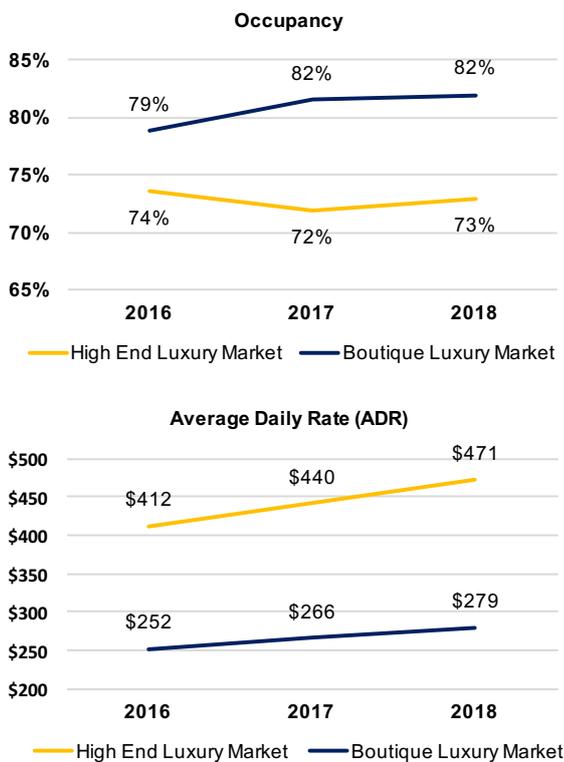
The high-end luxury hotel market globally tends to attract the High Net Worth Individuals (HNWI), or those persons with a household income of over a million dollars in North America, whereas the luxury boutique hotel market typically targets an upper-class clientele who have the propensity to travel and who enjoy being seen and heard while doing so.

The price points, in terms of the room rates charged to these clients, are typically different between the two sub-markets, with the high-end luxury hotel market typically being higher priced in comparison to the luxury boutique hotels.

For the purpose of our analysis, we have reviewed a sample of the high-end luxury hotels against a sample of luxury boutique hotels within Toronto and Montréal so as to illustrate the difference between their respective performance indicators.

The key performance indicators analysed were the occupancy and average daily rate (ADR).

High-End Luxury Hotels vs. Luxury Boutique Hotels - Toronto



Source: STR and Horwath HTL Compilation

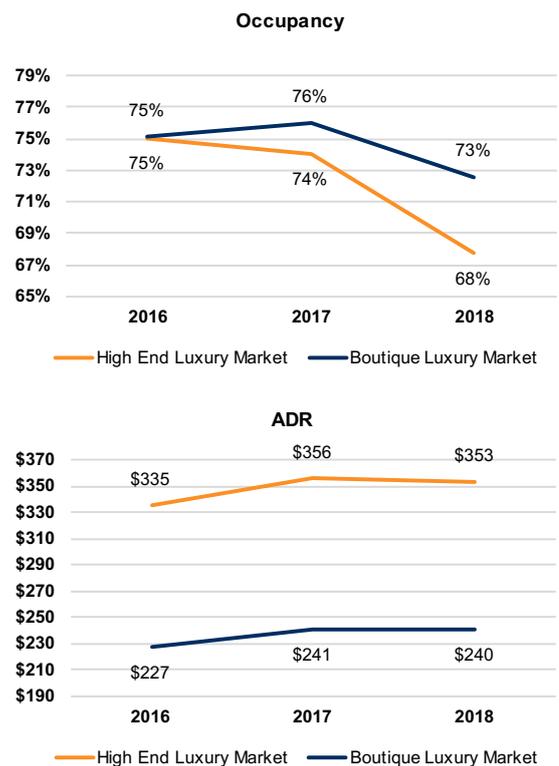
As evident from above, the high-end luxury market registers results that are marginally lower in terms of occupancy within Toronto. Over the past three years, the differential has varied from 5 to 10 percentage points. The majority of the high-end luxury hotels in Toronto opened around 2012. Occupancy levels within the high-end luxury hotel segment gained roughly 20 percentage points between 2012 and 2018. Meanwhile, the luxury boutique hotels have registered a gain of roughly 10 percentage points during the same period.

However, in the terms of the ADR, the differential achieved by the sample of high-end luxury hotels in Toronto was approximately \$175 and \$192 superior, respectively, in 2017 and 2018, when compared to the luxury boutique hotels. As such, the high-end luxury hotels within Toronto have been able to outperform the luxury boutique hotel segment by an average of \$151 annually since 2012.

The resulting REVPAR for 2017 and 2018, positioned the high-end luxury hotels with a differential of \$100 and \$115 respectively, in 2017 and 2018, when compared to the luxury boutique hotels.

The high-end luxury market within Toronto consists of a sample of hotels including, but not limited to, such branded hotels as Ritz Carlton, Shangri-La, St. Regis, Four Seasons, and Loews, amongst others. Meanwhile, the luxury boutique marketplace consists of such hotels as the Omni, the Kimpton, Le Germain Maple Leaf Square, Le Germain Mercer, and the Thompson, amongst others.

High-end Luxury Hotels vs. Luxury Boutique Hotels - Montréal



Source: STR and Horwath HTL Compilation

Montréal tends to trend in a similar fashion as Toronto, in terms of occupancy and ADR differentials between the high-end luxury and luxury boutique marketplaces. Montréal's high-end luxury market was marginally lower in terms of occupancy levels, with the average occupancy differential estimated at 2.5 percentage points between 2012 and 2018.

The high-end luxury hotel segment in Montréal registered a shortfall of 2.0 and 4.9 percentage points in 2017 and 2018, respectively, in comparison to their luxury boutique hotel counterparts. The 2018 occupancy levels dropped in part as a result of an increase in supply within the high-end luxury market.



In terms of ADR, the differential achieved by the sample of high-end luxury hotels in Toronto was approximately \$115 and \$113 superior, respectively, in 2017 and 2018, when compared to the luxury boutique hotels.

As such, the high-end luxury hotels in Montréal have been able to outperform the luxury boutique hotel segment by an average of \$101 annually since 2012.

The resulting REVPAR for 2017 and 2018, positioned the high-end luxury hotels with a differential of \$80 and \$65 respectively, in 2017 and 2018, when compared to the luxury boutique hotels.

The high-end luxury market within Montréal consists of a sample of hotels including, but not limited to, such hotels as Ritz Carlton, Hotel St-James, Hotel Mount Stephen, Hotel Birks, and Hotel Crystal, amongst others.

Meanwhile, the luxury boutique market consists of such hotels as the Hotel Le Germain, Hotel St-Paul, Hotel Place d'Armes, Hotel William Grey, Hotel10, Le St-Martin Hôtel Particulier, and Hotel Saint Suplice, amongst others.

Conclusion

The resulting REVPAR's achieved by the high-end luxury hotels are significantly higher, averaging a premium of between 45% and 50%, than the luxury boutique marketplace, as demonstrated by our Toronto and Montréal samples. This REVPAR premium is driven by the ADR for the most part. These differentials in ADR and REVPAR could allow a potential developer to position a hotel asset, in terms of operations, midway between the high-end luxury hotel segment and the luxury boutique hotel segment.

The developer and operator must consider operational costs as such expenses are typically higher within the high-end luxury hotel segment than those achieved by the luxury boutique hotels. Hence, while developers and hotel managers might be able to charge a premium in ADR, can the required level of sophisticated and personalized service be achieved with the incremental revenues?

Achieving a positioning within this sweet spot requires not only that the developer manage to construction costs but also that the hotel operator provides a balance in service, somewhere between being extremely social (luxury boutique hotels) and highly discreet (high-end luxury hotels).

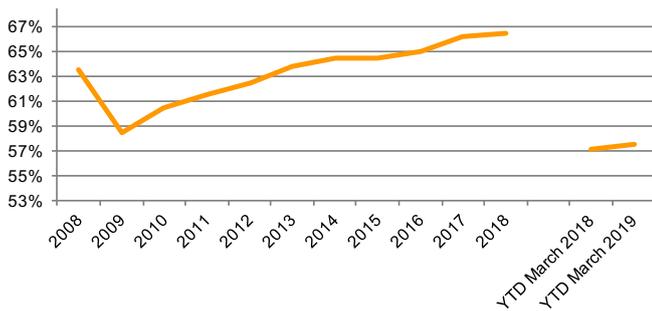
So, the question remains – within the various marketplaces, where is the sweet spot in terms of positioning within the luxury hotel market for a developer?

The Canadian Hotel Market

Canadian Hotel Industry

Canada, as a whole, witnessed significant increases in all its key performance indicators (KPI) in 2017, largely owing to the nation's 150th Confederation Celebration, whereby several provinces invested in tourism related activities and infrastructure.

Canadian Occupancy Rate: 2008 to YTD March 2019



Source: STR and Horwath HTL Compilation

As such, the Canadian hotel market ended 2017 with an occupancy of close to 66% with ADR of \$157 and a REVPAR of \$103.

On the heels of the aforementioned celebrations and resulting KPIs, the nation registered continued improvements in 2018. Canada ended with a half percentage point improvement in occupancy (just over 66%), a 4.3% increase in ADR (\$163) and a 5.3% increase in REVPAR (\$108).

On a provincial level, half of the 10 provinces saw their occupancies decline in 2018, with three witnessing declines of less than one percentage point, whereas Québec registered a 1.5 percentage point decline according to STR and Newfoundland and Labrador registered a dramatic 17.1 percentage point decrease.

In terms of ADR, only Newfoundland and Labrador and Saskatchewan registered decreases, respectively estimated at 4.5% and 1.5% in 2018.

The strongest REVPAR growths were witnessed in British Columbia (9.4%), Alberta (5.9%), and Ontario (5.8%). Once again, only Newfoundland & Labrador witnessed a decrease in REVPAR (-27.3%) during this period.

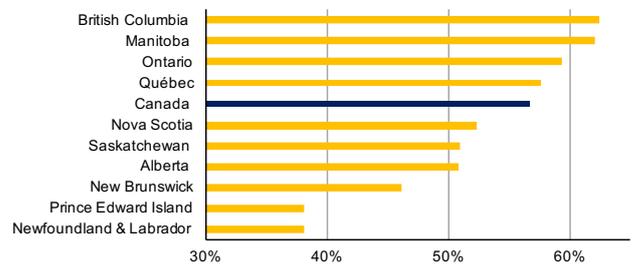
Key Performance Indicators by Province

The following exhibits illustrate the estimated performance metrics for the Canadian hotel industry for year-to-date March 2019.

Occupancy Rates

The year-to-date March 2019 provincial occupancy rates oscillated between 38% and 63%, resulting in a Canadian occupancy rate of 57%; representing a 0.3 percentage point decrease in the national occupancy over year-to-date 2018.

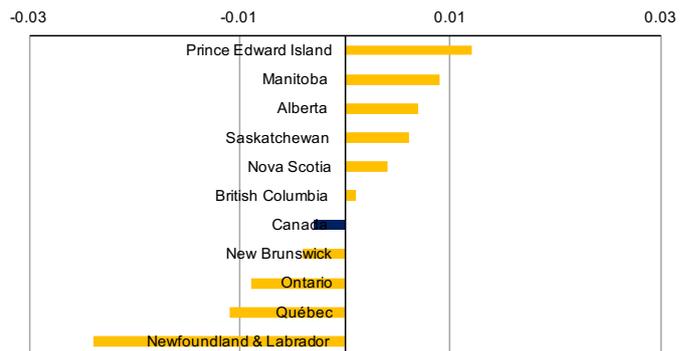
Occupancy Rates - Canadian Provinces YTD March 2019



Source: STR and Horwath HTL Compilation

The five provinces with the greatest increases in occupancy rates are: Prince Edward Island, Manitoba, Alberta, Saskatchewan and Nova Scotia. Each registered an increase of between 0.4 to 1.2 percentage points.

Occupancy Rate Variations - Canadian Provinces YTD March 2019 (in percentage points)

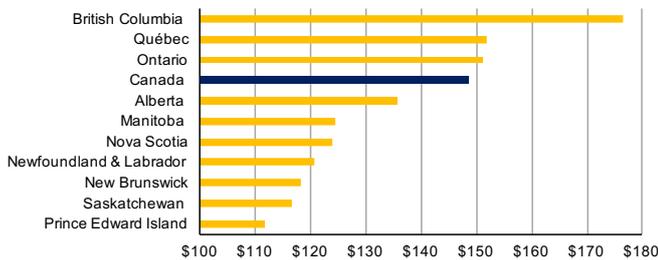


Source: STR and Horwath HTL Compilation

Occupancies within seven of Canada's major cities (Toronto, Montréal, Vancouver, Calgary, Ottawa, Québec City, and Halifax) are estimated to have ranged between 51% and 71% as of year-to-date March 2019. All cities, with the exception of Vancouver, witnessed a drop in overall occupancy levels for year to date March 2019 as compared to the same period in 2018.

Average Daily Rates

Average Daily Rates - Canadian Provinces - YTD March 2019

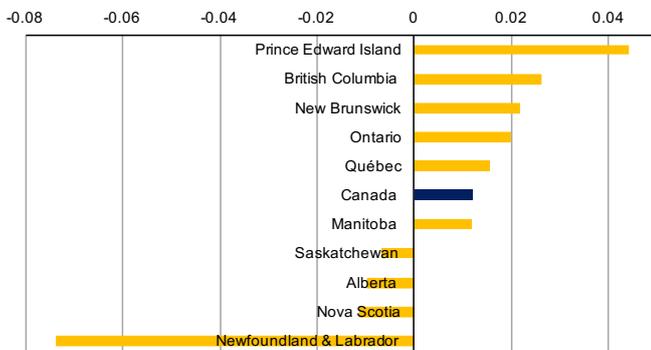


Source: STR and Horwath HTL Compilation

Provincial average daily rates have oscillated between \$112 and \$177 during the first quarter of 2019, which resulted in a Canadian average daily rate of approximately \$149, representing an increase of 1.2% over the same period in 2018.

While only three provinces registered average daily rates that were higher than the national average, we note that five provinces registered stronger increases year-over-year than the national average. As such, increases varying between 1.5% and 4.4% were recorded in Prince Edward Island, British Columbia, New Brunswick, Ontario and Québec.

ADR Variations - Canadian Provinces - YTD March 2019

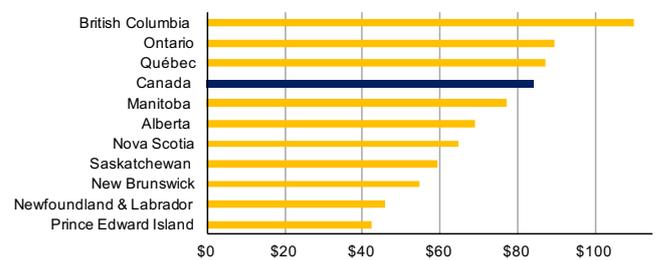


Source: STR and Horwath HTL Compilation

As for the seven major Canadian cities, they have recorded average daily rates ranging from \$127 to \$178 during the first quarter of 2019. All but one of the seven cities have registered increases in ADR varying from 0.3% to 4.5%. Only Halifax registered a decrease in average daily rate during the first quarter of 2019, estimated at 1.2%.

Revenues Per Available Room (REVPAR)

REVPAR - Canadian Provinces - YTD March 2019

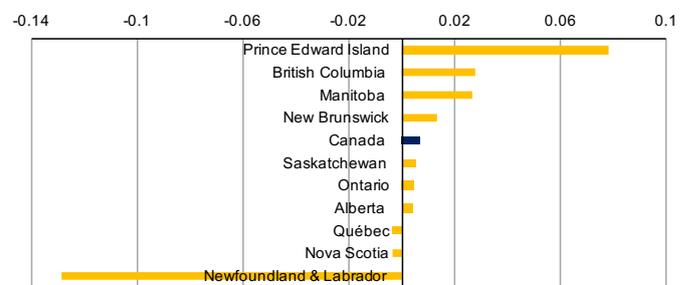


Source: STR and Horwath HTL Compilation

Provincial indications of revenues per available room, or REVPAR, have varied from a low of \$43 to a high of \$110 during the first quarter of 2019, resulting in a Canadian REVPAR estimated at approximately \$84. The national REVPAR increased by more or less 0.7% over the same period in 2018, the result of a moderate occupancy and a healthy average daily rate.

Strong increases in REVPAR (over the national average) were recorded in four of the ten provinces and were estimated at between 1.3% and 7.8%.

REVPAR Variations - Canadian Provinces - YTD March 2019



Source: STR and Horwath HTL Compilation

As a result of decreased occupancy and average daily rate, Newfoundland & Labrador came in last, with a decline in REVPAR estimated at 12.9% during the first three months of 2019. Looking at the seven major Canadian cities, they have recorded REVPARs ranging from \$68 to \$121 during the first quarter of 2019. Ottawa, Halifax, Toronto and Calgary registered decreases in REVPAR during the first quarter of 2019, with declines ranging from 0.5% to 4.8%, as compared to the same period of 2018. Only Montréal, Québec City and Vancouver registered increases in REVPAR during the first quarter of 2019. These increases were primarily driven by improving ADR rather than occupancy.



Conclusion

For the most part, Canada continues to maintain an upward pace on the heels of 2017 and 2018, albeit at a more moderate pace, and despite the important difficulties registered by the province of Newfoundland & Labrador.

At a national level, the first quarter of 2019 witnessed a marginal drop in occupancy, combined with a modest 1.2% increase in ADR. The resulting 0.7% increase in REVPAR is indicative of the strength of certain markets (British Columbia, Manitoba, New Brunswick and Prince Edward Island) that, when combined with such stalwart markets as Alberta, Nova Scotia, Ontario, Québec and Saskatchewan, have been able to offset the strong downward pressure on KPIs as a result of the dramatic decline in Newfoundland and Labrador performances.

Looking forward, we note that only one province has registered any real decline in demand levels (Newfoundland and Labrador) while demand growth continues to outpace supply growth within six of the nation's 10 provinces.

As such, Canada should register a comparable occupancy rate by year-end 2019. Average daily rates are also projected to increase albeit at a slightly more moderate pace given the recent increases in inventory across almost all of the 10 Canadian provinces. This noted, a good portion of the new supply is within the luxury and upper upscale segments and should help drive ADR in the coming years, resulting in higher average daily rates moving forward.

Horwath HTL Canada

Horwath HTL Canada is a member of Horwath International, one of the top global consultancy networks. Horwath HTL Canada relies on a strong consulting experience in the areas of hospitality, tourism and leisure.

Our Montréal and Toronto teams are recognised across Canada, specializing in the hotel, leisure and tourism industry for over thirty years. We have conducted numerous studies in Québec, Ontario, Western Canada and Atlantic Canada, as well as within numerous international destinations. Our association with Horwath International allows us to benefit from the global data and the resources necessary to meet the demands of the industry.

Our company, a leader in the hotel industry, has a well-established reputation. For many years, we have been offering our services to various industry stakeholders. This long and fruitful collaboration not only provides us with an unmatched credibility and confidence within this industry, but also with a deep understanding of the problems and challenges that can arise in this field.

Our team of professionals holds undeniable expertise in order to identify customer needs and recommend appropriate solutions to maximize the potential of a project. This is why our consulting services are a valuable asset for anyone involved directly or indirectly in the hotel industry.

Horwath HTL is a global brand with 45 offices having completed upwards of 20,000 assignments. We are part of the Crowe Global network, a top 10 accounting and financial services network. Highly regarded in their respective territories, each office adheres to the quality and professionalism standards of the Horwath network.

Our Expertise

- Review of obligations and responsibility
- Litigation management services and expert testimony
- Estimated market value and asset appraisal
- Asset management
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- Project master planning for tourist destinations
- Recovery planning and management of distressed hotel assets
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- Optimal land use
- Interim management
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- Repositioning strategies and analysis
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- Transaction support and financial restructuring

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As founder of the Horwath HTL Canadian offices of more than 35 years ago, Gilles has acted as an expert witness in hotel related files while also having been involved in numerous market studies within the hotel, tourism, and leisure sectors.



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Paolo joined Horwath HTL in 2012 after a very successful 30-year career within the Québec hotel industry, occupying numerous industry positions, including hotelier of the year as General Manager of the Château Bromont resort hotel. Paolo has also been an active member of numerous Board of Directors, as well as being the current President of the Board of Directors of the Institut de tourisme et d'hôtellerie du Québec.



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Recognized for his business sense and renowned as a strategic leader in the hospitality industry, business tourism and convention and meeting sectors, Raymond served as Chief Executive Officer and President of The Société du Palais des congrès de Montréal for four years. He also served as Regional Vice President of Operations with Delta Hotels and Resorts for the Ottawa, Québec, Prairies and Florida regions, having more than 3,400 rooms under his management, spanning over 12 years, with an accountability of more than \$325 million of annual sales.

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Since 1990, Peter has participated and supervised the financial aspects of the Toronto and Montréal offices' hotel division. He has completed numerous market studies, operational reviews, valuations and appraisals for hotel and tourism related developments across Québec, Ontario, Atlantic Canada and such international destinations as Mexico, Costa Rica, the Dominican Republic and French Polynesia. He is also responsible for such annual publications as the Industrie Hôtelière au Québec - Rapport Sectoriel and the Canadian and Québec Hotel Industry - Special Market Reports



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A Cornell Hotel School post-graduate, Ambika has over 12 years of hospitality development, operations and consulting experience. Ambika has significant experience in conducting market studies in real estate sectors, including hotels, tourism, retail, residential and commercial projects.

Ambika has completed projects, spanning over USD 12 billion in asset value, in numerous locations including Singapore, Malaysia, Vietnam, Indonesia, UAE, Qatar, Morocco, Maldives, Micronesia, Mauritius and Canada.



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