



# ALBERTA ACCOMMODATION OUTLOOK 2016

For the Tourism Division, Alberta Culture and Tourism

April 19, 2016

PREPARED FOR



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# PRESENTATION OUTLINE

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- National Economic & Tourism Outlooks
- National Supply & Demand Outlooks
- Western Canada Outlooks
- Alberta Economic & Tourism Outlooks
- Alberta Supply & Demand Outlooks
- Provincial Forecasts
- Hotel Investment in Alberta
- Key Takeaways
- Questions?



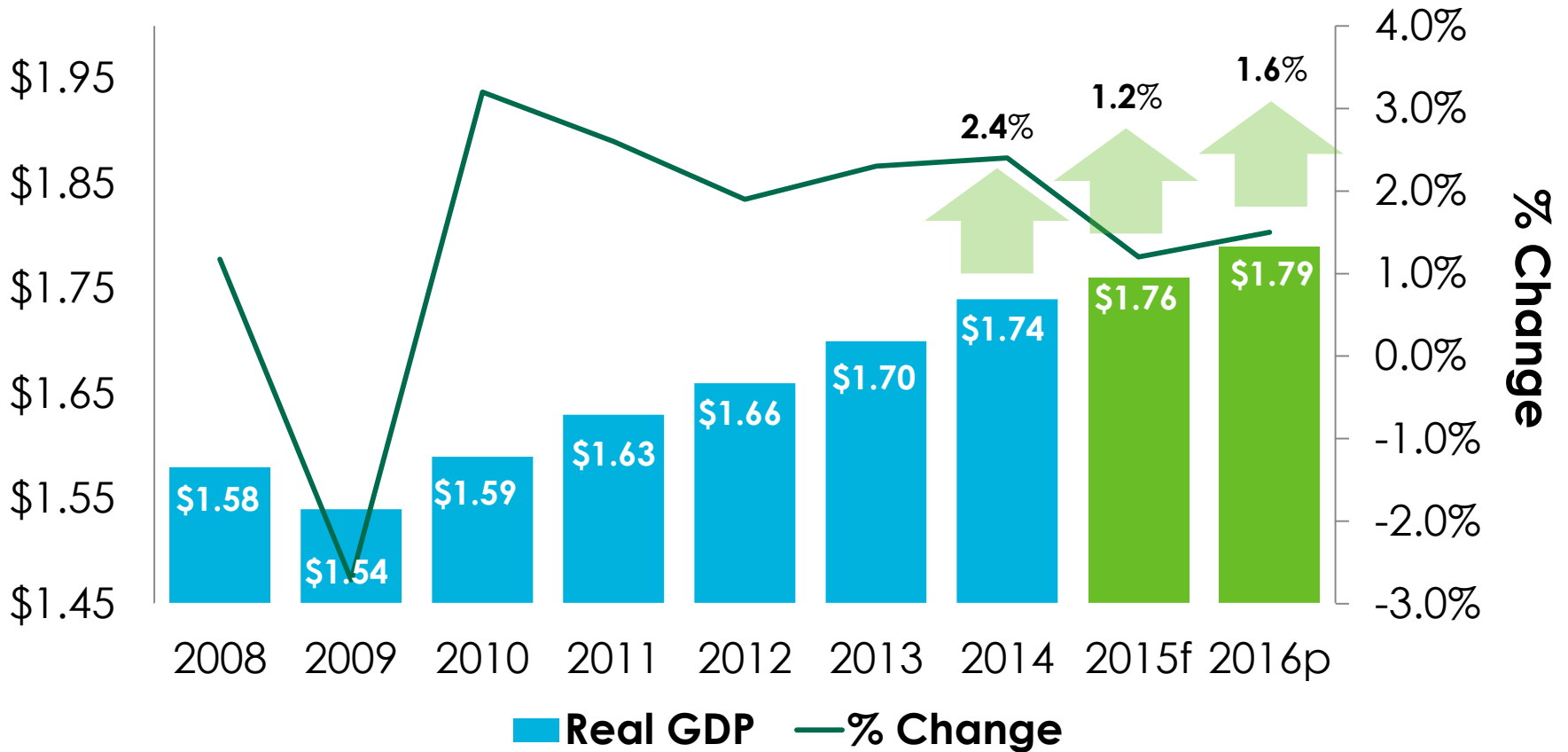
# NATIONAL ECONOMIC AND TRAVEL OUTLOOKS

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# NATIONAL ECONOMIC OUTLOOK – 2015/16



Source: Statistics Canada, Conference Board of Canada, Canadian Outlook Winter 2016, Scotiabank Group – Global Forecast Update 2016; CIBC World Markets – Monthly FX Outlook, 2016; RBC – Economic and Financial Market Outlook – March 2016

Source: CBRE Hotels

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# NATIONAL TRAVEL OUTLOOK 2015/16

Overnight Travel	2014 Actual	2015 Estimate	2016 Forecast
Business travel domestic	2.5%	0.6%	2.5%
Pleasure travel domestic	2.4%	2.7%	2.2%
Total domestic travel	2.0%	2.2%	2.1%
U.S. Travel	1.1%	7.0%	3.3%
Overseas travel	9.3%	5.3%	4.8%
<b>Total Overnight Travel</b>	<b>2.2%</b>	<b>2.8%</b>	<b>2.4%</b>
National accommodation demand growth	3.2%	0.3%	0.9%

Source: Canadian Tourism Research Institute, Conference Board of Canada, Autumn 2015

Source: CBRE Hotels

## Federal Budget Targets Travel and Tourism for Economic Growth (March 2016)

Proposed \$50 Million funding increase to Destination Canada's international tourism marketing over the next 2 years.

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# NATIONAL SUPPLY & DEMAND OUTLOOKS

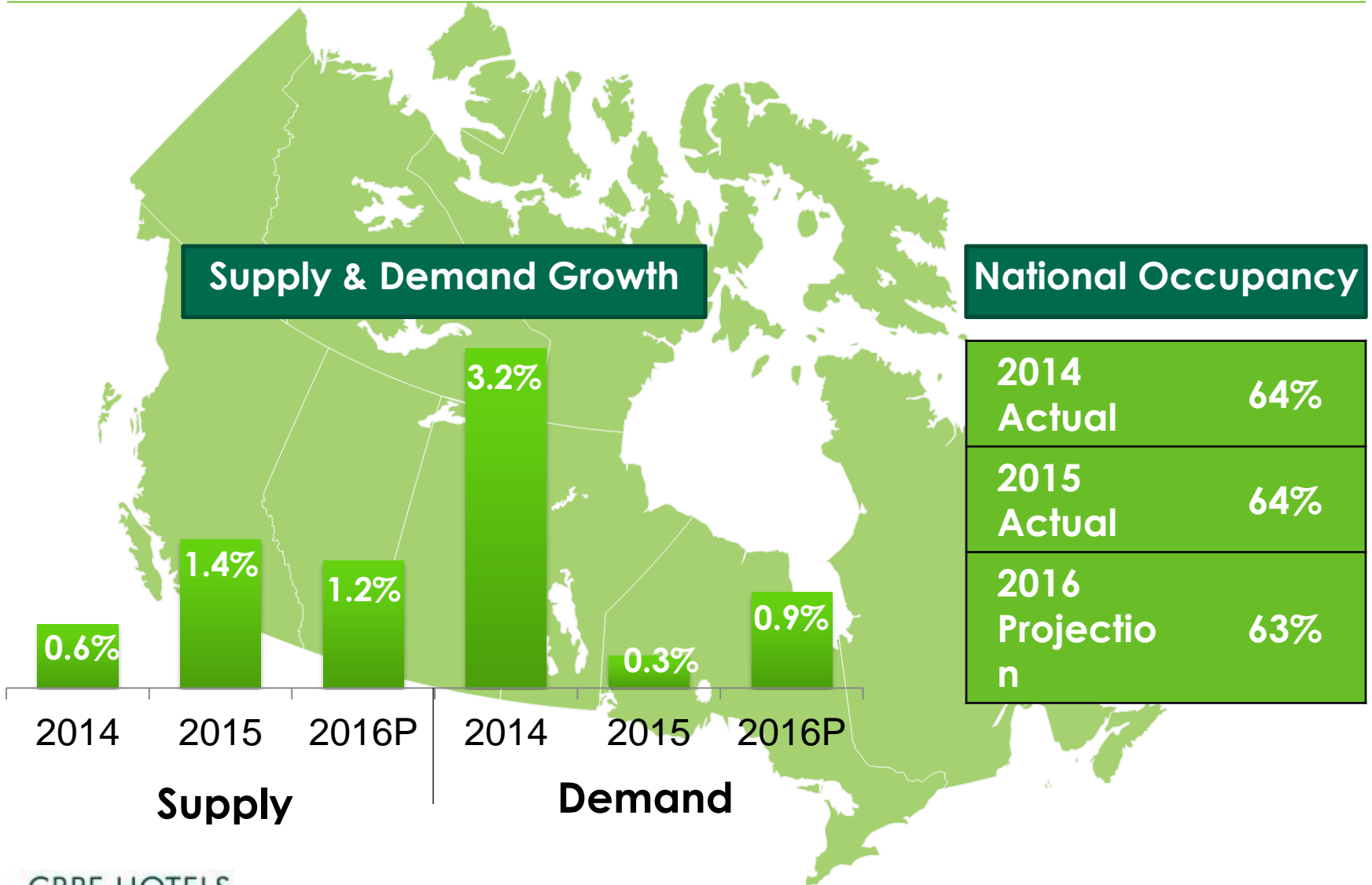
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# NATIONAL SUPPLY & DEMAND OUTLOOK



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Source: CBRE Hotels

# NATIONAL ADR, REVPAR & BOTTOM LINE OUTLOOK

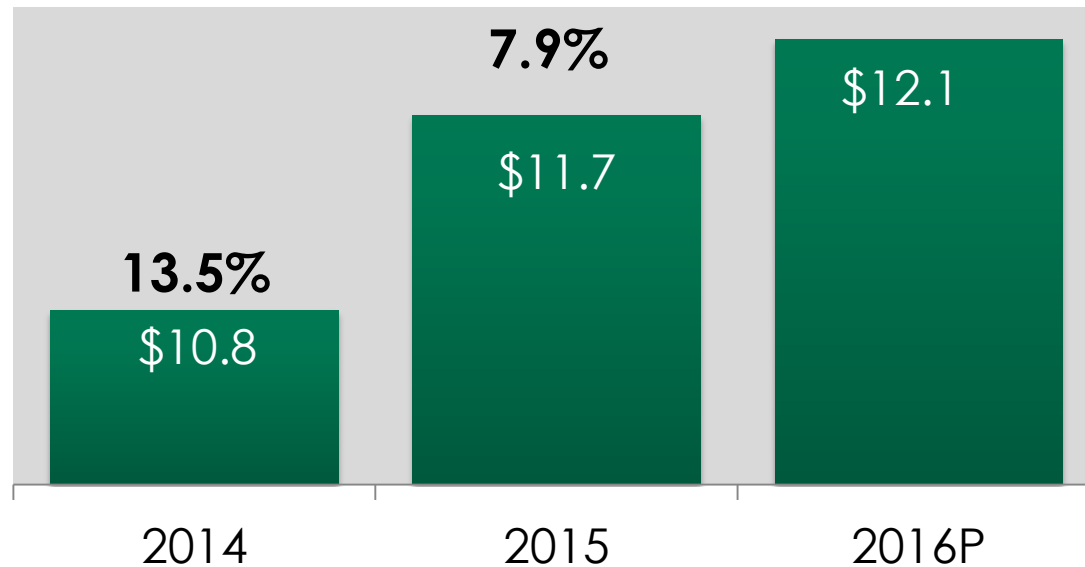
## National ADR Growth

2014 Actual	3.7%
2015 Actual	4.7%
2016 Projection	2.9%

## National RevPAR Growth

2014 Actual	6.3%
2015 Actual	3.5%
2016 Projection	2.6%
	<b>3.0%</b>

**Adjusted  
Net  
Operating  
Income/  
Available  
Room  
(\$000's)**






Source: CBRE Hotels

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# NATIONAL 2016 PROJECTION

	2014	2015	2016P	2015-2016P Change
<b>Occupancy</b>	64%	64%	63%	 1.0 pt
<b>ADR</b>	\$137	\$144	\$148	 2.9%
<b>RevPAR</b>	\$88	\$91	\$94	 2.6%

Source: CBRE Hotels



# WESTERN CANADA OUTLOOKS

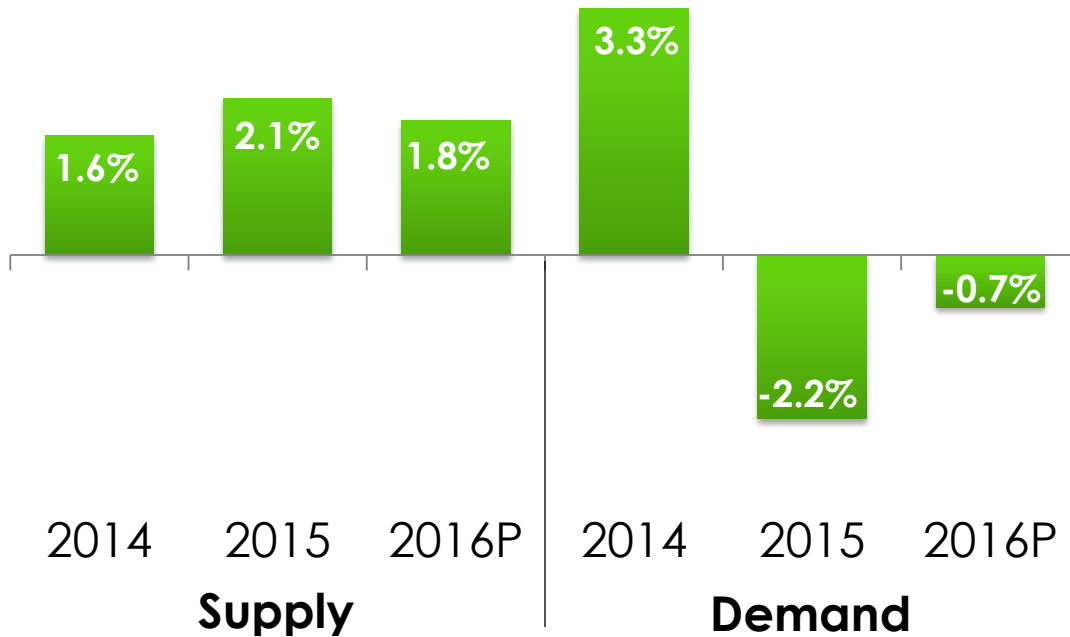
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# WESTERN CANADA SUPPLY & DEMAND OUTLOOK

## Supply & Demand Growth



## Occupancy

2014 Actual	65%
2015 Actual	62%
2016 Projection	61%

Source: CBRE Hotels

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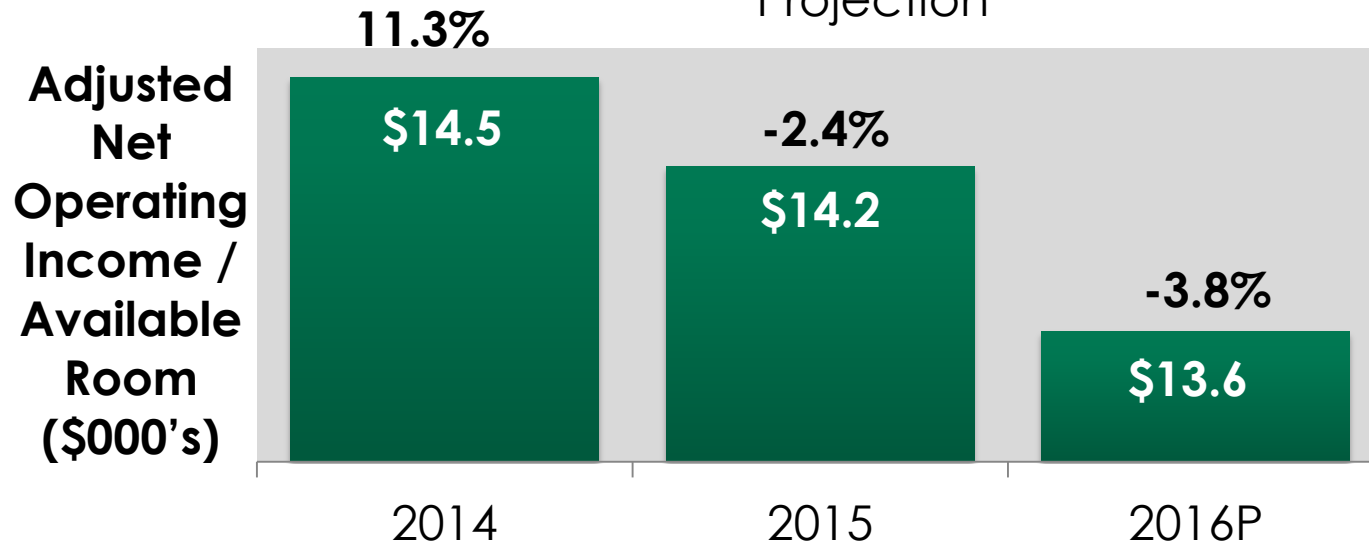
# CANADIAN NATIONAL AND REGIONAL MARKET OUTLOOKS

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Forecast
Western Canada	60%	62%	63%	64%	65%	62%	61%
RevPAR	\$133	\$130	\$133	\$137	\$143	\$148	\$151
	\$80	\$80	\$83	\$88	\$93	\$92	\$92
Central Canada	61%	61%	62%	63%	64%	66%	67%
RevPAR	\$125	\$126	\$127	\$130	\$134	\$142	\$147
	\$75	\$77	\$78	\$81	\$86	\$93	\$98
Atlantic Canada	59%	58%	58%	59%	58%	59%	60%
RevPAR	\$117	\$118	\$119	\$120	\$124	\$127	\$131
	\$69	\$69	\$69	\$70	\$72	\$75	\$78
National	60%	61%	62%	63%	64%	64%	63%
RevPAR	\$128	\$127	\$130	\$133	\$137	\$144	\$148
	\$77	\$78	\$80	\$83	\$88	\$91	\$94

# WESTERN CANADA ADR, REVPAR & BOTTOM LINE OUTLOOK

Western Canada ADR Growth	
2014 Actual	4.0%
2015 Actual	3.9%
2016 Projection	2.1%




Western Canada RevPAR Growth	
2014 Actual	5.7%
2015 Actual	-0.4%
2016 Projection	-0.5%



Source: CBRE Hotels

# WESTERN CANADA 2016 PROJECTION

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	2014	2015	2016P	2015-2016P Change
<b>Occupancy</b>	65%	62%	61%	 1.0 pts
<b>ADR</b>	\$143	\$148	\$151	 2.1%
<b>RevPAR</b>	\$93	\$92	\$92	 0.5%

Source: CBRE Hotels

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# ALBERTA ECONOMIC & TOURISM OUTLOOKS

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## RECENT “HEADLINES”

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**“Oilpatch stares into the abyss, tries to make sense of its future”**

**“The worst has not yet come: Oilfield services executives paint grim 2016 outlook”**

**“PSAC Lowers Its 2016 Drilling Activity Forecast: No Improvement to Sector Activity or Market Access”**

**“With 40,000 job cuts, more layoffs still to come for Canada’s energy industry”**

**“Canadian oil production growth could come to ‘complete standstill,’ IEA warns”**

**“Capital Investment in Canada’s Oil and Gas Industry down 62% in 2 years”**

**“Natural gas challenge grows for Canada”**

**“Alberta small business confidence plunge continues”**

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Sources: *Calgary Herald, Financial Post, The Globe and Mail, CBC News*

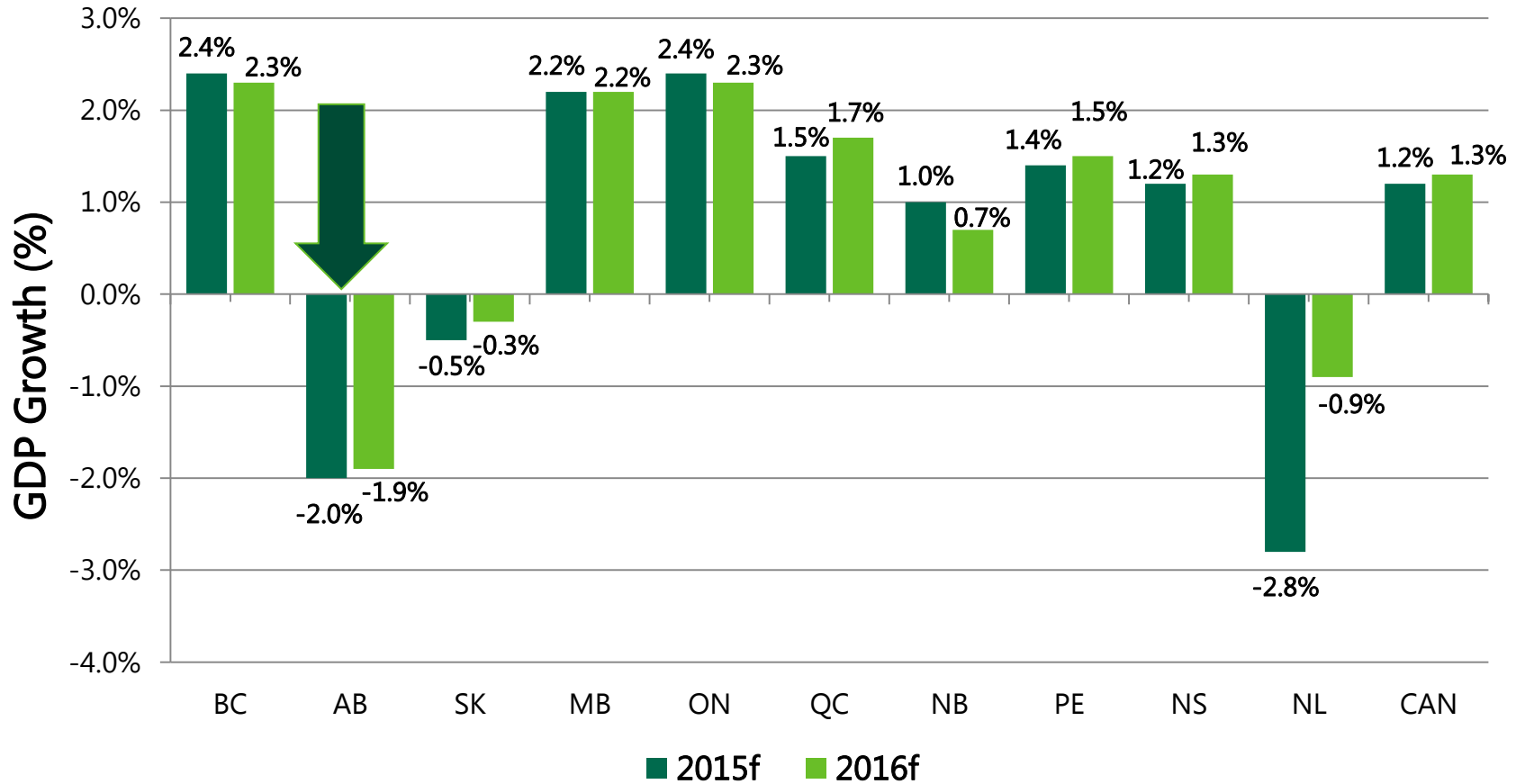


# ALBERTA REAL GDP GROWTH PROJECTIONS

	2015 Actual	2016 Forecast	2017 Forecast
<b>ATB Financial</b>	-1.0%	-0.5%	1.6%
<b>Scotiabank Group</b>	-2.0%	-1.9%	2.1%
<b>RBC Economics</b>	-1.8%	-1.6%	2.0%
<b>Conference Board of Canada</b>	-2.9%	-1.1%	1.9%

Source: ATB Financial – Alberta Economic Outlook Q1 2016 – January 11, 2016  
Scotiabank Group, Global Forecast Update – March 2, 2016  
RBC Economic and Financial Provincial Outlook – March 2016  
Conference Board of Canada, Metropolitan Outlook Winter 2016

# 2015-16 REAL GDP GROWTH BY PROVINCE



Source: Scotiabank Group, Global Forecast Update, March 2016

# ALBERTA TOURISM INDICATORS

## International Airport Passenger Volumes (Annual Growth %)

	2014	2015
<b>YYC</b>	6.6%	1.4%
<b>YEG</b>	5.0%	-0.7%

## National Park Independent Visits\* (Annual Growth %)

	2014	2015
<b>Banff</b>	5.4%	8.1%
<b>Jasper</b>	8.1%	5.3%
<b>Waterton Lakes</b>	1.3%	15.3%

- Yr 2015 Food Service and Drinking Place Receipts up 0.9% over 2014
- Yr 2015 Total Visits to Historic Sites and Museums up 0.7% over 2014

\*Excludes Group Tours as per Parks Canada definition

Source: Alberta, Tourism Market Monitor – Alberta Culture and Tourism, February 2016

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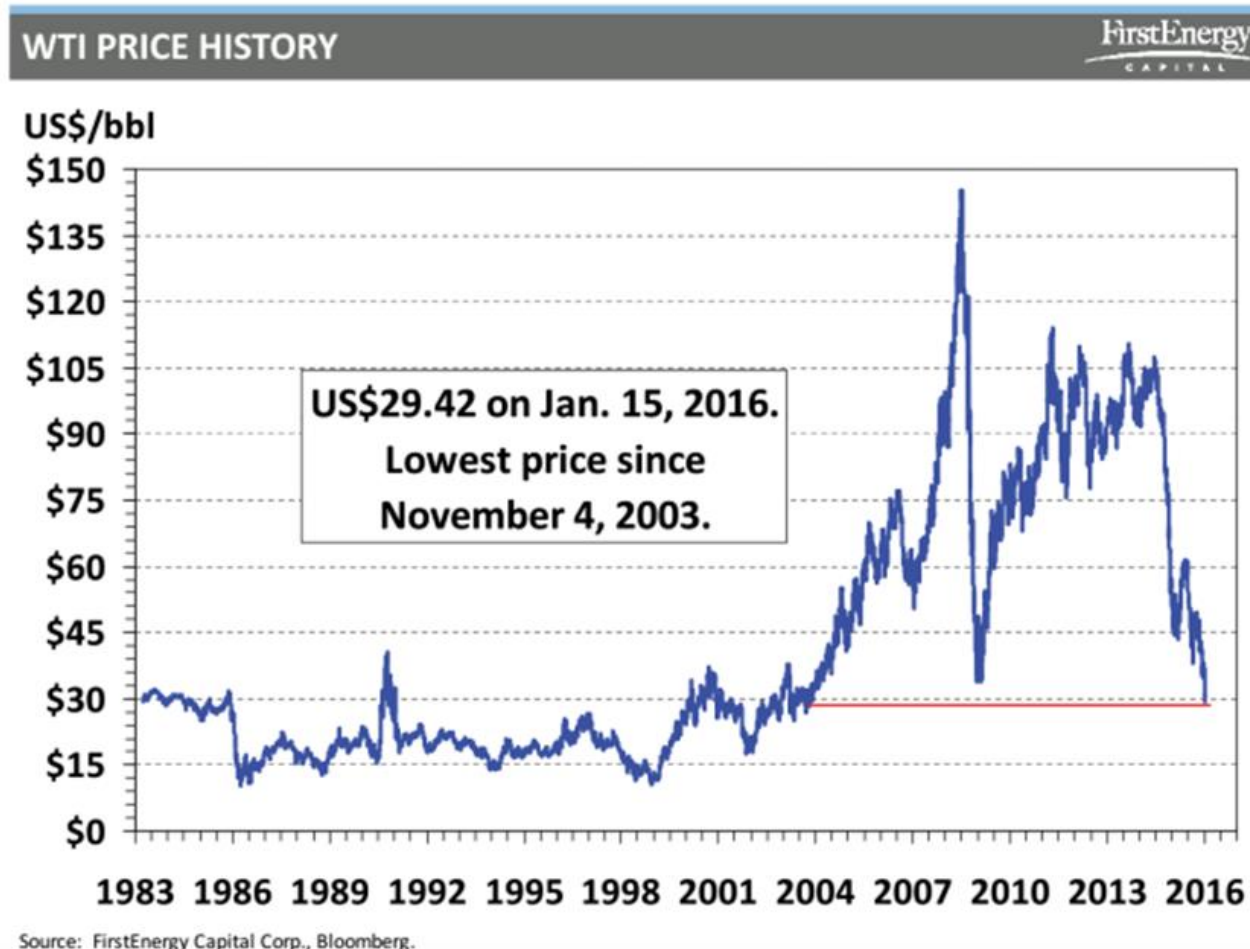
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## ALBERTA TRAVEL OUTLOOK – 2015/16

Overnight Travel	2014 Estimate	2015 Estimate	2016 Forecast
Business Travel Overnight Domestic	3.5%	(6.3)%	1.8%
Pleasure Travel Overnight Domestic	3.5%	0.7%	1.6%
U.S. Overnight Travel	3.8%	3.8%	3.8%
Overseas Overnight Travel	9.3%	4.5%	4.1%
<b>Total Overnight Travel</b>	<b>3.5%</b>	<b>0.3%</b>	<b>1.9%</b>

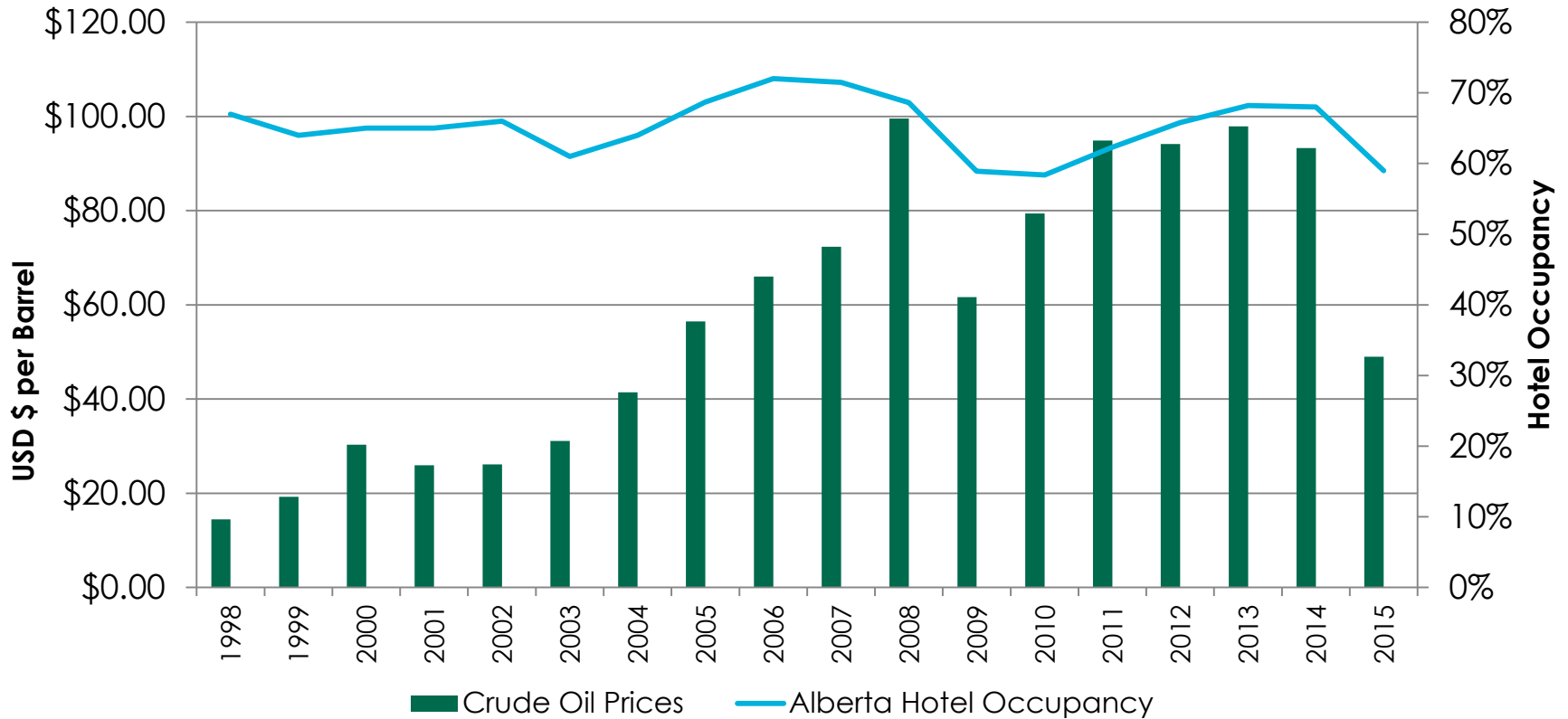
Source: Canadian Tourism Research Institute, Conference Board of Canada, Autumn 2015

# HISTORIC OIL PRICES (WEST TEXAS INTERMEDIATE)



# WEST TEXAS INTERMEDIATE CRUDE OIL PRICES & HOTEL OCCUPANCY

1998-2015



Source: U.S. Energy Information Administration & CBRE Hotels' Trends in the Hotel Industry

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# ALBERTA – HOTEL PERFORMANCE AND OIL PRICES

	Jul 2015	Aug 2015	Sept 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016
<b>West Texas Intermediate</b> (\$USD per barrel)	\$51	\$43	\$45	\$46	\$42	\$37	\$32	\$30
<b>Overall Alberta</b> (excl. Resorts)	67%	65%	63%	58%	53%	41%	42%	48%
<b>RevPAR</b>	\$150	\$136	\$140	\$138	\$137	\$129	\$130	\$131
	\$100	\$88	\$88	\$80	\$73	\$53	\$55	\$63
	Jul 2014	Aug 2014	Sept 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015
<b>West Texas Intermediate</b> (\$USD per barrel)	\$104	\$97	\$93	\$84	\$76	\$59	\$47	\$51
<b>Overall Alberta</b> (excl. Resorts)	70%	75%	74%	72%	69%	52%	54%	60%
<b>RevPAR</b>	\$149	\$138	\$146	\$146	\$144	\$138	\$140	\$142
	\$105	\$103	\$108	\$105	\$99	\$72	\$75	\$86

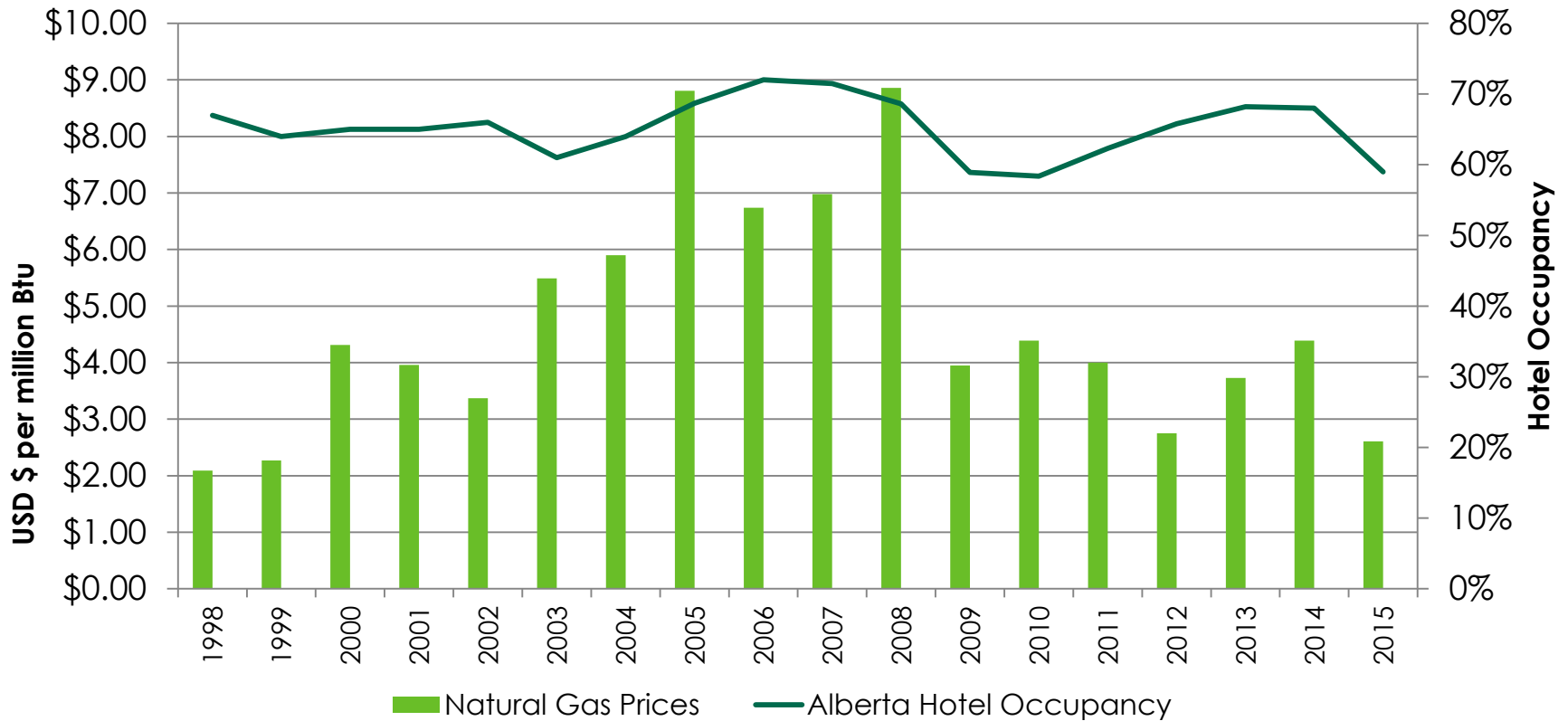
Source: U.S. Energy Information Administration & CBRE Hotels

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# HENRY HUB NATURAL GAS PRICES & HOTEL OCCUPANCY

1998-2014



Source: U.S. Energy Information Administration & CBRE Hotels' Trends in the Hotel Industry

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# OIL AND GAS FACTORS IMPACTING ACCOMMODATION DEMAND

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- **\*\*Current oil price decline is very different from other recent downturns\*\***
- Oil inventories in storage in the US at levels not seen since the 1970's
- Saudis and certain other OPEC members are the lowest cost producers and have no incentive to decrease production and raise prices
- Iran is “back in the game” and wants to increase output
- **\*\*Natural gas prices are at “Historic lows”**
- Infrastructure projects in Alberta are reaching completion
- Lack of pipeline construction – We can't move product offshore

WHICH ALL LEAD TO.....

- Layoffs, cancellation/suspension of capital projects
- Drilling forecasts for 2016 to be lower in Alberta (both oil and gas)
- Work Camps – The beds are still out there and can be made available quickly
- **Irony?? Oil production in Alberta forecast to increase in 2016!!!!**

## OTHER KEY FACTORS AFFECTING HOTEL PERFORMANCE

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- Consumer confidence levels are down particularly in AB, SK – How much will this impact domestic overnight leisure travel?
- GDP Growth is forecast for 2016 overall for Canada, but very regional (BC, ON, PQ). Can Alberta attract a greater volume of travelers from those provinces?
- Appreciation of certain foreign currencies increases appeal to international travelers, particularly from US. (\*\*It is an election year in US. What impact will that have?)
- Room Rates – Will operators drop them further and by how much?
- Are operators cutting spending to the point where it can impact service levels and/or growing market share in future years?
- Room Supply Growth – Particularly in Calgary and Edmonton

# CANADIAN BUSINESS TRAVEL OUTLOOK 2016 – KEY FINDINGS

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- Annual survey prepared by Conference Board of Canada and Association of Corporate Travel Executives
- Respondents are Canadian Corporate Travel Managers/Executives
- Canadian business travel projected to decline by 1.7% in 2016
- Corporate business travel budgets are projected to decline by 2.7% in 2016
- 76% of respondents expect Canadian hotel room rates to increase in 2016 (24% project increases of less than 2%, while 52% project increases in the range of 2%-4%)

Source: Conference Board of Canada, Association of Corporate Travel Executives (ACTE)

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# ALBERTA SUPPLY AND DEMAND OUTLOOKS

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## ALBERTA HISTORIC “TOP LINE” RESULTS

	2008	2009	2010	2011	2012	2013	2014	2015
<b>Overall Alberta</b> (excl. Resorts)	69%	59%	58%	62%	66%	68%	68%	59%
ADR	\$134	\$129	\$125	\$126	\$132	\$138	\$143	\$140
RevPAR	\$92	\$76	\$73	\$78	\$87	\$94	\$97	\$82
<b>Red Deer</b>	58%	46%	47%	50%	57%	57%	62%	49%
ADR	\$99	\$106	\$102	\$104	\$108	\$110	\$112	\$115
RevPAR	\$57	\$49	\$48	\$52	\$61	\$62	\$69	\$57
<b>Lethbridge</b>	61%	60%	56%	57%	58%	62%	58%	53%
ADR	\$102	\$103	\$101	\$102	\$107	\$109	\$110	\$112
RevPAR	\$62	\$61	\$56	\$59	\$62	\$67	\$64	\$59
<b>Alberta Resorts</b>	61%	63%	53%	54%	56%	57%	60%	62%
ADR	\$203	\$194	\$191	\$187	\$196	\$203	\$215	\$232
RevPAR	\$124	\$103	\$101	\$101	\$111	\$116	\$129	\$145
<b>Other Alberta</b>	61%	47%	51%	61%	63%	65%	66%	51%
ADR	\$139	\$129	\$118	\$118	\$127	\$132	\$137	\$134
RevPAR	\$85	\$60	\$60	\$72	\$79	\$86	\$91	\$68

Source: CBRE Hotels

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# “OTHER ALBERTA” HISTORIC PERFORMANCE

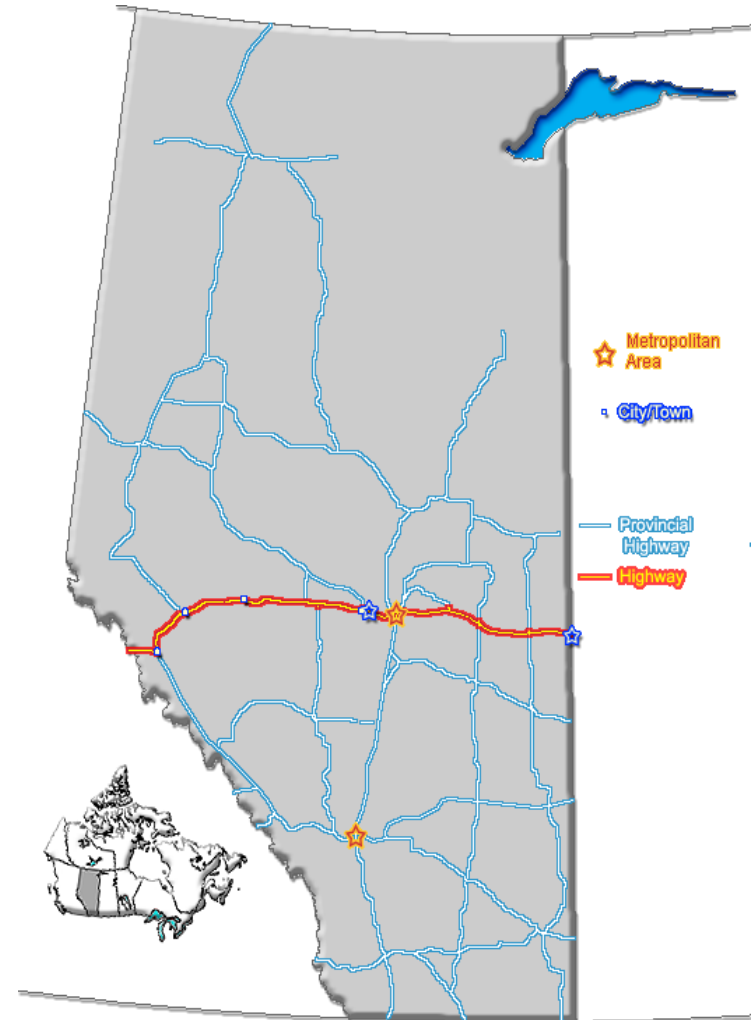
(Excludes Calgary, Edmonton, Red Deer, Lethbridge, Resorts)

Other Alberta North*	2013	2014	2015
Occupancy	67%	69%	53%
ADR	\$139	\$143	\$139
RevPAR	\$93	\$98	\$73

\* Properties in Communities located ON or NORTH of Highway 16

Other Alberta South**	2013	2014	2015
Occupancy	62%	62%	51%
ADR	\$116	\$120	\$118
RevPAR	\$72	\$75	\$60

\*\* Properties in Communities located SOUTH of Highway 16



Source: CBRE Hotels, Wikipedia Maps

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## ACCOMMODATION SUPPLY

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- **Estimated 2,200 new rooms to open province wide in 2016**
- **Approx. 75% of new rooms are in metro Edmonton and Calgary**
- **Other markets include Medicine Hat, Vermilion, Bonnyville**
- **Over 90% of new rooms in 2015 will be branded**
- **Select Service and Limited Service hotels comprise majority of new assets being developed**
- **Most of these projects were initiated in 2013 – early 2015**

Source: CBRE Hotels

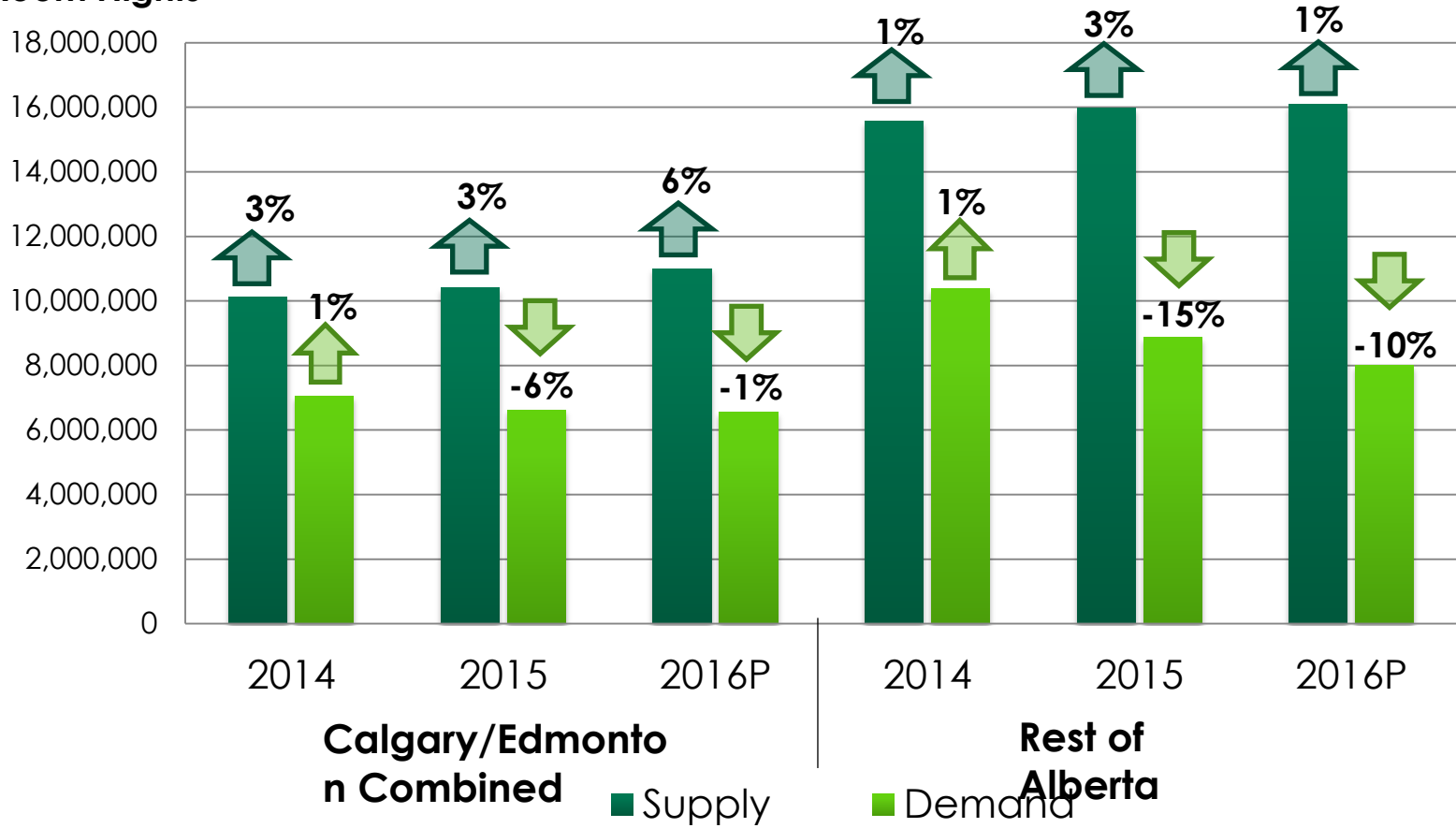
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# ALBERTA SUPPLY & DEMAND OUTLOOK

## Supply & Demand Growth/Decline

### Room Nights





# CALGARY & EDMONTON MARKET OUTLOOKS

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# CALGARY ECONOMIC OUTLOOK



	2013	2014	2015	2016 Forecast
GDP Growth (%)	4.7	5.1	-2.4	-1.2
Employment (% Change)	3.0	2.6	2.1	-2.1
Unemployment Rate (%)	4.8	5.0	6.4	7.5
Housing Starts (in 1000s)	13	17	13	11

Source: Conference Board of Canada – Metropolitan Outlook Winter 2016

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# CALGARY – ECONOMIC INDICATORS

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## ➤ Key points for 2016

- Office vacancies very high downtown – Particularly sub lease space
- Major infrastructure projects get delayed or cancelled
- Consumer Confidence Levels and Small Business Confidence Levels drop to lowest results in years – impact on in-migration, retail sales, F&B sales
- “Year of Music” in 2016 (Juno Awards, Country Thunder)
- Otherwise, not a great year for major events/conventions in 2016

Source: CBRE Hotels

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# CALGARY ACCOMMODATION MARKET PERFORMANCE

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Projection	2015-16 Change
<b>Occupancy</b>	64%	67%	71%	73%	70%	64%	<b>60%</b>	(4.0 pts)
<b>ADR</b>	\$143	\$145	\$156	\$162	\$167	\$157	<b>\$154</b>	(-2%)
<b>RevPAR</b> <small>Source: CBRE Hotels</small>	\$91	\$98	\$110	\$118	\$117	\$101	<b>\$92</b>	(-9%)

# EDMONTON ECONOMIC OUTLOOK



	2013	2014	2015 Forecast	2016 Forecast
GDP Growth (%)	6.2	4.9	-1.8	-1.3
Employment (% Change)	3.1	2.3	2.3	-0.4
Unemployment Rate (%)	4.9	5.2	5.9	7.0
Housing Starts (annual, 000's of units)	15	14	17	11



Source: Conference Board of Canada – Metropolitan Outlook Winter 2016, CBRE Hotels

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# EDMONTON – ECONOMIC INDICATORS

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## ➤ Key factors for 2016

- Industrial activity in Greater Edmonton down (ie. Nisku/Leduc, Fort Sask)
- Major infrastructure projects continue in 2016 (ie. ICE District, Royal Alberta Museum, ring road construction)
- Consumer Confidence Levels down
- Lack of major room demand generating events or conventions in 2016

Source: CBRE Hotels

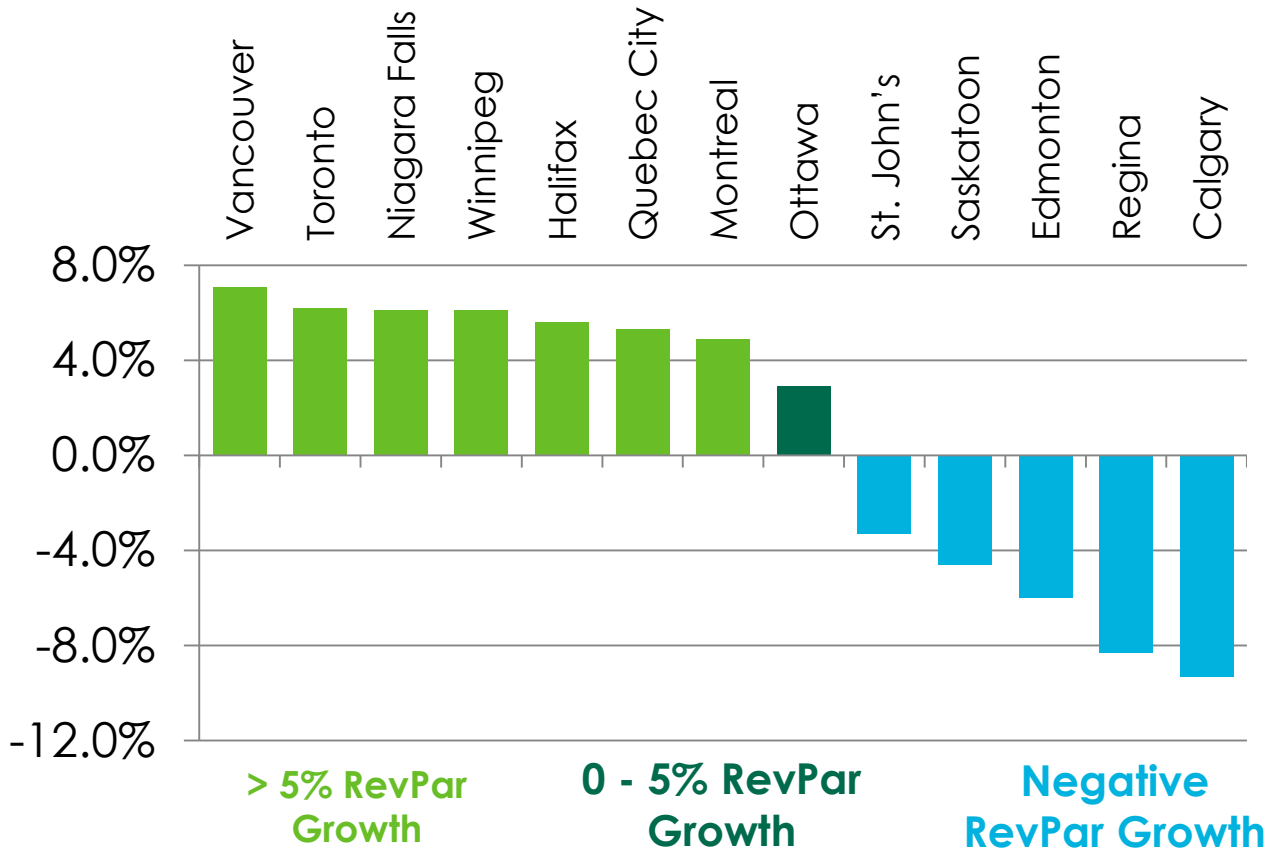
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# EDMONTON ACCOMMODATION MARKET PERFORMANCE

	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Projection	2015-16 Change
<b>Occupancy</b>	62%	62%	67%	70%	69%	63%	<b>60%</b>	<b>(3.0 pts)</b>
<b>ADR</b>	\$120	\$119	\$122	\$127	\$134	\$136	<b>\$135</b>	<b>(-1%)</b>
<b>RevPAR</b> <small>Source: CBRE Hotels</small>	\$74	\$74	\$81	\$89	\$93	\$85	<b>\$80</b>	<b>(-6%)</b>

# MAJOR MARKET OUTLOOKS REVPAR PROJECTION - 2016



2016P RevPAR Ranking	
Vancouver	\$133
Montreal	\$114
Toronto	\$111
Ottawa	\$111
Niagara Falls	\$107
Quebec City	\$107
St. John's	\$97
Calgary	\$92
Saskatoon	\$91
Halifax	\$91
Winnipeg	\$84
Edmonton	\$80
Regina	\$75

\*\*"Major Markets" refer to Greater Metro Areas  
Source: CBRE Hotels







# PROVINCIAL FORECASTS

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# ALBERTA “TOP LINE” 2016 FORECAST

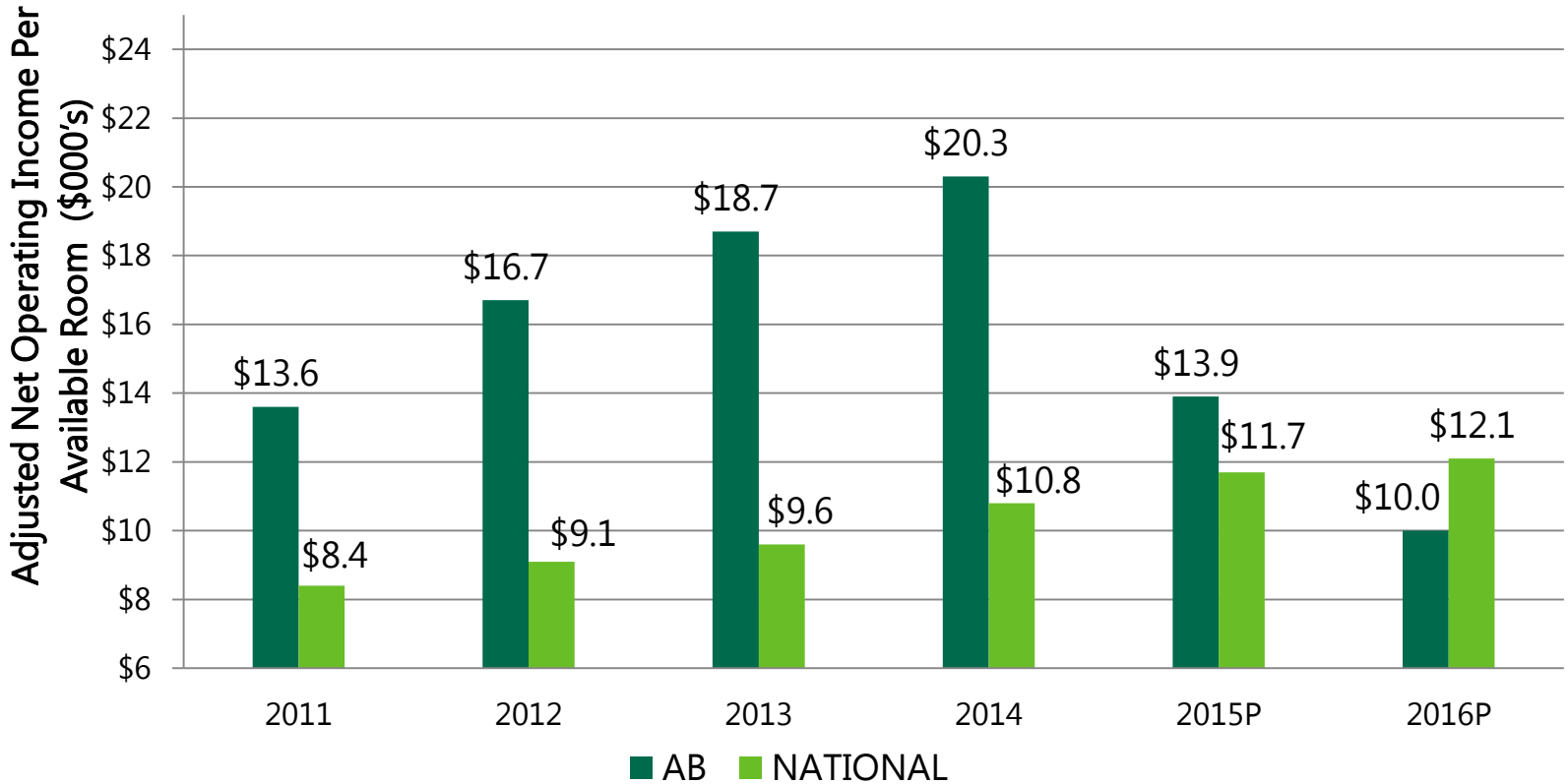
Alberta (Excluding Resorts)	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Forecast
Occupancy	59%	58%	62%	66%	68%	68%	59%	54%
ADR	\$129	\$125	\$126	\$132	\$138	\$143	\$140	\$137
RevPAR	\$76	\$73	\$78	\$87	\$94	\$97	\$82	\$74

Source: CBRE Hotels

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# ALBERTA FINANCIAL FORECAST



NOTE: Adjusted Net Operating Income is defined as income after property taxes, insurance, management fees, franchise fees, and capital reserves; but before rent, interest, income taxes, depreciation and amortization.

Source: CBRE Hotels



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# HISTORIC EXPENSE RATIOS – ALBERTA FULL SERVICE

Year 2014

Departmental Expenses	\$ Per Available Room	% of <u>Dept</u> Revenue
Rooms	\$9,496	25.7%
Food & Beverage	\$13,373	64.8%
Other Operated Departments*	\$1,069	62.8%
Undistributed Expenses	\$ Per Available Room	% of <u>Total</u> Revenue
Administration & General	\$5,171	8.5%
Marketing/Guest Entertainment	\$3,330	5.5%
Property Op. & Maintenance	\$2,504	4.1%
Energy Costs	\$2,302	3.8%
Property Taxes	\$1,693	2.8%
Insurance	\$284	0.5%

Source: CBRE Hotels

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# HISTORIC EXPENSE RATIOS – ALBERTA LIMITED SERVICE

Year 2014

Departmental Expenses	\$ Per Available Room	% of <u>Dept</u> Revenue
Rooms	\$6,073	18.8%
Other Operated Depts*	\$212	41.8%
Undistributed Expenses	\$ Per Available Room	% of <u>Total</u> Revenue
Administration & General	\$3,144	9.3%
Marketing/Guest Entertainment	\$1,243	3.7%
Property Op. & Maintenance	\$1,983	5.9%
Energy Costs	\$1,282	3.8%
Property Taxes	\$1,379	4.1%
Insurance	\$75	0.2%

Source: CBRE Hotels  
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# INVESTMENT

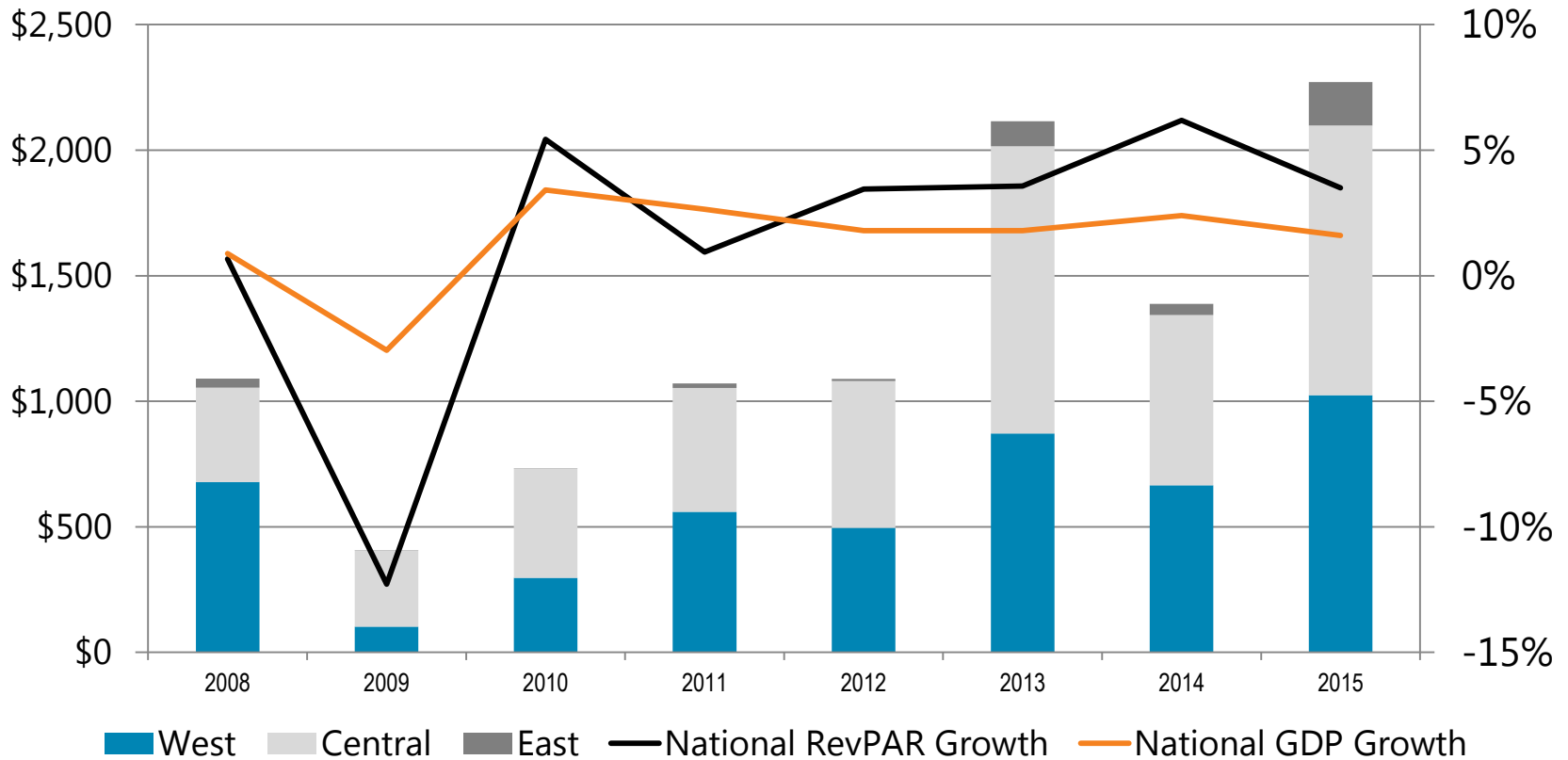
2016

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# HOTEL INVESTMENT CYCLE



Source: CBRE Hotels

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# ALBERTA TRANSACTION OVERVIEW

Canada	2008	2009	2010	2011	2012	2013	2014	2015
Total Transactions	96	74	89	102	103	131	136	135
Volume (\$ Millions)	\$1,090	\$410	\$730	\$1,200	\$1,090	\$2,110	\$1,400	\$2,300
Alberta	2008	2009	2010	2011	2012	2013	2014	2015
Total Transactions	22	10	11	16	25	28	27	15
Volume (\$ Millions)	\$344	\$77	\$111	\$167	\$335	\$501	\$293	\$265
% Volume of Total	32%	19%	15%	14%	31%	24%	21%	12%

Source: CBRE Brokerage

**12% of Total Transaction  
Volume in Canada in 2015**

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# CAPITALIZATION RATES

RESULTS FROM CBRE'S Q1 2016 CANADIAN CAP RATE SURVEY

HOTEL PROPERTY TYPE	NATIONAL	CALGARY	EDMONTON
Downtown Full Service	6.0% - 9.75%	7.75% - 8.75%	7.75% - 8.75%
Suburban Limited Service	6.5% - 10.5%	9.25% - 10.25%	10.0% - 10.5%
Focused Service	N/A	8.25% - 9.25%	9.0% - 10.0%

Indicated Discount Rates (National): 9.0% - 13.5%

Source: CBRE Limited – Q1 2016 Canadian Cap Rate Survey

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## KEY TAKEAWAYS

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- 2016 will be a difficult year in most markets – second consecutive year with Alberta GDP down and significant declines in RevPar and ANOI
- Oil prices are projected by many to improve slowly toward end of 2016
- Overnight travel to Alberta by international sources will help resorts and some urban markets, but not offset declines from domestic sources
- Consumer/business confidence levels remain low, which will continue to impact overnight travel by Albertans
- Volume of new room construction in Edmonton and Calgary is significant in 2016 and likely in 2017. Not as much in other markets
- Maintain diligence on controlling operating costs and holding ADR
- Developers/owners currently in good position to negotiate better prices for new construction, renovations, supplies/FF&E

Source: CBRE Hotels

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