ALBERTA ACCOMMODATION OUTLOOK 2014

Hospitality & Tourism
Business Advisors

PKF Consulting
Canada

Prepared For:

Tourism Division

Alberta Tourism, Parks and Recreation

Agenda

PKF

Hospitality & Tourism
Business Advisors

- Alberta Economic & Tourism Outlooks
- Alberta Supply & Demand Outlooks
- Provincial Forecasts
- Hotel Investment in Alberta
- Questions?

Alberta Economic & Tourism Outlooks

Hospitality & Tourism
Business Advisors

National Economic Outlook 2014/15

PKF

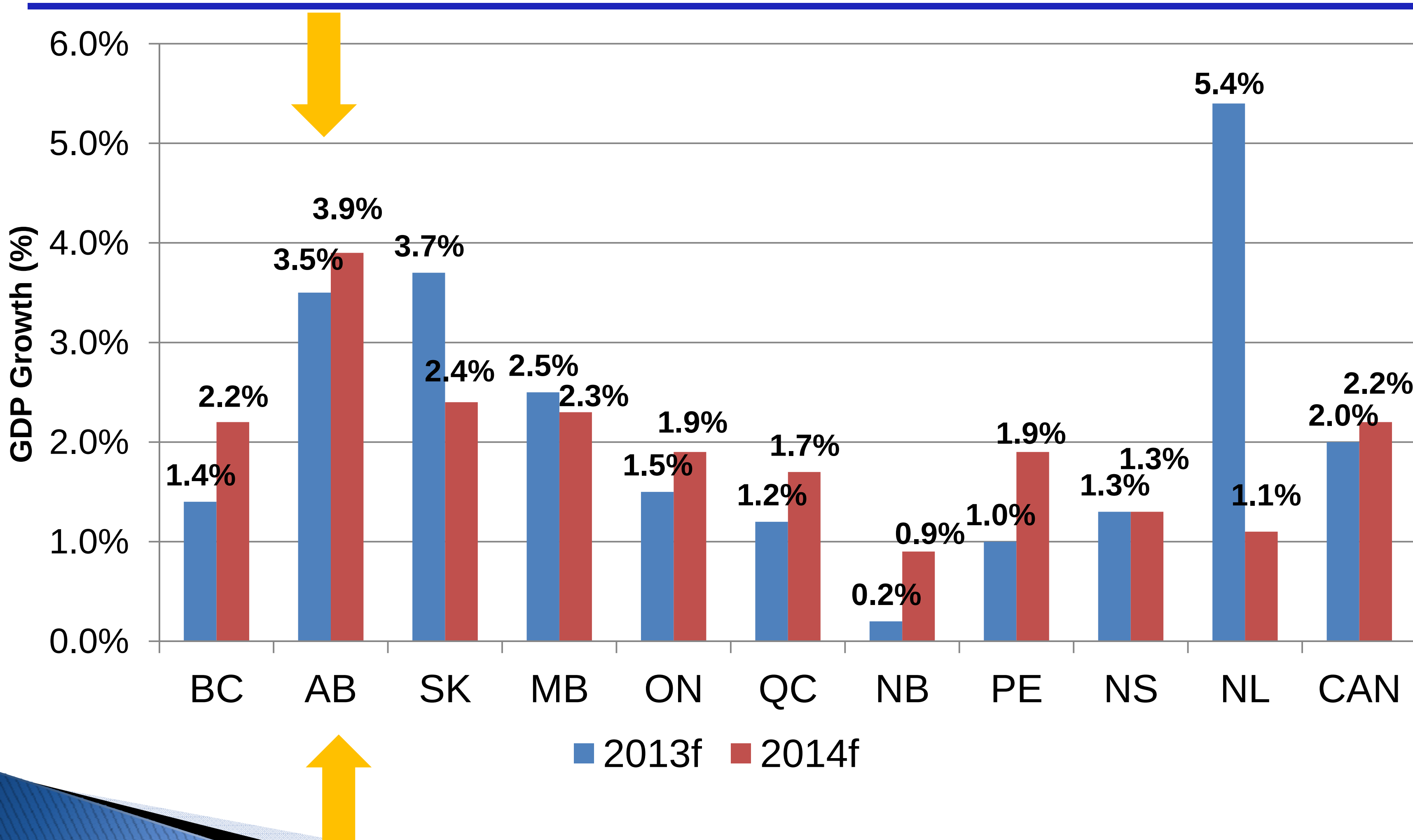
Hospitality & Tourism
Business Advisors

GDP Growth National	2013 Estimate	2014 Forecast	2015 Forecast
Conference Board	1.8%	2.3%	2.4%
Scotiabank Group	2.0%	2.2%	2.5%
CIBC World Markets Inc.	2.0%	2.1%	2.5%
RBC Economics Research	2.0%	2.5%	2.7%

Source: Conference Board of Canada, Winter Outlook 2014 (released February 2014), Scotiabank Group – Global Forecast Update March 26, 2014; CIBC World Markets – Economic Insights, March 12, 2014; RBC – Economic and Financial Market Outlook – March 2014

2013-14 Real GDP Growth by Province

PKF
Hospitality & Tourism
Business Advisors



Source: ScotiaBank Group, Global Forecast Update, March 26, 2014

Alberta Economic Outlook

PKF

Hospitality & Tourism
Business Advisors

	2000-2012 Average	2013 Forecast	2014 Forecast	2015 Forecast
GDP Growth (%)	3.2	3.5	3.9	3.3
Employment (% Change)	2.6	2.9	2.6	2.1
Unemployment Rate (%)	4.8	4.6	4.4	4.3
Housing Starts (annual, 000's of units)	34	36	37	36

Source: Scotiabank Group, Global Forecast Update – March 26, 2014

Alberta 2013 Tourism Indicators

Hospitality & Tourism Business Advisors

International Airport Passenger Volumes (Annual Growth %)		
	2012	**2013**
YYC	6.0%	4.9%
YEG	6.4%	4.6%

National Park Attendance (Annual Growth %)		
	2012	**2013**
Banff	3.5%	0.1%
Jasper	2.7%	2.5%
Waterton Lakes	1.0%	1.7%

- YTD Jan-Nov Food Service and Drinking Place Receipts up 6.7% over 2012
- Yr 2013 Total Visits to Historic Sites and Museums down -1.5%

Source: Travel Alberta, Alberta Tourism, Parks and Recreation

Alberta Travel Outlook 2013/14

PKF

Hospitality & Tourism
Business Advisors

% Changes	2012 Estimate	2013 Forecast	2014 Forecast
Business Travel Overnight Domestic	3.9	2.4	3.1
Pleasure Travel Overnight Domestic	4.1	2.3	3.4
U.S. Overnight Travel	5.3	0.8	3.3
Overseas Overnight Travel	-2.6	-0.4	2.9
TOTAL OVERNIGHT TRAVEL	**3.5**	**2.4**	**3.1**

Source: Canadian Tourism Research Institute, Conference Board of Canada Fall 2013 Forecast

Oil and Gas Factors Impacting Accommodation Demand

Hospitality & Tourism Business Advisors

- Major national/international pipeline projects aren't moving, but lower profile projects continue through construction phases
- Capital expenditures on oil sands projects forecast to reach record levels in 2014 (Peters & Co., March 2014)
- Natural gas prices are up and inventories are down in Q1 2014, leading to forecasts that gas drilling will increase for remainder of 2014

Source: PKF Consulting Inc

Oil and Gas Factors Impacting Accommodation Demand (Cont.)

PKF

Hospitality & Tourism
Business Advisors

- Total wells drilled in 2014 in Alberta to be up approx. 0.7% vs. 2013 totals (PSAC Forecast – Updated January 2014). This is an improvement over their previous forecast from November 2013

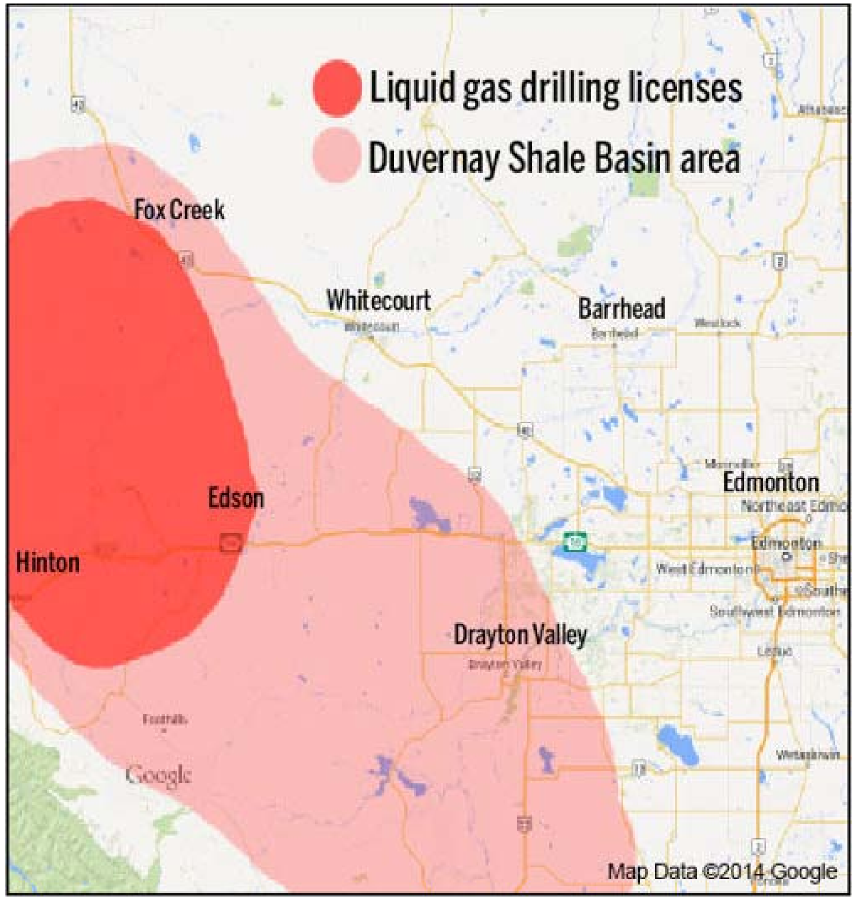
- Duvernay play in west central Alberta still a key development area

- Land sales continue to slump from 2011 peak – potential impact on prospective "emerging" areas of Alberta (ie. SE Alberta)

Source: PKF Consulting Inc

Duvernay

Hospitality & Tourism
Business Advisors

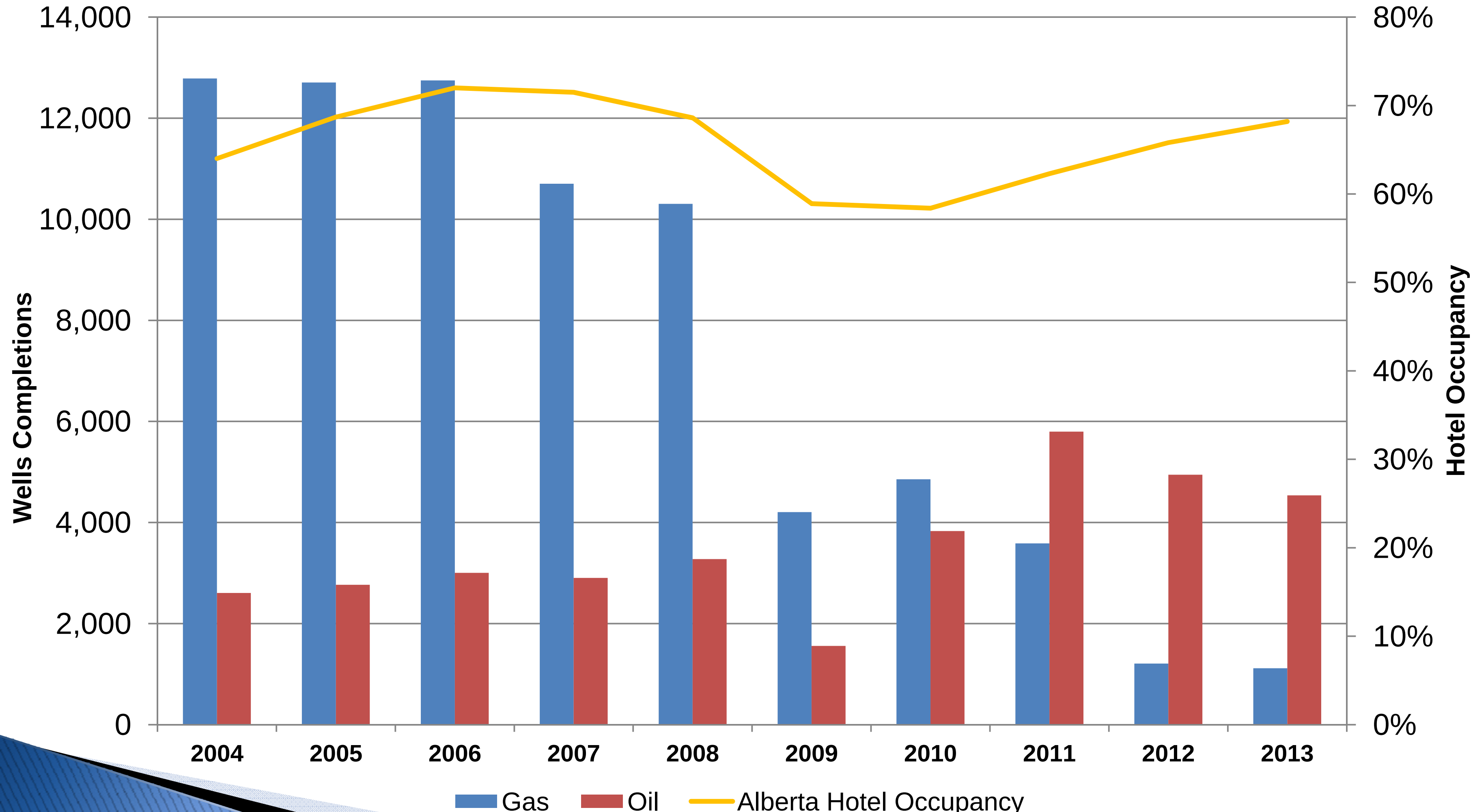


Source: Whitecourt Star

Well Completions & Hotel Occupancy 2004-2013

PKF

Hospitality & Tourism Business Advisors



Source: Nickels Daily Oil Bulletin & PKF Trends in the Hotel Industry

Other Key Factors Affecting Room Demand for Alberta

PKF

Hospitality & Tourism Business Advisors

- National GDP growth steady for 2014, Provincial growth is forecasted to be strong into 2014 and 2015
- Outbound travel by Canadians is still hurting domestic leisure travel volumes
- Consumer Confidence Levels up in March (Conference Board of Canada – March 25,2014) – 3rd consecutive month of increases
- US Consumer Confidence Levels also up in March 2014
- Steady increase in international overnight travellers from key emerging markets (incl. China)

Source: PKF Consulting Inc.

HAC 2014 Canadian Travel Intentions Survey – Key Findings

Hospitality & Tourism Business Advisors

- 81% of business travellers (nationally) will travel “More or the same” as in 2013, with business travellers in Prairie provinces having the highest increases in 2014
- 83% of leisure travellers (nationally) will travel “More or the same” in 2014
- Business travellers who indicated that they will travel **less** in 2014 cited fuel/energy costs and airfare rates as main reasons

Source: Hotel Association of Canada – 2014 Canadian Travel Intentions Survey

Surveys conducted in January 2014

HAC 2014 Canadian Travel Intentions Survey – Key Findings (Cont.)

PKF
Hospitality & Tourism Business Advisors

- Nearly 25% of business travellers now use web/social media when making hotel selection. 58% said "On line testimonials" have the most impact on their hotel selection

- Leisure travellers – 72% said "On line testimonials" have strong impact on their hotel selection

- 71% of all respondents indicated that they use smart phones when travelling (14% say they use their phones to book accommodation)

Source: Hotel Association of Canada – 2014 Canadian Travel Intentions Survey

Surveys conducted in January 2014

International Congress and Convention Association (ICCA) Stats

Hospitality & Tourism Business Advisors

ICCA Country and City Rankings 2012
By Country

Rank	Country	# Meetings
1	U.S.A.	833
2	Germany	649
3	Spain	550
4	United Kingdom	477
5	France	469
6	Italy	390
7	Brazil	360
8	Japan	341
9	Netherlands	315
10	China - P.R.	311
11	Austria	278
12	**Canada**	**273**
13	Australia	253
14	Switerland	241
15	Sweden	233

Source: ICCA

ICCA Country and City Rankings 2012
By City

Rank	Canadian City	# Meetings
34	Montreal, QC	67
38	Toronto, ON	60
45	Vancouver, BC	49
90	Quebec City	26
152	Ottawa, ON	16
243	**Banff, AB**	**9**
289	**Calgary, AB**	**7**
331	Halifax, NS	6
347	Niagara Falls, ON	6

Source: ICCA

Supply and Demand Outlooks

PKF

Hospitality & Tourism
Business Advisors

Source: Google

Accommodation Supply in Alberta

Hospitality & Tourism Business Advisors

- Over **2,300** rooms to open province wide in 2014 – largest total in past five years

- Over **50%** of these new rooms are opening **outside of** the Cities of Edmonton and Calgary (incl. Airdrie, Okotoks, Leduc, Lethbridge, Lloydminster, Spruce Grove, Red Deer)

- Over 90% of new rooms in 2014 will be branded

Source: PKF Consulting Inc.

Accommodation Supply in Alberta (Cont.)

PKF
Hospitality & Tourism
Business Advisors

- Calgary suburban markets seeing new supply but no projects in downtown core moving forward yet
- Edmonton openings include relaunch of former Mayfield as a Doubletree by Hilton plus a new Home2Suites
- Franchise Reps seeking additional branding/rebranding opportunities
- Construction Costs vs. Valuations

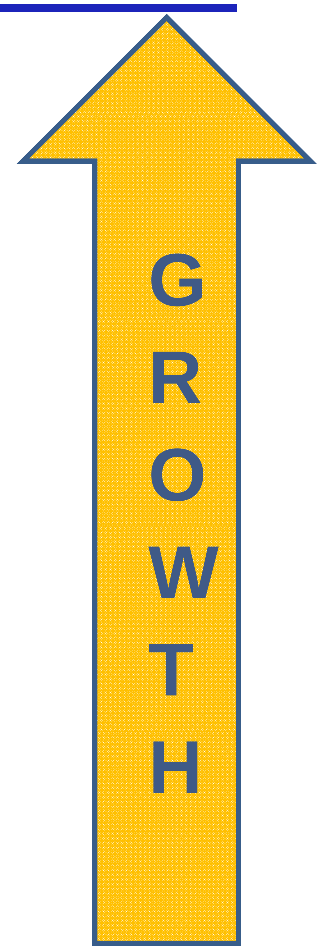
Source: PKF Consulting Inc.

Canadian National and Regional Market Outlooks

PKF

Hospitality & Tourism
Business Advisors

	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual
Western Canada	60%	60%	62%	63%	64%
	$129	$133	$130	$133	$137
RevPAR	$77	$80	$80	$83	$88
National	58%	60%	61%	62%	63%
	$125	$128	$127	$130	$133
RevPAR	$73	$77	$78	$80	$83



Source: PKF Consulting Inc.

Alberta – Occupancy & ADR 2011 to 2013

Hospitality & Tourism
Business Advisors

	2011 Actual OCC%	2012 Actual OCC%	2013 Actual OCC%	2011 Actual ADR	2012 Actual ADR	2013 Actual ADR
Overall Alberta (Excl Resorts)	**62.2%**	**65.8%**	**68.2%**	**$125.54**	**$132.38**	**$137.59**
Red Deer	**51.6%**	**56.8%**	**56.9%**	**$103.07**	**$107.53**	**$109.74**
Lethbridge	**56.9%**	**58.3%**	**62.0%**	**$102.43**	**$106.97**	**$108.65**
Resorts	**54.0%**	**56.3%**	**57.1%**	**$186.64**	**$196.03**	**$202.63**
Other Alberta*	**60.6%**	**62.7%**	**65.2%**	**$118.64**	**$126.61**	**$131.52**

GROWTH

*** NOTE: *"Other Alberta" EXCLUDES Red Deer, Lethbridge, Resorts, Calgary and Edmonton results.***

Source: PKF Consulting Inc. Trends In The Canadian Hotel Industry publication

Historic Comparisons 2000 to 2013

PKF

Hospitality & Tourism Business Advisors

	2000 Actual	2007 Actual	2012 Actual	2013 Actual
Overall Alberta (Excl. Resorts)	65%	72%	66%	68%
	$93	$126	$132	$138
RevPAR	$61	$92	$87	$94
Calgary	65%	74%	71%	73%
	$112	$142	$156	$162
RevPAR	$73	$105	$111	$118
Edmonton	63%	75%	67%	70%
	$87	$114	$122	$127
RevPAR	$55	$85	$81	$89
Alberta Resorts	68%	63%	56%	57%
	$194	$211	$196	$203
RevPAR	$131	$133	$110	$116
"Other" Alberta	67%	66%	62%	64%
(Incl. Lethbridge and Red Deer)	$73	$118	$121	$125
RevPAR	$49	$78	$74	$80

Source: PKF Consulting Inc.

Other Alberta Historic Performance

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

PKF

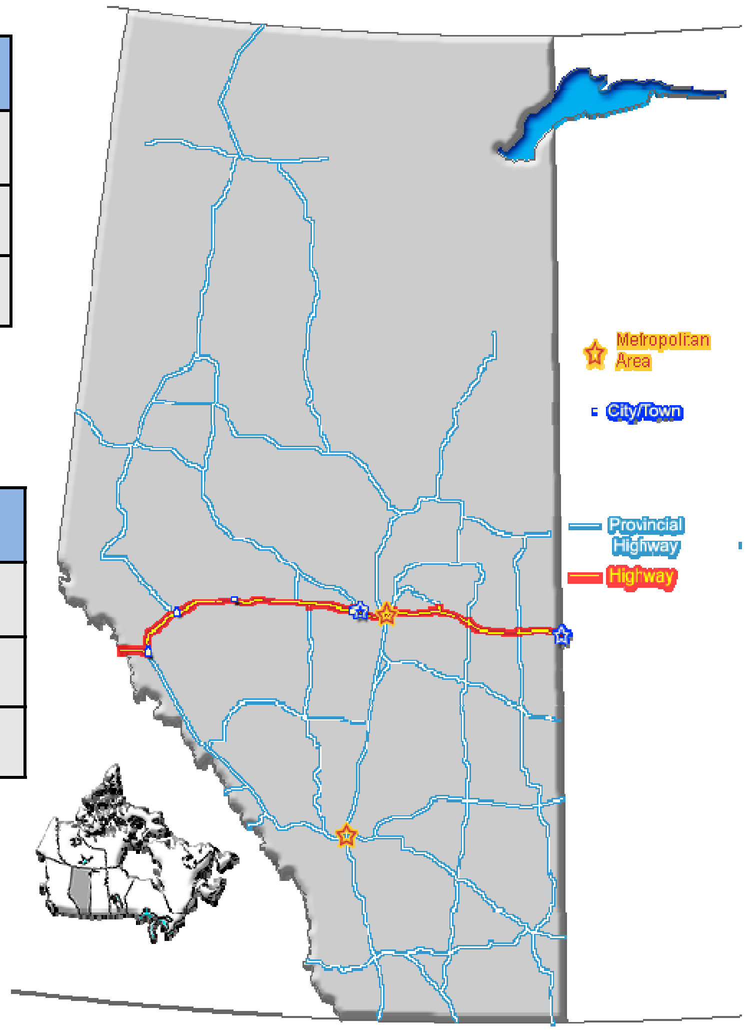
Hospitality & Tourism
Business Advisors

Other Alberta North*	2011	2012	2013
Occupancy	63%	65%	68%
ADR	$121	$131	$137
RevPar	$76	$84	$92

* Properties in Communities located ON or NORTH of Highway 16

Other Alberta South*	2011	2012	2013
Occupancy	56%	58%	60%
ADR	$113	$117	$122
RevPar	$63	$68	$74

* Properties in Communities located SOUTH of Highway 16



Source: PKF Consulting Inc, Wikipedia maps

Analysis of Impact of June 2013 Floods

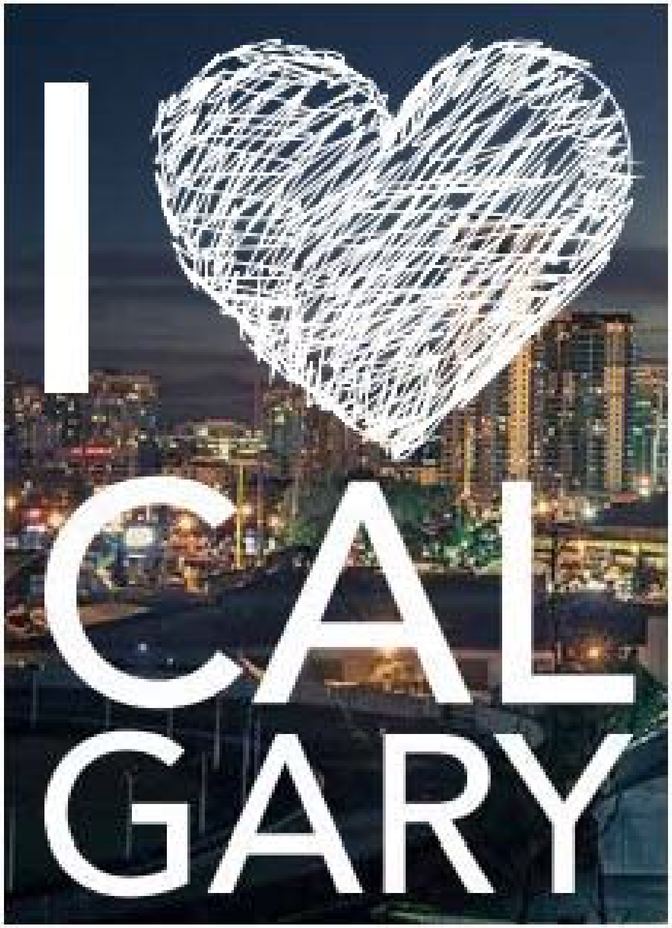
Hospitality & Tourism
Business Advisors

	2012 Actual	2013 Actual
YTD MAY RESULTS – ALBERTA (Excl. Resorts)	61%	63%
ADR	$133	$138
RevPAR	$81	$87
MONTH OF JUNE RESULTS - ALBERTA (Excl. Resorts)	70%	70%
ADR	$137	$140
RevPAR	$96	$98
MONTH OF JULY RESULTS -ALBERTA (Excl. Resorts)	71%	73%
ADR	$142	$145
RevPAR	$101	$106
YTD JULY RESULTS – ALBERTA (Excl. Resorts)	65%	67%
ADR	$133	$138
RevPAR	$86	$92
YEAR END RESULTS – ALBERTA (Excl. Resorts)	66%	68%
ADR	$132	$138
RevPAR	$87	$94

Source: PKF Consulting Inc.

Calgary Market Outlook

Hospitality & Tourism
Business Advisors



Source: Google

Calgary Economic Outlook

PKF

Hospitality & Tourism
Business Advisors

	2012	2013	2014 Forecast	2015 Forecast
GDP Growth (%)	4.1	3.4	3.7	3.2
Employment (% Change)	3.7	2.8	3.1	2.3
Unemployment Rate (%)	4.8	4.9	4.8	4.6
Housing Starts (annual, 000's of units)	13	12	13	13

Source: Conference Board of Canada – Metropolitan Outlook Winter 2014

Calgary Region Economic Highlights

Hospitality & Tourism Business Advisors

Economic Highlights

- Calgary has one of the country's strongest economies, and is projected to see highest GDP growth rates in the +3% range over the next few years
- Office space and industrial construction strongest in Canada for 2013 and will also be near the strongest % growth for major urban markets in 2014. Residential sales very strong in 2014
- New 14,000 runway at YYC will open in 2014, increasing both cargo and passenger carrier capabilities
- Output growth in services and manufacturing sectors should bounce back from year where flood impacted results

Source: PKF Consulting Inc., Conference Board of Canada

Calgary Travel Outlook 2013/14

Hospitality & Tourism
Business Advisors

% Changes	2013 Forecast	2014 Projection
Business Travel Overnight Domestic	2.1	3.7
Pleasure Travel Overnight Domestic	-0.8	5.6
U.S. Overnight Travel	-1.7	4.2
Overseas Overnight Travel	-0.7	5.3
TOTAL OVERNIGHT TRAVEL	**1.0**	**4.1**

Source: Canadian Tourism Research Institute, Conference Board of Canada, Fall 2013 Forecast

Calgary Accommodation Market Performance

PKF
Hospitality & Tourism Business Advisors

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 *Projection*	***2013-14 Change***
Occupancy	72%	65%	64%	67%	71%	73%	**72%**	**(1.0 pt)**
ADR	$151	$144	$143	$145	$156	$162	**$168**	**3.5%**
RevPAR	$109	$94	$91	$98	$110	$118	**$120**	**2.0%**

Source: PKF Trends in the Hotel Industry

PKF Consulting
Canada

Edmonton Market Outlook

Hospitality & Tourism
Business Advisors

Source: Edmonton Journal

Edmonton Economic Outlook

Hospitality & Tourism Business Advisors

	2012	2013	2014 Forecast	2015 Forecast
GDP Growth (%)	6.0	4.6	3.4	3.2
Employment (% Change)	3.3	3.5	0.5	2.5
Unemployment Rate (%)	4.7	4.7	4.6	4.5
Housing Starts (annual, 000's of units)	13	14	12	12

Source: Conference Board of Canada – Metropolitan Outlook Winter 2014

Edmonton Region Economic Highlights

Hospitality & Tourism Business Advisors

Economic Highlights

- GDP growth of 4.6% in 2013 (ranked 4th in Canada)
- Edmonton will have the country's 3rd strongest economy in 2014 (GDP Growth of 3.4% forecast)
- Forecast to see highest GDP growth rates in the country over the 2015 to 2018 period, averaging 3.1%

Source: PKF Consulting Inc., Conference Board of Canada

Edmonton Travel Outlook 2013/14

Hospitality & Tourism Business Advisors

(% Changes)	2013 Forecast	2014 Forecast
Business Travel Overnight Domestic	3.2	4.9
Pleasure Travel Overnight Domestic	3.2	4.2
U.S. Overnight Travel	1.9	3.2
Overseas Overnight Travel	1.6	2.8
TOTAL OVERNIGHT TRAVEL	**2.8**	**3.2**

Source: Canadian Tourism Research Institute, Conference Board of Canada, Fall 2013 Forecast

Edmonton Accommodation Market Performance

PKF

Hospitality & Tourism
Business Advisors

	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 *Projection*	*2013-14 Change*
Occupancy	73%	65%	62%	62%	67%	70%	**69%**	**(1.0 pt)**
ADR	$123	$120	$120	$119	$122	$127	**$131**	**3.0%**
REVPAR	$90	$78	$74	$74	$81	$89	**$91**	**2.0%**

Source: PKF Trends in the Hotel Industry

Historic Expense Ratios – Alberta Full Service – Year 2012

PKF

Hospitality & Tourism
Business Advisors

Departmental Expenses	$ Per Available Room	% of Dept Revenue
Rooms	$8,600	25.7%
Food & Beverage	$12,023	68.5%
Other Operated Departments*	$996	57.2%
Undistributed Expenses	**$ Per Available Room**	**% of Total Revenue**
Administration & General	$4,885	9.1%
Marketing/Guest Entertainment	$3,273	6.1%
Property Op. & Maintenance	$2,426	4.5%
Energy Costs	$2,133	4.0%
Property Taxes	$1,692	3.1%
Insurance	$212	0.4%

* Other Operated Departments includes Telecommunication expenses

Source: PKF Consulting Trends in the Hotel Industry – Canadian Edition 2013

Historic Expense Ratios – Alberta Limited Service - Year 2012

PKF Hospitality & Tourism Business Advisors

Departmental Expenses	$ Per Available Room	% of Dept Revenue
Rooms	$6,013	20.8%
Other Operated Depts*	$282	59.3%
Undistributed Expenses	**$ Per Available Room**	**% of Total Revenue**
Administration & General	$2,595	8.3%
Marketing/Guest Entertainment	$958	3.1%
Property Op. & Maintenance	$1,903	6.1%
Energy Costs	$1,261	4.0%
Property Taxes	$1,206	3.9%
Insurance	$55	0.2%

* Other Operated Departments includes Telecommunication expenses

Source: PKF Consulting Trends in the Hotel Industry – Canadian Edition 2013

PKF Provincial Forecasts

Hospitality & Tourism
Business Advisors

Source: Google

Alberta "Top Line" 2014 Forecast

PKF

Hospitality & Tourism
Business Advisors

Alberta (Excluding Resorts)	2011	2012	2013	2014 Forecast
Occupancy	62%	66%	68%	69%
ADR	$126	$132	$138	$143
RevPar	$78	$87	$94	$99

RevPar % Change

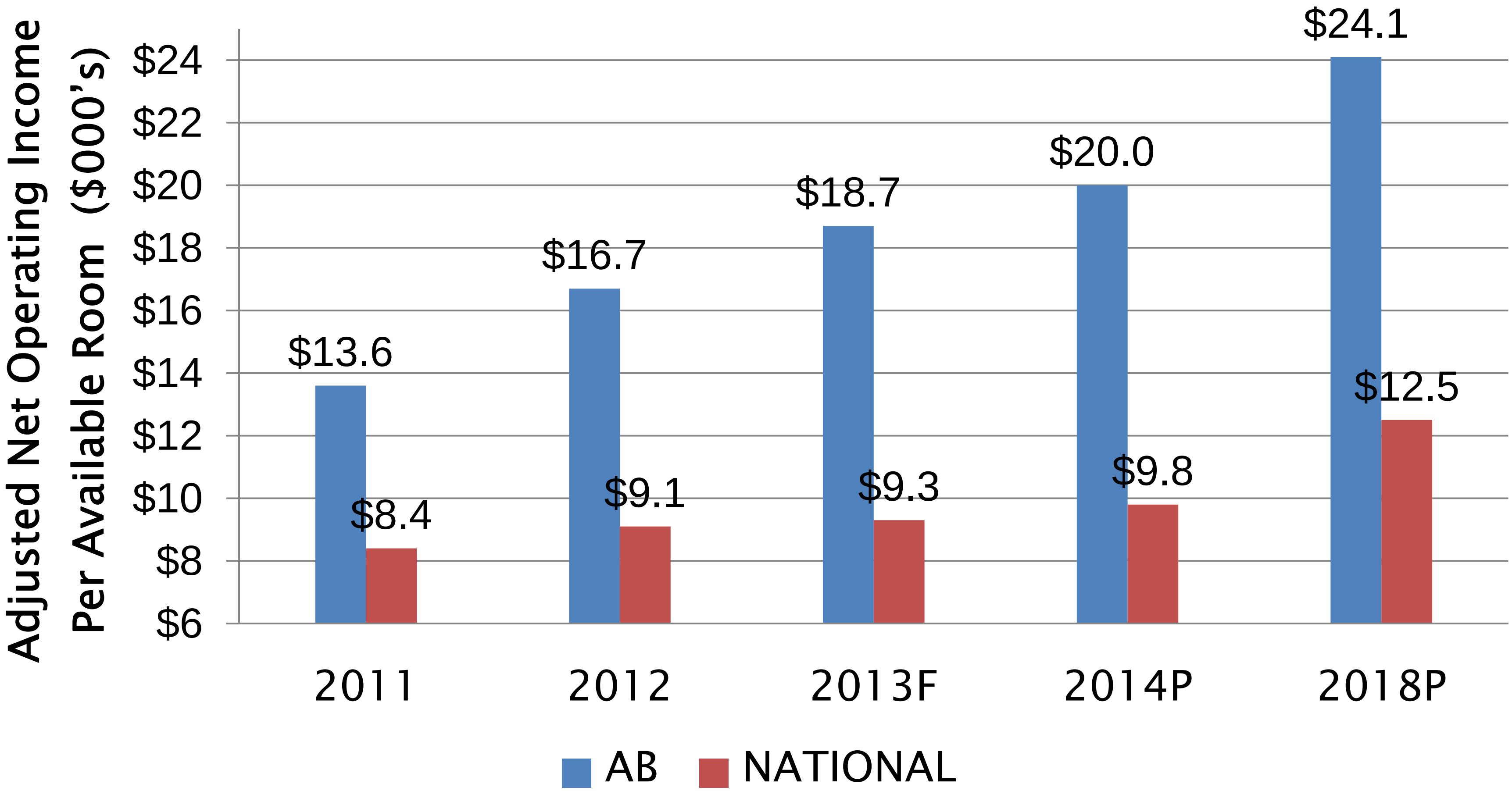
11.1% ***8.0%*** ***5.4%***

PKF Consulting
Canada

Source: PKF Consulting Inc.

Alberta Financial Forecast

PKF
Hospitality & Tourism
Business Advisors



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: PKF Consulting Inc.

Hotel Investment in Alberta

PKF

Hospitality & Tourism
Business Advisors

Source: Google

Alberta Transaction Overview

Hospitality & Tourism
Business Advisors

Canada	2008	2009	2010	2011	2012	2013
Total Transactions	92	74	86	99	116	115
Volume ($ Millions)	$1,072	$414	$717	$1,107	$1,178	$2,023

Alberta	2008	2009	2010	2011	2012	2013
Total Transactions	14	9	14	17	30	24
Volume ($ Millions)	$280	$66	$114	$194	$391	$494
% Volume of Total	27%	16%	16%	18%	34%	24%

Source: Colliers International Hotels 2014 Canadian Hotel Investment Report

24% of Total Transaction Volume in Canada in 2013

Lending & Investment

Hospitality & Tourism Business Advisors

- **PKF Projections for 2014 (National)**
  - **Overall Capitalization Rates (Next 12 Months)**: **8.5%-9.5%**
  - **Terminal Capitalization Rates: 9.0%-10.0%**
  - **Discount Rates: 11.0%-12.0%**

Key Takeaways

Hospitality & Tourism
Business Advisors

- Oil prices should remain at levels that justify continued capital spending and output for 2014

- Natural gas prices are up and inventories down, leading to forecasts that drilling will continue throughout 2014. But not expected to have significant impact on accommodation performance province wide

- Overnight leisure visitation improving in 2014

Source: PKF Consulting Inc.

Key Takeaways

Hospitality & Tourism Business Advisors

- Strong increase in new hotel supply this year
- More modest growth in total occupied rooms in 2014 compared with 2013 and 2012
- ADR Growth projected to be comparable (in absolute $$) to 2013 growth
- Profitability of the accommodation sector in Alberta will increase in 2014

Source: PKF Consulting Inc.

Thank you!!

Hospitality & Tourism
Business Advisors

Awarded to PKF Consulting Canada by Hotelier Magazine, December 2011

Presented by:

David Ferguson
Senior Associate
davidferguson@pkfcanada.com

PKF VANCOUVER OFFICE

1120 – 800 West Pender St.
Vancouver, BC
V6C 2V6

(604) 689-3833

pkfvancouver@pkfcanada.com