# HOTELIER

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THE 2016 **CANADIAN HOTEL INVESTMENT** ISSUE

# Building MOMENTUM

*Panelists at Hotelier's Investment Roundtable are cautiously optimistic about Canada's 2016 hotel landscape*

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COVER PHOTOGRAPH BY JOHN HRYNUIK

EDITOR'S PAGE

# ROLLING THE DICE

Sometimes, real-estate deals which transpire in the hotel industry make it feel like a game of Monopoly. From one moment to the next, no one really knows what each roll of the dice will bring. Which player will land on the property of choice? How much will the transaction cost? How long will it take to close the deal? And finally, how will it impact the rest of the marketplace?

These are only a few of the questions that typically surface in any real-estate transaction. But, earlier this year, in the case of Marriott's acquisition of Starwood Hotels, the deal took on a life of its own as a consortium of Chinese companies, led by Anbang Insurance Group, made a competing and unsolicited offer to acquire the American behemoth, adding an unexpected twist to an already complex acquisition. For several weeks, a bidding war ensued and just when it seemed like a decision had been finalized, a new offer was on the table, leading one to speculate just how long the acquisition process would take. For Marriott, the back-and-forth machinations ended up costing them more on the deal and delaying the outcome. Ultimately, patience prevailed and the process was finally settled with Marriott emerging victoriously; but not before a lot of nerves were frayed.

On the flip side, Accor's acquisition of Fairmont Hotels & Resorts has been less frenetic and, perhaps, more straightforward, with little additional information surfacing since the deal was announced late last year. But like the Marriott deal, the impact of this buyout has yet to be determined. What will happen to the Fairmont brand? Will the company remain headquartered in Canada or move to Europe? How will the acquisition impact staff here?

Welcome to the world of hotel investment. While we may liken real-estate deals to a game, they're anything but. This is serious business with high stakes and sometimes high anxiety. Last year, a total of $2.47 billion was exchanged among buyers and sellers in Canada, representing almost 150 deals. It's been a strong year for the Canadian marketplace, as many of the stories in this special Canadian Hotel Investment Issue illustrate (*See stories beginning on p.14*). But, it's also been a busy one with regard to mergers and acquisitions — and not just as it relates to hotels. Even real estate, consultancy and lending communities were involved. In the past year, CBRE acquired PKF; DTZ acquired Cushman & Wakefield and in mid-April, Canadian Western Bank bought GE Capital's Candian Franchise Finance business.

Granted, it may appear that these transactions involve only two sides — a buyer and a seller — but the reality is far greater in scope, as each of these deals ultimately affects the broader industry at large in ways we can't always predict.

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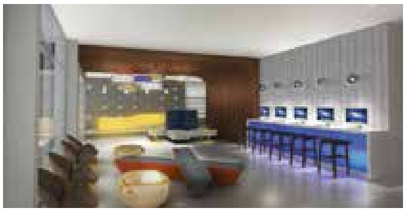


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# UPPING THE ANTE

A competing bid forced Marriott's hand, resulting in a better offer for Starwood **BY** DANIELLE SCHALK

The proposed Starwood Hotels & Resorts Worldwide Inc. and Marriott International Inc.'s merger has become one of the most interesting business deals in the industry's history. The hotel giants made front-page headlines worldwide when a bidding war over Starwood unexpectedly broke out in March.

The media frenzy began when Starwood announced it had received an unsolicited buyout offer from a consortium of Chinese companies led by Anbang Insurance Group. This new bid — announced just two weeks prior to the date both Starwood and Marriott stockholders were set to vote on the merger of the two companies — solidified into an offer of $78 per Starwood share, which Starwood deemed superior to Marriott's proposal. Marriott countered with an offer of $13.6 billion ($79.53 per share), which Starwood accepted on March 21.

Anbang upped the ante once again with an offer of $14 billion — an increase of $4.75 per share from the consortium's previous bid. However, the heated battle came to an abrupt end when the Chinese consortium, for reasons unknown, withdrew its offer just days later. With Anbang and company out of the running, stockholders of both Starwood and Marriott voted to accept the amended merger agreement between the two companies in early April, which means things are back on track for a mid-2016 closing date.

"The logical buyer — from an operational and synergy standpoint — won the war and won it at the top end of the price range that made sense for them," says Lyle Hall, managing director of Toronto-based HLT Advisory.

With the formation of the world's largest hotel company on the horizon, Hall notes that a buyout by Anbang would likely have had less impact on the lodging industry, from both a global and Canadian standpoint — citing hotel owners' negotiating power as a key area which could be affected by the merger.

While the merger has received regulatory approval from several jurisdictions, including the U.S. and Canada, it still needs to clear anti-trust reviews in the European Union and China.

## JOINING FORCES

As Marriott International's acquisition of Starwood Hotels & Resorts Worldwide nears closing, Marriott has been hard at work making plans for the future of the combined company. "We expect to accelerate the growth of Starwood's brands, leveraging Marriott's worldwide hotel development organization and owner and franchisee relationships," says Arne Sorenson, president and CEO of Marriott International. "The company will have a broader global footprint and the most powerful frequent traveller programs in the industry, strengthening Marriott's ability to serve guests wherever they travel."

As a result of due diligence and joint-integration planning, Marriott believes it will be able to achieve $250 million in annual cost synergies within two years of closing the deal, up from $200 million estimated in November 2015.

## DOUBLING UP

A key challenge of the Marriott/Starwood merger will be determining how to combine the Marriott Rewards and Starwood Preferred Guest (SPG) programs. The two loyalty programs currently have very different structures and client-bases, as well as partnerships with competing credit-card companies. In a recent message to SPG members, Marriott stated: "we don't anticipate launching a newly combined program until 2018. In the meantime, we're actively exploring ways to build bridges between the two programs to further enhance [customer] experience."

## TORONTO PREMIER

Best Western's Premier brand has landed in Toronto with last month's opening of the Best Western Premier Toronto Airport Carlingview. "We are excited for the Best Western Premier Toronto Airport Carlingview Hotel to be the first Premier Hotel to serve the Toronto market," says Roshan Jainudeen, GM. "This hotel, within a bustling metropolitan area, offers comfortable, yet sophisticated accommodations that will meet an array of travellers' varying needs." The 119-room property — previously an InterContinental Hotel Group's Indigo hotel — offers on-site dining, room service, 24-7 fitness centre, business centre, heated lap pool, steam room and Smart TVs in the guestrooms. "We are looking to create a larger presence in first-tier urban markets such as Toronto, especially with our Best Western Premier and Vib brands," says Ron Pohl, SVP of Brand Management at Best Western Hotels & Resorts. "This is a very welcome addition to our expanding family."

## ON THE RISE

The global hotel construction pipeline hit an all-time high in April, checking in at 11,130 projects/1.9 million rooms. This represents the highest level Lodging Econometrics (LE) has ever recorded. According to the latest Global Construction Pipeline Trend Report from LE, the global pipeline is up nine per cent year-over-year by both project and room numbers, led by significant growth in the U.S. Globally, 5,287 projects/986,913 rooms are under construction, up one per cent by projects and three per cent by rooms. The number of projects scheduled to begin construction in the next 12 months — 3,041 projects and 440,632 rooms — is up 30 per cent and 25 per cent respectively.

## COMING EVENTS

**May 16-17:** Canadian Hotel Investment Conference, Fairmont Royal York and Metro Toronto Convention Centre, Toronto. Tel: 416-924-2002 ex. 233; email: vickiwelstead@bigpictureconferences.ca, website: hotelinvest.ca

**May 24-26:** 2016 Tourism Industry Association of B.C. AGM & Summit,Sun Peaks, B.C. Tel: 604-685-5956; email: info@tiabc.ca, website: tiabc.ca

**June 16:** Kostuch Media's Icons & Innovators Breakfast featuring Cora Tsouflidou, Sheraton Centre Toronto Hotel, Toronto. Tel: 416-447-0888 ex. 235; website: foodserviceandhospitality.com/shop

**June 20-23:** HITEC 2016, Ernest N. Morial Convention Center, New Orleans. Email: attendee@hftp.org; website: hftp.org explore-hitec

**Sept 22:** Kostuch Media's Icons & Innovators Breakfast featuring George Cohon, Sheraton Centre Toronto Hotel, Toronto. Tel: 416-447-0888 ex. 235; website: foodserviceandhospitality.com/shop

**Sept. 25-26:** 3rd Annual ILHA Luxury Hospitality Summit, Gaylord National Resort & Convention Center, Washington D.C. website: luxuryhotelconference.com

**Sept 26-29:** The Lodging Conference, Phoenix. Tel: 610-436-8400; email: harry@lodgingconference.com; website: lodgingconference.com

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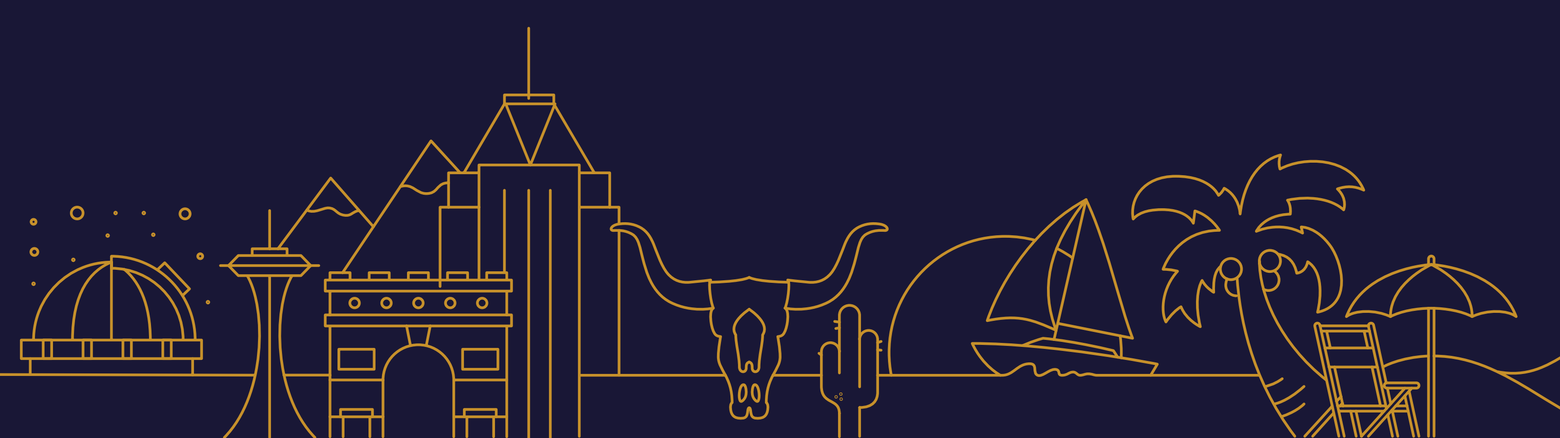


*Ed Khediguian*

## GE CANADIAN FRANCHISE FINANCING SOLD TO CWB

Following months of speculation, the Canadian Western Bank has acquired GE Capital's Canadian Franchise Financing business. The acquisition means the company will be in the hands of Canadian ownership with a Canadian market and industry focus. According to Ed Khediguian, senior vice-president of Franchise Finance, GE Canadian Franchise Financing, "CWB is committed to supporting the future growth of the franchise finance business after the transaction closing date, expected in the second quarter of calendar 2016." With the acquisition, the business will be operated as an extension of CWB's commercial banking focus, with the same dedicated team of experts currently employed by GE, "leveraging the average tenure of 10 years in place," says Khediguian. It will also maintain a distinct industry focus and brand, likely under a new banner of CWB Franchise Finance. "We expect CWB's ownership to increase the service options we can provide to our customers in the future, including additional financing options and comprehensive commercial banking services," says Khediguian. — *Rosanna Caira*

# InBrief

**Sheraton Hotels & Resort**s has unveiled the results of an extensive $120-million renovation of the **Sheraton Centre Toronto Hotel**. The two-year refurbishment project included a complete overhaul of all 1,372 guestrooms and suites, as well as a function space expansion and meeting room restorations…**Hilton HHonours** and **Marriott Rewards** tied for highest overall customer satisfaction in J.D. Power's 2016 Hotel Loyalty/Rewards Program Satisfaction Report, each receiving 741 of a possible 1,000 points. **IHG Rewards** followed close behind with a total of 722 points…**Starwood**'s newly launched **Tribute** brand is set to debut in Quebec City next year with the opening of **Hotel Pur Quebec**. The 242-room property, formerly a **Tryp by Wyndham**, will undergo a makeover before opening…The

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world's first international organization for GMs, dubbed **The Honourable Order of International Hotel General Managers** (HOIHGM), has officially launched from its regional headquarters in Dubai. The organization is designed to raise the profile of hotel GMs, while providing a range of professional and personal membership benefits. Membership is open to all hotel GMs, former GMs, owner/operators, as well as retirees and aspiring young professionals on the career path to becoming a GM....**Choice Hotels Canada** opened four new hotels during the first quarter of 2016, growing its total number of properties to 321. Openings include: **Quality Inn Airport, Dieppe**, N.B.; **Quality Inn & Suites, Kingston**, Ont.; **Quality Inn & Suites, Grande Prairie**, Alta.; **Quality Inn & Suites, Yellowknife**, N.W.T. The company expects to open seven hotels in the second quarter of 2016... A new **Four Points by Sheraton** has landed on the Regina hotel scene. The new **Four Points Regina** features 127 guestrooms, 1,210-sq.-ft. of meeting facilities and a full-service restaurant, **Movado's Grill**. Four Points' growing pipeline includes the **Four Points Edmonton West, Four Points Grande Prairie**, Alta. and **Four Points by Sheraton Sherwood Park**, Alta....**Realstar Hospitality** has opened its newest franchise location — **Days Inn & Suites – Moncton**. The 151-room building owned and operated by **Holloway Lodging Corporation**, features a super-sized indoor pool, fitness centre, free Wi-Fi, meeting and conference space...**The Pan Pacific Hotel Vancouver** has completed its major renovation of its guestrooms and public spaces. The guestrooms reflect the Italian-style elegance with warm sandy tones and the hotel's signature Birdseye maple, while the hotel's 42,000-sq.-ft. of conference and meeting space now offer new audio-visual technology. The hotel is set to undergo a second set of renovations focused on the Pacific Club Lounge and Club floors.

# People

**Groupe Germain** has named two new GMs; **Marie Pier Germain** is the new GM of the **Alt Hotel Montreal** and **Julie Brisebois** is set to take the helm of the new **Alt Hotel Ottawa**, opening this spring. Germain most recently served as director of Operations at the **Alt Hotel Montreal**. Brisebois was previously GM of the **Alt Hotel Dix30** in Brossard, Que., and recently the Alt Hotel Montreal...**David Cloutier** has joined the team at Calgary-based **Superior Lodging Corp.** in the role of director, Franchising and Development. Cloutier, who has a background in restaurant management and finance, will help grow the Travelodge and Super 8 brands in Quebec and the Maritimes...**Antoine**

David Cloutier

Julie Brisebois

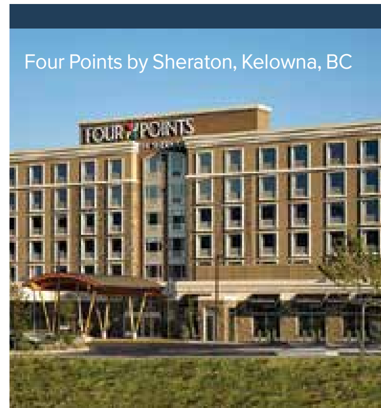
**Blanc** is now CFO for North America, Central America and Caribbean Region (NCAC) at **AccorHotels**. Blanc served as the group's CFO for Mexico since 2012. Prior to this role, he held various positions supporting strategic projects in the group's Corporate Finance department in Paris…**Simon Renaud** is now heading the **Hilton Quebec**'s culinary operations, including banqueting services and its two restaurants, **Allegro** and **Resto Le23**. With more than 20 years of experience, chef Renaud has worked at several major hotels in Quebec City and Montreal, including the **Hyatt Regency Montreal**, **Château Mont-Sainte-Anne** and the **Delta Hotel in Montreal**…**David Spero** is the new executive chef at the **Calgary Marriott Downtown**. In this role, Spero will be responsible for all of the property's food-and-beverage operations, including catering for the newly expanded meeting space, **One18 Empire** and the **Calgary Telus Convention Centre**.

## SupplySide

Cambridge, Ont.-based **Dimplex** has released its new Opti-myst Pro 1000 Electric Fireplace Cassette, which offers design versatility for residential and commercial spaces, including the ambiance of a fireplace in locations where gas is impractical or not allowed. Designed to be permanently installed into any framed construction, the chassis works with almost any design and finish material…**Cintas Corporation**, based in Chicago, launched its 2016 Uniform Book, featuring innovative fabric technologies and more than 60 new garments. The 2016 lineup features updated silhouettes, as well as eco-friendly, EcoGir anti-bacterial and odor-blocking Odegon Shield fabric options…Toronto-based **The HIDI Group** has partnered with Gaithersburg, Md.-based **Electro-Media Design Ltd.** (EMD) to deliver more comprehensive AV, IT and engineering services for the lodging industry. The two companies have previously collaborated on several projects worldwide, including 11 Four Seasons Hotels and The Quin Hotel in New York.








Four Points by Sheraton, Kelowna, BC

Hyatt Place, Edmonton AB

# ON THE MOVE

The annual HAC Conference highlighted the challenges posed by the rapidly evolving hotel industry

**BY** JACKIE SLOAT-SPENCER

*LEVELLING THE FIELD*
*A panel of experts discussed Canada's sharing economy*

It was Tony Pollard's final Hotel Association of Canada (HAC) conference, as the president of the Ottawa-based association prepares to retire later this year. As the audience toasted the long-running advocate, they learned about innovations, the new sharing economy and the state of the industry.

"What an unpredictable year it's been," said Philippe Gadbois, SVP of Operations at Atlific Hotels and Chairman of the Board at HAC. "The Canadian stock market was one of the biggest losers in the developed world; the country's once-hottest economy, Alberta, became a 'have-not' province, and yet, 2015 was generally a good year in the hotel industry in this country."

Ending the year with 64-per-cent occupancy, ADR of $144 and $94 in RevPAR, the Canadian hotel industry is expected to see occupancy contract and a slight improvement in both ADR and RevPAR in 2016.

But new challenges are presenting themselves. "We continue to deal with the so-called 'shared economy,'" Gadbois added. "Our position and message is clear; provincial and municipal governments are leaving a ton of money on the table. Private hotel rooms must be regulated and treated the same way as all of our hotel rooms. Taxes should be paid on the total room, not simply the net. It must be a level playing field."

That sentiment was debated during a panel discussion featuring Airbnb's country manager for Canada, Aaron Zifkin, AskForTask Inc. CEO Muneeb Mushtaq and Rover Parking founder Tim Wootton. "In the past 12 months, interest in the sharing economy is tremendous," said Mushtaq. "The normalization or legitimization is the most drastic change in the past year," Zifkin added. But, when it comes to insurance and taxation, "insurance is still behind and they're working hard to come up with a product that makes sense for what's being offered," Wootton said.

In a later session, Canadian Minister of Small Business and Tourism Bardish Chagger urged the audience to keep the momentum going leading up to Canada's 150th birthday, while former CEO of Hilton Group, Sir David Michels admitted that after 52 years in the hospitality industry, he's found the recipe to success is about the right location, great employees, understanding the customer, offering value and above all, a comfortable bed.

Meanwhile, the HAC Hall of Fame Awards of Excellence were presented to Scott Allison, Marriott Hotels of Canada (Humanitarian Award); Carolyn J. Clark, FRHI Hotels & Resorts (Human Resources Award); The International Centre, Toronto (Green Key Meeting Award); and Pemberton Valley Lodge (Green Key Energy & Environment Award).

The day ended with a champagne toast, celebrating Pollard's 25 years with HAC. "The world has changed so much in the days since I was hired in 1991," he said.

Pollard also shared how proud he was of the Green Key program and HAC's government-relations department. "Look at where we are today with the government and how they listen to us. For example, we had a tourism budget last year, we now have a federal tourism strategy. All of these things are happening because we have a good government-relations program in Ottawa and, as I leave later this year, that's what I am most proud of." ◆

## THE RESULTS ARE IN

Topics such as air-travel costs, the low Canadian dollar and the proliferation of technology were on the table at the Hotel Association of Canada (HAC) conference, which released details from its annual Travel Intentions Survey. The economy is affecting travel plans, and 20 per cent of respondents said they would travel more because of cheaper airfare, discount accommodations and the low Canadian dollar. But 91 per cent said Canadian air-travel costs are too high and 68 per cent said it was due to taxes/surcharges. When it comes to new technology, more than half of respondents were unwilling to trade face-to-face interaction for mobile check-in. Meanwhile, 77 per cent of business travellers comparison-shop room rates while 64 per cent said they can get a better rate from a third party. Respondents agreed there is a benefit to booking directly with a hotel (84 per cent) and 79 per cent said they would do so if given free amenities.

# BUILDING MOMENTUM

*Panelists at* Hotelier*'s Investment Roundtable were cautiously optimistic about Canada's 2016 hotel landscape*

***THE PANEL*** (clockwise from far left) *Tony Cohen, Crescent Hotels & Resorts; David Larone, CBRE Ltd.; Drew Coles, InnVest REIT; Lin Saplys, API; Curtis Gallagher, Cushman & Wakefield; Scott Duff, Starwood Hotels & Resorts; Edward Khediguian, GE Capital Franchise Finance; Allison Reid, Starwood Hotels & Resorts; and Steve Gupta, Easton's Group of Companies*

INTERVIEW BY ROSANNA CAIRA

In 2015, mergers and acquisitions fuelled growth in the Canadian hotel industry, resulting in a strong year for many of the major brands. However, midway into 2016, hoteliers are taking an increasingly cautious approach to growth predictions. Geopolitical factors, the falling price of oil and a weak Canadian dollar were cause for unease entering the first quarter of 2016. Despite these concerns, panelists at last month's *Hotelier* Investment Roundtable were cautiously optimistic about the coming year.

***Hotelier*: What type of year was 2015 for your company and the hotel industry in Canada?**

**David Larone:** In the past year we sold our practice to CBRE. It was a busy year from a work perspective in Canada but also a lot of work in the Caribbean and Latin American. I'm generally optimistic about the Canadian industry. We have some areas that are struggling, but if we look at the West and Central Canada, it's a pretty positive outlook — some interesting dichotomy in the industry, but generally positive.

**Steve Gupta:** For us, last year was steady. We launched the Gupta Group and we were the fastest-selling condominium developer in the GTA with two large multi-use projects — one in York Mills and one downtown on Bloor St. at Rogers Way. This year we will be building two more hotels — a Starwood Element and a Residence Inn in Mississauga. Four more hotels are in development now.

**Tony Cohen:** Last year, we bought the Hotel Pur in Quebec City and signed an agreement with Starwood to become the first Tribute in Canada. As Crescent Hotels, we grew the company by 25 hotels across North America last year — specifically in Canada we grew by eight hotels. We now have more than 14 in Canada — we are in six provinces and 28 states.

**Allison Reid:** Last year was a very good year for Starwood. We signed 220 deals, which is a high watermark for Starwood — roughly half are managed, half are franchised globally. A lot of our growth is in Element and Aloft — Select Service. Globally, the regions are performing as you would expect. Oil-based regions are having difficulty, just like in Canada, while most of the other markets are having really good years. Our concerns in 2015 were the same concerns we all have about our own investments due to political risk. Geopolitical risk, the impact of oil prices on the market and what happens with oil will determine what happens market-by-market.

**Curtis Gallagher:** We went through a merger last year and were acquired by new owners. We went from the fifth-largest real-estate service company in the world to the second or third. That will help us in terms of broader reach because what we are seeing in the market, particularly in Canada, is a lot of foreign investments... The last three or four deals I completed in Canada have been either new capital to the hotel business or new investments in the country and that's encouraging. For us, 2015 was strong and 2016 will be as well. There will be more product out there and probably a landscape change in terms of the ownership profile.

**Edward Khediguian:** In April of last year, GE announced it was exiting completely out of its capital businesses and refocusing the company into primarily an industrial-based, technology-based company.
A Canadian institution will be buying the Canadian platform built over the years. It's an institution that wants to build its presence in the hotel and restaurant industries in Canada, so it's a good thing. [*Editor's Note: A few days after the investment roundtable, it was announced that Canadian Western Bank had acquired GE Capital's Canadian Financial Franchise business*].

***Hotelier*: What kind of year do you think 2016 will be?**

**Larone:** Notwithstanding what's taking place in the resource sector in the country, we're still looking at RevPAR growth nationally in the range of 2.6 per cent for the year. In Western Canada, we're down about a half a point — that's Alberta and Saskatchewan weighing on B.C. — but RevPAR growth is in the seven per cent range for Metro Vancouver and six per cent for Central

Canada (Ontario and Quebec). We're probably going to be looking at GDP growth in the first quarter in Canada for sure — better than they are forecasting. The dollar is helpful for exports... Our hotels are full — we're basically at functional capacity in the major markets. Montreal, Ottawa, Toronto and Vancouver are running above 70 per cent occupancy. In a lot of the markets, there's good opportunity.

**Scott Duff:** Even though a number of franchisees in Western Canada have reported seeing a decline, they're coming off such a high basis that for some of these hotels a bad day is still not too bad. It's certainly not apocalyptic for them and the change in the mix is certainly very pronounced, especially in the city centres.

**Reid:** We're going to have a really good quarter. Aloft and Element specifically been very strong brands for us. No matter how much supply we put in, it's generally been, at least for us, 46 per cent in the Select-Service space in the markets that our customers are drawn to. Our new brand, Tribute, has shown a lot of growth with the truly independent guys who are now looking to jump in and get the support of someone like Starwood. The dynamics, for us, from the development standpoint, are very strong.

There's still a lot of money out there to do deals. A lot of money is flowing out of places such as China and the U.S. I think [growth] will be in the Select-Service space. It's hard to predict at the beginning of the year where capital is going to flow to, but there's plenty of capital out there and the fundamentals of the hotel space are still very solid.

**Drew Coles:** We're seeing a change in customer segmentation, especially in the city centres in Western Canada. From 2010 and beyond, you had mid-week business, transient customers in that sector paying high rates. Now, lower-rated groups, associations and so on are all of a sudden interested in Calgary and Edmonton. So you shift your demand pattern and shift your customer segmentation, but the average rate profile has taken a hit. Vancouver had a terrific year in 2015 and that strength will continue. Across Ontario, whether in the city centres or in some of the more tertiary manufacturing sectors, there seems to be some pretty good strength. City centres will still perform and, Calgary and Edmonton aside, the economic outlook across the country looks pretty good.

**Khediguian:** There hasn't been a better time in terms of liquidity for the hotel market. In terms of cycles, volumes are up significantly. There is a lot of supply starting to hit the market. The capital markets are starting to tighten quite a bit in the in the U.S., but that it isn't necessarily the case in Canada. There's a lot of liquidity, especially for smaller transactions up to a single asset — $10 to $12 million. There's also been a lot of liquidity in the $35 to $40-million plus. You're probably going to see a lot of tightening on the larger transactions as the U.S. influences capital markets in the real-estate space and a bit of tightening in the mid-market.

***Hotelier*: Looking at the rest of this year and into next, where do you think the most growth will happen in terms of both location and segments?**

**Duff:** I think [growth will be] on the development side. Products are coming out of the pipeline in Alberta in a pretty meaningful fashion — we've been fortunate [development] is continuing onward with no interruption. You are going to have meaningful supply growth in places such as the Calgary Airport area and Edmonton, as well as in some of the secondary markets and we'll see this through the end of this year and early next.

[Select Service] is certainly still going to continue to be strong. In many instances, you sort of get a full-service type experience without necessarily the price — guests don't need all those bells and whistles that you may have in a full-service hotel. You're still getting the benefit of a great loyalty program, quality service and a very efficient program. The Select-Service hotels today are not your father's Oldsmobile; they are very different — a lot more interesting.

**Khediguian:** You've got to find markets where it makes sense, such as the Hilton Garden Inn in Montreal, which is taking a Select-Service model and tweaking the content and operations.

***Hotelier*: Are we, then, seeing the demise of larger, full-service hotels?**

**Gallagher:** In and around Toronto, real-estate owners are looking at how to maximize value. Do we build a parking structure and add more retail? Do we build a parking structure and add a hotel? [Operators are looking for] ways to generate greater value in their properties because they understand that land and good locations are scarce.

**Khediguian:** It goes back to components and content — whether it's full-service or Select-Service, you have to figure out those components.

**Gupta:** The smaller full-service will work. That's what we are trying to do. Cut down on meeting space and cut down on F&B.

**Lin Saplys:** In the last nine months we have seen an exponential increase in renovations of existing product and of throwing up a second hotel [on the same property]. We're doing a lot of master plans with hotel components — the hotel may not go up immediately, but it's there for the pro-forma and the financial model that some of these developers are putting together — a lot of first timers. What's driving [these trends] is diversification. Portfolios are changing for a lot of these real-estate companies — not necessarily REITs — who are looking to expand their base and get into the hotel market. The hotel market is sexy. It's about community.

**Reid:** Dual-branding happens because it caters to specific needs and wants. You don't need 1,000 rooms — that's one point of view. For example, in our case we have an Element, which is Select-Service and serene, and Aloft, which is a more upbeat kind of hang-out — [combining] those two products will ensure that a developer gets pretty good returns on both individual products.

**Coles:** In city centres, economically it's difficult to build full city-centre assets; the barriers to entry are high. But those assets will still be of value to an investor to trade because of their very nature… If you own those hotels, you'd better make the space meaningful — that's the key. We look at the Royal York Hotel as an asset owner and manager...they like the hotel because of the real estate. Should it be a 1,300 room hotel, these days…it might be chunky. It's location driven, but I agree, you have to make the space meaningful, no matter what the brand, and you have to respond to consumer needs.

**Cohen:** Looking at it through a traditional lens, [full-service] is ineffective in this day and age... [If] you have a big old building and there's a lot of dead space, that's not generating anything. The Thompson, for example, has 100 rooms and does over $15 million in food and beverage because we've been able to activate spaces in a meaningful way and continuously evolve them. We've been very successful, with 90 per cent occupancy, because we drive a lot of weekend business and that's directly related to F&B.

***Hotelier*: How have food-and-beverage offerings changed?**

**Gupta:** At our hotel in Markham, the huge restaurant area was losing big bucks. So we converted the property to two hotels with one generic reception in the former restaurant in the front. We have the bistro, the courtyard and a breakfast room on the top floor and it works like a charm.

**Cohen:** We've got to stick to our brand and our brand's standards. But, that said, we have to be a little more creative and realize [food-and-beverage] in the traditional way just isn't going to cut it. About five years ago at Crescent, we knew the importance of food-and-beverage. We started our own division called Crescent Culinary to deal with the ongoing challenges. Too often, culinary or food-and-beverage is overlooked. When you look at our portfolio of 100 hotels and 19,000 guestrooms, we have in excess of 1.5 million sq.-ft. of meeting facilities and 40 to 50 per cent of our revenue is food-and-beverage. To not focus on a critical component is opportunity lost. So, we created a vision to help ourselves and our clients focus on missed [F&B] opportunities.

**Gallagher:** It's looking at it as a whole. [Operators] need to look at food-and-beverage as an investment, rather than just a service. The investment that's going into restaurants [in Toronto] is exceptional, the service is exceptional and food quality is exceptional. We need to change the mindset of a hotel investor or owner to looking at [F&B] as an investment rather than just a break-even, at best, service provision.

**Reid:** Not every location can support a restaurant. When you have the right location, as the hotel owner, you can almost always lease it out [to a restaurant]... We have multiple relationships with restaurant partners and it's not one-size-fits-all. Grab-and-go is popular because four nights out of five, guests will go to their room or sit in the lobby and do e-mails.

***Hotelier*: How important are soft brands in today's market and what type of development should we expect?**

**Reid:** What's really driving this [trend] is a ton of entrepreneurial people entering the hotel space and creating really cool, unique brands. There is the influence of distribution systems. Every real-estate owner cares about how to get the most customers for the cheapest cost. That's why the brands come in and say 'Well, you created this really cool product but we can get you distribution at a lower cost.' We went out and we talked to a lot of those independent hotel owners and said 'What are you looking for?' Those entrepreneurs said 'We want your distribution but we don't really want you telling us what to do on brand standards'... Our tagline is 'Stay independent. Stay doing what you do.'

**Cohen:** We've done six Autograph Collection conversions over the last two or three years and many of the other soft brands. You get the benefit of the distribution, the reservation system and the loyalty [program] without their stringent brand restrictions. It's a great way to plug into a network that you wouldn't otherwise have access to as an independent... It's a win-win.
**Reid:** But there's room for both soft and hard brands — it just depends on what that real-estate owner wants to spend their time and money on. Sometimes it's just easier to take it off the shelf because the main business is yield for their investors, not creating entrepreneurial-type products.

**Saplys:** Hard brands are also getting softer — we're using the brand standards as a guideline, not necessarily a Bible anymore and I'm finding a lot of the owners are asking us to push that standard a little bit more.

***Hotelier*: What is your company's primary investment intention in the next 24 months?**

**Gupta:** Early next year we will have two hotels open and by 2018 we'll have all four hotels in development open. We are also looking into acquisitions — whether it's a conversion or a dual-brand — that will continue. It's hard for me to say I'm going to do 10 more or 50 more hotels. Our company believes in quality not quantity. We are very strategic so our growth pattern is to find opportunity and move quickly.

**Cohen:** We're very strategic, very opportunistic. But we don't grow for the sake of growth. We're the third-largest management company in North America and we have absolutely no desire to be number 1. For us, it's about finding the right assets with the right ownership groups where we feel we can make a difference. Right now, we've got three hotels under development in Canada and another eight in the U.S. — all of which will be opened by the end of 2017. In terms of either new acquisitions or new management contracts, there's a pretty good pipeline there. We'll probably be 100 to 125 hotels, but again, it's strategic. We like geographical diversity. The more geographical, brand and asset-class diversity we have, the more ability we have to sell to different companies and groups, which drives more business in the hotels and ultimately benefits our ownership.

**Coles:** For the next few years, we are buyers and we are sellers. So, as we have been doing for the last year-and-a-half, we will be trading out of our ownership in low-entry markets — smaller markets where we can't get rate growth because it wouldn't make sense to renovate. We will refurbish and we will continue to invest. We believe in city-centre assets…we have two listed for sale right now. We will deploy that capital in both refurbishing and acquisitions. We believe in the Canadian landscape.

***Hotelier*: What does the next year look like from a financing point of view? Is there still a lot of good growth for Canada?**

**Khediguian:** Yes, but there is probably going to be a tightening on the larger transactions. Most of the market is either small transactions or mid-market. I feel positive, from a financial perspective, about how things will shake out.

**Gallagher:** We'll continue to see capital come into the hotel space. You've got professional operators, you've got great transparency and you've got driven-down Cap rates that are almost ridiculous... If you look at the U.S., all of the major

real-estate investors have hotels as an asset class they invest in but it's not quite there yet in Canada. If you are a pure hotel investor, typically you also look at other real-estate investments to diversify yourself, not just geographically, but for profits. So it's encouraging. We'll continue to see that over the next couple of years. It's new money into the industry, maybe new money into Canada.

**Saplys:** The hotel market is going to be strong because we're seeing a huge influx in a client base that is doing repositioning of product. Those rooms are the same rooms that have always been in the market, so that sense of growth is going to stay. There's a lot of good buildings with good bones out there that are being repositioned. What hasn't been touched on is the fact that there's a huge repositioning of older product that's going to retirement homes and student housing — that's a big push in Montreal, Toronto and some secondary markets like Hamilton — where hotels are going out of the market. The mentality out there is Canada is in good shape, financially. We're comfortable, we're not busting. People are looking at two to three years to get development up and running... That means that the mentality out there is for sustained growth — it's not going to be crazy, it's going to be consistent.

***Hotelier*: What are rates like these days?**

**Larone:** Look at the major markets — Montreal, Ottawa, Niagara Falls, Toronto and Vancouver; Niagara Falls is at 70 per cent occupancy; RevPAR growth in Niagara Falls was 16 per cent and will be probably be at least 10 per cent this year. We are looking at RevPAR growth of six per cent in Montreal, Ottawa is five or six per cent, Toronto is six and a half per cent and Vancouver is seven per cent. That's all driven by ADR. There's tremendous opportunity. Downtown Vancouver is going to run at 77-per-cent occupancy — that's seven per cent RevPAR growth — and they can do better than that. In those major markets, the upper-upscale assets are going to take the leadership position and we are looking at ADR growth in some of the luxury assets of $40 to $45. It's product, but it's service levels and customer experience. We're awash in capital. What we need is more growth in the economy.

***Hotelier*: How do global factors influence the Canadian market? Are we insulated to some degree?**

**Khediguian:** Our biggest risk is probably ourselves — our current deficit. We're going to see an increasing tax environment for upper-middle class plus increased

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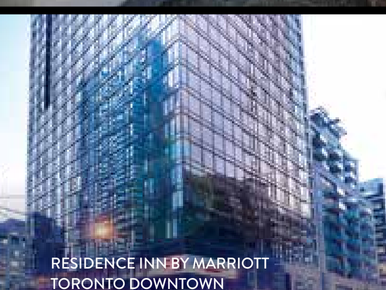
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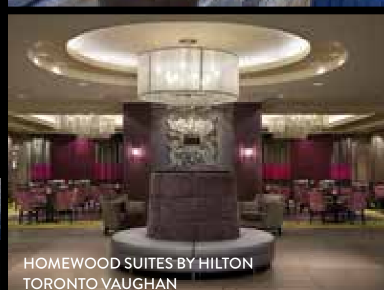
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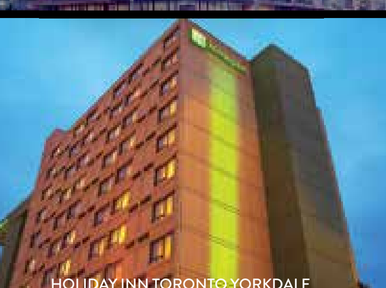
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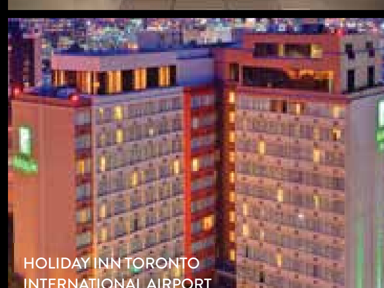
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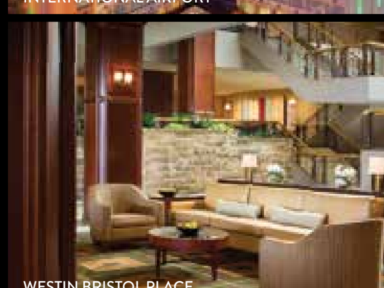
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spend — government is not always the best spender of capital. So depending on that impact, plus where the U.S. is in terms of its economic cycle, it will have an impact on our capital markets and cost of capital or a combination of deficits.

**Cohen:** The higher dollar/weaker dollar on our side is actually better — certainly in the bigger markets for travel and tourism. But we don't promote ourselves enough and we just haven't had that perfect storm of pushing rates, telling people how great we are as a country, what great product we have. Now it's a good a deal. So people are coming, but when the deals dry up, they don't come — but then business comes back, so it's a little bit of give-and-take and hopefully we can figure a way to package it all together. ◆

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*EDITOR'S NOTE: While mergers and acquisitions came into the roundtable discussion, because the Starwood and Marriott deal had not been consummated at the time of the Investment Roundtable, the representatives from Starwood Hotels & Resorts didn't wish to comment heavily on the deal. A few days later, news hit that the Starwood and Marriott merger had been finalized. Similarly, a few days after our discussion, GE Capital's Canadian Franchise Finance business was sold to Canadian Western Bank.*

# TAKING STOCK

## Buoyed by strong prices and increased interest from buyers, 2015 was a healthy year for hotel investment volume

**BY CBRE HOTELS CANADA**
**ILLLUSTRATION BY JEM SULLIVAN**


The hotel investment market continues to build momentum as we enter the second quarter of 2016 and looks to extend what has been one of the most impressive investment cycles in history.

Hotel transaction volume totaled $2.3 billion in 2015, an all-time high when you exclude the M&A activity that occurred in 2006/'07. Regardless of how you look at it, 2015's volume was well above the $1.4 billion reported in 2014. The average price per room was reported at approximately $115,000, up 15 per cent over the prior year as well.

Sellers looking to capitalize on strong pricing and buyers looking for stable assets with healthy returns spurred a number of landmark hotel sales, which drove up hotel investment volume and APR. The top five deals totalled more than $1 billion, half the volume for the entire year. These sales included the Fortis Properties' 22-hotel portfolio ($365 million), the 511-room Westin Bayshore ($280 million), the 1,363-room Fairmont Royal York ($186 million), the 556-room Fairmont Hotel Vancouver (confidential pricing) and the 575-room Courtyard Toronto Downtown ($99 million).

Despite a major rebalancing of the national economy, transaction volume was almost equally split on a regional basis between Western Canada (45 per cent) and Central Canada (47 per cent), with Eastern Canadian hotel transactions accounting for the remainder of activity. In terms of price per room, Western Canada surpassed the rest of Canada with a $180,000 average, followed by Central Canada at $90,000 and Eastern Canada at $75,000.

Given the challenging market conditions in Alberta, it's not surprising that British Columbia accounted for 62 per cent of investment volume in Western Canada. Alberta did report more than


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## Q1 2016 CANADIAN CAP RATE SURVEY

| | Vancouver | Calgary | Edmonton | Winnipeg | Toronto | Ottawa | Montreal | Halifax |
|---|---|---|---|---|---|---|---|---|
| Hotel Downtown Full-Service | 6.00-7.00% ◀▶ | 7.75-8.75% ◀▶ | 7.75-8.75% ◀▶ | 8.00-9.00% ◀▶ | 6.00-7.00% ◀▶ | 7.00-8.00% ◀▶ | 7.50-8.50% ◀▶ | 8.75-9.75% ◀▶ |
| Hotel Suburban Limited-Service | 7.00-8.00% ◀▶ | 9.25-10.25% ◀▶ | 10.00-10.50% ◀▶ | 9.50-10.50% ◀▶ | 7.00-8.50% ◀▶ | 8.25-9.00% ◀▶ | 9.00-10.00% ◀▶ | 9.50-10.50% ◀▶ |
| Hotel Focused-Service | 7.00-8.00% ◀▶ | 8.25-9.25% ◀▶ | 9.00-10.00% ◀▶ | 8.00-8.75% ◀▶ | 7.00-8.00% ◀▶ | 7.50-8.50% ◀▶ | 8.00-8.75% ◀▶ | 8.25-9.50% ◀▶ |
| Downtown Office AA | 4.00-4.50% ▼ | 5.25-5.75% ▲ | 5.50-6.00% ◀▶ | n/a | 4.25-4.75% ◀▶ | 5.00-5.75% ◀▶ | 4.75-5.50% ◀▶ | n/a |
| Industrial A | 4.75-5.50% ▼ | 5.50-6.00% ◀▶ | 5.50-6.00% ◀▶ | 6.00-6.50% ◀▶ | 5.00-5.50% ◀▶ | 6.00-6.25% ◀▶ | 5.75-6.50% ◀▶ | 6.50-7.00% ◀▶ |
| Retail Regional | 4.50-5.00% ◀▶ | 5.00-5.50% ◀▶ | 5.00-5.50% ◀▶ | 5.50-6.00% ◀▶ | 4.50-5.50% ◀▶ | 5.00-5.75% ◀▶ | 5.00-5.75% ◀▶ | 5.50-6.00% ◀▶ |
| Apartment High Rise A | 3.50-4.00% ◀▶ | 4.50-5.00% ◀▶ | 4.50-5.00% ◀▶ | n/a | 3.25-4.00% ◀▶ | 3.75-4.50% ◀▶ | 4.50-5.00% ◀▶ | 4.75-5.25% ◀▶ |

**NOTE:** ▼ DECLINE FROM PREVIOUS QUARTER ▲ INCREASE FROM PREVIOUS QUARTER ◀▶ NO CHANGE FROM PREVIOUS QUARTER

SOURCE: CBRE LIMITED

$275 million in transactions, most notably the 248-room International Hotel Suites Calgary, which sold late in the year to a non-traditional hotel buyer with a long-term investment horizon and undeterred by current economic volatility. Greater Vancouver had a particularly active year, with a number of high-profile hotels trading hands, including the previously highlighted Westin Bayshore and Fairmont Hotel Vancouver. The 143-room Best Western Plus Chateau Granville Hotel & Suites and 18-room Viva Suites Vancouver were purchased by CIBT Education Group, a publicly traded company, for conversion to student residences. They were purchased for $38.5 million and $37 million respectively, including renovation costs. These deals demonstrate the premium being paid for downtown Vancouver real estate. B.C. is expected to support Western Canada's hotel investment metrics in financial spite of Alberta's ongoing difficulties.

Ontario was the most active Canadian market for hotel investment with more than $900 million in transactions spread over 60 deals. Rounding out Central Canada, Quebec reported transaction volume of $160 million, with 15 hotels trading and more than $100 million transacting in Montreal. The Greater Toronto Area (GTA) continued its run of impressive performances, which started in 2013, accounting for 30 per cent of national hotel investment volume. The dominance of the GTA and Central Canada is likely to continue into 2016, with seven hotels transacting in the GTA as of Q1.

Eastern Canada had a strong year largely due to the Fortis Properties portfolio sale, which included 1,790 rooms in eight hotels across each province except Prince Edward Island. Overall, Eastern Canada represented approximately eight per cent of total hotel-investment volume, up from four per cent the previous year.

While there is no shortage of market participants looking to increase their allocation to Canadian hotels, private capital remained dominant in 2015, accounting for 80 per cent of total hotel investment volume. Public companies/REITs accounted for 14 per cent of transactions and equity funds rounded out the remaining seven per cent.

One particular area of investor interest was in purchasing hotels for conversion to alternate uses or future redevelopment. In some instances, buyers were willing to pay a premium for these assets. Hotels acquired for alternate use included the 342-room Best Western Primrose in Toronto ($50.5 million) which, along with the Viva Suites and Best Western Plus in Vancouver, was


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converted to a student residence; and while the Westin Bayshore will remain an operating hotel in the short term, it is expected to be repurposed or redeveloped in the future for multi-residential purposes. This trend is expected to continue, as seen with the recent announcement of plans for a residential redevelopment at the Courtyard by Marriott Toronto Downtown site, which was purchased by InnVest and KingSett in August 2015.

There continues to be a growing amount of U.S. and offshore interest in Canadian hotel investment, but this represents a small portion of the investor market. In 2015, approximately $200 million, or nine per cent of transaction volume stemmed from non-domestic buyers. This includes acquisitions such as the 384-room Westin Prince ($70 million/$182,000 per room) and 204-room Delta Markham ($28 million/$137,000 per room), acquired by separate private investors with capital stemming from Asia.

Similar to the buy-side, private investors and private equity groups also dominated as sellers, although to a lesser degree. Private sellers accounted for 43 per cent of transaction volume, followed by public companies/REITs with 23 per cent of sales volume, which was primarily comprised of the Fortis Properties portfolio sale as well as InnVest REIT's continued disposition of non-strategic assets. Institutional/pension fund sellers accounted for approximately $420 million in transactions or 18 per cent of total volume, with equity funds close behind at 13 per cent. Only two per cent of transaction volume related to receivership or lender driven sales.

A number of U.S. private equity firms and REITs, including Blackstone, Starwood Capital Group and Host Hotels & Resorts, were sellers in 2015, although the majority of transactions were completed by domestic sellers to domestic buyers.

In 2015, strong investor demand created downward pressure on hotel Cap rates in Vancouver, Toronto and, to some degree, Montreal. In Alberta, Saskatchewan and other resource-dependent markets, declining hotel cash flows tempered Cap rate increases as investors looked towards revised, more moderate performance levels. Hotel Cap rates stabilized in Q1 2016.

Last year will be remembered for offering the most diverse range of available product in recent memory and enticing a deep and dynamic buyer pool. Expect this level of activity and demand for all types of hotels to remain strong in 2016, with transaction volume likely to be maintained near record levels. ◆

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# PAVING THE ROAD TO SUCCESS

## With the exception of energy-dependent regions, 2016 should be a good year

STORY BY COLLIERS HOTELS INTERNATIONAL
ILLLUSTRATION BY JEM SULLIVAN


The Canadian hotel real-estate market continued its upward trajectory in 2015, finishing its sixth year in the current upcycle and bringing combined total transaction volume to more than $9 billion. It was a year of record-setting volumes; the highest since 2007 and the third highest in history at $2.47 billion in sales.

This coming year is poised to witness a similarly positive trend. With the exception of energy-dependent regions, the overall market is expected to experience continued trading momentum. Resilient conditions in major markets such as Vancouver and Toronto, increasing interest from foreign investors and dynamic debt-capital participation will shape the investment environment. Several banner transactions have occurred in the first quarter of 2016, including the $115-million purchase of the 189-key Marriott Ottawa by InnVest REIT in February and a flurry of select-service hotels trading in suburban locations, primarily in the Greater Toronto Area.

Colliers' recently released 2016 Canadian Hotel Investment Report includes a special feature on views collected from several of Canada's largest hotel real-estate participants. Generally speaking, industry participants remain bullish on the market (with cautious optimism being placed in energy-dependent markets), particularly given the broad cross-section of capital-seeking hospitality assets in the market today, as well as Canada's high ranking as an attractive country for drawing international investment. The most significant motive for deals to transpire in 2016 are attractive cash returns with regard to Cap rates and interest rates. The following is a glimpse into current viewpoints of Canada's most significant hotel participants.

**NATIONAL MARKET UPDATE**

There continues to be good investment opportunities with a healthy mix of investors in the current landscape, which attracts a variety of different product given various investment and exit perspectives. Institutional capital is largely focused on urban, full-service assets in core markets for longer-term holds and would place money in key assets if the opportunities are right. While private investors and hotel-investment companies are also targeting Canada's top markets, they are also less risk-averse to investing in smaller markets — subject to proper due diligence on timing the market, picking the right product positioning and taking advantage of the current cost of capital.

**INVESTORS IN TODAY'S MARKET ARE METHODICALLY MAKING THEIR MOVES TO SOLIDIFY THEIR PORTFOLIOS IN ORDER TO TAKE ADVANTAGE OF UPSIDE AND MITIGATE THREATS**

Portfolio diversity matters more than ever. This premise has evolved into a golden rule for both small and larger investors in order to spread risk and exposure over the long-run. The majority of participants cited the benefits of having properties in multiple geographic regions to help offset turmoil which can arise in markets/regions dominated by only a few core industries.

Investing in larger urban markets has the obvious advantage of reduced volatility, given more diversified economies, but, on the flipside, several smaller markets have seen such tremendous gains in the current cycle that these can often override losses — so long as the investor can weather the storm. Several groups cited that diversity into other real-estate asset classes also significantly helps their overall portfolio returns, particularly when the economy turns and the hotel market often sees larger declines than other asset types, such as office and multi-residential.

***Currency trends are going to fare well for the market from both an operational as well as investment perspective.*** As one of the world's top destinations, Canada continues to increase its awareness on a global scale for attracting individual travellers as well as group and tour business. There are significant benefits from the efforts of

## SEVEN TOP TRENDS FOR 2016

**CONTINUED MOMENTUM IN TRANSACTION ACTIVITY**

Following several high-water mark years, overall transaction volume in 2016 should be in line with average volume seen in the current cycle, indicative of healthy market fundamentals.

**FOREIGN GROUPS TO AGGRESSIVELY BID ON HOSPITALITY ASSETS**

Depending on product availability, Canada will continue to pique the interest of foreign investors attracted to the country's stability, with the exchange rate being a significant advantage in boosting purchasing power for many global currencies.

**DYNAMIC DEBT MARKETS**

There is a growing availability of debt capital across the board, fuelled, in part, by new financing entrants eager to place funds in the hospitality asset class. In addition to growth in providers, record low bond yields will continue to support the transaction environment.

**ALL EYES ON ENERGY DEPENDENT MARKETS**

Weak oil, metal and other commodity prices are anticipated to continue throughout 2016 and into 2017. An increase in distress-driven sales may materialize in certain markets, particularly secondary and tertiary markets heavily reliant on commodity extraction.

**CONTINUATION OF INDUSTRY CONSOLIDATION**

Big headline mergers and industry consolidation news were in abundance in 2015 and will continue in 2016. With large consolidation of parent companies, this will undoubtedly lead to increased competition and a run to secure market share. However, the impact will be predominately on a global scale rather than domestically.

**CONTINUED IMPROVEMENT IN OPERATING PERFORMANCE**

Domestic tourism is poised for continued strong growth and generally has a positive impact on operating performance. Major markets, border cities and other seasonal and resort markets should greatly benefit from currency trends.

**AIRBNB IMPACTS MAJOR MARKET LODGING DEMAND**

The popularity of Airbnb and other hotel-alternative services could begin to impact lodging demand in major markets around the world. As a result, we will continue to hear increased discussion and conversation on these services as a threat to the traditional lodging industry.

*Colliers' 2016 Canadian Hotel Investment Report can be downloaded at www.colliershotels.com.*

Destination Canada, the government agency responsible for marketing Canadian travel, and the low dollar means continued positive results in key markets across the country are anticipated. Cross-border investors are also increasingly looking at acquisition opportunities, although their investment criteria are largely focused on major-market urban projects, of which there is limited availability. These are typically met with increased competition from well-capitalized domestic capital sources.

***Industry disruptors are top of mind.*** Fresh off the previous decade-long battle with online travel agencies (OTAs), innovations such as Airbnb are rapidly transforming the way travellers book their accommodations. While these innovations provide some benefit to the consumer, it has yet to be determined what impact these alternative distribution channels will have on traditional hotel performance. For the most part, asset owners in secondary and tertiary markets do not see this as a major threat. The fundamental challenge is that this channel is not properly monitored and regulated.

***Continued operational improvements are on the horizon from a top-line perspective, but there is more room to improve the bottom line.*** The recent rebound in high-torque markets such as Vancouver, Toronto and Alberta Mountain Resorts, is a great success story from a top-line perspective. Optimism abounds for further improvements in these key markets, given economic forecasts as well as currency benefits in the short to medium term. Another key component to top-line growth is the significant investment of capital into older product. This allows for healthy rate gains, as well as a reduction in supply as conversions of hotels to alternative use continues. The increase in top-line (particularly with rate growth) translates to increased bottom-line flow-through and profitability. However, many participants believe there is still room to increase rates — which is particularly crucial given increased operating costs can outpace revenue growth. In order to improve profitability, owners are continuously evaluating their cost structure including key items such as labour, property taxes and other operating expenses.

Investors in today's market are methodically making their moves to solidify their portfolios in order to take advantage of upside and mitigate threats. While, presently, there are serious concerns with energy-linked markets, Canadian hotel investors are generally well capitalized and, for the most part, geographically diversified. The current sentiment is one of cautious optimism. But, positive industry characteristics are overshadowing near-term concerns with major hotel real-estate owners in regards to long-term opportunities and returns. ◆

*Robin McLuskie is VP of Colliers International Hotels and works on a national team responsible for hotel investment advisory services across Canada and specific markets in the Caribbean. She is responsible for business development, brokerage and debt placement, with a particular focus on client management.*

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# STRENGTH IN NUMBERS

## As the hotel industry faces disruption from the likes of OTAs and new innovations, traditional hotel companies are consolidating to stay competitive

**BY CAROL NESHEVICH**
**ILLLUSTRATION BY JEM SULLIVAN**


It's no secret that the global hotel industry is currently in a state of flux. As online travel agencies (OTAs) such as Expedia and other industry disruptors such as Airbnb continue to shift the industry landscape in ways we could not forsee, traditional hotel companies are increasingly moving to consolidate in an effort to remain competitive.

In the past year or so alone, significant mergers and acquisitions made headlines. Last April, for instance, Bethesda, Md.-based Marriott International, Inc. acquired Toronto-based Delta Hotels and Resorts. The $170-million transaction helped Marriott beef up its Canadian portfolio by adding 37 properties and nearly 10,000 rooms in more than 30 cities across the country. The transaction also increased Marriott's distribution in Canada to more than 120 hotels and 27,000 rooms.

Then, in late December 2015, Paris-based AccorHotels announced its intention to purchase FRHI Hotels & Resorts, the parent company of three iconic hotel brands — Fairmont, Raffles and Swissôtel — in an effort to create a worldwide luxury hotel giant. It signed the agreement with the Qatar Investment Authority, Kingdom Holding Company of Saudi Arabia and Oxford Properties, an Ontario Municipal Employees Retirement System (OMERS) company, last December in a deal worth approximately $2.9 billion U.S. in cash and shares. The deal will add 155 hotels and resorts (40 are currently under development) and more than 56,000 rooms worldwide to Accor's portfolio, which operates Ibis, Sofitel and Novotel, among others.

Perhaps the biggest acquisition news in recent months is Marriott's deal to acquire Stamford, Conn.-based Starwood Hotels & Resorts Worldwide. The story began in late 2015 when Marriott offered to acquire Starwood for $12.2 billion. Things took a dramatic turn in March, as the previously agreed-upon deal was overturned by China's Anbang Insurance's offer of $13.2 billion, or $78 per share in cash. Starwood accepted Anbang's offer, but Marriott struck back just days later with a higher offer, valuing Starwood at $77.94 per Starwood share or $13.3 billion. When Anbang suddenly withdrew its bid, Starwood accepted Marriott's sweetened deal, creating the world's largest hotel company with more than 1.1 million rooms in 5,500 hotels worldwide and more than 30 brands.

Dramatic M&A activity aside, the real question is whether consolidation is financially benefical for the hotel industry. For the most part, the answer is yes, according to industry insiders. "As the companies get larger, they'll generate substantial economies of scale when it comes to purchase agreements with suppliers, as well as more of a balance of power in dealing with the larger OTAs like the Expedias of the world, which are trying to eat into their distribution margins," says Edward Khediguian, Montreal-based SVP of Franchise Finance at GE Capital Canada. "The brands almost have to get bigger."

Bill Stone, EVP at CBRE Hotels Canada in Toronto, agrees. "You have the disruptors out there, like the Airbnbs ... and just having a larger base to draw on helps you, to some degree to compete against them."

From this perspective, the ability to combine loyalty programs may be one of the most practical benefits of con-consolidation. "I think loyalty programs will be more

**AS THE COMPANIES GET LARGER, THEY'LL GENERATE SUBSTANTIAL ECONOMIES OF SCALE WHEN IT COMES TO PURCHASE AGREEMENTS WITH SUPPLIERS, AS WELL AS MORE OF A BALANCE OF POWER IN DEALING WITH THE LARGER OTAs**

important," says Khediguian. "So the big brands, as they consolidate, will go 'best in class' in terms of what's the best loyalty program among all the brands that they've consolidated, and then drive better quality, incentive-driven loyalties that are CRM (customer relationship management) based, such as knowing your customers' travel patterns, interests and feedback. That will be one of the key pillars of what will make consolidation relevant."

Douglas Quinby, VP of Research at the U.S.-based tourism, travel and hospitality research firm Phocuswright, concurs. "The aggregate entity of a Marriott and Starwood, or the Accors and Fairmonts, has the ability to offer that much more inventory to loyalty program members. And that's especially important as hotel companies try to compete with online travel agencies in particular," he says. "The reason why consumers go to OTAs is they've got everything under one umbrella. You can see everything, you can compare everything and you can see all the prices and options." But, by forming a mega-conglomerate offering a wide breadth of brand variety in varying categories that will also reward clients for being loyal, he says, you can offer something that will give the OTAs a run for their money.

As Quinby explains, travellers no longer fit into a singular profile — the exact same person will often choose different categories of accommodation depending on their current need. For instance, someone may choose a mid-scale brand when travelling on business, an economy

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brand when travelling with their family on vacation, and they may splurge on a high-end luxury brand for an anniversary celebration weekend with their spouse. "So, the more inventory, the more options, the more rates, the more prices that [a hotel company] can offer to travellers already within its hold and loyalty program, who it can market to directly, the better its marketplace advantage," he says.

Loyalty programs aside, another benefit of consolidation includes the traditional upside which would occur with an acquisition in any industry: cost savings due to operational efficiencies. This, of course, is likely to drive profits and have a positive impact for shareholders. "If you acquire a company and there are operating efficiencies — because you don't have to duplicate certain functions — there are going to be savings," says CBRE's Stone. "So, I think there are definitely going to be some benefits there, particularly for the company doing the acquiring."

Interestingly, Khediguian speculates on another potentially unexpected side effect of consolidation — individual hotel owners who simply decide to forego brands altogether. As the brand-holding franchisors get larger through consolidation, "they'll be able to dictate terms a little bit more heavily," he says. "But if that's pushed too far, then [property] owners may go the other way and move away from branded franchised product." With the proliferation of OTAs and the increased power of online reviews ("People are actually listening to online reviews now," says Khediguian), the power of a known and trusted brand may no longer go as far as it used to. So a hotelier who builds up stellar online reviews may actually be able to compete just as well as an independent if they decide they don't like the terms of the franchisor. As Khediguian notes, consolidation will likely "give the disaggregators a run for their money, but the disaggregators won't go away."

**PEOPLE ARE ACTUALLY LISTENING TO THOSE ONLINE REVIEWS NOW.**

One thing experts seem to agree on is that there will be more mergers, acquisitions and overall consolidation in the hotel industry in the coming months. "It is going to happen," says Stone. "It is all about consolidation right now, especially at the brand level. We do anticipate others in the next 12 to 24 months." Quinby adds that he expects some of the smaller brands out there are certain to be feeling the pressure to merge, and he wouldn't be surprised if there are talks going on among brands like Hyatt, Hilton, Choice or Wyndham right now. "I can't imagine that all of these folks aren't talking to each other and looking at potential transactions," he says. "It's going to be very difficult for them to compete with the economies of scale of a Marriott/Starwood tie-up." ◆

# WESTERN WOES

## Hoteliers are looking at the bright side of a challenging situation in parts of Western Canada

**STORY BY JACKIE SLOAT-SPENCER**
**ILLLUSTRATION BY JEM SULLIVAN**

It's been a rough year for Canada's hotel industry, as its members watched the price of oil drop to staggering lows. Energy-producing provinces, such as Alberta, Saskatchewan and Labrador bore the brunt of the decline and the Canadian dollar slipped to its lowest level in 13 years.

"We were the poster child for hotel development," says Dave Kaiser, president and CEO of the Calgary-based Alberta Hotel & Lodging Association (AHLA), which represents about 880 hotels, motels and resorts across the province. "For quite a few years we were leading in RevPAR. A lot of development was in secondary and tertiary markets and had one economic driver — that was the energy sector — and without that driver, the activity just falls off."

Indeed, Alberta and Saskatchewan have suffered declines in demand, and as its markets attempted to absorb the abundance of supply, there were serious repercussions for occupancy and ADR. According to CBRE figures, in Alberta, occupancy dipped from 68 per cent in 2014 to 59 per cent in 2015 and is forecast to slide even lower to 54 per cent in 2016. Saskatchewan fared slightly better, with occupancy dropping from 64 per cent in 2014 to 59 per cent in 2015, to 57 per cent this year. Meanwhile, ADR in Alberta is expected to land at $137 this year, down from $140 in 2015, while Saskatchewan's ADR is forecast to stay the same at $132.

"In Western Canada, over-supply is a big issue in some of these oil- and gas-specific markets," agrees Nigel Lucas, VP, Franchising & Development at Superior Lodging Corp. "The amount of supply that's come online at Calgary Airport is staggering. There's still a question mark around whether it can absorb the amount of supply that's come online in the past year."

In Alberta, supply grew by three per cent while demand declined 11 per cent in 2015; this year, supply growth is forecast to remain the same, while demand will drop by six per cent, according to CBRE figures. In 2015, supply in Saskatchewan grew by six per cent while demand dropped by three per cent; this year, supply is forecast to grow by six per cent while demand will only grow by two per cent. "Other markets like Kindersley, Weyburn, Estevan — these were markets that were really hot for two to three years in oil and gas. Now, as that market has gone down, you're seeing some are going into receivership and some are just selling the debt to try to get out of those properties," Lucas adds.

Meanwhile, the team at Superior Lodging Corp. is shifting its attention away from parts of Western Canada as it focuses on expanding the Travelodge brand, among others, across Canada. "We just opened in Fort St. John [B.C.] and that one seems to be holding strong. Kitimat, B.C. is doing okay as well, but in Alberta we certainly feel the pressure right now from the economy," Lucas says. So far, the team has added nearly 1,000 net new rooms and is on track to add another 1,000 to 1,400 rooms this year. Moving forward, his team will shift its focus away from Alberta to secondary and tertiary markets such as Thunder Bay, Ont., Sudbury, Ont. and various cities in Eastern Canada.

Airline Hotels, which owns and operates nine hotels in cities which include Edmonton, Saskatoon and Regina, is combating the market challenges by focusing on improving its guest experience. "Coming out of last year we had system-wide declines in occupancy and that was due to imbalances in supply and demand that were going on in Saskatoon and Regina," explains Jaret Waddell, COO. "The good news is we've not only maintained, but strengthened our competitive RevPAR position in all four properties in Saskatchewan and grown the consolidated RevPAR index at the four properties above 110," he adds.

"Though the market performance was really a system[wide] issue, from a competitive standpoint we've done well and have put a significant amount of time, energy and focus into enhancing the areas of the business that are the most significant in the minds of guests, which really are service and cleanliness." Waddell's team began using Revinate, a hotel software, to help measure guest satisfaction by capturing online reviews and social-media mentions into a single, integrated view. That helped them analyze perceptions of value, cleanliness and service which are generating feedback. "That's where we're going to put our time and energy," he sums up.

**THANKS TO A LOWER CANADIAN DOLLAR, THE INBOUND LEISURE TRAVEL FORECAST IS EXPECTED TO GROW THIS YEAR AS AMERICANS LOOK NORTH TO STRETCH THEIR TRAVEL FUNDS FURTHER**

However, the problems in Western Canada don't worry Bill Hanley, president of International Development for Vantage Hospitality, based in Richmond, Va. "We're bullish on Canada. Aside from Alberta, the rest of Canada is doing quite well. And that's also true in our business, where virtually all the provinces, with the exception of Alberta, outperformed 2014 and 2015 and they're expecting the same thing to hold true this year."

Hanley's company is not looking to halt development in Western Canada or in the rest of the country, as evidenced by a newly converted Canadas Best Value Inn-Calgary Chinook Station, formerly a Howard Johnson Express. "In Western Canada right now we've got Dawson Creek, B.C., Fernie and Fort Nelson that we're working on. We've got projects in Sudbury, Cornwall, Barrie, Orangeville and Toronto so we've got a nice pipeline — and we just coincidentally signed a second hotel in Calgary, a former Howard Johnson. Even though Alberta may be down, there is still opportunity for us."

Despite challenges with occupancy, there are still several positive developments in the works. Developers are managing to save on construction costs, thanks to an abundance of cheap labour. "We're currently in the process of rebuilding our Microtel in Fort McMurray and when we re-tendered it, there was a 10- to 20-per-cent savings in construction costs," Lucas adds. Thanks to a lower Canadian dollar, the inbound leisure travel forecast is expected to grow this year as Americans look north to stretch their travel funds further. Hainan Airlines recently announced it will offer direct service between YYC and Beijing beginning June 30, which will bring a slew of Chinese tourists to Calgary. And, while the groups may be steered towards the resort provinces, hoteliers are preparing to host the spillover to the other hotel segments.

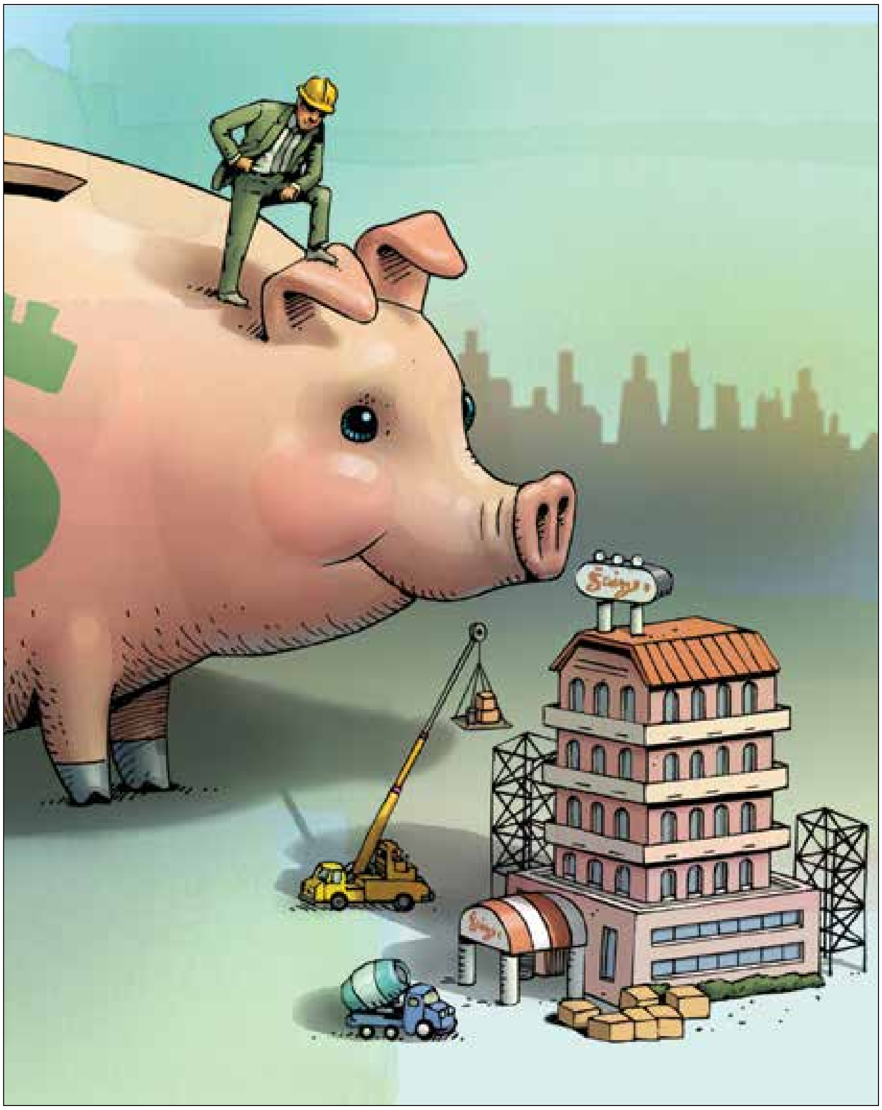
Waddell remains optimistic, as he believes history is repeating itself: "Between 1999 and 2001 there was an 18-per-cent supply increase in Saskatoon at the time when the economy of the province wasn't nearly as diversified as it is now … it was about a five-year recovery."

For Edmonton, the fundamentals are different, where the city is dealing with a softening demand at the same time hoteliers are absorbing the supply increases. "If you look back into those cycles, like December of 1998 with $11 oil, there's always recovery," he says. "It's just a question of when. There's only so many things you can do and control." ◆

# KEEPING IT FRESH

## Operators continue to invest in capital expenditures to keep on top of a competitive market

**STORY BY DANIELLE SCHALK**
**ILLLUSTRATION BY JEM SULLIVAN**



Whether driven by brand requirements or an opportunity to increase sales and create a return on investment (ROI), capital expenditures are an integral part of doing business in the hotel industry — perpetuating the old adage that you have to spend money to make money.

In 2015, Winnipeg-based Temple Hotels REIT invested in major hotel renovation programs at several properties across the country, amounting to capital expenditures (CapEx) of $18.7 million for the year. "We don't mind spending the money," says Arni Thorsteinson, CEO of Temple. "It's all about ROI."

Over the course of the last two-and-a-half years, Temple has invested approximately $12 million refreshing the Saskatoon Inn (and Conference Centre) in Saskatoon, Sask. The property now boasts refurbished common areas and guestrooms, as well as new guest elevators. The revamped guestrooms feature refinished bathrooms, contemporary furnishings and a soothing, neutral colour palette.

With Temple's portfolio up to date, Thorsteinson and his team are looking forward to a significant decrease in the company's CapEx spending for 2016.

In many cases, CapEx is most dependent on the age of a property. However, Thorsteinson warns it's hard to generalize, as a hotel's occupancy levels and the clientele moving through the property also factor into how often and where money needs to be spent to keep up the property. "If you have a property with a lot of leisure business and sports teams, you get more wear and tear than a hotel catering to primarily business clientele," he explains.

In order to prepare for the inevitable expense of hotel upkeep, it's important to maintain a CapEx reserve fund. Setting aside approximately three per cent of annual revenue for repairs and renovations is the industry standard in Canada, while south of the border, Jeff Crowley, SVP at HVS Hotel Asset Management, recommends reserving six per cent each year in order to adequately prepare for major/hard goods renovations.

At the Nova Scotia-based Holloway Lodging, the amount set aside for restoration and renovations varies based on a property's age. "If it's a newer hotel, we set aside about three per cent [per year]; on an older hotel it will be closer to four per cent," explains Michael Rapps, chairman of Holloway.

Holloway is currently in the midst of a high-Capex period as it rebrands several of its properties, including the recently reopened Holiday Inn Ottawa East, which cost more than $10 million to convert from the former Chimo Hotel.

As an older structure, brand-mandated health-and-safety upgrades factored significantly into the property's conversion process. "There was a lot of work that needed to be done that did not impact the guest experience directly," says Rapps. This included significant additions to the hotel's sprinkler system. Rapps warns that aging properties may hold unforeseen challenges and expenses. "There are a lot of things you can find once you open up the walls," he explains. "Managing that unknown when you're working on a budget or timeline is very difficult."

When doing renovation projects, the Holloway team prefers to shut down a property completely to expedite the process. It does, however, make exceptions when the property is too large for this strategy to be beneficial, such as the newly rebranded DoubleTree by Hilton in London, Ont. "It is a 24-storey, 325-room property; there was no way we could have done it quicker if we closed it," says Rapps. "It was just too big of a project and it would have required too many people." For the remainder of its recent projects, Holloway opted to close the properties for several months during its individual off-seasons to limit financial impact.

With regard to soft goods renovations, Holloway's strategy is not quite as bold. The company tries to strike a balance between financial and guest impact. "There is always tension in our organization in doing things over time versus doing them all at once," says Rapps. He explains that there is less impact on cash flow when replacing items such as carpet and bedding over time; but this method means improvements go largely unnoticed by guests. "The guest isn't experiencing the fully done product and by the time you're done your whole renovation, you have to start again," he adds.

Capital improvement is not the only form of CapEx; a topic commonly left out of the CapEx discussion is the addition of new hotel assets. Companies such as Calgary-based Superior Lodging Corp. have been investing significant capital in the development of new properties, including a Microtel in Bonnyville, Alta. and the dual-branded Courtyard by Marriott and Residence Inn by Marriott, Calgary South, which opened in January 2016 and December 2015 respectively.

Using the Microtel brand as an example, Marc Staniloff, president and CEO of Superior Lodging Corp., estimates the cost of developing a new hotel at $110,000 to $140,000 per room, noting the cost varies based on where you build in Canada.

**YOU HAVE TO KEEP RELEVANT, BECAUSE YOUR COMPETITION WILL EAT YOU UP IF YOU DON'T**

Superior has also taken on capital improvement projects, for which it allocates approximately three per cent of annual gross revenues. One such project was the major renovation of a 20 year-old Super 8 in Timmins, Ont., which cashed in at approximately $7,000 per room.

When tackling a major refresh, Staniloff focuses on the major guest touch points. "You sell the room in the lobby, so it's important to spend money there," he says. Once the room is sold, the most important features become "the bed, the shower and the TV experience — that's what they remember."

In a down economy, it's increasingly important to ensure properties are up to date in order to capture market share. "When times are difficult, that's when you want to make sure your property is up to standard or better to beat the competition," Staniloff explains.

That said, customer expectations continue to drive changes in brand standards, which raises the price tags on Superior's projects.

The slumping Canadian dollar has also increased costs as hoteliers take a hit on materials and equipment imported from the U.S. Holloway's Rapps identifies HVAC units, elevators and steel as key items that have increased in price due to the declining loonie.

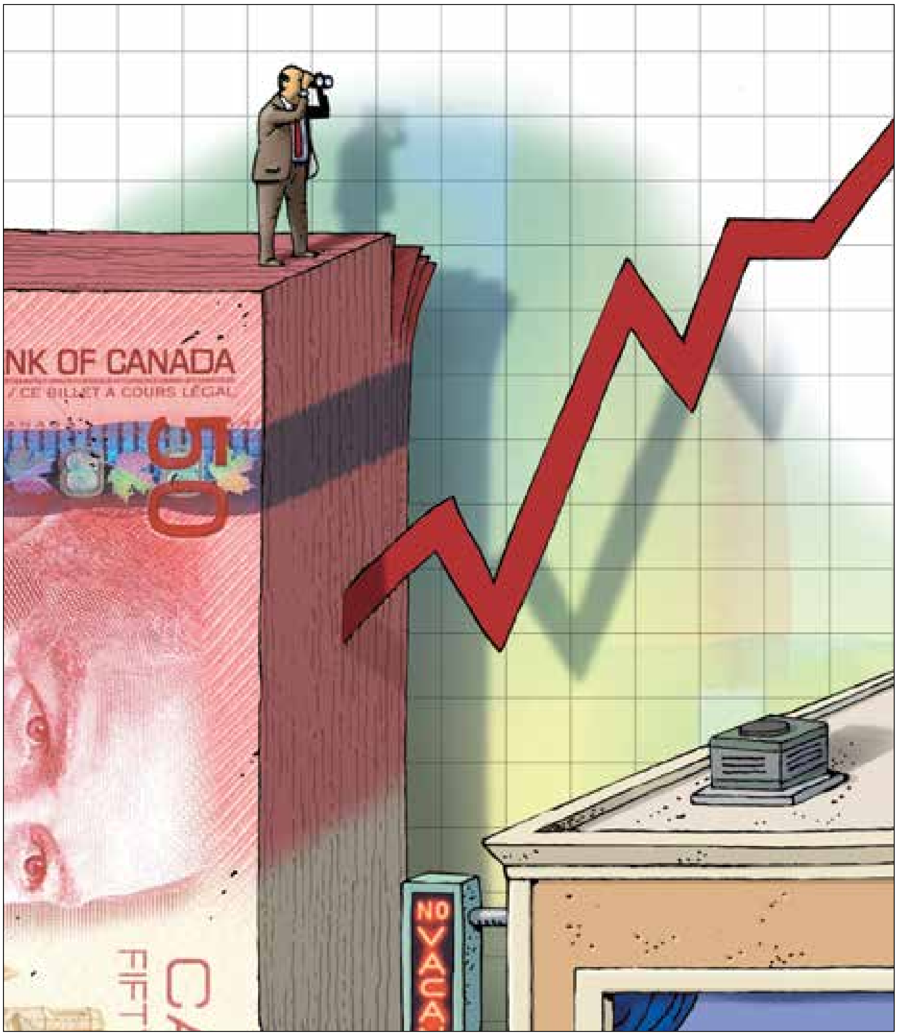
Regardless of economic conditions, time marches on and properties continue to age. As Thorsteinson points out, customers will let you know when it's time to refresh, whether it's through online reviews or at the front desk. However, it's not ideal to let it reach this point.

Staniloff recommends using housekeeping staff as a customer baseline to identify when a hotel starts showing signs of wear. As he explains, the benefits of putting money "back into the box" will be seen in the bottom line. "You have to keep relevant, because your competition will eat you up if you don't," he says. ◆

# DOLLARS AND SENSE

## Coming off a strong year in 2015, Canada's finance environment offers a competitive landscape for investors

**STORY BY AMY BOSTOCK**
**ILLLUSTRATION BY JEM SULLIVAN**




In today's operating environment, lower interest rates and availability of debt are catalysts for hotel deals. According to Drew Coles, president and CEO at InnVest REIT, this is an unprecedented time for lending capital availability and interest rates for Canada's lodging sector.

"Lending requirements seem to be a little less stringent than in the past," he says. "Overall, Canadian hoteliers have been very prudent in their leverage ratios and lenders seem to be attracted to the hotel space at the moment. Requirements will still be tighter than other real-estate classes, but lenders are seeing hotel portfolios perform."

Robin McLuskie, VP, Hotels at Colliers International Hotels, says the 2015 hotel finance environment was very strong — one of the strongest, in fact. "From a hotel transaction point of view, volume grew 70 per cent year-over-year, so we saw almost 150 hotel trades across Canada [totalling] $2.47 billion. That's the third highest since the late '80s and the highest we've seen in the current [performance] cycle."

McLuskie gives credit for this trend to Canada's finance environment, which she says boasts a strong and competitive landscape for vendors.

Notable trades in 2015, says Marc-Aurele Mailloux-Gagnon, director, Hotels at CBRE Limitée, included Vancouver's Royal York Westin Bayshore, and the Fairmont Hotel Vancouver.

An increase in U.S. interest — thanks to both the low dollar and cycle of performance — attracted more lenders and better financing interest, explains Mailloux-Gagnon. "For the hotel financing market, generally speaking, financial conditions were very fair in 2015, with the exception of Alberta and Saskatchewan, which were impacted by declines in the oil and gas sector. Most other regions — especially B.C., Ontario and Quebec — have ample sources of financing."

But, Coles says the bigger impact remains on the fundamentals side, whereby the U.S. dollar's strength can help direct consumer demand into Canada, while keeping domestic customers at home. "This dynamic has the attention of more domestic hotel investors than U.S.," he says. "We're seeing more participation in the market from U.S.-based lenders than we are from equity investors."

So, where are foreign investors looking to park their money? "Vancouver is number 1 followed by Toronto," says McLuskie, adding that investors will sometimes look outside of those two major cities if land size and product type meet their requirements.

In Quebec, Montreal has emerged as a strong market as European interest there builds. "There were some hotel closures in that market recently, but I think the overall market fundamentals are strong in Montreal and Quebec City," says McLuskie.

Other parts of the country have also seen positive gains, notes Mailloux-Gagnon. "The markets in B.C. and Ontario have been performing well and will remain positive thanks to strong tourism sectors in Vancouver and Toronto."

## A MATTER OF INTEREST

"Interest rates are difficult to predict right now," says Coles, noting the U.S. Federal Reserve has been slow in its movement of rates, despite job creation and GDP growth. "The Canadian economic outlook appears slightly more buoyant than at the end of 2015, which could trigger rate lifts, but likely not significantly. Inflation seems relatively in check as well, so small interest rate movements will have a small or insignificant impact on the industry and deal flow."

McLuskie doesn't see interest rates changing this year, but says they are asset- and market-specific. "It depends on the property that's trading. If it's in a prime urban market, you're going to see more competitive interest rates because there's more competition to lend."

Cap rates are also expected to remain steady in 2016, although there may be some slight compression if the overall performance of the industry gains momentum by the end of fiscal year. "Certain city-core assets may experience some compression and Alberta Cap rates may relax slightly," predicts Coles. "But overall, across the country, I wouldn't expect much movement. Northern Alberta has likely experienced softening in Cap rates."

Debt financing is also expected to remain competitive throughout 2016 and into 2017, as hotel loan portfolios continue to perform. "Operators are more sophisticated today and the macro underlying fundamentals in Canada seem to have volatility in check (except for northern Alberta)," says Coles. "There seems to be an abundance of debt capital looking for a home and U.S.-based lenders are interested in Canada, which should keep the landscape in competitive mode."

## WHO TO WATCH

McLuskie recommends keeping an eye on domestic product capital in coming months. "There's a lot of wealth out there, groups that are aggressively looking for properties," she says. "There's a lot of buzz around whether we'll see more foreign interest this year, and I think we will, but I also think you can't underestimate the wealth in our country."

She says players to watch are mainly Ontario or B.C.-based private groups looking to expand their portfolios. She thinks both private and public will be competitive this year. "On the lender side, it really is still a relatively small market, so it will be the usual cast of characters in terms of the credit unions in the smaller markets and, if it's bigger properties, insurance companies and foreign banks."

**LOOKING FORWARD**

In terms of trading volume, Coles say 2015 was "off the peak in the 2006/2007 range by over $1 billion. However, it was a significant jump over 2014 and the volume only had one significant portfolio trade." In other words, the volume of trades was primarily driven by individual asset transactions, which is a very different profile from the peak volume years. "Activity in trades for the right strategic reasons is good for the industry and I suspect that will continue into 2016 and 2017."

McLuskie agrees that 2015 was a banner year for transaction volume "and 2016 will be another strong year, but it really depends on the pipeline and what's out there in terms of [available trades]. It's a little too early in the year to say whether we'll be able to surpass [2015 numbers], but it's going to be healthy market."

With increased interest from foreign groups, Colliers has been involved in a number of sales involving Asian buyers. According to McLuskie, there hasn't been a lot of U.S. interest in the Canadian hotel market. "However, the real-estate market in general has been increasing significantly. The low loonie has offered a real cost advantage for foreign buyers and we'll likely see more of that. The real message is it's a reflection of what product is out there — U.S. [investors] generally want prime cities and urban markets; they aren't interested in our secondary or tertiary markets."

Moving forward, McLuskie identifies some of the main financing challenges for the hotel sector. "Lenders are really focused on TTM (trailing 12 months), so to get them to look at performer numbers is a bit tougher and that can be a challenge depending on how the asset is performing."

Overall, underwriting remains stringent. "Compared to other economies, Canada has a very low, more conservative leverage and debt. That hasn't really changed, and won't change, so investors can't expect to see high leverage — it's going to be in the 55 to 65 per cent LTV (loan-to-value) range."

Although there's still a lot of capital out there, Alberta and some other parts of the country continue to suffer from low-trade volume. "People are currently holding in those markets and you aren't going to see a lot of trades," says McLuskie. "[We] just have to ride it out." ◆

# The Power of Hospitality

Montreal's Paul Ielovcich achieves success putting smiles on the faces of his guests

BY ROSANNA CAIRA

Being a hotelier was never part of Paul Ielovcich's game plan. The 33-year- old Calgary native originally aspired to be an engineer, but while at university he realized he didn't enjoy some aspects of the program and decided to leave.

As luck would have it, he landed in the hospitality industry, becoming a part-time barista at the W Hotel in Montreal, which led him to enrol at l'institut de Tourisme et d'hôtellerie for a degree in International Hotel Management.

During his stint as a barista, and later as a bartender, he came to understand the power of hospitality. "It was rewarding to put a smile on a guest's face, whether having a favourite drink ready [for them] or by offering a compassionate ear to someone having a hard day."

**QUICK QUIPS:**
**Reason for Success:** "Mentors. They've always put things into perspective as well as provided opportunities for personal and professional growth."
**Hobby:** "Travelling. It's one of the many pleasures of working in this industry."
**Stress Breakers:** "Friends and family. There's nothing a good meal and a glass of wine can't fix."

These days, Ielovcich is putting smiles on the faces of his guests at the chic two-year old Epik Hotel in Montreal. "Developing a new boutique brand and following through on its execution has been the greatest challenge and thrill of my career," says the confirmed bachelor of his first venture involved in branding and renovating a hotel from the ground up.

He's proud of the end result — an intimate 10-room hotel housed in a 200-year old building in Old Montreal that was once a warehouse and a bed-and-breakfast. The hotel boasts unique features such as stone walls and post-and-beam ceilings, yet emits both a modern vibe and old-world charm. It even showcases shower lighting that changes colour depending on the temperature of the water.

Ielovcich leads a team of 10 by example. "I prefer to work in the lobby to stay in contact with guests and make myself available to the team." He wants to ensure "every client that walks through our doors leaves having had a memorable experience." But he's also quick to quip, "always keep a toilet plunger at the front desk."

Though the hotel is only two years old, it's already gone through a refurbishment of its cosy, 24-seat Italian restaurant. "The cool exposed brick and stone have been softened with rich colours and textures." He's looking forward to further changes planned for the lobby lounge. "The character of the space changes throughout the day and we're looking to serve different purposes — from breakfast to a nightcap."

With increasing competition, the young GM is quick to underline the importance of knowing what your hotel is all about. "A strong brand will attract a clientele that relates to the hotel's personality. The second element is having staff who connect on a personal level with the guest. Then it's no longer about the thread count or star rating — it's about something more intimate and hard to emulate." ◆

PHOTOGRAPHY BY DREW HADLEY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