CANADIAN HOTELS OUTLOOK

2018

CBRE *Build on Advantage*

CBRE HOTELS

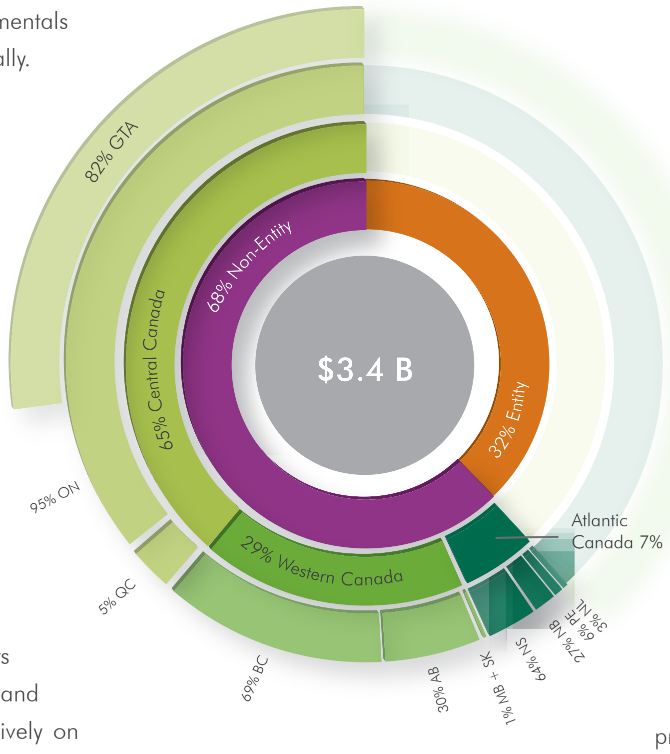
The World's Leading Hotel Experts.

2017 IN REVIEW

INVESTMENT

Canadian commercial real estate investment volume of over $43.0 billion in 2017 shattered the record set just a year earlier and far surpassed initial forecasts. Record pricing unlocked a new supply of marquee properties for sale as owners looked to capitalize on highly coveted assets, particularly in Canada's urban centres. This certainly held true within the hotel sector, with new historic highs set in 2017 for both deal size and per room pricing.

Canada has some of the strongest commercial real estate fundamentals of any mature market globally. Toronto, Vancouver, Ottawa and Montreal all rank in the top ten major North American cities for the lowest downtown office vacancy rates, while the average availability rate for industrial assets across Canada is at a record low. Both top and bottom line hotel performance metrics are trending upwards, and retail, despite the impact of e-commerce, continues to perform well. These solid market indicators are encouraging domestic and foreign investors to bid aggressively on Canadian commercial real estate assets.



Several significant deals occurred across a variety of sectors and geographies including: the $1.9 billion 50% portfolio interest sale of office/retail in Vancouver between Cadillac Fairview and the partnership of the Ontario Pension Board and Workplace Safety and Insurance Board; the $480.0 million sale of Ottawa's Constitution Square office complex, the largest real estate transaction in Ottawa's history; and the $335.0 million sale of the Sheraton Centre Toronto, the largest single hotel asset transaction on record in Canada. Further, the sale of the 156-room Rosewood Hotel Georgia in Vancouver set a new luxury pricing threshold, at $930,000 per room.

Canadian hotel transaction volume reached $3.4 billion in 2017 (including M&A activity), below 2016's $4.1 billion but still reflecting an exceptionally strong level of investment. When entity-level/M&A activity is excluded, $2.3 billion in single assets/portfolios traded, well-above the decade average of $1.4 billion.

2017 IN REVIEW

INVESTMENT

$1.1 BILLION
Greater Toronto Area ("GTA") transactions

KEY HOTEL INVESTMENT TRENDS:

- Excluding entity-level deals, Central Canada dominated deal volume for the sixth consecutive year, largely driven by $1.1 billion transacting in the GTA alone.

65.0%
of national transaction volume was in Central Canada

- With relatively few trades in the prairies, transaction volume in Western Canada accounted for 29.0% of national transaction volume, a similar proportion as the year before.
- There continues to be a strong appetite for assets in major markets, however with a significant number of institutional grade assets having traded in recent years, availability of product has slowed, contributing in part to 72.0% of deals occurring in secondary/tertiary markets. Interestingly, while representing only 28.0% of the deals, primary markets accounted for 76.0% of the dollar volume.
- Private capital dominated at 88.0% of total transaction volume, comprised of private investors (56.0%), non-public hotel investment companies (21.0%) and real estate companies/developers (11.0%).
- Foreign capital was again a significant factor in hotel investment, with Hong Kong's Leadon Investment Inc.'s $1.1 billion acquisition of bcIMC's SilverBirch Hotels & Resorts portfolio, consisting of 26 hotels, in Q1 2017. This followed the privatization of InnVest REIT and its 107-hotel portfolio for $2.1 billion by Bluesky Hotels, backed by Hong Kong capital, just a year earlier.
- There was downward pressure throughout the year on Montreal cap rates as investors looked for a desirable urban alternative from competition heavy Toronto and Vancouver.
- Despite the perception of higher rates, cap rates on Alberta transactions were relatively low as buyers did not double punish weak market-wide performance with high yield expectations and bought on a per room basis with lower initial yields.

DEAL VOLUME

Primary Markets | Secondary/Tertiary Markets

DOLLAR VOLUME

Primary Markets | Secondary/Tertiary Markets

Q4 2017 CAP RATES*

VANCOUVER	4.50 - 6.00%	▼
CALGARY	7.00 - 8.75%	▼
EDMONTON	7.25 - 8.75%	▼
WINNIPEG	7.75 - 9.00%	▼
LONDON-WINDSOR	7.75 - 9.00%	▼
KITCHENER-WATERLOO	8.00 - 9.00%	▼
TORONTO	5.00 - 6.00%	▼
OTTAWA	7.00 - 8.00%	◄►
MONTREAL	7.00 - 8.00%	▼
HALIFAX	7.50 - 9.00%	▼

* Downtown Full-Service Hotels
Change from Q4 2016

2017 IN REVIEW

OPERATIONS

Total overnight travel was up 3.3% in 2017, with the strongest growth posted by overseas travel at 10.4%. National accommodation demand grew 4.1% in response, with RevPAR improving by almost 8.0%. Western Canada's resource markets continued to struggle, but the rate of decline has slowed, bringing optimism for 2018. That said, recovery will be tempered in markets impacted by new supply, particularly in Calgary and Edmonton, and to a lesser degree Saskatoon and Regina. In terms of RevPAR, Western Canada posted growth of over 6.0% in 2017, while Central and Atlantic Canada both improved by 9.0%.

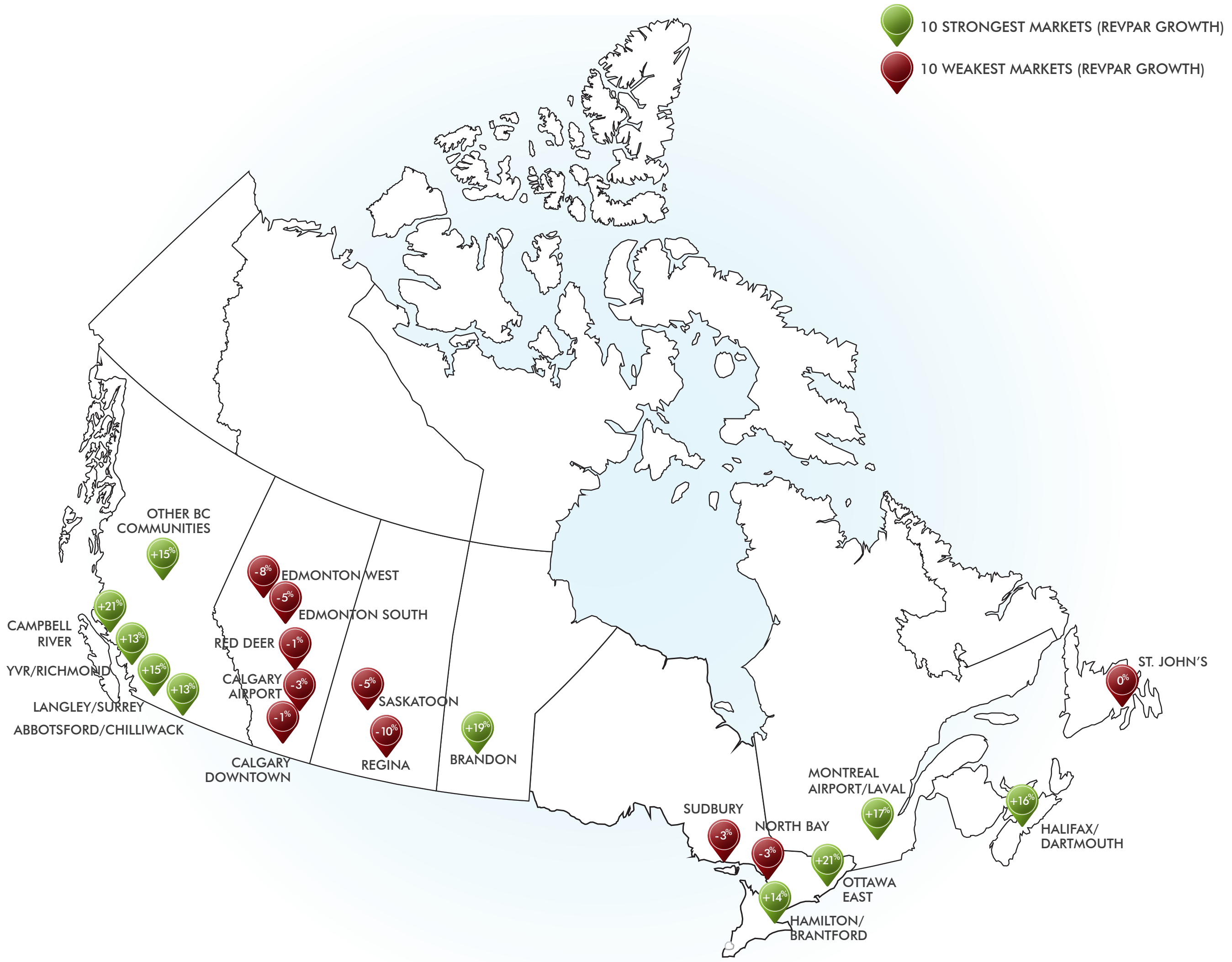
The net result from a bottom line performance perspective was an increase of almost 16.0% in operating income nationally to $14,300 per room in 2017. This growth was led by Quebec at almost 25.0%, Atlantic Canada at 20.0%, Ontario at 19.0% and British Columbia at 17.0%. At $23,600 per available room in net operating income, British Columbia still leads the country.

From a visitation perspective, 2017 was a strong year as Canada celebrated its 150th birthday and was named the #1 DESTINATION to visit by both the New York Times and Travel+Leisure Magazine.

Several strategic assets underwent large-scale renovations from 2015-2017, and coupled with heady economies, owners are realizing substantial top and bottom line growth. Notable projects included the renovation of the 1,372-room Sheraton Centre Toronto, 950-room Fairmont the Queen Elizabeth (Montreal), 464-room Fairmont Empress (Victoria) and 310-room Westin Nova Scotia (Halifax), that averaged upwards of $100,000 per room.

2017 IN REVIEW

OPERATIONS



2018 OUTLOOK

NATIONAL

National commercial real estate momentum is building off 2017's record breaking year, with a number of significant deals already tabled, including Slate Acquisitions Inc.'s pending $1.1 billion acquisition of 97 office, retail and industrial properties from Cominar Real Estate Investment Trust across the GTA, Atlantic and Western Canada. Overall, CBRE is projecting a robust investment year in 2018, with Canada likely to contend for a third consecutive year of record investment volume, with hotel investment following suit.

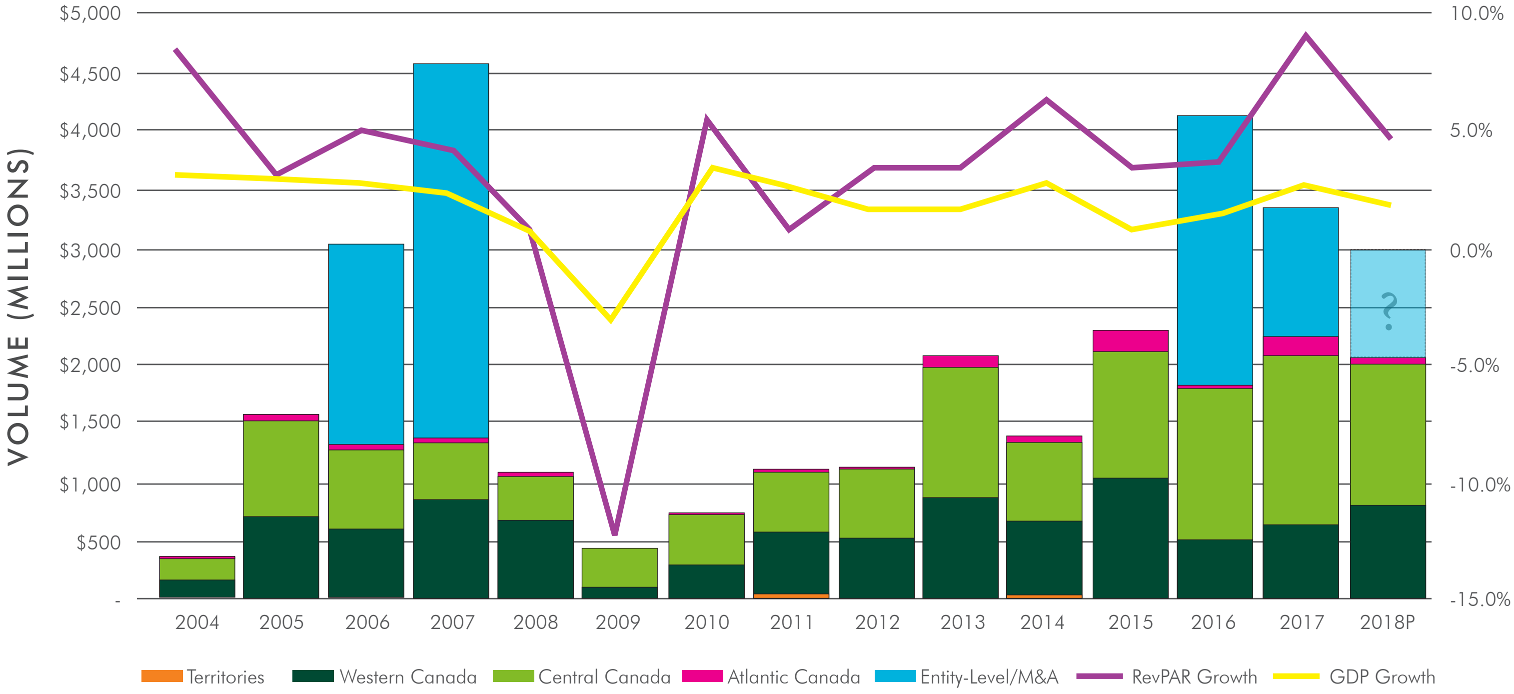
With large-scale hotels already on the market, owners continuing to optimize their portfolios and abundant capital waiting to be deployed, national hotel transaction volume should approach 2017 volume when M&A activity is excluded.

- Non-traditional hotel deals, including mixed-use hotel component opportunities, site redevelopments and where feasible, land acquisitions, will become more prominent.
- Well established regional hotel investors that have been active acquirers in recent years will continue their growth trajectories by expanding geographically and becoming national players, as well as from developing more sophisticated management platforms and corporate infrastructure.
- These same groups are also expanding and exploring other real estate asset classes, particularly multi-residential and seniors' housing.
- There is a risk for increased new supply over the next few years if investor capital cannot be recycled into existing hotels.
- Building off a strong 2017, overnight travel in 2018 is anticipated to moderate, but at growth of 2.2% remains quite strong. Overseas travel is expected to lead the pace of growth, forecast at 6.4%. In fact, 2018 has been dubbed the Canada-China Year of Tourism, based on an initiative between the two governments to boost the two-way flow of tourists. Room demand across the country is forecast to increase 2.4% and RevPAR is anticipated to move upwards by 4.7%, with profitability expected to rise by over 8.0%.
- Despite recent Bank of Canada interest rate increases, debt remains relatively inexpensive and readily available with interest rates in the 4.0% range in most markets, and sub-4.0% for deals with strong sponsorship, with Alberta being the exception. There are fewer lenders entering Alberta's hotel space and some interest rates are approaching double what they were 12 to 24 months ago.

NATIONAL

2018 individual hotel and portfolio sales should reach at least $2.0 billion. **M&A/entity-level activity can be difficult to predict but could easily push volume** to the $3.0 billion range as we have seen in the past two years.

INVESTMENT VOLUME



Sources: Conference Board of Canada, CBRE Hotels, Real Net, Real Track, Real Capital Analytics

2018 OUTLOOK

NATIONAL & REGIONAL OUTLOOK

	2016	2017	2018P	YOY (1)
		NATIONAL		
Supply Growth	1.2%	1.1%	1.7%	▲
Demand Growth	1.3%	4.1%	2.4%	▼
RevPAR	$94	$102	$107	▼
ANOI per Available Room	$12,300	$14,300	$15,400	▼
Transaction Volume (2)	$4,100M	$3,400M	$3,000M	▼
		WESTERN CANADA		
Supply Growth	2.0%	1.7%	1.0%	▼
Demand Growth	-1.5%	4.6%	2.4%	▼
RevPAR	$90	$96	$100	▼
ANOI per Available Room	$13,700	$15,000	$16,100	▼
Transaction Volume	$500M	$620M	$800M	▲
		CENTRAL CANADA		
Supply Growth	0.4%	0.7%	1.9%	▲
Demand Growth	3.9%	3.2%	2.2%	▼
RevPAR	$101	$110	$115	▼
ANOI per Available Room	$12,000	$14,400	$15,700	▼
Transaction Volume	$1,300M	$1,500M	$1,200M	▼
		ATLANTIC CANADA		
Supply Growth	1.2%	-0.5%	4.2%	▲
Demand Growth	5.4%	3.1%	3.7%	▲
RevPAR	$79	$86	$88	▼
ANOI per Available Room	$8,600	$10,300	$10,800	▼
Transaction Volume	$25M	$160M	$50M	▼

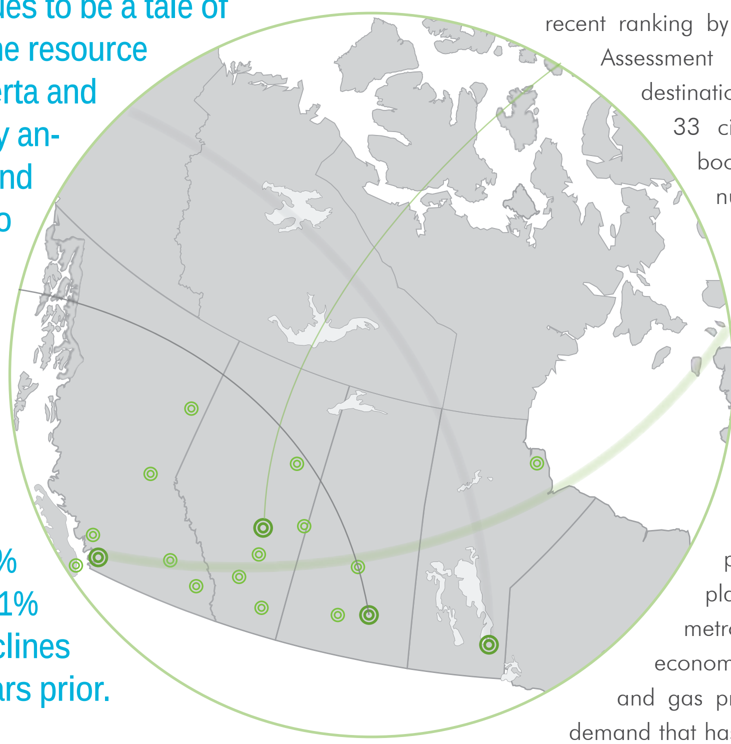
(1) Increase (▲)/decrease (▼) in 2018 growth over 2017 growth.
(2) Includes entity-level/M&A transactions.

ANOI = Adjusted Net Operating Income

2018 OUTLOOK

WESTERN CANADA

Western Canada continues to be a tale of two markets. While the resource driven markets of Alberta and Saskatchewan are finally anticipated to stabilize and optimistically start to recover lost rate, this is in sharp contrast to BC and Manitoba that are anticipated to realize moderate to strong top line growth. Overall, RevPAR for the region is projected to grow 4.7% in 2018, following 6.1% growth in 2017 and declines the two years prior.

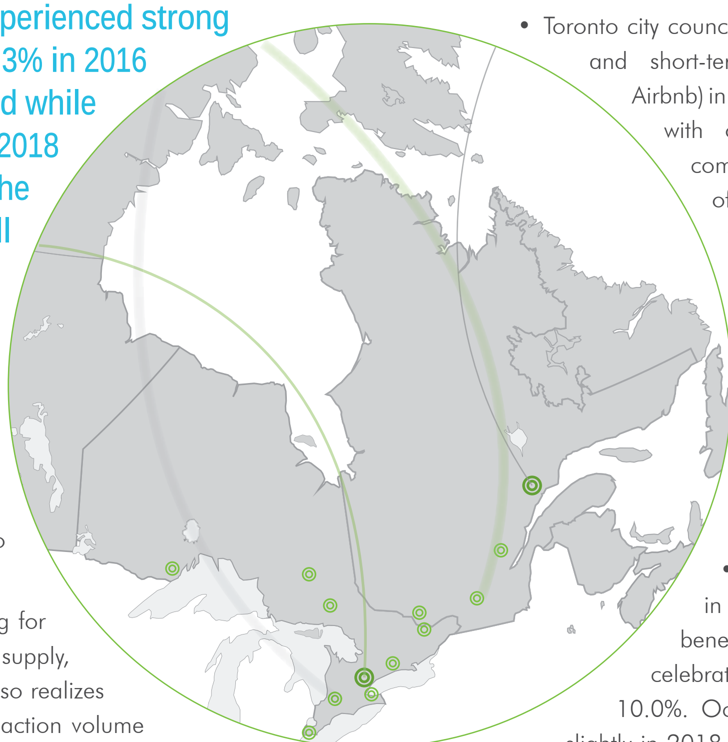


- Vancouver has the opportunity to build on its recent ranking by STR's DestinationMAP (Meeting Assessment Program) as being the #1 destination for a business meeting, with 33 citywide conventions and events booked for 2018 – the highest number the city has ever hosted in a single year. The city's RevPAR is forecast at $161 in 2018, the highest of all major markets in terms of both dollar value and growth (7.5%).
- On a positive note in Alberta, Calgary and Edmonton's economic growth forecasts for 2018-2021 put them in second and third place, respectively, of all major metropolitan markets in Canada. With economic conditions improving and oil and gas prices stabilizing, corporate room demand that has been largely absent for the past two years should start to return, helping to offset the impact of new supply in both markets.
- In line with improved top line performance, profitability is anticipated to increase 7.1% in the region, although this is very much market dependent. BC's bottom line is projected to grow a healthy 11.0% and while profits in Alberta have finally bottomed out, only a 1.0% increase is projected for 2018. However, this is a significant improvement from aggregate declines of almost 50.0% over the last three years.
- Western Canadian transaction activity in 2017 was split 69.0% in BC, 30.0% in Alberta and 1.0% in Saskatchewan and Manitoba. There are a number of portfolios on the market in Alberta and we do anticipate activity to escalate however pricing will likely remain low as hotels continue performing well below normalized levels.
- Following two years of declining top line fundamentals as market conditions softened and a significant amount of supply was absorbed, Saskatoon's RevPAR is forecast to remain flat while Regina's RevPAR is projected to grow 2.5% in 2018.
- Winnipeg has maintained steady annual RevPAR growth, with further 3.0% growth forecast in 2018, and the market should benefit from the recent $180-million expansion of the RBC Convention Centre Winnipeg. While there are several hotels in the planning and/or development phase, the impact of these will be felt beyond 2018.

2018 OUTLOOK

CENTRAL CANADA

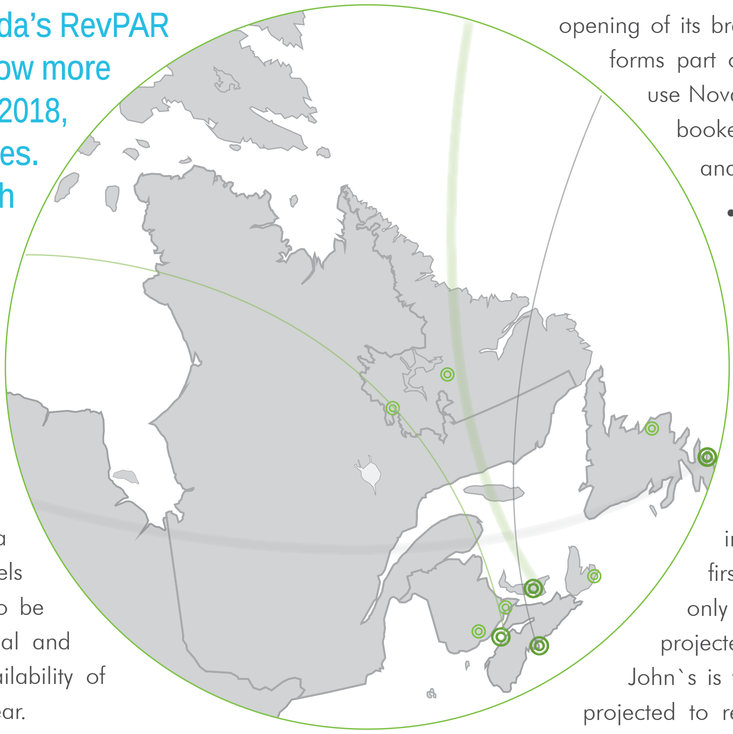
Central Canada has experienced strong RevPAR growth at 8.3% in 2016 and 8.9% in 2017, and while projected growth in 2018 will remain above the national average, it will slow to 4.9%.



- Similarly, hotel profits will continue to grow but at a more moderate rate. Following almost 20.0% growth in 2017, profitability growth is expected to slow to about 9.0% in 2018.
- With Central Canada accounting for almost 50.0% of national hotel supply, it's no surprise that the region also realizes more than its fair share of transaction volume which in 2017 was 65.0% and represented 78 trades. With strong competition for GTA assets and increasing interest in Montreal, as well as in secondary markets, 2018 should be another robust investment year for the region.
- Ontario owners, operators and investors will be the first to quantify the impact of the minimum wage hike on hotels' bottom line providing an indication for other provinces including Quebec, Alberta and Prince Edward Island that are expected to follow suit with minimum wage increases by year-end.
- Toronto city council approved a 4.0% tax on hotels and short-term accommodations (such as Airbnb) in January 2018. This initiative along with other home-sharing restrictions coming into place July 1 are a sign of first steps in the regulation of this alternative accommodation industry which accounts for over 20,000 accommodation units in the GTA (versus approximately 44,000 hotel rooms).
- Toronto is forecast to realize RevPAR growth of 6.0% in 2018, compared to 9.6% in 2017.
- Occupancy in Ottawa grew in 2017 to 75.0%, as operators benefitted from Canada 150 celebrations, pushing rate by almost 10.0%. Occupancy is projected to decline slightly in 2018 with ADR and RevPAR forecast to improve another 4.0% and 1.0%, respectively.
- Tourisme Montreal has projected a 4.0% increase in overnight visitors in 2018 to 11.6 million, feeding off momentum gained in 2017 with the City's 375th anniversary and propelled by new direct flight destinations internationally, tourism sector investment and increased exposure of the destination globally. Strong ADR growth will offset a slight dip in occupancy, with RevPAR growth in 2018 forecast at 3.5%.

ATLANTIC CANADA

Following RevPAR growth of almost 9.0% in 2017, Atlantic Canada's RevPAR is forecast to grow more moderately at 3.0% in 2018, as occupancy stabilizes. With top line growth slowing in 2018, the region's profits are forecast to improve by 4.0% following strong growth of 20.0% in 2017.



- From an investment perspective, Atlantic Canada had an active year with 12 hotels transacting. There continues to be interest from a mix of regional and national buyers, although availability of product is scarce in a typical year.

- Halifax should benefit from the December 2017 opening of its brand-new convention centre, which forms part of the larger $500-million mixed-use Nova Centre project. Ninety events are booked for 2018 including 44 national and international events.

- Following solid RevPAR growth of over 15.0% in 2017, Halifax is forecast to see occupancy decline slightly in 2018 to 71.0% as a result of new supply, with ADR growing 3.5%.

- As supply continues to outpace demand, St. John's will see a decline in occupancy in 2018 to below 60.0% for the first time in over 20 years, and with only moderate ADR growth, RevPAR is projected to decline by 6.0% in 2018. St. John`s is the only major market in Canada projected to realize negative RevPAR growth in 2018.

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