CBRE HOTELS CANADA

Q1 2020 UPDATE
THE IMPACTS OF COVID-19

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Hotel Performance

The outbreak of the Novel Coronavirus (COVID-19) was declared by the World Health Organization as a "Global Pandemic" on March 11, 2020. In Canada, on March 18, 2020, the Federal government implemented a ban on the entry to Canada of foreign nationals from all countries, except the United States. At the same time, it was announced that the Canada-U.S. border would be closed to all non-essential travel.

The impacts on the global accommodation industry were immediate. In Canada, national occupancy dropped from historic highs, to under 20% virtually overnight. All markets and all asset types felt the impact.

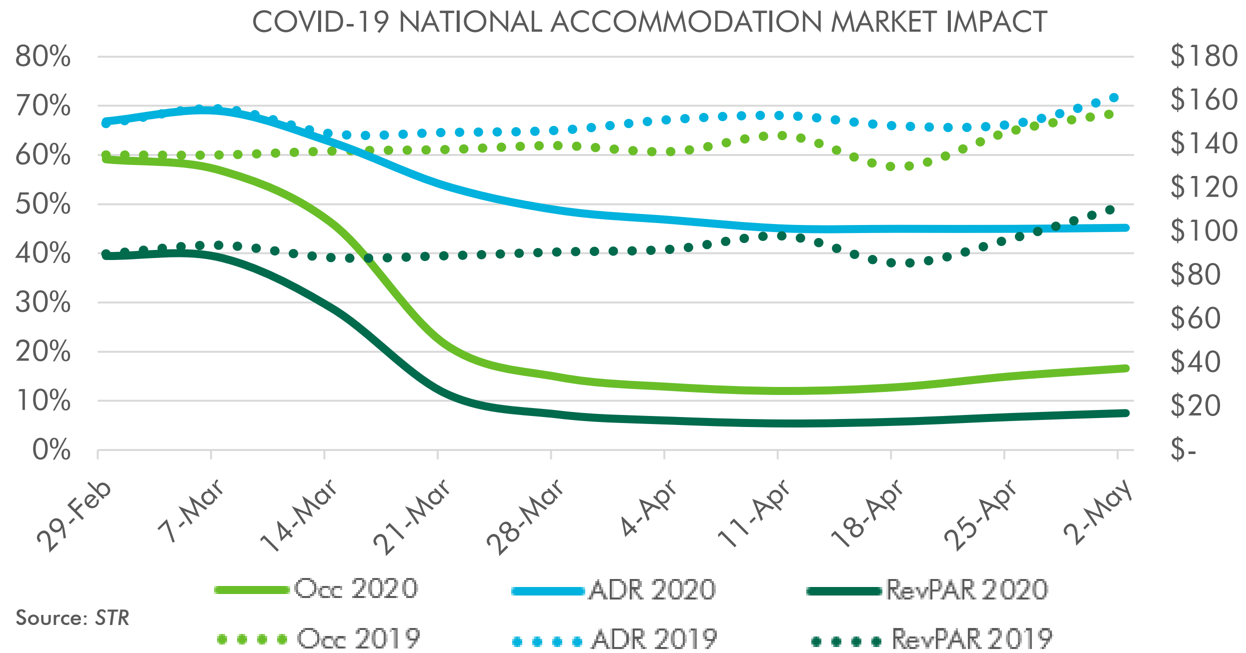
2019	Jan	Feb	Mar	YTD March
Occupancy	51%	59%	60%	57%
ADR	$148	$150	$148	$149
RevPAR	$75	$88	$89	$84

2020	Jan	Feb	Mar	YTD March
Occupancy	50%	59%	32%	47%
ADR	$147	$150	$141	$147
RevPAR	$74	$88	$45	$69

Source: *CBRE Hotels Canada*

When we compare the first quarter of 2020 to 2019, we get the first glimpse at the impact that COVID-19 has had on the Canadian accommodation industry. In general, industry performance in January and February of 2020 was in line with the same period in 2019. The performance in March, specifically the two and a half weeks or so after the pandemic was declared, saw occupancy for the month fall by 28 points and ADR decline by almost 5% resulting in a RevPAR decline of 49%. The performance in March reduced the first quarter occupancy by 10 points, with ADR generally unchanged at (-1%) but RevPAR declining by 18%.

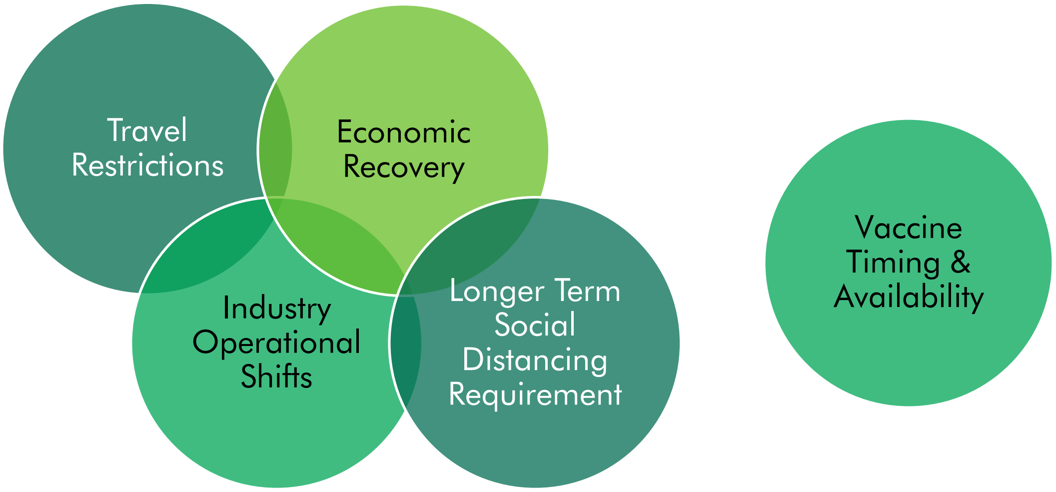
The weekly performance data on the following page makes clear the swiftness of the impact. The most significant drop off happened in the last weeks of March and by the week of April 4th the occupancy and RevPAR performance nationally had bottomed out. For the last month or so ADR has generally held while occupancy has shown a slight uptick in recent weeks. However, the market is still sitting at sub 20% occupancy nationally.



Source: *STR*

Factors Impacting the Recovery

CBRE's expectations for the Canadian industry generally follow those prepared by our US research team for the US industry. While it is difficult to map out the details with certainty, assumptions used while preparing the projections have included that a vaccine will be in place by the latter part of 2021, there will be an orderly lifting of travel restrictions, there will be strong economic recovery in 2021, the travel industry will be able to manage social distancing requirements, and the hotel industry specifically will be able to make the operational adjustments required to function at deflated demand and revenue levels.



Mapping Out the Recovery

History, post 9/11, SARS, and the Great Financial Crisis suggests that demand levels returned to pre-incident levels relatively quickly (within 12-15 months) but that the recovery of ADR and RevPAR lagged the demand recovery by at least 12 months. However, until there is a clearer picture about virus transmission mitigation/containment, as well as the easing of travel restrictions and social distancing guidelines, and more importantly a vaccine, our forecasting of the expected recovery, must be considered preliminary at best, with perhaps more potential for downside than there is for upside.

This Outlook should not be viewed as CBRE's definitive expectation for industry recovery as there are far too many unknowns, but it does provide an initial base line by which owners, operators and lenders can begin their longer term business planning.

With both demand and ADR levels declining significantly this year, RevPAR is forecast to be down by approximately 50% in 2020, with 2021 RevPAR performance still expected to be off 20% from 2019 levels. Relative to historic events, our current forecasts are suggesting a more protracted recovery post COVID-19, with the industry taking upwards of 36 months to recover to 2019 levels of RevPAR performance by 2023.

CBRE Original Canadian Forecasts 1/1/2020

	Occ	ADR	RevPAR	Supply	Demand	Occ Pts	ADR	RevPAR
2019	65.1%	$163.52	$106.52	1.8%	0.2%	-1.1	0.8%	-0.8%
2020	65.3%	$167.44	$109.39	1.9%	2.5%	0.2	2.4%	2.7%

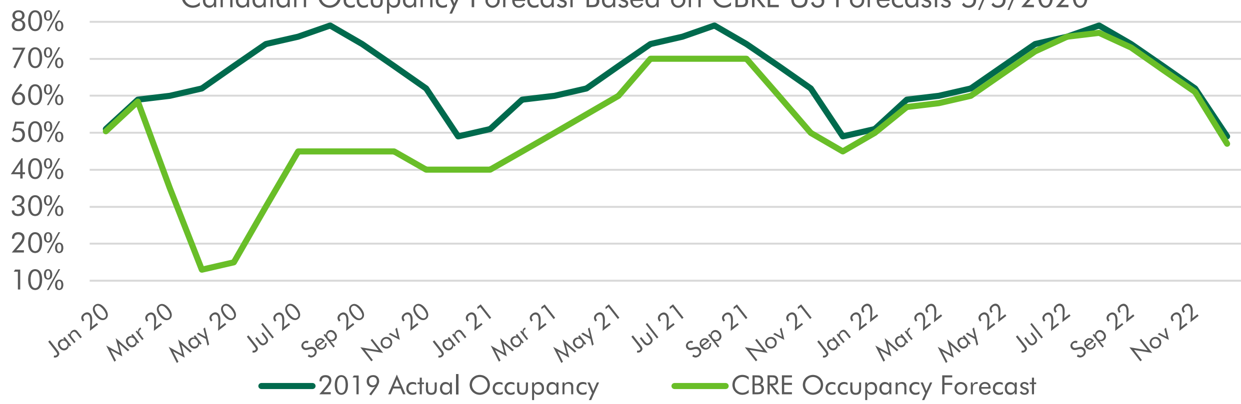
Canadian Forecasts Based on CBRE US Forecasts 5/5/2020

	Occ	ADR	RevPAR	Supply	Demand	Occ Pts	ADR	RevPAR
2020	38.2%	$138.99	$53.15	1.9%	-40.0%	-27.1	-15.0%	-50.1%
2021	57.0%	$152.89	$87.09	0.7%	50.0%	18.7	10.0%	63.8%
2022	63.5%	$159.01	$100.94	0.5%	12.0%	6.5	4.0%	15.9%
2023	65.1%	$163.78	$106.55	0.5%	3.0%	1.6	3.0%	5.6%
2024	65.1%	$167.87	$109.22	1.5%	1.5%	0.0	2.5%	2.5%
2025	65.1%	$172.07	$111.95	1.5%	1.5%	0.0	2.5%	2.5%

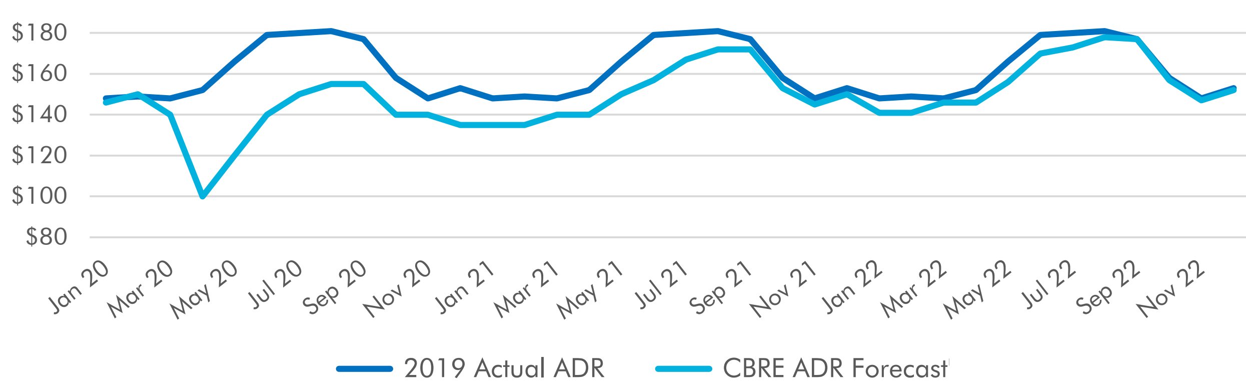
Source: *CBRE Hotels Canada*

The following charts map out the potential recovery curve for the hotel industry in Canada on a monthly basis out to December 2022, relative to actual monthly performance for 2019. Even with an easing of restrictions, the balance of 2020 will still be a long way off 2019 levels, and while the gap will shrink the further we go out, it will still be the latter part of 2022 before the industry starts to approach normalcy from a combined demand, occupancy, average daily rate, and RevPAR perspective.

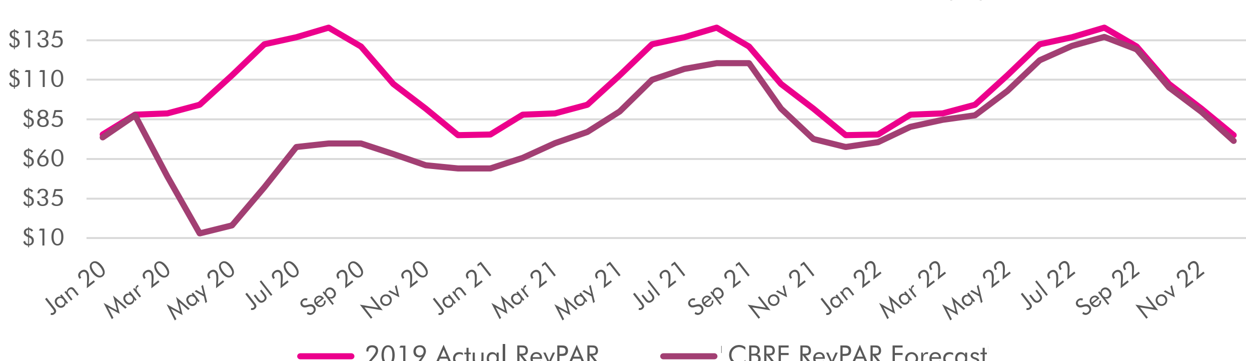
Canadian Occupancy Forecast Based on CBRE US Forecasts 5/5/2020



Canadian ADR Forecast Based on CBRE US Forecasts 5/5/2020



Canadian RevPAR Forecast Based on CBRE US Forecasts 5/5/2020



Source: *CBRE Hotels Canada*

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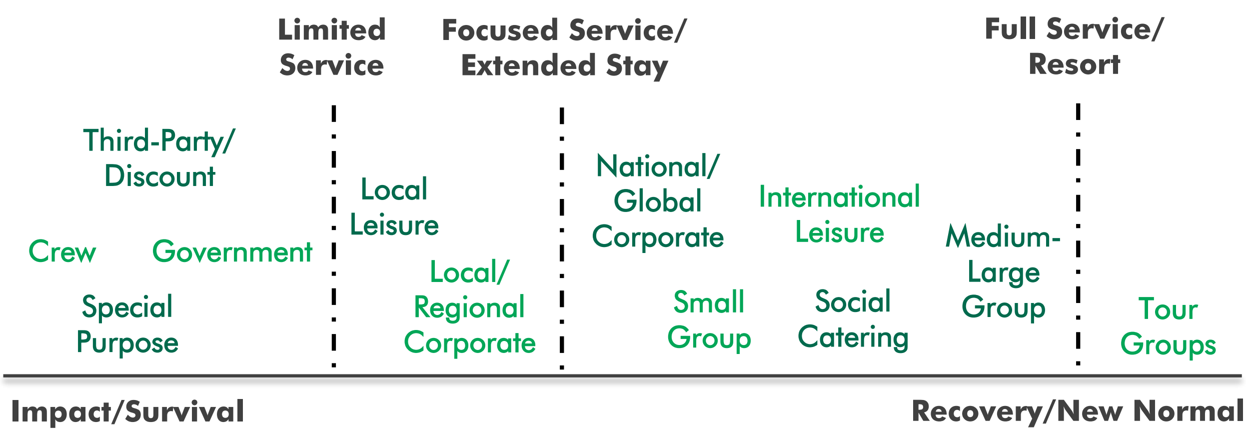
Where Do We Go From Here?

As operators look forward, consideration will need to be given to how and when different segments of demand will return. As noted earlier, the length of the recovery will in part be determined by factors outside of the industry's control such as travel restrictions, social distancing requirements, how they are eased/eliminated, and the timing of a vaccine.

It is expected that the performance of various asset types will depend on when and at what levels the typical segments of demand return. It is likely that Full Service and Resort hotels will see a more protracted recovery in demand given the importance of meeting/conference business. Conversely, Limited Service hotels, particularly those that have remained open may see demand levels return quicker.



CBRE believes that the industry is now crossing from the initial Impact and Short Term Relief Phase with the assistance of the federal government and lenders into the Survival Phase. In the Survival phase, owners and operators need to map out a business plan to get past the next 12 to 18 months. This will be the minimum time required before one can look forward with some confidence. Recovery will necessitate innovation to address social distancing protocols, enhanced sanitation measures, and revised operating procedures. It is critical that one anticipates what it will be like to operate through a COVID-19 era. We should anticipate that the recovery period will be protracted before we get to a New Normal and we still don't know what that will entail.

The Hotel Investment Market

While we are effectively in a "no trading" period right now, there have been some pre-COVID deals getting done this quarter. Investment trends we anticipate to emerge in the near to medium term, include:

- Owners and lenders continuing to work through various forms of deferrals and restructuring programs over the next few months. Owners needing viable go-forward plans and defendable cash flow projections for the return of each market segment, appreciating timing nuances and the balance between fixed and variable costs. Zero-based budgeting will become the norm for the next 12-18 months.
- Lenders continually assessing their hotel loan books, focusing on key relationships and hotels with a solid business strategy. Hotels that had weak operations going into this pandemic will be highly scrutinized and without new capital, some will inevitably be forced to recapitalize or sell.
- Stress points arising with some single asset owners and developers, particularly in Alberta, Southern Saskatchewan, and Northern BC, who do not have established lender relationships, deep capital reserves, or the nimbleness to adapt to consumer expectations.
- Few receiverships in major centres, particularly for larger hotels where private and private equity ownership remains strong.
- An increase in the next 60-90 days of some owners looking for a liquidity event, either through a sale, equity injection, or debt refinancing, as a clearer picture of an industry restart takes hold.
- A narrowing of the bid/ask spreads, which are presently quite wide, over the next 6-12 months as topline performance improves and owners and lenders gain visibility on the recovery timeline.
- A twinning of the transaction market unfolding with prominent, high barrier to entry hotels and well located extended and focused service assets seeing less erosion in value, while hotels in energy reliant markets and smaller communities more adversely affected, will continue to be highly distressed.
- Relationship lending and an owner's track record are paramount during the sector's recovery phase. While there are a few lenders that have begun to look at new financings, some private lenders and debt funds are frozen with their own liquidity events so some regional lenders and credit unions may be an option today.

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- Given the quantum of private and private equity capital sitting on the sidelines, we anticipate there will be high demand of capital to acquire hotels across the country.
- While cash flow will be impacted, we don't anticipate any short term movement in Cap Rates.

Q1 2020 CAP Rates

Across the major markets, cap rates for Q1 2020 remain unchanged over last quarter.

	VANCOUVER	CALGARY	EDMONTON	WINNIPEG
DOWNTOWN FULL SERVICE	4.50% - 6.00%	6.75% - 8.50%	7.00% - 8.50%	7.00% - 8.50%
SUBURBAN LIMITED SERVICE	6.50% - 7.50%	7.75% - 9.00%	8.25% - 9.25%	8.00% - 9.50%
FOCUSED SERVICE	6.00% - 7.50%	7.25% - 9.00%	7.75% - 9.25%	7.50% - 8.75%
	TORONTO	OTTAWA	MONTREAL	HALIFAX
DOWNTOWN FULL SERVICE	4.50% - 6.00%	7.00% - 8.00%	7.00% - 8.00%	7.25% - 8.75%
SUBURBAN LIMITED SERVICE	7.00% - 8.50%	7.75% - 8.75%	7.75% - 8.75%	8.00% - 9.00%
FOCUSED SERVICE	7.00% - 8.00%	7.50% - 8.50%	7.50% - 8.75%	7.50% - 9.00%

Source: *CBRE Hotels Canada*

Market Leading Professionals

To learn more about CBRE Hotels Canada's services, contact one of our industry experts or visit www.cbre.ca.

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