Horwath HTL

Hotel, Tourism and Leisure

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Spotlight on Montréal

Introduction

The Census Metropolitan Area (CMA) of Montréal, which includes communities on both the north and south shores of the Saint-Lawrence River as well as the Island of Montréal, and which comprises a population estimated at 4.1 million inhabitants in 2016, is the 2nd largest urban area in Canada after Toronto and the 13th largest in North America.

The Montréal CMA, as the commercial and economic centre of Québec, benefits from its reputation for leading-edge technology in aeronautics, aerospace, biotechnology, and multimedia, among others.

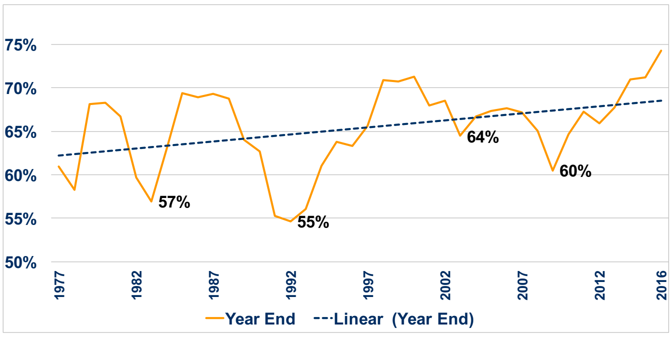
Montréal is also the most popular tourist destination in the Province of Québec and the second, after Toronto, most popular urban destination in Canada. According to Tourism Montréal, the city hosted more than 10 million tourists in 2016 thanks to its numerous social, cultural and recreational aspects. Montréal has long been known for its many attractions, including its Botanical Gardens and the Olympic Park, the historic Old Montréal, the Biodôme, the Montréal Casino, the Quartier des Spectacles, the Museum of Fine Arts, the Museum of Contemporary Arts and finally, the many special events and annual festivals the city has hosted. Among such events and festivals are the games of its popular resident hockey team, the Habs/ Les Canadiens, the F1 Canadian Grand Prix, International Jazz Festival, Just for Laughs Festival, and Les Francofolies, just to name a few.

Looking ahead, the Montréal market is expected to experience a period of economic prosperity of which the lodging sector will be a direct beneficiary, in part due to the numerous institutional and tourism related projects underway or proposed for Montréal's 2017 celebrations relating to the 50th anniversary of 'Expo 67', the 150th anniversary of Confederation, and the 375th anniversary of the City founding.

Historical Results

Demand for accommodations in Montréal tends to follow general overall national and provincial economic trends.

For the 20-year period extending from 1977 to 1996, the average annual occupancy was estimated at 63%. Demand increases between 1997 and 2016 allowed the average annual occupancy to increase by five percentage points, ending this second 20-year period with an annual average of 68%.



Source: Smith Travel Research (STR) and Horwath HTL Compilation

Meanwhile, Montréal's average occupancy rate over the last five years is estimated at 70%.

The 2009 decline in occupancy, which was less severe than that of 1983 and 1991, was in mostly influenced by the slowing economy, the credit crisis, the resulting recession and the cancellation of the F1 Canadian Grand Prix. Since 2010, improving economic conditions, combined with a decrease in available supply between 2010 and 2015, allowed Montréal to improve its occupancy rate to 74% by year-end 2016, representing approximately 3.3 million occupied room-nights in 2016.

Increasing Hotel Supply

As a result of the strong hotel market performances within the Greater Montréal Area, there continues to be a high level of interest among developers to get hotels constructed. Moreover, the anticipated celebrations related to the City's 375th anniversary in 2017 resulted in several hotel projects being announced within the downtown hotel marketplace.

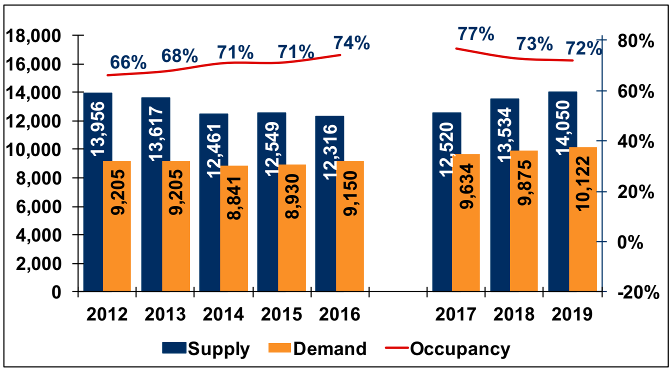
We have compiled a total of 16 hotel projects representing approximately 1,900 guestrooms that have either recently opened or will open within the next two/three years.

	HOTEL PROJECT	EST. NO. OF UNITS	ANTICIPATED OPENING DATE
1	Fairmont Le Reine Elizabeth	982	Closed Mid 2016
2	Renaissance Montréal	142	Jan 2016
3	Hotel William Grey	127	July 2016
4	Best Western Plus Montréal	78	Late 2016
5	Boxotel	20	Late 2016
6	Mount Stephen Club	87	May 2017
7	Hôtel Monville	269	Summer 2017
8	Fairmont Le Reine Elizabeth	500	Partial Mid 2017
9	Holiday Inn Montréal Centre-Ville	225	Oct 2017
10	AC Hotel by Marriott	165	Oct 2017
11	Fairmont Le Reine Elizabeth	450	Remainder
12	Four Seasons Montréal	163	Dec 2018
13	Birks Boutique Hotel	120	2018
14	Hotel at Humaniti	200	Mid 2019
15	Hotel at Quais de Lorimier	Unavailable	2019
16	Hotel at Children's Hospital	Unavailable	Unavailable

Source: Horwath HTL Compilation

Projected Market Results

As a result of the celebrations relating to the 50th anniversary of 'Expo 67', the 150th anniversary of Confederation, and the 375th anniversary of the founding of Montréal, the city's occupancy is projected to come in at 77% by year-end 2017, with increases in supply to be offset by increased demand during the year.



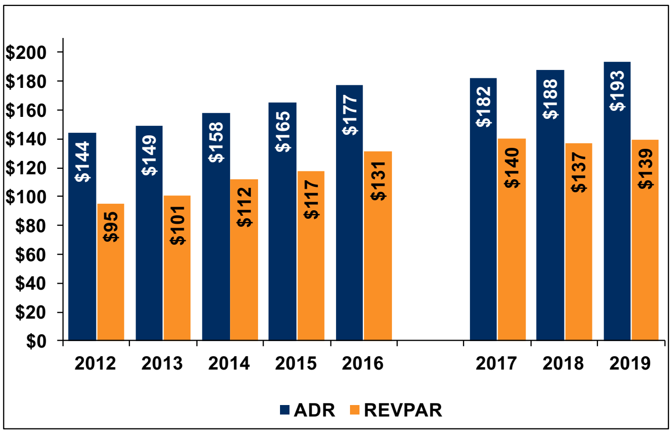
Source: Horwath HTL Compilation

While demand is expected to keep pace into 2018, the arrival of new hotel inventory between 2017 and 2020 should see the Montreal market register a slightly lower occupancy in 2018, estimated at 73%.

The anticipated increase in supply within the downtown Montréal core is mostly composed of upper-upscale, boutique and lifestyle hotels, with many projected to implement a rate strategy that would see a premium over the results of the current inventory's average daily rate.

As such, it is anticipated that the existing hoteliers would be in a position to maintain, if not improve, their current rate strategies as the new inventory should come in at a higher price point.

Therefore, and in projecting the potential growth in average daily rate for the Montréal market in coming years, we have considered historical growth in rate over the long-term, mid-term and in recent years.



Source: Horwath HTL Compilation

We further considered the strength of hotel demand within the downtown marketplace since 2011, with occupancies ranging from 69% to 74%, and the market's ability to increase average daily during this period.

With projected general inflation rates for Québec and Montréal averaging between 1.5% and 2.0% for the coming years, and considering the events and celebrations of 2017, we have projected that hoteliers should be able to achieve an average daily rate estimated at $182 in 2017 and $188 in 2018.

Conclusion

Overall, Montréal continues to present attractive opportunities for hotel and real estate investors.

The city presents other positive advantages since, for the sixth consecutive year, it was ranked first in 2016 as the North American destination for international conventions by the International Congress and Convention Association, while being ranked the second best city in the world to live in 2015, after Toronto, by the Economist.

In 2015, the city was ranked the best city in the world to be a student (QS Best Student Cities Index) and as one of the 50 cities to visit in a lifetime by "The Guide du Routard".

On a last note, Montréal's International Jazz Festival has been one of the world's largest jazz festivals, and as such we say "Keep on Keepin' on" Montréal.

The Canadian Hotel Industry

Introduction

Canada, one of the three largest countries in the world in terms of surface area, is home to 36 million Canadians stretched out from the East (Atlantic Ocean) to the West coasts (Pacific Ocean).

Canada is also an important tourism destination worldwide, having welcomed an estimated 18 million tourists in 2015, representing an 8.7% growth over 2014 and a 3.0% growth over 2013. The tourism number represents 1.5% of the total global tourism visitation according to the United Nations World Tourism Organization.

As a global tourism destination, the country has unfortunately dropped from 8th to 18th over the past 15 years, losing favour to more popular top 10 destinations and emerging countries.

Fortunately, Canada's 150th anniversary celebrations planned for 2017, along with the tourism advantage of a weaker Canadian dollar, should allow Canada to maintain if not improve its ranking as a top travel destination.

In 2015, Canadian tourism deficit contracted by $1.2 billion. This represents the first contraction since 2004, with the result being that the gap between the spending by foreign tourists, in comparison to spending in foreign countries by Canadian residents, was reduced.

In 2016, and according to the latest Destination Canada indicators, tourism demand from domestic and international visitors reached $91.6 billion, representing a growth of 4.2% over 2015.

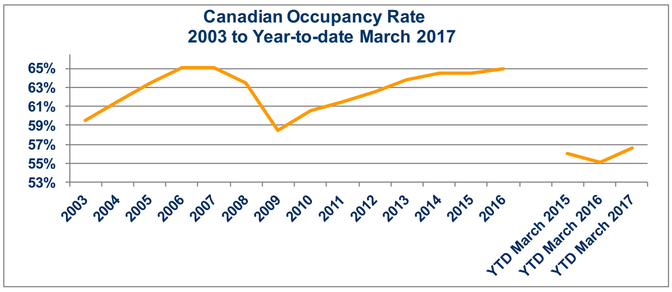
At this point, the two primary factors influencing tourism, and hence hotel demand, in Canada are undoubtedly the Canadian dollar's decreased value and the oil crisis and its effects on the Alberta and Newfoundland economies, among others.

The first tends to push international tourism to Canada upwards and often keeps a larger portion of Canadians home as their tourism dollars buys less in the international tourism marketplace.

The second has resulted in tough times for the Western Canadian hotel industry, and particularly Alberta as it is a major player in Canada's oil and gas sector.

Canadian Hotel Industry

Despite Canada's reliance on domestic demand and its decreasing rank among international tourism destinations, the Canadian hotel industry has performed well in recent years, with year-end 2016 registering a seventh annual increase in both occupancy and average daily rate.



Source: Smith Travel Research (STR) and Horwath HTL Compilation

As a result of the credit crisis, the economic downturn and the resulting recession in 2009, the number of hotel projects in the pipeline slowed considerably between the 2009 and 2011.

The result was, understanding that it typically takes from 18 to 36 months between the beginning of a project and its opening, that the national hotel inventory registered very few hotel additions between 2012 and 2015.

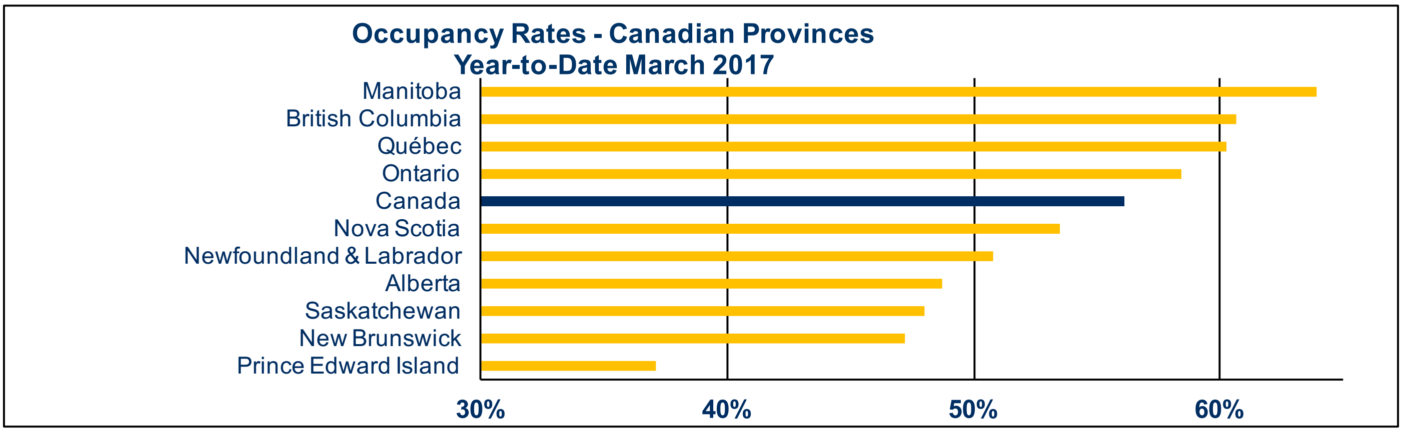
With little increase in supply, combined with the growth in demand for commercial lodging across Canada since 2010, the result has been a steady increase in occupancy rates over the past seven years.

The upward trend in occupancy continued into 2016 and into the first quarter of 2017.

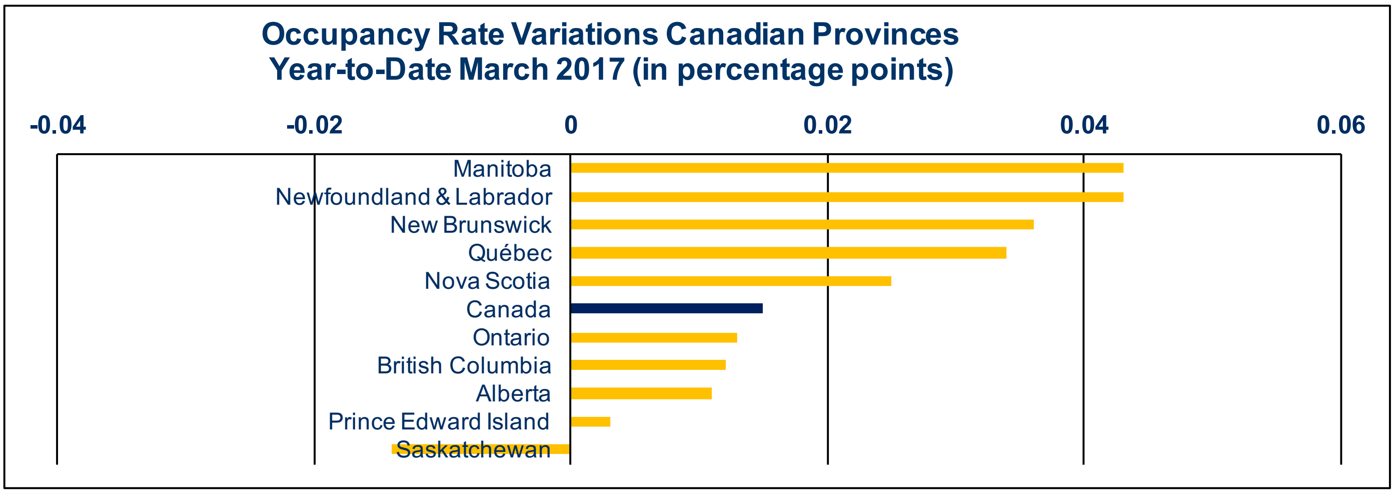
The year-to-date March 2017 trend seems to indicate that the year-end could see a new high in occupancy results, matching or surpassing the 65% registered in both 2006 and 2007.

Key Performance Indicators by Province

The following exhibits illustrate the estimated performance metrics for the Canadian hotel industry for year-to-date March 2017.



Source: Smith Travel Research (STR)



Source: Smith Travel Research (STR) and Horwath HTL Compilation

Occupancy Rates

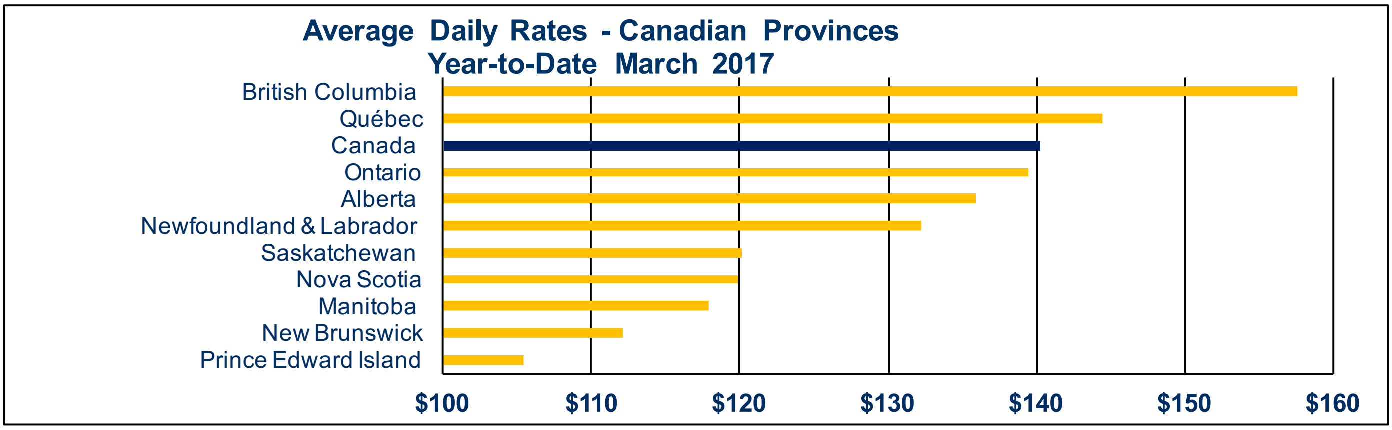
• The year-to-date March 2017 provincial occupancy rates oscillate between 37% and 64%, resulting in a Canadian occupancy rate of 56%; representing a 1.5 percentage point gain in the national occupancy over year-to-date 2016

• The five provinces with the greatest increases in occupancy rates are: Manitoba, Newfoundland & Labrador, New Brunswick, Québec and Nova Scotia. Each registered an increase of between 2.5 to 4.3 percentage points.

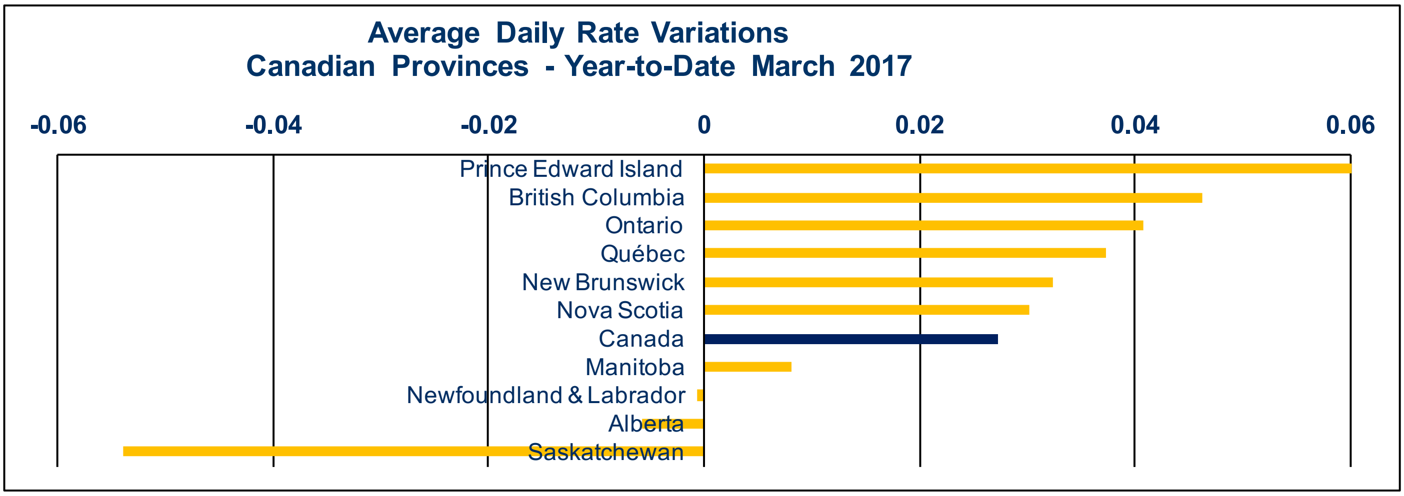
• The only province to register a decline in occupancy during the first quarter of 2017 was Saskatchewan.

• Occupancies in seven of Canada's major cities (Toronto, Montréal, Vancouver, Calgary, Ottawa, Québec City, and Halifax) are estimated to have ranged between 47% and 67% as of year-to-date March 2017.

• While three cities have more or less stagnated in occupancy (Ottawa, Vancouver and Calgary), four have registered increases of between one to five percentage points (Montréal, Toronto, Québec City and Halifax). Calgary, at the heart of the Canadian oil crisis, continues to register decreasing occupancies.



Source: Smith Travel Research (STR)



Source: Smith Travel Research (STR) and Horwath HTL Compilation

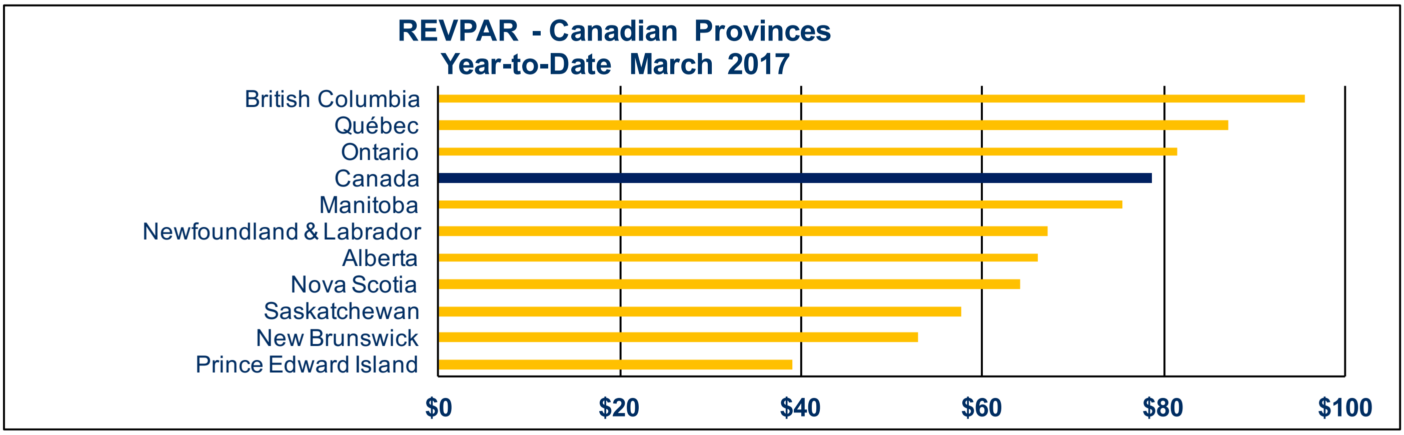
Average Daily Rates

• Provincial average daily rates have oscillated between $105 and $158 during the first quarter of 2017, which results in a Canadian average daily rate of approximately $140, representing an increase of 2.7% over the same period in 2016.

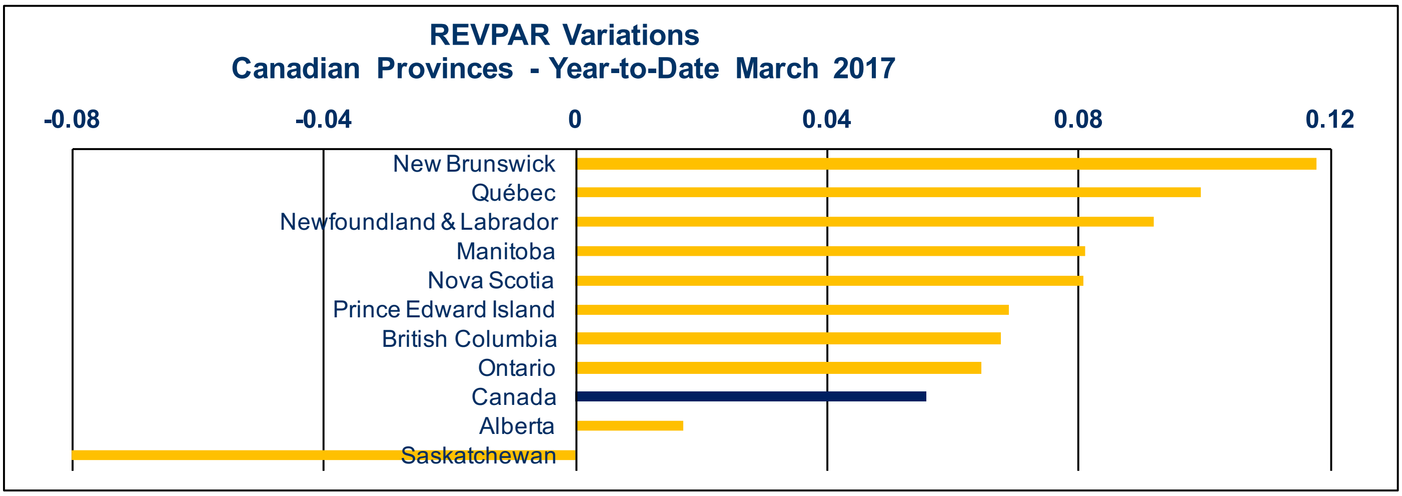
• While only two provinces registered average daily rates that were higher than the national average, we note that six provinces registered stronger increases year-over-year than the national average. As such, strong increases varying between three and six percent were recorded in Prince Edward Island, British Columbia, Ontario, Québec, New Brunswick and Nova Scotia.

• As for the seven major Canadian cities, they will have recorded average daily rates ranging from $123 to $162 during the first quarter of 2017.

• All but one of the seven cities have seen an estimated 2.5 to 5.5 percent increases in average daily rate. Only the city of Calgary registered a continued decreases in average daily rate during the first quarter of 2017.



Source: Smith Travel Research (STR)



Source: Smith Travel Research (STR) and Horwath HTL Compilation

Revenues Per Available Room

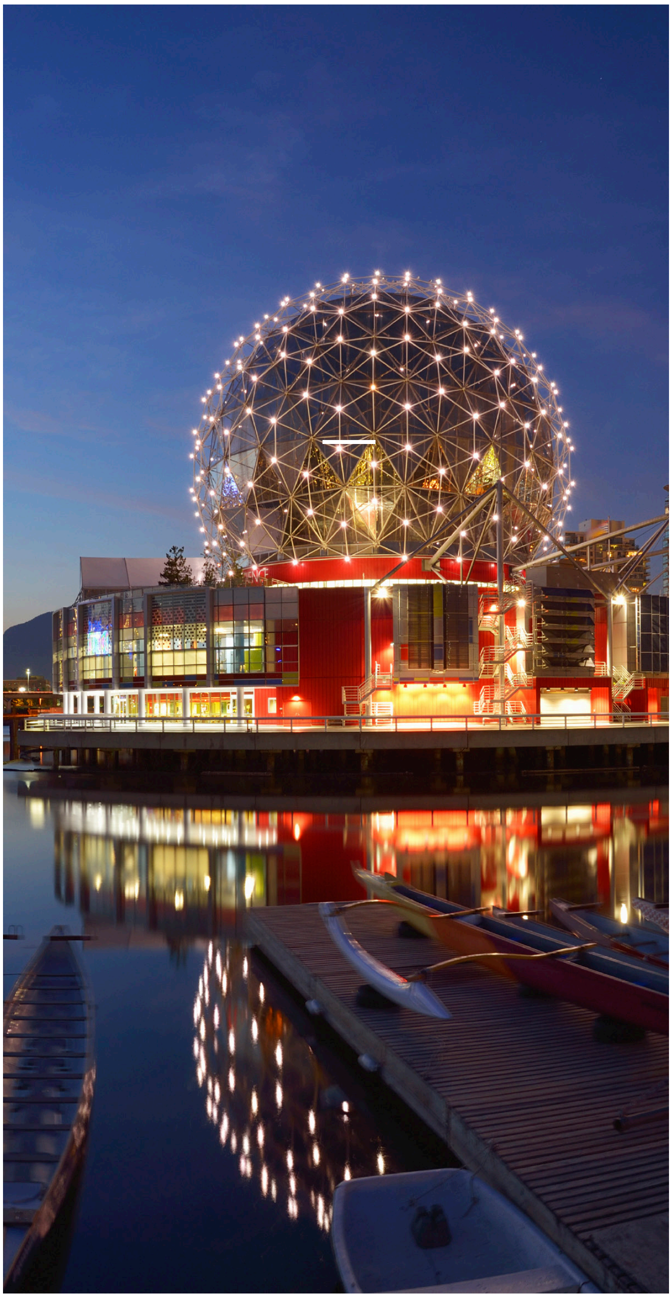
• Provincial indications of revenues per available room, or REVPAR, have varied from a low of $40 to a high of $96 during the first quarter of 2017, resulting in a Canadian REVPAR estimated at approximately $79. The national REVPAR increased by more or less 5.6% over the same period in 2016, the result of a strong occupancy and a healthy average daily rate.

• Strong increases in REVPAR, estimated at between 6.5% and 12%, were recorded in eight of the ten provinces.

• As a result of decreased occupancy and average daily rate, the province of Saskatchewan comes in last again, with a decline in REVPAR estimated at 8.1% during the first three months of 2017.

• Looking at the seven major Canadian cities, they have recorded REVPARs ranging from $70 to $107 during the first quarter of 2017.

• All of the major cities considered, with the exception of Calgary, have registered improvements of between 4.7% and 13.5% in REVPAR. Calgary, as a result of the stable occupancy but a slightly diminished ADR, has seen a decrease in REPVAR estimated at close to one percentage point. Meanwhile, Montréal, Ottawa, Toronto, Québec City and Halifax, have registered improvements in their REVPARs estimated at over 6.0% each.



Conclusion

Canada continues to maintain an upward pace on the heels of 2015 and 2016 and heading into 2017, and this despite the important difficulties registered by the provinces of Alberta, Saskatchewan and Newfoundland & Labrador in recent years.

With occupancy potentially reaching a new high if the first quarter results of 2017 are any indication, average daily rate at a national level continues to trend upwards, increasing by 4.3% at year-end 2016 and up 2.7% during the first quarter of 2017.

With celebrations planned throughout the nation for the 150th anniversary of Confederation, and a destination made further attractive by the week Canadian dollar, 2017 should be another strong year for Canada.

Horwath HTL

Hotel, Tourism and Leisure

Horwath HTL Canada

Horwath HTL Toronto and Montréal are members of Horwath International, one of the top global accounting networks. Horwath HTL Consultants rely on a strong consulting experience in the areas of hospitality, tourism and leisure.

Our Montréal team is recognized as the largest Québec consulting firm specializing in the hotel, leisure and tourism industry for over twenty years. We have conducted numerous studies in Québec, the Atlantic Provinces and in different parts of the world. Our association with Horwath International allows us to benefit from global data and resources to meet the demands of the industry. We present below our various areas of expertise and services we provide to our customers.

The Horwath International network currently has 200 affiliated offices located in over 70 countries. Highly regarded in their respective territories, each office adheres to the quality and professionalism standards of the Horwath network.

Hotel Industry

Our company, the global leader in the hotel industry, has a well-established reputation. For many years, we have been offering our services to various industry stakeholders.

This long and fruitful collaboration not only provides us with an unmatched credibility and confidence within this industry, but also with a deep understanding of the problems and challenges that can arise in this field.

Our team of professionals holds undeniable expertise in order to identify customer needs and recommend appropriate solutions to maximize the potential of a project. This is why our consulting services are a valuable asset for anyone involved directly or indirectly in the hotel industry.

Our Expertise:

- Review of obligations and responsibility
- Litigation management services and expert testimony
- Estimated market value and asset appraisal
- Asset management
- Capital expenditures analysis
- Project master planning for tourist destinations
- Recovery planning and management of distressed hotel assets
- Due diligence
- Franchise selection and negotiation
- Optimal land use
- Interim management
- Management company selection and negotiation
- Investment strategies
- Market entry strategies
- Market and financial feasibility studies
- Operational reviews
- Planning and development
- Product conceptualization
- Repositioning strategies and analysis
- Planning and development - Tourism
- Transaction support and financial restructuring

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Since 1990, Peter has participated and supervised the financial aspects of the Montreal office’s hotel division, having completed numerous market studies, financial projections, operational reviews, valuations and appraisals for hotel and tourism related developments. He is also responsible for such annual publications as the Industrie Hôtelière au Québec - Rapport Sectoriel and the Canadian and Québec Hotel Industry - Special Market Reports.

As an associate, Peter has completed a vast array of market studies, valuation and appraisal reports across Atlantic Canada and Québec, as well as having participated in files in such international markets Mexico, Costa Rica, the Dominican Republic and French Polynesia.

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Ayda has degrees in mechanical engineering and real estate and urban planning, and brings to Horwath HTL Montréal a vast knowledge of the real estate market. Having worked on numerous construction projects in Europe, Ms. Chamcham then moved into consulting for a real estate investment fund before moving to Canada.

Upon arriving in Québec, Ayda specialized in real estate valuations, having completed several commercial and industrial appraisals within the Greater Montréal Area before joining the Horwath HTL team. Ayda concentrates on tourism and hotel consulting reports and appraisals across Québec, as well as in international markets such as in Mexico and the Dominican Republic.

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