Canadian Hotel Investment Sentiment Survey

Colliers International Hotels is pleased to release the results of the eighth annual Canadian Hotel Investment Sentiment Survey. The survey serves to identify trends and gauge investor outlook for Canada’s hotel real estate market by capturing the thoughts of leading real estate executives across all levels of the investment decision-making process, covering private hotel investors, institutional funds, and investment companies, among other investment groups.

Canada’s economy shifted into high gear in 2017 with GDP expanding by 3.0%; the strongest growth rate since 2011 and registering as the fastest advance among the G7 countries1. Robust growth in employment and consumer spending, notable government infrastructure investment and a sizable rebound in oil prices continue to propel Canada’s economy with 2018 expected to expand by a healthy 2.1%1.

A new record for tourist arrivals in 2017 benefited Canada’s lodging sector with national RevPAR up 7.7% for the year as demand surged ahead by 3.2%, far outstripping supply growth of 0.8%2. Canadian hotel transaction volume of $3.5 billion was also notable with continuing favourable market dynamics and investor outlook driving positive momentum for 2018.

Primary Investment Strategy for the Next 12 Months

- **Buy:** 40% (−5 pts. YOY)
- **Build:** 19% (−2 pts. YOY)
- **Hold:** 29% (−4 pts. YOY)
- **Sell:** 12% (+8 pts. YOY)

Footnotes:
1. Conference Board of Canada “2017 Year in Review and Look Ahead.”
2. STR. “Canada 2017 Hotel Performance.” str.com

Complete details can be found in the 2018 Canadian Hotel Investment Report, which will be available for download in Q1 2018.
76% of investors reported that their sentiment for hotel investment over the next 3 - 5 years is positive — The highest indication since 2010.

### PRIMARY STRATEGY

- 40% of those surveyed intend to acquire hotels as their primary investment strategy for 2018.
- The next largest group at 29% reported a “hold, renovate, or expand” strategy as their primary investment intention.
- Nearly 20% of investors indicated “building” as a priority for the next twelve months.
- On a percentage point basis investors intending to sell as a primary strategy in 2018 more than doubled year-over-year to 12.5%.

### MARKET TYPE & LOCATION

- Toronto continues to be the most desired hotel investment market in Canada, followed closely by Vancouver.
- Montreal, Calgary and secondary/tertiary Ontario markets round out the top five hotel investment markets for 2018, according to survey respondents.
- There remains strong appetite for downtown urban assets in most major markets with notable interest in Alberta Mountain Resorts and secondary/tertiary markets in British Columbia and Quebec.

**Canada’s Most Desirable Hotel Investment Markets**
1. Toronto
2. Vancouver
3. Montreal
4. Calgary
5. Other Ontario

### PREFERRED BRANDING

- Respondents indicated Marriott branded product as their top choice for full-service assets and second choice for focused-service properties.
- Brands under the Hilton umbrella were ranked as the most preferred in the focused and limited-service categories.
- InterContinental Hotels ranked as the third most preferred choice in the focused-service segment and tied second with Choice Hotels in the limited-service category.
CAP RATES

The majority (63%) of respondents predict cap rates will remain stable over the next 12 months, with a further 26% expecting cap rates to increase. Only 11% of those surveyed believe cap rates will compress in 2018.

Average Cap Rate Requirements by Market Type

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<td>Major Market</td>
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<td>Primary/Secondary</td>
<td>5-7%</td>
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2018 Cap Rate Expectations

- 63% Same
- 26% Increase
- 11% Decrease

FINANCING ENVIRONMENT

Following the Bank of Canada’s tightening of monetary policy in 2017, 71% of those surveyed expressed that the cost of debt became more expensive over the last 12 months while 21% felt there was no change. Respondents expect this trend to continue in 2018 with the majority (73%) expecting the cost of debt to continue to rise while just over a quarter believe there will be no change in financing costs.

Changes in the Cost of Debt ▶ 2017 Sentiment vs. ▶ 2018 Sentiment

- 21% ▶ 26% No Change
- 71% ▶ 73% More Expensive
- 1% ▶ 8% Less Expensive

LODGING INVESTMENT SENTIMENT

Buoyed by strong hotel operating fundamentals, 76% of investors surveyed have a positive or somewhat positive view of the current Canadian lodging industry. The same optimism is reflected in sentiment for lodging investment for the next three to five years with less than 5% having a negative view. For new hotel investments, respondents indicated the state of the economy and availability of debt as the most influential factors impacting their future investment decisions.

Current Sentiment of the Canadian Lodging Industry

- Negative / Somewhat Negative: 9%
- Somewhat Positive / Positive: 76%

Colliers International Hotels, 2018 Canadian Hotel Investment Survey