

FEATURE B.C. hotel revenue performance is trailing most of Canada, while Alberta is leading it

Reality check-in

BY **WESTERN STAFF / FRANK O'BRIEN**

WESTERN INVESTOR

Reports from national real estate firms touting a “robust” hotel market in Western Canada – and forecasting a second year of record investment levels – are apparently not filtering onto the West Coast.

Incomes for hotels in British Columbia are trailing the entire nation and total sales of hotel properties in Vancouver and Victoria are the lowest among all major Canadian cities. In fact, last year Fort McMurray and Grande Prairie in Alberta posted more hotel sales than Victoria and, at \$56 million in volume each, were only about 10 per cent lower than Vancouver.

A snapshot taken April 14-21 showed average B.C. hotel revenue down 15.1 per cent, compared with a national average of -1.8 per cent.

As a comparison, Alberta hotels posted a 9.5 per cent increase in the same week in revenue per available room (REVPAR), which is considered the most accurate measure of performance.

Vancouver is taking the worst hit. During the same week in April, which included the *Vancouver Sun Run* that attracted tens of thousands of participants, the average REVPAR of a city hotel plunged 17.5 per cent from a year earlier. The only region with a bigger decline in revenue was Prince Edward Island, which at that point in time was still months away from its tourist season.



Victoria's Belleville Park Resort, which includes the Huntingdon Hotel and Gatsby Mansion, is for sale by a receiver for the second time in two years.

The survey, by North Vancouver-based industry consulting firm **HVS International**, shows the average REVPAR for Vancouver hotels was \$87.34, while the average room rate was down 7.9 per cent to \$132.09 per night.

The city's poor performance, tied to lower tourist and convention traffic, is expected to cool new hotel construction.

“No one in their right mind would develop standalone hotels right now [in Vancouver],” said **Zack Bhatia**, vice-president of **Mayfair Hotels and Resorts** that owns 12 hotels in B.C., including seven in downtown

Vancouver.

Bhatia said that buying older hotels in Vancouver is likely less costly than building new: “Land is going for \$200 per square foot in downtown Vancouver. By the time you do the construction costs, you could buy existing hotels cheaper.”

But Vancouver hotel owners are reluctant to sell because they are unable to get what they believe is full value for their properties, according to such industry insiders as **Coast Hotels and Resorts** president **Robert Pratt**.

Pratt said the Vancouver hotel market is

sluggish both operationally and in terms of real estate values. His company's 2013 convention business is below its target and last year's sales. That has hurt cash flow and reduced the properties' value for buyers.

Last year just \$61 million worth of hotels changed hands in Vancouver, compared with \$80 million in Calgary and \$121 million in Edmonton.

Overall outlook

Still, separate reports from **Colliers International** and **CBRE** are bullish on the national outlook for the hotel industry.

According to **Colliers'** 2013 *Canadian Hotel Investment Report*, sales of Canadian hotels hit a record value of \$1.2 billion in 2012 – and “this year is forecast to top that figure.”

Colliers picks Calgary and Edmonton as the prime markets for hotel investors this year. Calgary hotel values increased 7 per cent in 2012 from a year earlier while Edmonton values shot up 5.7 per cent, comparable to Regina and Saskatoon, which each saw a 5.5 per cent increase.

“For 2013, hotel value growth in Calgary is expected to remain the highest across the country, at 7.9 per cent,” said **Tom Andrews**, senior vice-president with **Colliers International Hotels** in Vancouver. This compares with an outlook of 5.4 per cent hotel value growth in Vancouver.

CBRE notes that institutional buyers, including real estate investment trusts (REITs), are becoming very active in the hotel market likely lured by relatively robust capitalization rates. Cap rates are trending



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in the 6.5 to 9.75 per cent range for full-service urban hotels and in the 7.5 to 10.5 per cent range in outlier markets, according to CBRE.

Last year, public companies and REITs accounted for 19 per cent of all hotel sales in Canada, third behind private-equity firms and developers.

“There continues to be an abundance of product coming to market,” according to the CBRE. Also, some older hotels are now being bought and converted to other uses, from apartment buildings to seniors’ housing.

Victoria

Victoria, which **HVS International** says is among the worst hotel markets in Canada, is an example of an increase in hotels being put up for sale.

The latest include the Capital CityCenter Hotel, which went on the block last month. The Belleville Park Resort, which includes the Huntingdon Hotel and Gatsby Mansion near the Inner Harbour, is once again for sale by a receiver. It’s the second time in two years the property has been put up for sale by court order.

DTZ Victoria Real Estate also has four Island hotels and resorts listed for sale.

Currently listed by DTZ are the Quality Inn Waddling Dog at \$7.5 million, the Choice Hotel on the Gorge at \$7.42 million and the Quality Inn Resort Bayside in Parksville for \$9.5 million. All are owned by **Balmoral Investments**. The Parksville Beach Resort is also listed at \$7 million.

“To some extent this is the normal course of business,” said DTZ Victoria vice-president **Randy Holt**. “We’ve sold nine hotels in the last five years. It really comes down to the individual circumstances of the owners involved.”

Over the last several years those circumstances have increasingly included bank-

ruptcy and court-ordered sales.

Last year the Parkside Victoria Resort and Belleville Park Resort were sold by court order. In 2011, the Aerie Resort and English Inn were bought out of receivership. And, in 2009, the companies behind the Victoria-based Traveller’s Inn chain of budget motels went bankrupt; 10 hotels were sold by court order as a result.

Holt said none of the four currently listed hotels is in any kind of distress. He said buyer interest in these kinds of properties is fairly strong, likely because of the difficult operating climate.

“The Victoria [hotel] market and Vancouver Island in general is lagging in terms of operating metrics – occupancy and room rate – and there is a perception among some buyers that this is a time to step into the market in anticipation of an upturn,” Holt said.

So far this year, occupancy in Victoria-area hotels is down to 44 per cent and REVPAR dropped to just over \$43, according to data compiled by **Chemistry Consulting Group**.

Half full

Victoria hotel rooms were occupied just 50.2 per cent of the time in the first three months of 2013 according to Chemistry. That compares with an occupancy rate of 50.6 per cent for 2012’s first quarter.

Hotel-industry veterans say it’s a trend that has continued since 2008.

“I think it’s been a long haul for a lot of people,” said **Ian Powell**, managing director of the Inn at Laurel Point. “They may have been over-taxed financially, emotionally or physically. It could be that people have said, ‘Oh, screw it and if there’s a push in the marketplace maybe it’s a good time to sell.’”

Powell said having a number of hotels on the market now may be due to owners realizing they couldn’t get a decent price for their

REVPAR growth markets

Top 3 REVPAR growth markets*

Calgary:	13.1 per cent
Northern Alberta:	11.1 per cent
South Alberta:	8.4 per cent

Bottom 3 REVPAR growth markets

Winnipeg	1.4 per cent
Vancouver	1.8 per cent
Victoria	3.4 per cent

*Revenue per available room.
Source: CBRE / Smith Travel Research 2012

property over the last few years.

Earl Wilde, general manager of the Victoria Regent Hotel and Suites, agrees there has been more sales activity in the industry of late.

“I don’t know if it’s a reflection of what the hotel business is like at the moment, the economy or demographics,” he said. “It’s a struggle, but it’s all cyclical and it will come back.”

Both Powell and Wilde suggest the city’s hotel inventory has been overbuilt, especially considering the weak occupancy numbers over the last four years.

“There is too much we could do with a few more Queen Victorias going south,” said Powell, referring to the closure of the 146-unit Queen Victoria Hotel last year to make way for new condos. He may get his wish, as the Admirals Inn on Belleville Street has plans to convert to a small condominium block.

Meanwhile, **Sotheby’s International Realty** has two hotel properties listed as “court-ordered sales”: the Island West Resort, a 19-room motel and marina at Ucluelot offered at \$2.4 million, and the 23-unit Carmel Cove Resort on Shuswap Lake in the Okanagan, priced at \$7.75 million. ♦

– With files from the Victoria Times Colonist / BIV

B.C. motel market struggling

While **Colliers International** is “pretty bullish about the future of the market” in its recent *Canadian Hotel Investment Report*, the enthusiasm is thinning on the ground in B.C.’s motel industry.

Real estate agents and vendors close to the market for smaller hotels and non-flagged motels in B.C.’s traditional tourism areas say this is a year of skinny margins, price reductions and tough competition when it comes time to sell.

It is only in the blue-collar trade towns, such as in Northern B.C., where high occupancy rates continue to make motels a strong investment, our research shows.

Hard numbers from **HVS International** show that the typical hotel in B.C. shows average occupancy rates of 52.8 per cent, down from nearly 54 per cent a year ago.

B.C., in fact, has the lowest hotel occupancy rates in Western Canada and leads only the Atlantic and Maritime provinces across the country, while having the second-highest (after Alberta) average room rates in Canada.

This may explain why there is some serious price discounting being seen in B.C.’s motel sales this year.

Examples: there is a 12-unit motel along Highway 3 in the southern Interior now priced at \$450,000 after \$50,000 was recently knocked off, according to Kelowna-based **Syber Realty**. In Clearwater, in B.C.’s Thompson-Okanagan, a 14-unit riverfront motel is listed by **Royal LePage Kamloops** at \$595,000.