

FEATURE: Doldrums ending as private investors check into western markets

Hotel market heats up

PETER MITHAM/FRANK O'BRIEN

WESTERN INVESTOR

A flurry of deals that ended 2013 with a record level of hotel transactions is seen as the start of a steady if not spectacular hotel-industry recovery after years in the doldrums.

"We won't see the same volume of deals this year," said analyst **Carrie Russell** of **HVS International**, "but we should be back to a normal market, with national sales in the \$1 billion plus range."

The blockbuster deal in 2013 was the December sale of a portfolio of five **Westin** hotels – including the **Westin Bayshore Resort and Marina** in Vancouver and hotels in Calgary and Edmonton – that had been on the market at various times since late 2006.

Starwood Capital partnered with investors from the Middle East to buy the portfolio in a \$765 million deal, in which **Starwood** bought the minority share of former partner **PSP Investments**.

PSP manages pension monies for Canada's public service, the **Canadian Forces** and reserves and the **Royal Canadian Mounted Police**.

The Bayshore property was on and off the market thanks in part to the economic turmoil over the past decade. It was taken off the table late last year following interest that included buzz of two or three local developers vying to buy the property for conversion to condos. That deal died.

The latest deal was a private transaction

between **Starwood** and its Middle Eastern partners and **PSP**.

The portfolio – including hotels in Toronto and Ottawa – last changed hands in 2005. The Bayshore was valued at \$120 million in 2005, the second-biggest real estate transaction in Vancouver that year. This time round, the hotel was valued at \$150.8 million.

The latest deal pushed Canada into its biggest year ever for hotel trades.

"There were more than \$2 billion in hotel transactions in 2013, which is the highest in history aside from the M&A (mergers and acquisitions) period in 1996-97," said **Mark Sparrow**, director of **CBRE Ltd.**'s Western Canada hotel division.

Sparrow said the Bayshore was a unique property in the portfolio and traded at a 5 per cent cap rate – low both for the market and relative to the rest of the portfolio, which averaged 7.7 per cent.

The fact that the deal included offshore investors is not unique, he said, noting that foreign buyers are now quite active in B.C.'s hotel markets. The bulk of foreign investors have been from China, seen as recognition of Canada attaining preferred tourism status by the Chinese government.

"The China investors prefer central areas in B.C., like Vancouver and Richmond," **Sparrow** said.

Both the **Delta Vancouver Airport Hotel** and the **Comfort Inn** in Richmond sold to Chinese buyers in the past couple of years and a **Best Western** in Richmond was bought in 2013.

However, China's investors are also looking further afield.

China-based **SSS Manhao International Tourism Group**, a subsidiary of **Suzhou Youth Travel Services Co. Ltd.** bought a hotel site in Nanaimo last year. The group plans to develop a \$50 million, 240-room luxury hotel, with work expected to start this spring.

As well, **Forebase International Holdings Ltd.**, headquartered in Chongqing, China, bought the **Brentwood Bay Resort** in Delta last September for \$14 million.

Guo Qing Zhang, who lives in Vancouver and China, owns **Adestra Hotel Group**, which bought **Harrison Hot Springs Resort and Spa** for \$32.3 million last June.

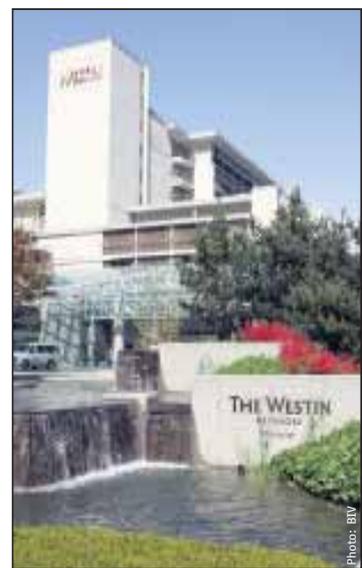
Chemistry Consulting Group CEO **Frank Bourree** said the China buying trend is fuelled by the perception that the 288,000 Chinese citizens who visited Canada in 2012 are only the tip of the iceberg.

Sparrow notes that private investors, not real estate investment trusts or pension funds, now dominate Western Canada's hotel sector.

West leads

These are perhaps astute investors, based on projections of where Western Canada's hotel market is heading.

Five of Canada's top 10 hotel markets for revenue per available room (REVPAR) in 2014 are in Western Canada, according



Westin Bayshore sold for \$150.8 million in December as part of the biggest hotel portfolio sale in Canada in recent years.

to forecasts from **PKF Consulting**, which tracks the hotel and tourism industry.

Calgary will lead the nation in the key economic indicator, with a REVPAR of \$118, followed by Saskatoon at \$111. Regina is in fourth place, at \$97, **PKF** notes, while Edmonton and Vancouver are tied for 9 place, at \$90.

Western Canada will also lead the nation in tourism travel this year, **PKF** says, with a 2.7 per cent increase from a year earlier. This compares with Central Canada where tourism travel is forecast to rise only 1.9 per cent and 1.5 per cent, respectively.

HVS' Russell picks Calgary, Edmonton and Fort McMurray as the top hotel investment markets for 2014. ♦

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