



CANADIAN MONTHLY LODGING OUTLOOK – JULY 2012

HOW DO YOUR HOTEL'S PROPERTY TAXES COMPARE?



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How Do Your Hotel's Property Taxes Compare?

Property taxes are a fixed expense that every hotel is obligated to pay, but the property tax burden can vary widely. The current trends in property taxes are relevant to hotel investors because the property tax burden has an impact on the overall value of the investment. To ascertain the current trends in property taxation for lodging facilities, research was performed on current property tax rates and assessments in Canada and then as a benchmark of comparison a composite financial statement was created from a limited sample of hotels in each market. We then compared the composite statements of these 13 Canadian hotel markets with four markets in the United States. It should be noted that the data from the HVS database, used in the composite statements is not exhaustive and is based on a relatively small sample of limited-service hotels only in each market. Various metrics were then applied to the data to reveal the property tax trends currently in evidence in the lodging market.

The findings demonstrate that property taxes must be considered from different perspectives in order to assess their true potential impact on the hotel and, most importantly, a property's market value. At first glance, the New York City (NYC) sample of hotels appears to have by far the highest property taxes of any given sample city when looking at taxes on a per-available-room or per-occupied-room basis (Table 1). A more granular look, however, shines a different light on the data. The NYC sample also has by far the highest RevPAR of any of the given cities. As such, when property taxes are considered as a percentage of total revenue (Table 2), NYC falls to fourth position and the sample of hotels in Niagara Falls moves up from ninth position to second, just below the sample of hotels in Montreal. In other words, the amount of taxes paid can be misleading without taking into account the ratio to total revenue.

TABLE-1 PROPERTY TAXES ON A PER-AVAILABLE-ROOM AND PER-OCCUPIED-ROOM BASIS

Composite Lodging Market	Composite Taxes per Available Room	Composite Taxes per Occupied Room	Composite Market Average RevPAR
New York City	\$5,301	\$17.29	\$177.55
Montreal	3,406	13.74	80.15
Toronto	2,773	12.98	76.53
Quebec	2,756	11.94	81.59
St. John's	2,261	8.47	85.61
Ottawa	2,149	8.01	71.08
Chicago	2,134	8.66	87.18
Atlantic Canada	2,127	9.02	73.50
Niagara Falls	2,094	9.86	52.33
Winnipeg	1,934	7.10	82.54
Edmonton	1,891	7.24	87.82
Regina	1,848	6.66	95.83
Vancouver	1,781	7.71	79.16
Calgary	1,344	5.98	80.14
San Diego	1,226	4.86	54.40
Dallas	1,135	5.35	55.36

Source: HVS Data

There is often a perception in the hotel industry that property taxes are substantially higher in Canada than in the US. On a per-available-room and per-occupied-room basis, this perception seems to be accurate (Table 1). With the exception of the NYC sample of hotels, which has the highest taxes per available room but also the highest RevPAR, the three US sample markets are all at the lower end of the scale with the San Diego and Dallas sample of hotels occupying the bottom two spots and the Chicago sample of hotels coming in seventh for annual taxes per available room.

When property taxes are considered not simply in their absolute amounts but on a per-available-room or per-occupied-room basis, the data tell a very different story. Looking at the property taxes as a percentage of revenue (Table 2), the five Western Canadian sample markets all have the lowest property taxes not only in Canada but also in comparison to the four US sample markets as well. The Calgary sample of hotels has the lowest ratio of all, representing only 37% of first-position Montreal's sample hotel's property taxes as a percentage of total revenue, despite these two sample markets having almost identical RevPAR levels. The perception that property taxes are substantially higher in Canada than in the US thus needs to be modified to account for the diversity within the Canadian market and the different tax structures in place from market to market.

TABLE-2 PROPERTY TAXES AS A PERCENTAGE OF TOTAL REVENUE

Composite Lodging Market	Property Taxes Percentage of Total Revenue	Composite Taxes per Available Room	Composite Taxes per Occupied Room	Composite Market Average RevPAR
Montreal	9.8%	\$3,406	\$13.74	\$80.15
Niagara Falls	8.8	2,094	9.86	52.33
Toronto	8.2	2,773	12.98	76.53
New York City	8.1	5,301	17.29	177.55
Quebec	7.7	2,756	11.94	81.59
Atlantic Canada	7.5	2,127	9.02	73.50
Ottawa	7.3	2,149	8.01	71.08
St. John's	7.0	2,261	8.47	85.61
San Diego	6.0	1,226	4.86	54.40
Chicago	5.8	2,134	8.66	87.18
Dallas	5.4	1,135	5.35	55.36
Vancouver	5.3	1,781	7.71	79.16
Regina	4.7	1,848	6.66	95.83
Edmonton	4.7	1,891	7.24	87.82
Winnipeg	4.4	1,934	7.10	82.54
Calgary	3.6	1,344	5.98	80.14

Source: HVS Data

Using the per-occupied-room property taxes as a percentage of RevPAR as a metric (Table 3) is useful because it accounts for the tax burden relative to market performance instead of hotel revenues.

TABLE-3 PER-OCCUPIED-ROOM PROPERTY TAXES AS A PERCENTAGE OF REVPAR

Composite Lodging Market	Composite Taxes Percentage of Total Revenue	Composite Taxes per Available Room	Composite Taxes per Occupied Room	Composite Market Average RevPAR	Composite Occupied Room Property Taxes as % of RevPAR
Niagara Falls	8.8%	\$2,094	\$9.86	\$52.33	18.85%
Montreal	9.8	3,406	13.74	80.15	17.14
Toronto	8.2	2,773	12.98	76.53	16.96
Quebec	7.7	2,756	11.94	81.59	14.63
Atlantic Canada	7.5	2,127	9.02	73.50	12.27
Ottawa	7.3	2,149	8.01	71.08	11.26
Chicago	5.8	2,134	8.66	87.18	9.94
St. John's	7.0	2,261	8.47	85.61	9.89
Vancouver	5.3	1,781	7.71	79.16	9.74
New York City	8.1	5,301	17.29	177.55	9.74
Dallas	5.4	1,135	5.35	55.36	9.67
San Diego	6.0	1,226	4.86	54.40	8.94
Winnipeg	4.4	1,934	7.10	82.54	8.60
Edmonton	4.7	1,891	7.24	87.82	8.25
Calgary	3.6	1,344	5.98	80.14	7.46
Regina	4.7	1,848	6.66	95.83	6.95

Source: HVS Data

In this scenario, the Niagara Falls sample of hotels is pushed into the lead with the highest property taxes of all sample markets while the Regina sample of hotels falls to last position with the lowest taxes, representing only 37% of the Niagara Falls sample of hotels. The NYC sample of hotels falls even farther in the rankings, tying the Vancouver sample of hotels for ninth place. In this metric, which accounts for market performance, the Niagara Falls sample of hotels increases to first place given the seasonality of the market, which is reflected in its lower RevPAR, and the NYC sample of hotels decreases further in ranking based on the strength of its RevPAR.

The Toronto and Quebec City sample of hotels have similar property taxes on both a per-available-room basis and a per-occupied-room basis; however, the Quebec City sample of hotels has a higher RevPAR, and consequently the per-occupied-room property taxes as a percentage of RevPAR is more than two points lower than that of the Toronto sample of hotels.

In comparing the Dallas and Vancouver sample of hotels on a per-available-room basis, taxes are more than 50% higher in the Vancouver sample of hotels. However, when the Vancouver sample of hotels' RevPar is taken into account, and the per-occupied-room property taxes as a percentage of RevPAR metric is considered, tax percentages become comparable.

What does all this mean for a hotel investor? It means that Western Canada certainly has competitive property taxes in North America no matter how you slice the pie!

Considering the market research performed on current property tax rates and assessments in the various markets across Canada and taking a synoptic view of a limited sample size, the results of all three metrics allows us to see the relationships among market performance, hotel revenues, and the particular burden of taxation to each lodging market. Sampled hotel markets that have lower RevPAR levels tend to have lower property taxes based on lower assessments, but this is not always the case as property tax rates vary significantly among municipalities.

Clearly, property taxes are just one small consideration in any hotel development decision among a multitude of other factors, including market demand, development costs, new supply in the pipeline, brand availability, financing, etc. Nevertheless, the lower the property taxes, the greater the contribution to the overall value of the investment. Property taxes are thus an important consideration, however the strength of the market is definitely more important.



Monique Rosszell is the Managing Director of the HVS Toronto office and has been with this HVS office since it's opening in 2000. Monique is a graduate of the Ecole Hôtelière de Lausanne in Lausanne, Switzerland and also holds an Honours Bachelor degree in Economics from Queen's University in Kingston, Ontario. Prior to joining HVS, Monique worked in hotel operations in Europe, Japan, and Canada including the Fairmont, Four Season's, Tokyo and Westin hotel chains.

She is a member of the Appraisal Institute of Canada (AACI), the Royal Institution of Chartered Surveyors (RICS), the Alumni Association of Ecole Hôtelière de Lausanne as well as the Alumni Association of Queen's University. Over the course of her employment with HVS, Monique has been involved with appraisals and/or feasibility studies for over 700 hotel properties throughout Canada and the United States. She has authored articles on various topics related to the appraisal and feasibility of hotels.

Canadian Lodging Outlook July 2012

STR and HVS are pleased to provide you with the month's issue of the Canadian Lodging Outlook. Each report includes occupancy (Occ), average daily rate (ADR), and revenue per available room (RevPAR) for three major markets and the Provinces.

If you would like a detailed hotel performance data for all of Canada, STR offers their Canadian Hotel Review. The Canadian Hotel Review is available by annual subscription which includes both monthly and weekly issues. Each monthly issue of the Canadian Hotel Review also includes an analysis provided by HVS. For further information, please contact: info@str.com or +1 (615) 824-8664 ext. 3504.

July 2012	Occupancy Rate (%)		Average Room Rates (\$CAD)		REVPAR (\$CAD)		Room Supply	Room Demand	Number of Rooms	
	2012	2011	2012	2011	2012	2011	% chg	% chg	Sample	Census
Montreal	68.2%	78.1%	\$129.77	\$135.45	\$88.47	\$105.73	0.4%	-12.3%	16,919	27,841
Toronto	74.8%	73.2%	\$138.42	\$126.05	\$103.53	\$92.32	-0.3%	1.8%	31,220	36,274
Vancouver	79.8%	81.1%	\$153.62	\$153.40	\$122.61	\$124.33	0.7%	-0.8%	19,518	26,123
Provinces										
Alberta	73.6%	70.8%	\$156.35	\$148.01	\$115.03	\$104.81	1.2%	5.1%	38,796	68,025
British Columbia	74.6%	77.0%	\$145.99	\$146.06	\$108.97	\$112.43	0.5%	-2.6%	36,819	83,156
Manitoba	68.5%	72.1%	\$111.37	\$109.65	\$76.31	\$79.03	1.6%	-3.4%	5,439	13,702
New Brunswick	68.6%	75.1%	\$116.94	\$119.69	\$80.19	\$89.94	-1.0%	-9.7%	5,436	10,760
Newfoundland	88.9%	91.7%	\$147.14	\$144.02	\$130.78	\$132.05	-2.4%	-5.4%	1,789	5,601
Nova Scotia	76.2%	75.7%	\$127.15	\$122.94	\$96.87	\$93.03	-0.7%	0.0%	6,395	12,455
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	124	1,392
Ontario	70.4%	71.1%	\$129.07	\$124.08	\$90.92	\$88.28	0.6%	-0.4%	84,813	135,500
Prince Edward Island	75.9%	79.1%	\$132.19	\$139.93	\$100.39	\$110.64	1.9%	-2.1%	1,012	4,172
Quebec	70.0%	77.1%	\$135.68	\$138.91	\$94.93	\$107.04	0.1%	-9.2%	27,785	76,330
Saskatchewan	70.1%	72.2%	\$122.90	\$118.51	\$86.11	\$85.52	2.7%	-0.3%	8,110	16,901
Yukon Territory	79.2%	80.8%	\$120.74	\$117.09	\$95.63	\$94.63	0.0%	-2.0%	782	2,154
Canada	71.9%	73.4%	\$137.03	\$133.70	\$98.56	\$98.09	0.5%	-1.4%	217,300	430,562

July 2012 Year-To-Date	Occupancy Rate (%)		Average Room Rates (\$CAD)		REVPAR (\$CAD)		Room Supply	Room Demand	Number of Rooms	
	2012	2011	2012	2011	2012	2011	% chg	% chg	Sample	Census
Montreal	62.7%	64.0%	\$134.12	\$136.31	\$84.12	\$87.21	-0.1%	-2.1%	16,919	27,841
Toronto	66.7%	67.0%	\$134.40	\$132.73	\$89.66	\$88.94	1.2%	0.7%	31,220	36,274
Vancouver	67.0%	66.7%	\$139.80	\$142.39	\$93.66	\$94.95	0.8%	1.2%	19,518	26,123
Provinces										
Alberta	63.7%	60.2%	\$139.33	\$134.40	\$88.70	\$80.97	0.9%	6.7%	38,796	68,025
British Columbia	61.3%	60.7%	\$135.41	\$135.58	\$82.96	\$82.32	0.3%	1.2%	36,819	83,156
Manitoba	62.7%	64.2%	\$114.85	\$111.89	\$71.98	\$71.79	2.2%	-0.2%	5,439	13,702
New Brunswick	53.1%	54.5%	\$110.34	\$111.88	\$58.63	\$60.95	-0.7%	-3.1%	5,436	10,760
Newfoundland	71.8%	69.5%	\$137.26	\$131.65	\$98.53	\$91.48	-2.0%	1.2%	1,789	5,601
Nova Scotia	61.3%	60.1%	\$119.46	\$118.68	\$73.17	\$71.35	-1.3%	0.6%	6,395	12,455
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	124	1,392
Ontario	60.9%	60.4%	\$123.56	\$121.76	\$75.22	\$73.59	0.6%	1.3%	84,813	135,500
Prince Edward Island	48.0%	51.5%	\$107.70	\$109.60	\$51.70	\$56.47	2.2%	-4.8%	1,012	4,172
Quebec	61.1%	61.8%	\$133.84	\$134.49	\$81.77	\$83.08	-0.2%	-1.3%	27,785	76,330
Saskatchewan	67.3%	66.9%	\$125.99	\$121.57	\$84.81	\$81.32	1.5%	2.1%	8,110	16,901
Yukon Territory	INS	INS	INS	INS	INS	INS	INS	INS	782	2,154
Canada	61.6%	60.8%	\$129.32	\$127.50	\$79.68	\$77.54	0.4%	1.7%	217,300	430,562

*INS = Insufficient Data



About STR

STR provides information and analysis to all major Canadian and U.S. hotel chains. Individual hotels, management companies, appraisers, consultants, investors, lenders and other lodging industry analysts also rely on STR data for the accuracy they require. With the most comprehensive database of hotel performance information ever compiled. STR has developed a variety of products and services to meet the needs of industry leaders.

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HVS is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com

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