



**MONITORING CANADA'S ACCOMMODATION INDUSTRY
DURING A CHALLENGING YEAR – 2003**

**THE IMPACTS OF THE IRAQ WAR and SARS
Report #2
QUARTER 2 2003 RESULTS**

Prepared For:

**Ontario Ministry of Tourism, Culture and Recreation and
Canadian Tourism Commission**

Prepared by:

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August 2003

August 29, 2003

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**RE: THE IMPACTS OF THE IRAQ WAR and SARS ON CANADA'S ACCOMMODATION
INDUSTRY – QUARTER 2 2003 RESULTS**

In accordance with the terms of engagement, PKF Consulting is pleased to present the results of our analysis of the impacts of the Iraq War and SARS on the accommodation industry in Canada, during the 2nd Quarter of 2003. This report is the second in a series of quarterly reports, which will be issued throughout the balance of 2003, as we continue to monitor Canada's accommodation industry throughout this challenging year.

While the Canadian accommodation industry started the year off well, posting a 2.6% increase in overnight demand in January and February 2003, demand levels started slipping by 1% in March, and thereafter fell sharply by 11% in April, another 9% in May and a further 10% in June. While the industry reported a loss of close to 23,000 room nights in March, April results deteriorated rapidly to a shortfall of over 662,000 occupied room nights. May was almost as equally devastating with over 590,000 room nights lost, with the losses in June accelerating to 732,000 occupied room nights. In all since March, the industry has suffered a total deficit of over 2 Million room nights in comparison to last year's performance. During the 2nd Quarter, Canada's room revenue damage totalled close to \$320 Million. Accounting for the other on-site ancillary sources of revenue generated by the accommodation sector, Canada's combined accommodation revenue loss during the 2nd Quarter is estimated at \$491 Million.

We appreciate this opportunity to provide our services in this ongoing analysis. Should you have any questions regarding the preceding analysis, please do not hesitate to contact us at your convenience.

Yours very truly,

PKF Consulting

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EXECUTIVE SUMMARY

MEASURING THE IMPACTS OF THE IRAQ WAR AND SARS ON CANADA'S ACCOMMODATION INDUSTRY – QUARTER 2 RESULTS

Prior to the onset of SARS (Severe Acute Respiratory Syndrome), there were differing opinions as to where the accommodation industry in Canada was headed. Most had expected a recovery in 2002 that never materialized and generally speaking the industry was approaching 2003 with guarded optimism. In late March, the Ontario Ministry of Tourism & Recreation and the Canadian Tourism Commission retained PKF Consulting to monitor the impact of the then impending war in Iraq on the Canadian Accommodation Industry. Shortly thereafter, the study was broadened to include the impact of the SARS crisis, which today dominates the ongoing study.

ON THE HEELS OF 9/11... IRAQ WAR, SARS & BSE

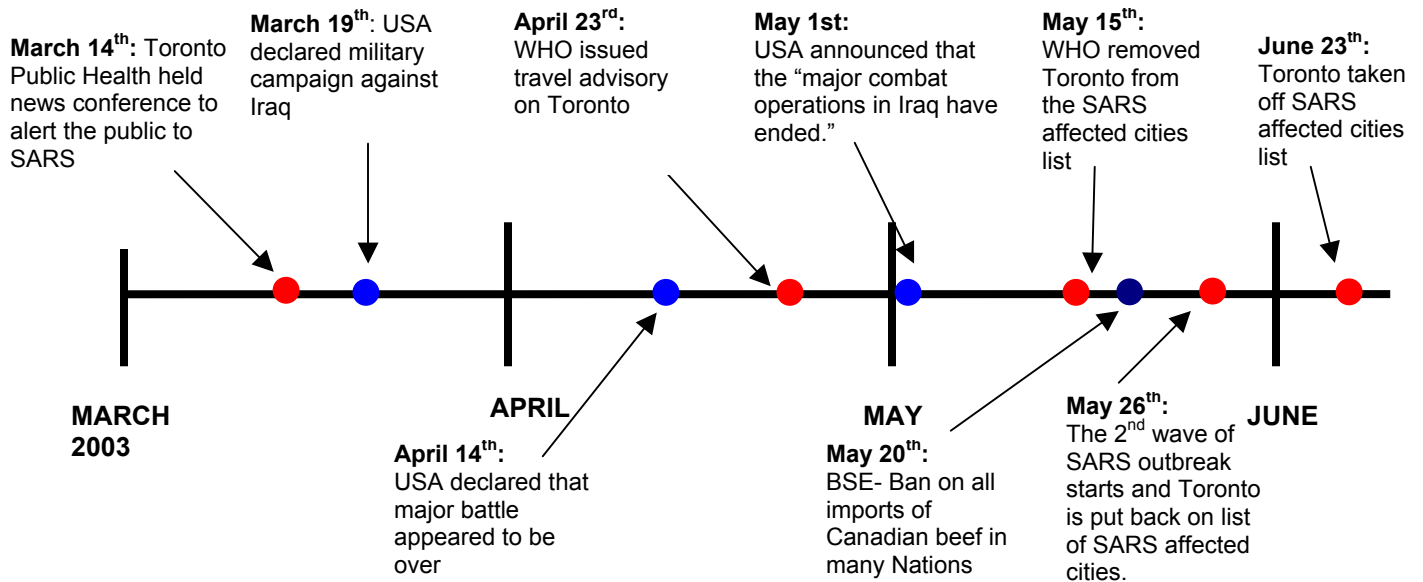
Canada's tourism industry has been severely impacted by both the Iraq War and the outbreak of Severe Acute Respiratory Syndrome (SARS) in the first six months of 2003. With rumblings surrounding the impending war in Iraq first stirring in Quarter 3 of 2002, the US led war against officially began on Wednesday March 19th when President George W. Bush declared a military campaign against Iraq. After several weeks of battling and while some fighting was still going on, the United States of America had declared on April 14th that the major battle appeared to be over. However, it was not until May 1st that President Bush announced that the "major combat operations in Iraq have ended."

Just when Canadians thought the country's economy would improve with the Iraq War concluded, the outbreak of Severe Acute Respiratory Syndrome (SARS), a respiratory illness with pneumonia-like symptoms once again threatened the Canadian tourism industry.

On March 14th, Toronto Public Health held its first news conference to alert the public to this fatal epidemic after the first SARS patient died on March 13th at Toronto's Scarborough Grace Hospital. This in turn set off a chain reaction within Toronto and the City was quickly issued a travel advisory on April 23rd from the World Health Organization (WHO) for non-essential travel. Due to intense lobbying efforts on behalf of the municipal, provincial and federal governments, the travel advisory on Toronto was lifted on April 30th and the City was removed from the list of SARS affected cities on May 15th after the disease was thought to be under control. However, Toronto hospitals efforts to curb any further transmission of the disease were unsuccessful and a second wave of SARS outbreak surfaced on May 22nd. Toronto was once again put back on the list of affected areas on May 26th and was subsequently taken off on June 23, 2003.

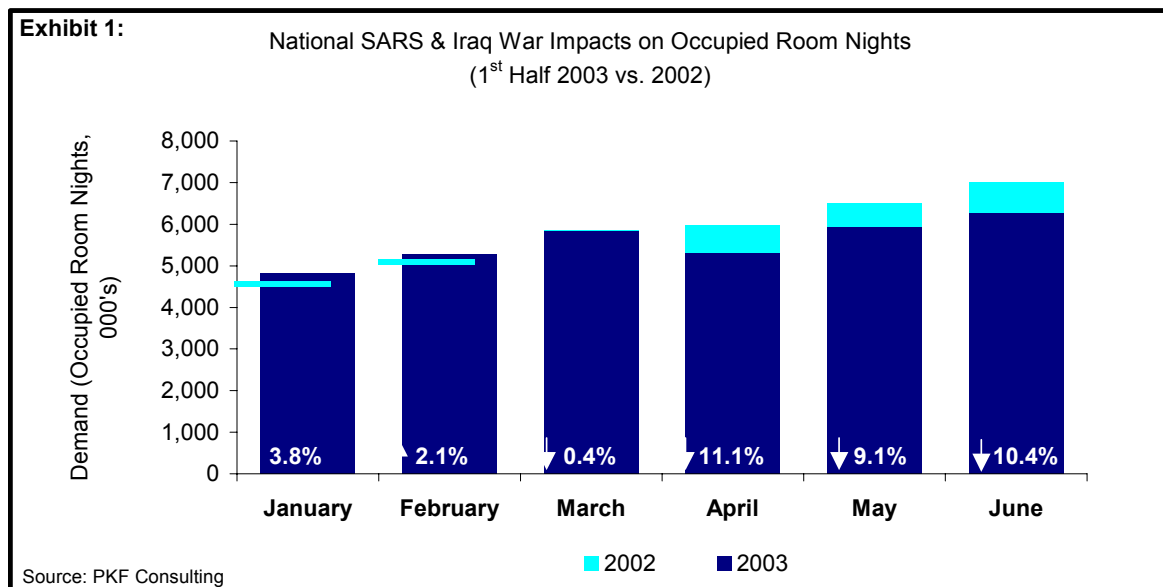
Further compounding an already devastating situation for Canada's hospitality industry, one lone case of BSE in Alberta (Mad Cow disease) was confirmed by the World Reference Laboratory on May 20, 2003, and within hours a ban on all imports of Canadian beef was announced.

These recent events have had an immediate and devastating impact on Canada's accommodation industry – impacts which have not only been felt in the Greater Toronto Area, but have crippled the tourism industry and economy across the country.



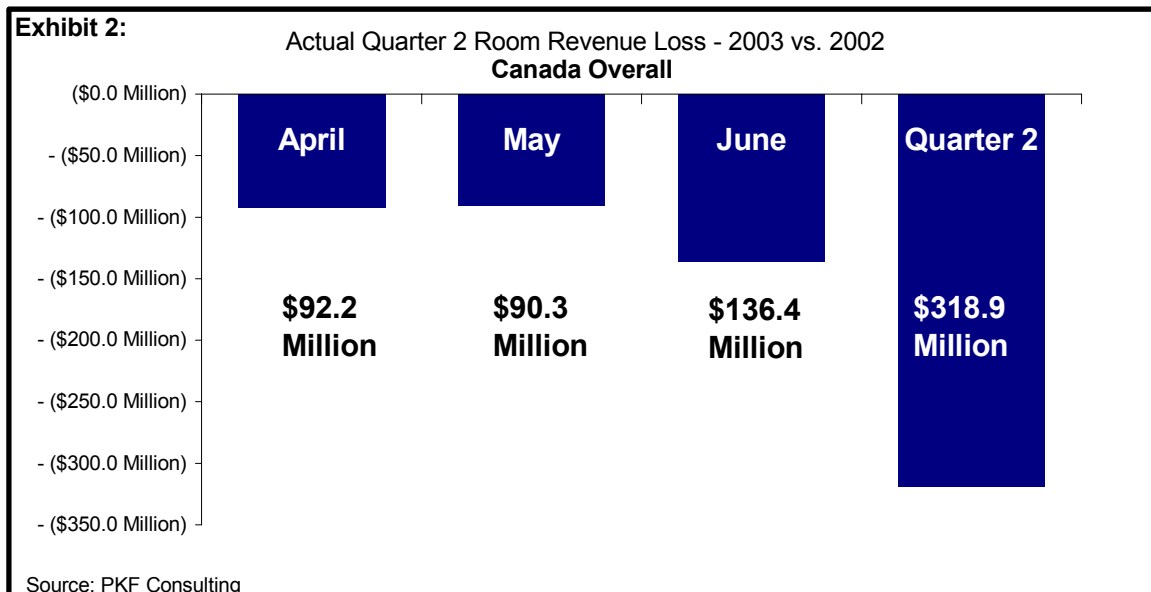
2 Million Room Nights Lost in the 2nd Quarter Across Canada

While the Canadian accommodation industry started the year off well, posting a 2.6% increase in overnight demand in January and February 2003, demand levels started slipping by 1% in March, and thereafter fell sharply by 11% in April, another 9% in May and a further 10% in June. While the industry reported a loss of close to 23,000 room nights in March, April results deteriorated rapidly to a shortfall of over 662,000 occupied room nights. May was almost as equally devastating with over 590,000 room nights lost, with the losses in June accelerating to 732,000 occupied room nights. In all since March, the industry has suffered a total deficit of over 2 Million room nights in comparison to last year's performance.



Quarter 2 Rooms Revenue Down by \$320 Million Across Canada

During the month of April, with the onset of SARS and the lingering effects of the Iraq War, Canada as a whole lost \$92 Million in room revenue in comparison to last year. Faced with a travel advisory and a second wave of the SARS outbreak in May, the industry endured a further attrition of \$90 Million in room revenue. Already in distress, accommodation providers suffered an additional \$136 Million year-over-year decline in the month of June, bringing the total room revenue damage for the 2nd quarter to \$320 Million. Accounting for the other on-site ancillary sources of revenue generated by the accommodation sector, Canada's combined accommodation revenue loss during the 2nd quarter is estimated at \$491 Million.



Ontario Shoulders the Brunt of the Impacts – Loss of \$185 Million in Rooms Revenue -- 58% of the National Loss to date

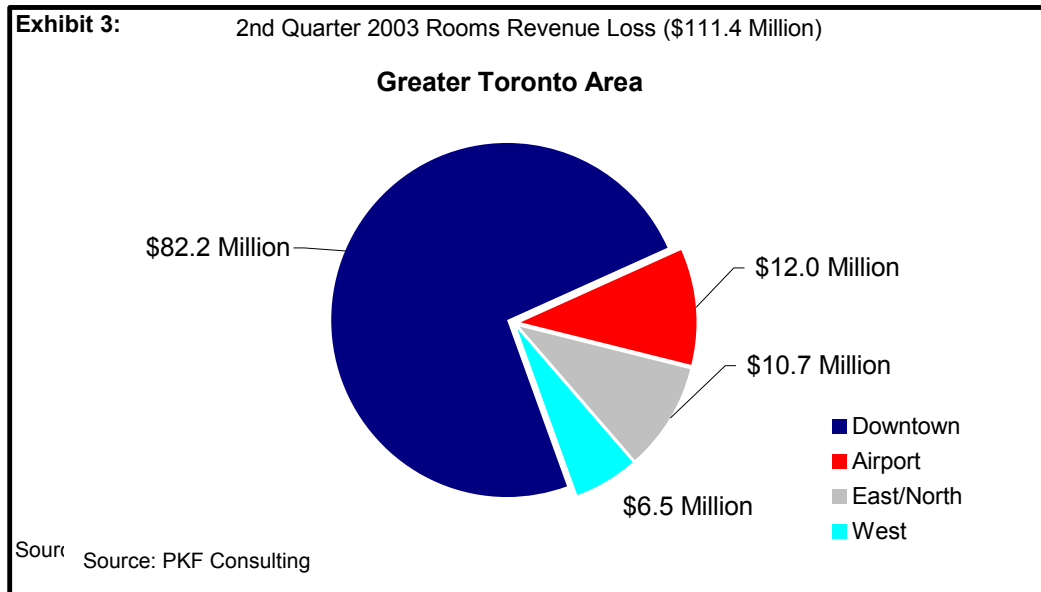
Demand for Ontario's hotels was up by almost 205,000 room nights or 4% in Quarter 1, 2003, before taking a sharp turn in the other direction and reporting a loss of over 1 Million room nights in Quarter 2. This represents a \$185 Million decline in room revenue or 58% of the national loss. Ontario's hotel occupancy during Quarter 2 this year was 53% -- 12 points below last year's Q2 occupancy of 65%. Ontario's average daily rate also eroded by \$12 in Quarter 2, from \$121 last year, to \$109 this year.

Greater Toronto Area Hardest Hit -- \$111 Million in Rooms Revenue Lost in Quarter 2, \$82 Million Amongst Downtown Toronto Hotels

Hotel demand in the Greater Toronto Area was up by approximately 85,000 room nights during the first quarter of 2003, or 4.8%, before the phone starting ringing in April with cancellations and stopped ringing for future bookings. The GTA's occupancy for Quarter 2 was 48%, down 20 points from last year, indicating a loss of over 1 million occupied room nights. From a room revenue perspective, the Greater Toronto hotel industry lost over \$111 Million in Quarter 2.

Of the \$111 Million in room revenue lost across the GTA, \$82.2 Million was amongst Toronto's downtown hotels -- 74¢ of every dollar lost in the GTA. Downtown Toronto occupancy levels,

which reached 72% last year, dropped by over 25 occupancy points to 47% for the same quarter this year. Toronto downtown hotels also lost rate integrity, with last year's ADR at \$173 in Quarter 2, falling to \$140 in Quarter 2 of this year.



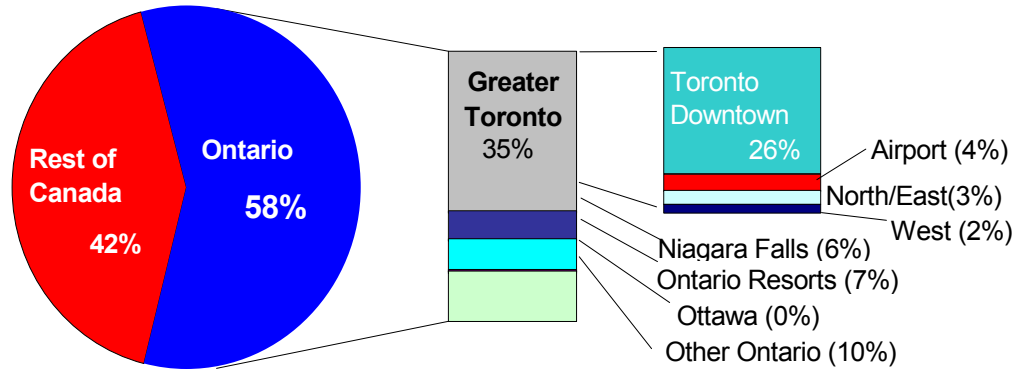
Impacts Have Spread to Other Ontario Markets

Although downtown Toronto hotels were the hardest hit in Quarter 2, the impact of SARS, and to a lesser extent the Iraq War, has had a rippling effect across Ontario's other major markets. In particular:

- Ontario Resorts lost over \$21 Million in rooms revenue during Quarter 2 – 99,000 fewer occupied room nights than the same period last year;
- Niagara Falls lost 122,000 occupied room nights, which is close to \$19 Million in rooms revenue;
- Toronto Airport hotels were off by \$12 Million in rooms revenue, which is 83,000 less occupied room nights than last year;
- Toronto East/North properties were down by over 97,000 occupied room nights, representing \$11 Million in lost rooms revenue;
- Toronto West properties sold 63,000 fewer room nights, thus suffering a \$6 Million loss; and
- Windsor hotels reported room revenue losses of over \$3 Million, which represents a shortfall of 24,000 in occupied room nights compared to last year's Quarter 2.
- Ottawa initially bore a loss of \$3 Million in room revenue during the month of April, but rebounded in May posting a gain of \$2.1 Million, with revenues only off by \$152,000 in June, in comparison to last year.

Exhibit 4:

Share of National Room Revenue Loss (\$183 Million)
Quarter 2 2003



Source: PKF Consulting

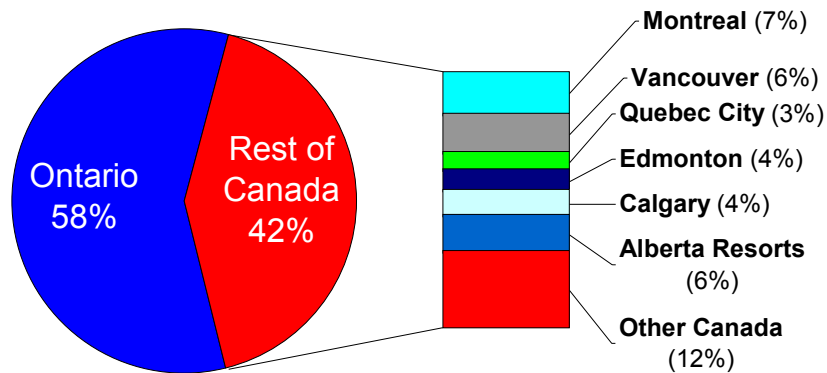
Impacts Also Felt Across Other Canadian Markets

Nationally, of the \$320 Million in lost rooms revenue in Quarter 2, 42% has been in markets outside of Ontario. Specifically,

- Greater Montreal hotels reported a loss of 147,000 occupied room nights in Quarter 2, representing over \$23 Million in rooms revenue;
- Greater Vancouver was down by 128,000 occupied room nights, which translates to a loss of \$20 Million in rooms revenue;
- Quebec City was down by 52,000 occupied room nights, equating to a loss of over \$9 Million in rooms revenue;
- Calgary hotels and Alberta Resorts reported a loss of approximately 85,000 and 98,000 occupied room nights per market respectively, equating to a room revenue loss of \$12.7 Million for Calgary and \$18.4 Million for Alberta Resorts.
- Although the Edmonton hotel market was off by 165,000 occupied room nights in Quarter 2 (a loss of \$10.6 Million in rooms revenue), this decline was largely attributable to the conclusion of the 2001/02 phase of the Shell Athabasca project which resulted in a strong 2002 industry performance.

Exhibit 5:

Share of National Room Revenue Loss (\$319 Million)
Quarter 2 2003



Source: PKF Consulting

9/11 vs. SARS

To date, SARS and the Iraq War have already had an impact on the Canadian accommodation industry equal to that of 9/11. The outbreak of SARS and the Iraq conflict however, has impacted the industry in a very different manner. First losses associated with 9/11 were concentrated in the month of September, which realized 51% of the total room nights lost due to this event. Each month thereafter the losses were cut in half and by December 2001, direct losses associated with 9/11 were negligible. The losses associated with the SARS Outbreak have in fact escalated with the approach of Canada's peak tourism season. The greatest impacts to date have been realized in the month of June as markets dependent on international tour group business and meeting/convention demand were faced with insurmountable losses. Unfortunately, the fact that the SARS Outbreak began to impact the industry as the peak season approached has magnified the absolute room night and dollar losses.

Secondly, the impact of SARS has been concentrated in Ontario and more specifically in the GTA market. The impacts of 9/11 were more evenly spread throughout the country with about 40% of the loss realized in Ontario and 22% in the Greater Toronto Area. Conversely, over half of the impacts resulting from SARS have been in the Province of Ontario and over one-third in the GTA.

Downward Trend Expected to Continue over the Summer Months

Despite the fact that the SARS virus is now under control, with no new cases reported since June 12, the prospects for the remainder of the summer in the many impacted markets are not strong. A significant level of summer business has cancelled and will be difficult to replace given the decline in fill rates. While the impacts for the remainder of the year may not be as great as those experienced to date, they will only add to what is already shaping up to be a devastating year in many Canadian hotel markets.