

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

**THE IMPACTS OF THE IRAQ WAR and SARS  
Report #3  
QUARTER 3 2003 RESULTS**

Prepared For:

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

Prepared by:

**PKF CONSULTING**

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December 8, 2003

Mr. Alex Athanassakos  
Ontario Tourism  
700 Bay Street  
15<sup>th</sup> Floor  
Tourism Branch  
Toronto, Ontario  
M7A 2E1

Mr. Scott Meis, Director, Research  
Canadian Tourism Commission  
235 Queen Street  
4<sup>th</sup> Floor  
East Tower  
Ottawa, Ontario  
K1A 0H6

**RE: THE IMPACTS OF THE IRAQ WAR and SARS ON CANADA'S ACCOMMODATION  
INDUSTRY – QUARTER 3 2003 RESULTS**

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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 3<sup>rd</sup> Quarter of 2003. This report is the **third** in a series of quarterly reports, as we continue to monitor Canada's accommodation industry throughout this challenging year.

The Canadian accommodation industry was off to a good start in 2003, exceeding 2002 Quarter 1 room revenue by 3.4%. Shortly into the second quarter, the industry was devastated by the outbreak of SARS costing the industry an estimated \$320 Million in lost room revenue in the 2<sup>nd</sup> Quarter alone. Being the peak travel season for many Canadian markets, Quarter 3 was almost as devastating as Quarter 2 with a \$287 Million year over year decline in room revenue. Fortunately, the trend is looking favourable for the Canadian tourism industry with September demand for accommodation down 4% compared to the low of 11% in April. Room revenue is also improving (down 6% in September compared to the low of 15% in June) though not at the same pace as demand because of room rate discounting in many markets. Nationally 3<sup>rd</sup> Quarter demand was off by 6.4%, dragging room revenue down by 10% over the summer months.

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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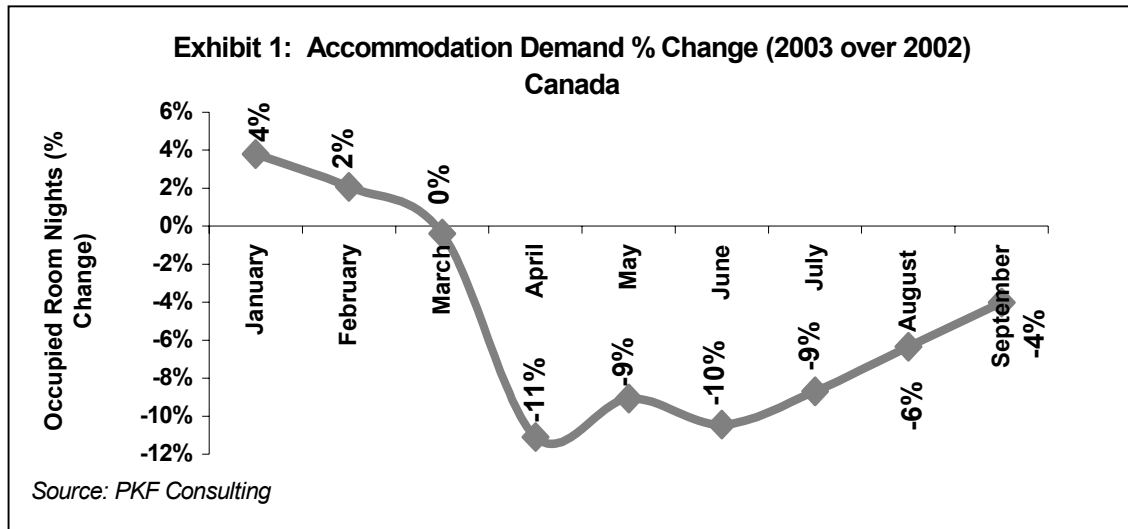
## EXECUTIVE SUMMARY

### MEASURING THE IMPACTS OF THE IRAQ WAR AND SARS ON CANADA'S ACCOMMODATION INDUSTRY – QUARTER 3 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.

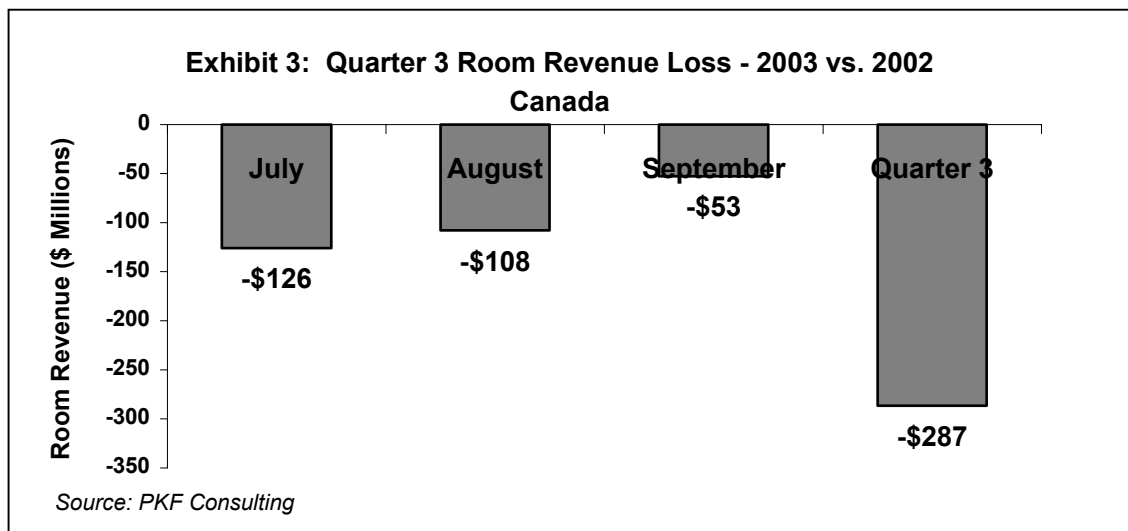
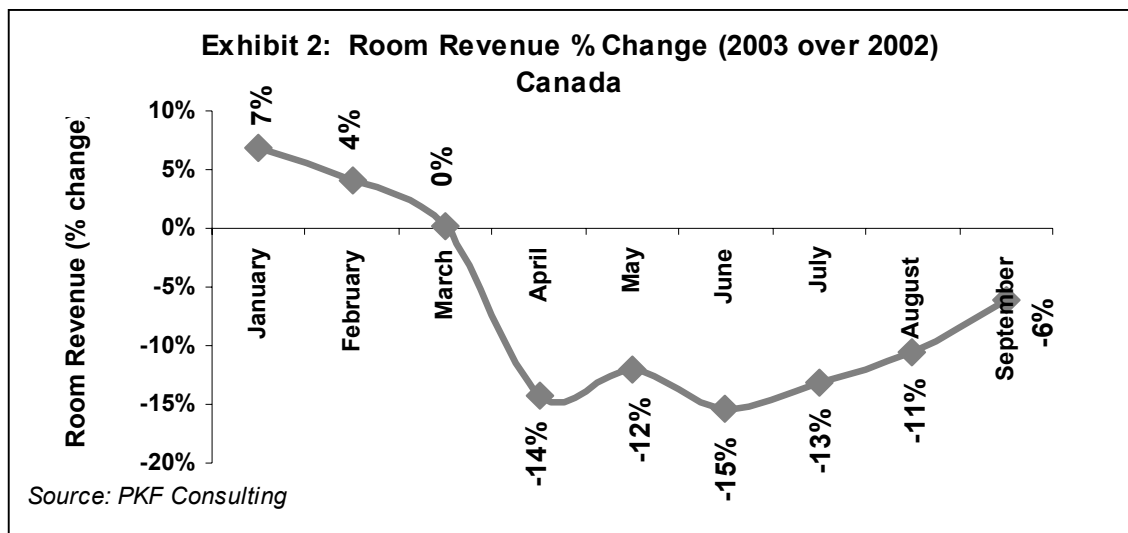
#### 3.2 Million Room Nights Lost in the 2<sup>nd</sup> and 3<sup>rd</sup> Quarter Across Canada

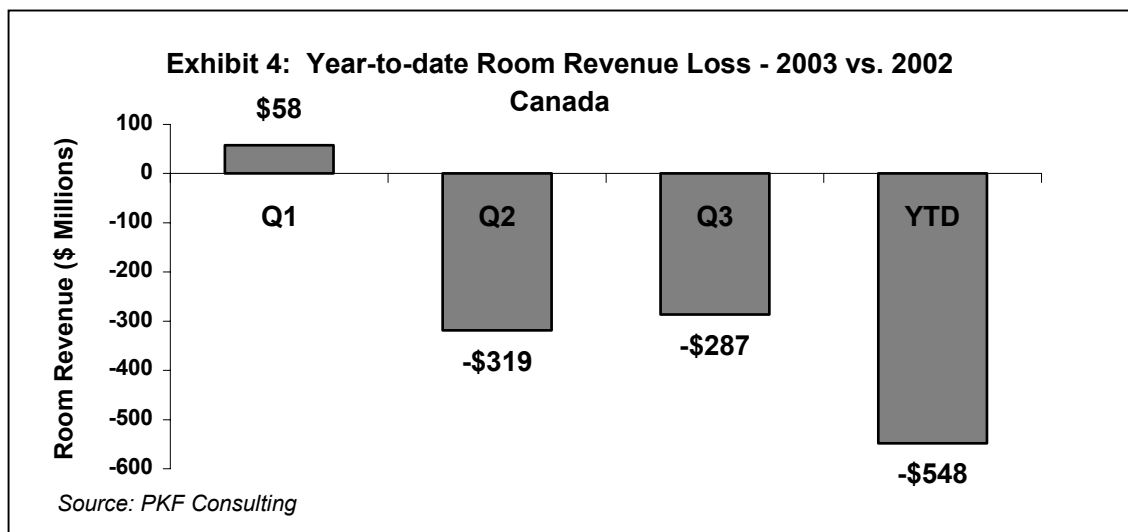
While the Canadian accommodation industry started the year off well, posting a 2.6% increase in overnight demand in January and February 2003, demand levels started slipping by 1% in March, and thereafter fell sharply by 11% in April, and a further 9 to 10% per month in May, June and July, before seeing some recovery in August and September. April results posted a shortfall of over 662,000 occupied room nights, with May results almost as equally devastating with over 590,000 room nights lost, before the damage accelerated with the onset of Canada's peak summer travel months. June and July posted losses of 732,000 and 652,000 occupied room nights, respectively, with the situation improving somewhat in August, which recorded 507,000 lost room nights and September, which reported 281,000 room nights lost. In all since March, the industry has suffered a total deficit of over 3.2 Million room nights in comparison to last year's performance.



## Quarter 3 Rooms Revenue Down by \$287 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. Over the course of the summer months, Canada's accommodation industry as a whole, lost \$126 Million in room revenues in July, \$108 Million in August and \$53 Million in September, bringing Quarter 3 losses to \$287 Million – 90% of the losses already endured in Quarter 2. Accounting for the other on-site ancillary sources of revenue generated by the accommodation sector, Canada's combined accommodation revenue loss year-to-date is estimated at \$932 Million.





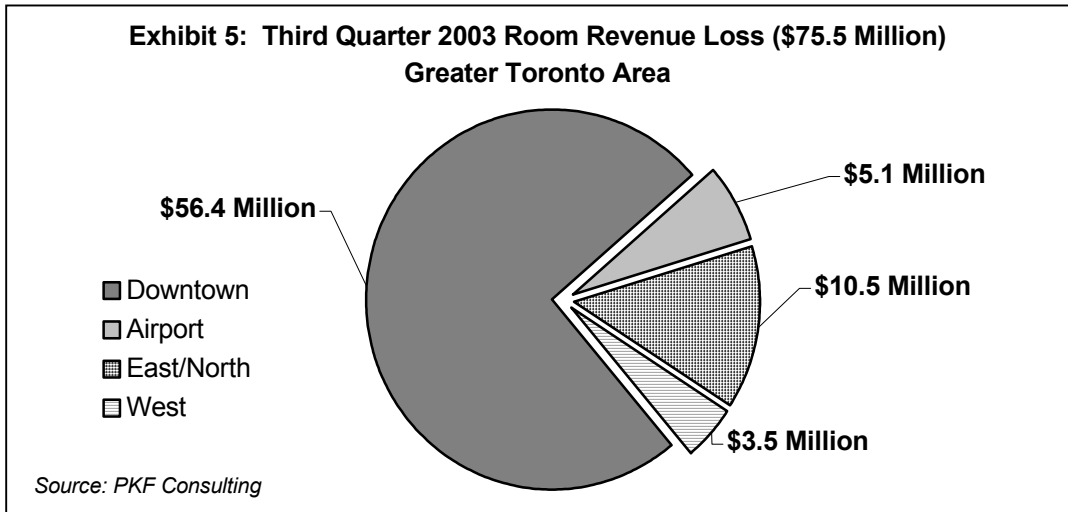
### **Ontario Suffers Lion's Share of Impacts – Q2 and Q3 Loss of \$339 Million in Rooms Revenue -- 56% of the National Loss to date**

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 followed by a further attrition of 668,000 room nights in Quarter 3. This represents a \$339 Million decline in room revenue during Quarters 2 & 3 or 56% of the national loss. Ontario's hotel occupancy during Quarter 3 this year was 65% -- 8 points below last year's Q3 occupancy of 72%. Ontario's average daily rate also eroded by \$11 in Quarter 3, from \$125 last year, to \$114 this year.

### **Greater Toronto Area Continues to be the Most Distressed Market-- \$75 Million in Rooms Revenue Lost in Quarter 3, \$56 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. During Quarter 2 the GTA hotel industry lost an estimated 592,000 occupied room nights, representing over \$111 Million in room revenue. While not as devastating as the previous quarter, Quarter 3 results showed a further loss of 282,000 room nights, equating to a deficit of \$75 Million in room revenue compared to the same quarter last year.

Of the \$75 Million in room revenue lost across the GTA, \$56.4 Million was amongst Toronto's downtown hotels -- 75¢ of every dollar lost in the GTA. Downtown Toronto occupancy levels, which reached 80% last year, dropped to a low of 58% in July and on average was 66% for the quarter this year compared to an average of 77% for the same period in 2002. Toronto downtown hotels also lost rate integrity, with last year's ADR at \$173 in Quarter 3, falling to \$143 in Quarter 3 of this year.

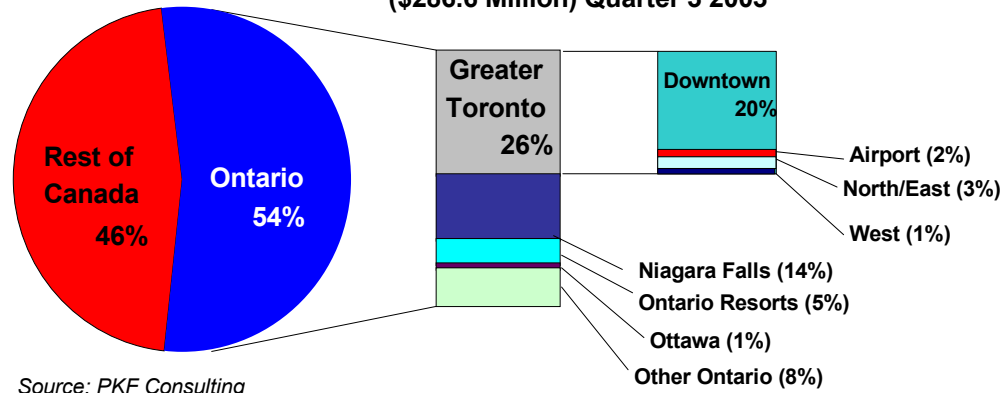


### Impacts Have Spread to Other Ontario Markets

Although downtown Toronto hotels were the hardest hit in Quarter 3, the impact of SARS and to a lesser extent the economic conditions, has had a rippling effect across Ontario's other major markets. In particular:

- Ontario Resorts lost over \$15 Million in rooms revenue during Quarter 3 – 61,000 fewer occupied room nights than the same period last year;
- Niagara Falls lost 122,000 occupied room nights, which is close to \$39 Million in rooms revenue;
- Toronto Airport hotels were off by \$5.8 Million in rooms revenue, which is 32,000 less occupied room nights than last year;
- Toronto East/North properties were down by over 60,000 occupied room nights, representing \$10.5 Million in lost rooms revenue;
- Windsor hotels reported room revenue losses of nearly \$1.5 Million, which represents a shortfall of 7,400 in occupied room nights compared to last year's Quarter 3; and
- Ottawa's July revenue gain of \$400,000 was not enough to offset losses in August and September bringing total Quarter 3 losses to nearly \$3 Million compared to 2002.

**Exhibit 6: Ontario's Share of National Room Revenue Loss  
(\$286.6 Million) Quarter 3 2003**

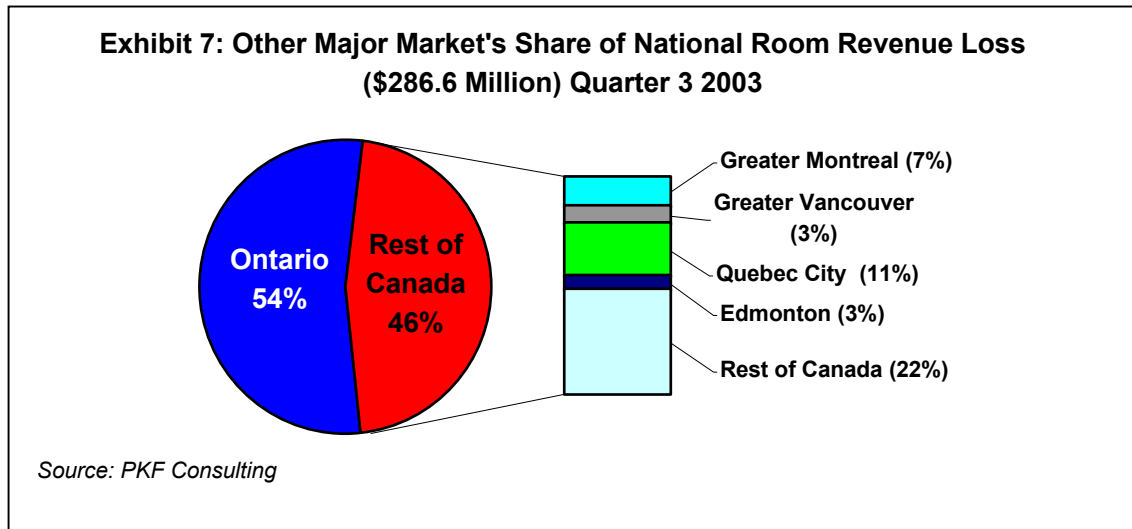


Source: PKF Consulting

## Impacts Also Felt Across Other Canadian Markets

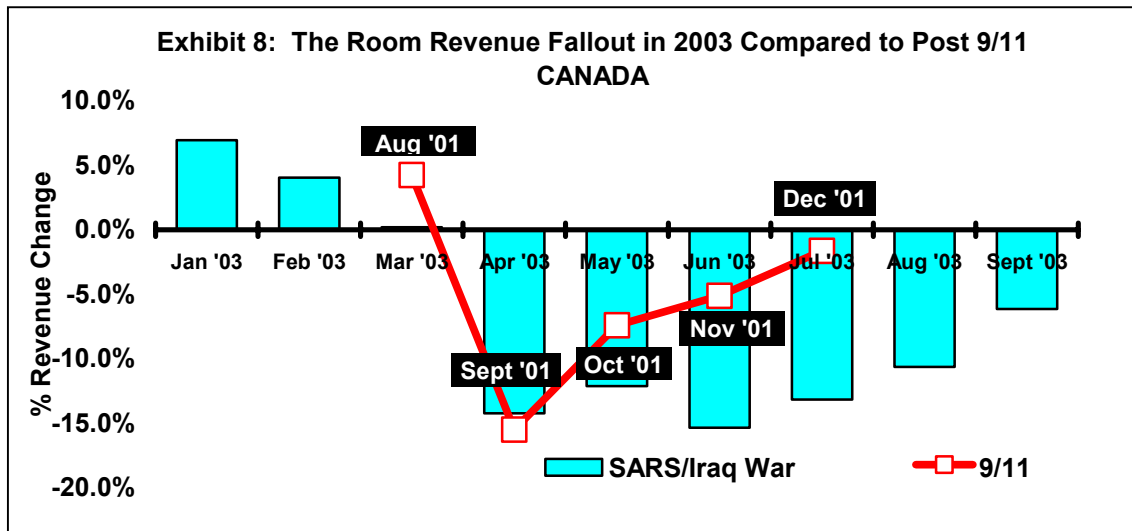
Nationally, of the \$286.6 Million in lost rooms revenue in Quarter 3, 46% has been in markets outside of Ontario. Specifically,

- Greater Montreal hotels reported a loss of 113,000 occupied room nights in Quarter 3, representing over \$19 Million in rooms revenue;
- Greater Vancouver was only down by 3,500 occupied room nights during Quarter 3 but still lost an estimated \$10 Million in rooms revenue due to a 5% decline in average rate;
- Quebec City was down by 121,000 occupied room nights, equating to a loss of over \$32 Million in rooms revenue;
- Calgary hotels and Alberta Resorts reported a loss of approximately 24,000 and 95,000 occupied room nights per market respectively, equating to a room revenue loss of \$4.3 Million for Calgary and \$34.0 Million for Alberta Resorts; and
- Although the Edmonton hotel market was off by 126,000 occupied room nights in Quarter 3 (a loss of \$8.5 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.



## 9/11 vs. SARS

By comparing the impacts of 9/11 on Canada's accommodation industry with the outbreak of SARS and the Iraq conflict, we see that the industry impacts were felt 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 conversely associated with the SARS Outbreak escalated with the approach of Canada's peak tourism season. The greatest impacts were 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 magnified the absolute room night and dollar losses.



Secondly, the impact of SARS was 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 were in the Province of Ontario and over one-third in the GTA.

Overall the Canadian accommodation industry suffered a **loss of over 2 million occupied room nights at an estimated value of \$350 million – post 9/11**. In comparison, **SARS and the events of 2003, have caused the industry a total deficit of over 3.4 Million occupied room nights in Quarters 2 and 3, equating to an estimated \$605 Million in lost room revenue.**

### Positive Trend Expected to Continue over the Winter Months

With the conclusion of the peak leisure travel season in most of Canada's tourist destinations and the positive trend in major market fill rates, it is expected that the upward demand trend will continue. Preliminary numbers for the month of October indicate that National demand was off by a mere 0.3% or 20,000 occupied room nights compared to 2002.

## 1.0 INTRODUCTION

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

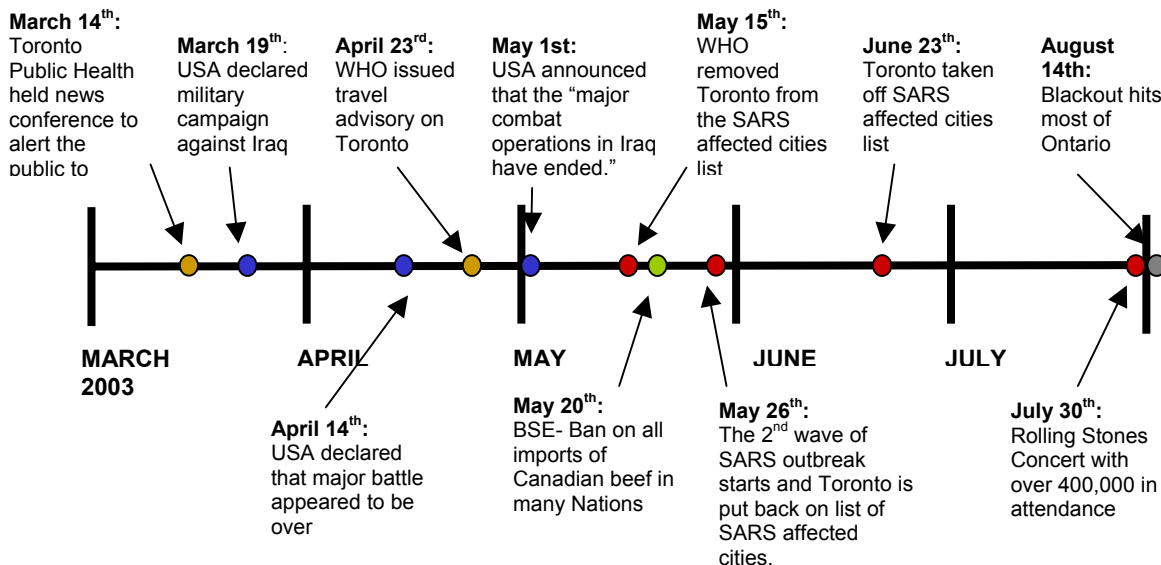
Canada's tourism industry has been severely impacted by both the Iraq War and the outbreak of Severe Acute Respiratory Syndrome (SARS) in the first nine months of 2003. With rumblings surrounding the impending war in Iraq first stirring in Quarter 3 of 2002, the US led war against officially began on Wednesday March 19<sup>th</sup> 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 14<sup>th</sup> that the major battle appeared to be over. However, it was not until May 1<sup>st</sup> 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 14<sup>th</sup>, Toronto Public Health held its first news conference to alert the public to this fatal epidemic after the first SARS patient died on March 13<sup>th</sup> 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 23<sup>rd</sup> 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 30<sup>th</sup> and the City was removed from the list of SARS affected cities on May 15<sup>th</sup> 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 22<sup>nd</sup>. Toronto was once again put back on the list of affected areas on May 26<sup>th</sup> 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.



## 1.2 MEASURING THE IMPACTS – PKF ANALYSIS

In March 2003, PKF Consulting was retained by the Ontario Ministry of Tourism and Recreation and the Canadian Tourism Commission to analyze the impacts of these recent and ongoing events on Canada's accommodation industry. Similar to the analysis that was undertaken immediately following the tragic events of 9/11, PKF Consulting contacted our "Trends" participants as part of a series of 4 surveys, which will take place over the balance of 2003.

The first report dated May 30, 2003 provides an analysis of the first Quarter, while the second report and the subject report provides an analysis of Quarters 2 and 3 – the Quarters, which experienced the majority of the SARS impact.

### 1.2.1 Quarter 3 Survey of Accommodation Operators

During the month of October and early November 2003, PKF Consulting undertook a 3<sup>rd</sup> survey of accommodation operators in Canada's major markets through our PKF *Trends in the Hotel Industry National Market Report* participants.<sup>1</sup> This survey was a follow-up to the initial survey issued in April and May 2003 and the 2<sup>nd</sup> survey undertaken in June and July 2003.

As the third in a series of 4 surveys to be implemented over the course of the year, the Quarter 3 2003 survey asked the following questions:

#### **PART 1 QUARTER 4 BOOKING PACE AND Q4 CANCELLATIONS**

##### **Accommodation Booking Pace for Quarter 4**

1. As of September 30, 2003, what were your confirmed bookings by month for October, November and December 2003, as of September 30<sup>th</sup>?

##### **Room Cancellations as at September 30, 2003**

2. As of September 30, 2003, has your property experienced any cancellations for Quarters 4 due to Geopolitical reasons, SARS Fallout, West Nile Virus, BC Fires or Other Reasons?

#### **PART 2 ABOUT YOUR 2003 QUARTER 3 RESULTS**

##### **Reasons for Quarter 3 2003 Changes in Demand**

3. a) *Relative to your 2002 Quarter 3 actuals*, did your property experience a growth in demand or loss in demand in your actual 2003 Quarter 3 results?

What % of this growth or decline in demand, do you feel was attributable to:

- National/Provincial Economic Conditions
- Local/Regional Economic Conditions
- Increased Supply Competition
- Geopolitical Reasons (Iraq War, Residual 9/11, etc)
- Fears/Impacts Associated with SARS
- Fears/Impacts Associated with West Nile Virus
- Fears/Impacts Associated with BC Fires
- Other Reasons, Please specify

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<sup>1</sup> *Trends in the Canadian Hotel Industry, National Market Report* is compiled and produced by PKF Consulting on a monthly basis. This Canadian proprietary database presents occupancy, average daily rate and revenue per available room statistics for 93 geographic regions/markets across Canada, based on the operating results of 176,000 rooms.

### Changes to Quarter 3 2003 Market Segmentation

3. b) What % of this change in demand, do you feel has been attributable to the following market segments:
- Business Travel
  - Independent Leisure Travel
  - Group Leisure Travel
  - Meetings/Convention Travel
  - Government Travel
  - Other Segments

### Changes to Quarter 3 2003 Origin Segmentation

3. c) What % of this change in demand, do you feel has been attributable to the following origin segments:
- Domestic Travel
  - US Travel
  - Overseas Travel

### Changes to Primary Mode of Transportation in Quarter 3 2003

4. What are the primary modes of transportation used by your hotel guests in arriving at their destination?
- Air
  - Automobile
  - Motorcoach
  - Other

What changes, if any, have you noticed in your guests travel patterns in 2003, as compared to last year?

A total of 148 operators, representing 37,233 rooms responded to our Quarter 3 Survey. The survey responses represent 21% of PKF's *Trends* participants or 11% of Canada's overall accommodation inventory.

<b>Exhibit 2: Major Markets Surveyed in Quarter 3</b>		
	Survey Response (Rooms)	% Total Rooms Inventory
Halifax Dartmouth	1,122	24%
Quebec City	1,308	12%
Greater Montreal	2,996	17%
Montreal Downtown		
Montreal Airport		
Ottawa	1,468	14%
Greater Toronto	11,002	38%
Toronto Downtown		
Toronto Airport		
GTA East/North		
GTA West	Insufficient response to report indiv.	
Windsor	248	9%
Ontario Resorts	1,252	8%
Regina / Saskatoon	984	13%
Calgary	1,599	14%
Edmonton	1,588	14%
Alberta Resorts	2,028	19%
Greater Vancouver	3,352	19%
Vancouver Downtown		
Vancouver Airport		
Vancouver Other	Insufficient response to report indiv.	
Other Markets	7,655	
<b>TOTAL</b>	<b>37,233</b>	<b>11%</b>

### 1.2.2 Development of National Impact Model

The reader is referred to our *Quarter 1 Report*, dated May 30, 2003 for an explanation of PKF's **National Impact Model**, which has been utilized to measure the actual performance of the accommodation industry during the January to December 2002 period, against actual and forecasted results by month for 2003. The Impact Model has been applied to each of the provincial, regional, city and sub-markets tracked in our Monthly *Trends Report* (53 markets).

### 1.3 NATIONAL ACCOMMODATION SUPPLY

Based on the accommodation inventories supplied to PKF by each of the provinces, together with our knowledge of supply additions in the Canadian market, Canada had an estimated supply of 330,248 rooms in Quarter 3 2002 (including only full-year properties of 30+ rooms in size). By Quarter 3 2003, this supply base increased by 1.0%, to an estimated annualized inventory of 333,428 rooms. Table 3 below provides the averaged room supply inventory by province, during Quarter 3 2002 and 2003.

<b>Exhibit 3</b>			
<b>Rooms Supply Inventory, by Province (Averaged)</b>			
<b>QUARTER 3 2002 and 2003</b>			
<b>Province</b>	<b>Q 3 2002</b>	<b>Q3 2003</b>	<b>% Change</b>
Newfoundland	3,851	3,903	1.4%
PEI	2,715	2,715	0.0%
Nova Scotia	10,238	10,288	0.5%
New Brunswick	7,657	7,780	1.6%
Quebec	56,540	56,620	0.1%
Ontario	106,592	107,888	1.2%
Manitoba	10,455	10,633	1.7%
Saskatchewan	11,033	11,153	1.1%
Alberta	50,588	51,259	1.3%
British Columbia	68,582	69,330	1.1%
<u>Yukon</u>	<u>1,950</u>	<u>1,950</u>	<u>0.0%</u>
<b>NATIONAL</b>	<b>330,248</b>	<b>333,428</b>	<b>1.0%</b>

*Source: Provincial Tourism Departments, PKF Consulting and Hotel Association of Canada  
Inventory prepared by KPMG*