

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

**THE IMPACTS OF THE IRAQ WAR and SARS
Report #4
2003 ANNUAL RESULTS**

Prepared For:

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

Prepared by:

PKF CONSULTING

March 2004

March 12, 2004

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

Mr. Scott Meis, Director, Research
Canadian Tourism Commission
55, rue Metcalfe, bureau 600
Ottawa, Ontario
K1P 6L5

**RE: THE IMPACTS OF THE IRAQ WAR and SARS ON CANADA'S ACCOMMODATION
INDUSTRY – 2003 ANNUAL 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 2003. This report is the **4th and Final** of a series of quarterly reports, with the objective of summarizing the health of Canada's accommodation industry during 2003.

The Canadian accommodation industry was off to a good start in 2003, exceeding 2002 Quarter 1 room revenue by 3.6%. Shortly into the second quarter, the industry was devastated by the outbreak of SARS costing the industry an estimated \$316 Million in lost room revenue in the 2nd Quarter alone. Being the peak travel season for many Canadian markets, Quarter 3 was almost as devastating as Quarter 2 with a \$284 Million year over year decline in room revenue. Fortunately, the downward trend ceased by the 4th Quarter with national demand off by 6.3% and rate by 4.0%. In the 4th Quarter national demand improved by nearly one percent, however it was offset by an increase in supply and a decrease in rate resulting in a relatively flat year over year room revenue. Annual 2003 national results resulted in a 1.1% increase in supply, a 4.0% decline in demand and 2.4% erosion of rate. Overall, **national room revenue declined by \$542 Million in 2003** compared with 2002.

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

TABLE OF CONTENTS

Letter of Transmittal

Executive Summary	i
1.0 Introduction	1-1
1.1 On the Heels of 9/11, Iraq War and SARS	1-1
1.2 Measuring the Impacts – PKF Analysis	1-2
1.3 National Accommodation Supply	1-4
2.0 National Performance of Canada’s Accommodation Industry – 2003	2-1
2.1 National Results – 2003	2-1
2.2 National Cancellations and Booking Pace for Quarter 4, 2004	2-4
3.0 Atlantic Canada Provincial/Market Performance	3-1
3.1 Atlantic Canada	3-1
3.2 Province of Newfoundland	3-3
3.3 Province of Prince Edward Island	3-5
3.4 Province of Nova Scotia	3-7
3.5 Halifax/Dartmouth Area	3-9
3.6 Province of New Brunswick	3-12
4.0 Quebec Provincial/Market Performance	4-1
4.1 Province of Quebec	4-1
4.2 Greater Montreal Area	4-3
4.3 Greater Quebec City	4-6
4.4 Other Quebec Markets	4-9
5.0 Ontario Provincial/Market Performance	5-1
5.1 Province of Ontario	5-1
5.2 Greater Toronto Area	5-3
5.3 Ottawa	5-6
5.4 Windsor	5-9
5.5 Niagara Falls	5-12
5.6 Ontario Resorts	5-14
5.7 Southern Ontario Markets	5-17
5.8 Eastern Ontario Markets	5-19
5.9 Northern Ontario Markets	5-21
6.0 Manitoba Provincial/Market Performance	6-1
6.1 Province of Manitoba	6-1
6.2 Winnipeg	6-3
6.3 Other Manitoba Markets	6-6

7.0 Saskatchewan Provincial/Market Performance	7-1
7.1 Province of Saskatchewan.....	7-1
7.2 Regina/Saskatoon.....	7-3
7.3 Other Saskatchewan Markets.....	7-6
8.0 Alberta Provincial/Market Performance	8-1
8.1 Province of Alberta (excluding Resorts).....	8-1
8.2 Calgary.....	8-3
8.3 Edmonton.....	8-6
8.4 Alberta Resorts	8-9
8.5 Other Alberta Markets.....	8-12
9.0 British Columbia & Yukon Provincial/Market Performance	9-1
9.1 Province of British Columbia.....	9-1
9.2 Greater Vancouver Area	9-3
9.3 Other British Columbia and Yukon Markets.....	9-6

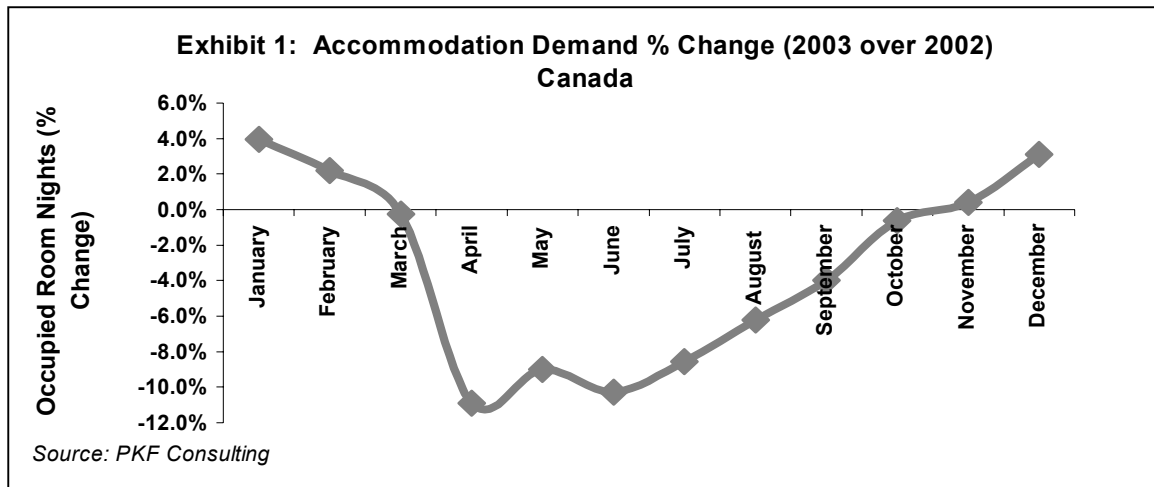
EXECUTIVE SUMMARY

MEASURING THE IMPACTS OF THE IRAQ WAR AND SARS ON CANADA'S ACCOMMODATION INDUSTRY – 2003 Annual 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 2003, 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 remained the dominant issue for the study.

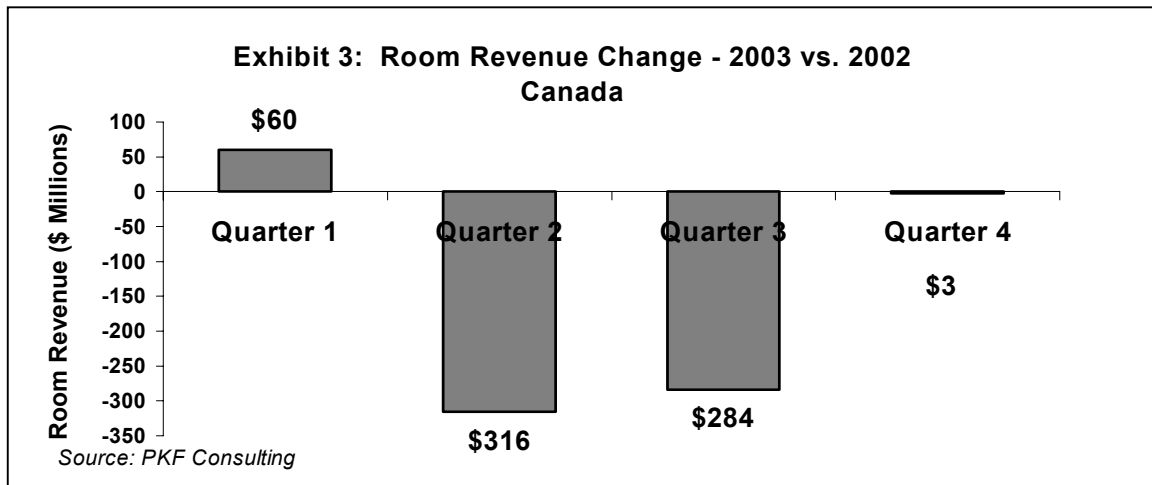
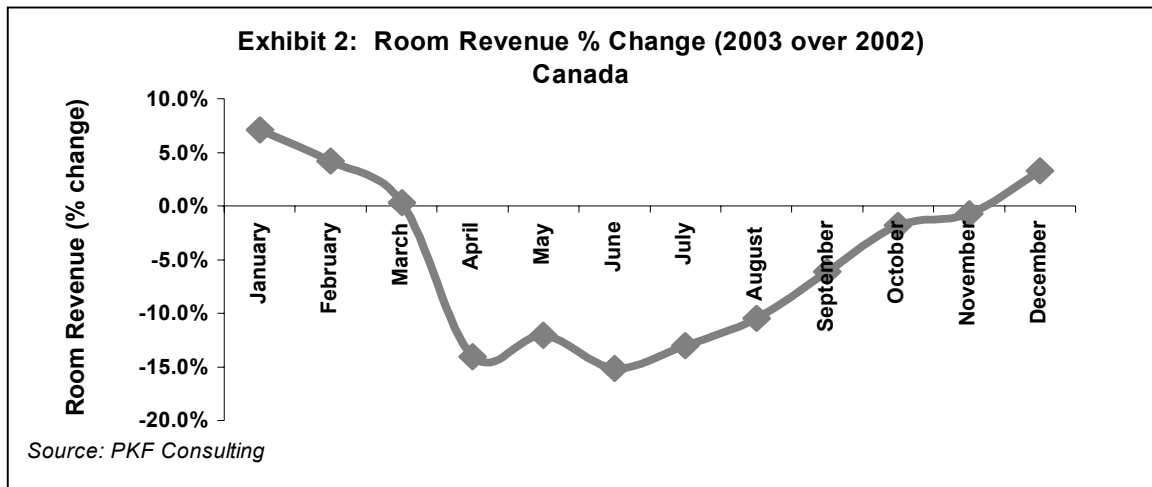
2.9 Million Room Nights Lost in 2003 Across Canada

While the Canadian accommodation industry started the year off well, posting a 3.0% increase in overnight demand in January and February 2003, demand levels started slipping 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 650,000 occupied room nights, with May results almost as equally devastating with over 586,000 room nights lost, before the damage accelerated with the onset of Canada's peak summer travel months. June and July posted losses of 720,000 and 642,000 occupied room nights, respectively, with the situation improving somewhat in August, which recorded 495,000 lost room nights and September, which reported 280,000 room nights lost. Demand was off slightly in October before posting gains in November and December. In all, the industry has suffered a total deficit of over 2.9 Million room nights in comparison to 2002's performance.



2003 Rooms Revenue Down by \$542 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 \$91 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 \$135 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 \$125 Million in room revenues in July, \$106 Million in August and \$52 Million in September, bringing Quarter 3 losses to \$284 Million – 90% of the losses already endured in Quarter 2. Quarter 4 room revenue declined by \$2.6 Million due to an erosion of room rates. Accounting for the other on-site ancillary sources of revenue generated by the accommodation sector, Canada's combined accommodation revenue loss is estimated at \$910 Million for 2003.



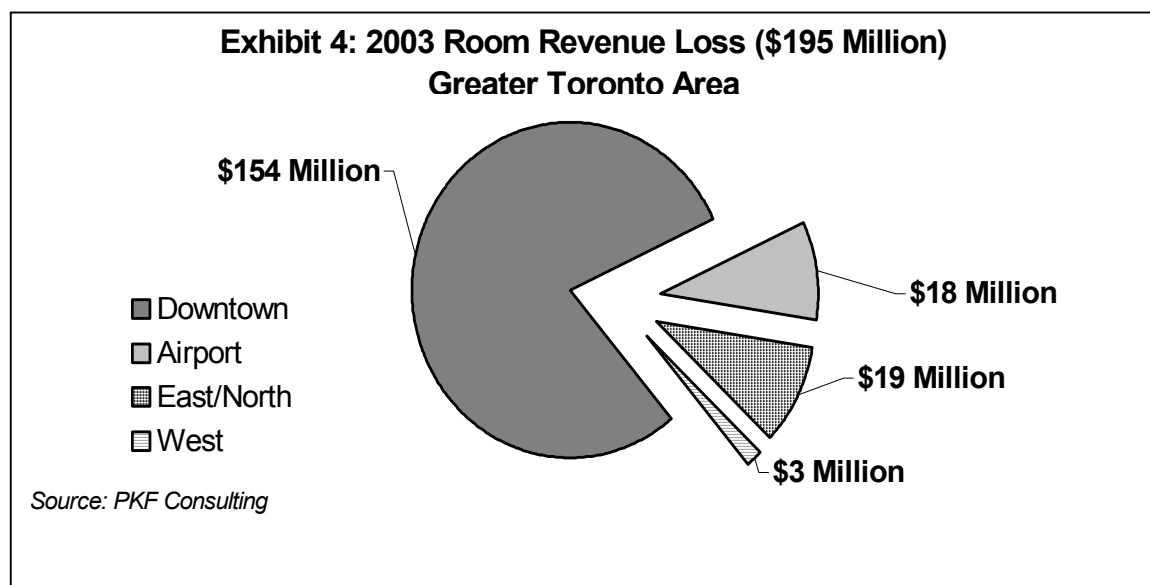
Ontario Suffers Lion's Share of Impacts – Loss of \$335 Million in Rooms Revenue -- 62% of the 2003 National Loss

Demand for Ontario's hotels was up by over 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 63% of the national loss. Despite strong demand recovery in the 4th Quarter, a continued erosion of average daily rates led to Ontario's accommodations recording a \$21 Million decline in 4th Quarter room revenue. Ontario's hotel occupancy for the year was 57% -- 5 points below last year's occupancy of 62%. Ontario's average daily rate eroded by \$7 in 2003, from \$119 in 2002, to \$112 in 2003.

Greater Toronto Area the Most Distressed Market-- \$195 Million in Room Revenue Lost in 2003, \$154 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 591,000 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 281,000 room nights, equating to a deficit of \$75 Million in room revenue compared to the same quarter last year. While 4th Quarter demand recovered, revenue remained depressed, declining by \$15 Million compared to 2002 due to rate erosion. Overall, accommodation providers in the Greater Toronto Area lost \$195 Million in room revenue during 2003.

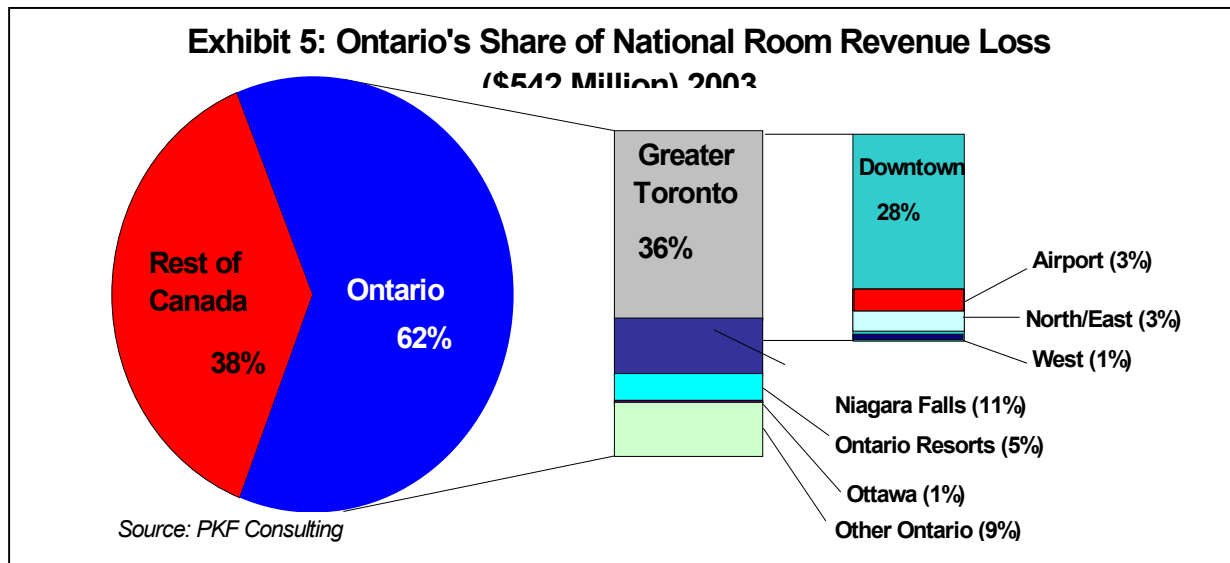
Of the \$195 Million in room revenue lost across the GTA, \$154 Million was amongst Toronto's downtown hotels -- 79¢ of every dollar lost in the GTA. Downtown Toronto occupancy levels, reached 66% during the 4th Quarter of 2003 the same level achieved in the 4th Quarter of 2002. Overall occupancy levels for 2003 dropped to a low of 43% in April and May and on average was 59% for the year compared to an average of 68% for 2002. Toronto downtown hotels also lost rate integrity, with 2002's ADR of \$162, falling to \$140 in 2003.



Other Ontario Markets Impacted

Although downtown Toronto hotels were the hardest hit in 2003, 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:

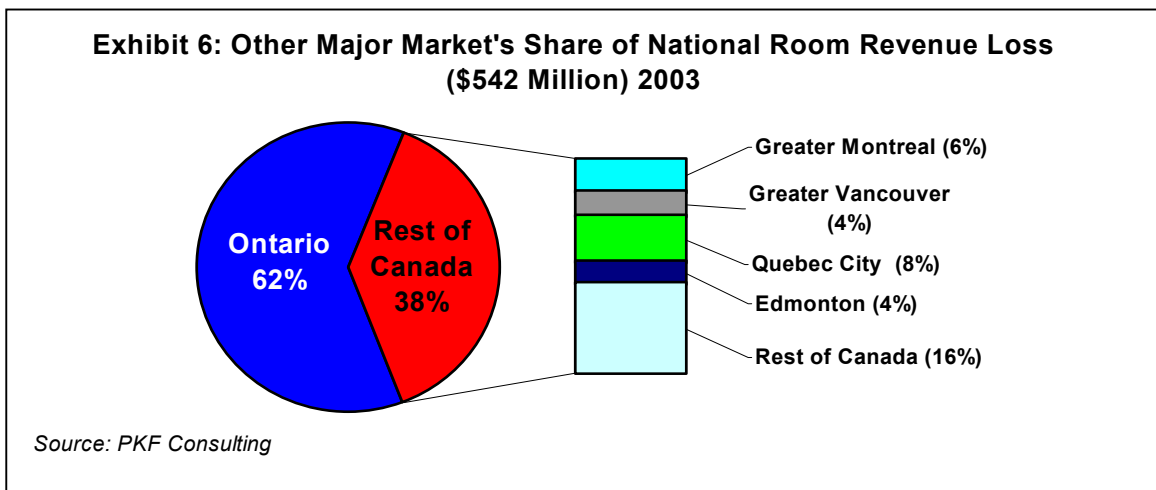
- Ontario Resorts lost over \$28.4 Million in rooms revenue during 2003 – 121,000 fewer occupied room nights than 2002;
- Niagara Falls lost 240,000 occupied room nights, and \$57 Million in rooms revenue;
- Toronto Airport hotels were off by \$18.4 Million in rooms revenue, and generated 113,000 less occupied room nights than last year;
- Toronto East/North properties were down by over 125,000 occupied room nights, and \$18.9 Million in lost rooms revenue;
- Windsor hotels reported room revenue losses of over \$5.3 Million, with a shortfall of 35,000 in occupied room nights compared to last year; and
- Ottawa's 2003 losses totaled \$1.5 Million compared to 2002.



Impacts Also Felt Across Other Canadian Markets

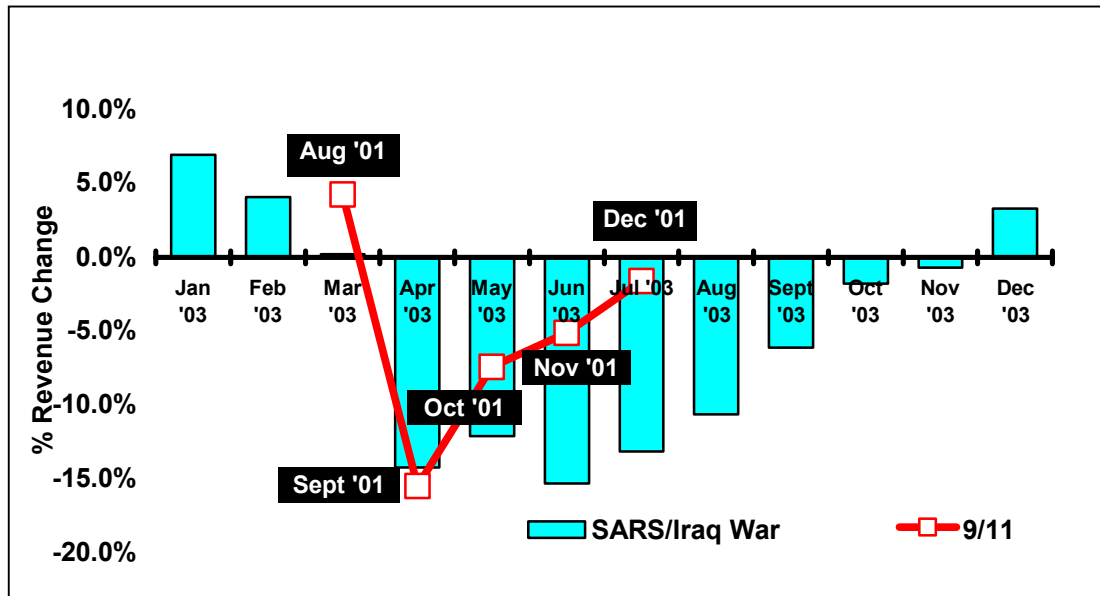
Nationally, of the \$542.1 Million in lost rooms revenue in 2003, 38% has been in markets outside of Ontario. Specifically,

- Greater Montreal hotels reported a loss of 206,000 occupied room nights in 2003, representing over \$33.5 Million in rooms revenue;
- Greater Vancouver was down by over 13,000 occupied room nights during 2003 and lost an estimated \$22.9 Million in rooms revenue due to a 3% decline in average rate;
- Quebec City was down by 212,000 occupied room nights, equating to a loss of over \$44.1 Million in rooms revenue;
- Calgary hotels and Alberta Resorts reported a loss of approximately 106,000 and 247,000 occupied room nights per market respectively, equating to a room revenue loss of \$15.1 Million for Calgary and \$38.9 Million for Alberta Resorts; and
- Although the Edmonton hotel market was off by 355,000 occupied room nights in 2003 (a loss of \$20.3 Million in rooms revenue after a 5% increase in rate), 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, it is evident 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 60% of the impacts resulting from SARS were in the Province of Ontario and 40% 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 2.9 Million occupied room nights in, equating to an estimated \$542 Million in lost room revenue.**

Positive Trend Expected to Continue into 2004

It is expected that the upward demand trend will continue into the first Quarter of 2004. Preliminary numbers for the month of January 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

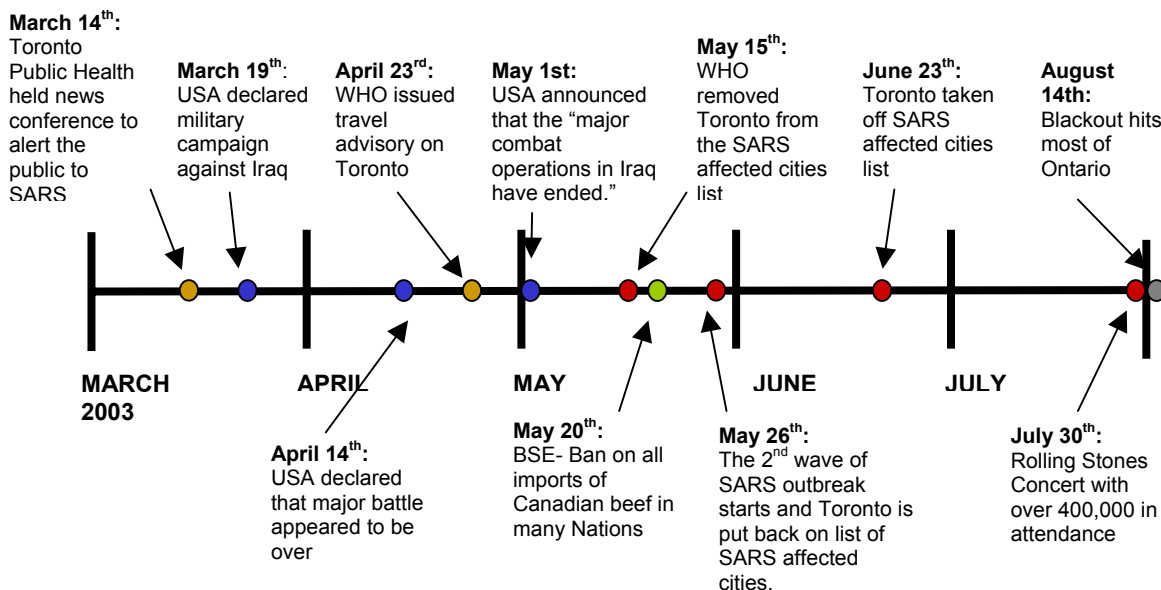
Canada's tourism industry has been severely impacted by both the Iraq War and the outbreak of Severe Acute Respiratory Syndrome (SARS) in the first nine months of 2003. With rumblings surrounding the impending war in Iraq first stirring in Quarter 3 of 2002, the US led war against officially began on Wednesday March 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.



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 took place during 2003 and early 2004.

The first report dated May 30, 2003 provides an analysis of the first Quarter, while the second report and third reports provide an analysis of Quarters 2 and 3 – the Quarters, which experienced the majority of the SARS impact. The subject report attempts to summarize the events and quantify the impacts of the challenges that faced Canadian lodging operators in the 4th Quarter, and for the 2003 year in entirety.

1.2.1 Quarter 4 Survey of Accommodation Operators

During the month of January and February 2004, PKF Consulting undertook a 4th survey of accommodation operators in Canada's major markets through our PKF *Trends in the Hotel Industry National Market Report* participants.¹ This survey was a follow-up to the initial survey issued in April and May 2003, the 2nd survey undertaken in June and July 2003, and the 3rd survey in October and November 2003.

As the final in a series of 4 surveys implemented over the course of 2003, the Quarter 4 2003 survey asked the following questions:

PART 1 QUARTER 1, 2004 BOOKING PACE AND CANCELLATIONS

2004 Occupancy and ADR Budget

1. What is your 2004 budget by month?

Accommodation Booking Pace for Quarter 1, 2004

2. What are your confirmed bookings by month for January, February and March 2003 and 2004, as of January 1, 2004?

Room Cancellations as at January 1, 2004

3. As of January 1, 2004, has your property experienced any cancellations for Quarter 1, 2004 due to Geopolitical reasons, SARS or Other Reasons?

PART 2 ABOUT YOUR 2003 QUARTER 4 RESULTS

Reasons for Quarter 4 2003 Changes in Demand

4. a) *Relative to your 2002 Quarter 4 actuals*, did your property experience a growth in demand or loss in demand in your actual 2003 Quarter 4 results?

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

- National/Provincial Economic Conditions
- Local/Regional Economic Conditions
- Destination Marketing Promotions/Packages

¹ *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.

- Increased Supply/Competition
- Geopolitical Reasons (Iraq War, Residual 9/11, etc)
- Fears/Impacts Associated with SARS
- Other Reasons, Please specify

Changes to Quarter 4 2003 Market Segmentation

4. 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 4 2003 Origin Segmentation

4. 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 4 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 162 operators, representing 36,982 rooms responded to our Quarter 4 Survey. The survey responses represent 21% of PKF's *Trends* participants or 11% of Canada's overall accommodation inventory.

Exhibit 2: Major Markets Surveyed in Quarter 4		
	Survey Response (Rooms)	% Total Rooms Inventory
Halifax Dartmouth	1,250	27%
Quebec City	2,132	19%
Greater Montreal	2,645	15%
Montreal Downtown		
Montreal Airport		
Ottawa	1,620	16%
Greater Toronto	9,294	32%
Toronto Downtown		
Toronto Airport		
GTA East/North		
GTA West	Insufficient response to report indiv.	
Windsor	228	8%
Ontario Resorts	1,577	10%
Regina / Saskatoon	934	15%
Calgary	1,712	15%
Edmonton	1,427	12%
Alberta Resorts	2,042	19%
Greater Vancouver	2,525	14%
Vancouver Downtown		
Vancouver Airport		
Vancouver Other	Insufficient response to report indiv.	
Other Markets	8,795	
TOTAL	36,982	11%

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 329,360 rooms in 2002 (including only full-year properties of 30+ rooms in size). By 2003, this supply base increased by 1.0%, to an estimated annualized inventory of 332,728 rooms. Table 3 below provides the averaged room supply inventory by province, during 2002 and 2003.

Exhibit 3			
Rooms Supply Inventory, by Province (Averaged)			
2002 and 2003			
Province	2002	2003	% Change
Newfoundland	3,851	3,881	0.8%
PEI	2,715	2,715	0.0%
Nova Scotia	10,238	10,288	0.5%
New Brunswick	7,657	7,751	1.4%
Quebec	56,545	56,685	0.2%
Ontario	105,946	107,080	1.1%
Manitoba	10,371	10,633	2.5%
Saskatchewan	11,014	11,105	0.8%
Alberta	50,446	51,428	1.9%
British Columbia	68,566	69,226	1.0%
<u>Yukon</u>	<u>1,950</u>	<u>1,950</u>	<u>0.0%</u>
NATIONAL	329,360	332,728	1.0%

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