Trends in hotel investment and financial management in Canada

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Abstract
Purpose – This paper aims to analyse trends related to hotel investment in Canada and propose innovative practices for the financial management of hotels.

Design/methodology/approach – The foundation for this paper was laid during a well-attended Worldwide Hospitality and Tourism Themes (WHATT) roundtable discussion between industry leaders and hospitality educators in May 2012. Topics of hotel investment and financial management in Canada are discussed in the context of the theme for the 2012 Canadian WHATT roundtable and the strategic question: "What innovations are needed in the Canadian hotel industry and how might they be implemented to secure the industry's future?"

Findings – The paper outlines historic hotel investment patterns dating back to the 1980s and analyses the current investment climate. Out of 850 hotels sold in Canada during the first decade of this millennium, foreign investor participation was less than 10 per cent. Currently the foreign interest in hotel investment in Canada is increasing and hotel assets in the 100-175-room range are more popular.

Practical implications – The paper presents three innovative practical tools for strong financial management of hotels to optimise ROIs – profit sensitivity analysis, strategic revenue management and embracing historical low interest rates.

Originality/value – Although Canada has done well weathering the global financial storm, Canadian hoteliers should exercise due diligence in financial management. As the team of authors represents both the industry and academia, this paper will be of immense value to students, researchers, and educators, as well as practitioners.

Keywords Canada, Hotel industry, Hotel investment, Innovation, Financial management, Practical solutions, Hotels

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Introduction
The entire international hotel industry would undoubtedly like to celebrate with respect to having closure on the Great Recession of 2007. Hotel operators in Canada

were perhaps somewhat more fortunate than their counterparts in other regions of the world (Perdomo, 2012), but nonetheless, the Canadian hotel industry did suffer the consequences of the global economic downturn to some extent. This particular ill-fated operating environment can and will have a negative impact on both hotel investment activities as well as hotel valuations in general (Higley, 2012). As a case in point, in 2007 global hotel investment transactions totaled CDN$ 113 billion whereas in 2008 they were equal to approximately $23 billion, representing a significant decline of approximately 80 percent (Blitz, 2009).

Additionally, hotel owners and operators alike were challenged within a financial management context as a result of a very difficult economic environment during the Great Recession (Hotel News Now, 2012). Canada, one among the majority of countries internationally, was thrown quickly into survival mode as it was subjected to the most severe and significant financial crisis of modern day economics (Gross, 2008).

Accordingly, this article will speak to not only where the Canadian hotel industry has come from but also where it stands today, and where it is headed in the next few years from both a hotel investment and a financial management perspective. The authors of this paper attempt to identify what is trending now within these two domains. As such, an aim to provide both academics and practitioners with a relevant prospective on what to expect in the years ahead is provided herein.

The Canadian hotel industry

As of August 16, 2012 there are over 8,500 hotel properties in Canada, which provide about 285,000 direct jobs. The Canadian hotel industry generated around $16.5 billion dollars in national revenue and provided an additional $7 billion dollars in combined tax revenue for municipal, provincial and federal governments in 2011 (Hotel Association of Canada, 2012). The Canadian hotel industry is a positive and significant revenue generator for the Canadian economy. The top three hotel operators in Canada, identified in order of revenue generation, are:

(1) Four Seasons Hotels and Resorts.

(2) Fairmont Hotels and Resorts.

(3) Westmount Hospitality.

It is important to note that while Canadian hotel operators survived the recession in general, the average revenue per available room (RevPAR) value for Canadian properties hit a low of $73, in contrast to a robust $83 prior to the Great Recession. A more healthy and optimistic RevPAR value of $81 is forecasted for year end in 2012 (Hotel Association of Canada, 2012).

Hotel investment in Canada

Canada offers Canadians and international investors one of the most thriving, healthy, and positive business environments in the world. With consistent positive GDP, moderate to strong domestic demand for hotel product, a highly skilled workforce, stable financial institutions, the lowest debt load of the G-7 nations, as well as reasonable tax rates and affordable cost structures including low interest rates; Canada becomes very attractive to investors and for hotel investment opportunities (Government of Canada, 2011b).

Motivation for hotel investment

Hotel investments usually require some combination of three parties: first, there is an investor or investment group, or perhaps an owner or ownership group; second, if equity capital is not readily available, there is a prospective lender, usually a financial institution, pension fund or insurance corporation; finally, there is the operator or management team. Each party has their own set of motivations to help drive the hotel investment opportunity to reality.

The first party, the investor, is seeking an attractive asset purchase such as a hotel property. Ideally, the investor will enjoy an adequate return on the investment (ROI) in two ways: first, from positive cash flows from operations; and second, there is the anticipation that over time the hotel property will appreciate in real estate value.

The second party, the lender, is seeking business opportunities in which available capital can be parceled out to a qualified borrower for a market priced interest rate. The lender is also seeking a hotel investment transaction that will be inherently low in risk value. Of course, as the risk value for the investment transaction increases so will the interest rate and borrowing charges for that particular hotel debt capital transaction.

The third party, the operator, is seeking out a hotel management opportunity in which a management team can provide professional services in the daily operation of the hotel property. In exchange for the operator's professional services the owner must pay a base management fee, usually three to five percent of gross revenue, as well as an incentive fee, usually five to ten percent of gross operating profit.

As one can see the motivation sets for each party are different, however the common denominator is that each party would like to bring the hotel investment opportunity to mutually agreeable and successful fruition. This can be accomplished through prudent negotiations and willingness on behalf of all parties to give and take with respect to their expectations, demands, needs and investment requirements.

The Canadian hotel investment climate

Ultimately what will help drive the hotel investment opportunity to completion for developer and owner, whether this is an individual or group(s) of people, is strong market conditions. Healthy or robust market conditions such as strong employment numbers, high consumer confidence, low inflation, adequate money supply, etc. will influence higher revenues, and higher revenues will assist each of the three aforementioned parties in achieving their own goals and objectives.

As identified previously, the Canadian economy is a positive operating environment for existing hotel properties as well as for those that are in the development pipeline. As indicated in Tables I and II, traveler counts are now rebounding from the Great Recession in Canada. It is also noteworthy that in recent years, approximately two thirds of trips by Canadians in Canada were to just two provinces: Ontario and Québec.

Government support

It is important to recognize that hotel investors have the support of government at the provincial and federal levels. As identified in "Canada's Federal Tourism Strategy", the Canadian federal government intends to serve as an advocate and facilitator for the communication, collaboration and promotion of, as well as for the development and improvement of, the Canadian tourism product (Government of Canada, 2011a). This proclamation speaks to and includes accommodation properties of all sizes and quality

	In thousands 2006	2007	2008	2009	2010
Canada	207,470	214,559	214,498	227,121	229,158
Newfoundland and Labrador	3,068	2,939	3,006	3,256	3,500
Prince Edward Island	1,018	1,057	1,082	1,196	1,091
Nova Scotia	7,318	7,087	7,131	7,604	8,115
New Brunswick	5,254	5,349	4,937	5,358	5,458
Quebec	57,278	57,240	58,410	62,736	60,169
Ontario	83,036	86,903	84,995	88,412	90,174
Manitoba	7,275	7,294	7,109	7,935	7,984
Saskatchewan	7,874	8,164	8,028	8,464	8,624
Alberta	17,364	20,052	20,601	20,398	21,558
British Columbia	17,908	18,418	19,126	21,619	22,380
Yukon/Northwest Territories/Nunavut	77[a]	56[a]	74[a]	144[a]	[b]

Notes: Estimates are based on the 2001 Census population counts. Includes same day and overnight trips. Same day trip: distance 40 km or more one-way. [a] Use with caution; [b] too unreliable to be published
Source: Statistics Canada (2011), CANSIM, table 426-0013, September 16

Table I.
Trips by Canadians in Canada, by province and territory

	2007	2008	2009	2010	2011
Total non-residents	30,373,500	27,370,000	24,695,900	24,669,100	25,066,100
US residents entering:	25,694,500	22,605,600	20,525,700	20,213,500	20,543,500
By automobile	19,124,900	16,469,900	14,889,200	14,361,700	14,633,600
By plane	4,028,600	3,805,800	3,472,800	3,670,100	3,720,300
By train	129,700	132,300	123,000	145,100	150,800
By bus	941,100	832,300	700,600	771,800	777,100
By boat	1,001,100	971,400	993,600	911,700	908,500
By other methods	469,100	393,600	346,300	353,500	353,100
Residents of countries other than the USA entering:	4,678,800	4,764,500	4,170,100	4,455,700	4,522,800
By land	498,700	541,800	519,000	598,700	555,600
By air	4,037,000	4,060,700	3,501,400	3,697,300	3,801,600
By sea	143,400	161,800	149,500	159,900	165,100

Source: Statistics Canada

Table II.
Non-resident travellers entering Canada

across the country. The prudent hotel developer, investor, and/or owner will endeavour to work with the respective government bodies. This should take place at the start of the planning stage for hotel development, as well as during the process of acquisition analysis for a prospective hotel purchase.

The Government of Canada encourages and provides assistance to hotel developers and investors alike. The common goal is to provide the necessary resources so that Canada can remain competitive and become a market leader within the international tourism industry (Government of Canada, 2011a). This is of course a very positive message for the hotel investment community.

In addition to federal-level support, hotel developers, owners, and investors usually receive some form of assistance from government at the municipal level (Suzuki, 2009). Hence, support from governments provides additional incentive and a greater degree of confidence for the hotel investor.

Current trends in hotel investment and acquisitions

The Canadian hotel investment market has experienced a variety of fundamental shifts over the past three decades as a result of changing trends in both the debt and equity markets, the two primary drivers that influence the level of transaction volume in the hotel industry.

Hotels are a unique form of commercial real estate, operating on daily leases wherein rates and occupancy are reset on a real-time basis. This compares to other major commercial real estate classes, such as office, industrial, and retail operations that benefit from locked-in longer term leases that provide predictable and consistent cash flow for the ownership. Overall, hotel real estate investments are considered a risky proposition given a significant operating component that requires specialization, unlike the relatively less complex nature of other commercial real estate ventures. Hotel operators and investors are highly sensitive to the ebb and flow of the macro-economic environment, with better economic times driving liquidity to the market and in turn creating a larger appetite for investment.

A recent history of hotel investment in Canada. Over the last three decades and within an investment context, the hotel industry has witnessed a wide variety of cycles. The 1980s were a period of rapid development within the industry that led to the inevitable oversupply of hotel inventory, hampering hotel investment through the early part of the 1990s. In the next up-cycle, which commenced in the late 1990s, a growing sophistication among ownership and management stakeholders as well as the emergence of special purpose private equity and public market real estate investment trusts (REITs) once again strengthened and institutionalized the ownership of lodging properties. Following the slowdown in the early 2000s, the market cycled into a phase of unprecedented growth between 2005 and 2007, driven principally by REITs, private equity, and pension funds. The global financial crisis that began in the US in late 2007 resulted in the inevitable end of growth in hotel investment and therefore transaction activity. As with previous cycles the most recent growth phase, which began in the latter part of 2010, has introduced a new class of industry participants to the Canadian market (see Table III).

Table III.
Hotel real estate cycles in Canada

Period (trough to peak)	Length (years)	Total transaction volume ($ billion)	Number of hotel properties transacted
1985-1993	9	3.0	294
1994-1999	6	4.2	523
2000-2007	8	11.7	654
2008-Current	–	3.3 (up to July 2012)	351

Source: Colliers International Hotels

To gain an understanding of historical investment trends in the Canadian hotel real estate market, the following provides readers with an overview of the nuances in each distinct cycle and how the primary drivers – debt and equity sources – have evolved.

The 1980s. The mid-to-late 1980s was a period of rapid development for the Canadian hotel industry. International in-flows of capital were particularly robust at this time against a backdrop of tax incentivised deal structures, primarily through limited partnerships which saw unsophisticated investors enter the hotel investment arena. The market was fuelled by a prosperous global economic environment as well as the availability of large hotel assets in major urban and resort markets across the country. Roughly $1.3 billion in hotel volume transacted between 1985 and 1989, of which almost 45 percent represented foreign capital. Dominant lenders, comprised of Canadian Schedule A banks, trust companies and insurance companies, were lured into hotel lending by the positive economic outlook and potential for above-market returns in a growing industry. The ease with which investors and developers were able to obtain attractive debt resulted in the debt markets becoming highly competitive and overdevelopment ensued.

The 1990s. Despite low interest rates, loan-to-values (LTVs) were high – in the 75 percent to 85 percent range – leading to severe debt-servicing difficulties in the early 1990s. As an example, the Toronto airport market experienced an approximate 50 percent increase in supply between 1986 and 1989. While this was primarily due to the augmented growth of businesses with corporate, industrial and manufacturing companies seeking to relocate to this area, it proved very difficult to absorb as the recession hit and over-leveraged assets were unable to service their debt.

A prolonged recession and the impact of the Gulf War in the early 1990s led the highly sensitive and relatively highly leveraged lodging market into a decline, and resulted in a sustained period of receivership and lender-driven sales through the early to mid-1990s. As a result, Canadian Schedule A banks, trust companies and insurance companies liquidated their portfolios through debt portfolio sales or individual executions as "owners by default". Non-traditional lender groups were also reluctant to provide financing, significantly impacting the transaction markets. During this period most of the transactions occurred under receivership and hotels were acquired at discounted levels in all-cash transactions or through vender take back (VTB) mortgages by reluctant lenders in possession.

The next up-cycle took hold by late 1994, bringing with it a new group of debt and equity players. Established and experienced Canadian and US hotel investment companies and private investors purchased distressed assets, in many cases with VTB financing. Growing sophistication in the industry resulted in knowledgeable management companies that provided turn-around experience and partnered with opportunity funds backed by the relationship-based US and international lenders that were actively filling the lending void.

In the late 1990s, REITs emerged as the preferred hotel investment platform, quickly becoming the largest buyer group for hotels assets. Commercial mortgage-backed securities ("CMBS") were first introduced to Canada during this time and soon became a popular financing structure for hotel assets, with the likes of Merrill Lynch and CSFB/Column Financial bringing much needed liquidity to the hotel sector with LTVs in the 60 percent range. CHIP REIT, Legacy REIT and Royal Host REIT came into being in 1997/1998 as the earliest example of hotel-focused investment vehicles that accessed approximately $1.2 billion of equity raised through public markets. These public vehicles were generally restricted to 50 percent debt by their trust indentures, which they sourced from a variety of traditional hotel real estate lenders thanks to their conservative capital structure.

International and US-based lenders continued to be dominant for hotels through the late 1990s, financing traditional single asset sales in primary markets across the country at 55 percent to 65 percent LTV with qualified sponsors and management teams. The Canadian lodging industry slowed once again beginning in mid-1998, when the capital markets collapsed and there was speculation of a North American economic recession.

Limited and costly debt and equity financing slowed hotel transactions in 1999 and 2000 as Canadian public companies struggled to raise equity in the public markets. In addition, the cost of capital increased due to a larger spread in Canadian bonds with commercial lending rates, and lenders retreated by limiting LTVs to anywhere from 50 percent to 55 percent.

The 2000s. Entering the new millennium relationship lending played a larger role, as debt financing continued to be limited, with LTV ratios in the 50 percent to 60 percent range. Due to unpredictable and somewhat volatile operating cash flows during this period, CMBS lenders were more constrained as their underwriting criteria were largely based on consistent cash flow. Beginning in 2002, US lenders such as Capmark (formerly GMAC) and GE Franchise Finance brought liquidity to the market with a focus on top tier branded hotels and new developments providing higher leverage of up to 70 percent. Liquidity during this period was also provided by larger US and European lenders, who financed urban institutional quality single assets or portfolios for sponsors with strong covenants. This period was characterized by guarded optimism from equity and debt players given choppy consumer and business confidence that dampened travel, and the variety of devastating events that occurred in 2003, including SARS, natural disasters in the form of floods and fires in Western Canada, the widespread power outage in Ontario, and a Mad Cow scare in Alberta, as well as the bankruptcy of Canadian Airlines, Canada's only national airline at the time.

By 2005, the hotel investment market showed increased momentum, fueled by portfolio transactions that in the three years ending in 2007 comprised 70 percent of the total volume transacted. During this time, the industry was supported by a diverse array of capital sources, including pension funds, private equity firms and hedge funds that were attracted to institutional-grade assets and strategic portfolio offerings. In addition to the exceptional levels of capital available, other factors influencing the market included strong operating performance, moderate supply growth and an overall buoyant domestic and international economic environment. REITs and pension funds were able to acquire on an all-cash basis, providing a significant competitive advantage in the market. The debt markets were also very fluid, and traditional lenders such as GE Franchise Finance and CMBS lenders remained very active. The combination of strong demand by equity investors, along with easy and relatively cheap financing options against a resilient economic backdrop, led to an all-time peak transaction activity in 2007 with $4.6 billion in hotel transactions recorded.

The market changed quickly with the rapid deterioration of the global credit markets in late 2008. Subsequently, only balance sheet lenders were able to provide financing at even more conservative underwriting levels, with LTVs of 50 percent to 55 percent. Private institutional sources, as well as quasi-government lenders (Business Development Bank of Canada and ATB Financial) and local credit unions, were major debt providers, but often on a relationship basis and risk-priced. This resulted in a precipitous decline in investment activity, at $1.07 billion in 2008 and a mere $414 million in 2009, a 77 percent decline from the peak just two years prior. The economic realities brought on by the global economic instability and credit crisis hampered demand for hotel rooms, however the industry entered this period in remarkably better shape than previous downturns given improved capital structures, stronger management, and controlled supply levels in most markets. As a result of the structural changes that occurred in the hotel industry, there was not the same degree of distress that was seen in the early 1990s.

The current investment climate. In the latter part of 2010 and 2011, a diverse range of lenders emerged offering financing opportunities with improved pricing and terms. Nonetheless, relationship lending continued to be the dominant means of obtaining preferential borrowing terms. Credit Unions and regional banks lent on a variety of asset types in both primary and secondary markets, initially providing a niche product in smaller markets, however their success led to significant single-asset and portfolio transactions being financed by credit unions in club deals with other lenders. Also during this time, private institutional sources and government sponsored lenders continued to play an active role in debt markets.

Unlike the US, where domestic banks were and continue to be large participants in the hotel lending space, Canadian Schedule A banks never returned as active lenders to the lodging industry after their experience in the early 1990s. The equity and debt markets have continued to improve into 2012, with US and international lenders returning to the market seeking good quality urban assets as entry points back into Canada. New supply, though constrained, has seen a partial resurgence as projects placed on hold in the wake of the global credit crisis are revisited thanks to some availability of development financing and improved operating fundamentals.

Moving forward, the hotel transaction market in Canada is expected to remain robust, despite cyclical fluctuations, aided in part by favorably low interest rates, an improved international investment profile thanks to Canada's general economic performance during the recent downturn and a positive macro-economic forecast for the resource-rich economy that continues to attract both foreign direct investment and net in-migration, leading to demand for hotels both as an investment and an overnight destination (see Table IV).

Innovations for financial management in hotels

The state of the global economy remains a concern to hoteliers around the world. Although Canada has done well weathering the global financial storm, Canadian hoteliers need to exercise due diligence in all matters related to financial management.

The discipline of financial management is composed of planning, organizing, directing, allocating, monitoring, controlling and evaluating the procurement, employment and efficiency of financial resources (Chatfield *et al.*, 2009). To this end, hoteliers must manage their properties as effectively as possible to ensure optimal competitive advantage as well as financial performance. From the literature, Mathews (2000) identifies that hotel properties can effectively compete against strong rivals found within their competitive set in three ways: first, they can be competitive based on

Period	Equity type	Debt type
1985-1989	Tax efficient Limited Partnerships, foreign capital	Canadian Schedule A Banks, trust companies, insurance companies
1990-1993	Private capital	Vendor take back (VTB) mortgages (seller financing)
1994-1996	Opportunity funds	US and International lenders
1997-1999	Opportunity funds and REITs	US and International lenders
2000-2004	Private capital and REITs	US and international lenders, commercial mortgage backed securities (CMBS), private institutional
2005-2007	Private equity, pension funds and REITs	CMBS and all-cash
2008-Current	Private capital, hotel investment companies, private equity	Credit unions, regional banks, private institutional

Source: Colliers International Hotels

Table IV.
Historical players in the Canadian hotel investment market

price (Cal and Hobson, 2004; Rohlfs and Kimes, 2007); second, based on market segment (Karadag and Kim, 2006; Moskowitz and Krieger, 2003); and finally based on location (Aggett, 2007; Joerger *et al.*, 1999; Sharma and Sneed, 2008).

Within this frame of mind it is critical for the hotelier to be financially efficient and prudent so that any cost savings that can be generated from operations should improve property bottom line performance as well as passing additional value onto the customer at the top end through a myriad of suggested selling prices.

To make the previous a reality, there are three key conceptual as well as practical tools that are needed by hotels for strong financial management at this time and within current competitive and economic environments. These three imperative elements are:

(1) Profit sensitivity analysis (PSA).

(2) Strategic revenue management.

(3) Embracing historically low interest rates.

Profit sensitivity analysis

Hoteliers can embrace profit sensitivity analysis (PSA) as a financial instrument that will help to guide them in the determination of the most efficient way to improve hotel profitability. PSA as a financial tool examines profit multipliers for key cost drivers. In a hotel setting, these significant cost elements can among other things include labour, food and beverage materials, housekeeping items, and operating stock. Once the hotelier has a grasp of these cost elements, PSA can be employed to reveal additional information to the management team. With this additional financial perspective, management is equipped with enhanced profitability guidance and direction that will improve overall financial performance with respect to the rooms division as well as food and beverage operations (Kotas *et al.*, 2012).

PSA works by first looking at profit multipliers (PM). A PM provides an objective measurement of the impact on bottom line performance as an outcome to any change that has been made to a key variable of a group of imperative variables. Once the PMs have been determined, the next step is to build a profit multiplier profile (PM profile).

The PM profile identifies the important factors alongside the pertinent PM values. This is then listed in order of significance (Kotas *et al.*, 2012).

The concept of PSA has proven valuable to many hospitality organizations and can be put to use almost immediately once the groundwork on PMs and PM profiles has been completed. As an example, a large UK hotel and catering company employed PSA as part of its profit improvement program (PIP). A critical component to the success of their PIP was the introduction of PSA. This was orchestrated by subjecting all management to a three-day training program on PSA. Their PIP initiative was a huge success in part due to the adaptation and advocacy of PSA (Kotas *et al.*, 2012).

Strategic revenue management

Strategic revenue management (RM) is a combination of art and science. The overall aim is to blend the concepts, theories, and nuances of micro and macroeconomics, marketing and sales, and consumer behavior, as well as operations and strategic management (Willie, 2007; Willie, 2009). The professional practice of RM begins with first recognizing that all hotel guests are not created equal. To this end, the hotelier must appreciate that each guest brings a very individual set of needs, wants, expectations, demands and willingness to pay (WTP) values (Willie, 2007; Willie, 2009). As such, the hotelier must embrace and employ an RM strategy that is sophisticated and effective to leverage the elements of capacity management, inventory and pricing controls, marketing and sales tactics with the overall mission of maximising the hotel's revenue potential (Willie, 2007, 2009).

To be more specific, the hotelier must have an understanding of the guest's psychological profile, current regional market conditions, the economy, and overall consumer confidence. The hotelier wants to ensure that the right product is being offered to the right guest, at the right price and the right time in the right location and with the appropriate image projection (Willie, 2007, 2009).

Historically, RM was first employed by the airline industry as a means of survival when President Jimmy Carter introduced airline deregulation in 1978. Since then, RM has become a core business component in other industries such as hotels, cruise ships, golf and ski resorts, fitness clubs, food service operations, health spas, retail, and of course car rental industries (Willie, 2007, 2009).

The value of having an effective RM strategy in play translates into a three to seven percent incremental gain in gross revenue with the absence of any significant increase in operating costs. From the literature, perhaps the most important actions that a hotelier should embrace today include "always bring a WOW factor" and "do not discount".

Always create a WOW factor. First, always create a WOW factor. Research shows the value in creating a significant WOW factor for hotels guests (Gu, 2006). Hoteliers need to accept the challenge of doing more to enhance the guest's overall experience. The general operating philosophy of the hotel must be one in which all guests receive VIP treatment on a consistent basis (Syer, 2011). Strategic VIP actions include constant guest recognition, anticipation of guest wants, value propositions throughout the property, guest affirmation, gratitude for patronage, selective use of social media, and random unexpected positive extras to enhance the guest's stay (Willie, 2009). Hotels that successfully surpass guest expectations will be rewarded by guests with extended stays, repeat visits, and collateral guest expenditures outside of the rooms division.

This in turn will impact total revenue generation for the hotel property in a positive manner. As such, very little is required in terms of investment other than a change in operating philosophy and the will to be more prudent within the domain of financial management (Willie, 2009).

Do not discount. Second, hotels must refuse the temptation to discount even when times are difficult. Once again, the research shows that when hotel properties are challenged by an extremely harsh economic environment there is no real financial gain to be enjoyed by discounting prices (Enz *et al.*, 2009). Discounting can be employed easily and within a short period of time. As such, once one hotel property has discounted their prices it is only a short time before members of that hotel's competitive set will follow suit.The result is a downward self-perpetuating price war. Once that happens, there is less revenue being generated, which of course leads to a reduced ability for the hotel property to meet short-term maturing financial obligations. If the hotel property was financially challenged before, it will truly be financially challenged at this point (Willie, 2009).

Another reason to avoid discounting is that it can often send the wrong message to the prospective guest. Often a discounted selling price can be perceived or interpreted as an inferior good or one in which its currency, market value, is quickly diminishing. To follow this a little further, the consumer may believe that there is something newer, better, and/or more advanced either coming into the market or that is already available (Willie, 2009).

To counteract this possible negative outcome, the smarter approach is to embrace, as opposed to a reduced selling price, is promoting value, signalling superiority, and broadcasting high return on the guest's investment in your property. This can be accomplished by adding value to the guest's experience while holding prices constant. Value is the consumer's perception. Value proposition is created and held in the mind of the consumer.The hotelier's responsibility is to translate the guest's perception and vision into reality. Once that happens there will be no need to discount (Willie, 2009).

Embracing historically low interest rates

As previously identified, the hotel transaction market should remain relatively healthy throughout 2012 and well into 2013, in part due to money supply and affordability of capital (Miller, 2012). Accordingly, because the cost of capital is attractive and available, consumers as well as industry – including hoteliers – are also taking action to refinance existing long-term debt. Once again this is smart, prudent financial management (Popper, 2012). As such, looking at the economic environment from a financial management perspective there may never be a better time to take on additional debt with an incremental and marginal increase to the properties overall risk value position (Abramowicz, 2012). Therefore, the authors of this paper strongly encourage those hoteliers who have not already taken appropriate action to do so.

Conclusion – sustainable solutions for the future

It is evident that investment from domestic sources has dominated the hotel real estate sector. In fact, it was recently calculated at over 90 percent of the total transaction volume. The apparent pattern was that of foreign investors acquiring key single assets and Canadian institutional capital sources acquiring the majority of the country's urban assets. Canada's hotel landscape is limited when compared to that of the international landscape. Research states that cross-border investors prefer hotels in the center of the city, and that they prefer them to be large enough to validate their investment for their portfolio. The lack of foreign investment to date in Canada is reflective of the smallness of the market. In their annual report, Colliers International note that of the acquisitions foreigners made in the past decade, about 60 percent were full service hotels in Canada's major cities and averaged over $40 million in deal size. Almost all were first-tier international brands (Colliers International Hotels, 2012).

The Government of Canada (2011a) has put effort and emphasis on the tourism industry, as noted in "Canada's federal tourism strategy: welcoming the world". Through this effort and the global evidence that the Canadian economy is strong foreign investment will be attracted into Canada and specifically the hotel industry. Various industry reports show increased competition from foreign investors; another factor that has had an impact on foreign investment in Canada is the rising Canadian dollar over the last ten years.

Since 2009, transaction activity in the hotel industry has shown an increase, specifically with the rise in average transaction size and the balancing in the east and west asset pricing and volume, as shown in Table V.

Research shows that between 2001 and 2010, of the more than 850 hotel sales in Canada, foreign investor participation was less than 10 percent. This translates to just below $15 billion in total deal volume.

The results of the second annual Canadian hotel investment sentiment survey demonstrate that 2011 ended as the highest year in transaction volume since 2007 and the fifth highest year on record since 1985. Additionally, it noted that while the majority of hotel transaction to-date in 2011 sold to domestic buyers, Canada's relative economic stability remains attractive to foreign investors; however, there has been a noticeable spike in interest by American investors as well as off-shore groups largely from Singapore, Malaysia and China. Highlights of the survey include an increase from 37 percent to 42 percent of investors seeking to buy in 2012, and almost 80 percent of respondents are optimistic about the performance of the overall Canadian economy over the next three to five years. Interestingly, investors favored hotel assets in the 100 to 175-room range, with over 60 percent of respondents indicating this preference. Calgary, Edmonton and the greater Toronto and Ottawa areas were the most desired markets and even in these downtown urban markets were more desirable and over 80

	Number of hotels	Volume ($ million)	Mix (%)	Price per room ($)
Western Canada	30	294.6	41	$105,000
British Columbia	12	147.7	50	$131,000
Alberta	11	122.6	42	$94,000
Saskatchewan	2	7.7	3	$49,000
Manitoba	5	16.6	6	$49,000
Eastern Canada	56	422.8	59	$74,000
Ontario	38	318.9	75	$80,000
Quebec	17	102.7	24	$62,000
New Brunswick	1	1.2	1	$18,000
Total				

Source: Colliers International Hotels

Table V. Canadian hotel transaction by region percent indicated that their cost of debt either decreased or stayed the same in the past 12 months.

Canada is continuing its upward trend, outperforming other western nations, according to CBRE Hotels Canada. CBRE estimates more than $1.5 billion of hotel assets are now or will shortly be on the market. These assets are attracting a variety of high net worth private investors and institutional and private equity buyers. This action will further drive transactions above the 2010 levels, as volume for the first half of 2011 is already 42 percent ahead of the same time period the year before. The outlook for the Canadian hotel market is positive over the next 12 months.

Despite clouds of economic uncertainty globally, it is evident that most of the market is optimistic, that hotel performance is improving and lenders are open to negotiations. However, according to Colliers International Hotels (2012), from an investment perspective there does not appear to be industry consensus on where capitalization rates are headed, with an equal distribution of responses.

In summary, the market highlights as detailed in the Colliers International 2012 report are noted in the following:

- Increased demand by investors for strong performing assets led to resilient pricing from previous years, particularly in the full service and select service segments, where high-quality institutional-grade product was brought to market.
- Sales of full service hotels reached $619 million, a 25 percent increase in volume from 2010.
- Sales slowed modestly in the second half; partially the result of hesitance in the market given the global economic and political worries that became apparent mid-year.
- Although only one third of all trades were over the $10 million threshold, over three quarters of the year's volume was attributed to these deals.
- Saskatchewan and Manitoba witnessed the largest gains in transaction volume due to product availability combined with solid economic strength. Ontario, British Columbia and Alberta were the most active provinces based on the number of sales.
- Cross-border sellers accounted for 40 percent of transaction volume. These sellers were primarily US-based private equity funds that disposed assets to redeploy capital in other opportunistic ventures.
- Three portfolio deals totalling $302 million in transaction value were completed during the year, the highest year for portfolio transactions since the approximate $500 million in 2008.
- Lender-driven sales only comprised about $70 million of volume (6 percent of total volume) in the overall market, down from $86 million (12 percent of total volume) in 2010.

Finally, the Canadian hotel investment report notes that in 2011, the Canadian hotel real estate market experienced a second year of transaction market improvement, with a total dollar volume rising 54 percent from year 2010 and 167 percent from 2009.The year ended as the fifth highest year for hotel transaction volume as measured over the past 25 years with $1.107 billion recorded across the country. Canada continues to be a destination favourable for increased hotel investment. Hoteliers should focus on innovative, practical tools for strong financial management of hotels to optimise ROIs and thereby satisfying the investors.

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