

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

**THE IMPACTS OF THE IRAQ WAR and SARS**

**EXECUTIVE SUMMARY - QUARTER 1 2003 RESULTS**

Prepared For:

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

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**RE: THE IMPACTS OF THE IRAQ WAR and SARS ON CANADA'S ACCOMMODATION INDUSTRY – QUARTER 1 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 first quarter of 2003. This report is the first 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. As the impact of SARS became evident, the analysis for the first quarter was expanded to include an analysis of actual results for the month of April.

While the Canadian accommodation industry started the year off to a great start, with a 2.6% increase in overnight demand in January and February 2003, demand levels declined by 1% in March and fell sharply in April by over 11% in comparison to last year. Any gains the hotel industry made in January and February were drastically eroded by the end of April. During the month of April alone, Canada's accommodation industry suffered a loss of over 662,000 occupied room nights through cancellations and an erosion in travel, largely due to perceptions regarding SARS, and to a lesser extent terrorism/Iraq War. In comparison to the prior year, the room revenue loss to the Canadian accommodation industry in April 2003 has been estimated at \$92 Million --- \$60 Million of which occurred in the Province of Ontario -- \$39 Million of which was in the Greater Toronto Area and specifically \$30 Million of which was amongst downtown Toronto hotels.

We appreciate this opportunity to provide our services in this ongoing analysis. A 2<sup>nd</sup> report analyzing the actual results for the 2<sup>nd</sup> Quarter, together with potential impacts in the 3<sup>rd</sup> Quarter will be published by August 2003, followed by a 3<sup>rd</sup> report in November. Should have any questions regarding the preceding analysis, please do not hesitate to contact us at your convenience.

Yours very truly,

*PKF Consulting*

PKF CONSULTING

## EXECUTIVE SUMMARY

### 1.0 ON THE HEELS OF 9/11... IRAQ WAR and SARS

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 four months of 2003. With rumblings surrounding the impending war in Iraq first stirring in Quarter 3 of 2002, the US led war against Iraq 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 has 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 after the disease had taken the lives of 20 people, with more than 10,000 in quarantine. 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>.

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.

### 2.0 NATIONAL RESULTS – JANUARY TO APRIL 2003

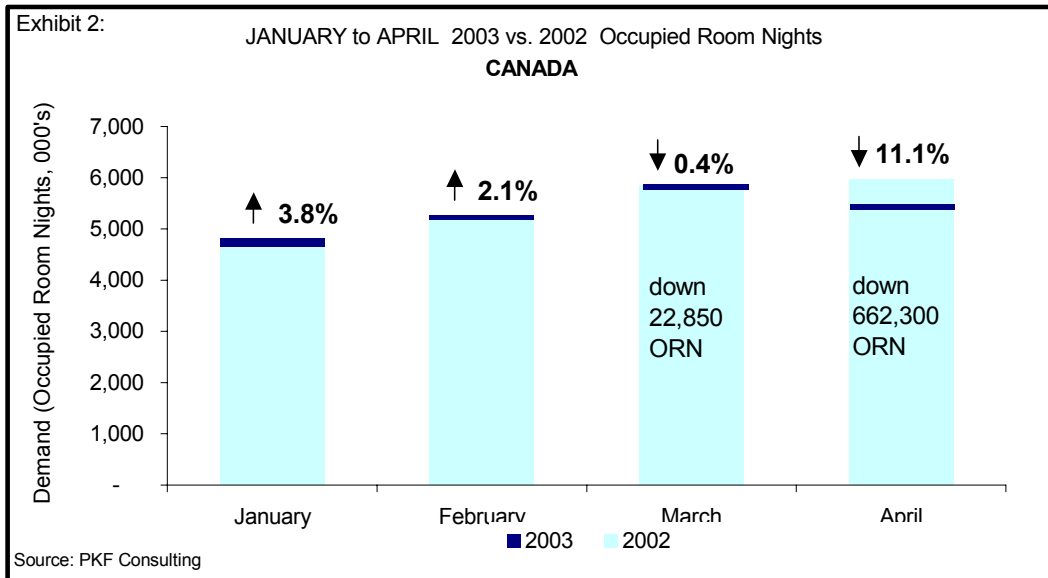
- During Quarter 1 2003, Canada's hotel market achieved a 53% occupancy at an average daily rate of \$109. Occupancy levels were flat compared to Quarter 1 of last year, with the average daily rate up by approximately \$2.
- Demand for the Canadian accommodation market was **up by approximately 260,400 room nights or 1.7% in Quarter 1 2003**, as compared to the first three months of 2002.
- During the month of April 2003, Canada's occupancy was **53%, down 8 points** from April 2002. This represented a 662,300 decrease in room nights and a **\$92.2 million decline** in room revenue.

Exhibit 1: Quarter 1 and April 2003 vs. 2002 Results

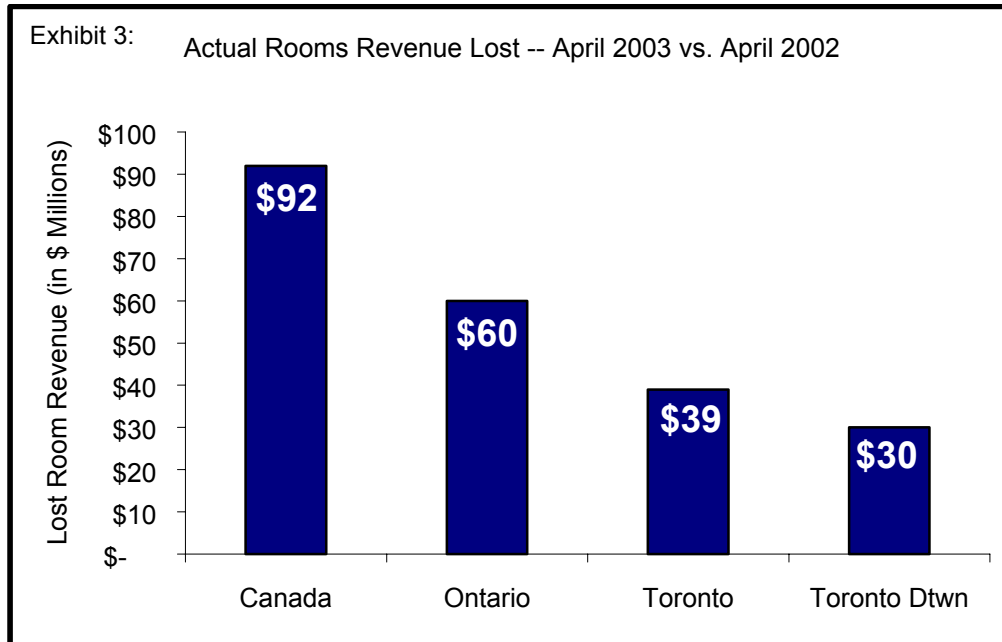
Market	Quarter 1 - 2003		Quarter 1 - 2002		% Change		April 2003		April 2002		% Change	
	Occ.	ADR	Occ.	ADR	Demand	ADR	Occ.	ADR	Occ.	ADR	Demand	ADR
Atlantic Canada	50%	\$89	48%	\$86	3.1%	4.2%	54%	\$92	58%	\$91	-6.5%	2.0%
Quebec	54%	\$122	53%	\$119	0.4%	2.1%	55%	\$118	60%	\$119	-8.3%	-0.3%
Ontario	54%	\$110	52%	\$110	4.2%	0.3%	49%	\$107	61%	\$117	-18.5%	-8.5%
Manitoba	52%	\$87	56%	\$85	-3.1%	2.0%	62%	\$89	60%	\$89	7.5%	0.4%
Saskatchewan	56%	\$86	55%	\$81	1.9%	7.1%	55%	\$84	60%	\$79	-8.1%	5.6%
Alberta (excl. Resorts)	57%	\$95	60%	\$91	-3.7%	3.7%	60%	\$95	68%	\$93	-10.0%	2.2%
British Columbia	52%	\$117	51%	\$117	1.9%	0.4%	55%	\$105	59%	\$108	-4.2%	-2.0%
<b>Total Canada</b>	<b>53%</b>	<b>\$109</b>	<b>53%</b>	<b>\$107</b>	<b>1.7%</b>	<b>1.7%</b>	<b>53%</b>	<b>\$105</b>	<b>61%</b>	<b>\$109</b>	<b>-11.0%</b>	<b>-3.5%</b>

Source: PKF Consulting

- Of the total demand loss during the month of April, Ontario suffered the largest impacts, with an 18.5% decline in occupied room nights compared to April 2002, and an 8.5% reduction in average daily rate.



- During the month of April, with the onset of SARS and the lingering effects of the Iraq War, Canada as a whole lost \$92.2 Million in room revenue in comparison to last year. Of the total revenue loss in April, \$60 Million occurred in Ontario, \$39 Million of which was in the Greater Toronto Area, and specifically \$30 Million of which was amongst Toronto Downtown hotels.



### 3.0 QUARTER 1 & 2 ROOM CANCELLATIONS ATTRIBUTED TO THE IRAQ WAR

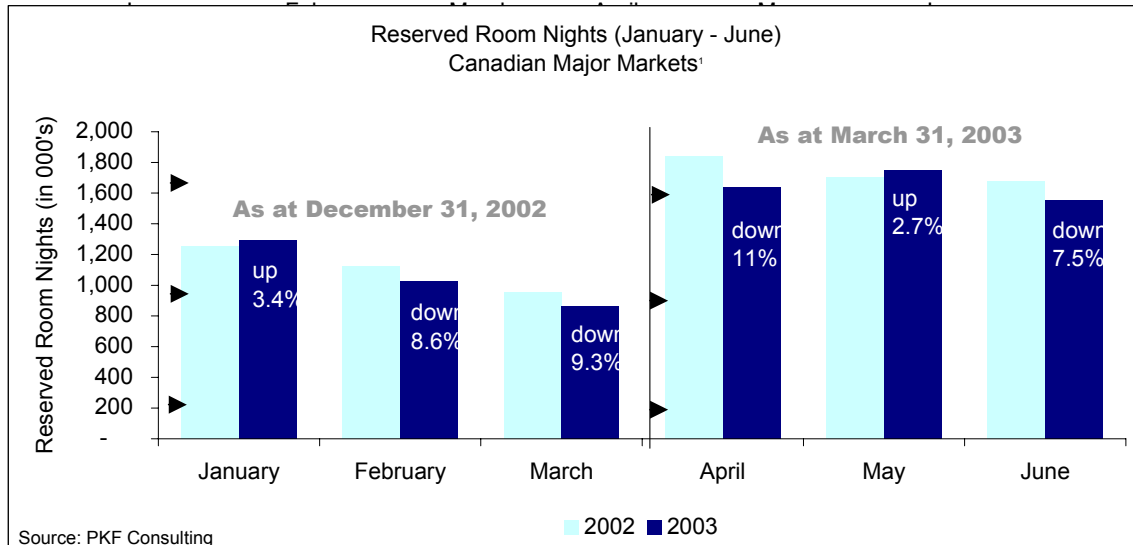
- Canada's 19 major accommodation markets reported an estimated **19,800 room nights cancelled in Quarter 1 2003** which were attributed to travel fears associated with the Iraq War/terrorism, followed by a further **56,220 cancellations during Quarter 2 2003** – equating to **\$2.3 Million** in lost Quarter 1 room revenue and a potential loss of **\$7.9 Million** in Quarter 2.
- In terms of actual rooms revenue lost in Quarter 1 and potential Quarter 2 losses, the top 5 impacted markets due to the Iraq War were: Alberta Resorts, Toronto Downtown, Vancouver Downtown, Montreal Downtown, and Quebec City.

### 4.0 QUARTER 1 & 2 ROOM CANCELLATIONS ATTRIBUTED TO SARS

- Due to the SARS outbreak, Canada's 19 major accommodation markets reported an estimated **11,500 room nights cancelled in Quarter 1 2003**, which equates to an estimated **\$1.3 Million** in lost room revenue.
- By Quarter 2, this figure escalated to a devastating **383,650 cancellations** – equalling **\$56.3 Million** in potential losses to Canada's major accommodation markets.
- In terms of revenue loss, the top 5 markets hit hardest by the SARS crisis during Quarters 1 and 2 include: Toronto Downtown, GTA East/North, Toronto Airport, Alberta Resorts and GTA West.

## 5.0 BOOKING PATTERNS – QUARTERS 1 AND 2

- As of December 31, 2002, the number of room nights booked in Canada's major accommodation markets for January 2003 was estimated at 1.295 million, 3.4% ahead of last year's booking pace, before declining by 8.6% in February to 1.026 million and a further 9.3% to 0.862 million room nights in March 2003.
- As of March 31, 2003 (before the height of the SARS crisis), the number of room nights on the books for the month of April 2003 was estimated at 1.638 million down 11% from last year, while May's bookings of 1.747 million room nights were ahead by 2.7%, and June's booking pace of 1.552 million was off by 7.5% in comparison to last year.
- Generally there has been a shift in booking patterns within the industry, as consumers tend to book later than in the past. With the increased usage of the internet, consumers expect to get a better deal if they book late due to increased competition.



<sup>1</sup> Includes 19 Major Markets consisting of: GTA, Greater Montreal, Greater Vancouver, Halifax, Quebec City, Ottawa, Windsor Ontario Resorts, Winnipeg, Regina/Saskatoon, Calgary, Edmonton and Alberta Resorts

## 6.0 MARKET FACTORS

- National/provincial and regional/local economic conditions were listed as the primary driver behind travel behaviour patterns in each of the major accommodation markets surveyed.