PERSPECTIVE

#1 BEST OVERALL FORECASTER - CANADA

Hotel Operators: Full Speed Ahead

Who would have thought that you could move along at full speed while staying in place? Not many people, except those who work in the traveller accommodation industry. They know that, with the exception of the actual bricks and mortar, everything about the hotel industry is changing. Even then, the changes are many. The rules have changed considerably, and hotel operators have to keep their foot on the gas to keep up with their customers. Industry players now have to have multiple offerings, and meet ever-changing demand. However, to stay on track and not get overtaken, they have to deal with labour challenges, differentiate themselves from the thousand and one competing options, and offer quality tourist accommodations that meet the expectations of a clientele that is being increasingly solicited.

Interesting Dashboard Numbers

According to multiple accommodation industry health indicators, 2017 was a good year for the hotel industry. For example, the average occupancy rate in Quebec went up from 57.6% in 2016 to 60.6% last year. This was the best performance in years. All accommodation categories saw their occupancy rates rise in 2017 compared with 2016 (table 1). The highest occupancy rate was in the 200 units and over category (74.5%), followed by the 40 to 199 units category (63.0%), and the 4 to 39 units category (41.1%).

However, the number of available units was down by 0.5% last year. There were 70,002 units available in 2016, and an average of 69,639 in 2017. This drop was observed in the 4 to 39 units category (-2.8%), while the number of available units stayed the same or even increased slightly in the other categories (40 to 199 units: +0.1% and 200 and more: +0.4%). These figures do not take Airbnb-type accommodations into account. Although some establishments have disappeared in recent years, others have come along to take their place and offer innovative concepts tailored to long-term business travellers, while others feature sleek urban environments, are integrated into art galleries or commercial facilities, or offer experiences in natural settings. A growing number of options are offered.

The average daily price per unit increased by 2.8% and reached \$141.70 (excluding taxes) in 2017. The 200 units and over category saw the biggest increase—5.9%. Of note is the fact that prices have increased regularly in recent years. The second-largest increase in 2017 was noted in the 4 to 39 units category (+2.0%), followed by the 40 to 199 units category (+1.2%).

TABLE 1
Changes in official accommodation market in 2017 in Quebec

PROVINCE	2017	% GAP 2017/2016
All establishments		
Available units	69,639	-0.5
Occupied units	41,998	4.1
Average occupancy rate (%)	60.6	2.8
Average daily rate (\$)	141.70	2.8
Average revenue per available unit (\$)	87.20	7.9
4 to 39 units		
Available units	16,510	-2.8
Occupied units	6,767	2.1
Average occupancy rate (%)	41.1	2.0
Average daily rate (\$)	110.20	2.0
Average revenue per available unit (\$)	46.70	8.4
40 to 199 units		
Available units	36,575	0.1
Occupied units	22,982	5.2
Average occupancy rate (%)	63.0	3.1
Average daily rate (\$)	134.10	1.2
Average revenue per available unit (\$)	85.60	6.5
200 units and up		
Available units	16,564	0.4
Occupied units	12,330	3.4
Average occupancy rate (%)	74.5	2.2
Average daily rate (\$)	173.10	5.9
Average revenue per available unit (\$)	131.50	9.5

Sources: Institut de la statistique du Québec and Tourisme Québec compilation

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

The average revenue per unit (ARPU) is another useful indicator. The average for Quebec went from $80.80 in 2016 to $87.20 in 2017, an increase of 7.9% in one year. Here too it should be noted that the number of available units was down slightly last year. ARPU was $131.50 for the 200 units and more category, $85.60 for the 40 to 199 units category and $46.70 for the 4 to 39 units category. The largest percentage increase was in the 200 units and more category (+9.5%), followed by the 4 to 39 units category (+8.4%) and the 40 to 199 units category (+6.5%).

Regional Figures

The average occupancy rate in 2017 was highest in the following tourism regions[1]: Laval (80.9%), Montreal (75.5%), Quebec City (67.8%) and Outaouais (61.9%) (table 2). The regions with the lowest occupancy rates last year were Duplessis (36.3%), Eeyou Istchee (Nord-du-Québec) (37.9%) and Lanaudière (41.4%).

TABLE 2
Average occupancy rate in 2017

CERTAIN REGIONS	IN %
Highest in Quebec	
Laval	80.9
Montreal	75.5
Quebec City	67.8
Outaouais	61.9
Lowest in Quebec	
Duplessis	36.3
Eeyou Istchee	37.9
Lanaudière	41.4

Sources: Institut de la statistique du Québec and Tourisme Québec compilation

The highest average daily rates were in Nunavik ($197.00), Montreal ($165.20), Eeyou Istchee ($156.20), the Laurentians ($154.80) and Quebec City ($146.10) (table 3). The lowest average daily rates were in Îles-de-la-Madeleine ($93.20), Manicouagan ($99.30), Gaspé ($103.00), Chaudière-Appalaches ($103.60), Duplessis ($105.10) and Bas-Saint-Laurent ($109.60).

TABLE 3
Average daily rate per unit in 2017

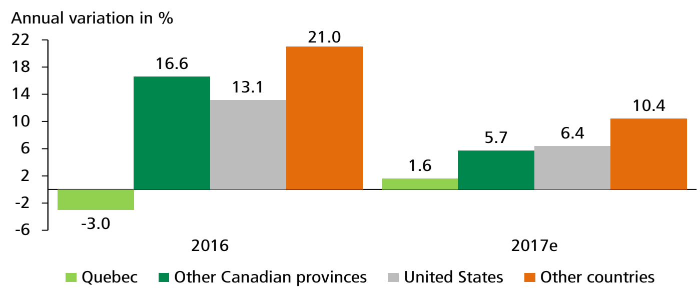
CERTAIN REGIONS	IN $
Highest	
Nunavik	197.00
Montreal	165.20
Eeyou Istchee	156.20
Laurentians	154.80
Quebec City	146.10
Lowest	
Îles-de-la-Madeleine	93.20
Manicouagan	99.30
Gaspésie	103.00
Chaudière-Appalaches	103.60
Duplessis	105.10
Bas-Saint-Laurent	109.60

Sources: Institut de la statistique du Québec and Tourisme Québec compilation

Plentiful Visits

Data on entries by international tourists and tourists from other parts of Canada show that Quebec has been a popular destination in recent years. Graph 1 illustrates the annual progression of the percentage of international tourists. Steady growth has been observed since 2014. Around 60% of the 4.0 million international tourists who visited in 2017 came from the U.S. The other top originating countries were France, Mexico and the U.K. The number of visitors from Mexico has increased in recent years and their numbers grew last year following the removal of the visa requirement for Mexican visitors on December 1st, 2016.

GRAPH 1
Changes in the number of tourists in Quebec in 2016 and 2017, according to geographic location



e: estimates
Sources: Statistics Canada and Ministère du Tourisme Québec

Note that estimates regarding tourists from other Canadian provinces were also up in 2017 (+5.7%), as were those from Quebec (1.6%). Special events held for Canada's 150th anniversary and Montreal's 375th anniversary were definitely a factor in this success.

Turning the Corner

Labour is a key component of the traveller accommodation industry. It is also a vulnerability. The tourism industries of Canada and Quebec have been sounding the alarm for a number of years. Even so, this continues to be a concern. As the industry and stakeholders and government authorities have themselves pointed out, the tourism sector presents specific staffing challenges. Measures implemented to attract candidates and retain existing workers in the tourism industry and the economy as a whole include training and recognition (employees, recruits, employers).

[1] Quebec has 22 tourism regions according to the Ministère du Tourisme du Québec.

Tourism HR Canada published a report in 2016 on labour supply and demand in tourism. It is estimated that the Canadian tourism industry could have as many as 240,000 unfilled jobs by 2035. Around 12% of these would be related to traveller accommodation, which represents some 30,000 employees. Roughly transposing the data to Quebec, which would have a shortage of 49,917 people in total, indicates that the accommodation industry could be facing a shortage of around 6,000 people in less than 20 years. Is this more or less? It is difficult to say, but the shortage already exists.

One may think that this situation might influence the quality of the services and stays offered. This shortage also undermines the hotel industry's growth potential as it could slow down investment.

Among the challenges to be faced by the traveller accommodation sector is the introduction of digital technology and how it adapts to it. In this and many other areas, nothing is completely back and white. While some aspects of the digital revolution mean there is access to increasingly precise information on customers and their habits to serve them better, other aspects present hurdles.

On the positive side, the information collected enables customer relationships to be managed more closely and accommodations to be quickly tailored to expectations. Supplier relationships can also be made closer and more responsive. The adoption of digital technology into operations can minimize all kinds of losses: time, energy (of workers, and also in all aspects of operations) and environmental, to name but a few.

Digital technology also facilitates the management of multiple options for tourists and travellers. Thus, the idea of maximizing the use of hotel facilities—even by the day—is no longer outlandish. Some chains can now offer hourly rentals, and not just for airline personnel. Day rates allow people to rest up and have a shower near the airport while they are waiting for a connecting flight. Some hotels make private club facilities such as workspaces with printers and Wi-Fi access available for business meetings in increments of an hour or two, a half day or a full day. Access is gained using a card that allows outside customers to drop off their luggage at the hotel for a few hours with minimal formalities and thus make the most of their time.

The challenges posed by digital technology include the development of rental platforms such as Airbnb. These platforms have created competition that hotels must now contend with. This will be discussed further on. The advent of reservation and price comparison sites (such as Trivago, TripAdvisor, Booking.com, etc.) have taken a bite out of hotel operators' profits. These go-betweens charge fees. Lastly, the wide reach of social network "influencers" can give establishments a boost. At the same time, unhappy customers can quickly destroy a hotel's reputation.

Although digital tools have become indispensable, they do not relieve industry workers (no matter their rank) of the need to have a keen ear and sharp vision. The idea is to capture customers' wishes or grievances directly so they can be dealt with satisfactorily. Situations where customers are captive are rare, particularly when alternative accommodations are just a click away. Every effort must be made to ensure visitors' experiences are as positive as possible. Satisfied customers can provide referrals or even act as ambassadors for the hotel thanks to social media's ability to get messages out to a wide audience. More than ever, hotel operators have to be vigilant.

Headwinds

Rental platforms such as Airbnb, HomeAway, etc. are here to stay. Hotel operators are not worried about competition from individuals. However, they are demanding that rental companies and commercial accommodation establishments be subjected to the same rules. They have made this into an issue of fairness and sustainability.

The increasing popularity of the sharing economy and the rise of illegal operators have prompted the government of Quebec to take action. The first step was taken in April 2016 with the implementation of the legislative amendments that raised fines. For example, the fine for operating a tourist accommodation establishment without a classification certificate was increased from $750 to between $2,500 and $25,000 for an individual and between $5,000 and $50,000 for a business.[2]

Other actions were announced in 2017. These include the agreement between Revenu Québec, the Ministère du Tourisme and Airbnb, which has been collecting the 3.5% accommodation tax since October 1st, 2017, on behalf of its hosts on all accommodation reservations of 31 days or less. The proceeds of this tax are paid to Revenu Québec, which in turn redistributes the funds to each tourism region for promotional purposes. This is the first such agreement in Canada to be ratified between Airbnb and a legislator in pursuit of tax fairness.

A bill was also introduced by the Ministère du Tourisme in October 2017 to make further adjustments to this new tourist accommodation trend. Once adopted, the bill would confirm the transfer of inspection and investigation powers to Revenu Québec. Moreover, it will be easier to split these powers between the sharing economy and commercial operators.

To what extent is this type of accommodation present in Quebec? It is very hard to get an overall view. Airbnb is the figurehead. It is the only platform that has presented a profile of its activities. The number of active hosts in Quebec was estimated at 22,300 in July 2017. Average annual earnings were

[2] Ministère du tourisme, Guide d'interprétation de la loi et du règlement sur les établissements d'hébergement touristique.

in the range of $2,600 for a "typical" host using this platform. More than half of these hosts had rented their accommodation unit for 30 nights or less during the year. Quebec hosts that listed their accommodation units on Airbnb served almost a million tourists (990,300) in 2016. One major question remains: what about the others?

Is It Possible to Pick Up Speed in 2018?

It looks like 2018 is off to a strong start. While only partial numbers are available thus far, we already know that the number of international tourists was up 18.2% in January and February compared with the same period in 2017. The Ministère du Tourisme conducted a survey of 2,500 people in March this year. The goal was to find out their travel intentions for the coming summer. The results bode well for the year (box). In fact, 71% of Quebecers plan to vacation in Quebec. As well, 37% of Ontarians and 32% of Maritimers plan to visit Quebec this summer. As for Americans, 40% of northeasterners indicated they intend to visit Quebec. Average spending is estimated to be $3,300 for Americans and $1,100 for Canadians.

Besides travel intentions, other parameters could influence the number of tourists in Quebec. Research done by the Ministère du Tourisme in recent years helps shed light on the effects of currency fluctuations and gas prices, particularly on tourist traffic. Thus, when the U.S. dollar goes up 1% compared with the Canadian dollar, it encourages tourism from the U.S., Ontario, Brazil, Mexico, the rest of Canada, and Quebec (graph 2). However, these numbers should be interpreted with some caution. Other considerations could come into play and attenuate the estimated impact (increased competition from other destinations, job creation, consumer confidence, etc.).

RESULTS OF A SURVEY ON SUMMER 2018 TRAVEL INTENTIONS

This year, 40% of Americans in the Northeastern U.S. plan to travel to Quebec this summer. For 72% of them, this will be their first visit to Quebec.

The survey also shows that:

- 71% of Quebecers consider Quebec to be a vacation destination, far ahead of other Canadian provinces and U.S. states
- 37% of Ontarians and 32% of Maritimers plan to visit Quebec this summer

Lastly, the survey shows that:

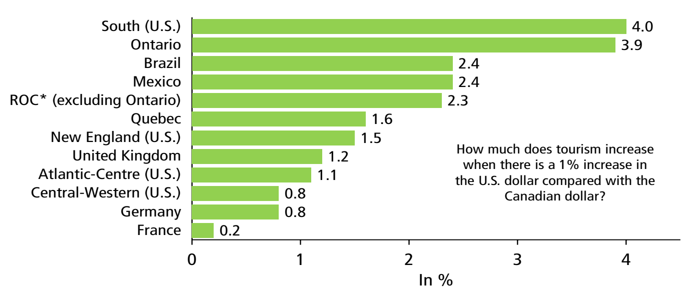
- visitors spend an average of four (4) nights in Quebec and are most likely to visit the Quebec City and Montreal regions
- most people will travel in July and August—except Americans, who will also travel in June
- visitors from outside the province favour urban stays, while Quebecers prefer going to resorts

Tourists plan to spend on average:

- CAN$3,300 (Americans)
- CAN$1,100 (Canadians, including Quebecers)

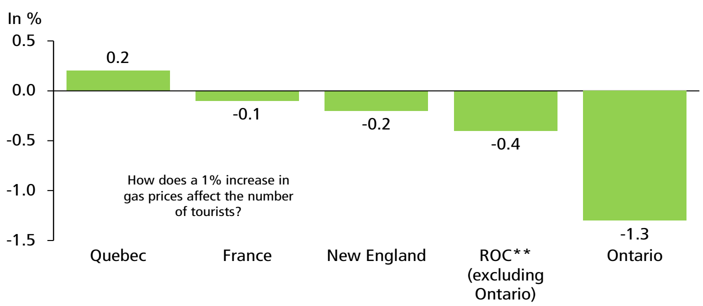
Source: Tourisme Québec.

GRAPH 2
Impact of increase in U.S. dollar on influx of tourists in Quebec, according to markets



* Rest of Canada.
Source: Ministère du tourisme

GRAPH 3
Impact of fuel prices on influx of tourists in Quebec, according to markets*



* For which significant results were obtained; ** Rest of Canada.
Source: Ministère du Tourisme

This exercise can also be done on gas prices (graph 3). Thus, we can confirm what intuition suggests: increases in gas prices tend to put a damper on travel plans. Foreign visitors are slightly less drawn to Quebec, while Quebecers may be more likely to tour the province when gas prices are on the rise.

What can we expect for 2018? According to Desjardins forecasts at the end of May 2018, the Canadian dollar was worth around US$0.79, while it was US$0.77 in 2017. Oil prices indicate that gas prices are on their way up. Forecasts by Desjardins Group, Economic Studies, put the price of WTI at around $70 a barrel compared with an average of around $51 last year. This is a significant appreciation.

Does this mean that tourists in Quebec will be affected? No. Other factors could have an influence. For example, weekly average wages increased above inflation in Quebec, Ontario, and across Canada in 2017. In 2018, we also expect real gains as wage growth should reach 3.9%, 4.2% and 3.0%, respectively.

Employment growth was substantial in 2017, and could bolster vacation plans. In Quebec, Ontario and Canada, employment was up respectively by 90,200, 128,400 and 336,500 new jobs last year. While fewer job gains are expected in 2018, the numbers are still significant (60,000, 97,000 and 240,000, respectively). At the same time, 2.3 million new jobs were created in the U.S. in 2017 and 2.2 million new hires are expected to join the working population in 2018.

Consumer confidence may also have a positive effect on tourist spending. Confidence is on the rise in Quebec, and has easily surpassed the average for the last 15 years. It is high in Ontario and Canada, although it approaches the average established since 2002. Consumer confidence is also high in the U.S. and close to record levels, which bodes well for the future.

Rising wages and employment bolster tourism. High consumer confidence also fosters increased tourism. These are solid foundations that could make 2018 a good year for the accommodation industry. It is true that 2017 was Canada's 150th anniversary and Montreal's 375th. and it may be difficult to rival these milestones in terms of major events. However, for now, there are positive indications that this year could surpass the previous year. If we add Quebec travel intentions for summer 2018, the accommodation industry should have enough fuel to achieve a healthy cruising speed this year.

Full Speed Ahead

In order to zip along at full speed, enough tourists have to show up. The conditions appear to be in place for a good 2018 tourist season that will be better than last year's. However, to stay on track and not get overtaken, industry players have to deal with labour challenges, differentiate themselves from the thousand and one competing options, and maintain quality tourist accommodations that meet the expectations of a clientele that is being increasingly solicited. Mother nature will also have to cooperate.

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