

Quebec's hotel sector: beyond appearances

At first glance, the hotel sector looks unshakable. However, a closer look shows that a revolution is in full swing and that the brick and mortar image of stability is misleading. Some hotels are closing, others are being converted into student residences, and the supply of accommodation from private individuals is proliferating. In response to the multitude of changes, hotel operators are using their imaginations to compete, offering clients innovative concepts that shake up how things are done, forcing changes to standards, management and reception practices, all at the same time. Along with the upheaval in the industry comes an increasingly ferocious battle for conference and vacation destinations. In other words, the pressure on the lodging industry is rising, and the economic parameters are not all in its favour in 2015—far from it. The hotel sector has its work cut out for it; its only choice will be to work with other tourism industry partners.

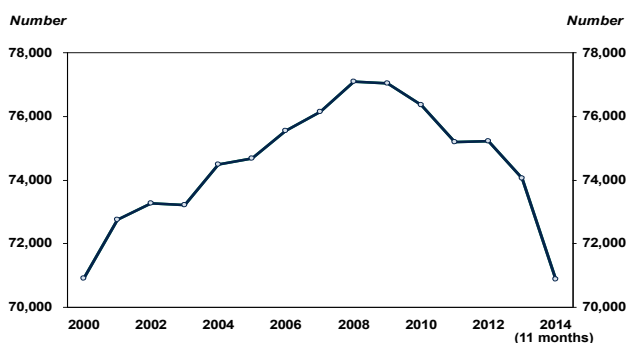
CONTRASTING DEVELOPMENT SINCE THE START OF THE CENTURY

In light of available data on the number of rooms available in Quebec in hotel establishments and tourism residences, it is clear that supply crested in 2008 and 2009 at around 77,000 units, then declined (graph 1). The average number of available rooms was 70,871 in 2014 (11 months).

Why did it drop so much? The health of the hotel sector is closely tied to shifts in the economic situation, but the drop in the number of units cannot entirely be blamed on the recession. True, the economic climate has been especially hesitant since 2009, in Europe, the United States,

Canada and Quebec; this has affected demand in both the business and leisure sectors. A number of hotels thus shut down. They include Montreal's Delta Centre-ville, which closed its doors in 2013, along with Hôtel Renaissance and Château Royal; the Auberge des Gouverneurs in Quebec City; Hôtel des Seigneurs in Saint-Hyacinthe; and La Sapinière in Val-David, to name but a few. Many of these now have a new vocation (student housing, seniors' residences, rental housing, etc.). Simultaneously, more and more individuals have opened their homes to travellers in exchange for compensation; these rooms do not show up in the official statistics. We will tackle the issue of phantom accommodation later.

Graph 1 – Quebec: The number of rooms available has declined ...



Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

Lastly, methodological changes due to changes to the survey that pinpoints the number of rooms also helped lower the number of units. The new criteria have apparently trimmed more than 1,000 units since 2012, intensifying the downside bias.

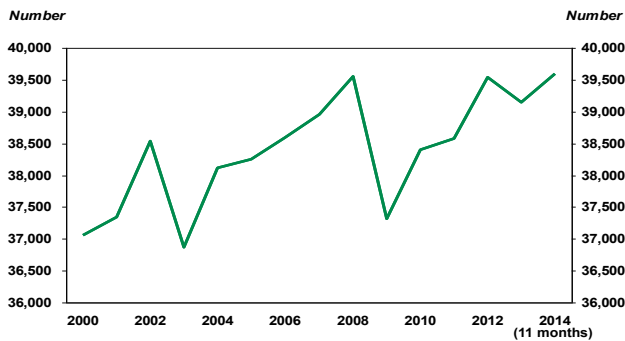
As for occupied rooms, the number peaked a first time in 2008, then tumbled, followed by a slow, steady climb (graph 2 on page 2). The average occupancy rate has therefore seesawed over the last 14 years (graph 3 on page 2). It hit 56.1% in 2014 (11-month average), the best score since the year 2000. This result is also due to the declining number of units in the official lodging network.

François Dupuis
Vice-President and Chief Economist

Joëlle Noreau
Senior Economist

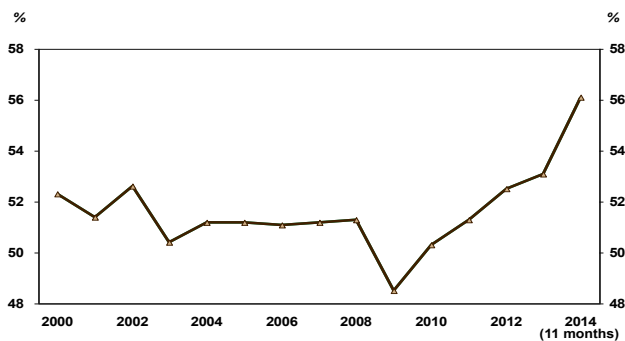
418-835-2450 or 1 866 835-8444, ext. 2450
E-mail: desjardins.economics@desjardins.com

Graph 2 – Quebec: yet the number of rooms occupied is up



Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

Graph 3 – Quebec: so the average occupancy rate has gone up



Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

Of course, the rate varies substantially across the regions. The appended graphs compare the regions against the Quebec average. The Laval, Montreal, Quebec City and Abitibi-Témiscamingue regions lead the pack with rates above the Quebec average. The rate peaked in the early 2000s in Montreal and Laval. Quebec City’s occupancy rate peaked in 2008, before the recession and during the 400th anniversary celebrations that attracted business tourists, conference goers and leisure travellers alike. Abitibi-Témiscamingue’s path is not typical: mining activity generates a lot of traffic, as metal prices go up and exploration and operation work continues.

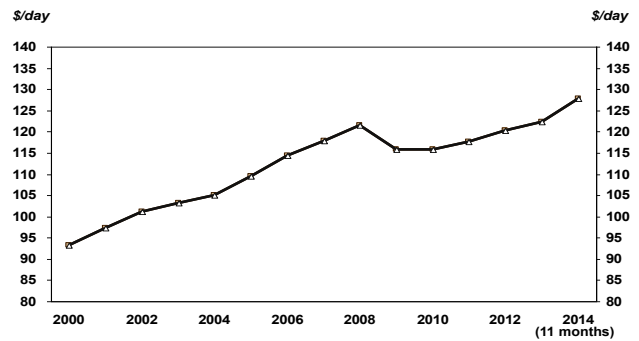
Some regions that are not at the head of the field grew faster than the Quebec average after the recession. They include Duplessis and Manicouagan, which felt the impact of the fever over metals and the Rivière Romaine hydropower site development, in particular. The graphs reveal several things. On one hand, a given region’s occupancy rate fluctuates substantially over just a few years. The figures should therefore be interpreted carefully. On the other, the graphs

highlight the “business” component of accommodation which can have a big impact on the sector’s growth and health¹.

ROOM PRICES DO NOT ALWAYS RISE...

People in the industry are well aware of the fact that the average daily prices are not carved in stone; although they mostly go up, they can also come down (graph 4). This occurred in 2009, for example, when the average daily price per room (all data are in current dollars) dropped to \$115.80, although it had been \$121.40 in Quebec the year before. Also note that the 2009 price was lower than the 2007 price. Clearly, the price varies from region to region.

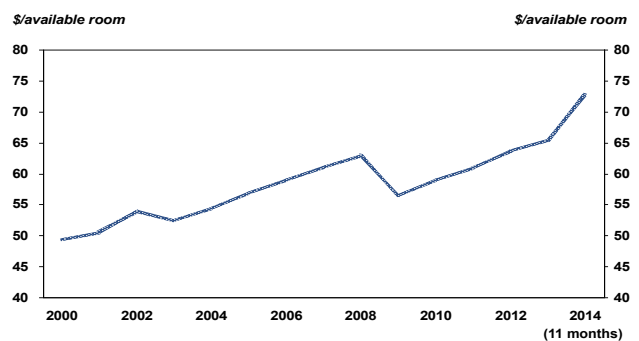
Graph 4 – Quebec: the average daily price per room is up again



Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

Similarly, the average income per available unit fluctuated between 2000 and 2014, not always to the upside². Graph 5 shows that it went down in 2003 (-2.8%) and 2009 (-10.3%).

Graph 5 – Quebec: the average income per available room started to rise in 2010



Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

¹ The data on the Îles-de-la-Madeleine and Gaspésie tourism regions are only available up to 2012. Their occupancy rates were 41.7% and 43.5% respectively against a Quebec average of 52.5% for that year.

² Ministère du Tourisme, Strategic data dissemination database (DDS), Average revenue per available room (AvgRevPAR): “Result of gross monthly revenue divided by the number of rental units available during that period.”

The 2009 drop was bigger, and hit the Montreal metropolitan census area very hard (-15.4%), particularly Montreal itself, along with the Quebec metropolitan area (-18.5%).

FROM A BED FOR THE NIGHT TO AN UNFORGETTABLE EXPERIENCE

The hotel sector has changed a lot, and the changes have accelerated in recent years. The time when accommodation only consisted of a bed for the night is long past. Hotel operators are increasingly in seduction mode to satisfy their target clientele and build loyalty. Here, initiatives are proliferating: from emergency supplies for travellers who have lost their luggage to bathrobes for children, from healthy lifestyle menus to recycling initiatives, more and more touch screens (menus in the hotel restaurant, activities on site or nearby, etc.) or the creation of very distinct atmospheres, to name but a few.

Some hotels and lodges focus their efforts on “wellness.” For some, wellness is defined as a good night’s sleep, which comes with an entire array of details (comfortable bedding, soundproofing, air quality, etc.). Others make life easier for clients by taking care of their fitness habits (jogging tracks, loan of bikes or other equipment and clothing, fitness rooms open 24 hours, yoga sessions, etc.). There is no shortage of ideas on how to take care of clients’ needs. In an increasingly competitive market, there is no time to rest on one’s laurels. The vitality and even survival of the establishments depend on it.

INFORMATION TECHNOLOGY CHANGES THE GAME

Who would have thought that IT would shake up the lodging industry? Clearly, in this sector, reception, sales and marketing have moved into the 21st century... and establishments must be present on the Web. To increase visibility, hotel operators also turn to online travel agencies, which offer a variety of benefits such as an international reach, higher occupancy rate, facilities for reservations and payment, availability 24/7, and mobile apps³.

However, not everything is coming up roses and certain practices are causing some grumbling. Some agencies charge commissions of up to 30% or more, and others are demanding advances on commissions on stays that haven’t been made yet. In the face of these problems, hotel chains and hotel associations have set up new communications and distribution channels. Simultaneously, establishments are trying to increase their own-site sales, but search engine competition is fierce and the agencies really strive for the first few listings. The agencies have already built a reputation for mobile apps, not always the case for hotel operators. In any event, hotels have instituted programs and promotions to steer requests to their sites.

While there may be friction with some online agencies over renting rooms in recognized establishments, a pitched battle is underway between the hotel industry and the phantom rental market, which involves private homes. Currently, digital platforms such as Airbnb, FlipKey and HomeAway are hubs where you can rent a room, apartment or a house by the day, week or month, around the world. In 2014, Airbnb’s potential was estimated at 500,000 units in 34,000 cities⁴.

Where the shoe really pinches is the fact some lessors present themselves like real estate operators, whereas they behave like hotel operators⁵. While lodges and B&Bs pay tax, insurance and permits, lessors skirt this obligation, with the result that this practice is often called “illegal accommodation.” The hotel sector’s arguments against this behaviour are as follows. Firstly, the lessors are engaged in tax evasion, as they fail to include the income on their tax returns. Secondly, they benefit from marketing to promote a destination, while the amounts used to finance such campaigns are derived from an additional tax on official establishments. Moreover, the lack of standards in this type of accommodation means there is no obligation to comply with the norms, whereas official establishments must incur costs to comply. To find out what is what, Quebec set up an advisory committee in early 2014 to work on solutions, since this phenomenon goes well beyond the Montreal and Quebec City areas.

³ For more information, see: UQAM, Transat Chair in Tourism, Aude Lenoir, *Hôteliers : ce que vous devez savoir sur les agences en ligne*, October 2013.

⁴ For more information, see UQAM, Transat Chair in Tourism, Claudine Barry, *Rivaliser avec Airbnb*, May 14, 2014.

⁵ Radio-Canada, *Airbnb à Montréal : moins d’argent dans les coffres de l’État et des gîtes?*, December 11 2014.

**Table 1 – Quebec accommodation sector
A look at 2015: positives and negatives**

<i>Positives</i>	<i>Negatives</i>
<ul style="list-style-type: none"> . Weak Canadian dollar . Better situation for U.S. households . Energy costs (transport, heating, cooking) . Safe destination . Low interest rates 	<ul style="list-style-type: none"> . Debt loads of Quebec and Canadian households . Effects of rationalization in business and other . Fewer international conferences expected than in 2014 in both Montreal and Quebec City . Growing place of digital hubs make private trade easier . International competition

Source: Desjardins, Economic Studies

Lastly, information technology can both enhance and ruin an establishment’s reputation. The speed at which information travels on the Internet, and the ability to transmit comments worldwide do not leave much room for error. Clearly, the accommodation sector is under pressure.

SOME PARAMETERS FOR 2015

Predictions remain hazardous. Many economic factors are at play and it is hard to know which ones will have the most impact. Nonetheless, table 1 provides a glimpse of the economic factors that could influence the industry’s success this year. Among the positives, the Canadian dollar will encourage foreign visitors to come while limiting Canadian/Quebec travel outside of Canada. U.S. consumers will see their economic situation improve, particularly with job creation and a dropping jobless rate. Also, energy costs will play in favour of travellers and accommodation establishments, lowering their bills, at least for a while. Very low interest rates are conducive to investing at a time when competition is becoming increasingly fierce. Lastly, Canada and Quebec are still safe destinations, not a trivial argument.

As for the negatives, Quebec and Canadian households have debt loads that leave little leeway for spending on hotel accommodation. Similarly, the efforts made by business and government to rein in or even cut spending are not good for travel and stays away from the place of work. Another point to consider is the drop in the number of international conferences in 2015 compared with 2014, in both Montreal and Quebec City. The popularity of digital hubs such as Airbnb seems to be growing faster than the industry’s response, although it is slowly getting organized.

Lastly, international competition is intensifying, meaning that Quebec must redouble its efforts to get attention.

Although the scale may at first seem to be tipped to the negative side, we cannot simply conclude that 2015 will only bring trouble and that all of the indicators will slide. If it was that easy to predict, we would not see fluctuations as big as the ones recorded in recent years in the data on the number of rooms, occupancy rates, and average revenue per available room. The outlook could change in response to bad news on human or animal health (like SARS in 2003, avian flu), or alarming political events (conflict in one part of the world, terrorism), or social news, to give a few examples.

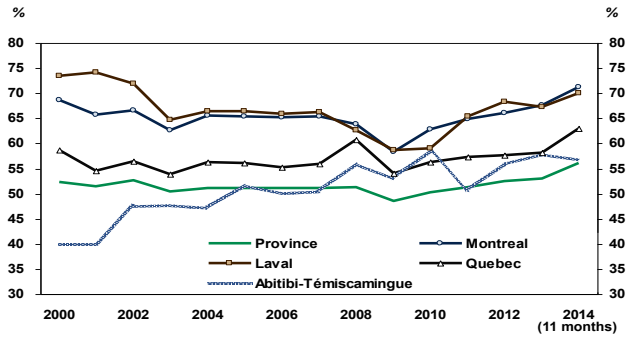
QUIET ACCOMMODATION INDUSTRY?

Appearances are deceiving: the brick and mortar buildings give a look of permanence to a sector that is undergoing a revolution. Although accommodation is a very concrete economic activity, more and more of its aspects are becoming virtual with the use of the Internet. We are clearly beyond the concept of a “bed for a night.” Now, accommodation comes with an offering that is entrenched in a neighbourhood, city or region, whether in terms of activities or flavours. The growing popularity of phantom accommodation meets a need, and we should ask whether it is in the process of transforming the sector. One of the major challenges facing the official accommodation sector is finding responses to that need so as to deliver an unforgettable experience to clients while making its activities sustainable. It must do so jointly with the entire tourism industry, a real job in the offing.

Joëlle Noreau
Senior Economist

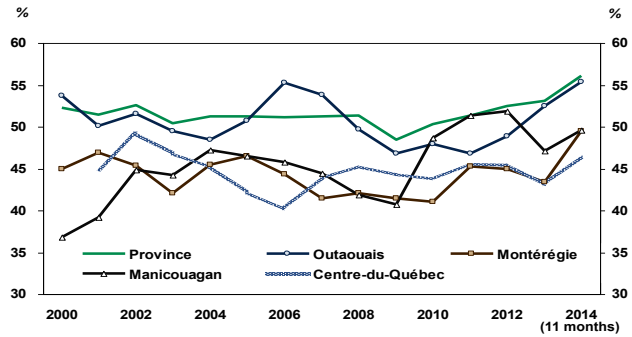
Appendix – Occupancy rate in Quebec's tourism regions

Occupancy rate: regions that are above the Quebec average in 2014 (11 months)



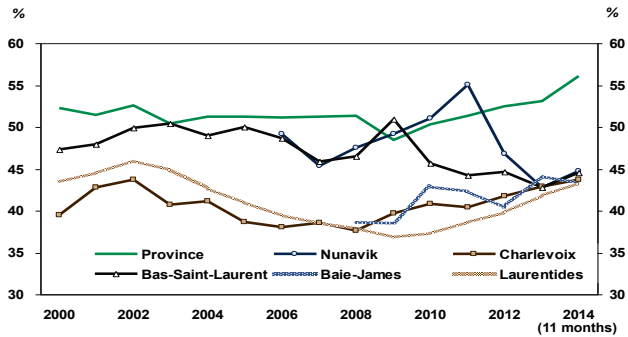
Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

Occupancy rate between 46% and 56% in 2014 (11 months)



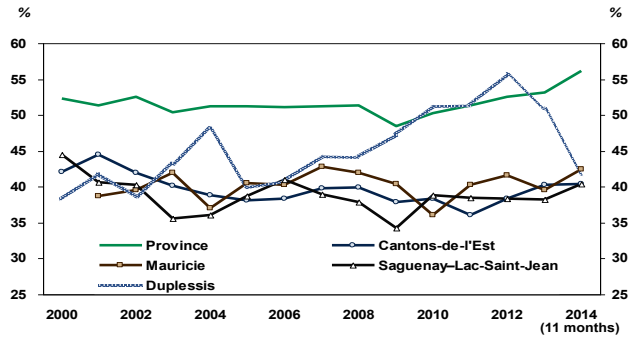
Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

Occupancy rate between 43% and 45% in 2014 (11 months)



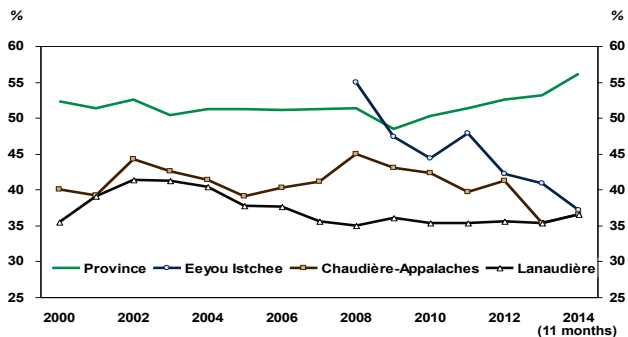
Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

Occupancy rate just above 40% in 2014 (11 months)



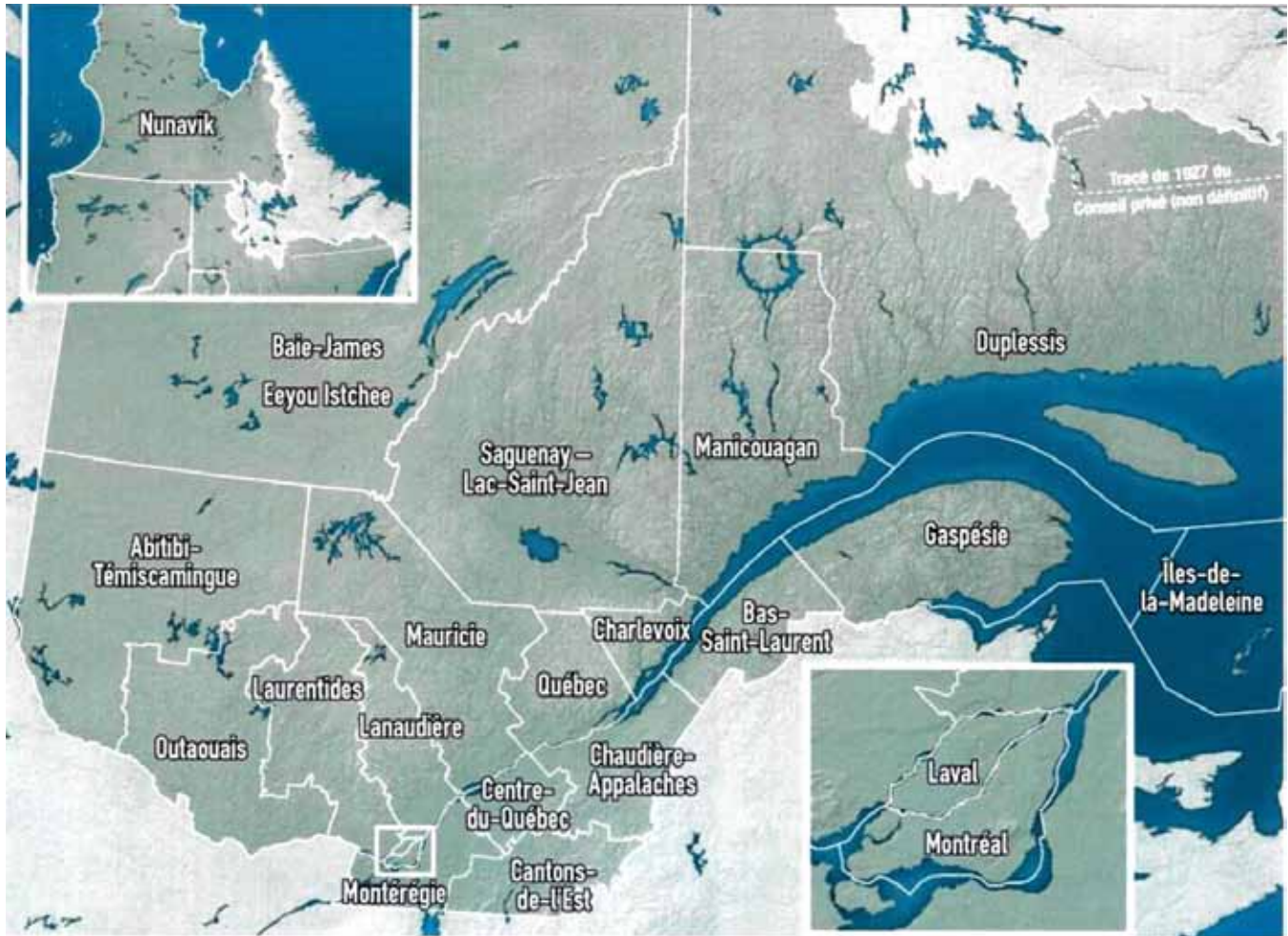
Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

Occupancy rate just below 40% in 2014 (11 months)



Source: Ministère du Tourisme, Strategic data dissemination database (DDS)

Quebec tourism regions



Source: Ministère du Tourisme, <http://www.bonjourquebec.com/qc-fr/regions.html>