Phocuswright
Powering great decisions.

COVID-19 HOTEL FORECAST:
TORONTO

June 2020

In cooperation with

LODGIQ™

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Introduction

The global hospitality industry has been ravaged by COVID-19, a classic example of a black swan event. While many are looking backwards to compare the current market environment with the post-9/11 or 2008 Great Recession periods, Phocuswright prefers to look forward – trying to address the tough questions weighing on our collective minds.

Over the coming months, by teaming up with the data science team at LodgIQ, Phocuswright will evaluate a broad swath of hotel-related and other data across a variety of key metropolitan areas. Our key objectives are to model the:

- Level of disruption
- Duration of disruption
- Shape of the recovery curve

The goal is to understand the similarities and differences in hotel market dynamics between destinations. This is especially relevant, as some markets may have yet to peak in terms of the level of infections, while others are seeing active coronavirus case counts decline.

Travel's multimodal nature and interdependency of origin and destination markets within different sectors adds necessary, but not always welcome complexity to the model. Therefore, this forecast is probabilistic, with a high degree of uncertainty. The spread of the virus is path-dependent, non-linear and impacted by measures such as local social distancing and broader geographic quarantines.

"My interest is in the future because I am going to spend the rest of my life there."

C.F. Kettering

The forecasting model will be continually evaluated and refined as more data is collected, stronger signals identified, and new outcomes revealed. Understanding the impact of the virus and the path to recovery across major global markets will help the industry regain solid footing through more informed decision making. The simplest way to understand the impact of the virus is to observe the change to the forecast as the spread progresses.

Toronto

Many things that make Toronto a great city become problematic when viewed through the lens of a pandemic. PATH, the city's 28-kilometer underground walkway system – the largest in North America – connects 50 office towers, 20 parking garages, five subway stations and a railway terminal, plus 1,200 stores and restaurants. Toronto's transit system, encompassing buses, streetcars and subways, sees North America's highest per capita ridership.

Toronto is also one of the most multiracial and multicultural cities in world. Fifty-one percent of Toronto residents were born outside Canada – producing an incredible spectrum of individuals representing 250 ethnicities and 170 languages. Over 50,000 residents originate from each of 16 respective birth countries (with India and China representing over 300,000 each). As a result, over half Toronto's population are people of color.

This exceptional level of global diversity and mobility, in a population center of six million, provides the perfect environment for the coronavirus to thrive. But Toronto, the province of Ontario, and the government of Canada have done a fairly good job of controlling the outbreak – particularly when compared to their neighbors to the south.

The first coronavirus case in Canada was identified in Toronto on January 25. As of June 4, Toronto Public Health has reported 11,700 cases in the city – representing 38% of the cases in Ontario, which in turn represents 33% of the total cases reported across Canada.

As a point of reference, Canada's coronavirus case count per 100,000 of population falls just under 2,500, with just over 200 deaths per 100,000. This compares with U.S. figures at just under 5,800 and just over 330 per 100,000 for the same metrics.

As a major international gateway and densely populated urban center with a globally connected population base, Toronto could understandably be doing much worse. Despite some missteps in March by Ontario Premier Doug Ford, the population of the city, province and country have generally pulled together to avoid major policy disputes and fight the virus in a relatively unified effort.

2020

January

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	(25)
26	27	28	29	30	31	

March

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	(12)	13	(14)
15	16	(17)	(18)	19	20	(21)
22	(23)	24	25	26	(27)	(28)
29	30	31				

May

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	(19)	20	21	22	23
24	25	26	27	28	29	30
31						

June

| S	M	T	W	T	F	S
	1	2	3	4	5	6
(7)	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

Toronto Timeline

Toronto and Ontario provincial steps taken to combat the coronavirus pandemic are summarized in the timeline below:

- **January 25** – First COVID-19 case reported for Toronto (and Canada).
- **March 12** – Ontario Premier Ford tells families to "travel" and "have fun" on March break.
- **March 14** – Canadians who are out of the country are strongly urged to return home as "new restrictions" may be imposed.
- **March 17** – Ontario issues emergency order and provides $300 million in support, prohibiting gatherings of more than 50 persons and closing schools, restaurants, theaters, etc. The order has been periodically extended and is now scheduled to expire on June 30.
- **March 18** – Canada and the U.S. restrict all non-essential travel across the border.
- **March 21** – Toronto records first coronavirus-related death.
- **March 23** – Premier Ford orders the closure of all non-essential businesses across Ontario. List is expanded on April 3.
- **March 27** – Ontario government issues an emergency phone alert advising recent travelers to self-isolate for 14 days.
- **March 28** – Group gathering count is reduced from 50 to five by Ontario government.
- **May 19** – Businesses able to meet public health guidance are allowed to reopen under the first of three stages within the "restart" phase established by the provincial government.
- **June 7** – Emergency order is extended, delaying stage two from June 9 until June 19, due to an increase in reported virus cases.

Toronto hotels' revenue per available room (RevPAR) was under assault at the end of April and early May. At its worst, the city suffered from 90%+ drops in year-over-year (YoY) RevPAR, taking it into the mid-teens in Canadian dollars which was nearly CAD $3.00 below Canada's national average of CAD $16.91. Given that Toronto normally achieves Canada's highest average daily rate (ADR), that is a particularly shocking decline.

Figure 1:
Forecast YoY RevPAR Decline – June 2020

Powered by LodgIQ AI Platform

- 51.6%
- 63.0%
- 73.4%
- 81.2%
- 84.8%

11,174
10,035
8,511
7,413
5,967

11,500
10,000
8,500
7,000
5,500

-45%
-55%
-65%
-75%
-85%

5/3/20   5/10/20   5/17/20   5/24/20   5/31/20

Date of Forecast

—○— RevPAR Change   —○— COVID-19 Cases
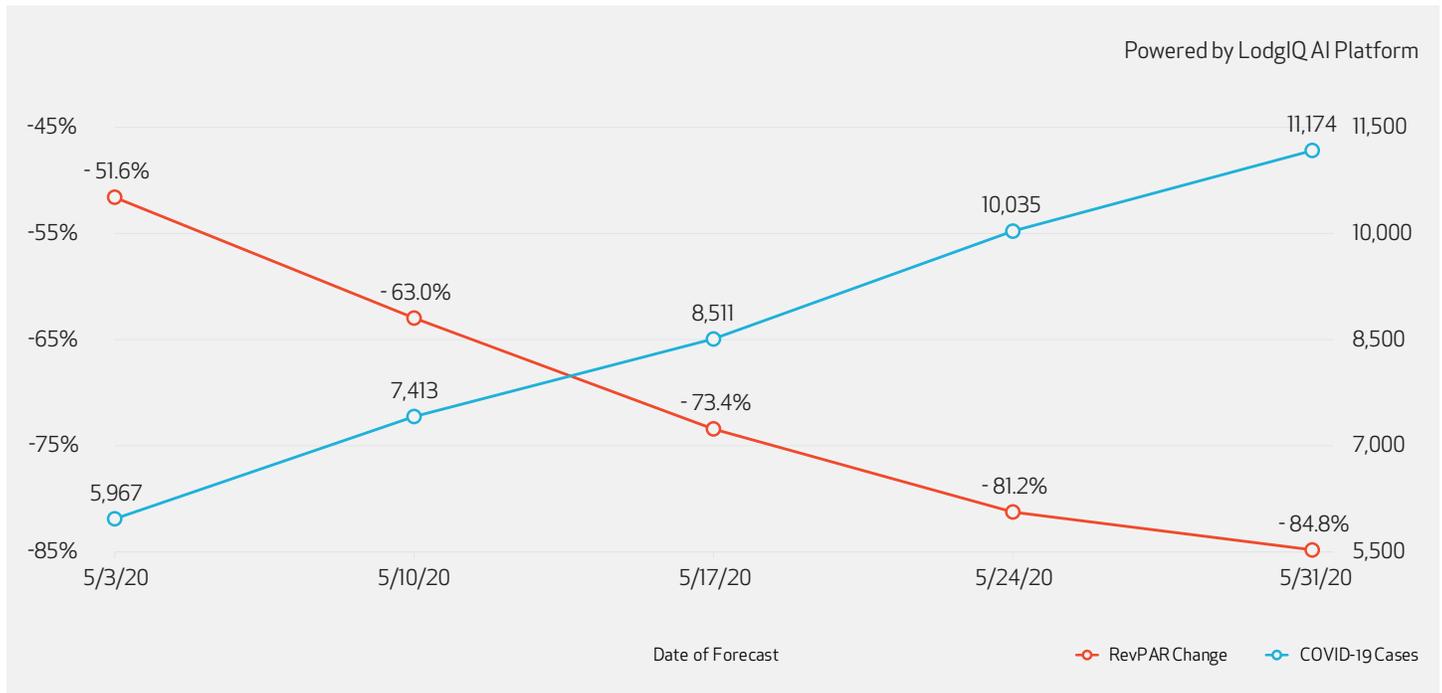
More recently, Ontario's occupancy has risen to just above 22%, following British Columbia and Saskatchewan. In line with the global trend, occupancies for the province as a whole and the greater Toronto region have been higher than the city's downtown core, with large convention and business-oriented hotels suffering the greatest disruption.

As Toronto cautiously reopens, we expect the market's performance to improve further. The good news is that it appears that Toronto hoteliers are being relatively disciplined with their rate discounting – not panicking by resorting to fire sale tactics in a futile effort to spur demand.

June 2020 - Declines

~ 81%	19%	~85%
June YoY Occupancy loss	June YoY ADR decline	June YoY RevPAR loss

June occupancy for Toronto is projected by the model to be 14.7%. The YoY RevPAR forecast is for a decline of 84.8%. These forecasts have fallen precipitously since our May 3 forecast – with the June occupancy rate falling nearly 25 points, contributing heavily to RevPAR dropping by more than 30 points.

It should be noted that our latest forecast, dated May 31, occurred prior to the now-delayed second stage of Ontario's "restart" phase, which will allow more businesses to reopen. While the provincial health ministry has been justifiably cautious, the destination is endeavoring to balance the economic and public health implications to produce the most beneficial societal outcome.

The current forecast already shows considerable improvement in July and August, typical peak tourist seasons for Toronto (more on that later) with RevPAR declines reducing from 85% in June to 75% in July and 60% in August. Definite signs of life, although still far from normal performance levels.

Reflecting on the dramatic 40-point slide in the model's June forecast over a five-week period, July and August were not nearly as harsh. July's downward revisions represented a 14-point drop, while August was nine points lower. Looking at the 90-day YoY RevPAR disruption forecast, one could argue that it is the directional trend which is important.

Figure 2:
Change in Forecast YoY RevPAR Comparing May 3, 2020 to May 31, 2020 Forecast

RevPAR	Date of Forecast	
YoY Change	**May 3**	**May 31**
June 2020	-51.6%	-84.8%
July 2020	-61.1%	-75.3%
August 2020	-51.8%	-60.4%

Premier Ford's Tory party desperately wants to revive Ontario's economy, but there is also an understanding that poor health outcomes will negatively impact Canada's publicly funded healthcare system. In 2017, healthcare spending was 11.5% of Canada's gross domestic product (GDP.) The trend line has those costs increasing annually, so mitigating the spread of the virus not only contributes to a beneficial public health outcome, but a positive fiscal outcome as well. In this case, there are common objectives and incentives for both the economic and healthcare constituencies. Government leaders at all levels clearly realize that ignoring the science and advice of health experts would be counterproductive.

Figure 3:
Forecast YoY RevPAR Decline – July 2020

Powered by LodgIQ AI Platform

	5/3/20	5/10/20	5/17/20	5/24/20	5/31/20
RevPAR Change	-61.1%	-64.4%	-68.0%	-72.2%	-75.3%
COVID-19 Cases	5,967	7,413	8,511	10,035	11,174

Date of Forecast

● RevPAR Change ● COVID-19 Cases
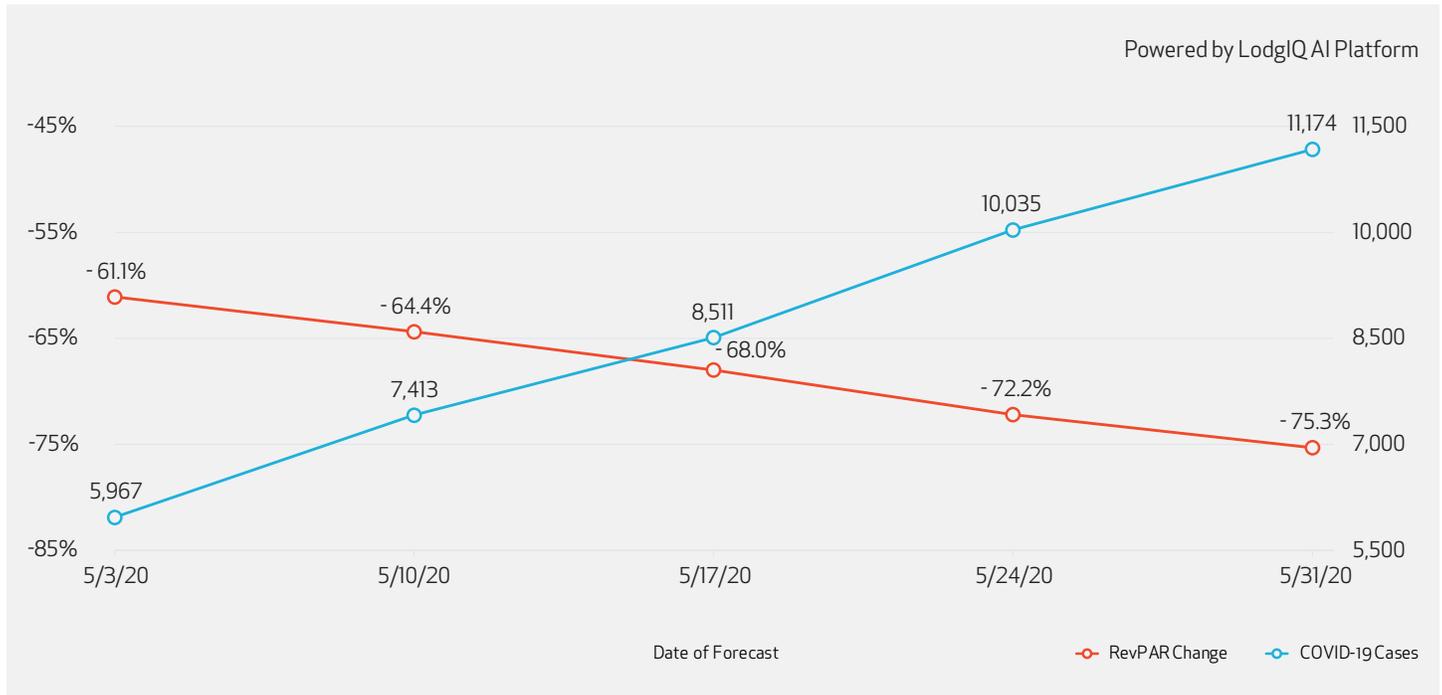
Figure 4:
Forecast YoY RevPAR Decline – August 2020

Powered by LodgIQ AI Platform

	5/3/20	5/10/20	5/17/20	5/24/20	5/31/20
RevPAR Change	-51.8%	-53.9%	-56.0%	-58.4%	-60.4%
COVID-19 Cases	5,967	7,413	8,511	10,035	11,174

Date of Forecast

● RevPAR Change ● COVID-19 Cases
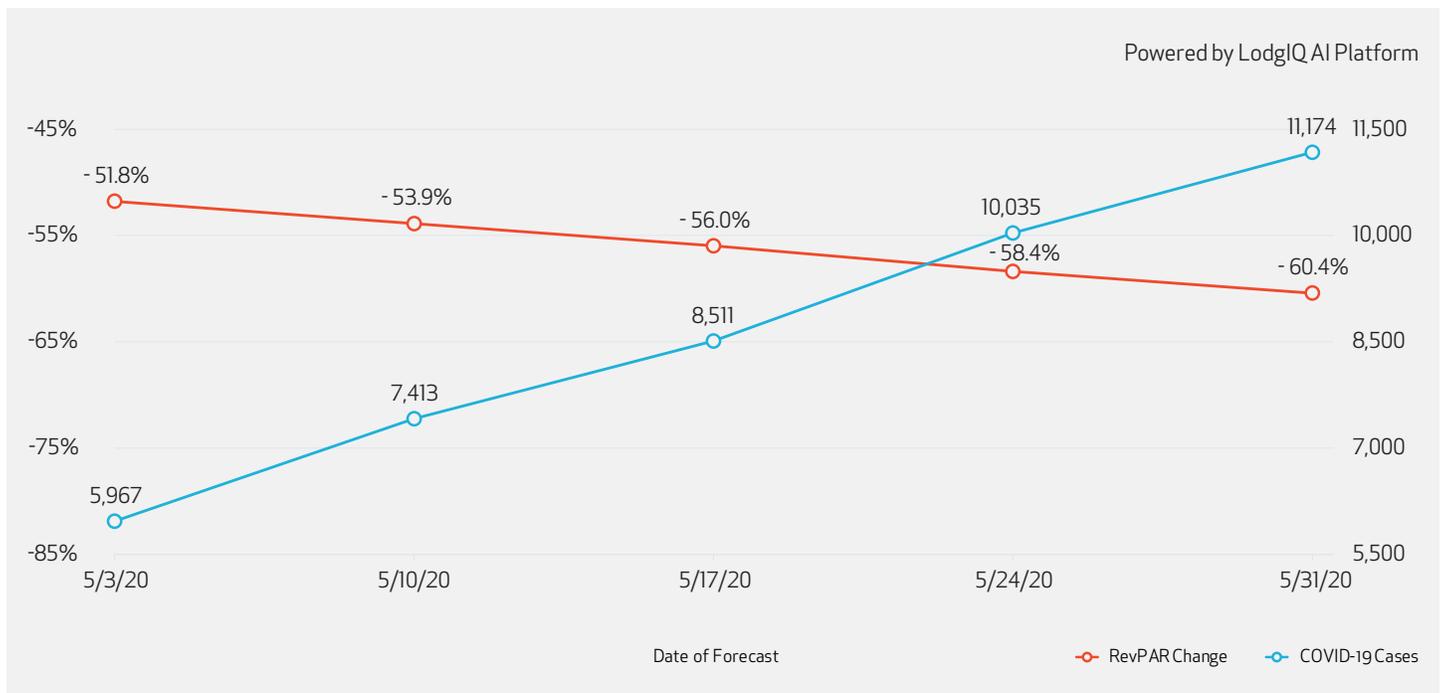
Beginning in early April, across Canada, some hospitals have leased hotels to accommodate non-COVID-19-related patients (for example mental health and palliative care). Interestingly, in Toronto, the city has a long-established practice of leasing hotel rooms to accommodate the homeless, primarily to augment its family shelter system. Mayor John Tory has also raised the possibility of converting hotels that may be put out of business by the pandemic into permanent shelter facilities. With controlled case counts and a strong lockdown, Toronto hotels did not see a significant occupancy boost from contract rooms for healthcare, essential worker or traveler housing.

The model projects June occupancy at 14.7%, growing 6.6 points (45% growth) to 21.3% in July and another 12.1 points (57% growth) to 33.4% in August. Seeing an increase in the relative growth rates, even as the basis expands, is a very positive sign. We see opportunity for some optimism here.

Figure 5:

Change in Occupancy Forecast Comparing May 3, 2020 to May 31, 2020 Forecast

Occupancy	Date of Forecast	
	May 3	May 31
June	39.4%	14.7%
July	32.8%	21.3%
August	40.1%	33.4%

Throughout this initiative, we have repeated our intent to take a disciplined, data-centric approach to these forecasts, with each one produced based on the information available at the time. Our testing of Magic 8-balls, Ouija boards and other divination methods have not yet been proven to be sufficiently reliable to incorporate into the model.

Case counts alone don't tell the entire story; it is the political response to the case trends that impact the hotel industry. Given the level of uncertainty related to viral spread and the potentially more unpredictable political moves, we must reiterate that many things can change.

One key issue for Toronto, and Canada as a whole, is the U.S. border closure. Reopening the border would unquestionably have a positive impact on the Toronto hotel industry. However, it might also have a potentially catastrophic impact from a public health perspective, due to the close proximity, 10x population and 20x coronavirus case ratio between two countries.

Compounding concerns over rising case counts in U.S. states that may have prematurely reopened local economies, widespread protest rallies related to racial inequality and policing practices are undercutting U.S. social distancing efforts. If the U.S., which has now passed the 2 million COVID-19 case milestone, sees its current national case plateau turn into an upward trend, there will be a greater likelihood of the U.S.-Canada border remaining closed to non-essential traffic. Such a scenario would create a significant headwind for future stages of Toronto's hotel industry recovery.

Recently, one pundit humorously pondered whether some Canadians are beginning to have concerns similar to an upstairs neighbor suspecting that the tenants downstairs may be operating a meth lab. At this point, they have no idea what is going on down there, but are simply hoping for the best.

Canada can learn a valuable lesson from Singapore – a country that did everything right until Malaysia provided prior notice of a pending lockdown. Singapore's hesitancy to close its border led to an influx of new cases as Malaysians working there took quick roundtrip visits in an attempt to mitigate the personal impact of the lockdown – only to inadvertently contribute the spread of the virus to others.

With its unexpected announcement on June 6 that businesses would not be reopening the following Monday, the Ontario government has clearly communicated that it is taking the changing dynamics of the pandemic seriously. Canadians, universally recognized for their congenial politeness, may also need to be commended for their patience. Their fundamentals look good and they seem to have the resolve not to hinder their progress.

Figure 6:
**Forecast Occupancy – June 2020**

Powered by LodgIQ AI Platform
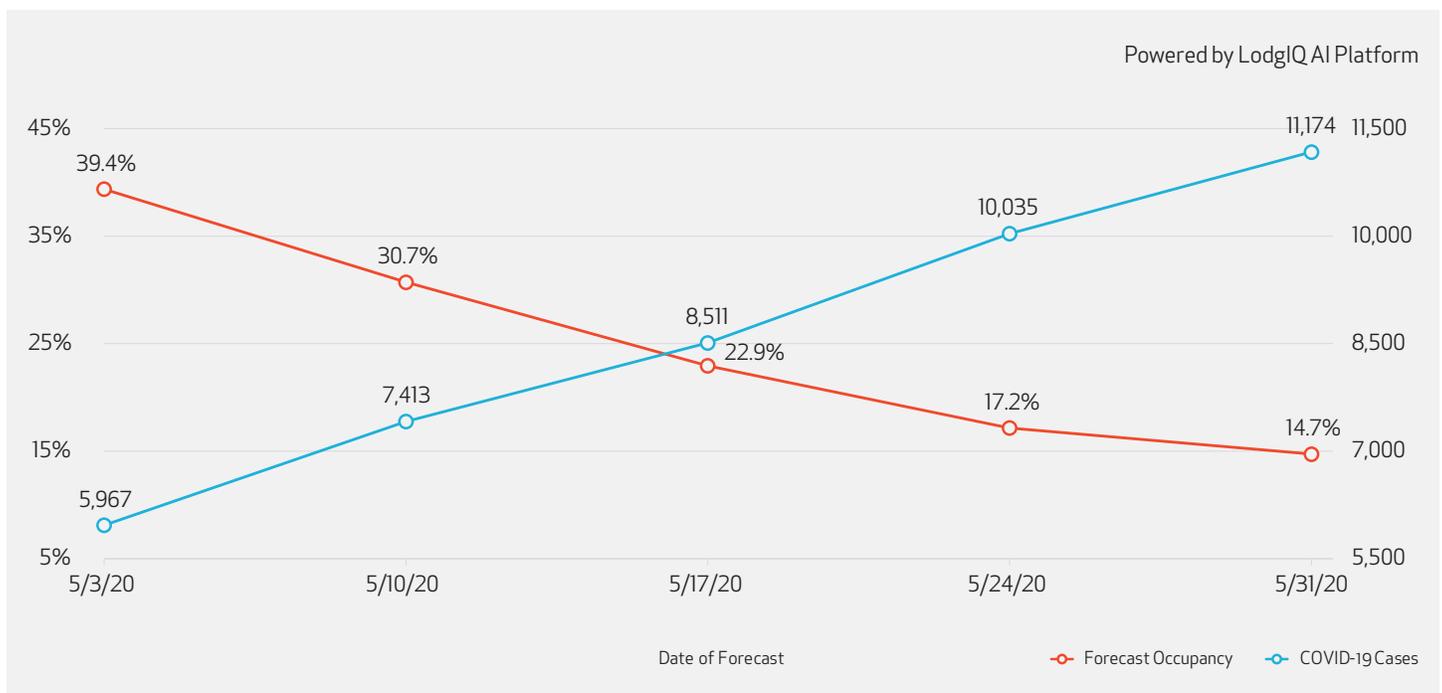
Figure 7:
Forecast Occupancy – July 2020

Powered by LodgIQ AI Platform
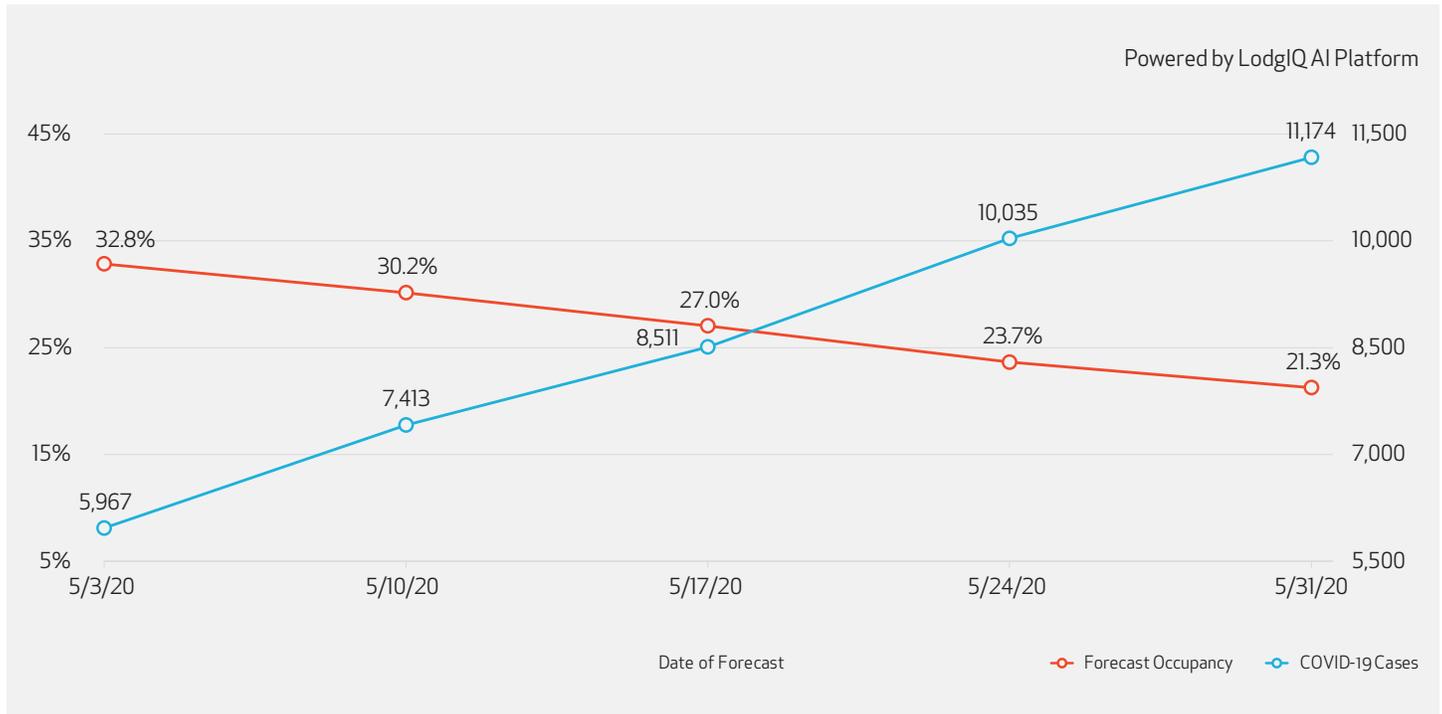
Figure 8:
Forecast Occupancy – August 2020

Powered by LodgIQ AI Platform
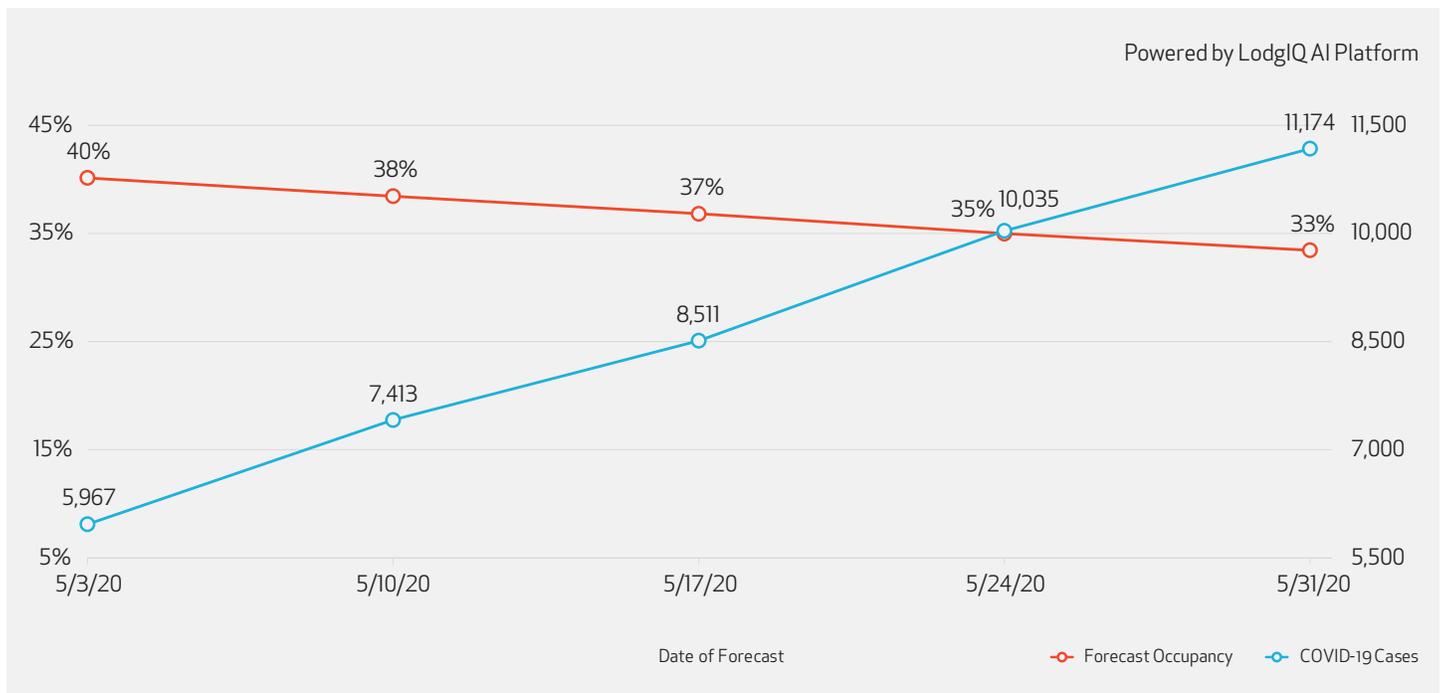
About the Hotel Forecast Model

We continue to identify leading indicators that signal likely pricing strategies as markets decline and recover. ADRs can be misleading in a market experiencing severe supply contraction, as the mix of available rooms may shift to offer higher ratios of economy or luxury properties. Logically, during significant periods of disruption, travelers may become more price-sensitive, but anxious hoteliers engaging in rate wars may suppress pricing not only for their competitive set, but for the destination overall.

It is also important to remember that as the time horizon expands, greater variation may be expected. As more global markets recover from peak virus caseloads, their outcomes will be captured, with the model continually refined to enhance its precision.

This crisis will pass, but until then, the most urgent questions focus on the depth of the decline, the length of its duration and how the recovery will manifest itself. As the analysis continues, the following factors will be closely monitored to identify early signs of recovery:

- Active cases and mortality rates
- Test counts per million
- Government travel policies
- Stock market and volatility indexes
- Unemployment rates

About Phocuswright

Phocuswright is the travel industry research authority on how travelers, suppliers and intermediaries connect. Independent, rigorous and unbiased, Phocuswright fosters smart strategic planning, tactical decision-making and organizational effectiveness.

To complement its primary research in North and Latin America, Europe and Asia, Phocuswright produces several high-profile conferences in the United States, Europe and Asia Pacific. Industry leaders and company analysts bring this intelligence to life by debating issues, sharing ideas and defining the ever-evolving reality of travel commerce.

Phocuswright also operates PhocusWire, a media service that covers the world of digital travel 365 days a year with a range of news, analysis, commentary and opinion from across the travel, tourism and hospitality sector.

The company is headquartered in the United States with Europe and Asia Pacific operations and local analysts on five continents.

Phocuswright is a wholly owned subsidiary of Northstar Travel Group.

www.phocuswright.com

About LodgIQ

LodgIQ uses state of the art BigData Analytics and AI / Machine Learning algorithms to forecast demand and price hotel rooms. LodgIQ is led by a team of experienced hospitality technologists, data scientists and engineers. Seed funded by Highgate Ventures, LodgIQ is re-imagining revenue management with predictive and prescriptive analytics methods. Our flagship product – LodgIQ RM is used by hotels across the globe, day-in and day-out to understand demand and optimize revenue.

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