

CBRE HOTELS  
VALUATION & ADVISORY SERVICES

# MARKET STUDY ADVISORY REPORT

PROPOSED HOTEL DEVELOPMENT  
CROWSNEST PASS, ALBERTA  
FILE NO. 20-APPRHOTELS-0053  
EFFECTIVE DATE: JULY 1, 2022

**CBRE**

July 31, 2020

Municipality of Crowsnest Pass  
PO Box 600  
Crowsnest Pass, Alberta, T0K 0E0

Attn: Mr. Patrick Thomas, Chief Administrative  
Officer

RE: Market Study for a Proposed Hotel, Crowsnest Pass, Alberta

Dear Mr. Thomas:

Further to the terms of our proposal/engagement, CBRE Hotels has completed the research and analysis in connection with the assessment for the potential for new hotel development to be constructed at your designated site that is located in the Blairmore area of the Municipality of Crowsnest Pass, Alberta.

The purpose and intended use of this report is to determine the level of market and economic support for a potential hotel development in the Municipality of Crowsnest Pass, with an interest in attracting third party developers to the Village should a new hotel be economically feasible. This report has been prepared solely for the internal planning purposes of the client. This report cannot be relied on for financing or investment purposes.

As of the date of this report, the nation, region, and market area are impacted by the COVID-19 pandemic. This could have a prolonged effect on macroeconomic conditions, though at this time the length of duration is unknown. The perceived impact on real estate varies on several factors including asset class, use, tenancy, and location. Our analysis considers available information as of the date of this report.

The report is subject to the Assumptions and Limiting Conditions in Addendum A.

The projections herein are based on a review of market information and interviews with market participants. The entire study, including all findings and conclusions, pertains to the competitive market area and is based on our knowledge and information with respect to current and projected economic data, expected growth in the supply of and demand for hotel accommodation, proposed construction of facilities which could be deemed to be competitive, and the status of the competitive market as at July 24, 2020.

As in all studies of this type, the projected operating results are based on competent and efficient management and presume no significant change in the competitive position of the accommodation industry in the immediate area except as set forth in this report. The estimates are subject to uncertainty and variation and we do not represent them as results that will be achieved. They have, however, been conscientiously prepared on the basis of available information and our experience in the industry.

Based on the demand and financial operating projections presented in this report, the projected Return On Equity (ROE) would be below the typical expectations of a developer/investor. As such, we believe the probability of development of a hotel at the subject site would be low. As noted in the report, the analysis assumes that future hotel demand for the competitive accommodation market includes the development of one coal mine operation in the vicinity of the Municipality. In the absence of a coal mining operation, guest room demand for a proposed hotel at the subject site would be below the projections shown in this report, which would result in a hotel project not being viable.

It has been a pleasure to assist you in this assignment. If you have any questions concerning the analysis, or if CBRE Limited can be of further service, please contact us.

Respectfully submitted,  
CBRE Limited



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CBRE Hotels  
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## ADDENDA



# TERMS OF REFERENCE

## PURPOSE AND INTENDED USE OF REPORT

In June 2020, CBRE Hotels was retained by the Municipality of Crowsnest Pass to prepare a Market Study examining the market and economic potential for development of a fixed roof accommodation property at a site located within the Municipality. The site is within the Blairmore area. The overall development parcel measures an area of approximately 6.25 acres. A proposed hotel would occupy a portion of that overall parcel, with other potential commercial uses developed adjacent. This study is intended to examine the market and economic potential as an investment opportunity for private sector accommodation development.

This report presents the research and analysis with respect to the development of the proposed hotel. The analysis herein has assumed an opening date for the subject hotel of July 1, 2022.

The general objectives of this assignment have been to:

- Evaluate the market potential for a proposed accommodation development;
- Examine the proposed hotel site and provide a recommendation as to the potential location for the hotel on that overall 6.25 acre parcel;
- Recommend a facility program for the proposed accommodation development;
- Project the future occupancy and average daily room rate of the proposed development;
- Project the financial operating results for the proposed development;
- Prepare a preliminary Indication of Supportable Investment and comment on the economic viability of the project; and,
- Present our findings in a written, narrative report.

In order to complete our analysis, we have undertaken the following steps:

- A review of economic conditions affecting the demand for accommodation in the market area;
- A review of accommodation demand trends in the market area;
- A review of tourism trends in the market area;
- A review of the existing accommodation market in the vicinity of the Municipality of Crowsnest Pass, including within the communities that comprise the Municipality, as well as other accommodation at a more regional level which includes the town of Pincher Creek. We are also familiar with the hotels and market conditions within other regional communities, having previously completed other engagements in those areas. This list includes Sparwood, Elkford and Fernie in British Columbia;
- Interviews with local and regional stakeholders;
- A review of typical site selection criteria for the proposed hotel on the subject 6.25 acre parcel;

- A recommendation as to the size, facilities, amenities and branding options for a proposed development
- An estimate of future growth in supply of, and demand for, hotel accommodation in the competitive market area;
- Preparation of occupancy and Average Daily Rate (ADR) projections for a proposed hotel over the six fiscal year projection period commencing July 1, 2022, based on the facilities, and market orientation;
- Preparation of an operating pro forma for the proposed hotel reflecting a typical operating model. The projections present the projected cashflows before tax, depreciation or debt service;
- Analysis of Indication of Supportable Investment; and
- Documentation of study research, findings and conclusions.

The reader should note that the projected top line and operating results for the hotel are based on the hotel operating under competent and efficient management. Expectations for the local hospitality market are set out in this report and are based on the best available information as of the date of this report. The hotel market is subject to sudden and rapid changes which can affect market performance. The projected operating results for the subject hotel are subject to uncertainty and variation and we do not represent them as results that will actually be achieved.

This report has been prepared for the Municipality of Crowsnest Pass and for the purpose stated. Any other use or user is unintended by the advisor.

The report is subject to those Assumptions and Limiting Conditions contained in Addendum "A" in addition to any assumptions, which may be stated in the body of the report.

# ECONOMIC OVERVIEW

## ECONOMIC OVERVIEWS

Note: Given the radical change in global economic conditions from the Coronavirus, the pre-Covid-19 economic commentary has been removed. These outlooks have been replaced with recent consensus comments about the potential Canadian economic outlook from the major Canadian banks. Additional commentary on the US economy, from CBRE's chief economist, Richard Barkham, has been included in Appendix B.

### CANADA

- The median annualized forecasts from the latest available revisions by the Big 6 banks are:
  - GDP to decline by 3.4% in Q1 with a sharp decrease of 24.8% in Q2 2020.
  - Growth is expected to return in Q3 and Q4 (9.9% and 8.0%, respectively), but at a slower pace compared to the U.S.
  - For the full year 2020, real GDP is expected to fall by 3.0%. Growth is expected to return in 2021 with real GDP rising 3.6%.
  - The unemployment rate is forecast to spike to 10% in Q2 2020 before declining to 8.3% by the end of the year and 7.0% by the end of 2021.
- Canada's economy faces the dual stresses of COVID-19 as well as the ongoing oil price war that further impacts Alberta's energy sector.
- The Bank of Canada and the Federal Government have responded swiftly and decisively, launching massive stimulus programs to mitigate the economic damage.
  - The Bank of Canada has cut interest rates to its effective lower bound of 0.25%. In addition, the central bank has implemented its first-ever quantitative easing program alongside various other measures to ensure the banks and financial markets remain liquid.
  - The Federal Government's fiscal stimulus package currently totals approximately \$227 billion, or approximately 10% of GDP. Within these measures, over \$77 billion will be in the form of direct fiscal stimulus and \$150 billion will take place in the form of liquidity or loan measures.
    - In comparison to the 2009 fiscal response to the global financial crisis, the current level of direct fiscal stimulus in response to COVID-19 is nearly 2.5 times as large.
    - Additional stimulus measures are still expected, in particular with regards to Canada's airline and energy sectors.

## PROVINCIAL ECONOMIC OVERVIEW

A discussion of Alberta’s economic environment is provided below and data has been sourced from the Conference Board of Canada’s Spring 2020 Provincial Outlook report. At the time of writing this report, the impacts of the Corona Virus outbreak on the global, national and provincial economies, continues to evolve. The economic outlooks we have relied upon were prepared in May and June 2020, utilizing data compiled during the early days of the pandemic.

### Economic Overview

|                                      | Alberta Economic Indicators |          |          |          |          |          |          |          |
|--------------------------------------|-----------------------------|----------|----------|----------|----------|----------|----------|----------|
|                                      | 2016                        | 2017     | 2018     | 2019E    | 2020F    | 2021F    | 2022F    | 2023F    |
| GDP at Basic Price (2012 \$Millions) | 313,242                     | 327,596  | 335,096  | 331,673  | 310,036  | 330,024  | 342,852  | 355,723  |
| Annual % Change                      | ▼ -4.1%                     | ▲ 4.6%   | ▲ 2.3%   | ▼ -1.4%  | ▼ -6.5%  | ▲ 6.4%   | ▲ 3.9%   | ▲ 3.8%   |
| Population (Thousands)               | 4,189                       | 4,238    | 4,294    | 4,363    | 4,421    | 4,491    | 4,573    | 4,655    |
| Annual % Change                      | ▲ 1.3%                      | ▲ 1.2%   | ▲ 1.3%   | ▲ 1.6%   | ▲ 1.3%   | ▲ 1.6%   | ▲ 1.8%   | ▲ 1.8%   |
| Employment (Thousands)               | 2,265                       | 2,288    | 2,331    | 2,342    | 2,208    | 2,289    | 2,335    | 2,384    |
| Annual % Change                      | ▼ -1.6%                     | ▲ 1.0%   | ▲ 1.9%   | ▲ 0.5%   | ▼ -5.7%  | ▲ 3.7%   | ▲ 2.0%   | ▲ 2.1%   |
| Unemployment Rate                    | 8.1%                        | 7.8%     | 6.6%     | 6.9%     | 10.8%    | 9.2%     | 8.8%     | 8.6%     |
| Retail Sales (\$ Millions)           | \$74,997                    | \$80,318 | \$81,911 | \$81,295 | \$76,633 | \$80,535 | \$84,309 | \$88,381 |
| Annual % Change                      | ▼ -1.1%                     | ▲ 7.1%   | ▲ 2.0%   | ▼ -0.8%  | ▼ -5.7%  | ▲ 5.1%   | ▲ 4.7%   | ▲ 4.8%   |
| CPI (Annual Change)                  | ▲ 1.1%                      | ▲ 1.5%   | ▲ 2.5%   | ▲ 1.7%   | ▲ 1.3%   | ▲ 2.4%   | ▲ 2.2%   | ▲ 2.0%   |

Source: Conference Board of Canada, Provincial Outlook, Spring 2020 (Issued in June 2020)

Notable highlights from the Conference Board of Canada area as follows:

- Prior to the pandemic outbreak, Alberta continued to suffer through a prolonged economic downturn. GDP at Basic Prices (\$2012 Millions) was estimated to have declined by 1.4% in 2019. The decline in oil and gas related infrastructure development, drilling activity and export volume bottlenecks all contributed to the GDP decline. Delays in construction of some key initiatives, notably the twinning of the Trans Mountain Pipeline and the remaining phase of the Keystone XL pipeline, also negatively impacted the Alberta economy in 2019.
- The first two months of 2020 showed mixed results related to oil and gas in Alberta. The continued glut of oil in storage globally depressed prices and lead many firms, including those headquartered within Alberta and/or those with operations and development projects in the province, to continue to reign in capital and production spending. A bright note was the ramping up of construction activity for the Trans Mountain project. Some communities along the pipeline route within Alberta saw an increase in workforce employment levels and construction activity. Since March, construction activity along the route has continued, albeit with numerous additional safety precautions and in some instances a resulting slower pace of development.
- The pandemic is projected to result in a spike in job losses through Q2, with the Conference Board estimating approximately 263,000 residents losing their employment. The service

industry, including accommodation and food and beverage services, were hit hard, as were the construction and other commercial (ie. retail) sectors. Employment levels are projected to slowly improve through the remainder of 2020 and into 2021. The unemployment rate is projected at 10.8% overall for 2020.

- Retail sales will curtail in 2020 as consumers slow their pace of spending, notably those whose employment has been lost or reduced.
- The Conference Board projects that if measures to contain the spread of the Coronavirus loosen in 2021, there will be recovery of jobs, expenditures and economic performance. GDP growth of over 6.0% is projected for 2021. Additional GDP growth of over 3.5% is projected in each of 2022 and 2023. Overall however, the Conference Board projects that Real GDP will reach the equivalent of 2014 levels at the end of 2022. Of ongoing concern is the long term impact that the pandemic may have on global oil production and prices.

## Tourism Overview

Another key sector of the Alberta economy being negatively impacted by the pandemic is the tourism and leisure segment. The decision to close Canadian borders to non essential foreign travelers, the regulations enacted by businesses prohibiting both work and in some cases leisure travel by employees and numerous restrictions regarding inter provincial travel, has thus far had a dramatic effect on the performance of key sectors that include overnight accommodation, food and beverage, meetings/conferences and attractions.

On April 9, 2020, the Alberta Hotel & Lodging Association reported that nearly 50,000 hotel guest rooms within the province were closed and over 90.0% of workers within the Association's member hotels were out of work. Hotel occupancies for the majority of assets open throughout the province had fallen below the 20.0% level. Assets were operating with minimal staffing, usually restricted to some management/supervisory positions. Simultaneously, food and beverage operations both within hotels and for other outlets also were restricted completely or limited to "take out" service only. On April 2, 2020, Restaurants Canada indicated that the Alberta Foodservice industry had temporarily or permanently lost approximately 95,000 jobs due to the Covid-19 crisis. Restaurants Canada indicated that the foodservice industry in Alberta generated \$12.0 billion in spending and produced nearly 3.5% of the province's GDP. The sector was also the province's third largest employer in 2019.

Restrictions on public gatherings, including group sizes, has had an impact on the meeting/conference sector as well as resulting in the cancellation of numerous events throughout the province, including such notable festivities as the 2020 Calgary Stampede. Many tourism attractions, including alpine and cross country ski areas, closed for the season in mid-March, which is typically among their busiest periods of their operating year.

As with previous economic downturns, the tourism and leisure sectors are focusing new promotional efforts on attracting Alberta residents to spend their leisure time at various locations within the province. Data produced by the Canadian Tourism Research Institute, a division of the Conference Board of Canada, shows that the total volume of overnight stays within Alberta by Canadian residents has been in excess of 80.0% annually for several years. Albertans comprise over 75.0% of the Canadian overnight visits. Note that the

overnight stays include those staying in commercial accommodation, campgrounds, with friends and relatives, hostels, student residences and other sources. Of note however is that the remaining volumes of overnight stays generated by US and other international visitors typically include those staying for longer durations (ie. in excess of two nights in Alberta) and their spending on trips is often higher than the expenditures of Alberta residents. As a result, the increase in domestic overnight travel by Canadians alone will not make up for the temporary loss of international visitors. Also note that the largest percentage of overnight stays by both domestic and international sources is for leisure purposes. Those staying for overnight business travel, for meetings/conferences and other important travel by sources such as work crews is not expected to improve significantly until after a Covid-19 vaccine is widely distributed.

Provincial Travel Market Outlook

| Alberta                                    | 2018   |
|--|--------|
| Total ('000s overnight province visits)    | 16,173 |
| 1  | 1.9    |
| Domestic                                   | 14,110 |
| 2  | 2.0    |
| Business                                   | 1,487  |
| 3  | 2.3    |
| Pleasure                                   | 5,261  |
| United States                              | 931    |
| 4  | 1.6    |
| Overseas                                   | 1,132  |
| 5  | 0.4    |
| Total Expenditures (\$ millions overnight) | 7,635  |
| 6  | 5.4    |
| Travel Price Index                         | 4.64   |

Source: The Conference Board of Canada, Travel Market Outlooks, National Focus, Autumn 2018/Winter 2019

## MUNICIPALITY OF CROWSNEST PASS

The Municipality of Crowsnest Pass is located in southwestern Alberta, near the border with British Columbia. The Municipality is located within a region known as the Crowsnest Pass. The Municipality is located approximately 269 kilometers southwest of the City of Calgary, approximately 149 kilometers west of the City of Lethbridge and 169 kilometers east of the City of Cranbrook, British Columbia. More locally, the two largest municipalities from Crowsnest Pass are the Town of Pincher Creek (43 kilometers east) and the City of Fernie (71 kilometers west).

Provincial Highway 3, also known as the Crowsnest Highway, runs east/west through the municipality and links to the City of Lethbridge to the east and continues westward to the Town of Hope, British Columbia. The route is widely travelled by both commercial and personal motorists. According to provincial data, the average annual daily traffic volumes in the vicinity of the intersection of Highway 3 and 20<sup>th</sup> Avenue (Near the proposed subject hotel site) is in the range of 10,000 vehicles. The average daily count in the summer months is over 12,500 vehicles.

The Municipality was formed initially in 1979 with the amalgamation of five local communities, Coleman, Blairmore, Bellevue, Frank and Hillcrest. In 1996 it was incorporated into a Town and in 2008 the province of Alberta designated it as a "Specialized Municipality". Extensive settlement of the area began in the 1880's as railway construction was undertaken. The primary economic driver that generated population growth and municipal development was coal mining. Coal mining remained a mainstay of the area's economy until the 1980's. Municipal officials indicated that the coal mining sector continues to play an important role in the economic fortunes of Crowsnest Pass. The Elk Valley, located approximately 30 kilometers to the west in British Columbia (including the towns of Sparwood and Elkford), remains an active area for coal mining and numerous local residents commute to work in the sector. Municipal officials estimated that up to 30.0% of workers at Teck's coal operations in the Elk Valley live in the Crowsnest Pass area.

According to Alberta's Department of Municipal Affairs, the total population of the Municipality of Crowsnest Pass was at approximately 5,589 residents as at 2019. The municipal population is relatively static. According to Statistics Canada, the local population grew by only 0.4% from the 2011 Census to the 2016 Census. The majority of existing employers within the Municipality of Crowsnest Pass would be considered to be of small to medium size. Public sector employers, including the area's hospital and school board, are among the larger employers based on total full time equivalents.

Alberta provincial assessment data indicated that in 2019, the total value of Assessed property was approximately \$962.0 million, of which approximately \$819.3 million was from residential properties (85.0% of the total). Local officials indicated that the property tax base of the Municipality is in the range of 93.0% of the total. There is a push to increase the volume of non residential development in the Municipality.

The area's history with coal mining formed some of the notable visitor attractions that generate interest from both domestic and international sources annually. The Frank Slide is a geological wonder that was formed in 1903, when a gigantic rock slide came down from Turtle Mountain and buried a large portion of the Town of Frank. The slide area is a popular roadside point of interest, both to view the actual mountain portion that gave way and also due to the large boulders that flank both sides of Highway 3. Many boulders are larger than a typical car. In 1910, an explosion at a mine in Bellevue resulted in 31 perishing. In 1914, an explosion at a mine in Hillcrest killed 189 workers. There are memorials and a museum dedicated to preserving the history of mining in the area and commemorating those lost in the tragic events. A brief inventory of area attractions includes the following:

- Frank Slide Interpretive Centre;
- Hillcrest Mine and Cemetery. (Includes cemetery tours);
- Bellevue Underground Mine Tours;
- Crowsnest Museum and Archives;
- Alberta Provincial Police Barracks “Scene of the Crime” attraction;
- Crowsnest Pass Public Art Gallery;
- Launstein Imagery Wildlife Art Gallery; and,
- The Leitch Collieries Provincial Historic Site.

In addition to the local historic and cultural attractions, the Municipality of Crowsnest Pass and surrounding region has an abundance of primarily outdoor recreational opportunities. Hiking, mountain climbing, mountain biking, quad touring, birdwatching, high alpine sledding, fishing/fly fishing and winter ski touring in the high alpine are among the more popular activities. There are several clubs and private tour/recreation firms based in Crowsnest Pass that provide guided instruction and touring for visitors to the area. Popular waterways for fishing and other water recreation include the Crowsnest, Oldman Waterton, Castle and Livingstone Rivers, plus numerous lakes including Crowsnest and Chinook. The area attracts both day and overnight visitors, including those living in the Calgary and Lethbridge areas. Notable recreation attractions include:

- The Crowsnest Pass Golf Club. The course is municipally owned and located adjacent to Highway 3;
- Pass Powderkeg Ski Area. Pass Powderkeg is a local ski hill in Crowsnest Pass. The mountain is open for skiing and snowboarding in winter and is a popular destination for mountain biking and hiking throughout the remainder of the year. There are instructional programmes for both winter and summer sports hosted at the facility. Pass Powderkeg does host some events and competitions annually that attract participants from outside the local area.
- Castle Mountain Resort. Castle Mountain Resort is Alberta’s southernmost mountain ski destination. The resort is located within an approximately 50 minute drive from Crowsnest Pass. The resort attracts visitors throughout the year for on mountain activities including both downhill and cross country skiing, hiking and mountain biking. The venue hosts numerous competitions annually that attract non local participation.
- Allison Cross Country Ski Trails – A popular Nordic ski area located near Crowsnest Pass on Mount Tecumseh. There are kilometers of groomed trails, including some trails for skate skiing.
- Local representatives indicate that there are over 1,500 kilometers of mapped and managed trails for quad touring and sledding in winter months in the Crowsnest Pass.
- Indoor recreation venues include a single sheet ice arena, a six sheet curling club, an indoor skateboard park, an indoor climbing wall and a gymnasium.
- There is a local outdoor aquatic facility that includes a waterslide, a lazy river, a hot tub, a six lane lap pool, a toddler pool, a diving board and a picnic area.

The Crowsnest Golf Club's attractiveness for both local and non local play is now greatly enhanced due to numerous changes that are reaching completion. The "New" 18 hole course opened in June 2019 and involved the construction of eight new holes, plus modifications that created the other ten holes. An Alberta based, noted course architect, Gary Browning, oversaw the redevelopment. The project has resulted in a more scenic, challenging layout that is being touted locally as now being more of a 'destination' course that is hoped to attract more non-local golf play. Local accommodations in Crowsnest Pass already offer a golf and accommodation "package" and hope to grow that demand in future. The course redevelopment also includes the construction of a new clubhouse, which was nearing completion as at the time of our fieldwork. The changes to the course are also hoped to help attract more notable tournaments in future that include non-local participants.

## Proposed Coal Mining

As previously noted, coal mining was a historic mainstay of the area's economy and numerous local residents continue to work in the sector. The area's coal is considered to be high quality metallurgical coal, which is highly sought for steel production. There are currently several proposals for construction of new "open pit" coal mines and in one instance the resumption of open pit mining at an existing facility. All of the initiatives are in the area. The provincial government in Alberta is phasing out coal as a source of hydro electric production. But regulators are treating metallurgical coal differently and are considered to be actively working toward necessarily regulatory approvals that would facilitate development. On June 1, 2020, the provincial government rescinded the previous provincial coal policy. Note that any projects would also require federal approval before commencement.

Among the notable proposals is the Grassy Mountain project, which is a 1,500 hectare site located to the north of Crowsnest Pass. The project is headed by Australian based Riversdale Resources. The firm has also opened offices in Calgary and has a presence locally in Crowsnest Pass. The proposed project would include eventually extracting up to 4.0 million tonnes of coal annually with the mine having an estimated active life of 23 years. Riversdale has indicated that their peak production employment could reach 400 workers. The mine would require up to a peak of 700 workers during construction. Riversdale representatives have indicated that they would construct a work camp in Crowsnest Pass to house construction workers. Housing for operational employees would include the existing local residential base, but both company and municipal officials have acknowledged that considerable new residential construction would be required in order to house workers. Riversdale has started recruiting some required senior management personnel that would be based in Crowsnest.

Riversdale representative have also indicated that the project would produce a steady stream of demand for local overnight accommodation facilities, generated from sources such as visiting executives/management, provincial and federal regulators and monitors, new/relocating employees and their families, those brought in for specific maintenance and repairs, workers involved with annual mine maintenance shut downs and other sources. Some workers may live elsewhere and 'Commute' during their rotation to the Crowsnest Pass area. Some of these workers may also stay in local hotels and motels.

Riversdale representatives have indicated that they hope to have all provincial and federal approvals in place that would allow them to commence construction as early as April or May 2021. If that were achieved, they anticipate the mine would commence startup in Q3 of 2023, then be fully operational no later than December 2023.

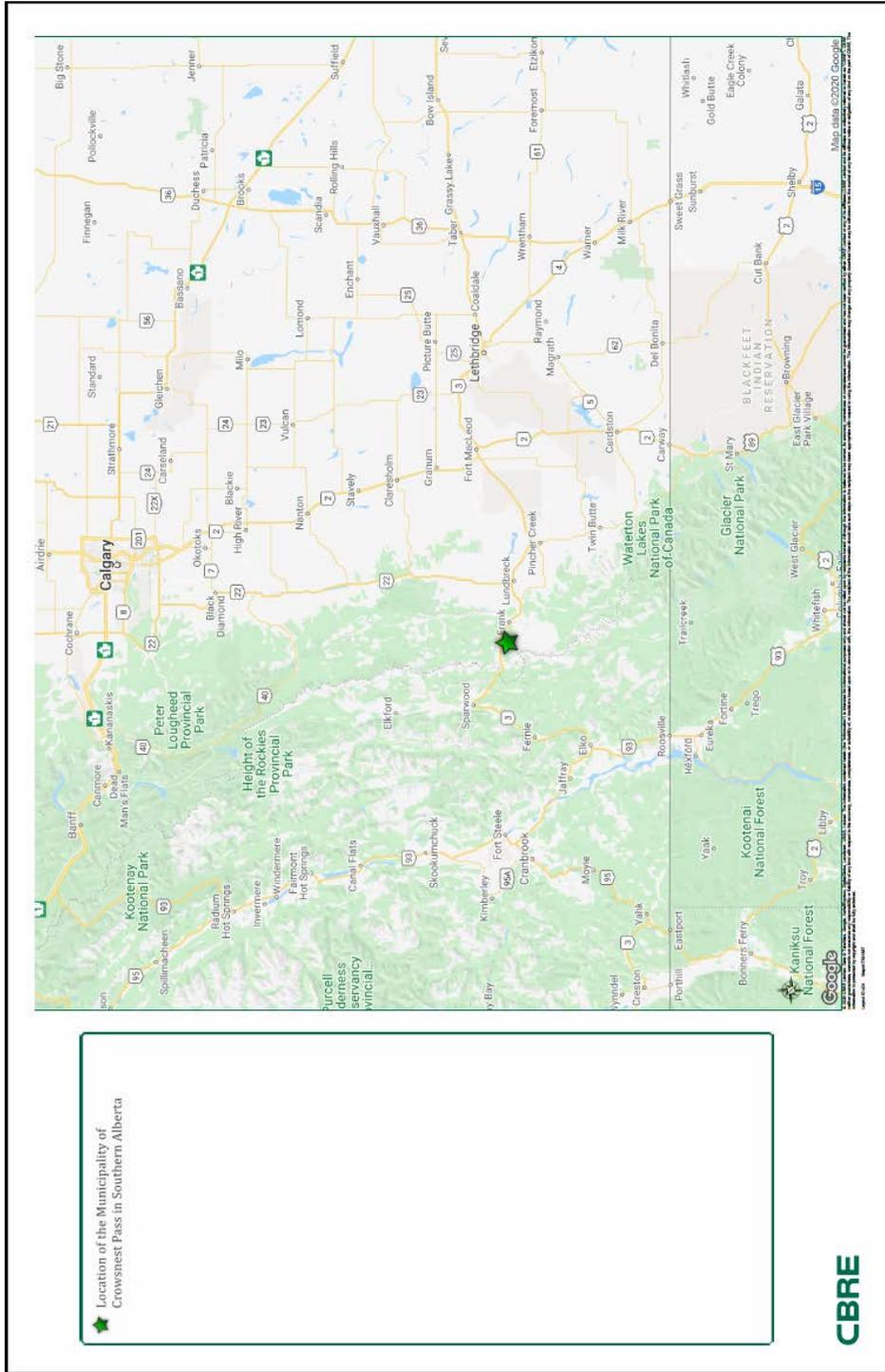
Another firm pursuing coal mining in the area is Montem Resources, who provided local council of their progress in a meeting held in Crowsnest Pass in July 2020. Montem has two potential projects in development, Tent Mountain and The Chinook Project. The Tent Mountain initiative is notable in that the firm already has a mining permit with the provincial government. The next step involves the completion of their feasibility study and the requirement to get provincial licensing approval. A Montem official indicated that the firm would not have to go through a federal permit approval process due to having an active permit. Montem representatives have indicated that if they receive the mine license and financing, the project would take approximately two years to construct, utilizing up to 200 workers. Estimated employment for operations would be 175 full time equivalents.

Montem's other proposal, the Chinook Project, is estimated to have a seven to ten year time frame before they would have all necessary approvals and complete construction of the mine. In the interim, Montem continues to conduct research and test analyses in the Crowsnest Pass area.

Atrum Coal is proposing to build two coal mines in an area located to the north of Riversdale's proposal. In 2018 and 2019, Atrum worked on their sampling and testing in the area and extended that programme into early 2020. Atrum estimates a 40 month time frame to get regulatory approvals and complete construction. The exact timing of the initiative has not been confirmed.

The projects described herein include some projects that may move to development as early as 2021, along with other projects that are at minimum three to ten years for completion. While none of the initiatives have been confirmed for development at this time, the interest in development has excited local officials and provide optimism for additional economic prosperity for the Crowsnest Pass in future. All of these mining initiatives have also periodically generated demand for local accommodation in the Municipality.

## Location of the Municipality of Crowsnest Pass in Southwest Alberta



# ACCOMMODATION MARKET OVERVIEWS

## NATIONAL ACCOMMODATION MARKET OVERVIEW

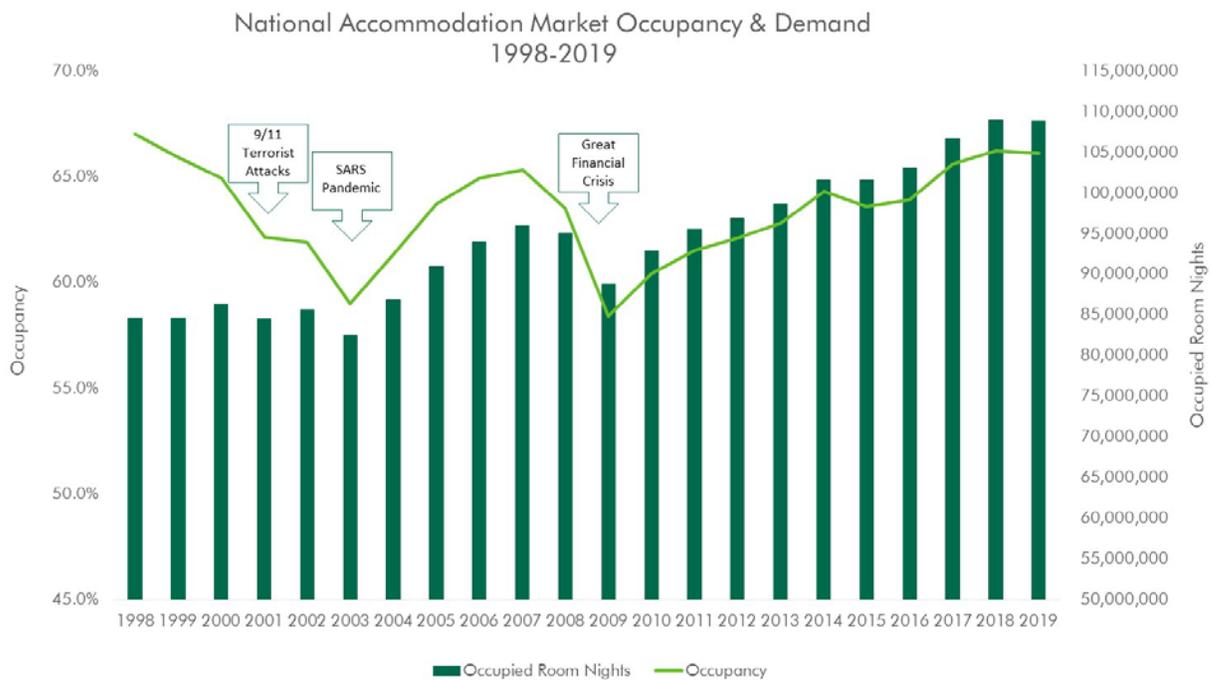
### The Canadian Accommodation Market and Covid-19: Lessons Learned from Previous Demand Shocks

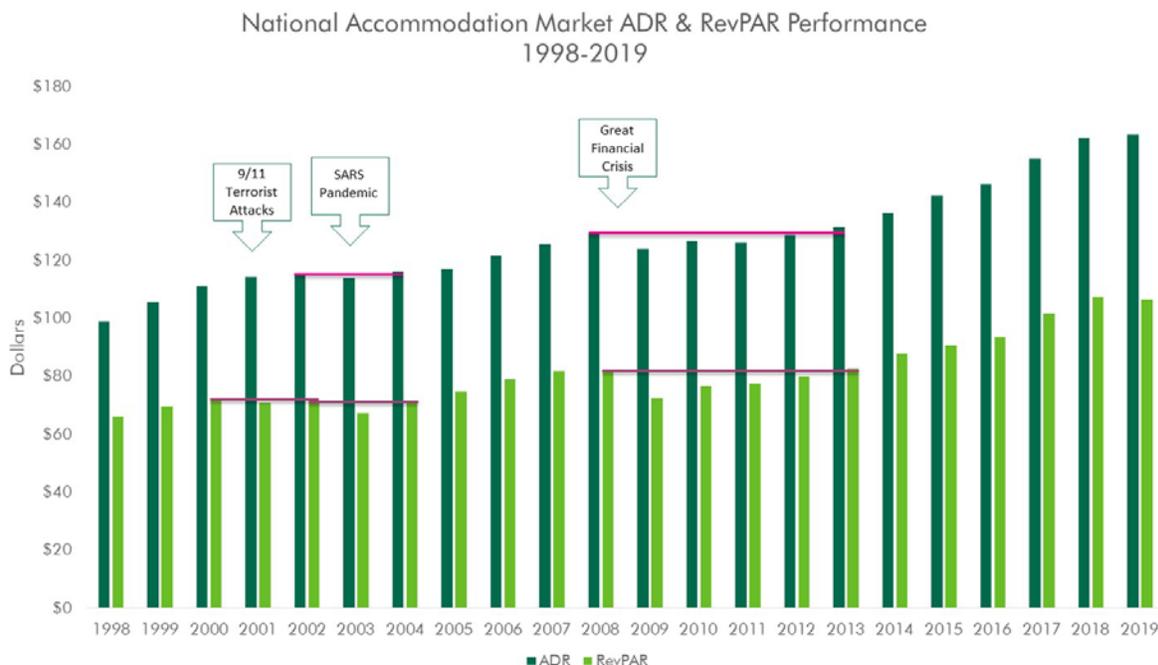
The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organization as a “Global Pandemic” on the 11th March 2020, is causing heightened uncertainty in both local and global market conditions. Global financial markets have seen steep declines since late February largely on the back of the pandemic over concerns of trade disruptions and falling demand. Many countries globally have implemented strict travel restrictions and a range of quarantine and “social distancing” measures.

In Canada, on March 18, 2020, the Federal government implemented a ban on the entry to Canada of foreign nationals from all countries, except the United States. At the same time, it was announced that the Canada-U.S. border would be closed to all non-essential travel.

The accommodation market in Canada has been impacted significantly as nearly all demand segments have heavily restricted or completely stopped all domestic and international travel. As a result, in many markets hotel operators have closed their hotels and laid off most of their staff in an effort to mitigate the financial impacts of severely limited occupancy levels which are well below 20% nationally.

While it is too early to forecast the trajectory of the recovery in Canada, looking at the accommodation market’s recovery from similar demand shocks since 1998 may provide an indication of how things could play out. The following graph presents the demand change percentage, ADR and RevPAR for the Canadian Accommodation market going back to 1998.





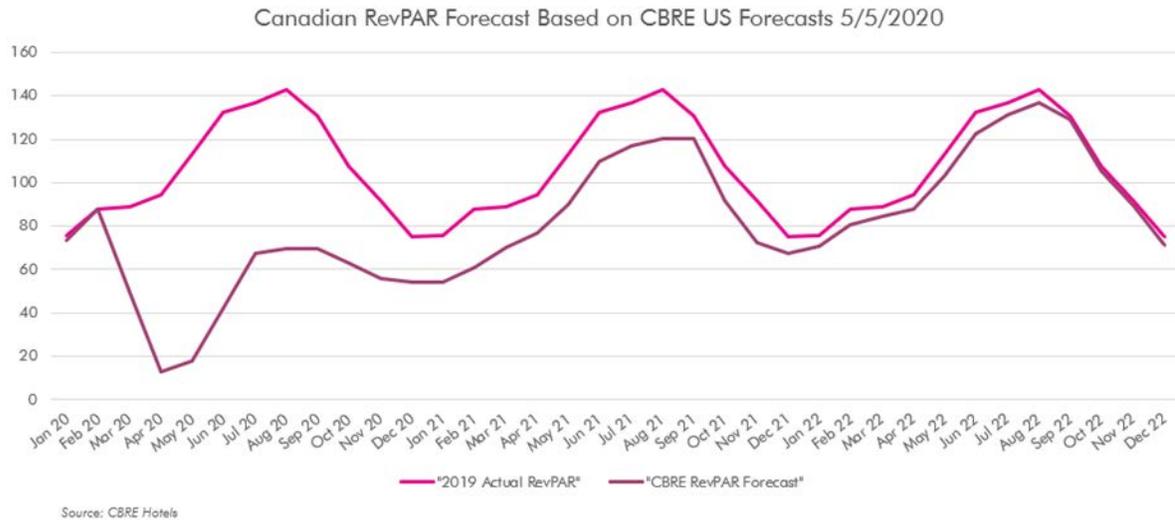
In 2001 after the demand shock created by the 9/11 terrorist attacks demand declined by just over 2% and demand returned to pre-incident levels the following year. Similarly, in 2003 the SARS pandemic which was largely concentrated in Toronto demand declined by almost 4% with occupied room nights more than recovering in 2004. In 2008/2009, the most recent demand shock, the Great Financial Crisis (GFC) saw demand decline by a combined 7.5% over the two-year period. While demand came back strongly in 2010, it took until 2011 for occupied room night levels to pre-downturn levels.

In general, the rebound on ADR and RevPAR has lagged the demand recovery as demonstrated above. Post 9/11 and SARS, the ADR and RevPAR levels returned to pre-impact levels within 1-2 years. Following the GFC it took more than 4 years for the national ADR and RevPAR levels to return to 2008 levels.

In utilizing this historic data, CBRE Hotels has prepared our projection for National RevPAR performance by month, as presented below. The 2019 RevPAR performance is also plotted and shows that our projection for RevPAR is not anticipated to recover to 2019 levels until approximately September 2022. Therefore, a full recovery to 2019 levels is not expected until 2023.

## THE CANADIAN RECOVERY OUTLOOK

CBRE HOTELS  
The World's Leading Hotel Experts



The following table provides a summary of our projections for national performance on an annual basis through to 2025. While this is our projection for national performance, individual markets will recover at a varying pace and certainly some markets are likely to see recovery sooner depending on a number of factors including new supply. There are additional recovery influences that could affect projected results including travel restrictions, operational shifts in the industry, economic recovery, extended physical/social distancing requirements and ultimately, the timing and availability of a vaccine.

## THE CANADIAN RECOVERY OUTLOOK

CBRE HOTELS  
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### CBRE Original Canadian Forecasts 1/1/2020

|      | Occ   | ADR      | RevPAR   | Supply | Demand | Occ   | ADR  | RevPAR |
|------|-------|----------|----------|--------|--------|-------|------|--------|
| 2019 | 65.1% | \$163.52 | \$106.52 | 1.8%   | 0.2%   | -1.1% | 0.8% | -0.8%  |
| 2020 | 65.3% | \$167.44 | \$109.39 | 1.9%   | 2.5%   | 0.2%  | 2.4% | 2.7%   |

### Canadian Forecasts Based on CBRE US Forecasts 5/5/2020

|      | Occ   | ADR      | RevPAR   | Supply | Demand | Occ    | ADR    | RevPAR |
|------|-------|----------|----------|--------|--------|--------|--------|--------|
| 2020 | 38.2% | \$138.99 | \$53.15  | 1.9%   | -40.0% | -27.1% | -15.0% | -50.1% |
| 2021 | 57.0% | \$152.89 | \$87.09  | 0.7%   | 50.0%  | 18.7%  | 10.0%  | 63.8%  |
| 2022 | 63.5% | \$159.01 | \$100.94 | 0.5%   | 12.0%  | 6.5%   | 4.0%   | 15.9%  |
| 2023 | 65.1% | \$163.78 | \$106.55 | 0.5%   | 3.0%   | 1.6%   | 3.0%   | 5.6%   |
| 2024 | 65.1% | \$167.87 | \$109.22 | 1.5%   | 1.5%   | 0.0%   | 2.5%   | 2.5%   |
| 2025 | 65.1% | \$172.07 | \$111.95 | 1.5%   | 1.5%   | 0.0%   | 2.5%   | 2.5%   |

Source: CBRE Hotels

## COMPETITIVE ACCOMMODATION MARKET ANALYSIS

### Competitive Market Identification

In order to more precisely analyze hotel market trends as they relate to potential accommodation development in the Municipality of Crowsnest Pass, CBRE has identified and prepared a hotel market analysis based on selected interviews with various operators as well as utilizing data collected through the CBRE Hotels Trends database<sup>1</sup>. Through this database CBRE Hotels obtains top line (occupancy and average daily rate) data monthly on over 2,050 properties across Canada representing over 50% of the Canadian industry's 450,000 rooms.

The supply of accommodation in the Crowsnest Pass area is comprised primarily of a combination of hotels, motels, small cabin/resort properties and private homes/cabins rented for transient use. The properties available range from as small as resorts with fewer than 10 rooms/cabins up to branded hotels that have food and beverage facilities and meeting rooms among offered facilities/amenities.

For the purposes of our analysis, we have chosen a selection of hotels and motels that are considered to likely provide the most direct competition for a new accommodation property within the Municipality. The competitive properties chosen are located within the Municipality of Crowsnest Pass, plus some selected assets that are located in Pincher Creek. We have selected the assets to be included based on a variety of factors, including location, facilities and amenities offered, market characteristics, historic performance and market segmentation. We have also attempted to ensure the assets included represent among some of the stronger historic performance results for accommodation properties which are located in Crowsnest Pass and Pincher Creek. Note that in preparing our analysis of historic and projected demand, we have also examined results for other selected properties that are located along Highway 3 within approximately 80 kilometers from Crowsnest Pass. This includes properties located in Fernie, Sparwood and Elkford.

The following chart presents a selection of the key facilities and amenities offered at the properties chosen for a competitive analysis. The location of each asset is listed, with the properties in Crowsnest Pass identified by the "community" in which they are based.

Primary Competitive Accommodation Properties - Facilities and Amenities

| No.          | Name                     | Address                               | Rooms      | Type            | Total Meeting Space (SF) | Meeting Space per Room (SF) | Restaurant/Lounge | Breakfast Room | Pool | Fitness Centre | Business Centre |
|--------------|--------------------------|---------------------------------------|------------|-----------------|--------------------------|-----------------------------|-------------------|----------------|------|----------------|-----------------|
| 1            | Kanata Inn Blairmore     | 11217 - 21st Avenue, Blairmore        | 49         | Focused Service | 900                      | 18.4                        | X                 |                |      | X              | X               |
| 2            | BCMInns Coleman          | 8514 - 19 Avenue, Coleman             | 25         | Limited Service | 0                        | N/A                         |                   |                |      |                |                 |
| 3            | Travelodge Blairmore     | 11373 - 20 Avenue, Blairmore          | 31         | Limited Service | 0                        | N/A                         |                   | X              |      |                |                 |
| 4            | Paddock Inn Coleman      | 8322 - 20 Avenue, Coleman             | 19         | Limited Service | 0                        | N/A                         |                   |                |      |                |                 |
| 5            | Super 8 Pincher Creek    | 1307 Freebairn Avenue, Pincher Creek  | 49         | Limited Service | 0                        | N/A                         |                   | X              |      | X              |                 |
| 6            | Ramada Inn Pincher Creek | 1132 Table Mountain St, Pincher Creek | 78         | Limited Service | 1,100                    | 14.1                        | X                 | X              | X    | X              | X               |
| 7            | Travelodge Pincher Creek | 1225 McEachern Street, Pincher Creek  | 41         | Limited Service | 600                      | 14.6                        | X                 | X              |      | X              | X               |
| <b>Total</b> |                          |                                       | <b>292</b> |                 |                          |                             |                   |                |      |                |                 |

Source: Compiled by CBRE Hotels

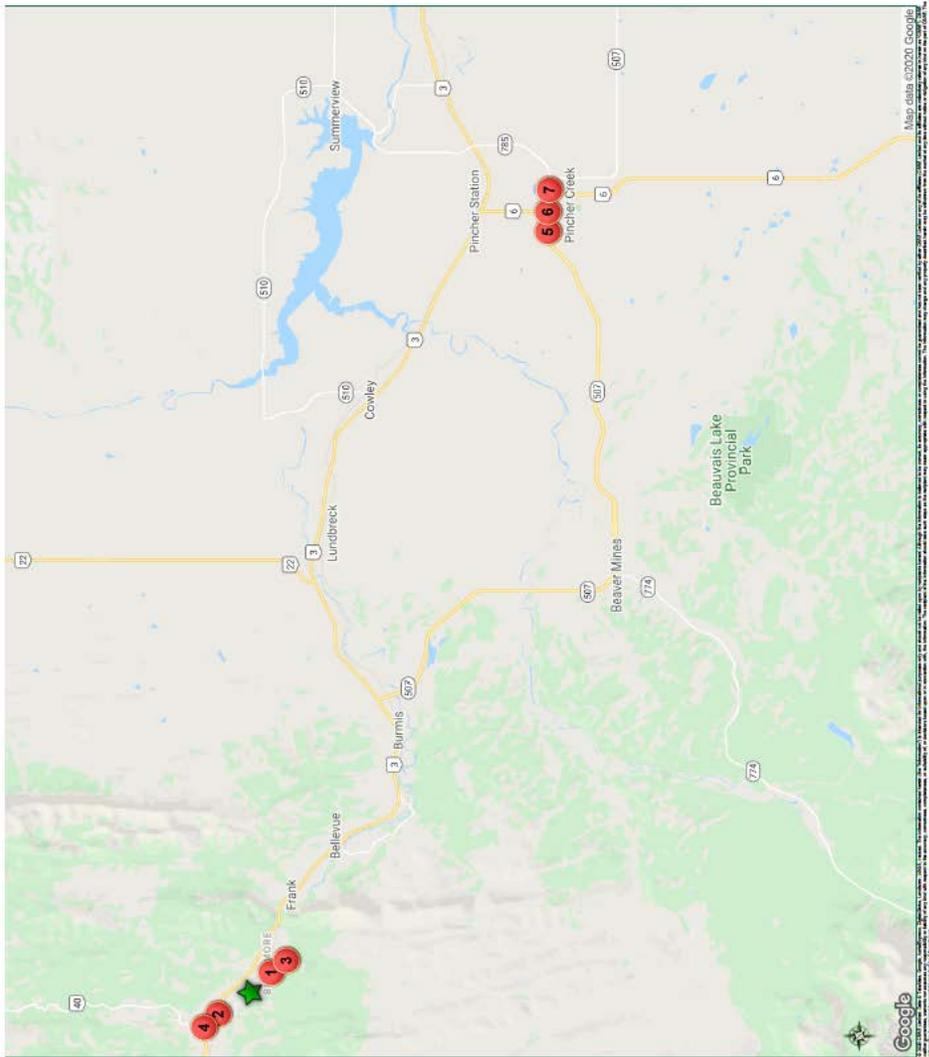
<sup>1</sup> <http://www.cbre.ca/EN/services/valuationservices/hotels/Pages/trends-custom-research.aspx>

As shown, the assets chosen represented a cumulative total of 292 rooms. The majority of properties fall under the classification of being “Limited Service” assets, which typically means that the facilities they offer do not include licensed food and beverage outlets or extensive meeting space. Only one property, the Ramada in Pincher Creek, features an indoor swimming pool.

The most recent addition to the competitive supply of accommodation is the Travelodge hotel in Pincher Creek, which opened in 2018.

The map on the following page shows the approximate location of the subject site and the existing competitive accommodation properties.

Map Showing Location of Competitive Accommodation Properties



- ★ SUBJECT: Proposed Hotel Development at Crowsnest Pass
- 1 Kanata Inn Blairmore
- 2 BCM Inns Goleman
- 3 Travelodge Blairmore
- 4 Paddock Inn Coleman
- 5 Super 8 Pincher Creek
- 6 Ramada Inn Pincher Creek
- 7 Travelodge Pincher Creek



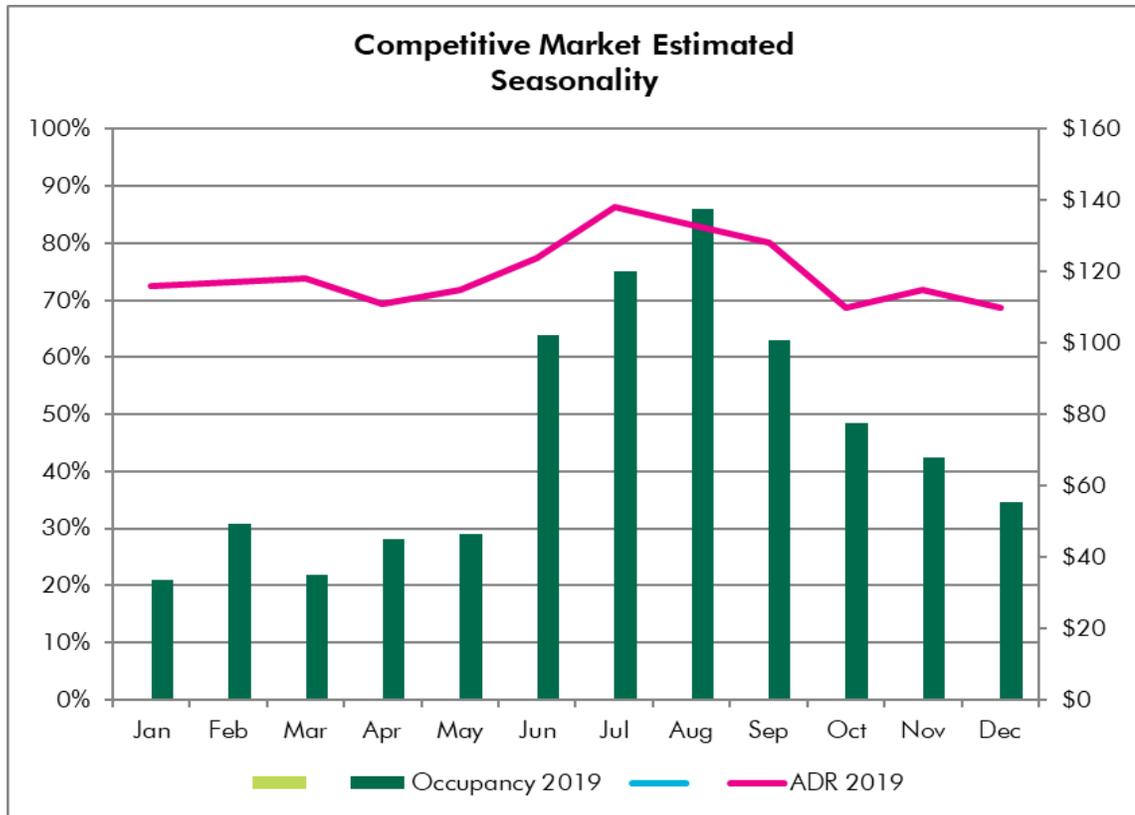
## Competitive Market Historic Performance

Based on our research, the following summarizes the historic performance for the competitive properties identified for the calendar years 2018 and 2019.

| Competitive Market Performance Results |                 |          |                |          |                      |          |          |         |            |  |
|--|-----------------|----------|----------------|----------|----------------------|----------|----------|---------|------------|--|
| Year                                   | Rooms Available | % Change | Rooms Occupied | % Change | Occupancy Pt. Change | ADR      | % Change | RevPAR  | % Change   |  |
| 2018                                   | 92,710          | -        | 42,472         | -        | 45.8%                | \$121.85 | -        | \$55.82 | -          |  |
| 2019                                   | 106,580         | 15.0%    | 50,821         | 19.7%    | 47.7%                | \$121.04 | 1.9      | \$57.72 | -0.7% 3.4% |  |

Source: CBRE Hotels

- The total supply of available guest rooms increased in 2019 due to the fall 2018 opening of the Travelodge in Pincher Creek. When a new hotel enters a competitive market after January 1, it has a net impact on rooms available for the remainder of that calendar year, plus it has some impact on the same date/period in the subsequent year.
- Total Available Room Nights and Occupied Room Nights both increased in 2019, by 15.0% and 19.7% respectively. Overall occupancy increased to 47.7% from 45.8%. The average daily room rate was estimated to have declined slightly in 2019. Overall, Revenue Per Available Room (RevPar) increased in 2019 by approximately 3.4%. The growth in occupancy percentage and RevPar in 2019 is encouraging, given that the amount of guest rooms available increased by a sizeable 15.0%.
- Year to date 2020 results have been impacted negatively by the onset of the Covid-19 pandemic, with some properties seeing significant downturns in room demand commencing approximately in mid March. Some properties did experience growth in room demand through the first few months of 2020 due to the work associated with the wind turbines constructed and commissioned in the area near Pincher Creek. But monthly occupancy results have tempered since then.
- The low overall competitive market occupancy demonstrates that, historically, room demand in the Crowsnest Pass/Pincher Creek area is highly seasonal, as shown in a chart below. The results shown are for the calendar year 2019. Demand is strongest in the months of June through September.



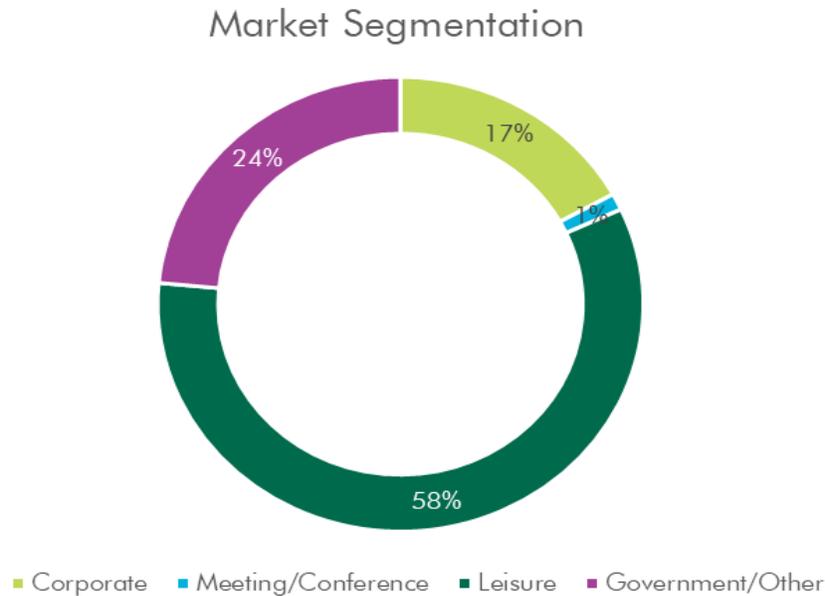
The preceding chart shows that guest room demand in the competitive market is strongest in the months of June through September. This reflects that there is considerable visitation to the Crowsnest Pass area for those engaging primarily in recreational or cultural pursuits and events. The results also reflect that there is a higher volume of highway leisure travellers in southern Alberta and southern British Columbia during these warmer months. Some demand staying in the competitive assets are not primarily in the market to pursue activities locally. Rather, they are travelling through the area to other destinations (ie. Waterton National Park, Calgary, Vancouver, the Okanagan Valley).

The weaker demand through the remaining months reflects that there is not an abundance of demand from sources other than leisure travellers to fill guest rooms. This is particularly the case on weeknights, from Sundays through Thursdays.

The average daily room rates shown reflect that due to the highly seasonal nature of travel to the Crowsnest Pass area, operators generally can charge their higher room rates when they are busiest, which in the case of this area is the period from June to September.

## Market Segmentation Analysis

In most markets, overall demand varies based on the nature of travel. Lodging demand is typically generated from four different encompassing segments: Corporate, Meetings, Leisure, and Other. On the basis of CBRE Hotels market research, and discussions with hotel operators and owners, the estimated market segmentation for the competitive market in 2019 is presented as follows



**Corporate** demand consists of demand generated by business and corporate activity. Most demand from the corporate segment is generated between Sunday and Thursday nights and is predominantly single occupancy in each room. Historically, this demand segment has been somewhat less price sensitive than other segments. Room rates are often pre-negotiated with each hotel and are sometimes discounted when the firm has a propensity to produce a notable volume of guest room demand annually. In return for a high number of occupied rooms. Often, these types of travelers are influenced by quality of the hotel, brand loyalty, and location. Overall, the corporate segment is highly desirable as it provides a solid base of demand and tends to pay higher room rates than many other travellers. This segment represented approximately 17.0% of room night demand in the competitive market in 2019. The small population and business base in the Crowsnest Pass/Pincher Creek area impacts the demand levels achieved historically from this key market segment. In addition, the proximity to Calgary and to a lesser extent Lethbridge likely means that some demand sources conducting sales calls or similar activity in the area would travel onward to these larger population centres for their overnight stays or they live in those communities and return home the same day. Some corporate demand the past few years has been related to the potential coal mining operations in the Crowsnest Pass area.

The **Meeting /conference** segment consists of rooms demand generated for the primary purpose of attending meetings and/or conferences within area hotels and resorts. The Alberta and British Columbia primary resort destinations work to attract meeting and conference demand, primarily from within the Calgary area or elsewhere in Alberta. Any meeting/conference venues in Crowsnest Pass face having to compete with such resort areas as Banff, Canmore, Kananaskis, Kimberley and the Okanagan regions for this demand. Corporate or government meetings and conferences are typically weekday events, with certain months typically preferred for such events, including February to June, September and October. Social/fraternal gatherings typically are held on weekends. This segment represented only 1.0% of room night demand in the competitive market in 2019

**Leisure** demand is broadly based and includes a wide variety of sources such as individuals and families who specifically visit the Crowsnest Pass/Pincher Creek area for tourist/leisure/recreation purposes. It also includes the “VFR” (or visiting friends and relatives) market.

Sports teams represent an important part of this segment and include both youth and adult participants and escorts. Much of this demand is generated on Fridays and Saturdays as groups arrive for weekend events. Other weekend or weeklong events are frequently held during school holidays at Christmas, March break and in summer months. Sports teams are typically rate sensitive. These segments are also often seeking properties that have amenities such as a pool, whirlpool and some meeting rooms that can be used for team meals or meetings. This segment also includes some limited demand from tour groups.

Similar to most markets across Canada, leisure demand peaks during the summer period from June to September. This segment represented 58.0% of room night demand in the competitive properties in 2019.

**Other** demand comes primarily from representatives at all levels of government and crew workers involved with various activities in the region, such as those working on upgrades to hydro or telecommunications lines and equipment. Indigenous travelers that are tracked separately by the competitive properties are also included within these segments. Indigenous travelers from within Canada generally qualify for Federal government room rates, whenever the various hotels will permit these travelers to stay in their hotels. Government/other travelers are typically room rate sensitive in comparison with the other market segments. Room demand from the “Other” sources comprised 24.0% of total occupied room nights in 2019. The extensive volume of coal related activity in the area is estimated to lead to some test drilling crews utilizing area accommodations.

# SITE AND DEVELOPMENT OVERVIEW

## SITE AND DEVELOPMENT OVERVIEW

### Site Location

When determining the optimum location and site for an accommodation development, developers typically consider the following characteristics:

**Access** – An optimal hotel development site should be easily accessible and ideally situated in a convenient location with easy access to and from major arterial roadways.

**Ingress/Egress** – An optimal hotel site should have simple, easily accessible routes of ingress and egress.

**Visibility** – An optimal hotel development site should allow for the hotel to be oriented in such a way that the building could be seen by traffic in all directions. It would still be necessary to supplement the building visibility with appropriate signage along major roadways and on the building and site itself.

**Proximity to demand generators** – An optimal hotel development site should be reasonably proximate to the local demand generators such as major businesses or industrial parks as well as recreation and leisure attractions.

**Proximity to support amenities** – An optimal hotel development site should be within walking distance or reasonably proximate to a concentration of support amenities such as restaurants, entertainment, and retail.

In general, leisure travelers place a higher value on having amenities within walking distance and ease of access to and from major transportation routes, while corporate travelers and meeting/conference guests would expect business and industrial parks to be within a short driving distance.

If the location characteristics for a prospective hotels development are not optimized it would have an impact on the proposed hotels ability to achieve the projections contained herein.

The following section provides a review of the subject site as it relates to the proposed hotel development.

|           |  |
|-----------|--|
| Location  | The site is located in the former town of Blairmore, near the western “edge” of that community. The site fronts onto Highway 3, the Crowsnest Highway. The overall parcel is bordered by Highway 3 to the north, by 107 Street to the east, by 20 <sup>th</sup> Avenue to the south and by some commercial developments to the north that include a liquor store, a Shell gas station, a Tim Horton’s outlet and a Circle K convenience store. Other nearby developed infrastructure include a Home Hardware and the regional hospital to the east, across 107 Street, a small lumber/works yard to the south across 20 Avenue and the entrance to the Crowsnest Pass Golf Club to the north across Highway 3. |
| Site Size | The overall parcel being examined for commercial development measures approximately 6.25 acres. The parcel is largely rectangular in shape. We recommended in the previous section of this report that consideration be given to allocating at minimum 1.5 acres for the hotel development. Our preference would be for 2.0 acres to be allocated to the hotel, unless the overall site is developed in a manner that allows for some “Shared” parking with other developments.  |
| Servicing | CBRE Hotels assumes that the proposed site will be fully serviced.   |
| Zoning    | CBRE Hotels assumes that the proposed hotel site is currently or will be zoned properly to allow for hotel development. The site is currently zone C-2, for highway commercial development.  |

The subject development site was formerly the local hospital. The site is currently vacant, save for a small fenced area that has some natural gas pipeline monitoring equipment on the south side.

**Access** to the subject site would likely be either via 107 Street or 20 Avenue. Both routes are well marked and have good visibility. 20 Avenue is a key route linking the downtown “core” of Blairmore to Highway 3. There are several notable developments near the subject site that are accessed from 20 Avenue, including a relatively new restaurant/ brew pub, a local pharmacy, a “dollar store” and the local chain supermarket, an

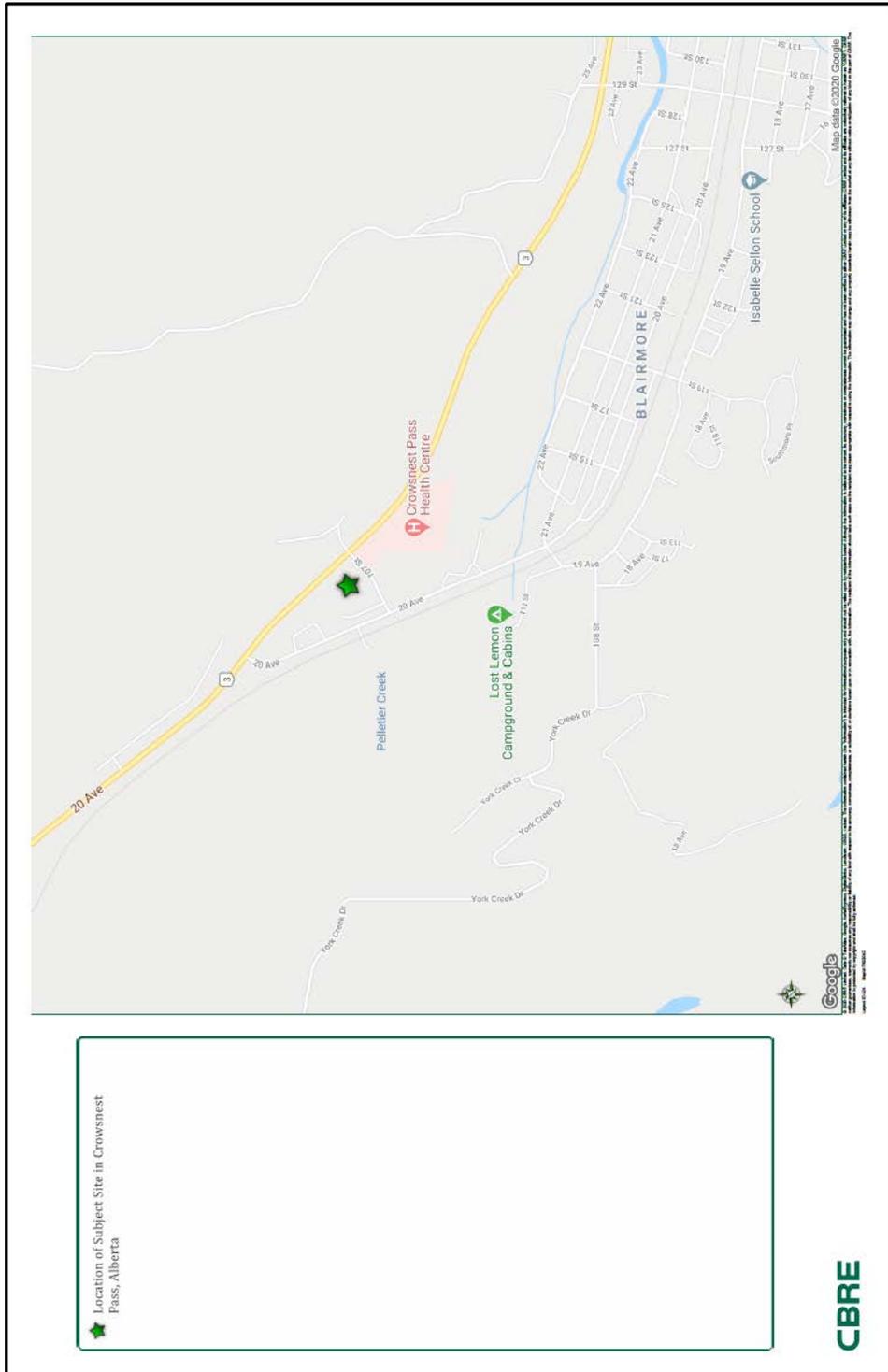
IGA outlet. Further west, 20<sup>th</sup> Avenue leads to a downtown “Core” area that also has area shops, restaurants and services. There is a traffic light at the intersection of 20 Avenue and Highway 3, which is close to the proposed hotel development site. This helps to alleviate the challenge of entering back onto Highway 3 during periods when the highway is busy.

The proposed hotel would have excellent **visibility** to motorists travelling on Highway 3 through the region. The site is adjacent to this key route and at three or four storeys in height, would be highly visible from distances greater than 400 meters for motorists on Highway 3.

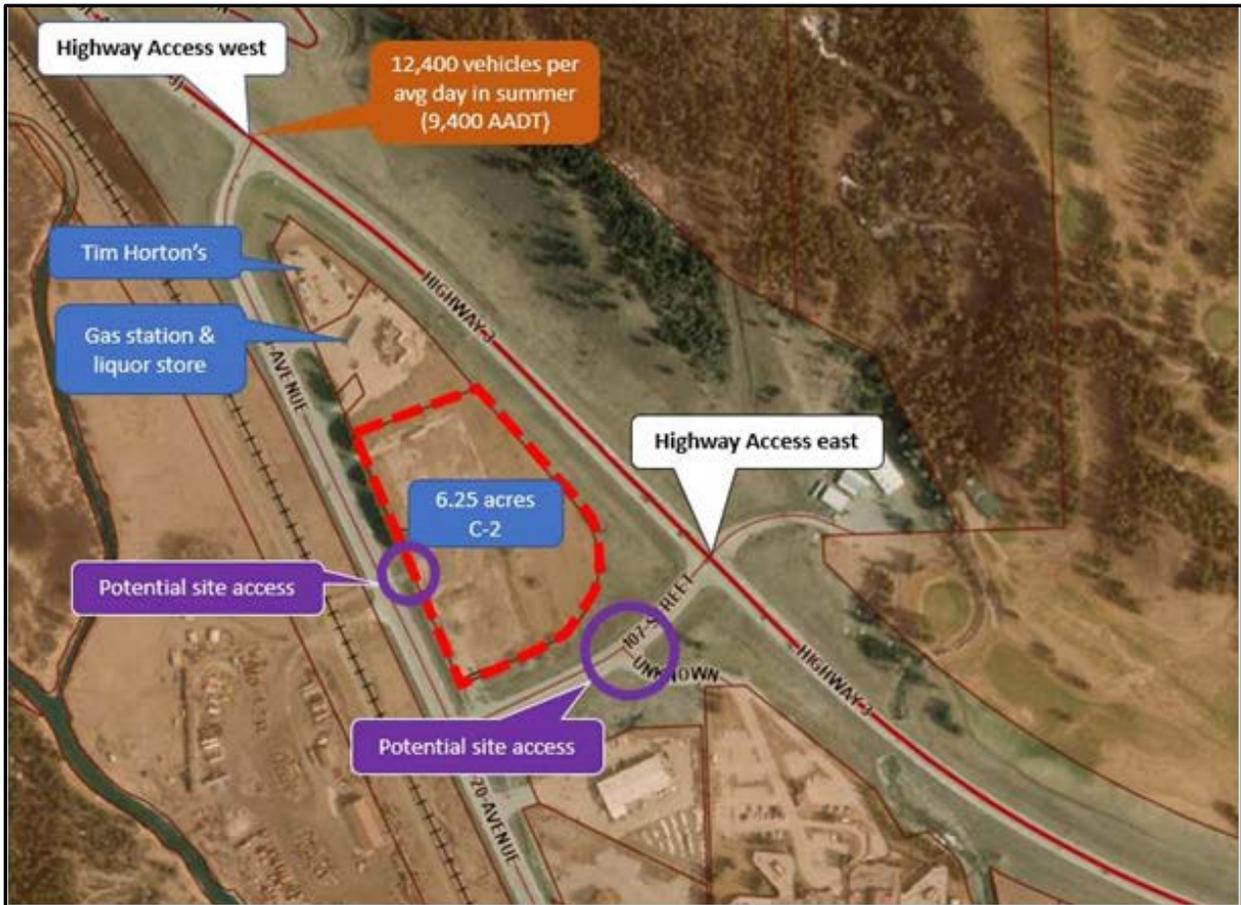
The subject site is well located relative to local demand generators. Numerous tourist attractions, retail outlets and food and beverage operations are located within an estimated two minute drive from Highway 3. As previously noted, supporting amenities such as food and beverage outlets, groceries, fuel and alcohol are near the subject site and considered walkable to access. The provision of a Tim Hortons and liquor store adjacent to the hotel site is ideal for many demand sources.

We believe that the hotel could be positioned on any of a number of locations within the 6.25 acre parcel. A key consideration will be to ensure that the visibility of the main entrance to the hotel is not obstructed, nor is access for motorists. This is particularly important for those driving oversize vehicles or towing trailers. At three or four storeys in height, we would assume that the hotel will be among the tallest structures built on the site and therefore would have good visibility to motorists passing on Highway 3. Within Crowsnest Pass, neither the Kanata Hotel nor the Travelodge Blairmore are visible to motorists. The three competitive hotels in Pincher Creek are all set back at approximately a 90 second drive from Highway 3 and it is very possible for passing motorists to drive through the area without seeing the properties.

Location of Subject Site in Crowsnest Pass (Blairmore)



Satellite View of Subject Site in Crowsnest Pass (Blairmore)



Subject Site Photographs



View Looking at Site from Eastbound Lanes on Highway 3 (View Looking East)



View from westernmost area of Subject Site (View Looking Southeast)

Subject Site Photographs (Continued)



View from Westernmost portion of Subject Site (View looking north at Highway 3)



View of Infrastructure to the west of Subject Site (Liquor store, gas station/store, Tim Hortons)

## Accommodation Development Concept Recommendations

When determining the ideal product for accommodation development within the Municipality of Crowsnest Pass, the motivations and priorities of the accommodation investment and lending community were also considered along with the market factors. Typically, if a community is going to be successful in attracting private sector accommodation investment, a comprehensive and independent third-party assessment of the opportunity is required. The hotel investment community is exposed to a wide range of projects, and has many communities soliciting their development interest. They are looking for formal independent confirmation that a project has merit. Typical hotel investors have several key criteria they consider when determining how/where to invest their funds, the most important of which are:

1. **Return on Investment:** Return on Investment measures the gain or loss generated on an investment relative to the amount of money invested. Hospitality property is considered to be a secondary form of real estate investment due to its specialized nature, requirement for strong management and higher risk associated with the income stream. Investors require a higher rate of return on hospitality property as compared to more traditional real estate investments. Our experience in the industry indicates that typical hotel investors expect a return on investment in the range of 10% to 15%, far higher than what is characteristic of other real estate classes.
2. **Availability and Likelihood of Financing:** The availability and cost of financing has a direct impact on the value of a hotel, and hence hotel financing parameters play an integral role in the feasibility of new hotels. In today's lending environment, obtaining financing on a non-branded asset is highly challenging. The support of large, well-known international brand mitigates the performance risk of an asset with the premier brands almost always outperforming second tier brands or independent hotels. In addition, the support of a large brand/reservation system and national marketing network, also makes a hotel asset much less vulnerable to new supply. Further, when considering construction financing on new build assets, lenders will finance on the lower of capital cost or estimated market value ~ which directly impacts the level of equity required to move a project forward. In the most ideal situation, capital cost and estimated market value are equal.
3. **Liquidity/Exit Strategy:** Both lenders and developers consider the ultimate exit strategy when evaluating a hotel investment opportunity. Research shows that branding also helps to reduce the liquidity risk of an asset, in the sense that there would be more potential purchasers for product carrying strong brands that are not specific to one owner/operator/developer.

These are critical factors that influence a hotel developer's investment decision and these should be considered when evaluating the opportunity for attracting accommodation development to any community. Throughout the engagement CBRE consistently evaluated the potential for accommodation development in the Municipality of Crowsnest Pass bearing in mind these "typical" development and investment parameters. All recommendations, such as the size of the project, the nature of the accommodation (i.e. branded vs. un-branded) were based on what our experience in the industry has shown would give the community the best

means for attracting an interested developer, and ensuring a development with the greatest long-term potential for success is developed, taking into account all of the market and investment factors in the Crowsnest Pass area.

Based on our review of the existing accommodation product within the Columbia Valley, the historic market performance, the nature of existing and potential local and area demand generators and the economic operating conditions for hotels in the Columbia Valley, we have recommended the following development option for a proposed hotel in the Municipality of Crowsnest Pass.

### 60 Room Branded Limited Service Hotel

The development recommendation is that of a branded, 60-unit, midscale limited service hotel that includes some suites. Examples of brands that could be considered for such a development include, but are not limited to Microtel, Best Western Plus, Comfort Inn & Suites, Days Inn & Suites and Wingate by Wyndham. In this case, branding is recommended in that it will not only enhance the marketability of the project but will also enhance the potential for project financing.

This product positioning is based on these primary factors:

- This level of hotel can appeal to a broad range of guests and types of travelers.
- The design prototypes for these brands are of strong quality.
- This level of hotel is more cost effective to develop relative to other higher service level hotels.
- This level of hotel is more cost effective to operate relative to other higher service hotels.

Hotels of this nature typically feature a variety of guestrooms, including standard one or two bedded rooms, and a mixture of suite configurations. Guestrooms within this tier of hotels typically include amenities such as a desk or work space, high-speed internet and/or wireless internet access, and in-room coffee making facilities. The proposed development program should include a variety of room types as dictated by the brand development standards. Consideration should be given to the potential for a significant volume of “long stay” demand associated with the coal mining projects. Thus, guest rooms and “junior” suites should be considered to include at minimum a fridge, microwave, a sink with surrounding cupboards and provision of glassware and dishes. The “Junior” suites may be one oversize room that has a separate seating area from the bedroom area, plus the amenities associated with a mini kitchen. The bedroom and living room/kitchen area are not projected to be completely separate rooms (Such as a one bedroom suite).

Other amenities recommended for the proposed hotel include a guest laundry room with coin operated washers and dryers, a computer work station with a printer and a fitness room. We recommend that the hotel include an indoor swimming pool and adjacent change rooms/showers. This would be essential to attracting demand from leisure travelers in the busy June to September period, plus any other sources of leisure demand throughout the year that includes children/young adults.

The decision to include an indoor pool is frequently difficult for developers, particularly in markets where there is likely to be little or no use of the pool on weeknights, with the exception of the peak summer months. Hotel operators must look to benefit from the pool in other ways. Many smaller communities that do not have an indoor aquatic facility, such as Crowsnest Pass, seek to make use of indoor pools at area hotels.

Some hotels allow for pool use during slow hours of the day for such activities as seniors' aquatic fitness classes, swimming lessons or use by parties that include special needs children and adults. Usually this time is typically donated to the community. However, these venues also often can generate revenues from hosting birthday parties, for which a fee is charged. Many sources would also book any public meeting space for the non-pool portion of the party.

We recommend that the hotel include a meeting room in the range of 1,000 square feet in total area. This space will generate a variety of uses, including for some small meetings, small celebrations that typically involve a community member (ie. birthday, anniversary) and as a group dining/gathering place. Hockey teams, as an example, periodically wish to have a space where the players and guests share a meal, have team meetings/other social functions or simply as a space to allow children to socialize/play and thus keep them off guest room floor corridors, where they may be disruptive to other guests. The room should include a sink and vanity/bar counter and have adequate electrical outlets, plus be wired for internet use.

The projections included with this recommended hotel scenario include the provision of a free, daily continental breakfast. Many hotel brands have standardized menu offerings and kitchen production equipment that must be utilized in the provision of the breakfast. For the 60 room hotel, we recommend that the breakfast area seat at least 40 guests. For instances where teams are occupying all or a considerable portion of the hotel guest rooms, the meeting room can also be utilized for provision of the breakfast.

Based on our experience in the industry and knowledge of comparable hotel construction projects, the proposed hotel development would require approximately 1.5-2.0 acres of land, including the appropriate surface parking coverage. The asset will attract demand that periodically has oversized vehicles, such as large equipment trucks, plus others that have trailers, such as those towing quads, snowmobiles or boats. Thus a more sizeable land parcel, such as in the range of 2.0 acres, better allows for parking for all demand sources.

The following table outlines a preliminary facility program for a proposed 60 room hotel:

| Proposed Hotel Facility Program          |               |           |            |               |
|--|---------------|-----------|------------|---------------|
| Guestrooms                               | % of Room Mix | Keys      | Sq. Ft./Rm | Total GFA     |
| One King w/Pullout Sofa                  | 30%           | 18        | 320        | 5,760         |
| Two Queen Beds                           | 50%           | 30        | 320        | 9,600         |
| "Junior" Suites                          | 20%           | 12        | 400        | 4,800         |
| <b>Total</b>                             | <b>100%</b>   | <b>60</b> | <b>350</b> | <b>20,160</b> |
| Food & Beverage                          |               | Seats     | Sq. Ft./Rm | Total GFA     |
| Continental Breakfast Room Incl. Kitchen |               | 40        | 20         | 1,200         |
| <b>Total</b>                             |               | <b>40</b> | <b>20</b>  | <b>1,200</b>  |
| Meeting/Conference Facilities            |               | Capacity  | Sq. Ft./Rm | Total GFA     |
| Meeting Room (Divisible Into 2 Spaces)   |               | 83        | 17         | 1,000         |
| <b>Total</b>                             |               | <b>83</b> | <b>17</b>  | <b>1,000</b>  |
| Other Facilities                         |               |           | Sq. Ft./Rm | Total GFA     |
| Fitness Room / Pool                      |               |           | 58         | 3,500         |
| Lobby / Public Spaces                    |               |           | 67         | 4,000         |
| BOH / Circulation                        |               |           | 92         | 5,500         |
| <b>Total Hotel GFA</b>                   |               |           | <b>589</b> | <b>35,360</b> |

Source: CBRE Hotels

The total gross floor area calculates to approximately 589 square feet per guest room. This may be considered on the large side by some hotel design professionals. Note that we have calculated based on a standard guest room measuring approximately 320 square feet of living area and suites at 400 square feet. We have recommended that all guest rooms and suites include at least some facilities that are appropriate for long stay guests, including a fridge, a microwave and a sink with cupboards. These would be better suited for long stay guests. The rooms are suitable for teams and families, for which there are typically at least three to four guests per room. The rooms with one king bed should also include a comfortable sofa bed, as there may be periods where all, or the majority of occupied guest rooms have at least two patrons each.

Note that the projections are subject to change and were not prepared based on any site/area dimensions nor knowledge of allowable density for the proposed hotel. We are not quantity surveyors and thus have not based our recommendations on specific financial construction estimates. Rather, our recommendations are based on our knowledge of the existing and proposed competitive accommodation market and the existing and potential demand sources that are likely to utilize a new proposed hotel in Crowsnest Pass.

A 60 room hotel would likely be either three or four stories in height.

## Conclusion

Overall, the area in the vicinity of site OPTION 1 is recommended for consideration for hotel development. The site faces onto Highway 95 and would have good visibility for area motorists. The site would also have good access to locally based demand generators.

We have recommended the development of a 60 room, midscale, limited service hotel that is affiliated with an internationally known hotel brand. We believe that this type of product would attract demand from some key sources that have been identified in this report and have the potential to be developed economically and operated efficiently as a small accommodation property. Some hotel brands would allow an asset with 60 rooms for their portfolio, whereas some larger hotel brands (ie. Holiday Inn Express, Hampton/Hilton or Marriott) would possibly be less favourable of that room count. The decision to recommend that the asset have a hotel brand is made with the notion that the hotel, being in a relatively small market, but on a major transportation route, would benefit from the affiliation. The brand would help ensure the asset generates sufficient awareness among most travel markets and lead demand sources to the asset. At present there are only a few hotels located directly adjacent to Highway 3, between Cranbrook and Lethbridge, that are branded with an internationally known hotel chain.

# COMPETITIVE MARKET PROJECTIONS

## SUPPLY AND DEMAND PROJECTIONS

### Competitive Market Supply Analysis

CBRE Hotels considers the following factors in determining which additions to supply may affect the competitive market:

- Distance from the subject hotel
- The current and future condition of the physical plant
- The type of facilities and amenities to be offered
- Information from hotel operators on “who” would be considered a primary competitor

Based on our research, there are no projected “new build” additions to the primary competitive supply of accommodation, other than the subject, over the calendar years 2020 to 2027.

While CBRE Hotels has made attempts to determine the level of new supply entering the market, it is impossible to determine every hotel that will be developed in the future, when they will be completed or their potential impact on the subject hotel. The inherent risk of any future new hotel supply has been implicitly considered in the selection of a stabilized occupancy level for the subject property.

### Competitive Market Demand and ADR Projections

The demand projections prepared for the competitive market are based on the economic outlook for the area, current market dynamics and anticipated changes in demand patterns throughout the projection period.

The projections in this report are based on a projected opening for the proposed 60 room hotel in Crowsnest Pass on July 1, 2022. The projections for the overall competitive market are prepared on a calendar year basis for the years 2020 to 2027. Note that the competitive market demand projections include the construction and opening of a coal mine in the study area, to be commissioned in 2023.

The following summarizes our projections for future room demand and ADR growth.

Competitive Accommodation Market Demand Projections

| Projections by Segment    | Actual 2019 | Projection 2020 | Projection 2021 | Year 1 2022 | Year 2 2023 | Year 3 2024 | Year 4 2025 | Year 5 2026 | Year 6 2027 |
|---------------------------|-------------|-----------------|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Corporate</b>          |             |                 |                 |             |             |             |             |             |             |
| Occupied Room Nights      | 8,619       | 6,895           | 7,240           | 8,688       | 9,556       | 9,748       | 9,943       | 10,042      | 10,042      |
| Demand Growth             |             | -20.0%          | 5.0%            | 20.0%       | 10.0%       | 2.0%        | 2.0%        | 1.0%        | 0.0%        |
| <b>Meeting/Conference</b> |             |                 |                 |             |             |             |             |             |             |
| Occupied Room Nights      | 602         | 181             | 199             | 248         | 310         | 313         | 317         | 320         | 320         |
| Demand Growth             |             | -70.0%          | 10.0%           | 25.0%       | 25.0%       | 1.0%        | 1.0%        | 1.0%        | 0.0%        |
| <b>Leisure</b>            |             |                 |                 |             |             |             |             |             |             |
| Occupied Room Nights      | 29,656      | 23,725          | 27,283          | 34,104      | 40,925      | 42,153      | 42,996      | 43,426      | 43,426      |
| Demand Growth             |             | -20.0%          | 15.0%           | 25.0%       | 20.0%       | 3.0%        | 2.0%        | 1.0%        | 0.0%        |
| <b>Government/Other</b>   |             |                 |                 |             |             |             |             |             |             |
| Occupied Room Nights      | 11,945      | 8,958           | 9,406           | 10,347      | 10,864      | 11,408      | 11,636      | 11,752      | 11,752      |
| Demand Growth             |             | -25.0%          | 5.0%            | 10.0%       | 5.0%        | 5.0%        | 2.0%        | 1.0%        | 0.0%        |

Projected Competitive Market Performance Summary

| Market Projections        | Actual 2019 | Projection 2020 | Projection 2021 | Year 1 2022 | Year 2 2023 | Year 3 2024 | Year 4 2025 | Year 5 2026 | Year 6 2027 |
|---------------------------|-------------|-----------------|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Total Demand</b>       |             |                 |                 |             |             |             |             |             |             |
| Occupied room nights      | 50,821      | 39,759          | 44,128          | 53,387      | 61,656      | 63,621      | 64,891      | 65,540      | 65,540      |
| Demand growth             |             | -21.8%          | 11.0%           | 21.0%       | 15.5%       | 3.2%        | 2.0%        | 1.0%        | 0.0%        |
| <b>Total Supply</b>       |             |                 |                 |             |             |             |             |             |             |
| Available Room Nights     | 106,580     | 106,580         | 106,580         | 117,530     | 128,480     | 128,480     | 128,480     | 128,480     | 128,480     |
| Supply Growth             |             | 0.0%            | 0.0%            | 10.3%       | 9.3%        | 0.0%        | 0.0%        | 0.0%        | 0.0%        |
| Market Occupancy          | 47.7%       | 37.3%           | 41.4%           | 45.4%       | 48.0%       | 49.5%       | 50.5%       | 51.0%       | 51.0%       |
| Market Average Daily Rate | \$121.04    | \$107.73        | \$112.04        | \$115.96    | \$120.02    | \$122.42    | \$124.87    | \$127.36    | \$129.91    |
| Market RevPar             | \$57.72     | \$40.19         | \$46.39         | \$52.67     | \$57.60     | \$60.62     | \$63.07     | \$64.97     | \$66.27     |
| ADR Growth                |             | -11.0%          | 4.0%            | 3.5%        | 3.5%        | 2.0%        | 2.0%        | 2.0%        | 2.0%        |

Source: CBRE Hotels

- The impact of the Covid-19 pandemic is widely felt across the Canadian accommodation sector, as was shown in the previous section of this report. The lower volumes of travel, notably by Corporate sources as well as international and inter-provincial leisure travellers, is impacting both room demand levels and ADR.
- Selected properties in the competitive market started the year 2020 strong, with higher than normal occupancies during various intervals. This is due in part to the wind turbine projects that were being developed in the area. Two wind farms were commissioned in May 2020 and connected to Alberta's power grid. As a result, the volume of room demand lost is not considered to be as dramatic as had occurred in many other Canadian markets that were immediately impacted in mid-March by the "lockdowns" associated with Covid-19.
- At a national level, we are forecasting guest room demand for Canada to be down by 40.0% in 2020. The competitive market for a new hotel in Crowsnest Pass is only projected to have a room demand decline of 21.8% in 2020, based on year to date results. The low volume of confirmed Covid-19 cases in the area of Crowsnest Pass has likely contributed to the willingness of some travellers to stay overnight in the competitive properties.
- Average daily room rates are projected to be down by 11.0% for the competitive market in 2020. The loss of some corporate travel, which often pays higher room rates than other segments, will impact overall ADR for the year. There is some loss in leisure travel demand

projected through the June to September period. This is typically when the competitive market generates its highest guest room demand and room rates. This will also impact ADR performance for 2020.

- Based on the assumption that a vaccine is brought to wide distribution in 2021, we are projecting that guest room demand will start to ramp up. Demand growth of 11.0% is projected for 2021. Additional “recovery” is also projected for 2022. In addition, the mid year opening of the proposed subject hotel will increase room availability, notably in the busy months of July to September, enabling additional room demand growth. Overall, the 2022 demand growth is projected at a strong 21.0%. This will be followed by additional strong growth of 15.5% in 2023. The 2023 projection assumes that a coal mine is constructed and reaches production in that calendar year. More moderate annual room demand growth is projected in 2024 to 2026, with demand to level off in 2027.
- ADR is projected to increase in each of the calendar years 2021 to 2027, with the strongest growth occurring during the “recovery” period from the pandemic. ADR growth is projected at 4.0% in 2021, at 3.5% in 2022 and 2023 and annually at 2.0% thereafter.

# SUBJECT PROPERTY PERFORMANCE

## Subject Property Projected Occupancy and Average Daily Rate

The subject property projections examine the potential future occupancy and Average Daily Rate (ADR) for the recommended 60 room, subject hotel based on numerous factors including economic influences and the actual and projected supply/demand relationship in the competitive markets and typical positioning for similar assets.

In assessing the projected occupancy and rate performance of the proposed subject hotel, a market penetration analysis was undertaken, in which the concept of “fair market share” was utilized. This concept states that, all things being equal, a property will attract rooms demand in the same proportion as its share of rooms supply. Market penetration in excess of 100.0% indicates that a property possesses competitive advantages relative to the market as a whole, while competitive weaknesses are reflected in penetrations of less than 100.0%. The marketing philosophy and pricing strategy for a property can also impact its penetration. Accordingly, there are other factors besides competitive weakness that can contribute to a penetration of less than fair share.

The following analysis assesses the projected market position/occupancy, average rate, and RevPAR levels for the proposed hotel. The projections are based on numerous factors including the economic influences, the projected supply/demand relationship in the competitive market, interviews with local stakeholders and expected growth in demand for accommodations in the local area. It is assumed that there are no significant changes in the market over the projection period that would impact the current status of the competitive rooms supply other than as currently identified.

The projections herein include the development of a coal mining operation that commences full production in 2023. While a coal mine is not projected to be a “dominant” source of accommodation demand that significantly influences the overall performance of the competitive market, it would nevertheless produce a sizeable volume of room demand for the hotel or hotels that are able to capture demand from the owners and operators of the mine. The CBRE projections assume that the subject hotel becomes the primary asset to be used by a coal mining operation.

The following table summarizes the projected occupancy and ADR projections for the proposed hotel as a 60 room asset, commencing July 1, 2022.

Proposed Hotel - Projected Room Demand and ADR

|                        | Year 1<br>2022      | Year 2<br>2023 | Year 3<br>2024 | Year 4<br>2025              | Year 5<br>2026 | Year 6<br>2027 |
|------------------------|---------------------|----------------|----------------|-----------------------------|----------------|----------------|
| <b>Corporate</b>       | <b>PARTIAL YEAR</b> |                |                | <b>STABILIZED OCCUPANCY</b> |                |                |
| Fair Share of Demand   | 809                 | 1,629          | 1,662          | 1,695                       | 1,712          | 1,712          |
| Penetration Rate       | 105.0%              | 105.0%         | 110.0%         | 112.0%                      | 115.0%         | 115.0%         |
| Total Demand Captured  | 850                 | 1,710          | 1,828          | 1,898                       | 1,968          | 1,968          |
| Ratio to Total Demand  | 14.6%               | 14.5%          | 14.6%          | 14.8%                       | 15.0%          | 15.0%          |
| Corporate ADR          | \$130.00            | \$132.60       | \$135.25       | \$137.96                    | \$140.72       | \$143.53       |
| ADR Growth             | 0.0%                | 2.0%           | 2.0%           | 2.0%                        | 2.0%           | 2.0%           |
| Corporate Room Revenue | \$110,485           | \$226,798      | \$247,197      | \$261,860                   | \$276,994      | \$282,534      |

Meeting/Conference

|                               |          |          |          |          |          |          |
|-------------------------------|----------|----------|----------|----------|----------|----------|
| Fair Share of Demand          | 23       | 53       | 53       | 54       | 54       | 54       |
| Penetration Rate              | 100.0%   | 200.0%   | 200.0%   | 200.0%   | 200.0%   | 200.0%   |
| Total Demand Captured         | 23       | 106      | 107      | 108      | 109      | 109      |
| Ratio to Total Demand         | 0.4%     | 0.9%     | 0.9%     | 0.8%     | 0.8%     | 0.8%     |
| Meeting/Conference ADR        | \$135.00 | \$137.70 | \$140.45 | \$143.26 | \$146.13 | \$149.05 |
| ADR Growth                    | 0.0%     | 2.0%     | 2.0%     | 2.0%     | 2.0%     | 2.0%     |
| Meeting/Conference Room Reven | \$3,122  | \$14,567 | \$15,007 | \$15,460 | \$15,927 | \$16,246 |

Leisure

|                       |           |             |             |             |             |             |
|-----------------------|-----------|-------------|-------------|-------------|-------------|-------------|
| Fair Share of Demand  | 3,177     | 6,976       | 7,185       | 7,329       | 7,402       | 7,402       |
| Penetration Rate      | 125.0%    | 115.0%      | 117.0%      | 118.0%      | 120.0%      | 120.0%      |
| Total Demand Captured | 3,972     | 8,022       | 8,407       | 8,648       | 8,883       | 8,883       |
| Ratio to Total Demand | 68.4%     | 68.1%       | 67.4%       | 67.4%       | 67.5%       | 67.5%       |
| Leisure ADR           | \$135.00  | \$137.70    | \$140.45    | \$143.26    | \$146.13    | \$149.05    |
| ADR Growth            | 0.0%      | 2.0%        | 2.0%        | 2.0%        | 2.0%        | 2.0%        |
| Leisure Room Revenue  | \$536,188 | \$1,104,661 | \$1,180,741 | \$1,238,942 | \$1,297,992 | \$1,323,951 |

Government/Other

|                             |           |           |           |           |           |           |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Fair Share of Demand        | 964       | 1,852     | 1,944     | 1,983     | 2,003     | 2,003     |
| Penetration Rate            | 100.0%    | 105.0%    | 110.0%    | 110.0%    | 110.0%    | 110.0%    |
| Total Demand Captured       | 964       | 1,944     | 2,139     | 2,182     | 2,204     | 2,204     |
| Ratio to Total Demand       | 16.6%     | 16.5%     | 17.1%     | 17.0%     | 16.7%     | 16.7%     |
| Government/Other ADR        | \$125.00  | \$127.50  | \$130.05  | \$132.65  | \$135.30  | \$138.01  |
| ADR Growth                  | 0.0%      | 2.0%      | 2.0%      | 2.0%      | 2.0%      | 2.0%      |
| Government/Other Room Reven | \$120,501 | \$247,921 | \$278,167 | \$289,405 | \$298,145 | \$304,108 |

Subject Penetration Summary

|                                    |                 |                 |                 |                 |                 |                 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Market Occupancy                   | 45.4%           | 48.0%           | 49.5%           | 50.5%           | 51.0%           | 51.0%           |
| <b>Subject Market Penetration</b>  | <b>116.8%</b>   | <b>112.1%</b>   | <b>115.1%</b>   | <b>116.0%</b>   | <b>117.8%</b>   | <b>117.8%</b>   |
| <b>Projected Subject Occupancy</b> | <b>53.0%</b>    | <b>53.8%</b>    | <b>56.8%</b>    | <b>58.6%</b>    | <b>60.1%</b>    | <b>60.1%</b>    |
| Market ADR                         | \$115.96        | \$120.02        | \$122.42        | \$124.87        | \$127.36        | \$129.91        |
| <b>Subject ADR Penetration</b>     | <b>114.4%</b>   | <b>112.7%</b>   | <b>112.7%</b>   | <b>112.7%</b>   | <b>112.7%</b>   | <b>112.7%</b>   |
| <b>Projected Subject ADR</b>       | <b>\$132.61</b> | <b>\$135.28</b> | <b>\$137.91</b> | <b>\$140.67</b> | <b>\$143.51</b> | <b>\$146.38</b> |
| Market RevPAR                      | \$52.67         | \$57.60         | \$60.62         | \$63.07         | \$64.97         | \$66.27         |
| <b>Subject RevPAR Index</b>        | <b>133.6%</b>   | <b>126.4%</b>   | <b>129.6%</b>   | <b>130.7%</b>   | <b>132.8%</b>   | <b>132.8%</b>   |
| <b>Subject RevPAR</b>              | <b>\$70.35</b>  | <b>\$72.78</b>  | <b>\$78.37</b>  | <b>\$82.45</b>  | <b>\$86.26</b>  | <b>\$87.98</b>  |

Source: CBRE Hotels

The following provides a brief commentary on each of the subject hotel's target demand segments:

- **Corporate** – The projections assume that the subject hotel captures well above fair share of demand from business sources. This includes a mine operation. As a new asset with a brand, other corporate travelers visiting the area will be attracted to the subject asset. The provision of a fitness room will also help to attract some health oriented corporate sources. Demand is projected to reach 115.0% of fair share by Year 5.
- **Meeting/Conference** – There is very limited guest room demand in the competitive market that is generated by sources whose primary trip purpose was to host/attend meetings and conferences. The subject hotel, as a new asset with a 1,000 square foot meeting room, will capture some demand from these sources. This equates to a 200.0% penetration rate annually, although the number of room nights captured stabilizes at 109 nights.
- **Leisure** – The leisure demand for the subject hotel is projected to include highway travellers drawn in by the new, branded asset. The hotel will attract those visiting the area for short to long periods for recreational/outdoor activities. The provision of an indoor pool, plus the good location relative to other support amenities such as the Tim Hortons and a grocery store, will also help to attract demand from this segment. The subject hotel is projected to capture more than 8,800 occupied room nights by 2026 and stabilize at that level. Overall the Leisure segment is projected to generate approximately 68.0% of total occupied room nights at the subject hotel annually. The hotel will reach a market penetration of 120.0% of fair share of demand in this segment.
- **Other** – Crews and short term stay workers involved with numerous mine and other infrastructure projects are projected to be an important source of guest room demand for the subject hotel. The provision of some “Junior” suites will help to attract demand from these sources. Indigenous travelers and those travelling at all levels of government will also be attracted by the new subject hotel. The subject hotel is projected to reach a market penetration above fair share annually in the projection period.

The subject hotel is projected to stabilize at 60.1% occupancy by Year 5 of the projection period.

### Average Daily Rate (ADR) Projections

Projected ADR for the subject hotel is based on a review of market information and results for other primary competitive hotels. As a new asset with a franchise affiliation, the subject hotel is projected to be positioned above the market average. The hotel is projected to generate some demand from sources that will want to negotiate a discounted or “preferred” room rate based on projected strong volumes of room demand. The subject hotel is projected to be priced higher in the June through September period, but be more competitive during the shoulder and slower occupancy periods experienced throughout the remainder of the year. The competitive market includes assets with strong ADR levels, but their overall volume of guest room demand is lower.

The proposed subject hotel is projected to have an ADR at \$132.61 in the partial year 2022. The ADR will increase annually in line with projected growth in ADR for the competitive market. By 2027, the ADR is projected at \$146.38. The hotel will have a room rate premium of 112.7% over the competitive market average in each of Years 2 through 6.

The subject hotel's Revenue Per Available Room (RevPar) is projected to reach over 130.0% by Year 4 of the projection period. This will be achieved through the asset capturing well above fair share of annual occupied room nights and having an annual ADR well above the competitive market average. The RevPar penetration projection reflects that the subject hotel, as a new branded asset, will achieve a leading position in the competitive market.

### Fiscal Adjustment to Projected Room Demand and Average Daily Room Rates

The projections presented thus far in this report for the competitive market and the subject hotel are on a calendar year basis. The calendar year projections for the subject hotel have been adjusted to reflect that the asset is projected to open on July 1, 2022. The following table shows the fiscal adjusted top line results projected for the subject hotel commencing July 1 each year. The hotel is projected to stabilize at 60.1% occupancy.

#### ADJUSTMENT OF PROJECTIONS TO FISCAL YEARS (JULY 1 - JUNE 30)

|                            | Year 1      | Year 2      | Year 3      | Year 4      | Year 5      | Year 6      |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                            | 2022/2023   | 2023/2024   | 2024/2025   | 2025/2026   | 2026/2027   | 2027/2028   |
| Fiscal Year ORN            | 8,676       | 12,118      | 12,651      | 12,993      | 13,164      | 13,164      |
| Project Occupancy          | 53.0%       | 55.3%       | 57.8%       | 59.3%       | 60.1%       | 60.1%       |
| Project Average Daily Rate | \$137.20    | \$136.89    | \$139.46    | \$142.24    | \$144.97    | \$147.87    |
| Projected Room Revenue     | \$1,190,358 | \$1,658,801 | \$1,764,235 | \$1,848,196 | \$1,908,326 | \$1,946,492 |

Source: CBRE Hotels

## SUBJECT PROPERTY OPERATING PROJECTIONS

Based upon the preceding discussion of projected occupancies and average daily rates, a five-year projection of annual operating results has been prepared for a proposed 60-room hotel development in the Municipality of Crowsnest Pass.

Given that the potential hotel development would be a newly constructed asset, a review of historic results is not possible. Rather to estimate the revenues and expenses of the hotel, the pro forma assumptions have been based on a review of the operating performance of similar and like hotels as tracked through the in-house CBRE Canadian Hotel Trends database. The CBRE Hotel database of financial statements annually includes over 500 properties across Canada. This database, which provides insight into the operating performance of other directly competitive and comparable hotels, includes a sample of focused service and limited service hotels. The comparative hotels were selected based on their size, facility program and market mix. The projections included a comparison of current wages for certain positions, as shared by representatives at competitive properties interviewed during our research.

The Uniform System of Accounts for Hotels, recommended by the American Hotel and Lodging Association and in general use throughout the hotel industry in Canada, has been used to classify income and expenses in this report. In conformity with this system, only direct operating expenses are charged to operating departments of the hotel. The general overhead items, which are applicable to operations as a whole, are classified as undistributed and include administrative and general expenses, marketing, property operations and maintenance, and energy costs.

Based on our review of the market, and upon the discussion of projected occupancies and average daily rates, a projection of operating results has been prepared for the potential hotel development as a 60-room branded limited service property. The projections assume an opening date of July 1, 2022.

### Key Assumptions

Expenses have been projected with consideration given to the level of fixed versus variable costs in each department. Fixed costs are those that are not normally affected by changes in occupancy levels or sales volumes, such as property taxes, certain administrative payroll positions, or fixed internet and phone plans. Variable expenses however, are tied directly to occupancy levels and sales volumes and include items such as the cost of housekeeping supplies or food and beverage purchases. Expenses have been inflated at 2.0% per year unless otherwise noted.

The Franchise Royalty and Franchise Marketing Fees are projected at a combined 7.0% of Gross Rooms Revenue, which is reasonable for the types of hotel brands noted for consideration or comparison (ie. Best Western, Microtel, Comfort Inn & Suites, Days Inn & Suites, Wingate by Wyndham). Actual fees vary by brand and are subject to negotiation. A franchise reservation fee of 1.0% of Gross Rooms Revenue is included within the Rooms Departmental expense projections.

The projections also reflect typical expenses for a Management Fee (3%) and Reserve for Asset Replacement (4%) as a percentage of Total Revenue. While some operators may not actually incur or deduct these expenses from the operating statements, these expenses reflect typical underwriting criteria and most lenders and developers will include them in their proforma analysis when evaluating the feasibility of a project.

We were advised by representatives of the Municipality of Crowsnest Pass that an "Incentive" exists in order to help attract non residential development. The Policy Title is "Targeted New Development/Re-Development Incentive Policy" and was approved on December 15, 2015. To be eligible, projects must be non-residential and must exceed a building construction value in excess of CDN\$500,000. A new hotel would meet those criteria. The developer would benefit from receiving a "Municipal Tax Cancellation Benefit" for approved projects no greater than \$50,000 annually over a five year period.

Our financial projections for the subject hotel were prepared assuming that the new hotel would meet the Incentive criteria. As a result we have included a line item in the projections titled "Municipal Tax Cancellation (Yrs 1-5)" and have posted an annual amount of \$50,000 to be deducted from expenses over those years. The hotel is still projected to pay some property tax amount, as our annual projections for Property Taxes are above the \$50,000 total. Those estimates were prepared based on our examination of historic assessments and property taxes for existing competitive accommodation properties in Crowsnest Pass, plus a review of hotel expenses from our in house data base. The overall savings of \$250,000 in Property Taxes improves the projected annual EBITDA for the hotel for those five years. Note that any developer should ensure that they work with municipal officials to see if they would meet the incentive criteria while completing their own due diligence.

### Projected Operating Results

Presented on the following page is a projection of the operating income for the proposed hotel over the first six years of operation.

As shown, the projected EBITDA after Reserve for Asset Replacement is projected at 21.8% of total revenue by Year 1, increasing to 34.0% in Year 5. In Year 6, when the Property Tax incentive is removed, the projected EBITDA is at 31.4% of total revenue.



# ASSUMPTIONS AND LIMITING CONDITIONS



## ASSUMPTIONS AND LIMITING CONDITIONS

1. Unless otherwise specifically noted in the body of the report, it is assumed that title to the property or properties appraised is clear and marketable and that there are no recorded or unrecorded matters or exceptions to total that would adversely affect marketability or value. CBRE is not aware of any title defects nor has it been advised of any unless such is specifically noted in the report. CBRE, however, has not examined title and makes no representations relative to the condition thereof. Documents dealing with liens, encumbrances, easements, deed restrictions, clouds and other conditions that may affect the quality of title have not been reviewed. Insurance against financial loss resulting in claims that may arise out of defects in the subject property's title should be sought from a qualified title company that issues or insures title to real property.
2. Unless otherwise specifically noted in the body of this report, it is assumed: that the existing improvements on the property or properties being appraised are structurally sound, seismically safe and code conforming; that all building systems (mechanical/electrical, HVAC, elevator, plumbing, etc.) are in good working order with no major deferred maintenance or repair required; that the roof and exterior are in good condition and free from intrusion by the elements; that the property or properties have been engineered in such a manner that the improvements, as currently constituted, conform to all applicable local, provincial, and federal building codes and ordinances. CBRE professionals are not engineers and are not competent to judge matters of an engineering nature. CBRE has not retained independent structural, mechanical, electrical, or civil engineers in connection with this appraisal and, therefore, makes no representations relative to the condition of improvements. Unless otherwise specifically noted in the body of the report: no problems were brought to the attention of CBRE by ownership or management; CBRE inspected less than 100% of the entire interior and exterior portions of the improvements; and CBRE was not furnished any engineering studies by the owners or by the party requesting this appraisal. If questions in these areas are critical to the decision process of the reader, the advice of competent engineering consultants should be obtained and relied upon. It is specifically assumed that any knowledgeable and prudent purchaser would, as a precondition to closing a sale, obtain a satisfactory engineering report relative to the structural integrity of the property and the integrity of building systems. Structural problems and/or building system problems may not be visually detectable. If engineering consultants retained should report negative factors of a material nature, or if such are later discovered, relative to the condition of improvements, such information could have a substantial negative impact on the conclusions reported in this appraisal. Accordingly, if negative findings are reported by engineering consultants, CBRE reserves the right to amend the appraisal conclusions reported herein.
3. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraisers. CBRE has no knowledge of the existence of such materials on or in the property. CBRE, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea formaldehyde foam insulation, contaminated groundwater or other potentially hazardous materials may affect the value of the property. The value

estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.

We have inspected, as thoroughly as possible by observation, the land; however, it was impossible to personally inspect conditions beneath the soil. Therefore, no representation is made as to these matters unless specifically considered in the appraisal.

4. All furnishings, equipment and business operations, except as specifically stated and typically considered as part of real property, have been disregarded with only real property being considered in the report unless otherwise stated. Any existing or proposed improvements, on or off-site, as well as any alterations or repairs considered, are assumed to be completed in a workmanlike manner according to standard practices based upon the information submitted to CBRE. This report may be subject to amendment upon re-inspection of the subject property subsequent to repairs, modifications, alterations and completed new construction. Any estimate of Market Value is as of the date indicated; based upon the information, conditions and projected levels of operation.
5. It is assumed that all factual data furnished by the client, property owner, owner's representative, or persons designated by the client or owner to supply said data are accurate and correct unless otherwise specifically noted in the appraisal report. Unless otherwise specifically noted in the appraisal report, CBRE has no reason to believe that any of the data furnished contain any material error. Information and data referred to in this paragraph include, without being limited to, numerical street addresses, lot and block numbers, land dimensions, square footage area of the land, dimensions of the improvements, gross building areas, net rentable areas, usable areas, unit count, room count, rent schedules, income data, historical operating expenses, budgets, and related data. Any material error in any of the above data could have a substantial impact on the conclusions reported. Thus, CBRE reserves the right to amend conclusions reported if made aware of any such error. Accordingly, the client-addressee should carefully review all assumptions, data, relevant calculations, and conclusions within 30 days after the date of delivery of this report and should immediately notify CBRE of any questions or errors. CBRE does not make any representation or warranty, express or implied, as to the accuracy or completeness of the information or the state of affairs of the real property furnished by the Client to CBRE and contained in any appraisal report prepared by CBRE.
6. The date of value to which any of the conclusions and opinions expressed in this report apply, is set forth in the Letter of Transmittal. Further, that the dollar amount of any value opinion herein rendered is based upon the purchasing power of the Canadian Dollar on that date. This appraisal is based on market conditions existing as of the date of this appraisal. Under the terms of the engagement, we will have no obligation to revise this report to reflect events or conditions which occur subsequent to the date of the appraisal. However, CBRE will be available to discuss the necessity for revision resulting from changes in economic or market factors affecting the subject.
7. CBRE assumes no private deed restrictions, limiting the use of the subject property in any way.

8. Unless otherwise noted in the body of the report, it is assumed that there is no mineral deposit or subsurface rights of value involved in this appraisal, whether they are gas, liquid, or solid. Nor are the rights associated with extraction or exploration of such elements considered unless otherwise stated in this appraisal report. Unless otherwise stated it is also assumed that there are no air or development rights of value that may be transferred.
9. CBRE is not aware of any contemplated public initiatives, governmental development controls, or rent controls that would significantly affect the value of the subject.
10. The estimate of Market Value, which may be defined within the body of this report, is subject to change with market fluctuations over time. Market value is highly related to exposure, time promotion effort, terms, motivation, and conclusions surrounding the offering. The value estimate(s) consider the productivity and relative attractiveness of the property, both physically and economically, on the open market.
11. Any cash flows included in the analysis are forecasts of estimated future operating characteristics are predicated on the information and assumptions contained within the report. Any projections of income, expenses and economic conditions utilized in this report are not predictions of the future. Rather, they are estimates of current market expectations of future income and expenses. The achievement of the financial projections will be affected by fluctuating economic conditions and is dependent upon other future occurrences that cannot be assured. Actual results may vary from the projections considered herein. CBRE does not warrant these forecasts will occur. Projections may be affected by circumstances beyond the current realm of knowledge or control of CBRE
12. Unless specifically set forth in the body of the report, nothing contained herein shall be construed to represent any direct or indirect recommendation of CBRE to buy, sell, or hold the properties at the value stated. Such decisions involve substantial investment strategy questions and must be specifically addressed in consultation form.
13. Also, unless otherwise noted in the body of this report, it is assumed that no changes in the present zoning ordinances or regulations governing use, density, or shape are being considered. The property is appraised assuming that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, provincial, nor national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report is based, unless otherwise stated.
14. The report has been prepared at the request of the client, and for the exclusive (and confidential) use of the client. The report may not be duplicated in whole or in part without the specific written consent of CBRE nor may this report or copies hereof be disclosed to third parties without said written consent, which consent CBRE reserves the right to deny. If consent is given, it will be on condition that CBRE will be provided with an Indemnification Agreement and/or Non-Reliance letter, in a form and content satisfactory to CBRE, by a party satisfactory to CBRE. Exempt from this restriction is duplication for the internal use of the client-addressee and/or transmission to attorneys, accountants, or advisors of the client-addressee. Also exempt from this restriction is transmission of the report to any court,

governmental authority, or regulatory agency having jurisdiction over the party/parties for whom this appraisal was prepared, provided that this report and/or its contents shall not be published, in whole or in part, in any public document without the express written consent of CBRE which consent CBRE reserves the right to deny. Finally, this report shall not be advertised to the public or otherwise used to induce a third party to purchase the property or to make a "sale" or "offer for sale" of any "security". Any third party which may possess this report is advised that they should rely on their own independently secured advice for any decision in connection with this property. CBRE shall have no accountability or responsibility to any third party.

15. Any value estimate provided in the report applies to the entire property, and any pro ration or division of the title into fractional interests will invalidate the value estimate, unless such pro ration or division of interests has been set forth in the report.
16. The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. Component values for land and/or buildings are not intended to be used in conjunction with any other property or appraisal and are invalid if so used.
17. The maps, plats, sketches, graphs, photographs and exhibits included in this report are for illustration purposes only and are to be utilized only to assist in visualizing matters discussed within this report. Except as specifically stated, data relative to size or area of the subject and comparable properties has been obtained from sources deemed accurate and reliable. None of the exhibits are to be removed, reproduced, or used apart from this report.
18. No opinion is intended to be expressed on matters which may require legal expertise or specialized investigation or knowledge beyond that customarily employed by real estate appraisers. Values and opinions expressed presume that environmental and other governmental restrictions/conditions by applicable agencies have been met, including but not limited to seismic hazards, flight patterns, decibel levels/noise envelopes, fire hazards, hillside ordinances, density, allowable uses, building codes, permits, licenses, etc. No survey, engineering study or architectural analysis has been made known to CBRE unless otherwise stated within the body of this report. If the Consultant has not been supplied with a termite inspection, survey or occupancy permit, no responsibility or representation is assumed or made for any costs associated with obtaining same or for any deficiencies discovered before or after they are obtained. No representation or warranty is made concerning obtaining these items. CBRE assumes no responsibility for any costs or consequences arising due to the need, or the lack of need, for flood hazard insurance.
19. Acceptance and/or use of this report constitutes full acceptance of the Contingent and Limiting Conditions and special assumptions set forth in this report. It is the responsibility of the Client, or client's designees, to read in full, comprehend and thus become aware of the aforementioned contingencies and limiting conditions. Neither the Appraiser nor CBRE assumes responsibility for any situation arising out of the Client's failure to become familiar with and understand the same. The Client is advised to retain experts in areas that fall outside the scope of the real estate appraisal/consulting profession if so desired.

20. CBRE assumes that the subject property analyzed herein will be under prudent and competent management and ownership; neither inefficient nor super-efficient.
21. It is assumed that there is full compliance with all applicable federal, provincial, and local environmental regulations and laws unless noncompliance is stated, defined and considered in the appraisal report.
22. No survey of the boundaries of the property was undertaken. All areas and dimensions furnished are presumed to be correct. It is further assumed that no encroachments to the realty exist.
23. The property has been valued on the basis that the property complies in all material respects with any restrictive covenants affecting the property and has been built and is occupied and is being operated, in all material respects, in full compliance with all requirements of law, including all zoning, land use classification, building, planning, fire and health by-laws, rules, regulations, orders and codes of all federal, provincial, regional and municipal governmental authorities having jurisdiction with respect thereto. There may be work orders or other notices of violation of law outstanding with respect to the real estate as described in the report. However, such circumstances have not been accounted for in the appraisal process.
24. No inquiries have been placed with the fire department, the building inspector, the health department or any other government regulatory agency, unless such investigations are expressly represented to have been made in the report. The subject property must comply with such regulations and, if it does not comply, its non-compliance may affect the market value of the property. To be certain of such compliance, further investigations may be necessary.
25. Because market conditions, including economic, social and political factors, change rapidly and, on occasion, without notice or warning, the estimate of value expressed herein, as of the effective date of this appraisal, cannot be relied upon as of any other date without subsequent advice of CBRE.
26. Client shall indemnify and hold CBRE fully harmless against any loss, damages, claims, or expenses of any kind whatsoever (including costs and reasonable attorneys' fees), sustained or incurred by a third party as a result of the negligence or intentional acts or omissions of Client, and for which recovery is sought against CBRE by that third party.

**CBRE VALUATION & ADVISORY SERVICES**

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