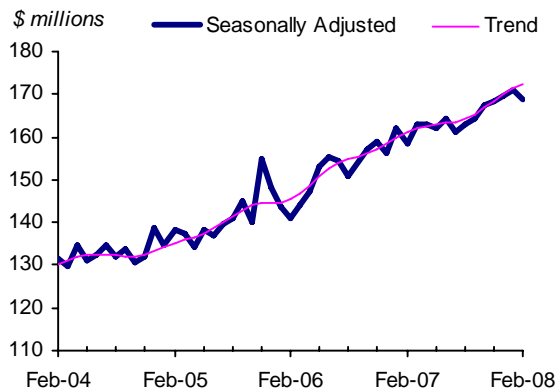


Tourism Sector Monitor ♦ May 2008

Room Revenue

In February, provincial room revenues fell (-1.2%) for the first time since July 2007. Thompson/Okanagan (-6.3%) and Vancouver Island/Coast (-4.3%), which together account for about a third of the provincial total, recorded the largest decreases. Accommodations in Cariboo and Nechako (each at -1.5%) also had a less lucrative month. On the other hand, Kootenay (+9.8%) experienced the largest month-over-month increase in two years and North Coast (+2.7%) saw revenues advance for the third consecutive month. Northeast (+0.3%) and Mainland/Southwest (+0.2%) also posted gains in the second month of 2008.

Room revenues down 1.2% in February



Hotels recorded a 1.3% decrease in February, wiping out all of the gains made in the previous month. All establishments saw declines, most notably small (1-75 rooms; -2.6%) and very large (251+ rooms; -1.9%) hotels. Motel operators also experienced a drop in business (-2.6%), ending a four-

month-long upturn. Returns at other accommodations, including vacation rentals and fishing lodges, were unchanged (0.0%).

Table 1. Room Revenue
(seasonally adjusted)

Accommodation Type			
	Feb 08 (\$000)	Jan 08 (\$000)	% change
Total	168,766	170,819	-1.2
Hotels	125,334	127,016	-1.3
Motels	19,931	20,463	-2.6
Other Accommodations	23,200	23,196	0.0
Regions (Top 3 performers)			
Kootenay	8,465	7,707	+9.8
North Coast	2,590	2,522	+2.7
Northeast	5,085	5,070	+0.3

Visitor Entries

The number of visitors entering Canada through BC fell 1.0% in February. Entries from the US were down (-1.1%) with both same-day (-2.6%) and overnight (-0.4%) visitation showing declines.

Entries from overseas dipped (-0.5%) ending three consecutive months of increases. Although entries from Asia were up 2.3%, this was not enough to offset fewer travellers from Oceania (-5.9%) and Europe (-3.5%).

The number of Canadians returning home via BC (+1.4%) continued to rise in February. Total (+1.0%) and same-day (+2.6%) trips to the US advanced and overseas travel by Canadians was also higher (+4.1%).

Visitor entries dipped 1.0% in February

Visitor entries (thousands)

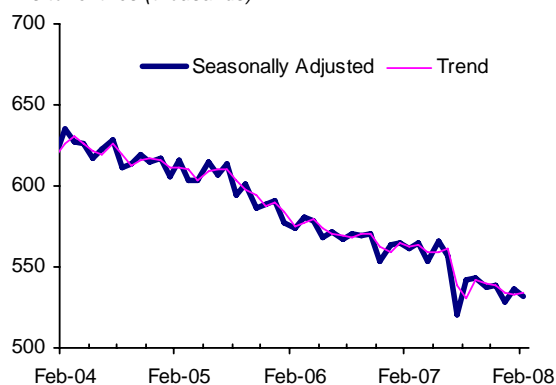


Table 2. Traveller Entries
(seasonally adjusted)

	Feb-08 (‘000)	Jan-08 (‘000)	% chg from Jan-08
American visitors			
Total	403	408	-1.1
Same-day	133	137	-2.6
Overnight	270	271	-0.4
Overseas visitors			
Total	129	129	-0.5
Europe	42	43	-3.5
UK	20	21	-5.7
Asia	59	57	2.3
Japan	14	14	-1.1
Taiwan	4	5	-11.4
Oceania	16	16	-5.9

Note: Total Overseas visitors is not equal to the sum of visitors from Europe, Asia and Oceania since it includes other areas

Other Indicators

BC’s hotel occupancy rate fell 1.1 percentage points to 66.4% in February. However, the daily room rate advanced (+0.5%) for the third consecutive month, averaging \$133.90.

Table 3. Other Tourism Indicators
(seasonally adjusted)

	Feb-08	Change from Jan-08
Hotel Industry		
Occupancy rate (%)	66.4	-1.1 pp.
Average room charge (\$) <i>(Pannell Kerr Forster)</i>	133.90	0.5
Airport Passengers (000s) (%)		
Vancouver International Airport		
Total traffic	1,570	1.2
US (trans-border)	396	3.7
Other International	377	0.2
Canada (domestic) <i>(YVR)</i>	797	0.4
Victoria International Airport		
Total traffic	127	0.8
<i>(Victoria Airport Authority)</i>		
Food Services Receipts (\$ millions) (%)		
All establishments <i>(Statistics Canada)</i>	667	2.5
Transportation (000s) (%)		
Coquihalla Highway		
Passenger Vehicles <i>(Ministry of Transportation)</i>	158	-29.7
BC Ferries		
Vehicle Volume	702	-0.1
Passenger Volume <i>(BC Ferries)</i>	1,789	0.2
Exchange Rates Cdn \$		
US \$	1.001	+0.01
UK Pound	0.510	+0.01
Japanese Yen	107.193	+0.66
Australian \$ <i>(Statistics Canada)</i>	1.096	-0.03

Note: pp. percentage points

Note to readers: all data in the *Tourism Sector Monitor* are reported on a **seasonally adjusted** basis.

In February, both the Vancouver (+1.2%) and Victoria (+0.8%) airports saw an increase in passenger traffic. BC Ferries recorded a slight decrease in the number of vehicles (-0.1%), while passenger volume (+0.2%) inched higher. An avalanche closed the Coquihalla Highway for eight days in February, causing a sharp drop (-29.7%) in passenger vehicle traffic.

BC's food services and drinking places industry saw revenues climb (+2.5%, *seasonally adjusted*) in February. An increase in receipts at food service establishments offset a drop in business at drinking places.

A look ahead—March 2008

Preliminary estimates suggest that room revenues were down again (-0.4%) in March. Most regions of the province experienced declines, including Kootenay (-7.2%), North Coast (-3.2%), Cariboo (-3.1%), Thompson/Okanagan (-1.2%) and Mainland/Southwest (-0.4%). However, Northeast (+5.8%) built on February's gain while Nechako (+4.2%) and Vancouver Island/Coast (+1.5%) saw revenues rebound.

Returns at BC hotels advanced (+1.6%) in March. Although large hotels (151-250 rooms; -1.5%) experienced a decline, this was offset by higher revenues at small (1-75 rooms; +3.7%), very large (251+ rooms; +2.7%) and mid-sized (76-150 rooms; +0.7%) hotels. Motels (-0.9%) and vacation rentals (-6.2%) saw revenues fall for the second straight month. However, fishing lodges, bed and breakfasts, and other types of accommodation (+6.5%) recorded the largest monthly increase since January 2007.

Traveller entries to Canada via BC fell (-2.4%) for the second consecutive month in March. Visitation from the US (-1.5%) continued on a downward track as there were fewer Americans on same-day (-2.6%) and overnight (-1.0%) trips. The number of visitors from overseas countries slumped (-5.2%), reflecting a significant decrease in Asian entries (-6.0%). Travel from Oceania (-8.5%) was also down while more Europeans (+1.9%) entered the province.

The province's largest airports were not as busy, as both the Victoria (-3.3%) and Vancouver (-0.5%) terminals saw a decrease in the number of travellers. However, vehicle (+0.5%) and passenger (+0.2%) volume aboard BC Ferries was up. The number of passenger vehicles travelling along the Coquihalla Highway surged (+37.8%) as the route returned to normal operation in March.

About preliminary numbers

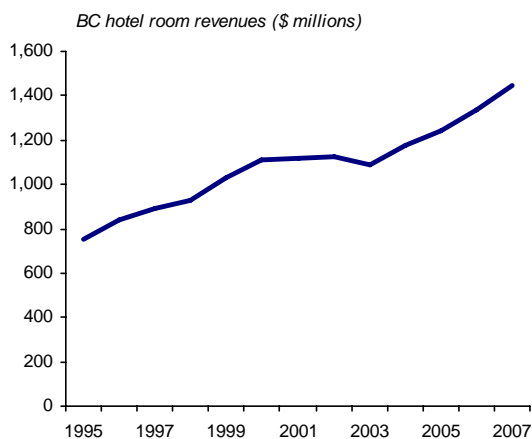
Companies file their hotel room taxes with varying delays. The initial data retrieved by BC Stats may be revised considerably over the following months. BC Stats reports room revenues with a three-month lag. For example, data for January are not reported until April. However, we also briefly report "preliminary data" with a two-month lag.

How accurate is the preliminary data? Over 21 reports in 2006 and 2007, BC room revenues changed (rose or fell on a month-over-month basis) on average by 2.4% (absolute value). The preliminary numbers—reported in the "look ahead" section—were less by an average of 0.2 percentage points partly because the initial data retrieved may not be complete until later that month. For example, if the preliminary figure is 1.5, the actual number probably is around 1.7. And if the preliminary figure is -0.5, the actual number is about -0.3.

Special Focus: Checking Out Hotel Occupancy and Room Rates in BC

There are more than 700 hotels in BC, which generated close to three-quarters (74%) of provincial room revenues in 2007. Not only do hotels account for the lion’s share of earnings of the accommodation sector, their revenues have grown significantly since the mid-1990s. Over the 1995 to 2007 period, returns at the province’s hotels jumped 93.0% from an estimated \$751.4 million to \$1.4 billion.

Room revenues at hotels have nearly doubled since 1995



Data Source: BC Stats

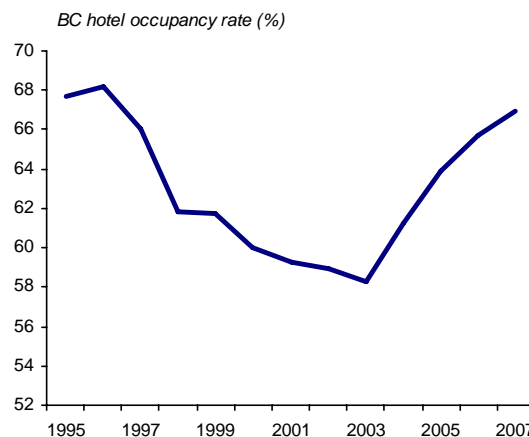
Two factors that directly influence hotel room revenues are the occupancy rate (i.e., the number of occupied rooms as a percentage of total available rooms) and the average daily room rate. In addition, occupancy and room rates at other types of accommodation will also affect business at hotels. For example, in rural areas of the province motels tend to outnumber hotels, so hotel operators have to compete with lower-cost accommodations. Also, cost-conscious travellers may choose a motel over a hotel based solely on the difference in room rates, so there is some degree of substitution occurring between hotels and other accommodations.

Using information from Pannell Kerr Forster’s monthly *Trends in the Canadian Hotel Industry* publication, it is possible to examine hotel occupancy and room rates in BC at both the provincial and regional levels.

Recent trends in BC’s hotel occupancy and room rates

From 1997 to 2003, occupancy rates in the province declined steadily and bottomed out at 58.3%, the lowest rate recorded since the mid-1980s. In 2004, occupancy rates began to recover and have continued on an upward track ever since, reaching their highest levels in 11 years in 2007 (66.9%).

Following several years of declines, BC hotels saw occupancy rates rebound in 2004

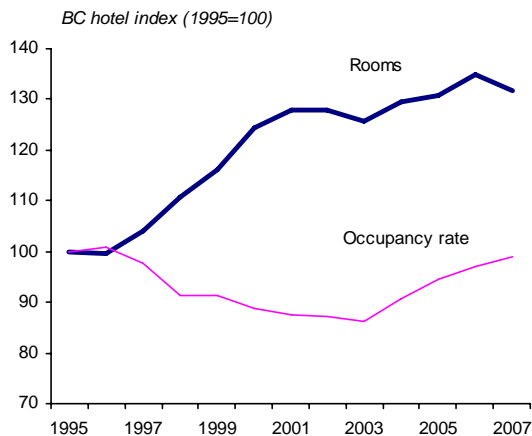


Data Source: Pannell Kerr Forster

Occupancy rates are determined not only by demand-side factors but also the available supply of hotel rooms. Since occupancy rates are inversely related to capacity, an increase in the number of rooms (assuming all else being equal) could partially account for the decrease in occupancy rates recorded from 1997 to 2003. According to

BC Stats estimates, the total number of rooms in the province rose 20.8% over this period. However, room counts expanded from 2004 to 2006 while occupancy rates also increased, as it is likely that market demand began to offset the increase in room supply.

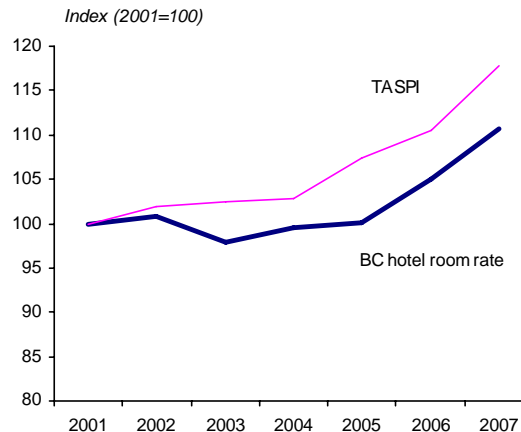
The number of hotel rooms rose from 1997 to 2003 while occupancy rates fell



Data Source: Pannell Kerr Forster & BC Stats

With respect to average daily room rates, we would expect an upward trend over time as hotel operators pass on increased costs to guests. From 2001 to 2007, the average room rate in the province advanced 10.7%. Over the same period, the Traveller Accommodation Services Price Index (TASPI), which reflects changes in room rates for short-term accommodation including hotels and motels, grew at a faster rate (+17.7%). However, price changes in motel lodging services, which are included in the TASPI, may partially account for the discrepancy in growth rates between the two series.

Hotel room rates have not kept pace with the overall price level for short-term accommodation services



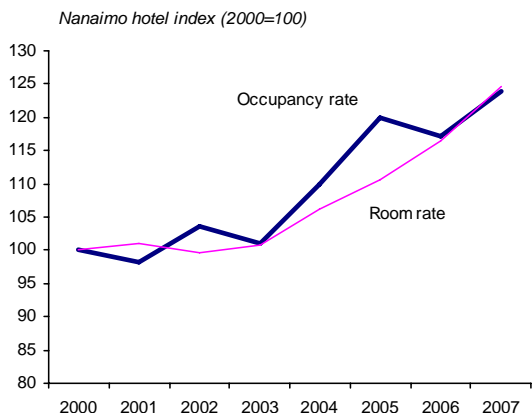
Data Source: Pannell Kerr Forster & Statistics Canada

It should be noted that there is an inherent relationship between the occupancy rate and the room rate. For example, a hotel operator may choose to sacrifice occupancy by raising room rates. Conversely, a reduction in room rates may lead to an increase in demand for hotel accommodation, which would cause occupancy rates to move up (assuming a fixed supply of rooms).

Nanaimo has shown the strongest growth in occupancy rates

From 2000 to 2007, Nanaimo’s hotel occupancy rate increased 13.2 percentage points, the largest gain in the province. At the same time, average room rates also climbed (+24.7%). In comparison, Greater Victoria saw its occupancy rate remain relatively flat during this period (+0.4) while Parksville/Qualicum (-0.2) recorded a slight decrease.

Despite the rising cost of hotel rooms in Nanaimo, occupancy rates are trending up



Data Source: Pannell Kerr Forster

Since both occupancy and room rates in Nanaimo expanded from 2000 to 2007, it is reasonable to assume that growth in the hotel industry was demand-side driven. Whether this is due to increased marketing efforts or other promotional activities undertaken by local industry is difficult to determine without a more detailed analysis. However, it is likely that Nanaimo’s geographical location as a gateway to Vancouver Island has helped boost the hotel industry in this area.

During the 2000 to 2007 period, areas of Greater Vancouver also showed notable increases in occupancy rates, including Richmond (+9.9 percentage points) and Langley/Surrey (+8.5). Outside the Lower Mainland, growth in Prince George (+8.1) outpaced Kelowna (+3.3), Kamloops (+3.2) and Penticton (-0.5).

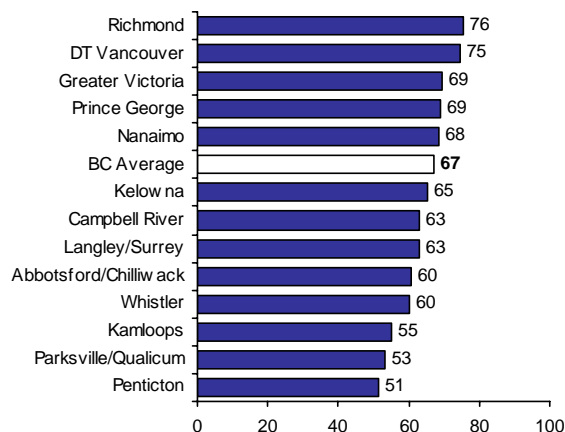
Hotels in Greater Vancouver have the highest occupancy rates

Typically, the highest occupancy rates are in large urban centres in the Greater Vancouver area. For example, Richmond (76%) led the province in 2007, which is likely due to its proximity to the Vancouver International Airport. Similarly, hotels in

downtown Vancouver operated at 75% of capacity while occupancy rates in Greater Victoria and Prince George (each at 69%) were slightly lower. Hotels in Kamloops (55%), Parksville/Qualicum (53%) and Penticton (51%) operated at just over half capacity on average in 2007.

The busiest hotels are located in Richmond and Downtown Vancouver

Occupancy rates (% , 2007) - selected BC communities

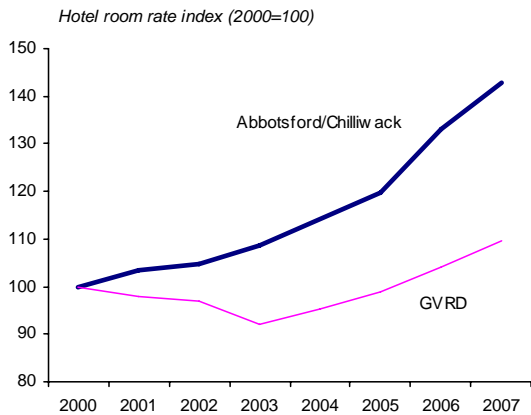


Data Source: Pannell Kerr Forster

Room rates in Abbotsford/Chilliwack have shown considerable growth but remain among the lowest in BC

From 2000 to 2007, the average hotel room rate in Abbotsford/Chilliwack rose 42.9%, significantly higher than the increase for the Greater Vancouver Regional District (GVRD) (+9.5%). This rate of growth also surpassed Richmond (+26.0%) and Langley/Surrey (+25.1%).

The increase in room rates in Abbotsford/Chilliwack exceeds the GVRD

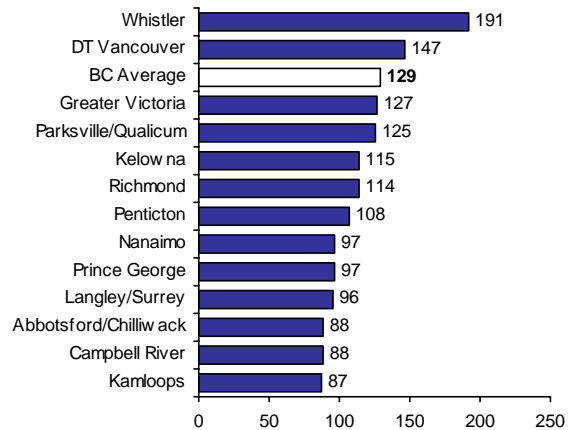


Data Source: Pannell Kerr Forster

Although the average room rate in Abbotsford/Chilliwack has shown substantial growth in recent years, it still remains among the lowest in the province. In 2007, the average daily charge for a hotel room was \$88, with only Campbell River (\$88) and Kamloops (\$87) showing similar rates. Not surprisingly, the highest room rates in the province are in the resort community of Whistler (\$191), where the price of a hotel room is about one and a half times greater than the provincial average (\$129). Hotels in downtown Vancouver charged \$147 on average in 2007, while room rates in Greater Victoria (\$127) and Parksville/Qualicum (\$125) were just below the BC average. Operators in Kelowna, Richmond and Penticton also charged more than \$100 per night for a hotel room last year.

Whistler has the highest average hotel room rate in the province

Average hotel room rates (\$, 2007) - selected BC communities



Data Source: Pannell Kerr Forster