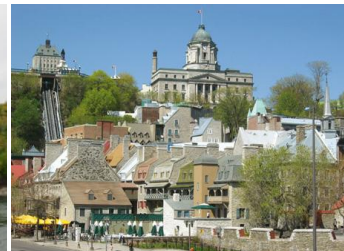
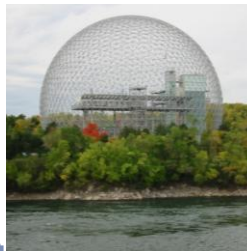




CANADIAN MONTHLY LODGING OUTLOOK – OCTOBER 2012  
**HOW TO IDENTIFY A HOTEL COMPETITIVE SET  
FOR A HOTEL MARKET STUDY**



## How to Identify a Hotel Competitive Set for a Hotel Market Study

Accurately identifying a competitive set is important for a hotel market study because the data provide both a more accurate perspective on a hotel's historical operating performance and a basis for projecting a hotel's future performance. The competitive set provides a context for understanding a hotel's relative occupancy and average daily rate (ADR) performance and also establishes a baseline for and constraints on the projection of a hotel's future operating potential. In essence, the determination of a competitive set allows for supply and demand trends in the market to be quantified, which in turn enables a more reasonable projection of future performance and a more accurate assessment of actual performance.

A hotel in any given area will not necessarily compete with all the hotels in that area for the same sources of demand. For a hotel market study, it is necessary to determine which hotels compete with the subject hotel and to what degree, and it is likewise important to eliminate those hotels that are not competing for the same demand. To this end, all the lodging facilities in a market area should be inspected and analyzed in order to support the selection of the appropriate competitive set.

Many criteria can be used to establish the competitive set, but location, brand, product type, quality, and ADR are the main considerations. The use of these criteria makes the process of selecting the competitive hotels more objective than would otherwise be possible. The process of selecting the hotels to include in a competitive set is nonetheless subjective, and the biases of the person making the selection can influence what hotels are included and excluded.

As every hotel market is unique, the criteria for selecting the competitive hotels help guide the decision-making process, but they are not a cut-and-dry indicator of competitiveness. In making the final decision about which hotels to include in the competitive set, one needs to consider the criteria but also look at the market holistically and take into account the nature of the demand generators on which the lodging market is built.

### Location

One of the more obvious things to look for when identifying a competitive set for a market study is the location relative to the subject property or the subject site. If hotel properties are near each other, they are likely to serve similar market segments and experience similar occupancy cycles. The location can be classified as airport, highway, centre city, suburban, convention centre, resort, or rural, each of which has a different mix of demand generators.<sup>1</sup>

The location of the competing hotels is typically close to the subject property. However, there are some unique situations where the competitive market spans long distances, such as in rural markets where there is drilling for oil and gas. In these markets, demand is generated by the service crews, the territory can span hundreds of kilometres, and the lodging supply is minimal and often in poor condition. In a situation like this, it is often necessary to include hotels from different towns that are far apart to build a competitive set for a hotel study.

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<sup>1</sup> Stephen Rushmore, John W. O'Neill, and Stephen Rushmore Jr., *Hotel Market Analysis and Valuation: International Issues and Software Applications* (Chicago: Appraisal Institute, 2012), 148.

Alternatively, when a large number of hotels are located close to one another, the hotels may separate out into distinct competitive groupings. Each hotel will compete with a smaller set of hotels from among the available supply in the area. This is what tends to happen in a downtown core, where there are many types of demand with distinct lodging requirements and also many different types of hotels, all within a close area. In this situation, a hotel will compete with a select number of hotels that focus on the same type of demand and share similar property characteristics.

### **Brand**

Identifying the brands in a market area can help in forming a competitive set. Most of the major hotel companies have a complement of full-service, limited-service, and extended-stay brands that are in different chain scale categories, such as luxury, upper-upscale, upscale, upper-midscale, midscale, and economy, all of which are tailored to a specific type of traveller. In addition, these branded hotels have similar attributes in regards to loyalty programs, sales teams, and on-line reservation services.

Although identifying the hotels in the market with similar brand types is a good starting point, it does not mean that the subject property or the proposed subject hotel will compete exclusively with similar branded hotels. Depending on a number of factors, such as the existing hotel supply in the market, the brands represented in the market, and the condition of these properties, it is possible that a midscale brand could compete with an upscale brand, an economy brand, or a non-branded property. This reinforces the need to conduct extensive research and understand the unique aspects of each market.

### **Product Type**

Product type refers to the facilities that are available at the hotel. The product type can be classified as full-service, limited-service, or extended-stay. Full-service hotels have attached restaurants, lounge facilities, and meeting space. A limited-service hotel lacks a restaurant, has little meeting space, and usually offers complimentary breakfast. An extended-stay hotel focusses on guests that stay for five nights or longer; the facilities are similar to a limited-service hotel, but all the guestrooms have a form of kitchenette.

The product type of the hotels in the market should be considered when determining a competitive set because properties with similar facilities are likely to attract guests with similar needs. It is nonetheless possible for hotels of a different product type to compete with each other. This can happen when there is no similar product type in the market area or when the guestroom quality or ADR is similar and the properties are located in the same area.

### **Quality**

Quality refers to the calibre and condition of the hotel's facilities and guestrooms. Hotel brands have standards that must be met in terms of product quality and design; however, every hotel is at a different point in its renovation cycle, which can result in variances in quality among hotels with the same brand or comparable brands. It is important to know the quality of each hotel in the area and how it compares to the subject property or the expected quality of the proposed subject hotel. Once again, different clientele have different expectations with respect to quality. Therefore, knowing the quality of the hotels helps in selecting an appropriate competitive set.

## Average Daily Rate (ADR)

Price plays a large role in a person's decision to stay at a specific hotel. As such, the ADR of the properties in the market is an important metric to look at when identifying a competitive set. The ADR of a property reflects the guest's perception of value. When choosing accommodations, a guest has certain expectations in regards to location, type, and quality and also how much he or she is willing to pay for that type of lodging facility. As a guest is likely to give equal consideration to all the hotels in the market area that have a similar ADR, the ADR of a property can provide a good indication of whether or not it should be included in the competitive set. When analyzing the ADR of hotels in a market to identify the competitive set, the ADR of the subject property (or the proposed subject hotel) should not be significantly higher or lower than the ADR of the competing properties. If there is a significant difference in ADR, then the properties likely have different quality and facility attributes and are probably targeting different clientele.

## Conclusion

The purpose of a competitive set in a hotel study is to provide a context for analyzing the historical performance of a hotel and a basis for making projections. A competitive set should not be selected based on one element but rather on a thorough analysis of the total supply in the market. The main factors to consider and research are location, brand, product type, quality, and ADR relative to the subject property or the proposed subject hotel. By weighing these factors, an appropriate competitive set can be identified, which will provide a good base for conducting supply and demand projections and give a more accurate picture of the existing competitive market.



## About the Author

**Jason Wight** is a Senior Associate with the HVS Vancouver office in Canada. Jason received his Bachelor of Hotel and Resort Management degree from the Haskayne School of Business at the University of Calgary and a Diploma in Hotel and Restaurant Management from the Southern Alberta Institute of Technology. Prior to joining HVS, Jason held various positions in hotel operations and in the restaurant industry. Jason has completed numerous hotel appraisals and hotel feasibility studies in both major cities and small towns throughout Western Canada.

## Canadian Lodging Outlook October 2012

STR and HVS are pleased to provide you with the month's issue of the Canadian Lodging Outlook. Each report includes occupancy (Occ), average daily rate (ADR), and revenue per available room (RevPAR) for three major markets and the Provinces.

If you would like a detailed hotel performance data for all of Canada, STR offers their Canadian Hotel Review. The Canadian Hotel Review is available by annual subscription which includes both monthly and weekly issues. Each monthly issue of the Canadian Hotel Review also includes an analysis provided by HVS. For further information, please contact: [info@str.com](mailto:info@str.com) or +1 (615) 824-8664 ext. 3504.

October 2012	Occupancy Rate (%)		Average Room Rates (\$CAD)		REVPAR (\$CAD)		Room Supply	Room Demand	Number of Rooms	
	2012	2011	2012	2011	2012	2011	% chg	% chg	Sample	Census
Montreal	71.1%	72.0%	\$140.93	\$139.66	\$100.21	\$100.55	0.4%	-0.8%	16,875	27,858
Toronto	70.5%	73.5%	\$141.76	\$142.00	\$99.97	\$104.35	1.6%	-2.4%	31,614	36,859
Vancouver	66.3%	62.2%	\$135.46	\$130.66	\$89.88	\$81.33	0.6%	7.2%	19,894	26,415
<b>Provinces</b>										
Alberta	66.8%	63.4%	\$136.17	\$130.04	\$91.02	\$82.49	0.8%	6.2%	38,515	68,318
British Columbia	58.4%	56.4%	\$125.57	\$121.81	\$73.31	\$68.66	0.5%	4.1%	37,589	83,009
Manitoba	67.0%	67.6%	\$114.98	\$115.72	\$77.03	\$78.27	2.4%	1.5%	5,653	13,824
New Brunswick	58.1%	58.0%	\$108.21	\$110.58	\$62.86	\$64.09	-1.0%	-0.8%	5,434	10,712
Newfoundland	78.3%	78.7%	\$139.93	\$136.86	\$109.61	\$107.70	0.7%	0.2%	1,877	5,677
Nova Scotia	67.2%	66.2%	\$120.99	\$119.64	\$81.31	\$79.18	-0.7%	0.8%	6,395	12,426
Northwest Territories	INS	INS	INS	INS	INS	INS	INS	INS	124	1,373
Ontario	65.9%	66.4%	\$125.39	\$125.73	\$82.63	\$83.54	1.0%	0.2%	85,199	135,717
Prince Edward Island	52.0%	47.1%	\$100.70	\$101.25	\$52.39	\$47.67	-1.4%	9.0%	957	3,996
Quebec	68.4%	68.2%	\$141.59	\$137.89	\$96.91	\$94.05	0.1%	0.5%	27,565	76,231
Saskatchewan	73.1%	72.6%	\$127.69	\$122.00	\$93.39	\$88.53	4.0%	4.8%	8,248	17,132
Yukon Territory	INS	INS	INS	INS	INS	INS	INS	INS	152	1,635
<b>Canada</b>	<b>65.3%</b>	<b>64.4%</b>	<b>\$128.90</b>	<b>\$126.64</b>	<b>\$84.15</b>	<b>\$81.57</b>	<b>0.7%</b>	<b>2.1%</b>	<b>217,708</b>	<b>430,464</b>

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\*INS = Insufficient Data



## About STR

**STR** provides information and analysis to all major Canadian and U.S. hotel chains. Individual hotels, management companies, appraisers, consultants, investors, lenders and other lodging industry analysts also rely on STR data for the accuracy they require. With the most comprehensive database of hotel performance information ever compiled. STR has developed a variety of products and services to meet the needs of industry leaders.

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**HVS** is the world's leading consulting and services organization focused on the hotel, restaurant, shared ownership, gaming, and leisure industries. Established in 1980, the company performs more than 2,000 assignments per year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 400 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit [www.hvs.com](http://www.hvs.com)

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