

Cameron Hawkins & Associates Inc.

Advisory Services to the Hospitality & Tourism Industries

Ms. Dianne Young
General Manager & CEO
Board of Governors of Exhibition Place
Exhibition Place
Toronto, On M6K 3C3

Dear Dianne:

You have asked for an update on hotel development activity and trends in Toronto generally, and our views on the current climate for hotel development at Exhibition Place.

The tightening of capital markets has had an impact on all forms of commercial real estate, including hotels. Hotel financing has traditionally been more challenging than other forms of commercial real estate, as lenders and investors attach a higher risk premium to this form of development. With construction costs ranging from \$175,000 to \$350,000 per room, a typical 200-room three star hotel would require equity of \$15 to \$20 million in order to secure mortgage financing. Limited access to debt and high equity requirements will continue for the foreseeable future, and will remain a significant deterrent to the development of traditional full-service, freestanding hotels. Most hotel development activity over the past decade has focused on smaller limited-service properties, which have a lower development cost and higher operating margins; or luxury/boutique hotels developed as part of a large, mixed-used project typically anchored by residential condominiums. We expect this trend to continue for the foreseeable future.

The market conditions for the hotel sector in Canada, and indeed throughout North America, have been very difficult for most of the past decade. The September 11, 2001 terrorist attacks led to a worldwide downturn in business and leisure travel, the cancellation of a number of major hotel projects as well as a general flight of capital from this sector. Travel began to recover in 2002 and 2003, but the outbreak of SARS, followed by the Mad Cow scare and adverse publicity over West Nile Virus, sent leisure and business travel into a dramatic decline across Ontario, with Toronto bearing the brunt of the downturn.

Travel bounced backed quickly in 2004 and continued to grow (albeit modestly) until 2008, despite the many challenges facing the travel sector over the past five years. These challenges, including the Western Hemisphere Travel Initiative, rising energy costs and the weakening of the US dollar, dampened the demand for leisure and business travel across Canada, and Toronto was not immune to these challenges. The greatest impact, by far, came from the worldwide economic downturn that followed the US financial sector crisis in 2008.

23 Baby Point Road, Toronto, ON M6S 2E8
tel 416-871-8788 fax 416-762-7083
e mail cameron.hawkins@sympatico.ca

Toronto Hotel Market Overview

Following seven years of growth, downtown Toronto's market occupancy peaked in 1998 at approximately 75.5%. Occupancy levels then declined for a number of years, due to the many domestic and international challenges facing the travel and tourism section. With the exception of SARS, which was focused largely on Toronto, the challenges facing the tourism sector affected travel across North America, and the occupancy trends for Toronto were similar to those of Canada's largest urban centres.

Travel rebounded quickly following the SARS outbreak, but occupancy levels stalled for several years as new supply coming into the downtown core offset rising hotel demand. In 2008 hotel occupancy in downtown Toronto reached 71.5% - the highest level reported since 1999.

Downtown Toronto Hotel Market Occupancy, Average Room Rate and RevPAR Trends

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Occupancy	75.5%	74.7%	71.1%	68.1%	67.5%	58.6%	68.9%	69.7%	69.2%	70.9%	71.5%
Average Daily Rate	\$135.42	\$150.06	\$158.38	\$159.38	\$159.93	\$145.34	\$155.77	\$160.80	\$171.16	\$170.30	\$169.53
RevPAR	\$102.24	\$112.09	\$112.61	\$108.54	\$107.96	\$85.17	\$107.33	\$112.08	\$118.44	\$120.74	\$121.21

Source: HVS/Smith Travel Research

For the first half of 2009, occupancy levels in downtown Toronto declined by six percentage points to 63.4% compared to 69.4% for the same period in 2008. Average daily rates dropped from \$171.46 to \$148.16, down by almost 14%. As a result, RevPar for the first half of the year was down by almost 21% to \$93.93. As seen in the following table, the results in Toronto were amongst the worst reported by Canada's major urban centres, reflecting the degree to which the worldwide economic downturn affected Ontario's manufacturing sector.

	% Change Occupancy	% Change Average Rate	% Change RevPar
TORONTO	-8.6%	-13.6%	-21.1%
Halifax	-7.8%	-3.9%	-11.4%
Quebec City	-14.5%	-10.5%	-23.4%
Montreal	-4.3%	-9.8%	-13.7%
Ottawa	-4.3%	-0.2%	-4.5%
Niagara Falls	-3.5%	-4.1%	-7.5%
Winnipeg	-5.3%	1.4%	-4.0%
Calgary	-9.7%	-5.1%	-14.4%
Vancouver	-11.4%	-6.0%	-16.7%

Hotel Development in Downtown Toronto

The downturn in travel following the SARS outbreak led to the cancellation or postponement of a number of hotels and, as a result, the supply of guestrooms remained relatively stable for a number of years, as seen in the following table:

New Hotel Supply – GTA (2003- 2009) Source: Colliers International Hotels	# Rooms	Date
Hotel Le Germain	124	2003
SoHo Metropolitan Hotel	186	2003
Pantages Hotel	96	2004
One King West	300	2004
Residence Inn by Marriott	256	2007
Super 8 Downtown Toronto	92	2007
Hazelton Hotel & Private Residences	77	2007
Hilton Garden Inn	224	2009

Most of the hotels that opened in the downtown core are part of larger, mixed use developments, typically anchored by residential condominium projects.

Despite the many challenges facing the hotel sector, construction has continued, with eight hotels now under construction, ranging from small boutique hotels to prestigious five star properties by Four Seasons and Ritz Carlton.

Hotel Construction, Downtown Toronto	# Rooms	Projected Opening
Hotel on Queen	19	2009
Thompson Hotel	102	2010
Hotel Le Germain Maple Leaf Square	166	2010
Ritz Carlton	267	2010
Trump Hotel & Tower	261	2011
Shangrila Hotel	220	2012
Four Seasons Hotel	253	2012

Outlook for Hotel Development at Exhibition Place

The Drake and Gladstone Hotels in the rapidly developing West Queen West district, together with the development of residential and commercial real estate in Liberty Village and around Fort York, clearly show the western push in real estate development that has taken place over the past five years.

Demand for hotel space at Exhibition Place will come from a number of sources, including:

1. Local area business: We anticipate that the conversion of industrial buildings to multi-tenant commercial use will continue over the foreseeable future. Combined with the growing residential base in the area, this will result in a more vibrant and sustainable community in the area surrounding Exhibition Place. Over time, this will translate into additional demand for transient accommodation. Much of this demand, and in particular demand generated by the “creative community” that is moving into the West Queen West district, will gravitate towards small boutique hotels such as the Drake and Gladstone. As the business community evolves and matures, demand for more traditional commercial accommodation will increase, and a new hotel at Exhibition Place could capture this demand.
2. Visiting friends and relatives: The residential market around Exhibition Place is growing rapidly, with the majority of new construction being small, urban condominium units. With floor areas ranging from 450 to 700 square feet, commercial accommodation will be increasingly necessary for visiting friends and relatives. Many condominiums in the downtown core have established “friends and family” rates with nearby hotels, and this practice could be readily adopted by a new hotel at Exhibition Place.
3. Major events and on-site activity: By far the most important source of demand will be those participating in events at Exhibition Place, whether as spectators, exhibitors or active participants. The Direct Energy Centre, BMO Field, Ricoh Coliseum and major outdoor events all generate accommodation demand that could be captured by a hotel at Exhibition Place. The amount of demand generated on-site should increase significantly following the opening of the new conference centre.

With a growing base of tradeshow, conference, sports and entertainment facilities now available to complement the traditional large outdoor events such as the Toronto Indy and CNE, the prospects for hotel development at Exhibition Place continue to improve. While it is too soon to declare the recession over, it does appear that the economic outlook is improving. The balance of 2009 will be difficult for the travel sector, but if the most recent Bank of Canada forecasts hold true, the GDP will grow in the latter half of the year and we should see signs of recovery in business and leisure travel during the first half of 2010.

We appreciate the opportunity to be of continuing service, and look forward to discussing this report with you.

Sincerely,

A handwritten signature in blue ink, appearing to read 'C. Hawkins', written over a light blue horizontal line.

Cameron Hawkins
President