GREATER TORONTO HOTEL ASSOCIATION

SERVING THE HOTEL INDUSTRY SINCE 1925

EX20.2.9

November 30, 2016

Mayor John Tory
Members of the Executive Committee
Toronto City Hall
100 Queen St. West
Toronto, ON M5H 2N2

Mayor Tory and Members of the Executive Committee,

On behalf of the members of the Greater Toronto Hotel Association (GTHA) I am writing regarding Agenda Item 20.2, The City of Toronto's Immediate and Longer-term Revenue Strategy Direction, on the Executive Committee Agenda for December 1, 2016.

The Greater Toronto Hotel Association is opposed to any amendments to the City Of Toronto Act, 2006 (COTA), that will allow the City to implement a hotel/lodging tax and requests that Toronto City Council eliminate the hotel tax from further consideration.

The provincial government passed the City of Toronto Act, 2006 with a clear and deliberate decision to provide a specific exclusion in the COTA to not include authority for the City of Toronto to implement a hotel/lodging tax.

The cumulative impact of the current Harmonized Sales Tax (HST) with the addition of a hotel/ lodging tax will impact the hotel sectors competitiveness and provide a competitive disadvantage in attracting investment in new and re-investment in existing hotel product.

Research shows that the City of Toronto is becoming a very expensive jurisdiction. In the year 2000, an Exit Survey study conducted by Tourism Toronto showed that 13.6% of visitors to our region felt that Toronto is too expensive. In 2014, this number increased to 30.3% of all respondents. Furthermore an independent Watkins Research Group Survey said: *"Toronto is viewed by many planners as an exceptional meeting destination. The city shines in all key evaluation areas, with no identifiable areas of concern. While Toronto fits the bill in most ways, a fair number of planners continue to point out the high cost of meeting there. These higher costs take on many forms: airlift; hotel; taxes."*

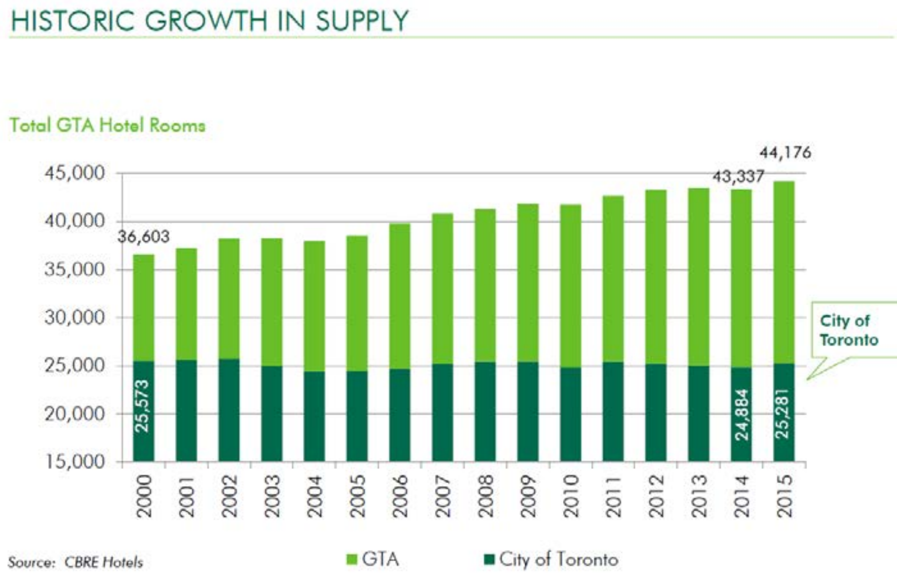
The City needs to consider the impact of a hotel/ lodging tax on other tourism and hospitality businesses such as transportation, restaurants, attractions, retail and entertainment which combined employ 315,000 people in Toronto. These businesses rely on the hotel sector's leadership and funding for destination sales and marketing. This funding comes from both the Destination Marketing Program and other direct investments from the hotel community to attract meetings, conventions and events to the City. No other sector has provided dedicated consistent funding since 2004.

In 2015 and 2016 The GTHA engaged CBRE Hotels to complete an Economic Impact Study and a Comparative City Hotel Operations Study to provide an overview of the Greater Toronto Area lodging sector and analyze the Toronto's hotel market performance compared to its competitive set. The highlights of these studies are outlined below.

Based on our study, in 2015 there were 44,176 hotel rooms across the Greater Toronto Area, of which 25,281 are in the City of Toronto. This represents a reduction in Toronto hotel rooms of 292 over a 15 year period (see FIGURE 1). In fact since 2010 in the City of Toronto 12 properties have closed and 6 new properties built for a net reduction of 6 hotels.

It is clear that investment decisions to build new hotels have been focused outside of the City of Toronto in the suburban markets with total supply growth of 7,573 rooms over the same 15 year period. With a total of 48 new properties built, and total rooms outside of the boundaries of the City of Toronto at approximately 19,000 rooms there is a very distinct separate marketplace that will have a significant advantage over Toronto hotels if the City implements a hotel/ lodging tax.

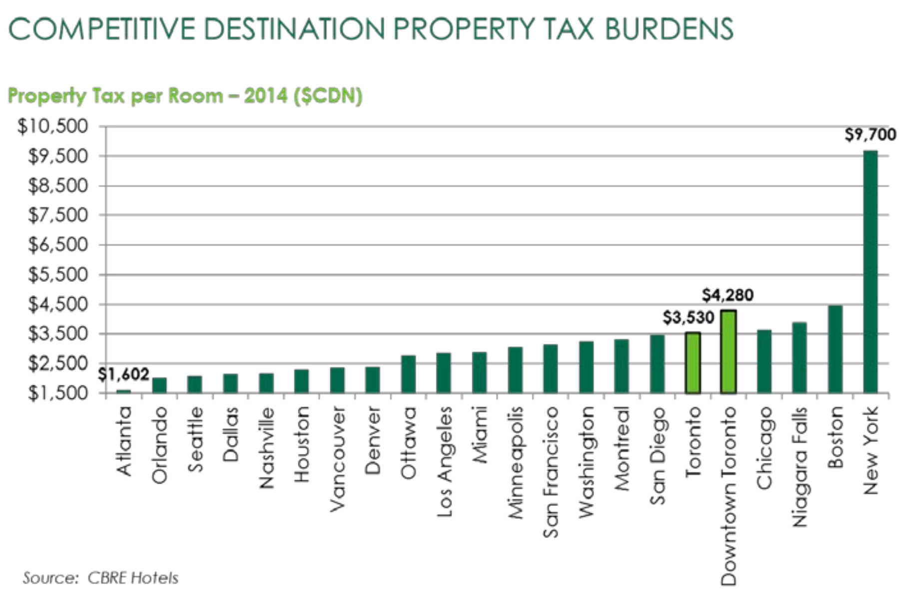
FIGURE 1



(SOURCE: CBRE Hotels, Comparative City Hotel Operations Study, 2016)

The Economic Impact Study shows that the hotel sector in the City contributes approximately $90 million in property taxes: ranging from a low of $2,200 per room to a high of $11,000 per room, for a downtown average per room of $4,280 (see FIGURE 2).

FIGURE 2

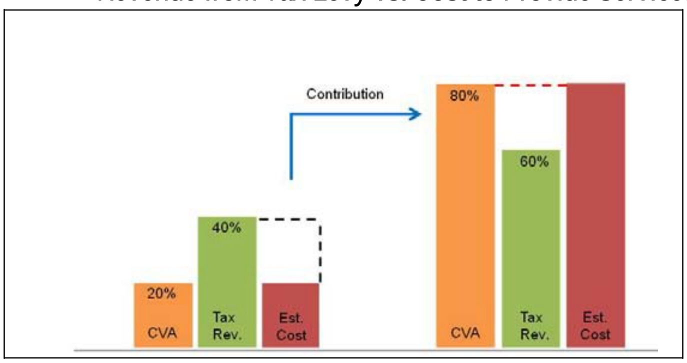


(SOURCE: CBRE Hotels, Comparative City Hotel Operations Study, 2016)

As clearly stated in "*A Strategic Plan for Accelerating Economic Growth and Job Creation in Toronto (2013),* a City of Toronto document: *"commercial and industrial properties account for 20% of the total value of all assessed property within the city, but contributed 40% of total municipal property tax revenue.* ***Additionally, the tax revenue received from commercial and industrial properties exceeds the cost to provide municipal services"*** (see FIGURE 3)

Of the $90 million collected in property tax revenues and based on the City's own data about half goes to providing services for commercial and industrial properties while the balance of $45M supports services and programs for City of Toronto residents. Clearly, the proposal in front of City Council to charge a new hotel/lodging tax to support operations of the City simply compounds the inequity of the current property tax regime.

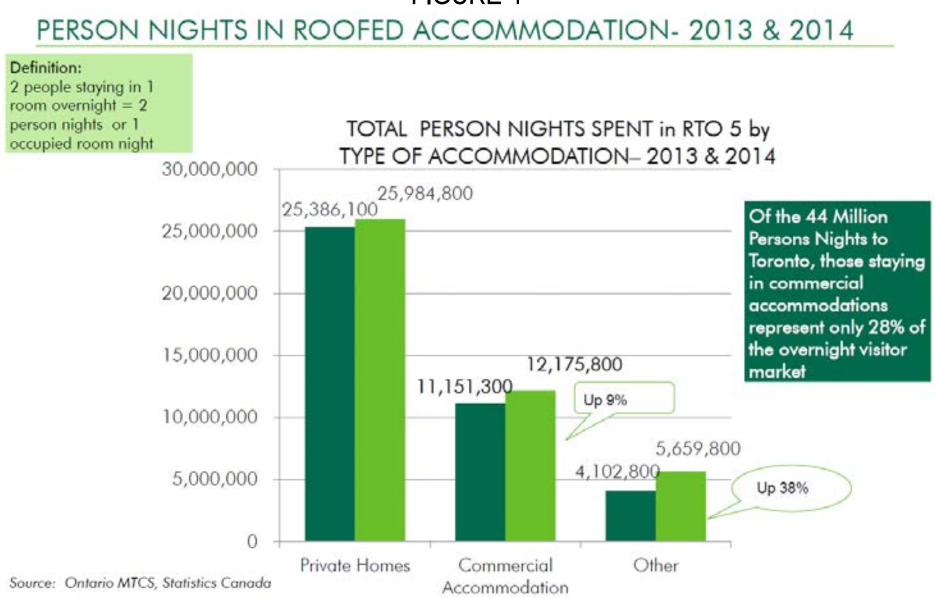
FIGURE 3
Revenue from Tax Levy vs. Cost to Provide Services



(Source: *A Strategic Plan for Accelerating Economic Growth and Job Creation in Toronto (2013),*

In 2014, Toronto welcomed 44 Million person nights of which 26 Million person nights- over half stayed in private homes. Those staying in commercial accommodations represent only 28% of the overnight visitor market. Over 70% of the overnight visitor market did not stay in commercial accommodations (see FIGURE 4).

FIGURE 4

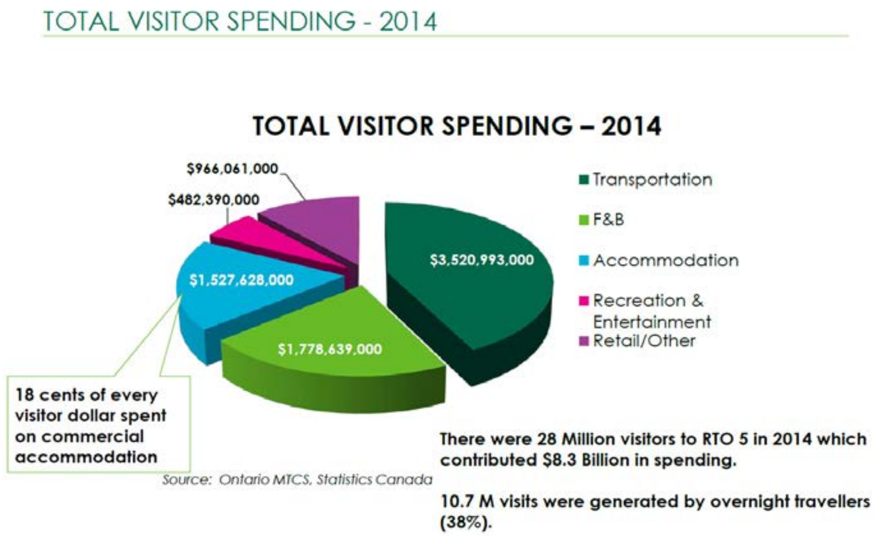


(SOURCE: CBRE Hotels, Comparative City Hotel Operations Study, 2016)

The most significant increase in accommodation types is in "other" accommodations, which increased by 38% from 2013 to 2014. The City of Toronto must level the playing field for Toronto hotels with the illegal hotel rooms industry. These illegal hotel rooms are currently not paying commercial property taxes to the City and meeting other rules and regulations that hotels are required to meet. These illegal hotel rooms are also not paying HST which contributes to funding health care, education, transit and infrastructure and other benefits that Toronto and Ontario residences expect. Based on our preliminary analysis the illegal hotels rooms industry in Toronto represents approximately 10,000 rooms generating $60M in revenue and 8% of the hotel room supply.

Of total visitor spending in 2014, Transportation followed by Food and Beverage both generate more revenues than the accommodation sector which generates only 18 cents of every visitor dollar spent in the region (see FIGURE 5).

FIGURE 5



(SOURCE: CBRE Hotels, Comparative City Hotel Operations Study, 2016)

The Comparative City Hotel Operations Study shows that Toronto hotels ranked 2nd lowest in Net Operating Income (NOI) at $18,450 per available room against our competitive set in North America. In comparison, Chicago has a NOI of $29,166 per available room and Boston has a NOI of just under $45,000 per available room (see FIGURE 6).

City of Toronto hotels ranked the 6th highest in terms of utilities cost and the 4th highest at $17 per occupied room night for Food and Beverage cost of goods.

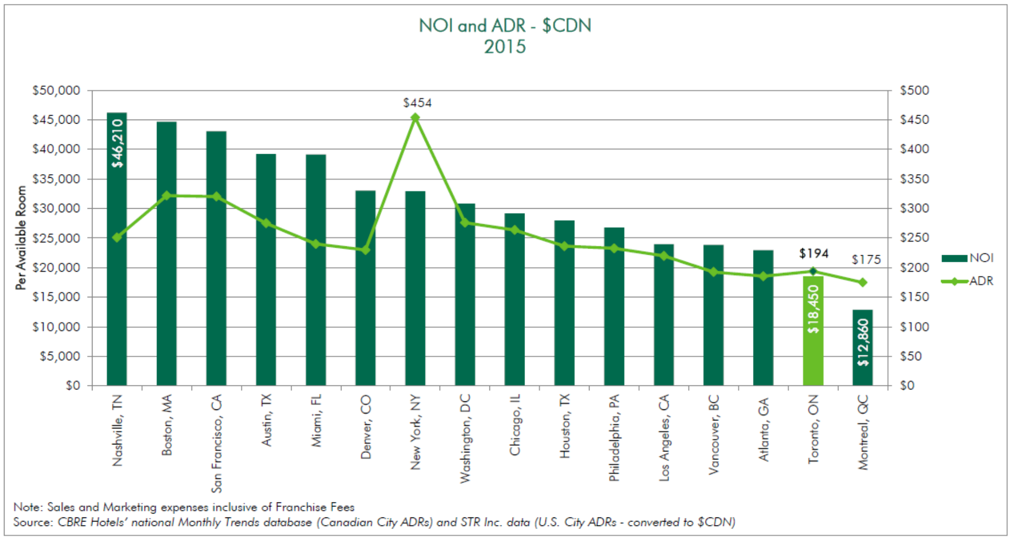
Increasing revenue in Toronto continues to be difficult with the City ranking 2nd lowest at $80,780 revenue per available room. In comparison, Chicago generates revenue per available room of approximately $110,000 and Boston of approximately $140,000 (see FIGURE 7).

With 19,000 hotel rooms outside of the City in the suburban market, this creates a competitive disadvantage for Toronto hotels to increase total revenue. Lower revenues and higher expenses, particularly in the areas of foods costs, utilities and property taxes, means that the Toronto hotel market has less to contribute to the bottom line. With the 2nd lowest NOI, this creates significant challenges for re-investing in existing product and as well as investing in new product.

FIGURE 6

TORONTO VERSUS 15 COMPETITIVE DESTINATIONS

Comparable US and Canadian Destinations' Profitability - 2015



CBRE HOTELS

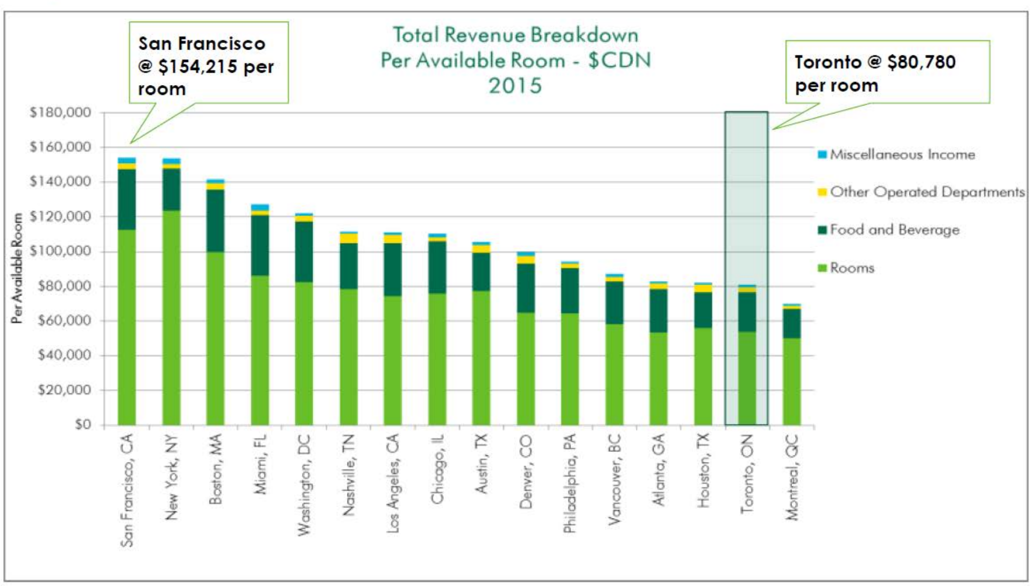
Source: CBRE Hotels

(SOURCE: CBRE Hotels, Comparative City Hotel Operations Study, 2016)

FIGURE 7

TORONTO VERSUS 15 COMPETITIVE DESTINATIONS

Comparable US and Canadian Destinations' Total Revenue Performance - 2015

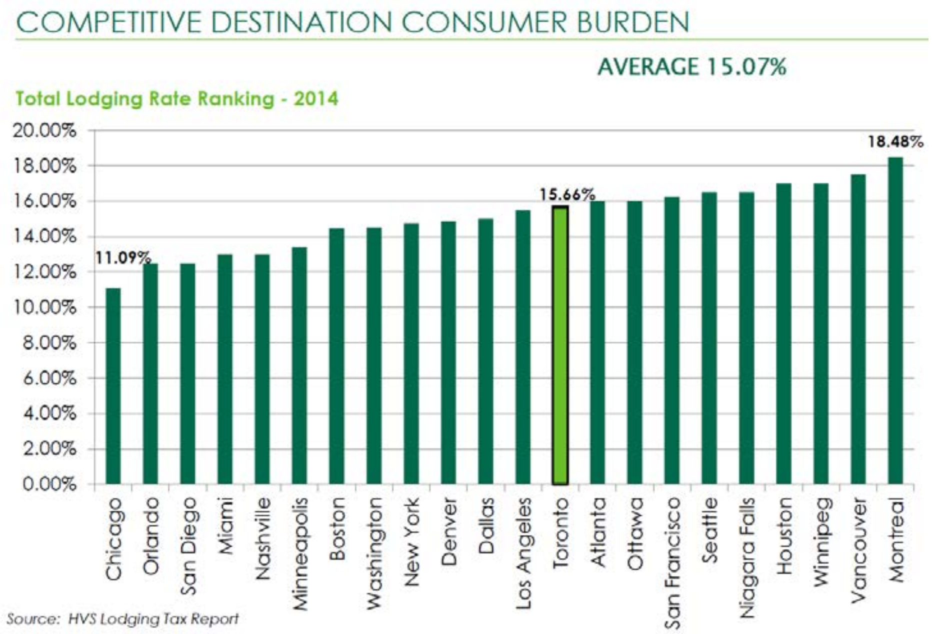


(SOURCE: CBRE Hotels, Comparative City Hotel Operations Study, 2016)

When comparing Toronto's consumer burdens to other cities within our competitive set it is important to note that 30 of the 55 states do not have a state/ hotel lodging tax. With no state/ lodging tax these cities consumer burdens start at 0%, whereas in Ontario our consumer burden starts at 13% because of HST; making us right away 13% more expensive (see FIGURE 8).

The cumulative impact of the current HST with the addition of a hotel/ lodging tax will impact the hotel sectors competitiveness, further create an obstacle to drive top line revenue and bottom line performance, and provide a competitive disadvantage in both attracting investment and re-investment in hotel product.

FIGURE 8



(SOURCE: CBRE Hotels, Comparative City Hotel Operations Study, 2016)

One of the most important items required to grow the tourism business is a dedicated source of revenue that can be used for destination sales and marketing. During the 90's the City of Toronto funded the Toronto Convention and Visitors Bureau (Tourism Toronto) with $5.9M. In 2001, the funding was reduced to $4M and then to $3M following SARS in 2004. In 2005 funding was reduced to $500,000 and subsequently to zero. Since 2006 the City of Toronto has provided no funding to the Toronto Convention and Visitors Bureau. In fact, Tourism Toronto funds the City of Toronto for a range of tourism related services.

In response to the lack of funding provided by the City of Toronto to Tourism Toronto, the GTHA with participating hotels established a Destination Marketing Program (DMP). The DMP is currently used to purchase services from Tourism Toronto for destination sales and marketing, in which some of the funds are provided to the City of Toronto to assist with tourism related items. This funding is still in place today.

As City Council and staff consider a hotel/ lodging tax under COTA, and the KPMG report suggesting that some of the proposed hotel tax may be used to fund Tourism Toronto, the record speaks for itself. On this issue the City has no history of providing a long term dedicated sustainable source of funding. If the City receives approval from the provincial government to implement a hotel/ lodging tax this will erode the Destination Marketing Program and will not provide Tourism Toronto the funding stability to compete in a highly competitive global marketplace.

GREATER TORONTO
HOTEL ASSOCIATION

SERVING THE HOTEL INDUSTRY SINCE 1925

The Ontario accommodation industry participates in a very competitive international, national and provincial marketplace. The Toronto region tourism sector is a major contributor to Ontario's economy with total visitor spending of $7.2 billion in 2015. The tourism industry is the largest employer of youth in the province with over 1/3rd of its employees aged 15-24 and with over 8% of all landed immigrants employed in the tourism industry in 2012.

The addition of a hotel/ lodging tax on hotels in the City of Toronto will create a competitive disadvantage in both attracting investment and re-investment in hotel product. The City needs to consider the impact of a hotel/ lodging tax on other tourism and hospitality businesses such as transportation, restaurants, attractions, retail and entertainment which combined employ 315,000 people in Toronto. These businesses rely on the hotel sector to provide a significant amount of revenue to bring in conventions, meetings and events that benefit many businesses in Toronto.

If the hotel industry because of increased taxation and competitive issues can no longer provide significant investments in destination marketing to attract conventions, meetings and events, there will be significant economic harm and job loss in a variety of sectors in the City.

We respectfully request that the City of Toronto eliminate the hotel tax from any further consideration.

Regards,

Terry Mundell
President & CEO
Greater Toronto Hotel Association
Lobbyist ID: 11597S