



Competing for *Capital*

WHY CANADA MUST ACT NOW TO
SECURE HOTEL INVESTMENT

2026

Hotels are a Pillar of the Visitor Economy



Hotels are essential infrastructure that empower Canada's visitor economy. They attract and accommodate domestic and international visitors, driving spending in communities across the country and generating tourism exports. By providing the capacity needed to welcome more visitors, hotels enable growth across the broader tourism sector.

TOURISM IS GROWING FASTER THAN CANADA'S ECONOMY

Tourism is an unrecognized economic driver worth \$141 billion and 2 million jobs a year. Forecasts show that with good policy, Canada's tourism economy is expected to outpace growth in the broader economy through 2030, creating an opportunity to attract more international spending, jobs, and tax revenue.

TOURISM OUTPACING THE ECONOMY

Projected Annual Growth Through 2030

Broader
Canadian
Economy

3.7%

Canadian
Tourism
Revenue

5.3%

43%

FASTER
GROWTH

TOURISM VS.
THE BROADER
CANADIAN
ECONOMY

Source: Destination Canada

\$141B

VALUE OF THE TOURISM INDUSTRY (2025)

Source: Destination Canada

2M

CANADIAN JOBS SUPPORTED

Source: Tourism HR Canada

TOURISM IS AN UNDERVALUED EXPORT INDUSTRY

When Canadians think of exports, they often think of oil, minerals, or manufactured goods leaving our borders. Yet tourism is one of Canada's most important exports, valued at \$35 billion. Rather than shipping products abroad, Canadian tourism brings customers here. Every international visitor injects new

money into local businesses, hotels, restaurants, attractions, transportation providers, and retailers.

And unlike many traditional exports, those tourism dollars are highly diversified across global markets and are not subject to tariffs.

TOURISM EXPORTS VALUED AT \$35B A YEAR



Source: Destination Canada, 2025

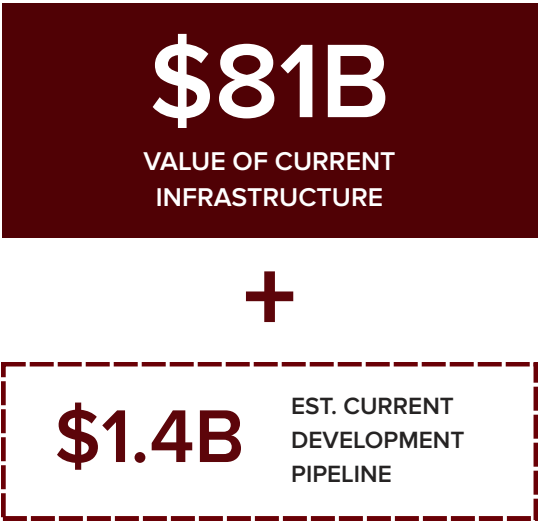
TOURISM EXPORT REVENUE BY SOURCE MARKET (2025)

	United States Export Value: \$17.7B
	United Kingdom Export Value: \$1.9B
	China Export Value: \$1.3B
	France Export Value: \$1.2B
	Australia Export Value: \$1.1B
	Germany Export Value: \$891M
	Mexico Export Value: \$751M
	South Korea Export Value: \$443M
	Japan Export Value: \$407M

Source: Statistics Canada, Table 24-10-0065-01

HOTELS: ESSENTIAL INFRASTRUCTURE FOR TOURISM GROWTH

Canada's hotel industry has an estimated asset value of approximately \$81 billion with a pipeline of about \$1.4 billion of new hotels coming online.



Source: Hotels Canada estimate based on the average price of hotel keys/rooms from 2021 to 2025.

Beyond the building's asset value and the construction jobs created during development, hotels are critical infrastructure that support Canada's tourism economy.

Business and leisure visitors need places to stay. Conventions and business events require meeting space. Sporting events, festivals, and cultural attractions depend on hotel infrastructure to accommodate visitors from outside the destination. In this way, hotels act as the physical infrastructure that converts visitor demand into economic activity.

Each hotel represents a significant long-term, renewable investment in its community, supporting local employment, suppliers, businesses, export revenue, and government tax revenue at all levels.





A UNIQUE AND CHALLENGING INVESTMENT

How Hotel Investment Works in Canada

Hotels are among the most operationally complex and capital-intensive real estate asset classes. While they can generate strong returns, they also carry higher risk than many other forms of commercial real estate, requiring specialized expertise, significant upfront capital, and active day-to-day management.

“Not for the faint of heart.”

Respondent, Hotels Canada/Colliers Hotel Investor Sentiment Survey

A UNIQUE PROJECT STRUCTURE

Hotels affiliated with major international brands are typically operate through a partnership model that may include an owner, a brand, and a management company.

OWNER

Provides capital investment

BRAND

Provides marketing, reservation, and loyalty programs

MANAGEMENT

Runs day-to-day operations

Note: Brands can also offer management services

HIGHER EQUITY REQUIREMENTS AND TIME TO CASH POSITIVE

Hotels face a higher barrier to entry than most commercial real estate assets. Because hotel revenues are more volatile and the sector's operational complexity is less familiar to many lenders, financing is often more conservative, with higher equity requirements and lower loan-to-value (LTV) ratios. Longer ramp-up periods to positive cash flow further increase capital requirements.

Asset Class	Equity Required	Time to Cash Positive	Notes
Multi-family	~25%	2-4 years	Stable rental income
Retail	~25-35%	2-4 years	Stable tenants and cash flow
Industrial	~25-35%	2-4 years	Long lease, strong demand
Office	~25-40%	3-5 years	Higher vacancy risk
Hotel	35-50%	3-5 years	Revenue fluctuates daily

Source: Colliers Hotels, CBRE Canada



HOTELS ARE HIGHLY PERISHABLE INVENTORY

A hotel room that goes unsold tonight can never be sold tomorrow.

Unlike other real estate assets that rely on long-term leases, hotels generate revenue one room-night at a time. As a result, hotel performance is more sensitive to changes in travel demand, global events (e.g. COVID), economic conditions, consumer confidence, and business activity than most other commercial real estate sectors.

This combination of operational complexity, higher capital requirements, and daily revenue risk/reward is what makes hotel investment distinct from other forms of commercial real estate.

UNSOLD PRODUCT	OPPORTUNITY TO SELL
 Canned Goods	Sell Next Week
 Clothing	Sell next month
 Vehicle	Sell next year
 Hotel Room Tonight	Revenue lost at midnight

A PREDOMINANTLY DOMESTIC INVESTOR BASE

Investment in Canadian hotels is driven primarily by Canadian owners, ranging from family-owned businesses with a small portfolios to larger firms and institutional investors.

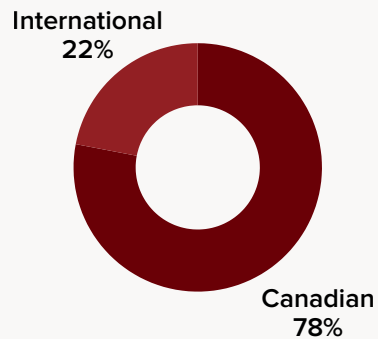
Since 2020, approximately 97% of hotel transactions have involved Canadian buyers, with international investors accounting for only about 3% of activity.

Compared with historical levels, international investor participation has fallen significantly. Since 2011, about 78% of transactions have involved Canadian buyers and 22% international buyers.

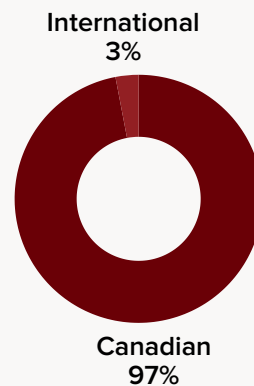
While the continued presence of Canadian buyers demonstrates confidence in the sector from domestic investors, the decline in cross-border activity highlights Canada’s challenges in competing for global hotel investment capital.

DECLINING INTERNATIONAL INVESTMENT IN CANADIAN HOTELS

SINCE 2011



SINCE 2020



Source: Colliers Hotels

INVESTMENT LANDSCAPE:

EXAMPLES

SMALL-MEDIUM CANADIAN FAMILY FIRMS



Small family owned firm, owns limited service hotels in rural Alberta

LARGE CANADIAN FAMILY FIRMS



Large family owned firm with 60+ hotel portfolio

LARGE INVESTORS



Canada's largest privately owned hotel company with 100+ hotels

CANADIAN PENSION FUNDS



Portfolio includes Fairmont Chateau Lake Louise and Jasper Park Lodge

FOREIGN INVESTORS



Tokyo-Based, Listel Japan

GROWTH OUTLOOK

The Canadian Hotel Investment Climate





LIMITED DEVELOPMENT DESPITE POSITIVE OUTLOOK

Robust demand and healthy room rates continue to reinforce investor confidence in Canada's hotel sector, with 79% of investors saying they have a positive outlook over the next three to five years.

Despite healthy operating fundamentals, Canada does not have the level of investment needed to support growth in hotel supply, especially in new destinations. While investors remain interested in the sector, most are focused on acquiring, renovating, and repositioning existing assets rather than building new hotels.

79%

OF INVESTORS HAVE A POSITIVE
3-5 YEAR INDUSTRY OUTLOOK

Source: Hotels Canada & Colliers Hotels – 2026 Hotel Investment Sentiment Survey Report

BUILDING NEW: NOT A PRIORITY

Investors are more than 2X likely to renovate or acquire an existing asset than build a new hotel development in the next 12 months.



Source: Hotels Canada & Colliers Hotels – 2026 Hotel Investment Sentiment Survey Report

HIGH NUMBER OF HOTEL PROJECTS ABANDONED

In 2025, 95 hotel projects representing approximately 11,000 rooms were classified as abandoned. This highlights the gap between projects entering the development pipeline and those that ultimately move forward. Planning activity alone does not guarantee that a project will secure financing, break ground, or be completed as a hotel. While it is natural to have some deals fall through in the planning phase, Canada is losing new opportunities worth upwards of \$5B.



95

ABANDONED PROJECTS
IN 2025



\$5B

IN LOST
CAPITAL

COST TO CANADA

7,500 JOBS

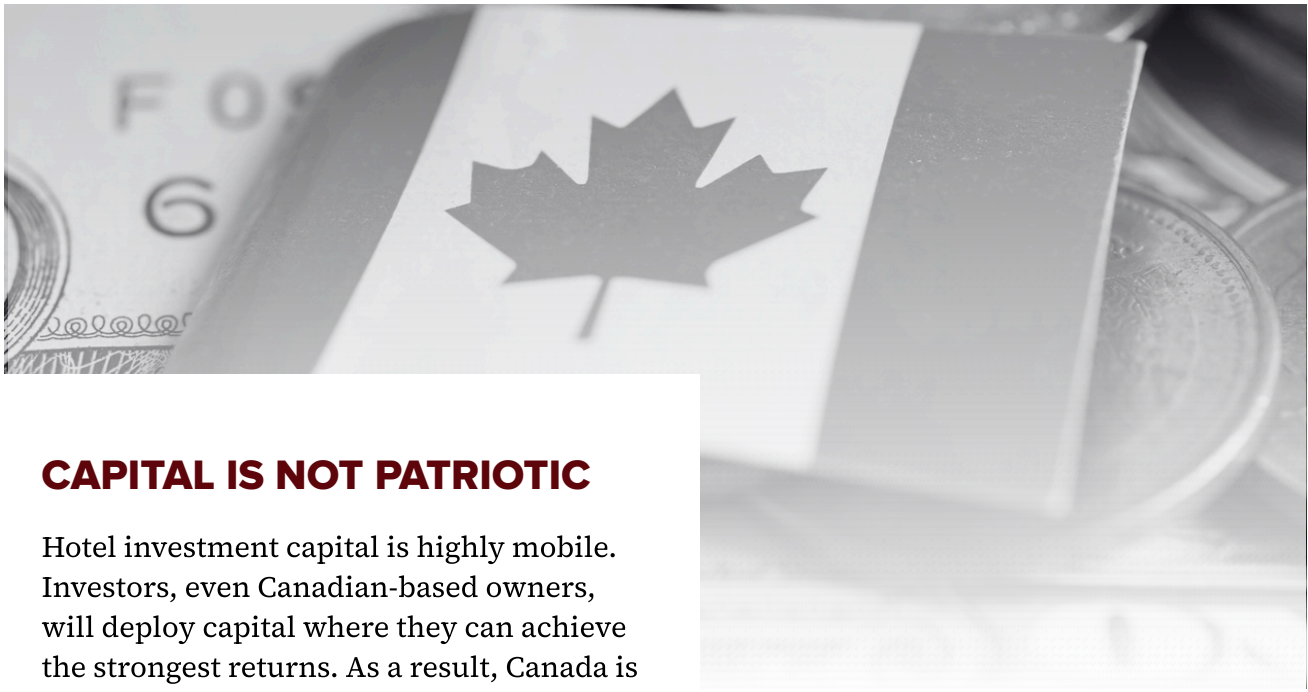
\$300M GOVERNMENT
REVENUE

Source: Hotels Canada estimate based on the abandoned hotel projects data from CoStar

WHY CAPITAL IS FLOWING SOUTH

The Competitive Gap





CAPITAL IS NOT PATRIOTIC

Hotel investment capital is highly mobile. Investors, even Canadian-based owners, will deploy capital where they can achieve the strongest returns. As a result, Canada is increasingly competing with other countries for our own investment dollars.

CANADIAN INVESTORS LOOK TO THE U.S. FOR A MORE COMPETITIVE HOTEL INVESTMENT ENVIRONMENT

When asked why, investors pointed to several advantages offered by the U.S. market, including (ranked):

1. Higher expected investment returns;
2. More favourable tax policies;
3. Faster approvals and permitting processes; and
4. Greater certainty around development timelines.

These findings suggest that Canada's challenge is not a lack of investor interest in hotels as an asset class, but in its competitiveness as an investment destination.

46%

of Canadian-based hotel investors have either invested in the U.S. or are actively considering doing so.

64%

of Canadian hotel investors do not see Canada as offering a competitive advantage over the U.S.

Source: Hotels Canada & Colliers Hotels – 2026 Hotel Investment Sentiment Survey Report

Source: Hotels Canada & Colliers Hotels – 2026 Hotel Investment Sentiment Survey Report

CASE STUDY

TWO IDENTICAL HOTEL PROJECTS, TWO DIFFERENT OUTCOMES

Capital flows to the strongest returns. In this example, the Philadelphia hotel delivers almost 2x the after-tax return of the Ottawa project, exceeding investor hurdle rates, while the Ottawa project returns are on par the TSX's historic average return, a lower-risk investment.

NEW URBAN LIMITED-SERVICE HOTEL

PURCHASE PRICE CAD \$56.5M

SELL EXISTING OFFICE BUILDING FOR CAD \$20M TO FINANCE HOTEL

PRODUCTIVITY MEGA DEDUCTION

The new 100% first-year depreciation on hotel FF&E can defer up to \$731,000 in taxes for this project. A positive step, but it only levels the playing field on one of several incentives available to competing U.S. developments.

	OTTAWA	PHILADELPHIA
BONUS DEPRECIATION / PRODUCTIVITY MEGA DEDUCTION 100% CCA in year 1 for FFE, defers \$731K in taxes	YES	YES
1031-EXCHANGE Deferral of capital gains upon reinvestment	NO	YES
TAX INCREMENT ON FINANCING City tax incentive holding taxes at pre-development level	NO	YES
ECONOMIC DEVELOPMENT INCENTIVE PROGRAM Combination of state and local initiatives	NO	YES
MUNICIPAL DEVELOPMENT CHARGES Up to 10% of project value in Ottawa	YES	NO
AFTER-TAX RETURN ON EQUITY Key metric for investment decisions, hurdle is 10%	8% ON PAR WITH TSX HISTORIC AVG.	14%
PROJECT APPROVED?	NO	YES



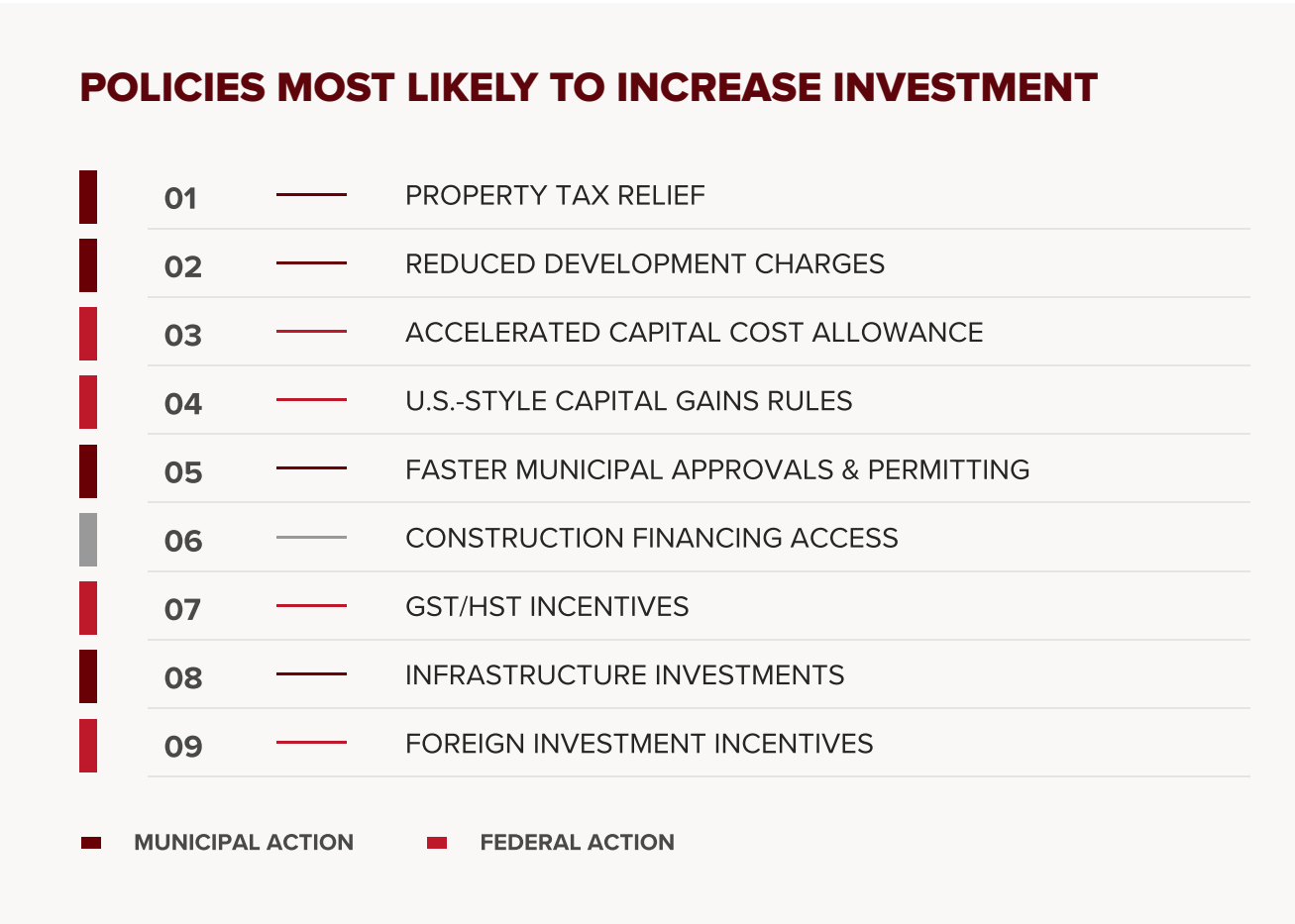
UNLOCKING HOTEL INVESTMENT

A Federal Action Plan for Hotel Investment

TARGETED POLICY CHANGES COULD UNLOCK INVESTMENT

Governments cannot control individual project success, but they can influence investment competitiveness.

Tax policies and streamlined development processes can improve returns, reduce project timelines, and attract capital.



Source: Hotels Canada & Colliers Hotels – 2026 Hotel Investment Sentiment Survey Report

Q. Which policy measures would have the greatest impact on increasing hotel investment in Canada? Select up to 3 responses.

A FEDERAL ACTION PLAN FOR HOTEL INVESTMENT

Canada's hotel sector is well-positioned for growth, but investors consistently point to more competitive conditions in other markets, particularly the United States. Closing this gap will require decisive federal action. The following federal recommendations provide a practical roadmap to attract investment, encourage reinvestment in existing assets, and ensure Canada has the accommodation infrastructure needed to support long-term tourism growth.



RECOMMENDATION 1:

Expand Replacement Property Rules (ITA s.44) to better compete with the U.S. 1031 Exchange by allowing for the deferral of Capital Gains tax when proceeds are reinvested in any new capital property.

RECOMMENDATION 2:

Tax Capital Cost Allowance recapture at the capital gains rate, instead of the corporate income tax rate, when sale proceeds are re-invested in capital property.

RECOMMENDATION 3:

Align the Excessive Interest and Financing Expenses Limitation (EIFEL) rules with an EBITDA-based adjusted taxable income approach to better reflect the operating realities of capital-intensive businesses like hotels and reduce the compliance burden.

RECOMMENDATION 4:

Supercharge the Productivity Mega Deduction to include 100% write-off in the first year for new hotel buildings.

HOTEL INVESTMENT SENTIMENT SURVEY



The 2026 Canadian **Hotel Investment Sentiment Survey**, conducted by Hotels Canada and Colliers Hotels Canada, surveyed 170 industry stakeholders from July 15 to 31, 2026, to assess investment sentiment.



Prepared by Hotels Canada

ACKNOWLEDGEMENTS

This report was developed by Hotels Canada to examine the competitiveness of hotel investment in Canada and identify opportunities to strengthen the policy environment for hotel development.

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