

Submission to the House of Commons Standing Committee on Industry and Technology – Canada's Underlying Productivity Gaps and Capital Outflow

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CAPITAL OUTFLOW IN CANADA'S HOTEL INDUSTRY

The Hotel Association of Canada (HAC) presents this submission to the House of Commons Standing Committee on Industry and Technology (INDU) as part of its study on Canada's Underlying Productivity Gaps and Capital Outflow.

CANADA'S HOTEL INDUSTRY

Most properties are Canadian-owned and 90% of purchases last year were made by domestic buyers.¹ The industry holds capital assets valued at approximately \$74 billion² with an additional \$1.9 billion tied to 73 projects currently in the pipeline. Hotels contribute \$30 billion to the economy, \$12 billion to government revenue, and employ 320,000 Canadians across the country.

MARKET CONDITIONS

Demand for hotel accommodations remains robust, with annual occupancy rates in major markets averaging in the low 70% range. There is investment interest in the market, but uncompetitive tax and investment policies are curbing growth. Since 2019, 179 hotel projects have been abandoned in Canada, including 41 projects in the last year alone³. These 41 abandoned projects represent the loss of 6,150 potential rooms and \$1 billion in capital investment. Many Canadian hotel investors are considering projects in the US where investment conditions are more favourable. This pattern reflects increased capital outflow from the Canadian tourism sector, raising concerns about investor confidence and long-term competitiveness.

Strong international and domestic demand creates a significant opportunity for Canada, but our ability to seize it is constrained by supply shortages. By 2030, Canada is expected to face a shortfall of nearly 20,000 hotel rooms, which could cost the economy an estimated \$5 billion annually.⁴

BARRIERS TO INVESTMENT

Canada's hotel supply challenges are closely tied to structural investment barriers. Consultations with hotel owners reveal two leading barriers to investment:

¹ Colliers Hotels

² HAC estimate based on the average price of hotel keys/rooms from 2021 to 2024

³ STR, as of July 2025

⁴ HAC/ Destination Canada)





1. Low return on investment

Returns on Canadian hotel investments are lower and slower to grow than in other countries and for other asset classes.

2. Low flexibility

Barriers to reinvestment block access to capital for new investments/upgrades and increases risk. This is critical in Canada where hotel investments require significantly more equity (35%).

Hotel supply in the United States is expanding at twice the rate of Canada's, driven by a more favourable investment climate⁵. For example, US tax policy, such as the 1031 Exchange, which allows investors to defer capital gains taxes and encourages continuous reinvestment into hotel assets. The One Big Beautiful Bill also provides "Bonus Depreciation", which lets a business immediately deduct 100% of the cost of eligible assets in the year they are placed in service, instead of depreciating them over many years.

HAC RECOMMENDATIONS

1. Introduce an Accelerated Capital Cost Allowance (ACCA) for Hotel Investment

Allow a 100% write-off in the first year for eligible expenditures on new construction, renovations, and equipment purchases related to hotels. This measure would incentivize timely investment and modernization.

2. Enable Capital Gains Tax Deferral for Reinvestment

Permit the deferral of capital gains tax when proceeds from the sale of capital property are reinvested into new capital assets. This would encourage reinvestment and long-term asset development.

3. Adjust Tax Treatment of Capital Cost Allowance Recapture

Tax the recapture of Capital Cost Allowance at the Capital Gains rate, rather than the corporate income tax rate, when sale proceeds are reinvested. This adjustment would better reflect the nature of reinvested earnings and support continued growth.

HAC built a financial model to stress-test policy options through a case study of an investor selling an office building for \$20 million and building a \$56.5 million hotel in Toronto. In the model, if the capital cost allowance recapture rate is halved and capital gains are deferred, the after-tax return on equity increases by 27% compared to no policy changes. This demonstrates that targeted policy reforms can meaningfully improve investment returns, retain capital within Canada's hotel sector, and strengthen the industry's contribution to national productivity.

⁵ HAC/CBRE





HOTEL ASSOCIATION OF CANADA
ASSOCIATION DES HÔTELS DU CANADA

ABOUT THE HOTEL ASSOCIATION OF CANADA

The Hotel Association of Canada is a national association dedicated to identifying and understanding the most critical challenges faced by our industry. We bring together hospitality leaders and key stakeholders to collaboratively problem-solve and mobilize for action.

We translate complex industry data into actionable insights. Through strategic advocacy efforts, we advocate for legislative solutions that create policy impact, while elevating our membership base through innovative and sustainable programming to ensure our industry's continued growth and success.



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