TOURISM

A PRELIMINARY EVALUATION OF FINANCIAL INITIATIVES BY DREE TO STIMULATE ACCOMMODATION DEVELOPMENT IN THE RURAL AREAS OF THE ATLANTIC REGION

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Prepared For

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Atlantic Region

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INTRODUCTION

I. BASIC OBJECTIVES OF THE REPORT

In general, the preliminary evaluation of possible financial initiatives by DREE, designed to stimulate the development and upgrading of accommodation facilities in the non-major urban centres of the Atlantic Provinces with a view to stimulating long term viable income and employment opportunities, represents the underlying objective. More specifically, a background framework of reference intended to provide an orderly foundation for further discussion of the subject by senior administrators of DREE is presented.

The discussion is decidedly preliminary in nature and rests upon the findings of an unstructured set of interviews with government administrators involved in lending to accommodation entrepreneurs in the Atlantic Region and knowledgeable representatives of the industry, together with pertinent documentary evidence. Nothing of a definitive, comprehensive, investigative nature was involved.

II. THE FORMAT OF THE REPORT

The main body of the report which is intended to meet the more specifically enunciated objective takes the form of an orderly set of underlying or basic principles and issues that must be thoroughly discussed and resolved before any action can be taken by DREE, and a set of possible approaches from which choices must be made. In Appendices A to E the body of factual data assembled during the investigations is summarized. Here, the substantiating evidence for some of the general statements appearing in the main body of the report is presented together with data inputs for further discussion of the matter.

III. SOME BASIC UNDERLYING CONCLUSIONS

1. This evaluation of the subject must be classed as superficial,

and considerable further research is necessary before conclusive answers to many of the fundamental issues will emerge. It is clear that there can be no short cut solution to the problem in the form of a cursory overview leading to a conclusive set of action procedures. The situation is simply too complicated.

2. It will probably be several months before a comprehensive research program can be completed from which conclusive evidence for the development of a DREE strategy will emerge. The role of the Industrial Development Bank recently reorganized into the Industrial Bank and Development Agency, must be clarified as it relates to the accommodation sector. Similarly, the nature of the future DREE guarantee loan program must be clarified. The lending activities of provincial loan agencies and the Industrial Development Bank in relation to the accommodation sector must be reviewed in detail. Some provincial agencies may not be able to undertake the necessary loan file search until other pressing matters, making onerous demands upon their limited staff, have been resolved. It will be several months before the loan files of the I. D. B. are on computer tapes making possible the fairly ready assembly of information necessary for this type of analysis. In effect, the timing for a study of the type envisaged does not appear to be propitious.

3. On the basis of the evidence assembled and examined to date, no clear cut guidelines for action emerged. Only a number of alternatives, each with its own particular set of strengths and limitations, was discernible. Nevertheless, certain general impressions that are likely to stand the test of subsequent research took shape.

(a) The scale of long term, viable income and employment opportunities likely to be generated through an initiative of the type under consideration will be modest, and likely not particularly incisive in relation to the core of the disadvantaged segment of the population. There will be gains but these are likely to accrue primarily to the advantaged, progressive entrepreneurial sector of the local population.

(b) There are distinct possibilities that over-supply will be created at specific points unless very careful attention is paid to market conditions. This factor, together with the difficulties of loan servicing,clearly indicate that any initiative devised by DREE would be more effectively administered through agencies thoroughly familiar with local situations. The modest scale of the benefits to be achieved and the high risk of error stemming from the complexity of the situation,clearly indicate that DREE should place administrative responsibility for any financial initiative in the hands of the provincial government lending authorities.

I. DUAL SITUATIONS FOR THE CONSIDERATION OF FINANCIAL INITIATIVES

The problem of DREE financial initiatives for the development and upgrading of accommodation facilities in rural areas of the Atlantic Provinces can be profitably considered from two distinct situations. Each is unique both in terms of its intrinsic nature and its implemental possibilities.

1. The Particular Opportunity Situation

In this instance prospects for a DREE financial initiatives are considered in relation to a particular tourist and recreation opportunity identified at a specific point in the Atlantic Provinces. The development of a complex of activity and accommodation facilities in the enclave communities of Gros Morne National Park in Newfoundland, at Mill River in Prince Edward Island, and Baddeck in Nova Scotia represent cases in point.

The focus of interest is upon DREE financial incentives as a component of a "delivery vehicle" for the attainment of a satisfactory investment response by private enterprise to public investment in-service infra-structure such as power, sewer and water, and facility development such as parks and beaches. DREE has already become involved in developments of this type in the Atlantic Provinces, and future serious discussion with respect to financial initiatives designed to stimulate private investment response is inevitable.

2. The Broad Accommodation Industry Situation

In this case a possible DREE financial initiatives is considered in terms of a broad program having universal application to the accommodation industry of the rural areas of the Atlantic Provinces. This perspective provided the main focus for the investigations underlying preparation of the report. Because of its universal and, to a degree, precedent prone nature, it undoubtedly raises the more perplexing problems.

II. THE PARTICULAR OPPORTUNITY SITUATION

1. Some Significant Characteristics

(a) The introduction of a financial initiative by DREE in specific opportunity situations in the Atlantic Region logically does not, and in practice should not imply any precedent or obligation for similar action at any other point within the province involved or within other provinces. In effect, each specific opportunity situation represents a unique set of circumstances and requirements, one of which may be a financial incentive to stimulate private investment in the development or upgrading accommodation facilities. DREE must maintain maximum discretion, flexibility and manoeuverability in relation to financial incentives in specific opportunity situations.

(b) To meet needs of this type, DREE does not appear to require specially devised financial incentive instruments. Whatever action is felt to be necessary could be provided through a Tourist and Recreation Sub-agreement under the General Development Agreement or a Special Agreement related to the development of the specific opportunity under consideration. In effect, the ability of DREE to meet a need in a particular opportunity situation is not tied to the development of a new general financial incentive program.

(c) If a general financial incentive program of the type noted subsequently has meaningful application with respect to a specific opportunity situation, then obviously it could be applied. On the other hand, the development of such a general program should not be unduly governed by a consideration of specific opportunity situations that can be accommodated in a variety of ways.

(d) In the specific opportunity situation a financial initiative can be assessed in relation to a framework of defined social and economic objectives for the proposed development and a master-plan with its clearly defined physical, implemental, financial and administrative sub-plans. In effect, the situation can be fairly clearly defined in terms of ultimate costs and anticipated benefits. This stands in sharp contrast to any consideration of the introduction of a general financial incentives program of the kind noted later.

2. <u>Incentive Instruments</u>

In the specific opportunity situation the range of grant and loan of financial incentives designed to stimulate private investment in the accommodation sector require consideration. Over the next few years, the provinces undoubtedly will explore most of the possibilities with DREE in discussions concerning the implementation of master plans for tourist and recreation complexes.

Possibly DREE will be confronted with decisions of this type within the next six months in relation to complex development on the margins of Gros Morne National Park in Newfoundland, Kouchibouguac National Park in New Brunswick, in parts of Prince Edward Island under the FRED program and in Nova Scotia should this province respond to recent research concerned with this type of facility. In effect, consideration of this subject is timely.

As a guideline principle it is felt that DREE should approach the administration of any financial initiatives, with the exception of guaranteed loans, through provincial agencies. In effect, DREE should provide provincial agencies with the capability to introduce a particular financial incentive rather than seek to supply the service directly to the private enterprise sector.

Grants can perform a significant function in a development context in which a primary objective is to stimulate investment by a local population whose members, taken individually or collectively, lack the necessary equity capital for entrance into the accommodation industry. Caution must be exercised, however, to ensure that entrepreneurial skills are developed parallel to the use of the grant tool.

As a general principle, it is felt that the grant instrument should not be utilized to draw non-resident entrepreneurial capital to a development complex. If the complex as a project is viable, public investment in infra-structure should provide sufficient incentive for private response. In effect, the grant tool finds its logical justification in relation to the stimulation of local involvement and increased local economic impact rather than as a general inducement for private investment. Whenever it is felt necessary to introduce grants as a stimulant to private investment in general in the accommodation sector of a tourist and recreation complex, either the business viability of the project is questionable or private enterprise is struggling to attain what may be excessive advantage.

If the prospects for the business viability of accommodation enterprises in a complex are reasonably strong, funds from conventional lending agencies and the I.D.B. should be fairly readily available. If the risk is felt to be somewhat abnormal, and such may be the case with the initial complex developments that many investors might view as an unproven concept, then recourse to two other instruments is possible.

The guaranteed loan of DREE could be a very significant instrument in situations where fairly sophisticated private development is envisaged so that the scale of the loan would be large enough to qualify ($250,000 or more). The guarantee could be meaningful in less elaborate situations if the scale requirement is reduced for future operations of the incentive program. This is clearly one situation in which the guaranteed loan tool of DREE could be effective.

The provincial lending agencies could play a significant role in situations of this type, but they will probably be confronted with two problems. Low interest and long term money will be required in some cases. Secondly, a sophisticated development requiring large scale loans, could seriously disrupt the cash-flow position of a provincial fund, especially in relation to operations throughout the tourist sector of the economy. To offset such difficulties, DREE could place conditional blocks of funds at the disposal of the provincial lending agencies under the special agreement entered into with the province for the project. In effect, it is possible for DREE to operate effectively in such situations without the preparation of any new general financial incentives program.

It is probable that consideration will be given by the provinces to equity purchase as a device to stimulate private investment in the development of accommodation in tourist and recreation complexes in rural areas. Some provincial lending agencies possess the power to enter into arrangements of this type. In the future, it is possible that the Travel Industry Branch of the Office of Tourism will have a mandate and the necessary funds available for equity purchase in such situations. It is felt that DREE should not enter directly into equity relationships. It may consider advisable, however, to place funds at the disposal of the provinces for equity purchase under certain sections of a special agreement for a complex development.

3. The Problem of Repossession

In any consideration of financial initiatives designed to stimulate private investment in accommodation in special opportunity situations, DREE must recognize that a considerable element of risk often may be involved. This will be particularly true in complex developments that are confronted with a fairly lengthy period of demand build-up. Loan foreclosure and repossession may be necessary on occasion. The previous recommendation that DREE work indirectly through existing lending institutions rather than directly with the private enterprise sector was influenced to a degree by this aspect.

4. The Critical Position of Private Enterprise Investment Response

It is of the utmost importance that all provincial proposals presented to DREE for participation in the development of tourist and recreation complexes and related specific opportunity projects in rural areas contain a realistic implementation section or "delivery vehicle" relative to investment by the private enterprise sector. DREE participation should not be negotiated on the assumption that private enterprise will automatically respond to public investment in the infra-structure for there is no guarantee that such will be the case. Even if the business viability prospects are reasonable, private investment capital can move in many directions. From past performance there appears to be a tendency for funds to flow to the accommodation sector only at times when there is a need to seek outlets for above normal capital accumulations.

If public investment in infra-structure is undertaken before adequate consideration is given to a development of a satisfactory "delivery vehicle" for private enterprise, particularly in relation to financing, government will be confronted with the necessity of developing the accommodation plant from its own funds or of providing unrealistically high financial inducements.

It is noted that many provincial tourist administrations in the Atlantic Provinces do not display a particularly productive interface with the private enterprise sector and especially with the accommodation investment community. The situation is considerably better in the case of provincial lending agencies and they should be centrally involved in the preparation of the financial sections of implementation plans for private sector involvement, particularly as it relates to financial incentives. This is considered to be one of the more critical requirements for success.

5. The Particular Requirement of DREE

It is impossible to estimate the scale of funds that might be required from DREE for financial initiatives to stimulate private investment in specific opportunity situations. Each development will be unique in terms of the type and scale of accommodation facilities that will prove to be viable. Secondly, there are a number of avenues to financing, some of which would not involve DREE funds.

It is quite possible, however, that DREE will be confronted with provincial proposals for three or four major complex developments in the Atlantic Provinces over the next three years. They might involve several million dollars of public outlay in the form of financial incentives of one type or another--grants, long term low interest loans, loan guarantees, etc. In all cases, it is felt that the necessary arrangements could be effected through the mandate of present DREE legislation.

III. THE BROAD ACCOMMODATION INDUSTRY SITUATION

1. Some Significant Considerations

(a) The geographic framework of reference for the application of any financial initiatives is broad, comprising the entire rural landscape of the Altantic Provinces and the effective time span would cover several years. Space and time factors assume considerable importance in this instance.

(b) Under certain conditions, a potential for disruptive or damaging effects upon the existing privately owned and operated accommodation plant is present but difficult to assess at this point in time. Clearly, caution must be exercised to offset detrimental possibilities such as excessive or overly elaborate capacity development.

(c) Within the context of this dicussion financial incentives represent various forms of subsidy to be applied over a fairly broad geographic area, that is across the rural landscape of the Atlantic Provinces. The subsidy aspect must be recognized and a decision made with respect to its desirability on the basis of anticipated benefits and costs, neither of which can be adequately quantified at the present time.

Many countries, both developed and underdeveloped, have accepted the subsidy principle and responded with fairly heavy public investment. However, each situation has been assessed in terms of its unique set of cost-benefit relationships and socio-potential objectives. Such a framework of reference should be delineated and evaluated before any financial initiative is launched by DREE in the Atlantic Provinces.

(d) A broad and elaborate set of financial institutional machinery has been put in place and is now actively operating in the Atlantic Provinces to which the accommodation industry can relate. Included in the group are the conventional lending agencies (banks, mortgage companies, trusts, etc.), the Industrial Development Bank, DREE loan guarantees and the provincial lending agencies of last resort in all but New Brunswick. Clearly, any action taken by DREE must not lead to the unnecessary proliferation of agencies. In effect, any financial initiatives by DREE should be implemented through existing financing institutions.

(e) The introduction of any financial initiatives by DREE logically would presuppose the existence of long term viable income and employment opportunities in the accommodation sector in rural areas that remains unexploited essentially due to financing constraints. In effect, the initiatives would remove a primary bottleneck to development in rural areas and provide income/employment benefits commensurate with time and cost inputs.

It is difficult to assess the validity of such a presupposition. As indicated in the accompanying table, accommodation development in the rural areas has been fairly intensive in comparison with the total plant of the Atlantic Provinces. It is clear that the accommodation entrepreneurs of the Atlantic Provinces do not experience credit restrictions greater than those facing the industry in other parts of Canada. (Appendix B.) Moreover, there has been a fairly strong flow of capital from provincial and federal lending agencies of last resort. (Appendix C.)

Undoubtedly specific situations exist in which the presupposition would be valid, but conclusive and compelling evidence in support of significant gains in relation to DREE objectives from the introduction of financial incentives applicable throughout the rural areas is lacking. It is equally realistic to assume that accommodation development in rural areas is attuned to market realities or should unexploited opportunity be present that factors other than financing are of equal or perhaps even greater causal significance.

(f) If either a grant or long term low interest incentive program is introduced by DREE, it should be on the condition that the provinces prepare a master tourist strategy or plan for which the incentive would represent an implemental tool. The master provincial strategy would provide a framework of reference in relation to which benefits to be achieved might be assessed, eligibility determined and administrative organization developed. Without such a strategy an incentives program to be applied throughout rural areas becomes unwieldy.

(g) Programs of this type, particularly when administered by provincial agencies, present the problems of visibility and responsibility to federal administrators.

Federal input must be made visible to the industry in general and the recipient of benefits in particular. A public

ACCOMMODATION DEVELOPMENT IN RURAL SECTIONS OF THE ATLANTIC PROVINCES 1/

	New Brunswick			Nova Scotia			P. E. I.			Newfoundland		
	No.	%	% Prov.	No.	%	% Prov.	No.	%	% Prov.	No.	%	% Prov.
Establishments												
Hotels	18	11	26	19	12	24	13	5	54	33	29	49
Motels	87	52	47	48	30	28	56	19	74	27	24	64
Cottages & Cabins	40	24	74	46	29	39	100	34	88	20	18	87
Tourist Homes	23	13	51	47	29	42	124	42	66	33	29	72
TOTAL	168	100	48	160	100	36	293	100	73	113	100	63
Unit Capacity												
Hotels (Rooms)	268	13	9	347	19	10	285	14	35	374	33	33
Motels (Rooms)	1,307	64	38	747	41	21	775	39	61	355	32	48
Cottages & Cabins (Units)	393	19	70	508	28	50	572	28	78	235	21	90
Tourist Homes (Rooms)	90	4	45	206	12	40	387	19	66	153	14	70
TOTAL	2,058	100	28	1,808	100	21	2,019	100	60	1,117	100	38

1/ Based on an analysis of accommodation listings in provincial government publications. The facilities listed in this table are located outside primary and secondary wholesale/retail centres or complete, partial and full convenience shopping centres as defined in Background Study No. 7, Urban Centres in the Atlantic Provinces, Atlantic Development Board, Ottawa, 1969.

information program directed to the industry could achieve the objective in part. Appropriate literature might be included in loan applications and the processed loan documentation. The problem in this case therefore is fairly readily overcome.

The federal government agency could find itself in a "patsy" role in which it is made to appear responsible for all the ills of the financial machinery of government and private enterprise relative to the accommodation industry in the Atlantic Provinces. This can be a far more difficult problem to overcome due to the complexities of the situation. At the outset the limits of federal responsibility and intention must be made clear to the industry and the individual borrowers.

2. The Grant Instrument

Considering the balance of benefits and limitations subsequently noted, it is felt unwise for DREE to introduce a grant program for the development of new or the upgrading of established accommodation enterprises throughout the rural areas of the Atlantic Provinces.

(a) Probable Values

Some loan applications previously declined, possibly as high as 25%, would have been acceptable if a grant of 20% of the capital cost of construction had been available, so that the scale of the loan and hence repayment schedules would have been reduced to manageable proportions in relation to cash-flow expectations. This pattern is likely to hold true in the future.

An unknown, but possibly sizeable number of people who have hitherto shown no interest in entering the accommodation field because of lack of capital or unattractive profit prospects may be drawn to the industry.

The provincial loan authority in Newfoundland would be able to withdraw from the "financing of bars" in order to obtain accommodation considered necessary in rural or remote areas. In effect, a grant for the accommodation component of an enterprise would decrease the reliance upon bar operations to derive satisfactory overall profit margins.

(b) <u>Limitations</u>

National and provincial representative associations of the private travel industry sector are generally opposed to the use of grants for the stimulation of accommodation development. (Appendix E.)

If applied universally throughout rural areas in the Atlantic Provinces as may prove to be necessary for administrative and political reasons, grants would likely prove to be a rather clumsy or insufficiently incisive tool. In some areas serious over-capacity could easily emerge, particularly if private development was governed to a large extent by resale considerations. The already economically and socially advantaged groups would probably be the primary beneficiaries. Much of the resultant development would probably represent plant that would have developed in any event, the grant simply providing the developer with additional profit at the taxpayers expense.

If applied on a discretionary basis in relation to matters listed in the previous paragraph the administrative problem could be very great. The costs involved in overcoming such difficulties may be too great when considered in terms of the contribution towards the attainment of DREE objectives.

If a universally or very broadly applicable grant program is necessary to stimulate the development of accommodation facilities, then such enterprises must not be viable in a business accounting sense. The justification for public investment in a grant program in this case would rest upon income and employment benefits generated within the developments and within the local economy through spin-off effects. In many cases, probably the majority, such benefits are likely to be limited in scale in relation to overall DREE objectives.

3. Long-Term - Low-Interest Loans

It seems prudent to delay the introduction of a long-term-low-interest loan initiative by DREE for some time. The uncertainty with respect to the future operations of the Industrial Development Bank and Development Agency in relation to accommodation industry in the Atlantic Provinces must be resolved. A much more complete understanding of the industry can be obtained in a few months from a thorough analysis of the loan files of the I. D. B. that will be on computer tape and those of the provincial agencies that will be in shape for a review. While the data base assembled in this study is limited, no compelling evidence has emerged to support the proposition to the effect that significant income and employment opportunities in rural areas through accommodation development are thwarted primarily through a general absence of risk capital. Other factors may exert equally limiting effects, and in fact investment may be attuned to market realities.

It is noted, however, that some follow-up research with respect to this matter will be required within about six months. The subject is almost certain to emerge at any point in time when DREE might enter the provision of financial initiatives for the stimulation of accommodation facilities by private enterprise in complex developments of the type previously noted. While any such action by DREE would not, of logical necessity, demand the introduction of a long-term-low-interest program for accommodation development applicable to all rural areas in the Atlantic Provinces, it is almost certain to raise the question of equality of opportunity and advantage. This will be particularly true if complex developments are viewed as providing serious competition for existing plants or as impediments to the development of tourist facilities in rural areas awaiting the normal effects of supply and demand factors.

If a decision is made by DREE to enter a program of this type the following aspects require note.

- DREE should not create any new administrative agencies. A block of funds could be placed at the disposal of provincial lending authorities intended specifically for the stimulation of accommodation development in rural areas. Responsibility for the administration of the money would rest entirely with provincial agencies.

- The operation of the initiative would be limited to a specific period of years, possibly not less than three years, nor more than five. Essentially the intent would be to provide a short term impetus to development.

- The moneys advanced to a provincial agency would be repayable at the end of a specific time period at no interest. The contribution of the province would be related to administrative cost.

- Previous remarks with respect to visibility and responsibility apply.

- Possibly a fund of $15 million for all four Atlantic Provinces combined would be sufficient. A 20-to-25-year maximum term at 6% interest might be most effective.

- The geographical limits for the operation of the initiative should be carefully defined. It would be best if any such initiative were introduced only after provincial master development strategies and plans have been prepared. Such instruments would give direction and purpose to any financial initiative.

A problem would be present in the case of New Brunswick which has no provincial lending agency for tourist development. Moreover, there are no current signs to suggest that such an agency will be introduced in this province in the near future.

It is not likely that a DREE financial initiative of this type will create any major conflict with the conventional private lending agencies. The operations of the initiative would be limited to rural areas where private loan agencies are not particularly active and would be related more to last resort lending.

Probable Values

As previously noted, the overall value of this type of initiative in terms of DREE objectives is not certain and on the basis of present knowledge, which is admittedly incomplete, prospects are not particularly encouraging. It is certain, however, that there would be instance situations where gains would be made. Possibly it is more realistic to evaluate DREE initiatives in terms of individual gains rather than in sweeping program terms.

Provincial lending funds and authorities would undoubtedly benefit to a considerable degree. Some loan propositions that it might be necessary to decline, would become eligible for a loan. More importantly, the overall available lending capital and cash-flow position of many funds would be enhanced through the injection of federal funds to meet the needs of accommodation development in rural areas. In effect, the funds could become more active in rural areas. This may be the main benefit of a DREE financial initiative of this type.

Limitations and Problems

Uncertainty with respect to the need and effectiveness of such a financial instrument has been expressed in the introductory comment to the discussion of long-term-low-interest loans.

A financial initiative of this type actually represents the granting of a privilege that would assume market value in the case of resale. It is quite probable that a considerable portion of the renovation and expansion of plant undertaken through the initiative would be with a view to resale. The resale price would reflect the long-term-low-interest loan in which case the vendor would realize an unearned profit and the new purchaser would pay for something derived from public expenditure. Recent literature suggests that this has been a common experience with government financial initiatives of various kinds in the U. S. A. designed to effect the improvement of slum housing.

It is probable that those in the most economically and socially advantaged positions in the rural areas would receive the maximum benefit.

IV. SUMMARY CONCLUSIONS AND RECOMMENDATIONS

1. The Specific Situation

Loan guarantees by DREE and the provision of capital to the provinces for use in long-term-low-interest loans,and possibly grants, to attract private capital to invest in accommodation facilities in specific tourist and recreation complex developments in rural areas, probably will be requested within six to eight months.

The legislative machinery is in place to permit compliance with such requests. DREE participation in any scheme should not constitute a precedent for similar action elsewhere. Each case must be considered on its own merits.

The use of incentives of this type should be very carefully scrutinized for if public investment in infra-structure does provide sufficient inducement, there is a distinct possibility that the entire scheme is uneconomical. On the other hand, private enterprise may simply be manipulating to obtain abnormally high profits.

2. The Universal Program

It is felt that grants should not be offered as part of any general program of financial incentives designed to stimulate private investment in accommodation development in rural areas.

A long-term-low-interest loan scheme applicable to tourist accommodation development in rural areas generally should not be introduced at this time. More intensive research should be undertaken in about six months when the loan files of I. D. B. will be on computer tapes, thereby facilitating analysis, and the functions of the Industrial Bank and Development Agency have become clear. At that time, the provincial lending agencies will be in a position to provide a summary of their past operations.

3. Housekeeping Cabin Prospects

At the present time housekeeping cabins appear to offer some of the best accommodation development prospects in rural section of the Atlantic Provinces. This opportunity was specifically recognized by the provinces of New Brunswick and Prince Edward Island in a submission to the federal Office of Tourism in connection with investigations related to the capital requirements of the accommodation industry in Canada in 1971. [1/] The impression was confirmed in discussions with provincial tourist administrators and lending authority officials during the course of this investigation.

If the cash outlay for construction materials, service installations and furnishings can be kept within the $6,500 to $7,500 range, which is possible when facilities are built by the owner-operator, business viability prospects are generally good. When the cash outlay mounts above $8,500, however, business viability prospects approach marginality and are frequently unsatisfactory.

Housekeeping cabins permit the entrance of the small scale entrepreneur into the accommodation field. Development can begin on a modest scale with subsequent growth as the market is proven and management experience and capability, which are frequently a limiting factor, are acquired over time.

There appears to be a strong extra-regional summer demand for this type of accommodation facility on a weekly or bi-weekly rental basis.

1/ Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada, Travel Industry Branch, Office of Tourism, Dept. of Industry, Trade and Commerce, Ottawa, Canada (1972), Pages 10 & 11.

Secondly, and of major importance, there is a growing unsatisfied demand emanating from the larger urban centres of the Atlantic Region where a fairly "strong recreational dollar" is now emerging. In some select locations, winterized summer cabins may have market prospects in the spring-and-fall hunting and angling seasons and during the winter months as accommodation for students.

The management and supervisory functions associated with this type of development are considerably less than those for overnight facilities. With guests staying for a week or longer the housekeeping load is reduced as are the personal service demands.

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APPENDIX A.

List of Contacts

Discussions with the group of individuals listed below yielded much of the statistical data and points of view upon which this report has been based. While the interview schedule is modest due to time limitations, an attempt was made to contact representatives of the major interest groups.

1. FEDERAL GOVERNMENT

- Department of Finance - Financial Operations Branch

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II. PROVINCIAL GOVERNMENTS

Nova Scotia

- Department of Tourism - M. Knight, Deputy Minister

  Jean Ross, Director
  Accommodation & Facilities

- Department of Development

  Nova Scotia Resources Development Board,
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  Halifax

II. PROVINCIAL GOVERNMENTS - cont'd.

Nova Scotia - cont'd.

- Department of Development - cont'd.

A. Pinard, Economist

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New Brunswick

- Department of Tourism - W. Broad
J. McKay

Prince Edward Island

- Department of Tourism - D. MacAdam, Deputy Minister

- P. E. I. Lending Authority- W. Jay, General Manager
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Newfoundland

- Department of Tourism - F. Manuel, Deputy Minister
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- Newfoundland & Labrador Development Corporation Ltd.,

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III. PRIVATE ENTERPRISES

L. G. Eckroyd,
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Travel Industry Association of Canada,
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A. B. Thomson,
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Mr. Rodd,
Past President,
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Charlottetown, P. E. I.

III. <u>PRIVATE ENTERPRISE</u> - cont'd.

H. McLaughlin,
McLaughlin Motel,
Charlottetown, P. E. I.

Ian McKay,
Shiretown Inn,
St. Andrews, N. B.

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* Not contacted but might be useful in the future.

APPENDIX B.

CAPITAL REQUIREMENTS OF THE ACCOMMODATION SECTOR IN THE ATLANTIC PROVINCES IN 1970 AS REVEALED BY THE TRAVEL INDUSTRY BRANCH STUDY OF 1972

1. Introduction

Significant findings from the Study of the Capital Requirements of the Accommodation Industry in Canada completed by the Travel Industry Branch of the Office of Tourism are summarized.[1/] Much of the information in this source document is presented on a nation-wide basis. Some data are given on an Atlantic Region or provincial basis. The focus is upon this set of statistics.

Data presented in the source document were obtained through two separate questionnaire procedures. Some of the information presented was based upon the results of a Preliminary Mail-Out Survey to 21,654 operators of accommodation enterprises across Canada to which there were 10,136 replies for a response rate of 47 percent. Much of the data were obtained on the basis of a Memorandum of Interview based on a stratified random sample of the 1,000 respondents to the mail-out survey having a plant of 100 units or less.

2. Overall Credit Need in the Atlantic Provinces as Revealed by the Preliminary Mail-Out Survey

Several features of significance of Table B-1 in relation to the objectives of this study are summarized.

1/ Travel Industry Branch, Office of Tourism, Department of Industry, Trade and Commerce, Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada, Ottawa, 1972.

TABLE B-1

A MEASURE OF THE CREDIT NEED OF THE ACCOMMODATION INDUSTRY IN THE ATLANTIC PROVINCES 1/

Province	Questionnaires Mailed			Questionnaires Returned				Credit: Not Needed		Credit: Needed & Got Credit		Credit: Needed & Did Not Receive	
	No.	%	%	No.	%	%	%	No.	%	No.	%	No.	%
New Brunswick	554	3	31	243	2	32	44	119	49	111	46	13	5
Nova Scotia	424	2	24	203	2	27	48	95	47	86	42	22	11
Prince Edward Island	528	2	30	187	2	25	35	131	70	42	22	14	8
Newfoundland	266	1	15	120	1	16	45	80	67	31	26	9	7
Atlantic Provinces	1,772	8	100	753	7	100	42	425	56	270	36	58	8
CANADA	21,654	100		10,136	100		47	5,293	52	3,943	39	900	9

1/ Based on Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada, Travel Industry Branch, Office of Tourism, Department of Industry, Trade and Commerce, Ottawa, Canada, 1972. Data from the Preliminary Mail-Out Survey.

The pattern for the Atlantic Region is not significantly different from that for Canada. Fifty-six percent of the respondents of the Region expressed no need for credit as did 52% of those throughout the country. About 36% of the enterprises in the Region indicated a satisfied credit requirement as did 39% of those in Canada. Some 8% of the accommodation operators in the Atlantic Region stated that they had an unsatisfied need as compared with 9% of those across the nation.

The percentage value for enterprises indicating no need for credit was particularly high in Prince Edward Island - 70%, and Newfoundland - 67%, as compared with average values for the Atlantic Region - 56%, and Canada - 52%. Several inconclusive explanations for this pattern can be advanced. Assuming that the sample yielded an accurate portrayal of the situation, market conditions may have been unfavourable for new development and expansion in Prince Edward Island and Newfoundland. This does not seem probable in the case of Prince Edward Island. The scale of new development, expansion and renovation required may have been such that the average entrepreneur could assemble the necessary capital from revenues derived from accommodation operations, or other personal income sources. This is a distinct possibility. Finally, some respondents may have considered the high cost of credit as tantamount to a lack of need.

The percentage of enterprises requiring and obtaining credit in New Brunswick and Nova Scotia is noticeably above both the national and regional average. The operation of provincial lending authorities and the I. D. B. in addition to the conventional agencies probably explains the pattern for Nova Scotia. However, in New Brunswick, where the percentage value is highest no provincial lending agency exists. In Prince Edward Island, where the provincial fund has been in operation for years, the lowest percentage value occurs, which is somewhat difficult to explain. In Newfoundland, where the provincial lending agency was suspended several years before the study was undertaken and the Industrial Development Bank was not particularly active, the pattern is as expected.

The percentage value for enterprises that needed but did not receive credit is extremely high in Nova Scotia. As previously noted, the full range of provincial, federal and private lending institutions were operational in this province, and the provincial fund was fairly active. This would suggest that there is a very substantive credit need within Nova Scotia, due possibly to a constantly growing tourist-visitor pattern.

Clearly, the pattern revealed in Table B-1 is somewhat inconclusive in terms of credit need. Regionally, the pattern seems much akin to that for Canada as a whole. In Nova Scotia, there appears to be a somewhat greater credit need, but a satisfying explanation does not readily emerge.

3. Credit Need in Relation to Seasonality

No clear overall pattern emerges in the data presented in Table B-2 for accommodation enterprises in the Atlantic Provinces attempting to obtain credit.

The percentage of seasonal operations not needing credit was particularly high in Nova Scotia - 87.3% as compared with the national average - 69.4%. Comparable values for Prince Edward Island - 40.3% and New Brunswick - 52.3% are noticeably below that for Canada.

The percentage values for both seasonal and twelve-month operations in the Atlantic Provinces applying for and obtaining credit were well above the national average. From these data the industry in the Atlantic Region appears to be in a favourable position.

In the case of seasonal enterprises that attempted to, but did not obtain credit the percentage value for Prince Edward Island - 52.3% is about 1.8 times that for enterprises throughout Canada - 28.3%. The comparable value of 30.8% for New Brunswick is only slightly above the national mean. In the case of Nova Scotia, only 2.5% of the seasonal operators were unable to obtain credit. There is a possibility, however, that a fairly high proportion of the 87.3% of the operators that did not attempt to obtain credit actually had a need but felt that it could not be satisfied on terms suitable to them.

The total credit need for accommodation enterprises in the Atlantic

TABLE B-2

CREDIT NEEDS IN RELATION TO THE SEASONALITY OF OPERATIONS 1/

Province	Attempts To Obtain Credit					
	Tried & Got Credit		Tried & Did Not Get Credit		Did Not Try To Get Credit	
	Operations		Operations		Operations	
	12 mos.	1-6 mos.	12 mos.	1-6 mos.	12 mos.	1-6 mos.
	%	%	%	%	%	%
Nfld.	73.7	-	10.5	-	15.8	-
P.E.I.	-	7.3	-	52.3	100.0	40.3
N. S.	18.8	10.2	23.0	2.5	58.1	87.3
N. B.	.4	16.9	56.8	30.8	42.8	52.3
CANADA	4.4	2.3	44.1	28.3	51.5	69.4

Province	Total Expressed Credit Needs						
	12-Month Operations		1-6 Month Operations		All Operations		
	%	$\$10^6$	%	$\$10^6$	$\$10^6$	%	%
Nfld.	10.0	5.5	-	-	5.5	.7	10.3
P.E.I.	11.3	.4	88.7	2.8	3.2	.4	6.0
N. S.	73.0	13.9	27.0	5.2	19.1	2.4	35.8
N. B.	81.5	20.8	18.5	4.7	25.5	3.2	47.9
Atl. Prov.	76.2	40.6	22.8	12.7	53.3	6.7	100.0
CANADA	78.1				79.6	100.0	100.0

1/ Based on manipulation of data presented in Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada, Travel Industry Branch, Office of Tourism, Department of Industry, Trade and Commerce, Ottawa, Canada, 1972. Portrays the pattern at time of interview in 1970.

Provinces as revealed in the source document was $53.3 million or approximately 6.7% of the Canadian total. Nova Scotia accounted for 35.8% and New Brunswick - 47.9%. Values for Newfoundland and Prince Edward Island were minimal - $3.2 and $5.5 million respectively.

In the Atlantic Provinces, $40.6 million or 77.2% of the expressed credit need was related to all-year operations and the remaining $12.7 million or 22.8% seasonal enterprises. In Prince Edward Island, seasonal enterprises accounted for 88.7% of the credit requirements, while in Nova Scotia and New Brunswick all-year operations were the dominant factor, accounting for 73.0 and 81.5 percent respectively.

4. Credit Need by Accommodation Type and Size

Unfortunately data relating credit need to accommodation type and size were available only on a Canada-wide basis. The information is summarized in Tables B-3 and B-4.

Throughout Canada and possibly also in the Atlantic Provinces a sizeable proportion of the small-size enterprises have received credit irrespective of type. The unsatisfied credit need seems to be most pronounced in establishments in the eleven to twenty-five unit class, particularly in the case of motels and hotels.

5. Provincial Evaluation of Credit Problem

As is readily apparent from Table B-5,provincial tourist administrators in the Atlantic Provinces felt that credit requirements were needed most for upgrading of existing establishments and the development of rental cottage efficiency units. The upgrading aspect also ranked first from a national viewpoint.

From your consultant's knowledge of the Atlantic Region and the remarks of many administrators in the provinces interviewed in this study, it appears that the development of rental cottage efficiency units offers some of the best opportunities for the non-urban areas of the Region.

TABLE B-3

SATISFIED CREDIT NEED OF THE ACCOMMODATION INDUSTRY IN CANADA DURING FIVE YEARS PRIOR TO AND INCLUDING 1970 BY TYPE AND SIZE OF ESTABLISHMENT 1/

	Motels			Hotels			Hunt & Fish Lodges			Other			Total	
Unit Size	No.	%2/	%	No.	%2/	%	No.	%2/	%	No.	%2/	%	No.	%2/
10 or less	310	8	25	259	7	22	221	6	63	558	14	46	1,339	34
11-25	606	15	51	506	13	43	101	3	29	325	8	27	1,538	39
26-50	231	6	19	254	6	21	20	*	6	130	3	11	635	16
50+	64	2	5	160	4	14	8	*	2	199	5	16	431	11
TOTAL	1,202	30	100	1,179	30	100	350	9	100	1,212	31	100	3,943	100

1/ Based on Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada, Travel Industry Branch, Office of Tourism, Department of Industry, Trade & Commerce, Ottawa, Canada, 1972.

2/ Percentage of accommodation enterprises in a particular unit size grouping applying for and receiving loans.

* Less than one percent.

TABLE B-4

UNSATISFIED CREDIT NEED OF THE ACCOMMODATION INDUSTRY IN CANADA DURING FIVE YEARS PRIOR TO AND INCLUDING 1970 BY TYPE AND SIZE OF ESTABLISHMENT 1/

	Motels			Hotels			Hunt & Fish Lodges			Other			Total	
Unit Size	No.	%2/	%	No.	%2/	%	No.	%2/	%	No.	%2/	%	No.	%2/
10 or Less	56	6	19	19	2	8	107	12	54	32	3	20	214	24
11-25	139	15	46	107	12	44	59	6	30	29	2	18	334	37
26-50	91	10	30	92	10	38	26	3	13	38	4	24	247	27
50+	15	2	5	23	2	10	7	1	3	60	7	38	105	12
TOTAL	301	33	100	241	26	100	199	22	100	159	16	100	900	100

1/ Based on Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada, Travel Industry Branch, Office of Tourism, Department of Industry, Trade & Commerce, Ottawa, Canada, 1972. Indicates respondents needing credit over the five years prior to and including 1970, but not being able to obtain it.

2/ Percentage of accommodation enterprises in a particular unit size grouping applying for and receiving loans.

TABLE B-5

PROVINCIAL EVALUATION OF CREDIT PROBLEM[1/]

CREDIT NEEDS & PROBLEMS	PROVINCIAL RATING	All Canada				Atl. Prov.	
		Mentions		Point Value		Point Value	
		No.	%	No.	%	No.	%
Campground development	B.C. 1; Que. 2; Nfld. 3	3	11	6	11	1	4
Upgrading needed	B.C. 2; Sask. 1; Ont. 1; Que. 1; N.B. 2; P.E.I. 2; Nfld. 1	7	25	18	32	7	29
Equity demand too high	Alta. 1	1	4	3	5		
Expand existing operations	Ont. 2; P.E.I. 3; Nfld. 2	3	11	5	9	3	13
Interest too high	Alta. 3	1	4	1	2		
Lengthen repayment periods	Alta. 2; Sask. 2	2	7	4	7		
Long term loans for accommodation in Provincial Parks	Man. 1	1	4	3	5		
Long term loans for hunting & fishing camps	Man. 2	1	4	2	4		
For refinancing	Que. 3	1	4	1	2		
To develop cottage efficiency units	N.B. 1; P.E.I. 1	2	7	6	11	6	25
To increase hotel & motel units	N.B. 3	3	11	1	2	1	4
To increase plant size overall	N.S. 1	1	4	3	5	3	13
To develop tourist complexes	N.S. 1	1	4	3	5	3	12
		27	100	56	100	24	100

1/ Based on Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada, Travel Industry Branch, Office of Tourism, Department of Industry, Trade & Commerce, Ottawa, 1972. The provincial tourist administrations were asked to list three credit needs or problems in order of priority. The results taken directly from the report are shown in the table under Provincial Ratings with the numbers indicating their order of priority. To establish point ratings, the following system was adopted: First priority - 3 points; Second priority - 2 points; Third priority - 1 point. Data are shown for all Canada and the Atlantic Provinces.

APPENDIX C.

PUBLIC AGENCY LENDING TO THE ACCOMMODATION SECTOR IN THE ATLANTIC PROVINCES

1. Introduction

A brief review of the lending activities of federal and provincial agencies is presented in this section of the report. The presentation clearly reflects time and cost constraints. A more comprehensive analysis would require data inputs that could only be obtained by a thorough examination of the loan files of the agencies involved, a task that proved to be impractical, largely because of the workload that would fall upon the staff of the lending agencies.

2. The Industrial Incentives Program of DREE

Two instruments are available, namely, incentive grants and guaranteed loans. Initially, the guarantee instrument is discussed. Brief concluding comments are made with respect to grants.

All four provinces are designated regions under the Regional Development Incentives Act, hence the residual loan guarantee instrument has universal application in the Atlantic Region. Moreover, it is applicable in a loan situation in which only 20% owner equity is involved. The effectiveness of this instrument, however, is substantially reduced by the fact that the minimum size of loan for a new hotel, convention, or recreation facility must be $250,000. This latter provision severely restricts the use of the instrument in relation to small and moderate scale tourist and recreational facility development in non-urban areas.

Between the introduction of the residual loan guarantee program in 1970 and the close of the 1972 fiscal year, only one guarantee arrangement for the tourist industry had been finalized in the Atlantic Provinces. This involved a motel development in Kentville, Nova Scotia, in 1972 for which a loan of $720,000, that was about 80% of the total cost of the project, was advanced by two Nova Scotia Trust and Savings Loan companies supported by a DREE guarantee. A couple of other guarantees offered under this program were not taken up. Presumably, the interested parties obtained financing in another manner, or perhaps the schemes for development were dropped.

The terms and procedures of the guarantee loan program have received critical examination in recent months and suggestions have been advanced for some significant changes. Included was a reduction in the minimum size of projects eligible - possibly under $60,000 for new projects and $30,000 for modernization and expansion. Lower minimum loan size requirements of eligibility theoretically would increase the potential scope of the guarantee activity. It is probable, however, that the impact upon developments in outlying non-urban areas would be minimal since provincial lending agencies will likely move into these situations through their direct lending instruments. Moreover, the interest of investors in large operations in the major urban centres would likely not increase substantially. If they have not seen fit to use the guarantee in its previous form they are not likely to do so in its revised form.

The full import of the proposed changes in the loan guarantee program of DREE advanced for the consideration of government have not been made known to the author. Therefore, it is possible that some aspects of considerable importance have been neglected.

The grant instrument under the Industrial Incentives Program of DREE does not apply to tourist and recreation developments, and many federal government administrators and private operators feel that there should be no change in this regard. If it were deemed advisable to introduce an incentive grant, which some provincial agencies feel is a desirable course of action in certain circumstances, the administration probably would be best handled through provincial lending authorities.

3. Lending Activities of the Industrial Development Bank

(a) The Scale and Scope of Lending

As a lender of last resort the Industrial Development Bank has played an increasingly important role in the financing of the accommodation industry in Canada and the Atlantic Provinces in recent years. Moreover, it has tended to exert a stabilizing effect in the Atlantic Region as provincial lending agencies have functioned somewhat erratically both in terms of their entrance and exit from the field and the intensity of their activities. This latter effect probably represents one of the most significant contributions of the Bank.

Interest rates associated with I. D. B. loans vary on a sliding scale in accordance with the size of the amount advanced as follows:-

$50, 000 or less	-	9%
$50, 000-$100, 000	-	$9\frac{1}{2}$%
Over $100, 000	-	10%

Repayment periods vary from three to fifteen, and occasionally twenty years. Tourist loans, however, tend to be in the ten- to twelve-year term category.

Limited information on the precise scale of the lending activities of I. D. B. in recent years in the Atlantic Provinces could be obtained due to the fact that an extensive manual search of loan files, involving considerable time and effort would be required. Within about twelve months the loan files will be on a computer tape at which time it will be possible to evaluate what is probably one of the best sources for small tourist and recreation business loans available anywhere in Canada.

The scope of the lending activity in relation to the variety of tourist and recreation enterprises in the Atlantic Provinces has been fairly broad. Money has been advanced for change of ownership, re-financing, renovation, expansion and new plant development. Accommodation enterprises including motels, hotels and cabins, mainly in centres of 10,000 population or more, have been advanced loans. All provinces, with the exception of Newfoundland, are represented in the loan portfolio for campgrounds, but the bulk of the advances have been made to Nova Scotia and Prince Edward Island enterprises.

Restaurants in all provinces received loans, and it is probable that I. D. B. has made a substantial contribution to the upgrading of food services in the Region.

A wide range of attractions has received loans including wax museums, gift shops and coin-operated laundries. Funds have been advanced to deepsea tour boat operations and to four or five ski areas, most of which, unfortunately, have been a disaster due to the lack of snow. No interest has been expressed in obtaining loans for marina development. Funds have been made available to two or three golf courses in the Atlantic Region, but these are not proving to be particularly profitable enterprises.

From Table C-1, it will be noted that the number of loans advanced by I. D. B. to accommodation enterprises across Canada increased by about 188% from 1966 to 1970. In 1966, 5.4% of all loans made by the Bank went to accommodation enterprises. By 1970 this had risen to 10.8%. The outstanding value of the loans to accommodation enterprises rose from $19.0 million in 1966 to $47.1 million in 1970, which is an increase of about 52 percent.

In Table C-2 that is based on data obtained from a recent study by the Travel Industry Branch, of the Office of Tourism, the percentage of accommodation enterprises with 100 units or less that applied to I. D. B. for credit and were refused, over a five-year period prior to 1970, is shown. Clearly, the rejection rate for the Atlantic Provinces,

TABLE C-1

I. D. B. LOANS TO HOTEL, MOTEL AND OTHER LODGING ENTERPRISES IN CANADA 1966-1970 1/ 2/

	Loans To Accommodation Enterprises						All Types Loans Declined
	Issued				Outstanding		
	No.	Index	Av. Size $ (000)	% Total	$\$10^6$	Index	%3/
1966	130	100	51.7	5.4	19.0	100	13.7
1967	147	113	47.7	6.2	21.1	111	13.9
1968	184	141	66.6	10.2	25.9	136	11.8
1969	298	227	62.3	12.1	35.0	184	10.4
1970	374	288	47.6	10.8	47.1	152	9.6

1/ Source: Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada, Travel Industry Branch, Office of Tourism, Department of Industry, Trade & Commerce, Ottawa, 1972, Section 5, The Industrial Development Bank.

2/ Cabins and campgrounds included under Other Lodging.

3/ Indicates percent of loan applications declined for all types of business enterprises.

TABLE C-2

ACCOMMODATION ENTERPRISES - NEEDING, APPLYING TO BUT NOT RECEIVING CREDIT FROM I. D. B. 1/

Province	%
Newfoundland	100.0
Prince Edward Island	35.2
Nova Scotia	30.0
New Brunswick	25.0
CANADA	40.3

1/ Source: Survey of the Capital Requirements of the Accommodation Sector of the Travel Industry in Canada, Travel Industry Branch, Office of Tourism, Department of Industry, Trade & Commerce, Ottawa, 1972. Based on results of the Memorandum of Interview that represented a stratified sample of 1,000 respondents with 100 units or less that replied to a Preliminary Mail-Out Survey. Each respondent reported, and application declined by I. D. B. over a five-year period prior to and including 1970.

apart from Newfoundland, is less than that for Canada as a whole. Interestingly, however, the rejection rate for accommodation enterprises is markedly above that for all types of loans declined as indicated in Table C-1. Clearly, the I. D. B. has exercised considerable caution in its lending practices within the tourist and recreation sector of the economy.

In Table C-3 the loan approvals of Industrial Development Bank to accommodation enterprises in the Atlantic Provinces in 1972 are indicated. Just over $2 million was advanced in forty-nine individual loans averaging $42,000. Interestingly, Newfoundland received 41% of the total and New Brunswick 32%. In both cases no provincial lending agencies were active in 1972. Another 25% of the dollar value of the loans went to Nova Scotia where the provincial fund was undergoing re-organization. In effect, the table reflects a time period in which provincial lending agencies were not particularly effective.

In Table C-4 loan approvals of the Bank in 1972 to restaurants and eating places in the Atlantic Provinces are indicated. Interestingly, loans to this group of enterprises were about 2.1 times as numerous as those to accommodation operations and the total dollar amount involved about 1.7 times greater. The average dollar value of the loans advanced to operators in this sector of the economy was about 81% of that received by accommodation enterprises.

In 1973, the I. D. B. had advanced approximately $1.2 million to various enterprises in Prince Edward Island by mid-year. Motels and cabins received 26% of the total and restaurants 25%. Clearly, tourist/recreation enterprises received a substantial proportion of the total loans advanced by I. D. B. in Prince Edward Island in 1973.

(b) Repayment History

Default on all types of loans issued by I. D. B. to enterprises in the Atlantic Provinces is somewhat below the national average. No accurate

TABLE C-3

LOAN APPROVALS OF THE INDUSTRIAL DEVELOPMENT BANK IN 1972 TO ACCOMMODATION ENTERPRISES IN THE ATLANTIC PROVINCES[1/]

Province	Loans			
	No.	$ (000)		
	No	Total	%	Average
Newfoundland	7	837	41	119
Prince Edward Island	9	39	2	4
Nova Scotia	17	525	25	31
New Brunswick	16	650	32	41
TOTAL	49	2,051	100	42

1/ Data obtained from L. E. Barclay, Research Officer, I. D. B., Ottawa, and should be treated as Confidential. Includes the full range of facilities - cabins, campgrounds, motels, hotels and motor-hotels.

TABLE C-4

LOAN APPROVALS OF THE INDUSTRIAL DEVELOPMENT BANK IN 1972 TO RESTAURANTS AND EATING PLACES[1/]

Province	Loans			
	No.	$ (000)		
		Total	%	Average
Newfoundland	30	761	22	25
Prince Edward Island	9	295	9	33
Nova Scotia	37	1,481	43	40
New Brunswick	26	889	26	34
TOTAL	102	3,426	100	34

1/ Data obtained from L. E. Barclay, Research Officer, I.D.B., Ottawa, and should be treated as Confidential. Includes the full range of facilities.

TABLE C-5

I. D. B. LOAN APPROVALS IN TOURIST SECTOR
PRINCE EDWARD ISLAND 1973 1/

Type of Enterprise	Approximate	
	$(000)	%
Restaurants	300	25
Motels & Cabins	320	26
Other	600	49
TOTAL	1,220	100

1/ Data obtained from J. Clinton, General Manager, I. D. B., 51 University Avenue, Charlottetown, P. E. I.

Cont'd from page C6

information could be obtained, however, with respect to the performance of the tourist and recreation sector, but possibly it is about average for the Atlantic Region.

In Prince Edward Island lending by the provincial branch of I. D. B. has been too recent to judge performance. Throughout the province, however, about 2% of all loans were in some type of arrears and probably this percentage applies to the tourist sector. There is a feeling, however, that the volume for campground development in P. E. I. may have been somewhat too heavy. Small operators may experience repayment difficulties due to the limited scale of their cash flows and the fact that the new, large developments are capturing the major proportion of the market.

In recent years I. D. B. has evolved a number of ways in which the default problem in relation to tourist lending can be brought under control and largely eliminated in the future. Flexibility is the operational key. The repayment period for some loans advanced in earlier years has been extended. Sometimes a suspension of amortization payments for a short period are required. In new loans repayment schedules are closely aligned with business cash flow. In the summer months from June to September when occupancy rates are high and cash inflow to the business strong, interest and principal payments are demanded. At other months of the year when business is slack only interest payments are required. In this manner the borrower is forced to make a more satisfactory allocation of revenues insofar as the debt structure of the business is concerned.

4. Operations of the Newfoundland and Labrador Development Corporation

The Corporation that was established in 1973 was funded by $20 million federal input to be dispensed as loans and a $2 million provincial input designed for equity purchase.

Direct loans are made to tourist accommodation enterprises at a rate of about 9% with a ten-year term. The rate is somewhat better than that offered by I.D.B., but the term is shorter.]

In theory, loans can be made to enterprises at any point in Newfoundland and Labrador, including the large cities. In practise, however, loans to accommodation enterprises in cities are certain to be limited since large scale amounts at fifteen- and twenty- year-term periods are required. In effect, the short term repayment period virtually excludes the operation of the Corporation in the large urban centres.

When the Corporation began operations early in 1973, there was an enormous backlog of enquiries to be processed. Of 1,132 loan enquiries 241 or 21.3% were related to accommodation, restaurant and bar enterprises. When contacted, however, only 236 of 1,132 of those making enquiries or 20.8% indicated that they were still interested in obtaining credit. Many had satisfied their needs through other agencies or had dropped their development schemes.

About 52 or 22.0% of those still interested in obtaining a loan were associated with tourist-related enterprises. Some loans have been granted as

TABLE C-6

PAST PROSPECTIVE LENDING TO TOURIST ENTERPRISES BY THE NEWFOUNDLAND AND LABRADOR DEVELOPMENT CORPORATION[1]

Enterprise	Area	Loan	Equity	Total
Approved Applications				
		$(000)	$(000)	$(000)
Motel: 10 units & lounge	Robinson Brook	130	20	150
Hotel: 9 units & dining room (upgrading)	Harbour Grace	150	75	225
Hotel renovation	Lewisport	30	17	47
Trailer Site: 100 units	Eastport	35	10	45
Trailer Site: 40 units	Birch Lake	15	10	25
		360	132	492
Pending and Likely to be Approved[2]				
21 units	Whitbourne	90	40	130
12 units & bar	Carbonear			130
50 units & bar	Chipman			150
15 units & bar	Bonne Bay			150
	Arnold Cove			60
20 units	St. Anthony	100		
12 units & bar		100	25	125
Trailer Park	Gambo			
12 units	Parson Pond			
Motel	Port Aux Basque			
20 units & bar	Corner Brook			250
Schooner refit for sports	Labrador			35
Camp operation				
Cabins & bar	Grose Morne			

1/ Data supplied by the Corporation, July 1973.

2/ Details for many items listed not yet finalized.

indicated subsequently, but from an initial examination of the submissions of this group, it would appear that at least 50% will be discouraged for a variety of reasons including inadequate management capability, equity, and overall viability prospects.

In Table C-6 loan applications for accommodation enterprises approved as of July 1973 are indicated. A number of the pending developments for which loans are likely to be approved are also shown, but the detail in this instance is incomplete.

A large proportion of the developments are highly bar-orientated. It appears that without a bar many of the accommodation enterprises would not be viable. In effect, the Corporation is placed in a position of lending money for bar and lounge development in order to obtain a modest growth in the accommodation plant. It is felt, however that at this time such a procedure is in the interests of the overall tourist development in Newfoundland and Labrador.

5. Operations of the Prince Edward Island Lending Authority

This Crown Corporation was established under the Prince Edward Island Lending Authority Act in 1969. It is empowered to make direct loans to tourist operators for operating credit to assist in meeting seasonal preparation costs, such as loans being repayable at the close of the tourist season, and for the establishment, expansion and improvement of capital plant. The focus is essentially upon capital loans with the Authority steadily moving out of the provision of operating credit.

Two sources of funds are available to the Authority. There is the Capital Loan Fund, which is dependent upon the cash flow of principal and interest payments from provincial government loans now in the portfolio of the Authority, and a Loan Credit Fund which is based upon a $5 million bank line of credit. The latter, which is not of major consequence from the standpoint of tourist development, is repaid annually when crops are sold and the repayment of operating capital loans to farmers and fishermen flows into the Authority.

(a) The Scope and Scale of Lending

Loans are made only to seasonal tourist enterprises. Operators in the large urban centres such as Charlottetown and Summerside, therefore must rely exclusively upon I. D. B. and conventional lending agencies.

Existing tourist operators and expectant entrants to the field have displayed considerable interest in the operations of the Authority. In 1972, 138 or 14% of a total of 957 loan enquiries to the Authority related to tourism. About $1.6 million or 25.6% of $4.1 million in loan requirements associated with the enquiries were related to tourism.

Thirty-seven or 26.8% of the 138 loan enquiries related to tourism were satisfied. Approximately 29.6% of a total of $3,080,310 loaned by the Authority in 1972 was related to tourist enterprises. The nature of the loans is indicated in Table C-7.

TABLE C-7

LOANS TO TOURIST ENTERPRISES BY THE P.E.I. LENDING AUTHORITY IN 1972 1/

Type of Loan	No.	Amount $	%	Average Size $
Guarantees	1	10,000	1.1	10,000 2/
Direct Capital Development	34	891,927	97.8	26,233
Direct Operating	2	10,300	1.1	5,150
	37	912,227	100.0	24,655

1/ Data obtained from W. Jay, P.E.I. Lending Authority.

2/ As a general principle the fund is moving away from guarantees and direct operating loans for tourism.

It is hoped that interest and principal payments from outstanding loans will provide sufficient cash flow to the Capital Loan Fund within three to five years to meet the needs of new borrowers. In 1972, the cash inflow from tourist loans was $634, 000. About $155, 300 was in the form of interest payments and $479, 000 in principal repayments. Approximately 12.6% of all principal repayments from all loans by the Authority were related to the tourist sector.

In 1972, The Authority made approximately $912, 000 in loans to the tourist industry. The total cash inflow from principal and interest was $634, 000 as noted. Therefore, there was a short fall of about $350, 000 to the capital loan fund as a result of tourist lending activity.

Loans to the tourist industry over the past few years have been in the order of $1 million. Possibly I. D. B. and mortgage companies have loaned something in the order of $1 million to various accommodation developments. Hence about $2 million in loans were to the tourist sector in Prince Edward Island in 1972 by public agencies.

There has been considerable development of campground facilities in Prince Edward Island in the last few years. Two large scale developments having about 800 sites combined were opened in 1973. There is some degree of uneasiness with respect to any further financing of campgrounds, and it is likely that no more loans will be made by the Authority until the present plant has "digested" recent major expansion.

6. Operations of the Nova Scotia Development Board

(a) Introduction

The Board, which was formed in June, 1972, assumed responsibility for the operations of a number of provincial loan funds that have been operating for a number of years under the Industrial Loan Act, including that for tourism. It continues, however, to function as a lender of last resort with operations placed on firmer business foundations.

This consolidation procedure involved no change in the terms and scope of lending to the tourist sector. However, review procedures have become more stringent and collections more effective.

Tourist enterprises can obtain 75% of the capital cost of new development and renovations over a twenty-year repayment term at an interest of 9½%. Interest rates shift in accordance with the prevailing bank rates. Only 50% of capital costs for campgrounds can be borrowed but since land values are taken into consideration, government financing can cover up the 75% of the actual cash outlay for construction and in small ten-unit situations sometimes close to 90%. The government has not developed a solid policy for campground and motel loans.

A comprehensive evaluation of provincial lending to the tourist and recreation sector in Nova Scotia would involve a detailed file research effort, that the staff of the Board would find particularly onerous until their re-organization problems are complete. The subsequent discussion has been severely limited by this fact.

(b) The Scope and Scale of Activity

In June, 1972, there were about 130 outstanding loans, totalling approximately $11 million that had been made to tourist and recreational enterprises. These were mainly direct loans with only a few guarantees made in past years.

Accommodation enterprises have received the bulk of the credit, but the operations of the fund have been fairly widely based and include loans to boat tour operations in Halifax - $100,000, and Yarmouth - $12,000. The Story Book Village in New Glasgow, Museums in Springfield and New Glasgow that will likely turn out to be grants, Mount Martock Ski Hill at Windsor and a few restaurants, such as the Palliser in Truro have obtained loans. Lending to golf courses has been avoided in practice and principle. No loans have been made to boat rental operations or riding stables although enquires have been received. Loans have not been made to institutional camps and marinas, although one marina in the Windsor area is now under consideration. Loans for vacation farm development is an area of interest to the Department of Agriculture.

The scale of loans to accommodation enterprises in Nova Sctia in 1972 is summarized in Table C-8.

TABLE C-8

LOANS TO ACCOMMODATION ENTERPRISES BY NOVA SCOTIA RESOURCES DEVELOPMENT BOARD IN 1972 1/

Type of Enterprise	Loans	
	No.	Approximate $ Amount
Motels	6	1,000,000
Campgrounds	3	131,000
Rental Cottages	1	27,000
Recreation Complex	1	14,000
TOTAL	11	1,172,000

1/ Data obtained from O. G. Holland, Senior Loans Officer, Nova Scotia Resources Development Board. Activity in 1972 was somewhat below previous years due to more stringent loan procedures for this sector. More applicants than usual were turned away.

(c) The Geographic Distribution of Loans

In terms of the number of loans granted, enterprises in small population centres or rual areas in all tourist regions of the province are in the majority. Most of the dollar value of the loans, however, is in twelve-month operations. No enterprises in Halifax benefit from the program for it is considered that they can raise funds through conventional lending agencies.

No comprehensive study of the distribution of loans by geographical areas has been undertaken, but the Board began an investigation of provincial areas deficient in accommodation where some relaxation of the regulations might be justified.

(d) Repayment History

Repayment and delinquency in the case of tourist and recreational loans had not received comprehensive evaluation by June, 1973. Possibly 30% of the tourist loans, however, were in the delinquent repayment category and the record was probably the worst of any sector. In a large part, the situation probably reflects poor lending practices in past years and, above all, the lack of a concentrated effort to collect. The Board has taken positive steps to overcome these difficulties.

Seasonal operations have the highest delinquency problem, and three distinct loan types exist in this regard. There is a group of loans in which repayment is virtually impossible since there are insufficient assets to cover the debt. These loans are virtually a write-off. There is a second group of loans in which repayment, at least in part, is possible, but past collection procedures have been unsatisfactory. Probably a substantial proportion of these loans will need some form of refinancing. Finally, there is the group of loans in which foreclosure procedures and a sheriff sale likely will be necessary. Longboat Inn on Mahone Bay was foreclosed and sold by sheriff's sale in 1973. It is hoped that this action by the Board will indicate to those in a position to commence repayments that the government intends to introduce business-like practices.

The delinquency pattern for tourism can be attributed to a number of factors. The former Loan Board lacked expertise in this field. No real attempt to collect was made in many instances, and positive action in this respect by the new Board has reduced much of the bad debt fairly quickly. Frequently no realistic repayment schemes were worked out for earlier loans. Some of the loans did not call for principal repayment for the first year or more, which allowed many operators to place themselves in impossible circumstances. Frequently only one payment at the end of the year was required in which case operators failed to realize the true import of their debt payment requirement. Under new operating procedures, interest and principal payments are geared to cash flow so that seasonal operators must make reductions in principal during July, August and September. Amortization is spread over fifteen- to twenty years to keep payments within manageable proportions.

(e) Revenues Per Unit for the Loan Group of Motel Enterprises

Generally speaking, revenues per unit have been modest. It is possible, however, that some under-reporting is involved. The pattern is summarized in the following Table.

TABLE C-9

REVENUES PER MOTEL UNIT FOR LOAN RECEIVING ENTERPRISES 1/

Scale	Approximate Revenue $
7 units	2,000
12 units - Antigonish	2,000
50 units	2,000
10 units - Nepan	2,300
10 units - Chedicamp	2,300
30 units - Yarmouth	3,000
70 units - Truro	3,000
23 units - Digby	3,000
20 units - Kingston	3,600

1/ Source: Ibid.

7. The New Brunswick Situation

There are no provincial direct or indirect lending programs for the tourist industry operated by this province. There has been some discussion of the matter at cabinet level in recent months, and the Department of Tourism has prepared a background document for the consideration of this matter. The document is essentially a summary of the economic significance of tourism to New Brunswick based on data obtained from the Auto Exit Survey of 1971 and pertinent information culled from a recent report of federal Office of Tourism entitled "Capital Requirements of the Accommodation Sector of the Travel Industry in Canada." No new data directly related to the accommodation plant of the province is presented in this report, but an analysis of campground development in New Brunswick in terms of occupancy rates was recently completed that is of some use in the consideration of loans to this group of enterprises.

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LOAN APPLICANT CHARACTERISTICS OF SIGNIFICANCE IN RELATION TO DREE OBJECTIVES

1. Introduction

The stipulated objective of any financial initiative by DREE for the tourist accommodation sector of the Atlantic Provinces is clearly the stimulation of viable long term income and employment opportunities in disadvantaged regions and areas, particularly in the rural areas. An understanding of the type of income and employment opportunity likely to be generated is obviously of major significance. Some insight can be gained through an evaluation of the investment objectives and income and employment patterns of loan applicants. While no quantitative data were obtained in this preliminary investigation, qualitative impressions were sought from responsible administrators of loan agencies.

Within the general social and economic framework of the areas and communities in which the successful loan applicants reside, it is clear that they generally belong to the more economically aggresive and relatively advantaged component of the population. This group will clearly be the major beneficiary of any DREE financial initiative related to the accommodation industry. Benefits to the disadvantaged will be derived essentially from wage employment and induced spin-off effects in the local economy. Where the scale of development is modest the latter effects are likely to be small both in terms of jobs created and wage payments received. In effect, the financial initiative of the type under consideration offers no universal instant panacea for the economic problems of rural areas as a whole. Possibly the greatest benefits would accrue to the general economy of the province through the development of a stronger tourist facility and attraction base.

2. Characteristics and Motivations

Loan applicants can be generally characterized as established operators and new entrants. The established operators seeking funds for expansion and renovation, particularly those in non-urban areas, were originally drawn into the field by the same factors and forces motivating new entrants. As a whole, they belong more to the advantaged than the disadvantaged group of the local society with which they are associated.

Applicants seeking funds to purchase established businesses or develop new enterprises on a small or modest scale most frequently display the following characteristics and motivations that they feel the tourist accommodation industry can satisfy. Almost invariably a combination of factors is involved.

3. Supplemental Income

A sizeable proportion of the loan applicants are recently retired persons, having a pension income that they seek to supplement to offset the rising cost of living. The necessary equity is provided in the form of savings, severance payments, annuities, cash from urban home sale, and sometimes rural property holdings obtained in earlier years through purchase or inheritance. Salesmen who feel that user experience equips them to be owner-operators of motels and retired armed forces personnel still physically and mentally active are noticeable among this group.

The group of aggressive tradesmen, merchants, farmers and school teachers seeking additional income through the operation of accommodation facilities that can be readily integrated into their on-going employment pattern are prominent. Frequently the accommodation enterprises are operated on a family or extended family basis with the employment impact and the cash outlay for goods and a services that creates spin-off effects within the community being minimal. Often the plant is built in a large part by the owner.

4. Inflation Hedge

Frequently the more economically advantaged of the social structure seek loans to enter the field or expand operations to obtain a hedge against inflation. While operations of this type are often minimal in scale, some can be fairly substantial and have a noticeable labour impact.

5. Tax Benefits

Frequently accommodation enterprises operating for a long period of time at a loss, or showing only minimal profits are sold for substantial capital gain in later years. Prior to capital gains tax this was an obvious incentive for investment in the industry. While the introduction of capital gains tax may have dampened enthusiasm of this group of investors to some degree, there are still many advantages to be gained, particularly if the eventual sale price reflects the capital gains tax introduced, which will likely be the case.

6. Desirable Way of Life

Many applicants are drawn to the accommodation industry by what appears to them to be a desirable way of life. They value what they think is considerable flexibility in their labour input as compared to the 9:00 A.M. to 5:00 P.M. job. Some feel the pace of life and in general psychic income in the rural environment in which they seek to establish their business to be a decided asset. The psychic income aspect has undoubtedly been of major significance in the development of tourist accommodation facilities in rural and non-urban areas of the Atlantic Provinces.

A considerable number of the loan applicants are returning native people who have amassed some capital through employment outside the Region. They seek to return home and gain a livelihood through the operation of tourist accommodation facilities. Sometimes they are returning to develop property that they have inherited. Frequently operations of this type are primarily dependent upon family labour input.

Some applicants reside permanently outside the province. They have visited a particular area for a number of summer seasons and feel that the general tourist activity offers a business opportunity that they can exploit during the summer months, returning to their regular job and residence in the off-season. Again, operations of this type are mainly dependent upon family labour input.

In the major urban centres investors are frequently motivated to a degree by a number of the aforementioned factors. Here, however, investment is characterized to a much greater degree by the normal spectrum of business considerations. Moreover, the larger scale of the operations generates greater employment impact. In the rural areas, however, to which financial DREE initiative under consideration is primarily directed the aforementioned pattern is characteristic.

Unquestionably some economic benefits to rural areas would accrue from DREE financial initiatives. As initially indicated, however, no general panacea for the economic ills of these areas is involved. Moreover, those most in need of reinforced income and employment opportunity are certain to receive the smallest proportion of the benefit. In effect, the tool probably will not be as discreet or incisive as might be hoped in terms of DREE objectives.

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APPENDIX E.

INDUSTRY VIEWPOINTS

1. Introduction

Discussions with the private enterprise sector were severely limited by time and cost constraints. The point of view of the Travel Industry Association of Canada and the Innkeepers Guild of Nova Scotia was obtained through discussions with their respective senior executives. Two large scale motel operators in Charlottetown, both of whom have been past presidents of the Prince Edward Island Tourist Association, were approached for an expression of opinion. Finally, a discussion with the owner-manager of the Shiretown Inn at St. Andrews, New Brunswick, yielded further insight.1/

It is important to note that the following commentary essentially expresses the point of view of present owners and operators as opposed to that of expectant entrants to the field. In effect, it is a vested interest point of view with all the strengths and limitations that the term implies. The creation of oversupply and unfair competition through indiscriminate use of the public purse are, and clearly ought to be, matters of serious concern to this group. In general, however, it was felt that the attitude of those members of the industry contacted could be classed as fair and reasonable.

2. Attitudes Towards Grants

The Travel Industry Association of Canada is basically opposed to grant incentives for the accommodation industry throughout Canada. In briefs presented in 1966 and 1967 to the Federal Cabinet and the Provincial Governments, the Canadian Tourist Association, the forerunner of Travel Industry Association of Canada, stated that outright cash grants similar to those given to manufacturing industries in designated areas may well be a part of the answer needed to create increased plant capacity and modernization, but that such a tool was decidedly less important than much needed universal industry

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1/ See Appendix A for further definition of list of contact.

access to long term credit at moderate interest rates. In its submissions to the Federal Government in 1970 and 1973 the Travel Industry Association of Canada made no mention of grants. In effect, the Association has been opposed to grants as a general principle. Its commentary in 1966 and 1967 briefs previously noted was occasioned largely in response to the grant programs of DREE, and was intended essentially as an expression of the need for the exercise of extreme caution or discretion rather than as an endorsement of the general principle of grants.

The point of view of the Innkeepers Guild of Nova Scotia is almost identical with that of the Travel Industry Association of Canada. Discussions with senior executives revealed considerable apprehension with respect to the creation of over-capacity and unfair competition. The latter aspect perhaps assumed special significance in view of what the industry considers to be unfair competition created by the entrance of universities that receive general grants and favourable terms from C.M.H.A. into the convention and in some cases the general tourist accommodation field in Nova Scotia.

Tourist accommodation operators in Prince Edward Island and New Brunswick were opposed to grants as a general principle. However, some did recognize that there may be some rationale for grants for the development of seasonal facilities in outlying areas in special situations, but that the competition element would require extremely serious evaluation. In Prince Edward Island, Charlottetown is a major organization and accommodation point for visitors travelling to various portions of the Island, and possibly 40% of the business of many motels in this city comes in the months of July and August. Clearly, the creation of excess capacity must be viewed from an Island-wide perspective, and grants that would create excess development in non-urban areas could have serious impact upon the plant in the major cities and towns.

3. Attitudes to Long-Term-Low-Interest Loans

Both the Travel Industry Association of Canada and the Innkeepers

Guild of Nova Scotia stressed the need for the availability of long term (15 to 25 years), low interest (6% to 7%) loans for the travel industry for new plant development and renovation. The Travel Industry Association of Canada and its forerunner the Canadian Tourist Association have consistently expressed this point of view in recent years. The Innkeepers Guild of Nova Scotia felt that possibly the need for this type of financing was greatest in relation to renovation, and that this aspect should perhaps receive the majority of the initial effort of any financing program considered by DREE.

Representatives of the tourist industry in Prince Edward Island and New Brunswick with whom this matter was discussed generally felt that long-term, low-interest loans might have some value in select situations involving seasonal accommodation, but they were not receptive to the idea as a general principle. In effect, they felt that the industry as a whole must not expect to receive special treatment.

All those with whom this matter was discussed stressed the absolute necessity of avoiding a proliferation of lending institutions operating in the Atlantic Provinces. Any DREE initiative in aid of financing should, in their opinion, work through the existing institutions, that is the conventional lending agencies, I. D. B., and the provincial loan funds.

The Travel Industry Association of Canada expressed the point of view that any DREE financial initiative should be operated through the conventional lending agencies, possibly in the form of loan guarantees.

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