

# HOTEL INVESTMENT MARKET AUSTRIA 2019

JANUARY 2020

## Dear Reader,

With gross domestic product (GDP) per head of approximately 27% above the EU 28 average, Austria is one of the most prosperous countries in Europe. Continuous economic growth over the past decade has made a significant contribution to the high quality of life in the alpine republic.

With holidaymakers, business travellers and conference visitors spending more than EUR 42.5 billion in 2018, tourism accounted for almost 9% of the total Austrian economy. With more than 46 million arrivals and more than 152 million overnight stays new visitor records were set in 2019. This represents an increase of +3% and +1.9% respectively compared to the previous year. This is yet another record for Austria, where the 150 million overnight stays mark was hit for the first time.



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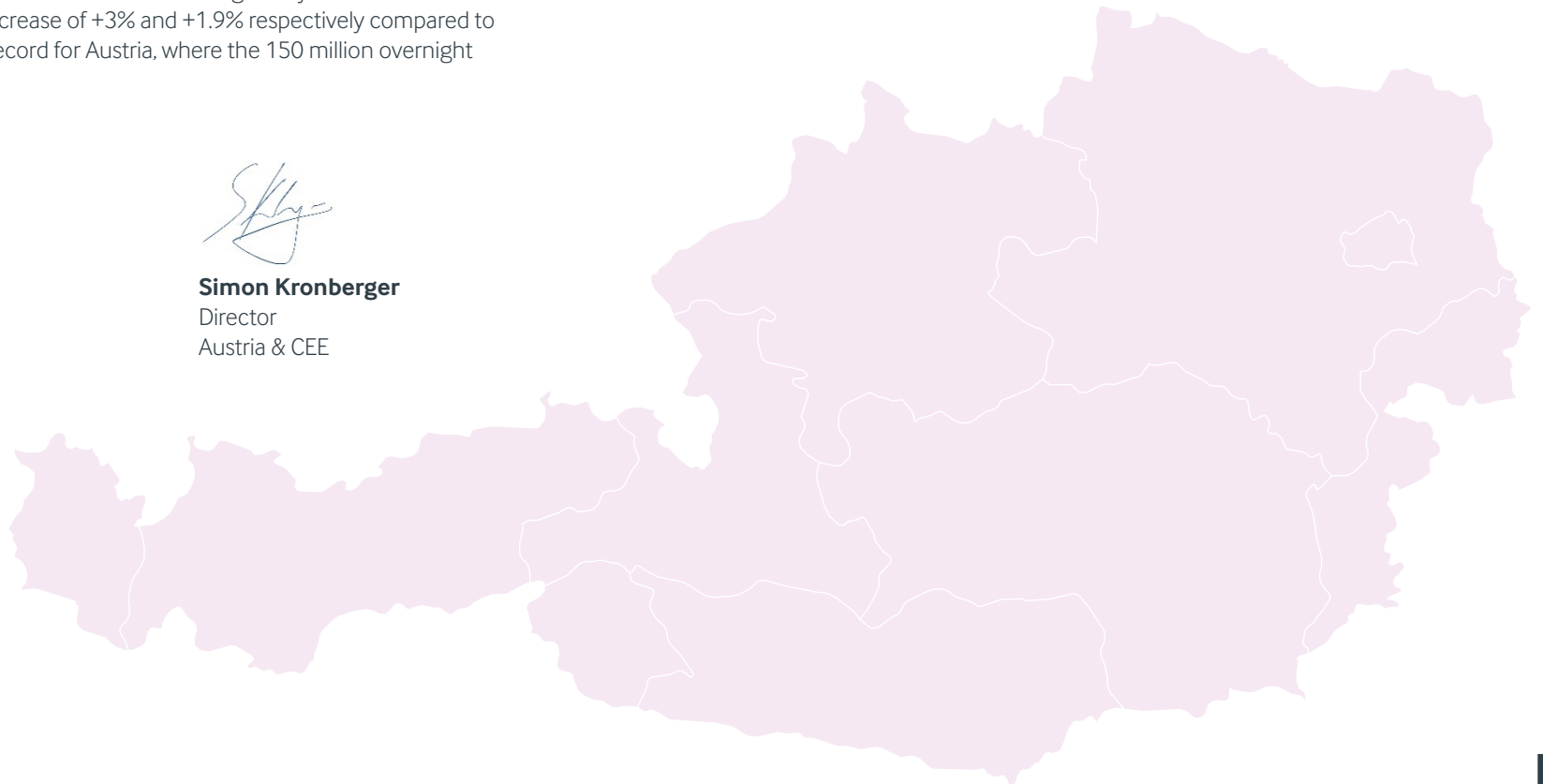


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## Austria - the safe haven for hotel investors

The entire real estate industry can look back on an eventful 2019. But there is one asset class that caused a stir last year - hotels.

For a long time, many investors perceived hotels as a marginal phenomenon, but with a record volume of hotel transactions in Austria in 2019 of EUR 1.26 billion, it has been impressively demonstrated that hotel investments are a sought-after and established form of investment. We are therefore pleased to provide you with an insight into this extraordinary investment year 2019 in the following report and hope you enjoy reading it.



# HOTEL TRANSACTION VOLUME AUSTRIA (IN MILLIONS)



In September 2019 a transaction volume of more than 1 billion euros was achieved for the first time since recorded. By the end of the year, the volume totaled EUR 1.26 billion, what is 40% above the previous record from 2016.

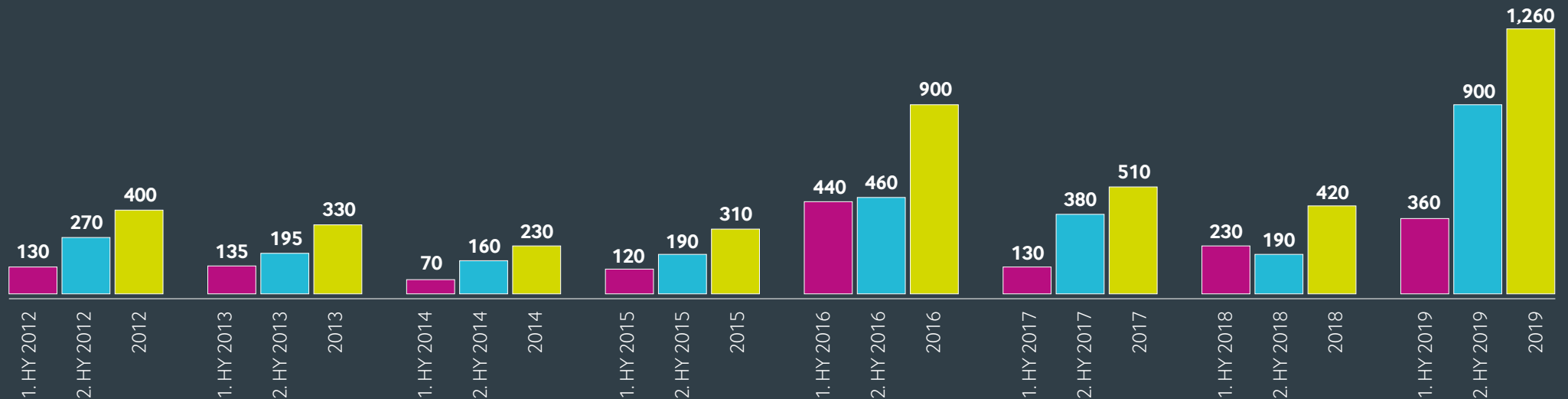
## The year 2019 ends with a transaction record

The first quarter in 2019 counted several transactions and showed that some deals that were already on the horizon in 2018 could only be concluded in 2019. This also meant that the transaction volume in the first half of 2019 was 360 million euros, the second highest ever (after 2016 at 440 million euros). From the perspective of that time, however, it was not yet foreseeable that the total volume would rise to such an extent by the end of the year.

In the second half of the year hotel transactions with a total volume of 900 million euros were registered. This corresponds to the previous record result for the entire year 2016. In September, the transaction volume exceeded the billion-euro mark for the first time. In 2019 as a whole, the transaction volume was ultimately around EUR 1.26 billion, 3 times the figure for 2018 or around 40% higher than the previous record result for 2016.

With a volume of just under EUR 1 billion, Vienna accounted for the majority of the transactions, but a number of notable transactions were also recorded in the remaining provinces.

Read more on the following pages.



# SELECTED TRANSACTIONS 2019

## It doesn't always have to be city hotels

City	Hotel	Rooms	Type of Contract	Seller	Buyer
Vienna	Hilton am Stadtpark	660	Hybrid contract	Betha Zwerenz Krause	South Korean consortium
Vienna	Austria Trend Hotel Ananas	539	Lease contract	Estrella Immobilien	Wertinvest
Vienna	Radisson Blu Park Royal Palace Vienna	233	Lease contract	VIYM	ECHO Partners
Vienna	LetoMotel Development	211	Lease contract	Developer	Confidential
Vienna	Falkensteiner Margareten	195	Lease contract	FMTG	Confidential
Vienna	Hotel & Palais Strudlhof	81	Lease contract	BPI Holding	Vision Estate
Wels	PLAZA Hotel Hanau	107	Lease contract	HG Hotelbau	PLAZA Hotel Group
Salzburg	Meininger Salzburg City Center	101	Lease contract	CA Immo	Sofidy
Salzburg	Hotel am Mirabellplatz	70	Vacant	Private	Georg Imlauer
Reith	Cordial Hotel	78	Vacant	Imperial-Group	Harisch Hotel
Rastenfeld	Hotel Ottenstein	60	Vacant	EVN AG	Viktor Privatstiftung
Graz	InterCity Hotel	229	Lease contract	GBI AG	Deka Immobilien
Bad Waltersdorf	Thermenhof Paierl	66	Vacant	Private	Family Mauracher
Bad Radkersburg	Romantik Hotel im Park Bad Radkersburg	96	Vacant	Private	Dr. Lohbeck Privathotels

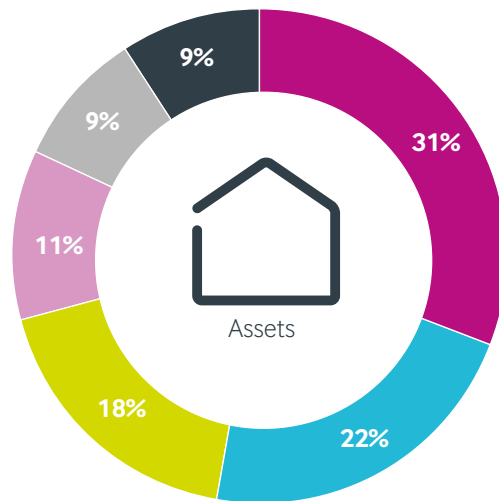
As mentioned above, a significant part of the transaction volume has happened in the federal capital Vienna. The renewed sale of the Hilton Vienna am Stadtpark to a South Korean consortium alone accounted for a significant share of the total volume with approximately EUR 370 million. In addition, the sale of the Radisson Blu Park Royal Palace, the Austria Trend Hotel Ananas, the Falkensteiner Margareten and the sale of the K+K Hotel Group, of which 2 are located in Vienna, were also included in the transaction volume. Thus, transactions in Vienna accounted for almost 80% of the total volume.

But investors in the provincial capitals of Graz and Salzburg were also exceptionally active in 2019. Some larger transactions were recorded in Salzburg, such as those of the Meininger

Hotel Salzburg, the Hotel am Mirabellplatz or the Plaza Hotel. In Graz, the InterCity Hotel at the main railway station, which is currently developed, was sold in a forward deal, as was the Plaza Hotel Graz.

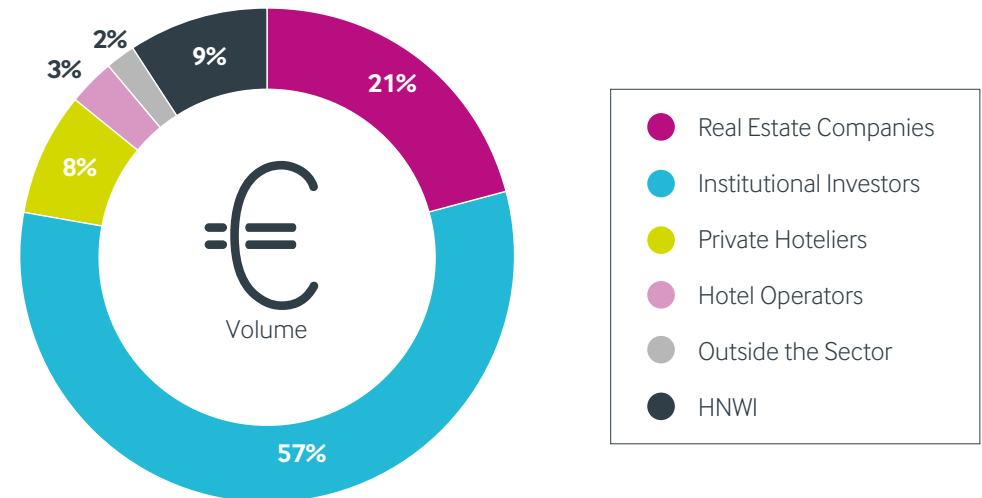
Away from the city hotels, the Goldener Greif Hotel and the Cordial Hotel in Reith, well-known hotels in the Kitzbühel region changed owner. Transactions were also recorded in Lech am Arlberg or Saalbach Hinterglemm. The Thermenhof Paierl in Bad Waltersdorf and the Hotel im Park in Bad Radkersburg which both are wellness hotels were also sold.

# WHO INVESTS IN AUSTRIA?



Measured by the number of transactions, most hotels were purchased by real estate companies and institutional investors in 2019, who are responsible for just under a third or slightly less than a quarter of the transactions. The former include property developers or investors such as Wertinvest, which bought the Austria Trend Hotel Ananas. Classic institutional investors include insurance companies and banks, such as DEKA, which acquired the InterCity Graz or the French fund Sofidy, which bought the Meininger Salzburg. Measured by the transaction volume, however, it can be seen that institutional investors are responsible for almost 60% of the total volume. This suggests that these significantly larger assets were purchased at significantly higher prices. Real estate companies on the other hand only account for around 22% of the volume with more individual transactions, which conversely means that the assets were significantly smaller or not as expensive.

## Few, large deals to institutional investors

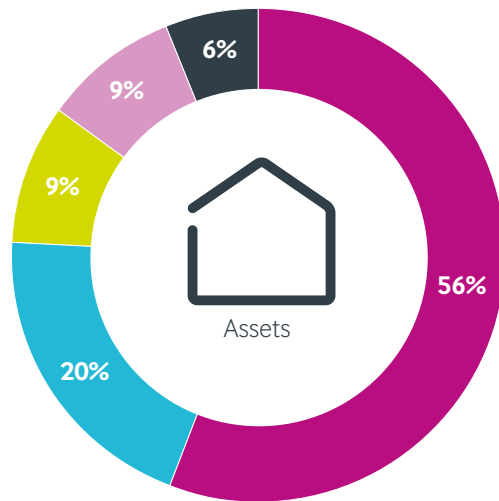


The group of private hoteliers, including the Mauracher family, who bought Thermenhof Paierl, account for just under 20% of transactions with a volume of only 8%. This is mainly because assets in holiday regions are statistically smaller than in cities.

Wealthy private investors (HNWIs = High Net Worth Individuals) accounted for around 9% of both transactions and volume.

Hotel groups and investors from outside the sector were the least active hotel buyers last year. They are negligible despite accounting for around 11% and 9% of the hotel properties sold, with a share of only 3% and 2% of the total volume respectively.

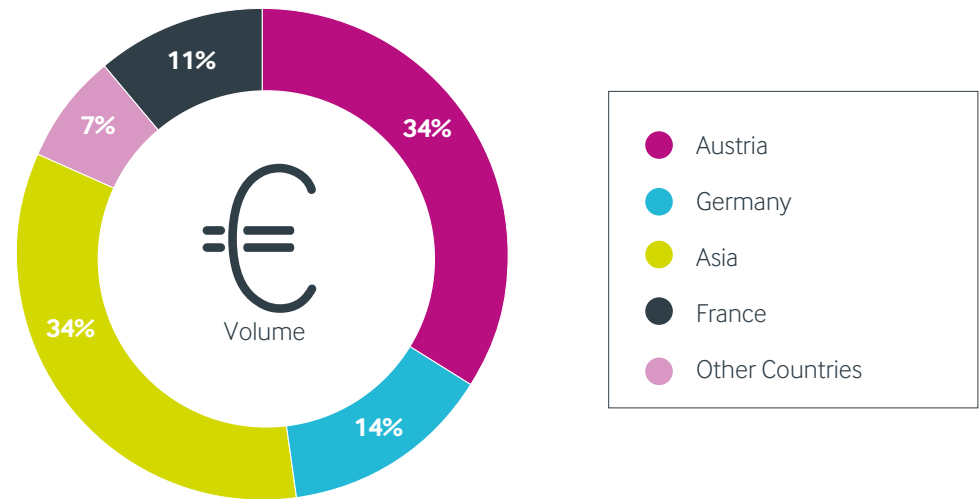
# WHERE DO THE INVESTORS COME FROM?



As far as the origin of the buyers is concerned, the Asian buyer's market should be mentioned above all. Measured by the number of transactions in 2019, relatively few hotel properties were sold to Asian investors. On the other hand, these transactions account for a good third of the total volume, not least due to the sale of the Hilton Vienna am Stadtpark to a South Korean consortium (EUR 370 million).

The picture is reversed for Austrian investors. Although more than half of all transactions in 2019 are attributable to Austrian buyers, these are smaller transactions in terms of value. This means that Austrian investors also account for about one third of the 1.26 billion euros.

## Local investors still the most active



German buyers also invested in several small deals, while investors from France spent higher amounts on fewer hotel properties. What is surprising that compared to previous years, French institutional investors have increasingly carried out some larger hotel property deals. These include the Hilton Vienna Danube, which was sold to the institutional investor AXA in September 2019. In addition, the Hotel Meininger Salzburg City Center was sold to Sofidy, also an institutional investor from France.

The remaining investors are spread over several countries. These include buyers from Switzerland, Ukraine and the Netherlands, for example.



# WHAT DID INVESTORS BUY?

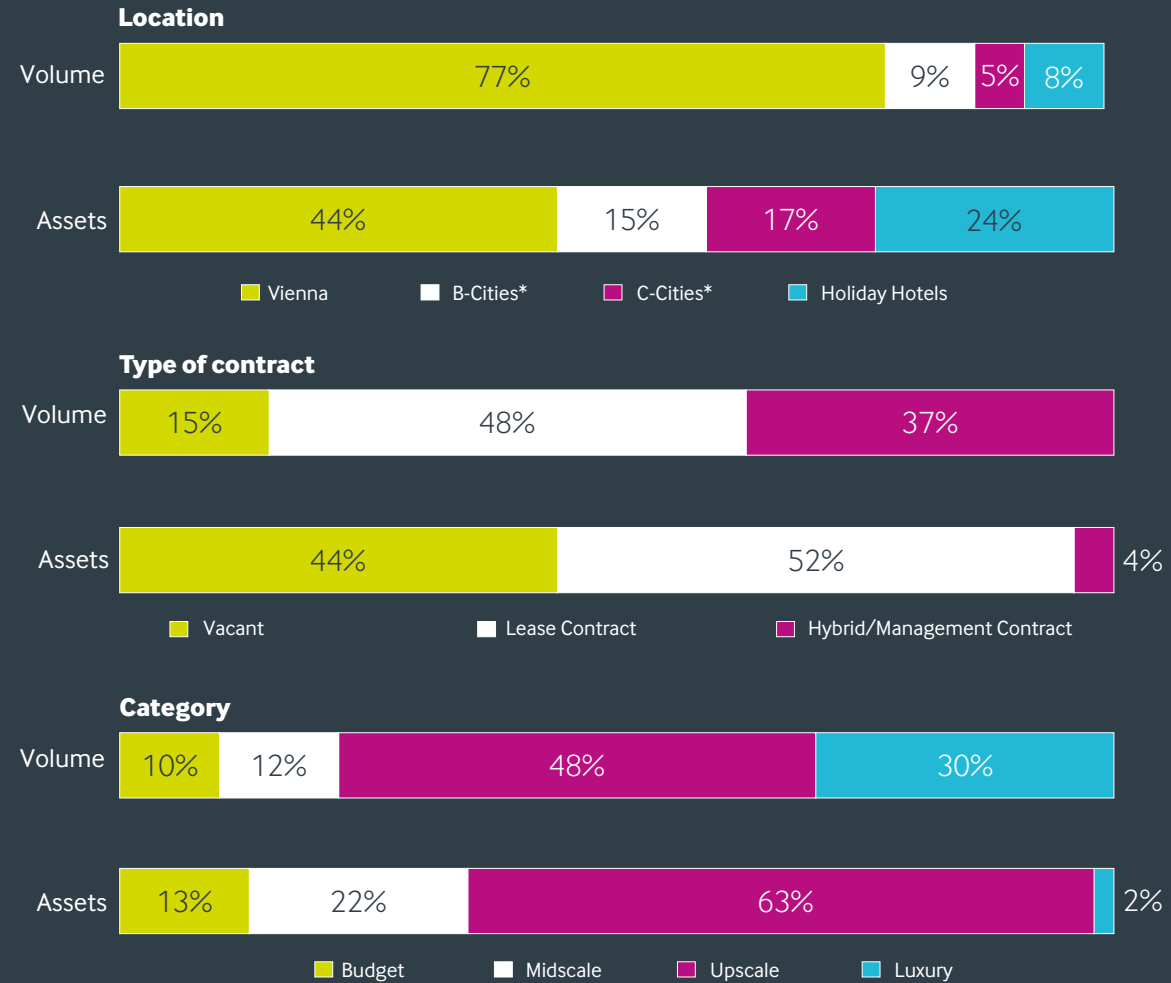
Vienna is not only one of the most popular city destinations in Europe, the Danube metropolis also saw the most transactions in 2019. The great interest of many investors in Austria's capital resulted in Vienna accounting for 77% of the hotel transaction volume in the previous year.

It is also evident that although almost a quarter of all transactions took place in the holiday hotel industry, these accounted for just under 8% of the total transaction volume.

With regard to the type of contract, half of all hotels were sold with a lease agreement, both in terms of transaction volume and the number of sales. These included the Hotel Meininger Salzburg City Center and the InterCity Hotel in Graz. The properties sold without an operator were mainly private hotels in holiday locations, which explains the lower share of the volume. It is also interesting to point out that although only a few hotels with hybrid and management contracts were sold, these accounted for more than a third of the investments in terms of value, since the Hilton Vienna am Stadtpark was among them.

A comparison of the individual categories also shows a clear tendency towards the upscale product. Thus, with 63%, significantly more than half of all sales were in the 4-star segment. The luxury segment made a major contribution to the transaction volume, not least through the sale of the Hilton Vienna am Stadtpark.

## Leased 4-star hotels in Vienna most in demand



\* B-Cities: Graz, Linz, Salzburg; C-Cities: other cities  
Source: Christie & Co Research

# YIELD DEVELOPMENT

The interest rate environment, which has been low for some time now, and the uninterrupted investment pressure from many investors has also led to a significant increase in demand for hotel investments in Austria in 2019.

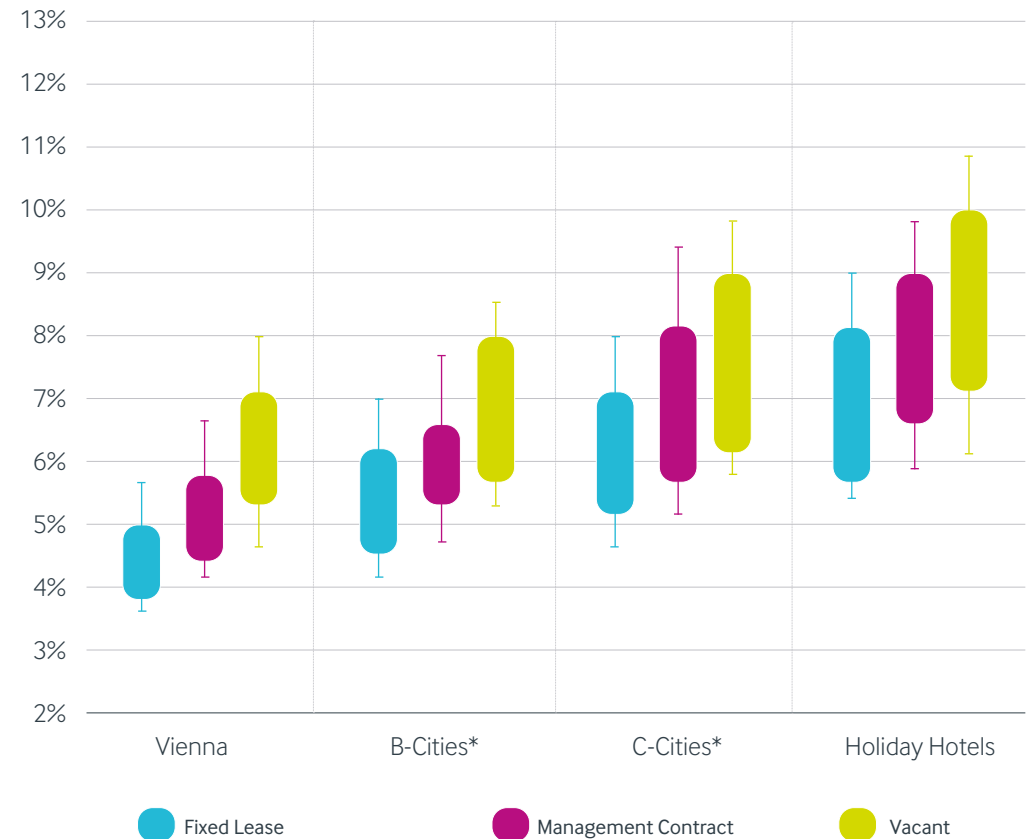
It could be observed that the generally low supply of high-quality hotel properties throughout Europe in parallel with the strong performance of the Vienna hotel market and the high international attractiveness of the city have led to a further downward trend in yields in this country as well. This so-called "yield compression" led to prime yields in Vienna of less than 4%, which is roughly 25-50 basis points (bps) below the prior year values. Nevertheless, the majority of yields on investment transactions, i.e. leases, ranged between 4-5%. While forward deals have seen virtually no markups, yields on hybrid or management contracts are still at least 50-100 bps higher. Non-operated hotels, on the other hand, have the widest range, depending on many factors that are taken into account in pricing.

In Salzburg and other B-Cities returns have also experienced a noticeable compression compared to 2018 but were still significantly higher than those achieved in Vienna. For example, prime yields for hotels with long-term leases approached 4.5%. In contrast, the premiums for operator-free hotels hardly differed from those in Vienna. The situation is similar for C-Cities, although an individual analysis must always be made here because of the low number of comparable transactions and the large differences between the individual markets.

Holiday destinations are similarly inhomogeneous, although the high number of comparable transactions allows overall conclusions to be drawn, provided that transactions in markets with high basic costs (such as the Arlberg or the Carinthian lakes) are excluded. Leased hotels, for example, have already achieved top yields in the low 5% range. However, there is a very wide range here, mainly due to the condition, positioning and location of the hotels. The premiums for unoperated properties are also significantly higher here, which means that transactions with yields of over 10% can still be observed.

\* B-Cities: Graz, Linz, Salzburg; C-Cities: other cities  
Source: Christie & Co Research

## Renewed yield compression in 2019





Due to the extraordinary individual transactions in the past year, we are currently not expecting another record result in 2020, despite some exciting upcoming hotel transactions.



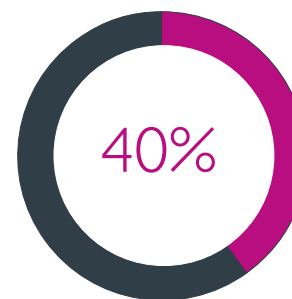
## 2020 no new record result expected despite strong start to the year

The year 2019 achieved an absolute record result of 1.26 billion euros in terms of the total volume of hotel real estate transactions and exceeded the previous high of 2016 by an impressive 40%. The demand for hotel properties in Austria is still high investor circles are also paying special attention to the federal capital Vienna.

For the first time, Germany has been replaced by Asia as the most active country of origin. In addition, there was an increase in investments from France last year, with several French investors active at the same time. However, an analysis of the investor profile clearly showed that hotels continue to be particularly valued as capital investments by institutional investors. This is also reflected in the fact that a large share is attributable to hotels with leases.

The high demand is also reflected in the returns achieved, which show a yield compression throughout, with peak yields for investments falling below 4% for the first time.

This trend is likely to continue in the investment year 2020, although it is to be assumed that the yield trend will increasingly flatten out. As a number of previously announced transactions are nearing completion and many more exciting hotel properties are on the market, we expect a good start to the new year, in which there will certainly be some impressive hotel transactions again. However, whether a new record in transaction volume will be reached soon remains questionable due to the brilliant year 2019.



Increase on hotel real estate transactions vs. previous high in 2016

# WHAT CAN CHRISTIE & CO DO FOR YOU?



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