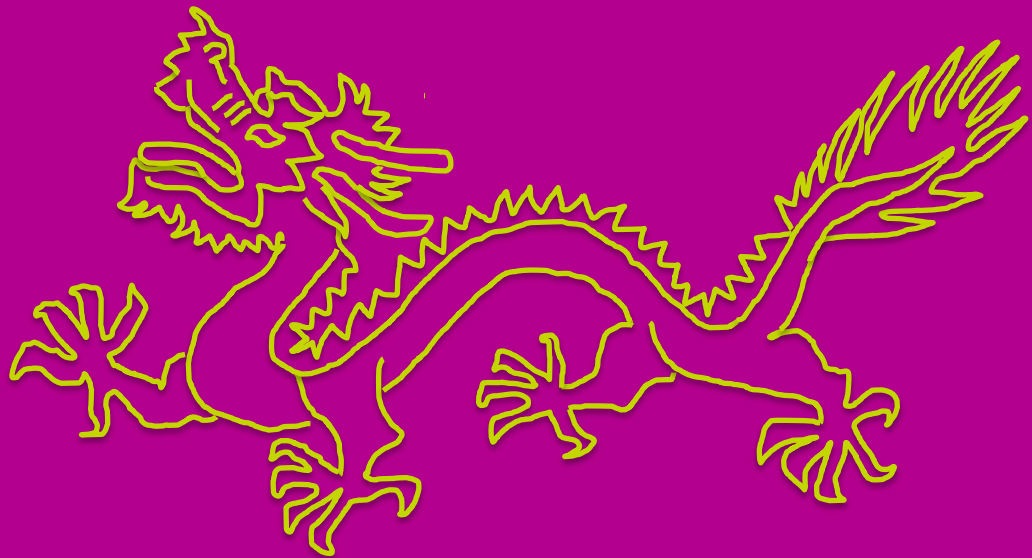


The Dragon has awoken

Investors and Operators from the Far East conquer the European and German Hotel Market

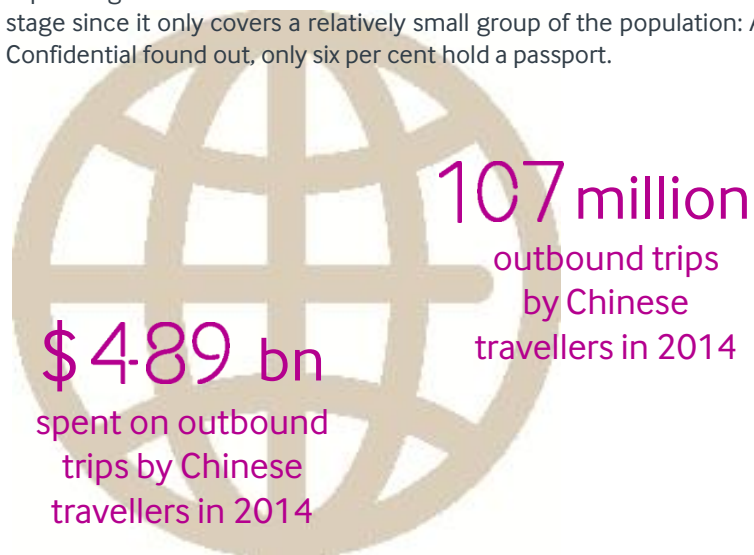


Number of Asian visitors on the increase



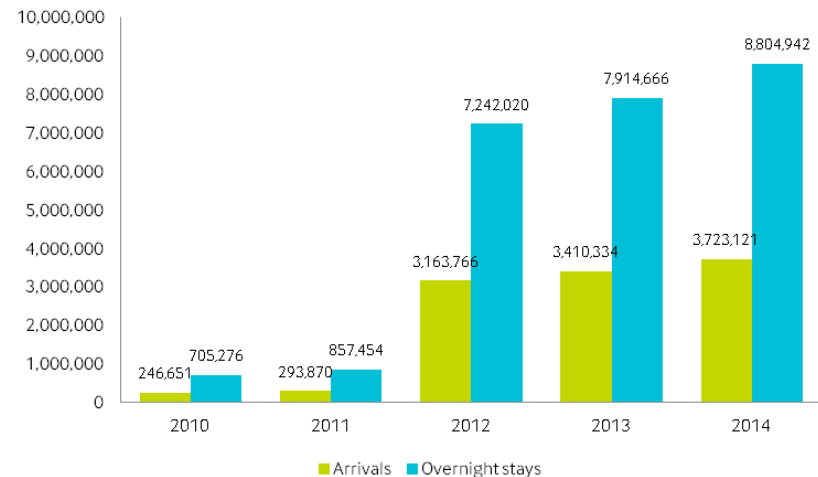
For ages, the East has strived towards accommodating the needs of the West. But with Asian outbound tourism on the rise and more Asian, especially Chinese, travellers venturing abroad, this is beginning to change.

In fact, China has become the world's largest outbound tourism market. As the China National Tourism Administration reports, Chinese travellers made 107 million outbound trips in 2014, while China Confidential, a Financial Times research service, estimates that Chinese travellers spent \$498 billion on outbound trips in 2014. This development is even more remarkable as experts agree that the Chinese outbound tourism trend is at a rather early stage since it only covers a relatively small group of the population: As China Confidential found out, only six per cent hold a passport.



Many Asian travellers are keen on exploring Europe and Germany in particular. According to the German statistical office, Statistisches Bundesamt, Germany's hospitality sector saw recently growing demand from Asian guests, registering an increase of 9.2 per cent in arrivals and 11.2 per cent in overnight stays in 2014 – with travellers from China, including Hong Kong, making up the largest share. Arrivals from this region had already picked up by 15 per cent in 2013 and almost 19 per cent in 2014, while overnight stays witnessed an increase of 11 per cent in 2013 and some 17 per cent in 2014, compared to the previous year.

Arrivals and overnight stays by Asian guests in Germany from 2010 until 2014



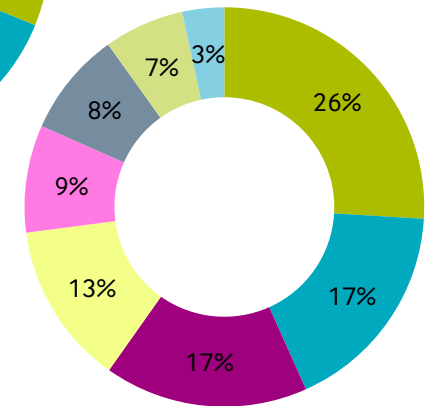
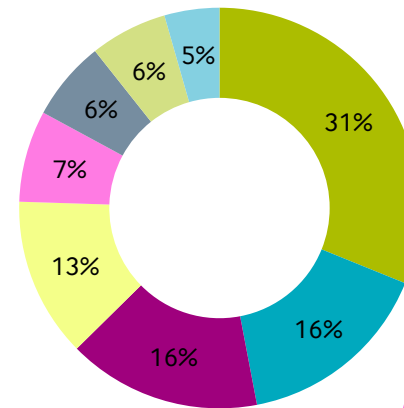
Source: Statistisches Bundesamt (German statistical office)

Year-to-date June 2015 figures suggest that this trend is set to continue: Arrivals from Asia grew by 18.5 per cent and overnight stays by 13.2 per cent, compared to the same period of the previous year. The numbers of guests from China arriving in Germany even swelled by 38.7 per cent, generating 26.1 per cent more overnight stays than during the respective period in 2014.

That said, the percentage of Asian visitors coming to Europe also largely depends on visa policies. For example, a few years ago, Paris registered five times as many Chinese visitors than London since visas for France were easier to obtain. As a consequence, Britain simplified its visa process for Chinese visitors. Germany had been lagging behind France, Britain, Spain and Italy who issue visas for Chinese citizens after 24 to 48 hours – and followed by at least cutting down the procedure from originally five to three days this year. While according to the German Embassy in Beijing 65 per cent of the 337,000 visas issued in 2014 were business visas, Chinese tourists are also considered an important economic factor as hardly any other group of tourists spends as much when travelling.

Arrivals from Asia grew by 18.5 per cent and overnight stays by 13.2 per cent.

Arrivals from Asia in Germany January until June 2015



Overnight stays by Asian guests in Germany January until June 2015

- China (inc. Hong Kong)
- Other Asian countries
- Japan
- Arab States of the Gulf
- Korea
- Israel
- India
- Taiwan

Source: Statistisches Bundesamt (German statistical office)

According to tourism statistics by the Chinese government Chinese outbound tourists spent

\$ 164.8 bn
overseas in 2014.

Hospitality and retail industries adapt to Asian target groups



So when it comes to attracting Asian tourists, the German travel and retail industries spare no efforts. Frankfurt International Airport, for example, employs Personal Shoppers for Chinese and Japanese guests who give shopping advice; help to obtain VAT refunds and even accompany passengers through the security check as well as to the gate, when needed. And while the hospitality sector is keen to adapt to the needs of Asian visitors there is still room for improvement. Currently, Asian tourists typically travel in larger groups and therefore do not necessarily need the highest standards, particularly as the duration of their stay is relatively short. Yet, Asian hotel investors expect Asian travellers to become more demanding and the share of individual travellers to grow as a result. This makes branding ever more important since brand awareness in these countries is high.

Generally, the hotels in major Asian cities are more modern than European hotels, and furnished to relatively high standards. Hence, in the medium term older hotels need to be refreshed to cater to middle budget travellers. Good food offerings within the hotel including both hot Asian and Western food are common in mid-range hotels and above in Asia. European hotels which can offer this will stand out in appeal. Keeping in mind that many

Asian guests who come to Germany are travelling abroad for the first time, staff who speaks Mandarin in order to cater for the largest group of Asian visitors is also a plus.

It is in the nature of things that Asian-branded hotels know how to please their customers from the Far East: The QGreen Hotel by Meliá in Frankfurt, for example, offers customer service in Mandarin Chinese, Chinese menus, Chinese banquet and meeting arrangements as well as other “Chinese-friendly” features to make it more attractive for their guests.

How to appeal to an Asian target group – some examples

- ▷ Modern hotel furnished to high standards
- ▷ Good food offering including both Asian and Western food
- ▷ Staff who speaks Mandarin and interpretation service
- ▷ In-room tea service

But also non-Asian chains are trying to follow suit by having an eye on the needs of their Asian guests. Hilton has developed their ‘Huanying’ programme which offers 24-hour interpretation service, traditional Chinese breakfast and in-room tea service. IHG and Hyatt announced similar programmes, ‘Zhou Dao’ and ‘Nin Hao’. While Asian tourists almost undoubtedly feel more comfortable in an environment that embraces their customs, they are, at the same time, looking for experiences not commonly available in Asian hotels. For example, European hotels with unique architecture and/or history could be well received if properly marketed.

Big players from Asia are entering Europe

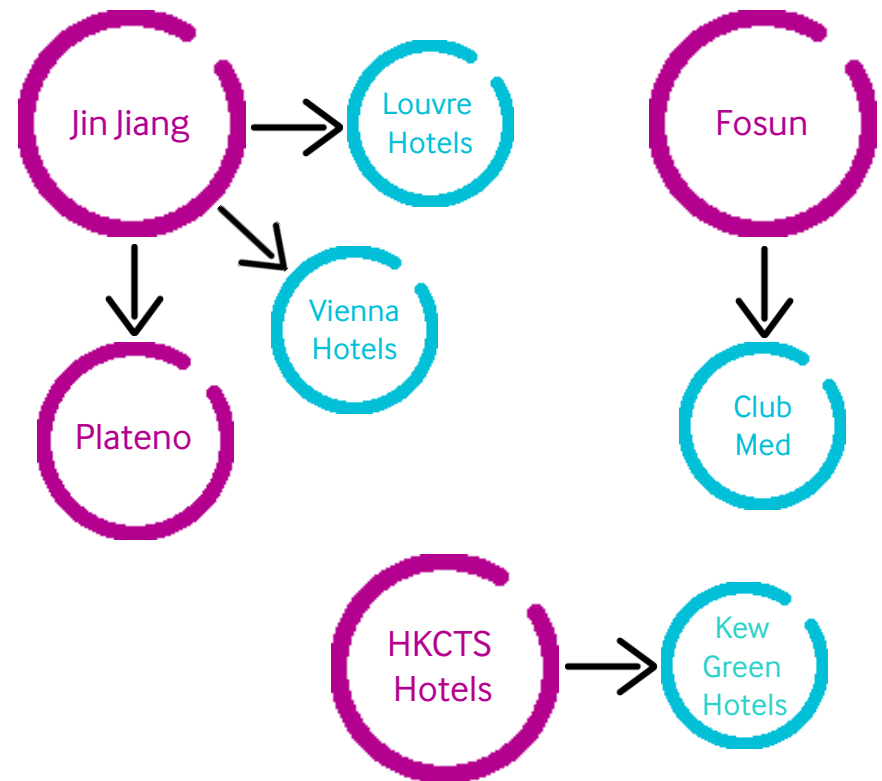


So it comes as no surprise that not only the retail and hospitality industries are keeping an eye on Asian travellers as a target group, but also more and more big Asian players – both operators and investors – are entering Europe in order to grab a slice of the pie.

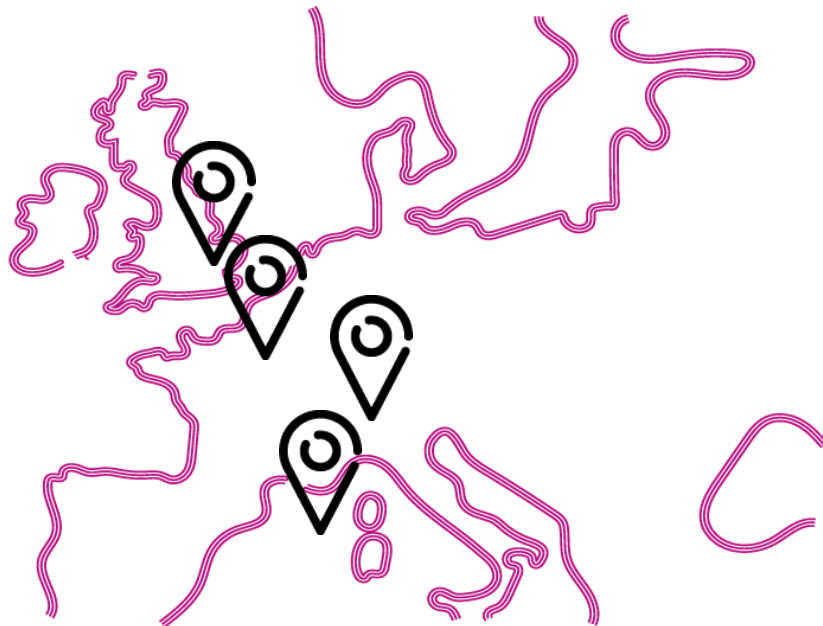
There are numerous hotel groups from Asia which have recently acquired hotels in Europe, such as Fosun International, JinJiang Hotel Group, Far East and Swire Group. Rather than bringing their existing hotel brands to the European market, the preference of these new entrants seems to be to acquire established hotel brands together with the assets and retain them. It is believed that the existing and reputable European brands add value in marketing to Asian tourists and business travelling to Europe. For example, the French Louvre Group, acquired by China's largest hotel group JinJiang Hotels, as well as the French holiday company Club Med, purchased by the Chinese conglomerate Fosun, will retain their existing brands and operators.

Similarly, HK CTS Hotels, a wholly-owned subsidiary of China National Travel Service Group Corporation, purchased Kew Green Hotels Ltd, a portfolio of 44 owned as well as 10 managed hotels, in the largest Chinese hotel transaction in the UK – a deal mediated by Christie & Co. Other examples include the acquisition of the Paris Marriott Hotel Champs-Elysees by Hong Kong-listed investment firm Kai Yuan Holdings Ltd with the aim to target mainland Chinese travellers to boost occupancy rates at the 5-star hotel; Frasers Hospitality acquisition of Malmaison and Hotel du Vin, who operate 29 boutique hotels across the UK; as well as the disposal of 4-star 123-bedroom Steigenberger Hotel in Deidesheim close to Ludwigshafen to a Chinese group of investors – a transaction mediated by Christie & Co – in 2014.

Asian groups on a buying spree



At the same time, also truly Asian hotel chains are gaining a foothold in Europe. Some traditional Asian luxury brands such as Raffles, Shangri-La, Six Senses, Okura/Nikko and Mandarin Oriental have already established themselves in Europe – the latter two also in Germany. While Paris is said to be the European metropolis with most Asian-run luxury hotels, the Swiss and French Alps as well as seaside places in Southern Europe also seem to be attractive destinations for Asian high-tier brands. An excellent example is Singapore-based General Hotel Management (GHM), who plan a gigantic luxury resort among the ski chalets of Andermatt: In addition to the renowned The Chedi Andermatt – a 5-star deluxe hotel with 101 bedrooms and suites which opened doors in late 2013 – it will comprise another 4-star hotel with 180 bedrooms plus a separate building containing 100 apartments set to open in 2018. The Thai Aman group, on the other hand, has already expanded on the shores of the Mediterranean – with luxury resorts in Montenegro, Greece, Turkey and Italy – as well as in the French Alps.



Preferred destinations for Asian luxury brands: Paris and London ... but also the Mediterranean and the Alps

And even the relatively small Banyan Tree Group, also Thailand-based, plans to open a 5-star+ resort in Marbella, Spain. Absolute Hotel Services (AHS), a Bangkok-based hotel investment and management group, who to date operate 35 hotels across Thailand, Vietnam, Indonesia, India and the Middle East under labels such as Eastin Grand, Eastin Hotels & Residences, Eastin Easy and U Hotels & Resorts – most of which are upscale and luxury brands – are planning to conquer Europe by acquiring 10 properties in Europe over the next three years, whereby they are eyeing up non-performing loan hotels in particular. But extending their tentacles through purchase is just one part of their expansion strategy: By developing its first hotel in Turkey, branded U Hotels & Resorts and set to open in 2016, the Thai group is already in the starting gates for their European debut. According to AHS's chief executive Jonathan Wigley the company intends to operate at least 10 of their own hotels in Europe before starting to manage hotels for others. Their objective is to have 80 hotels by the end of next year, 57 of which in operation and the remainder under construction.

The new entrants to the German market, however, are not confining themselves to the upscale segment. While Singapore-based The Ascott Limited are old acquaintances in the German hospitality market with their serviced apartments brand Citadines, a number of other Asian brands across all segments are appearing on the market. In 2014, the former Tryp by Meliá Hotel with 186 bedrooms close to Frankfurt's trade fair re-opened under the QGreen Hotel brand, a co-operation between the Chinese Greenland Group and Meliá Hotels. The New Century Group, China's second largest hotel group, intends to re-open the former 221-bedroom Golden Tulip Hotel at Frankfurt Kaiserlei in February 2016. Other hotels run by Asian operators and scheduled to be introduced to Frankfurt's hotel market in 2016 include the 220-bedroom Soluxe Hotel, a project by the Chinese Huarong Group, as well as the 400-bedroom Toyoko Inn by the Japanese Toyoko Group. Also, Singapore-based Frasers Hospitality has started conquering the market, with a 153-bedroom Capri by Fraser having opened in Frankfurt in August this

year and another Capri by Fraser with 145 bedrooms in Berlin as well as a 147-key Fraser Suites in Hamburg due to open in 2018.

China's fastest growing hotel chain, the Plateno Hotels Group, which currently operates 14 brands across 3,000 hotels in China, is also planning to expand into Europe – and Germany is their first major milestone. Their main focus is on their lifestyle and budget brand 7Days Premium, but we are also going to see the opening of a number of H12 hotels, Plateno's boutique brand with a special focus on art. The recent purchase of an 81 per cent stake in Keystone Lodging Holdings Ltd., owner of Plateno Group, by Chinese state-run Jin Jiang Group will boost the combined companies' influence in Europe even further by raising their asset portfolio to 6,000 hotels. The merger followed Jin Jiang's purchase of the Louvre Hotels Group in March and an 80-percent stake in Shenzhen-based Vienna Hotels Group in August this year.

A selection of new hotels in Germany run by Asian operators

Hotel	Location	Bedrooms/Suites	Opening year
Qgreen Hotel	Frankfurt	186	2014
Capri by Fraser	Frankfurt	153	2015
New Century	Frankfurt/Offenbach	221	2016
Soluxe Hotel	Frankfurt	220	2016
Toyoko Inn	Frankfurt	400	2016
Capri by Fraser	Berlin	145	2017
Fraser Suites	Hamburg	147	2018

Source: Christie & Co Research



Favourable market conditions and investment strategies



But Asian investors are not only entering the European market because they see opportunities in light of the growing demand from Asian guests. Since the economic recovery cycle following the financial crisis is more advanced in the US, they expect European hotel assets to offer more value upside potential, also due to the weak Euro and a stabilising economy.

In the past, it was also due to harsh regulations by the governments in China, South Korea, Taiwan and other Asian countries, especially concerning overseas assets, that investors from Asia, institutional funds in particular, were under-allocated to property. As these countries now have eased regulations by allowing overseas direct investments, higher allocations to real estate, and a simplified approval process, Asian investors' exposure to overseas real estate has been on the rise. Chinese investment into international properties is often driven by the fact that it would not be sensible to invest only in China due to diversification reasons, particularly since a bubble has taken shape on the Chinese property market and the 5-star segment has suffered from the fight against corruption. Germany is particularly attractive both geographically and economically: Situated in the heart of Europe, it can serve as a base to move further into Europe – and starting off expansion in the EU's largest economy seems the next logical step. In fact, it is often Germany's stable economy – compared to the rest of Europe – and the relatively low volatility of commercial real estate which strikes investors as promising.

The strategies pursued by Asian investors are sometimes very different from each other, depending on their objective. For example, HK CTS Hotels acquired the British Kew Green Hotels in order to push their international business. Zhang Yu Llang, the Chairman of Greenland, gives a similar reason:

Most active sources of Asian equity



Top 3

- 1 China (inc. Hong Kong)
- 2 Singapore
- 3 Malaysia

“The remarkable social and economic development seen in China has made us the most important travel feeder market in the world, and at Greenland we aim to provide our travellers with access to our hotels in other destinations.”
Fosun, on the other hand, purchased 92 per cent of Club Med, in order to introduce the model in China.

Types of Asian buyers



Institutional investors

For institutional investors – including state-owned enterprises and insurance companies – in order to preserve wealth, trophy assets and prestige play more of a factor than pricing and market timing. Since the relaxation of domestic policies, more and more Asian institutional investors are looking to Europe for high value, trophy hotels to fulfil their allocation. A good example is the acquisition of the Four Seasons at 10 Trinity Square acquired by Reignwood Group.

Property developers

Property developers such as Wanda and Greenland are attracted by strong occupier demand and asset liquidity in gateway cities, as well as the higher hotel yield. They buy land site and develop residential apartments and hotels. The focus is on generating development profits. Europe is of particular interest to them as profitable development opportunities are becoming scarcer in some Asian markets such as China.

Hotel groups & tourism companies

Hotel groups and tourism companies have often a preference for hotel or resort portfolios in tourist destinations, considering the “coverage rate”. A good example is the acquisition of the Louvre Hotels Group by Jinjiang. Tourism companies also have an extensive tourist clientele they can market the hotels to, and see large synergies in European acquisitions. The Plateno Hotels Group, for example, is also owner of an 80 million membership loyalty programme – the biggest in the world. Furthermore, Plateno holds a strategic cooperation with Ctrip and is major shareholder of eLong, China’s most influential online travel platforms, which will both help to attract guests to their future European locations.

Private equity & investment companies

Private equity and investment companies such as the Fraser Hospitality Trust are typically interested in hotels. They are looking for platforms or assets to form REITs. The levels of yield and risk diversification from existing Asian income assets are important to these investors.

High-net-worth individuals

High-net-worth individuals are usually also after hotels. They are either looking to generate high returns through turnaround or upgrade; or to preserve wealth for their next generation. Therefore they focus on prime locations.



Situated in the heart of Europe, Germany can serve as a base to move further into Europe – and starting off expansion in the EU’s largest economy seems the next logical step.



Presence of Asian operators and investors continues to grow



Inbound tourism from Asia to Europe will continue to increase significantly in coming years due to a rising middle class in Asia, particularly in China, as well as the enormous interest in venturing abroad. This will further entice Asian hotel investors to invest in European and German hotels in order to accommodate the specific needs of Asian tourists – and to grab a slice of the pie.

But also certain economic uncertainties in Asia and a falling stock market are reasons why Asian investment into Europe and Germany is likely to increase. Asian investors who are new to the European markets may feel encouraged to allocate more assets overseas for risk diversification as well as wealth preservation reasons and there is particularly strong appetite for premium brand hotels.

Whether it is European operators willing to embrace Asian travellers as a target group or Asian investors and operators coming into Europe – a deep understanding of cultural differences and investment criteria will be key. Asian companies will require support from European advisors and lawyers in order to avoid potential investment pitfalls. If all this is taken into consideration, both the rising number of Asian travellers coming to Europe and the growing presence of Asian operators and investors will help to write a success story for the European hotel markets.



A deep understanding of cultural differences and investment criteria will be key.





Budget hotels are in our DNA



Interview with Roland Paar, Regional Vice President – Europe at Plateno Hotels Group

You operate 3,000 hotels under 14 brands in China. Which of these brands are you planning to bring to Europe, particularly Germany?

While we are also planning to open a number of H12 hotels within the scope of our joint venture, our focus is on 7Days Premium, our budget premium brand for the millennial generation looking for a more innovative space concept.

Why is Germany an interesting target market?

For a number of reasons: It is located in the heart of Europe, surrounded by nine neighbouring countries, which makes it the perfect starting point for our European expansion. With 82 million inhabitants on an area of 357,000 square kilometres – stretching from the North Sea and the Baltic Sea in the North to the Alps in the South – it is the most populous nation of the European Union. 89 per cent of the population live in cities, often in conurbanations. Germany has 81 big cities with more than 100,000 inhabitants – the largest in terms of inhabitants being Berlin, Hamburg, Munich, Cologne and Frankfurt. Generating a GDP of €2,903.8 billion, Germany is one of the world's strongest economies, the largest and most stable economy within the EU with an innovative research and education landscape, making a surplus from

taxes. It is an attractive location for foreign investors – in fact, it is home to 45,000 foreign businesses – and a popular tourist destination at the same time. The tourism market does not only focus on the country's capital Berlin, but other cultural and historic centres are equally attractive. 14 per cent of Germans are under 15 and 20 per cent over 65 years of age; 73 per cent of households and 96 per cent of companies with more than 10 employees have internet access, with 79 per cent of these companies hosting their own website – which is interesting when catering for a target group of young, internet-oriented guests. What is more, Germany ranks third – after the US and the UK – in terms of attractiveness for international students, with 240,000 foreign students being enrolled at higher education institutes. Last but not least, Germany is a democratic parliamentary federal democracy since 1949 as well as a modern and open-minded country with a high quality of life. Needless to say, we see a lot of potential there.

What kind of locations and which German cities are you targeting?

Generally, we are looking for opportunities in cities with over 100,000 inhabitants and more than 700,000 overnight stays. Good transport



Germany is the perfect starting point for our European expansion



connections are vital. We focus on city B+ locations as well as large commercial hubs close to airports, trade fairs and exhibition centres as well as shopping centres.

What kind of business models are you looking for?

Lease would be the first option, later on also management and franchise.

Do you chiefly target new-builds or existing properties? Do you also consider conversions?

In this order: Existing, conversion, newly built and mixed-use properties.

Can you please describe your products/brands?

We offer affordable, modern space with premium design, available at one click. We see our brands as the social connector to the local experience.

7 Days Premium provides simple, functional and efficient spaces at a great price. Delivering basic comfort without compromising its warm hospitality makes 7 Days Premium a viable proposition to meet a growing demand in the economy corporate and leisure stay markets.

H12 is a boutique design hotel with high spec fittings and features, blending art with design. Each room of the hotel is individually designed by an international artist. The first H12 is located in the Austrian Alps with more to follow in Europe and globally.

What distinguishes Plateno from its competitors?

We are owner friendly: We focus on budget hotels – it is in our DNA. We didn't decide for a brand

mutation to adapt to new markets. We work with small total floor areas and modest construction costs with FF&E allocation. Our concept is flexible – we do not require a fire protection façade or a sprinkler system. We target secondary locations as our neck of the woods. All of the above means lower costs and thus higher yields for the owner.

Would the specifications in Europe/Germany differ from those in Asia?

Absolutely. We are working with professionals in Germany to adapt our concept to the EU market and regulations.

What is your involvement with the OTA Ctrip in Asia? Is this part of your strategy to attract guests to your (future) hotels?

We hold a strategic cooperation with Ctrip, and we are a major shareholder of eLong. Both will bring many guests to wherever our hotels in Europe will be located. By the end of this year, we will reach 100 million members in our Plateno Club – the biggest hospitality loyalty programme in the world. Our clientele is relatively young: 72 per cent of Plateno Club members are between 18 and 35 years of age. We anticipate guests coming mainly to Frankfurt, later on also to Berlin and Munich and after several years also to secondary destinations. Our business plan is based on local tourism with an EU fit and a pinch of Chinese guests.

Can you explain your strategy in general?

Our hotels have relatively small rooms to allow for easy and fast development of either existing buildings or new-builds. We have easy

construction and FF&E standards. We focus on A, B and C locations and work in clusters, i.e. we aspire to have few hotels in each destination area. We react quickly and make fast decisions. After having analysed the market conditions in a specific location, we offer the highest rent possible to the owner, keeping in mind it is a budget chain.

Thank you very much for the interview.

Plateno Hotels Group

Starting with their first hotel in 2005, **Plateno Hotels Group** has become one of China's leading hospitality groups with US\$1.6 billion hotel gross revenues expected in 2015. Plateno operates 14 unique hotel brands in 3,000 hotels covering 300 cities in China and nine other countries and Owns China's largest hospitality loyalty programme with over 80 million members who travel for business and leisure, domestically and overseas – Plateno Club. The group also holds a strategic cooperation with Ctrip, and is a major shareholder of eLong.

Christie & Co Asia Desk

Uniquely positioned to generate interest amongst Asian investors



Continually adapting to the diverse investor profile

Christie & Co Asia Desk

Christie & Co has a dedicated **Head of Investment for Asia** who has been appointed to target the increasing outflow of Asian equity seeking substantial European investment opportunities, particularly in Germany.

Through our Asia desk, we have built **close relationships** with most key investors including state-owned enterprises and insurance companies, property developers and hospitality-focused investors.

Our dedicated Asia desk and supporting transaction team are able to work closely with investors to **mitigate execution risks and ensure deliverability**.

Christie & Co has a database of over **1,000 active hotel investors** from Asia looking at deals from **€1m to €1bn+**.



Dr Joanne Jia
Head of Investment – Asia

Organise Investor Forums in Asia and Europe

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