

The German Hotel Market

Overview of 6 key cities

March 2018



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Hotel Market Overview Germany

A year in review

The flourishing German hotel market has shown growth for the eighth consecutive year with more overnights being registered in 2017 than in previous years. RevPAR, which increased by 3%, was fuelled by both occupancy and ARR growth. At the same time inflation returned and reached 1.8%, which is almost on the European Central Bank's 2% target. It remains to be seen whether increasing inflation will slowly take the pressure off the German hotel investment market. To date, both national and international investors' and brands' interest in the market remains strong. This has resulted in record-low yields and large supply waves.

The top German cities have become expensive terrain. In the hunt for larger margins and bigger yields, both operators and investors have started to feel comfortable with secondary and even tertiary locations. A prime example has been Novum Hospitality with its "niu" brand, which it announced a year ago. With 40 properties signed one year later, the chain was not shy with signing contracts in secondary cities and suburbs, such as Aschheim near Munich or Fürth and Forchheim near Nuremberg. Obviously, the opening of the brand's firstling, the "niu Cobbles Essen," gained a lot of attention. Other brands, especially international hotel groups, have acted less boldly. One reason for this is the incongruity of their strategy and the market. The large hotel chains have been consistent in following their asset-light strategy which is incompatible with the prevalent contract type in Germany. Lease agreements inherit deposits, which pose a liability. Franchisors thus require a white label operator to take on the lease, which slows the development process. However, some chains have already informally reported that they would consider leases in primary locations.

So, besides niu, there is a plethora of brands entering the German market in 2018. Guldsmeden (in Berlin), Jaz in the city (in Stuttgart), and Hyatt Place (in Frankfurt) have each already opened their first German property earlier this year. 7 Days Premium (in Leipzig/Halle), Andaz (in Munich), NYX (in Munich), and Ascend Hotel Collection (in Cologne) will follow. New concepts have also been announced. The founders of Meininger will launch Schulz Hostel later this year in Berlin, and Dorint announced Hommage, to group its upper upscale properties. On an international level, while Marriott tries to streamline its brand portfolio, others, such as Jumeirah (Zabeel), IHG (Avid) and Rosewood (Khos) launched new brands.

So last year at this point, we left off with the question of what the future might bring. Last year's answer was digitalisation. Hilton recently announced its Connected Hotel Room and with Accor continuing its shopping spree in platforms and digital companies, change will certainly progress in this and in the years to come. See for yourself how the top German cities are developing. We hope you enjoy reading our update on Germany's six key hotel markets.



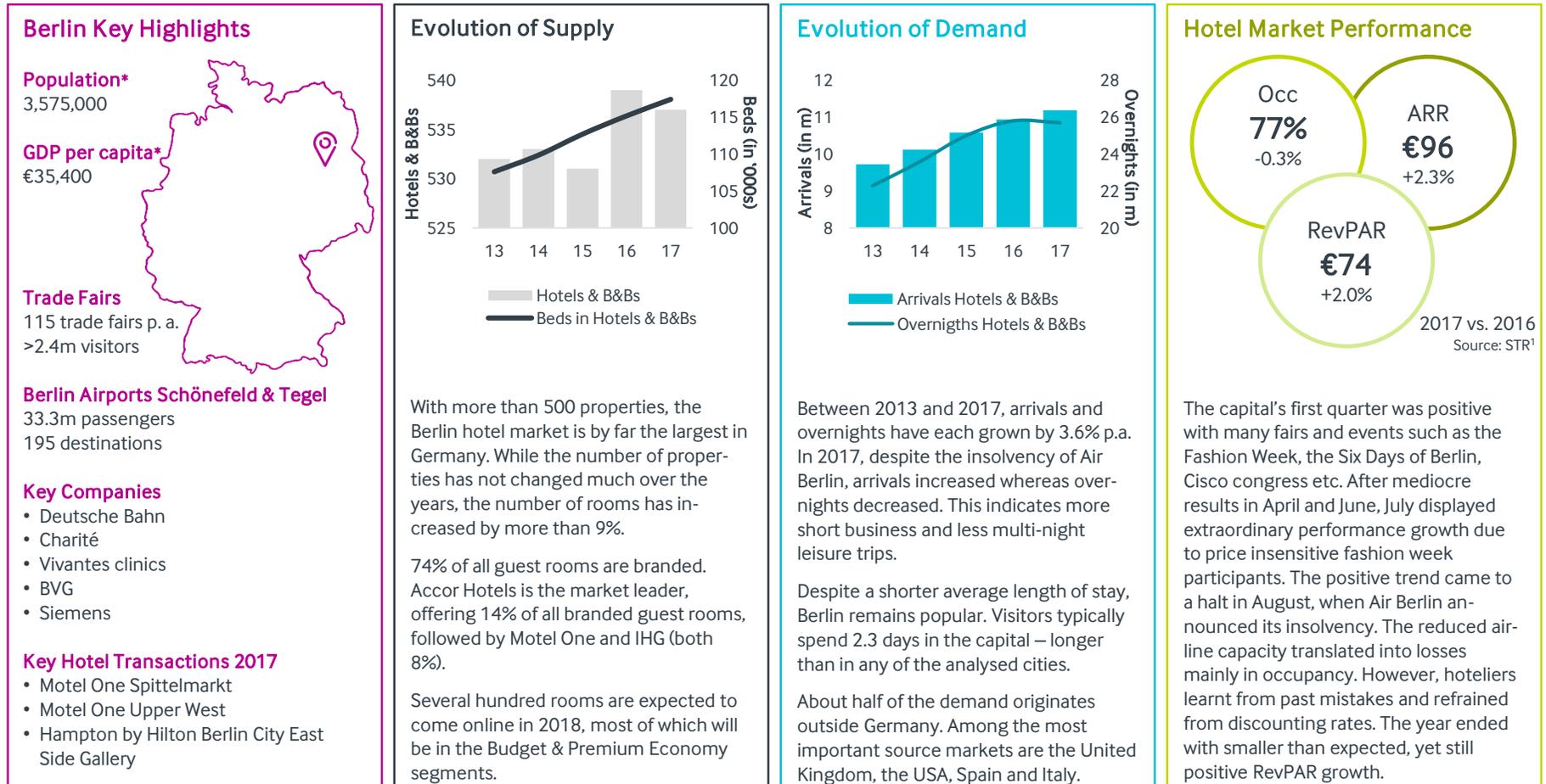
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Hotel Market Berlin

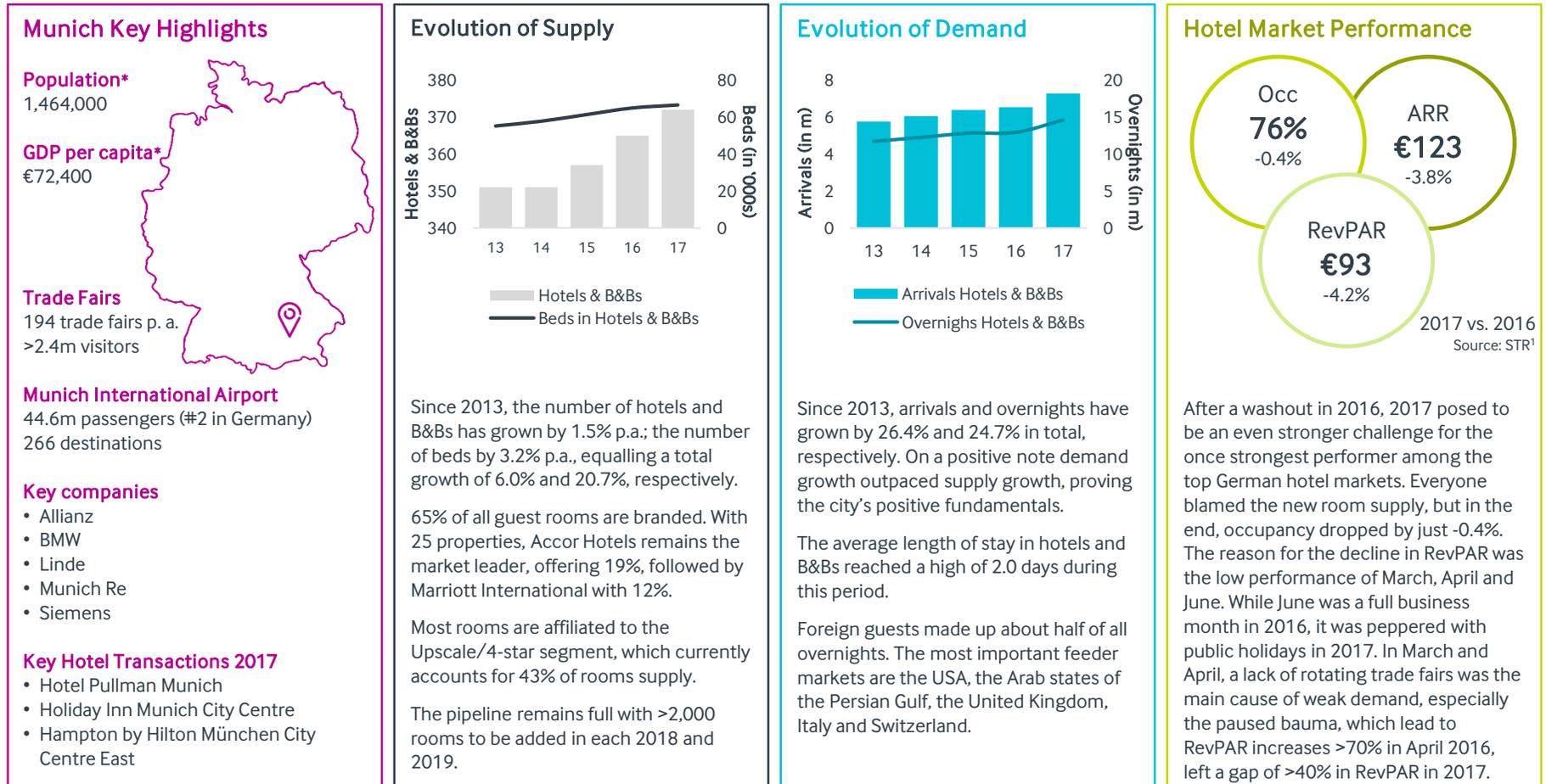
BER delay and Air Berlin insolvency tamed Berlin's growth in 2017



*Note: 2016 data (latest available); Sources: Statistical Offices of each state; STR; Christie & Co Reserach & Analysis
¹STR: Republication or other re-use of this data without the express written permission by STR is strictly prohibited.

Hotel Market Munich

New supply not responsible for negative performance



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Hotel Market Frankfurt am Main

Above-average growth backed by congresses and fairs

Frankfurt Key Highlights

Population*
736,000

GDP per capita*
€92,200



Trade Fairs
49 trade fairs p. a.
c. 2.2m visitors

Frankfurt International Airport
64.5m passengers (#1 in Germany)
299 destinations

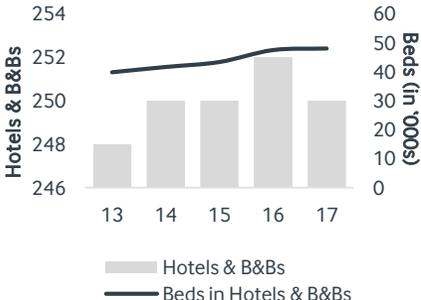
Key companies

- Deutsche Bank
- DZ Bank
- Commerzbank
- KfW Bankengruppe
- ING-DiBa

Key Hotel Transactions 2017

- Le Méridien
- Mercure Frankfurt Eschborn Süd
- Inside Frankfurt Ostend

Evolution of Supply



Since 2013, the number of hotels and B&Bs has grown by 0.8% in total, while the number of beds increased by 20.6%, respectively, indicating the opening of few but large hotels.

79% of all guest rooms are branded. Marriott International remains the market leader, offering 13% of all branded guest rooms, followed by Accor Hotels with 9%.

With 400+ rooms each, the largest additions to supply in 2018 will include the Motel One Kornmarkt Arkaden and the Steigenberger at the central station.

Evolution of Demand



Since 2013, arrivals and overnights have grown by 24.6% and 26.4%, respectively. Like in other cities, demand growth outpaced supply growth, leading to improving occupancy figures over the years.

Typical for a business destination, average length of stay is continuously rather short at c. 1.7 days.

Foreign guests make up about half of all overnights. The most important feeder markets are the USA, China, the United Kingdom, the Arab states of the Persian Gulf and Spain.

Hotel Market Performance



The first months' performance was comparable to the other business driven destinations – ups and downs with losses recorded primarily in April and June due to public and school holidays.

Congresses and trade fairs, such as the CPhI congress, the IAA motor show and the book fair proved to be the backbone of the H2 2017 performance.

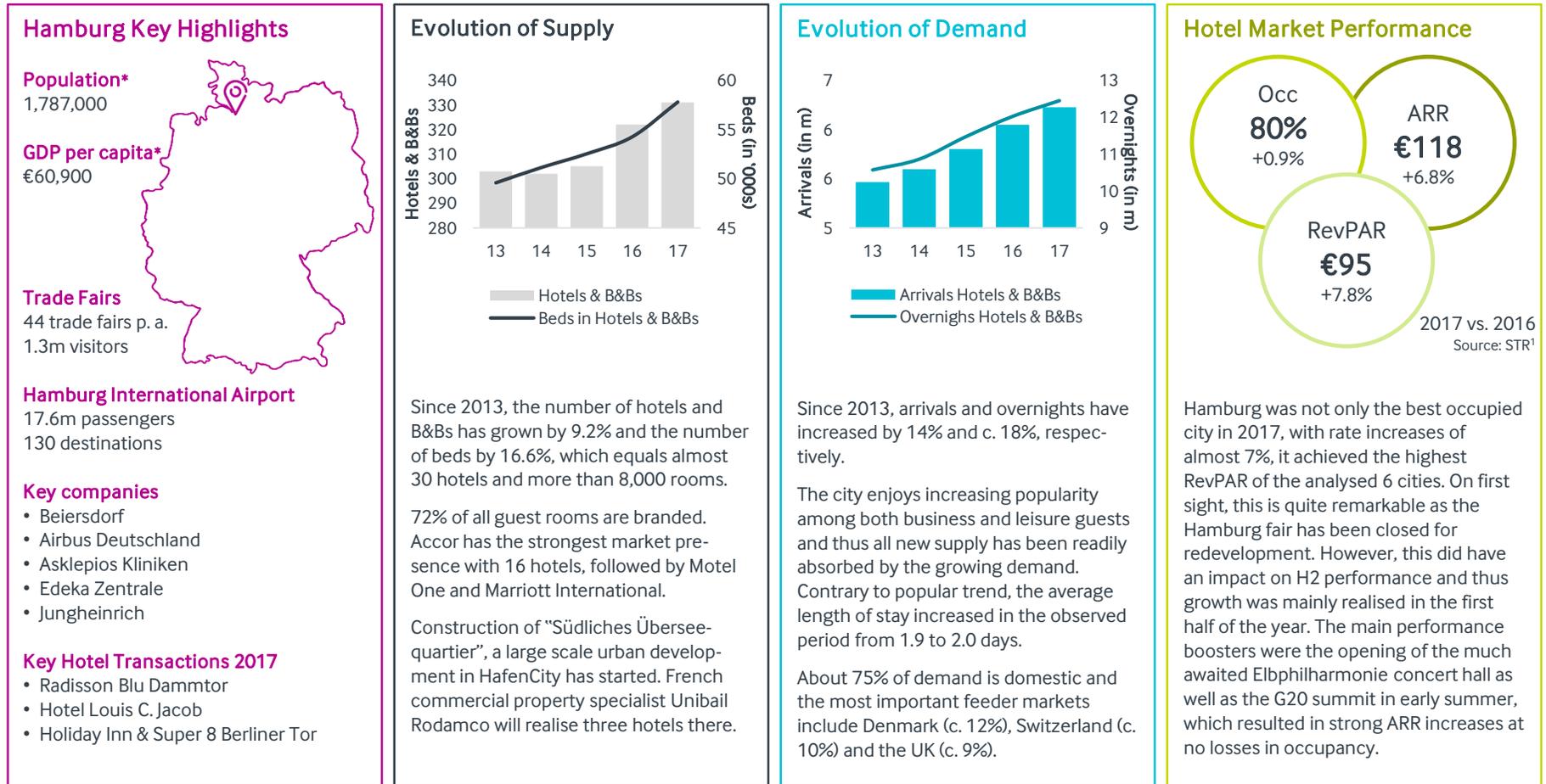
With a RevPAR increase of +4.2%, the Frankfurt hotel market achieved an above-average performance increase, fuelled primarily by increases in ARR.

2017 vs. 2016
Source: STR¹

*Note: 2015/16 data (latest available); Sources: Statistical Offices of each state; STR; Christie & Co Research & Analysis
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Hotel Market Hamburg

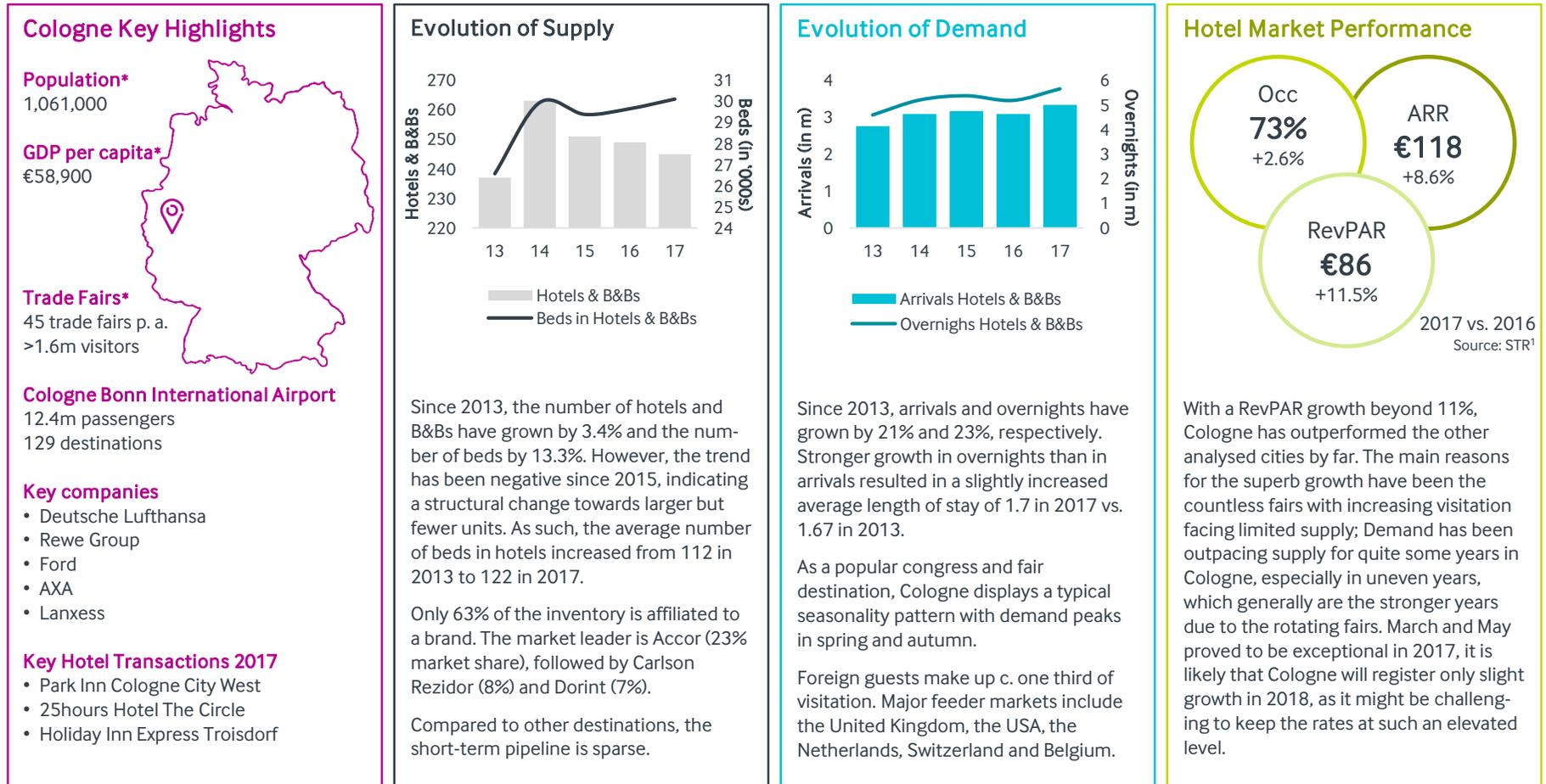
A continuing success story – highest RevPAR among the analysed markets



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Hotel Market Cologne

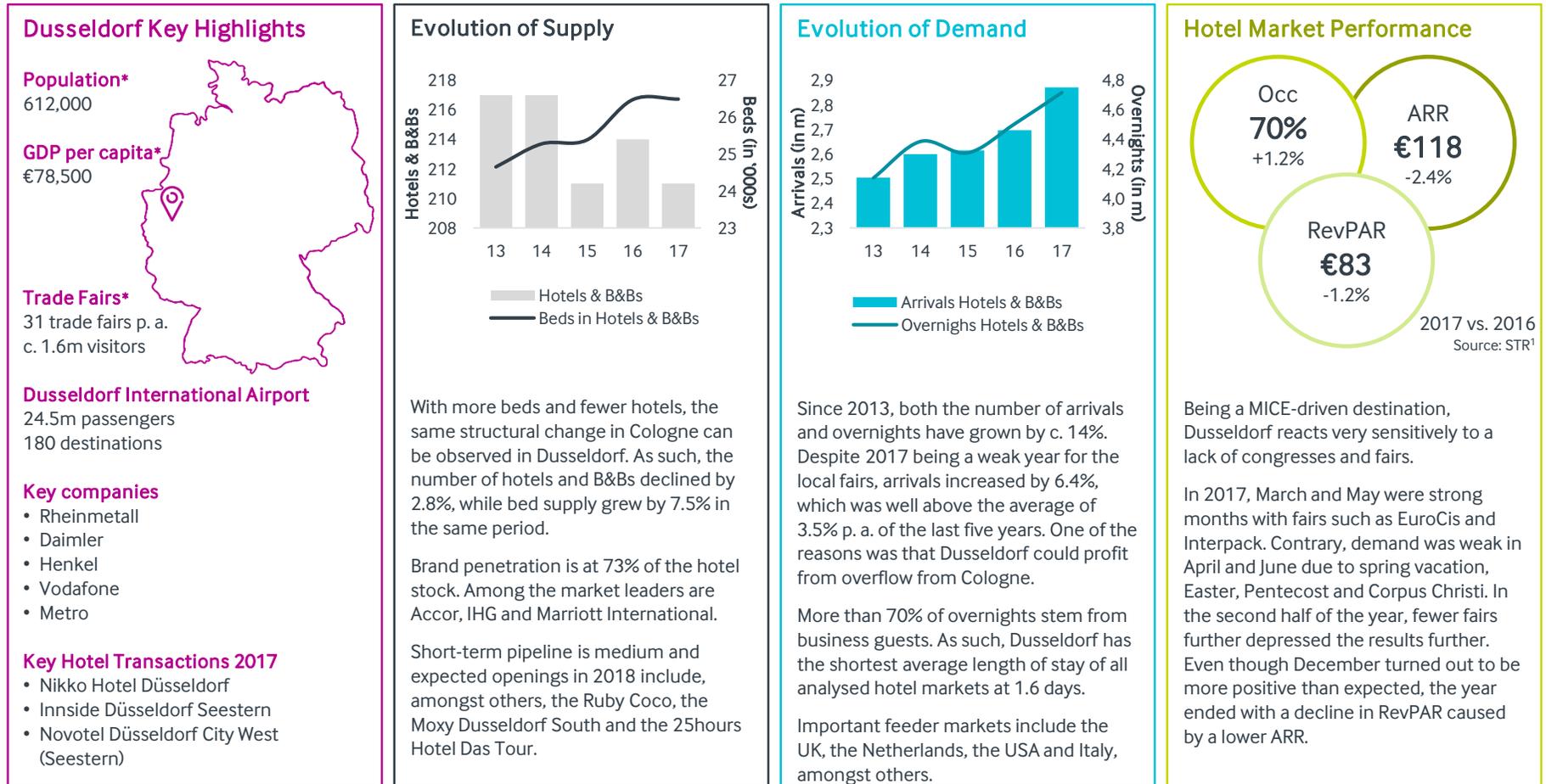
Tremendous RevPAR increase – trade fair management fears losses due to limited hotel supply



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Hotel Market Dusseldorf

Weaker performance despite increased demand due to fewer trade fairs



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Christie & Co Germany

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