

THE GERMAN HOTEL MARKET

Overview of 6 key cities

MARCH 2020

Hotel Market Overview Germany

New Supply resulting in fewer peak demand days leading to performance pressure

On a European level, Germany's top 6 city destinations are still perceived as safe havens with sustained interest from global hotel investors. This appetite, partially fuelled by the record low interest rates, has led to an unparalleled construction boom. Demand absorbed this new supply in all cities except Hamburg and Frankfurt, where supply growth surpassed that of demand in the 2015-2019 period. This resulted in a lower overnight-to-bed ratio (O2B) for these 2 cities, with each hotel bed in Frankfurt occupied an average of 186 nights in 2019 vs 195 in 2015 and likewise Hamburg's O2B ratio dropped from 218 to 213, caused by a strong supply increase especially in 2019.

An increasing O2B ratio, which is typically caused by demand increasing faster than supply does not necessarily lead to a higher RevPAR performance in the short term, as average rates may still decrease despite a positive supply/demand evolution. A likely reason for this is a shrinking number of peak demand days caused by an expanding supply at stable demand during fairs and events. Fewer peak demand days result in fewer yielding opportunities and thus impacts ADR potential. It seems that peak demand days are among the main drivers of performance growth, oftentimes fuelled by each of the top cities' strong reliance on demand drivers including for example the Oktoberfest (Munich), the Hafengeburtstag (Hamburg) and leading trade fairs.

The dependency of performance on trade fairs is even more obvious in cities with lower levels of leisure demand, resulting in strongly fluctuating performance levels as most trade fairs take place on a bi- or tri-annual basis. For example, Dusseldorf gained 10.3% in RevPAR in 2019 – the highest of all 6 cities

analysed – after an 8.1% decline in the previous year. This is quite unique on an international level and underpins Germany's number 1 position as venue for international trade fairs worldwide. In 2018, trade fairs were able to attract almost 10m visitors, a number which has remained quite stable on average during the last decade.

What does this mean for the future? A static trade fair industry in terms of visitors vs. a growing pool of hotels, competing for the same guest seems like an equation that will not even out in the long term. It is sensible to analyse each hotel's dependency on demand generators and with increasing supply, one of the key challenges will be to drive performance even with peak demand days decreasing. It will be interesting to see how the market evolves and whether the hotel real estate market will start to consolidate or grow further.

Whilst we can only speculate about the future, the results of 2019 are set in stone. Some cities' performance increased, others declined. See for yourself how Germany's key hotel markets are developing. We hope you enjoy reading our update on Germany's 6 key hotel markets.



Benjamin Ploppa
Head of Hotels Germany

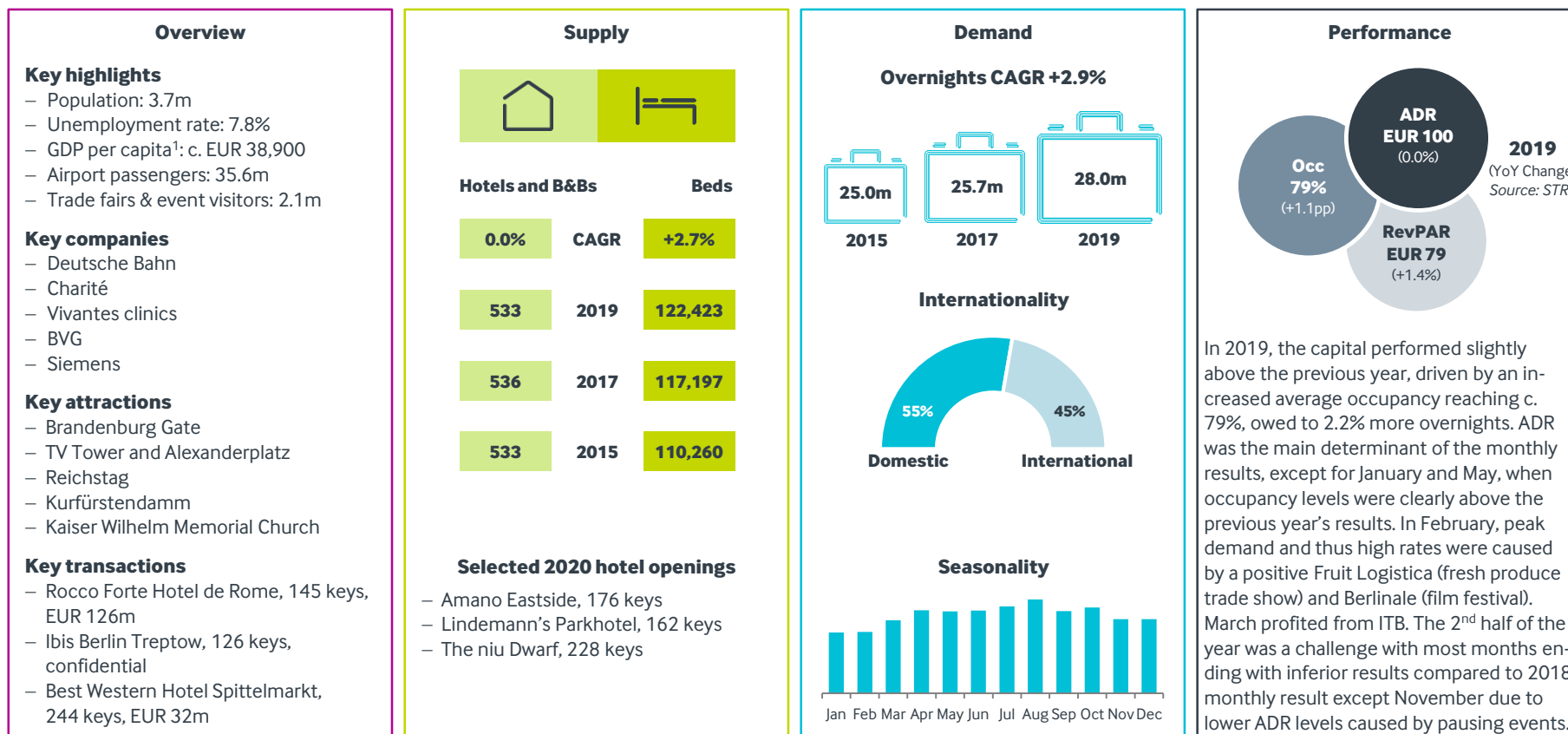


Patrik Hug
Associate Director Advisory & Valuation Services



Hotel Market Berlin

Berlin is Germany's largest city, capital, political centre and home to the headquarters of several multinational companies. It is the 4th most popular convention destination in the world, the 3rd most visited city in Europe and an important hub for fashion, culture and media. In the last 5 years, demand growth slightly outpaced additions to supply, indicating a healthy market development. As such, overnights increased by c. 12% whereas bed supply grew by c. 11%. The currently confirmed pipeline comprises c. 8,000 rooms in over 40 projects. The largest project is the extension of the Estrel conference hotel, which will enter the market with more than 800 additional rooms at the beginning of 2021.

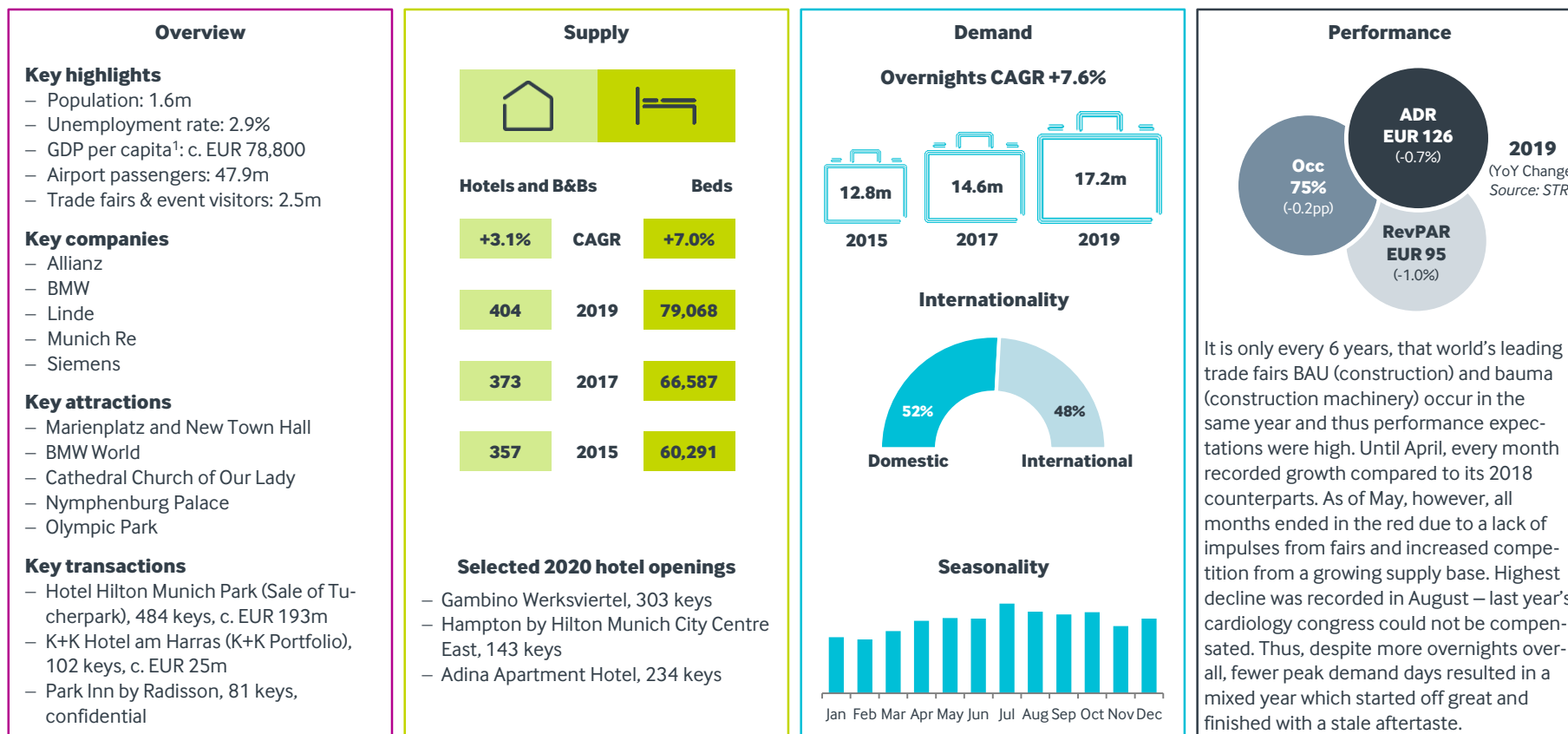


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Sources: Statistical Office of each State; Trade fairs of each city; RCA; STR; Christie & Co



Hotel Market Munich

Munich is a popular city destination and the most important business hub in southern Germany, profiting from the country's 2nd largest airport, one of the top-selling trade fairs worldwide as well as national and international enterprises, 6 of which are listed in Germany's blue-chip index DAX. In the last 5 years, demand evolved the most dynamic of all top 6 cities analysed with overnights increasing by an average 7.6% p. a. The supply growth, however, kept pace and since 2015, bed supply grew by more than 31%. The fiercer competitive environment is unlikely to extenuate considering both pausing fairs and a pipeline, which remains considerable with more than 6,400 rooms.

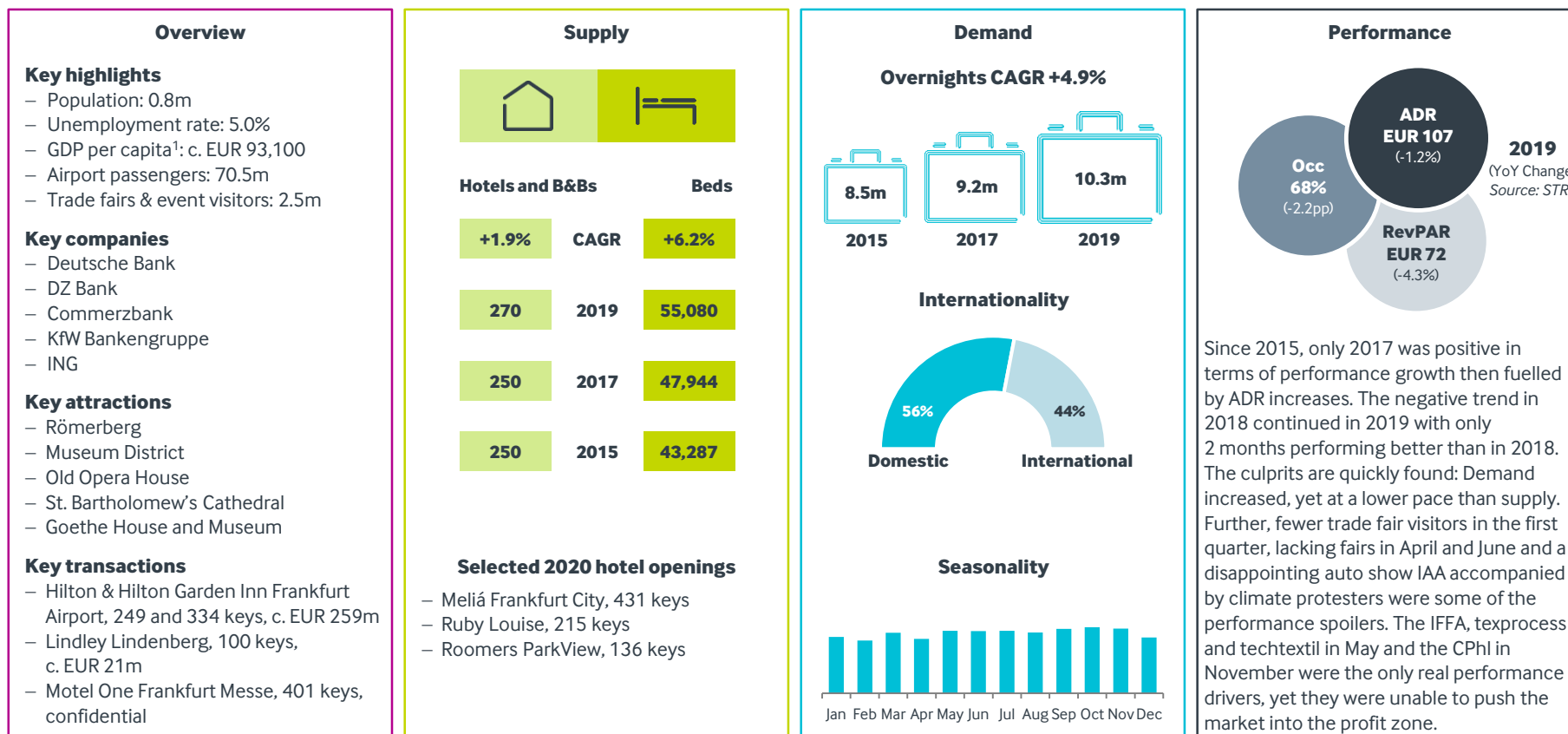


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Hotel Market Frankfurt am Main

Frankfurt is one of the world's most important financial markets and a leading business destination. The city benefits from the largest airport in Germany, the 3rd biggest exhibition centre worldwide and the presence of numerous major companies and corporations. Insofar, Frankfurt's tourism is mainly characterised by business travellers during weekdays. Until 2018, demand outpaced supply growth, a trend which was reversed in 2019 with supply growing by 6.2% p. a. and overnights by 4.9% p. a. With c. 6,500 rooms in almost 30 confirmed projects, supply pressure is likely to remain high in the near future.

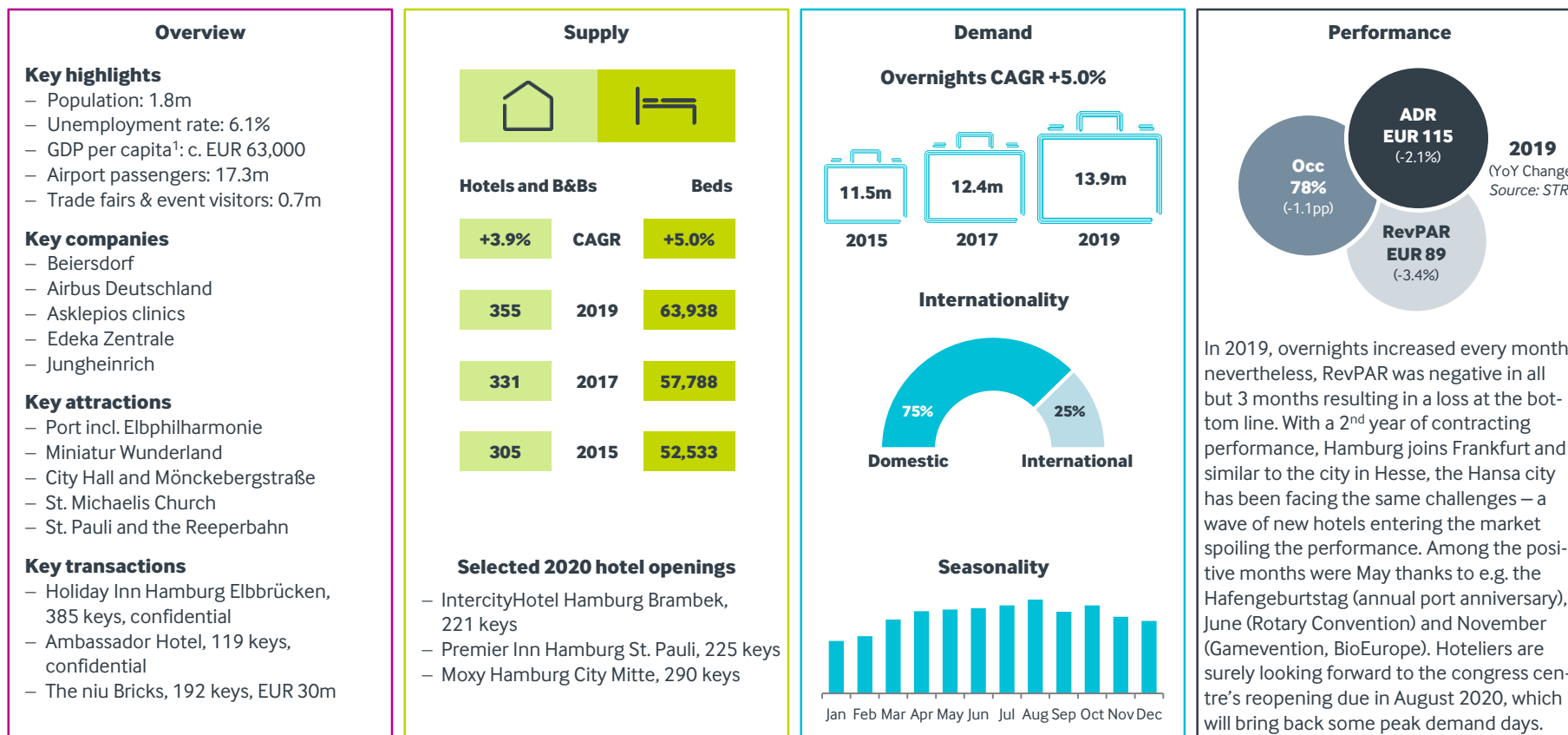


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Hotel Market Hamburg

Hamburg is Germany's 2nd largest city and the gateway to the world with its major container harbour and cruise ship port. As one of the country's most important economic centres, it hosts a variety of multinational companies particularly in the logistics sector. Furthermore, Hamburg is a renowned congress and fair as well as musical destination. Since 2014, demand for hotels and B&Bs has shown a strong growth of c. 21%, remaining just below the c. 22% increase in bed supply, indicating that new supply has not yet been completely absorbed by the market. While supply continues to grow (almost 10,000 rooms in the pipeline), performance KPIs are likely to stay under pressure in the medium term.

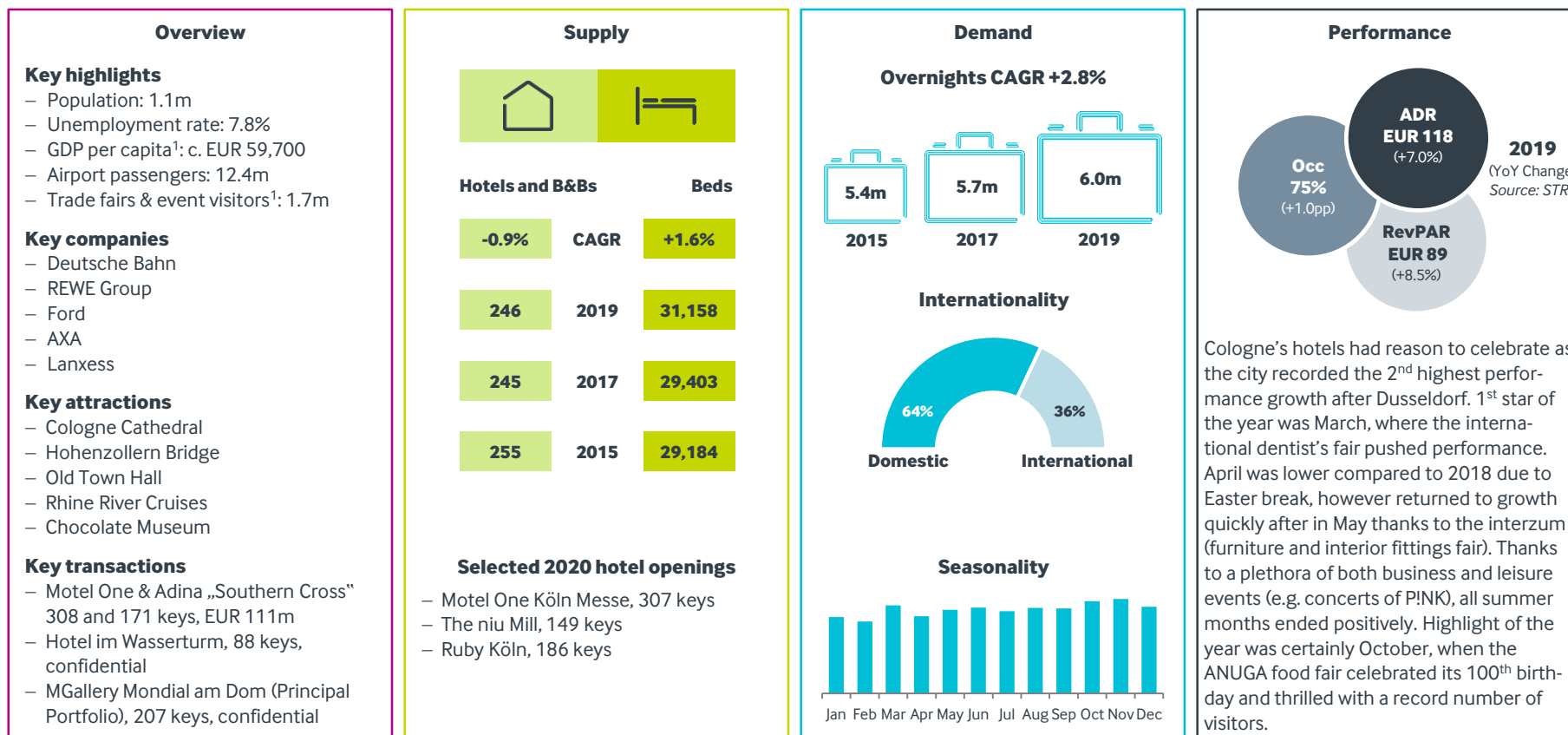


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Hotel Market Cologne

Cologne is Germany's media and communications city and renowned for the world's 3rd largest carnival. The city is a leading hub and important transshipment centre for logistics via rail, air, road and river. Its economic strength is based on both its Rhine ports, which are amongst the most significant inland ports in Europe, as well as its geographical proximity to the Ruhr region. In the last 5 years, Cologne's hotel market has experienced further consolidation with an overall declining hotel stock. Due to the opening of larger hotels, however, bed supply increased at a lower pace than demand, which has increased by 2.8% p. a. At the moment, the confirmed pipeline consists of c. 20 projects.

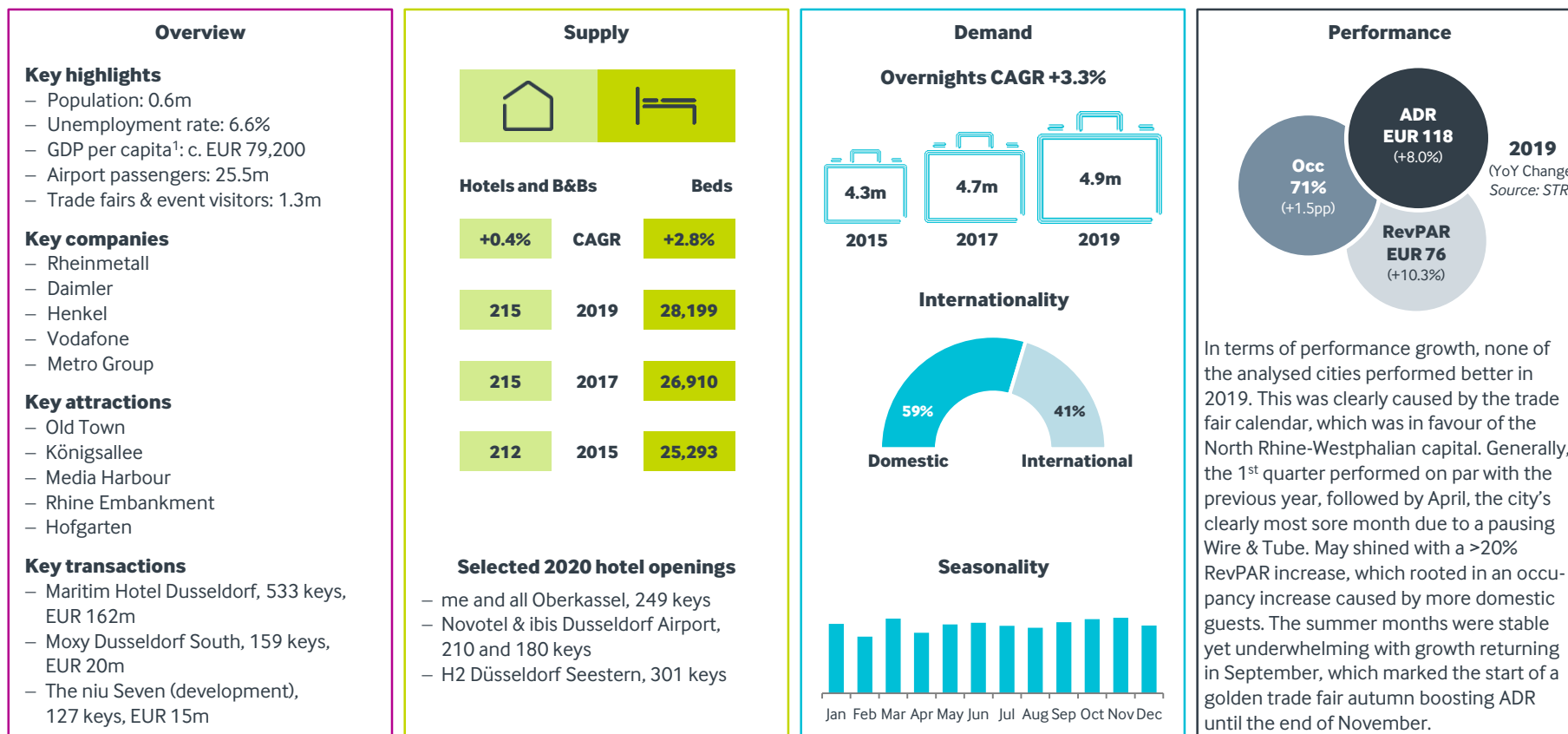


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Hotel Market Düsseldorf

Düsseldorf is the heart of the economic powerhouse of the Rhine-Ruhr area and the 2nd largest banking and financial city in Germany. Besides, Düsseldorf is a key trade fair destination, thus demand is highly MICE/business oriented with lower demand during weekends. Leisure demand is generated by, amongst others, the Königsallee, one of Germany's prime high streets. Since 2015, hotel supply has remained quite stable with bed supply increasing by c. 11%, remaining below the positive demand trend. This has led, together with a favourable trade fair cycle, to rich performance increases. The pipeline, however, remains hefty with 6.500 rooms in almost 30 projects and future performance losses seem likely.



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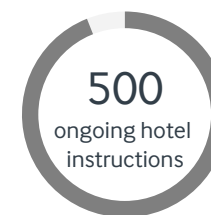
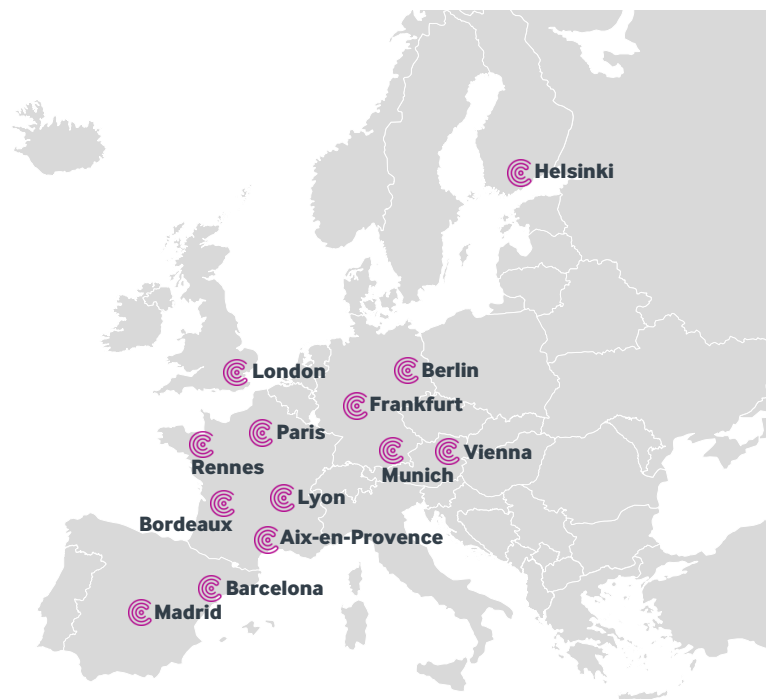
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Christie & Co Germany

Berlin

Kurfürstendamm 182

10707 Berlin

T +49 (0) 30 2 00 09 60

E berlin@christie.com

Frankfurt

Schillerstrasse 12

60313 Frankfurt am Main

T +49 (0) 69 90 74 570

E frankfurt@christie.com

Munich

Pfisterstrasse 6

80331 Munich

T +49 (0) 89 2 00 00 070

E munich@christie.com

