

# 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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Senior Consultant
Advisory & Valuation Services



# Hotel Market Berlin

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



#### Berlin Airports Schönefeld & Tegel

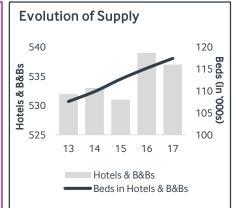
33.3m passengers 195 destinations

#### **Key Companies**

- Deutsche Bahn
- Charité
- Vivantes clinics
- BVG
- Siemens

#### **Key Hotel Transactions 2017**

- Motel One Spittelmarkt
- Motel One Upper West
- Hampton by Hilton Berlin City East Side Gallery



With more than 500 properties, the Berlin hotel market is by far the largest in Germany. While the number of properties has not changed much over the years, the number of rooms has increased by more than 9%.

74% of all guest rooms are branded. Accor Hotels is the market leader, offering 14% of all branded guest rooms, followed by Motel One and IHG (both 8%).

Several hundred rooms are expected to come online in 2018, most of which will be in the Budget & Premium Economy segments.



Between 2013 and 2017, arrivals and overnights have each grown by 3.6% p.a. In 2017, despite the insolvency of Air Berlin, arrivals increased whereas overnights decreased. This indicates more short business and less multi-night leisure trips.

Despite a shorter average length of stay, Berlin remains popular. Visitors typically spend 2.3 days in the capital – longer than in any of the analysed cities.

About half of the demand originates outside Germany. Among the most important source markets are the United Kingdom, the USA, Spain and Italy.



The capital's first quarter was positive with many fairs and events such as the Fashion Week, the Six Days of Berlin, Cisco congress etc. After mediocre results in April and June, July displayed extraordinary performance growth due to price insensitive fashion week participants. The positive trend came to a halt in August, when Air Berlin announced its insolvency. The reduced airline capacity translated into losses mainly in occupancy. However, hoteliers learnt from past mistakes and refrained from discounting rates. The year ended with smaller than expected, yet still positive RevPAR growth.

<sup>\*</sup>Note: 2016 data (latest available); Sources: Statistical Offices of each state; STR; Christie & Co Reserach & Analysis

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## Hotel Market Munich

### New supply not responsible for negative performance



#### **Munich International Airport**

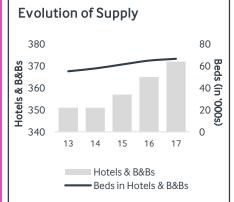
44.6m passengers (#2 in Germany) 266 destinations

### Key companies

- Allianz
- BMW
- Linde
- Munich Re
- Siemens

#### **Key Hotel Transactions 2017**

- · Hotel Pullman Munich
- Holiday Inn Munich City Centre
- Hampton by Hilton München City Centre East



Since 2013, the number of hotels and B&Bs has grown by 1.5% p.a.; the number of beds by 3.2% p.a., equalling a total growth of 6.0% and 20.7%, respectively.

65% of all guest rooms are branded. With 25 properties, Accor Hotels remains the market leader, offering 19%, followed by Marriott International with 12%.

Most rooms are affiliated to the Upscale/4-star segment, which currently accounts for 43% of rooms supply.

The pipeline remains full with >2,000 rooms to be added in each 2018 and 2019.



Since 2013, arrivals and overnights have grown by 26.4% and 24.7% in total, respectively. On a positive note demand growth outpaced supply growth, proving the city's positive fundamentals.

The average length of stay in hotels and B&Bs reached a high of 2.0 days during this period.

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



After a washout in 2016, 2017 posed to be an even stronger challenge for the once strongest performer among the top German hotel markets. Everyone blamed the new room supply, but in the end, occupancy dropped by just -0.4%. The reason for the decline in RevPAR was the low performance of March, April and June. While June was a full business month in 2016, it was peppered with public holidays in 2017. In March and April, a lack of rotating trade fairs was the main cause of weak demand, especially the paused bauma, which lead to RevPAR increases >70% in April 2016, left a gap of >40% in RevPAR in 2017.

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# Hotel Market Frankfurt am Main

### Above-average growth backed by congresses and fairs



#### Frankfurt International Airport

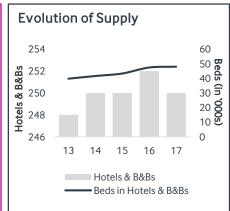
64.5m passengers (#1 in Germany) 299 destinations

#### Key companies

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

#### **Key Hotel Transactions 2017**

- · Le Méridien
- Mercure Frankfurt Eschborn Süd
- · Innside Frankfurt Ostend



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.



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.



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.

<sup>\*</sup>Note: 2015/16 data (latest available); Sources: Statistical Offices of each state; STR; Christie & Co Reserach & Analysis

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# Hotel Market Hamburg

## A continuing success story – highest RevPAR among the analysed markets



#### Hamburg International Airport

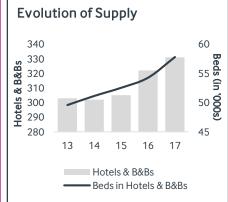
17.6m passengers 130 destinations

### Key companies

- Beiersdorf
- · Airbus Deutschland
- Asklepios Kliniken
- Edeka Zentrale
- Jungheinrich

#### **Key Hotel Transactions 2017**

- · Radisson Blu Dammtor
- · Hotel Louis C. Jacob
- Holiday Inn & Super 8 Berliner Tor



Since 2013, the number of hotels and B&Bs has grown by 9.2% and the number of beds by 16.6%, which equals almost 30 hotels and more than 8.000 rooms.

72% of all guest rooms are branded. Accor has the strongest market presence with 16 hotels, followed by Motel One and Marriott International.

Construction of "Südliches Überseequartier", a large scale urban development in HafenCity has started. French commercial property specialist Unibail Rodamco will realise three hotels there.



Since 2013, arrivals and overnights have increased by 14% and c. 18%, respectively.

The city enjoys increasing popularity among both business and leisure guests and thus all new supply has been readily absorbed by the growing demand.

Contrary to popular trend, the average length of stay increased in the observed period from 1.9 to 2.0 days.

About 75% of demand is domestic and the most important feeder markets include Denmark (c. 12%), Switzerland (c. 10%) and the UK (c. 9%).



Hamburg was not only the best occupied city in 2017, with rate increases of almost 7%, it achieved the highest RevPAR of the analysed 6 cities. On first sight, this is quite remarkable as the Hamburg fair has been closed for redevelopment. However, this did have an impact on H2 performance and thus growth was mainly realised in the first half of the year. The main performance boosters were the opening of the much awaited Elbphilharmonie concert hall as well as the G20 summit in early summer, which resulted in strong ARR increases at no losses in occupancy.

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# Hotel Market Cologne

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



#### Cologne Bonn International Airport

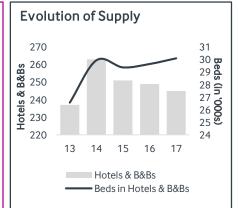
12.4m passengers 129 destinations

#### Key companies

- Deutsche Lufthansa
- Rewe Group
- Ford
- AXA
- Lanxess

#### **Key Hotel Transactions 2017**

- Park Inn Cologne City West
- 25hours Hotel The Circle
- Holiday Inn Express Troisdorf



Since 2013, the number of hotels and B&Bs have grown by 3.4% and the number of beds by 13.3%. However, the trend has been negative since 2015, indicating a structural change towards larger but fewer units. As such, the average number of beds in hotels increased from 112 in 2013 to 122 in 2017.

Only 63% of the inventory is affiliated to a brand. The market leader is Accor (23% market share), followed by Carlson Rezidor (8%) and Dorint (7%).

Compared to other destinations, the short-term pipeline is sparse.



Since 2013, arrivals and overnights have grown by 21% and 23%, respectively. Stronger growth in overnights than in arrivals resulted in a slightly increased average length of stay of 1.7 in 2017 vs. 1.67 in 2013.

As a popular congress and fair destination, Cologne displays a typical seasonality pattern with demand peaks in spring and autumn.

Foreign guests make up c. one third of visitation. Major feeder markets include the United Kingdom, the USA, the Netherlands, Switzerland and Belgium.



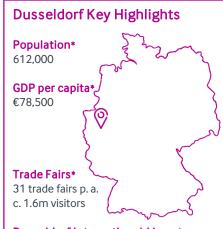
With a RevPAR growth beyond 11%, Cologne has outperformed the other analysed cities by far. The main reasons for the superb growth have been the countless fairs with increasing visitation facing limited supply; Demand has been outpacing supply for quite some years in Cologne, especially in uneven years, which generally are the stronger years due to the rotating fairs. March and May proved to be exceptional in 2017, it is likely that Cologne will register only slight growth in 2018, as it might be challenging to keep the rates at such an elevated level.

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# **Hotel Market Dusseldorf**

### Weaker performance despite increased demand due to fewer trade fairs



#### **Dusseldorf International Airport**

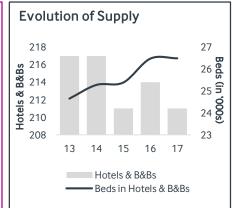
24.5m passengers 180 destinations

#### Key companies

- Rheinmetall
- Daimler
- Henkel
- Vodafone
- Metro

#### **Key Hotel Transactions 2017**

- · Nikko Hotel Düsseldorf
- Innside Düsseldorf Seestern
- Novotel Düsseldorf City West (Seestern)



With more beds and fewer hotels, the same structural change in Cologne can be observed in Dusseldorf. As such, the number of hotels and B&Bs declined by 2.8%, while bed supply grew by 7.5% in the same period.

Brand penetration is at 73% of the hotel stock. Among the market leaders are Accor, IHG and Marriott International.

Short-term pipeline is medium and expected openings in 2018 include, amongst others, the Ruby Coco, the Moxy Dusseldorf South and the 25hours Hotel Das Tour.



Since 2013, both the number of arrivals and overnights have grown by c. 14%. Despite 2017 being a weak year for the local fairs, arrivals increased by 6.4%, which was well above the average of 3.5% p. a. of the last five years. One of the reasons was that Dusseldorf could profit from overflow from Cologne.

More than 70% of overnights stem from business guests. As such, Dusseldorf has the shortest average length of stay of all analysed hotel markets at 1.6 days.

Important feeder markets include the UK, the Netherlands, the USA and Italy, amongst others.



Being a MICE-driven destination, Dusseldorf reacts very sensitively to a lack of congresses and fairs.

In 2017, March and May were strong months with fairs such as EuroCis and Interpack. Contrary, demand was weak in April and June due to spring vacation, Easter, Pentecost and Corpus Christi. In the second half of the year, fewer fairs further depressed the results further. Even though December turned out to be more positive than expected, the year ended with a decline in RevPAR caused by a lower ARR.

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