

Rivalry in Saxony

Dresden vs Leipzig



Introduction

Dear Readers,

We are happy to present our latest hotel market report on the two largest cities in Saxony and eastern Germany: Dresden and Leipzig.

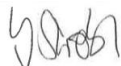
The picturesque and baroque capital of Saxony, Dresden, has been known as “Florence on the Elbe”. Favourably located on the river Elbe, it is close to both the Polish and the Czech border. Around 120 km north-east of Dresden lies Leipzig with its circa 15 lakes. It is the most populated city in Saxony and historically one of the primary trade centres in Germany.

On the one hand, Dresden is renowned for the coffee filter invention (1908); countless landmarks and events on the riverside; the delicious Eierschecke cake and the Radeberger beer. Leipzig, on the other hand, presents itself as the main business and educational city in eastern Germany. It is home to the second-oldest university (1409), as well as to the first daily newspaper in Germany (1650), and at the same time, offers the famous Lerchen dessert and Allasch schnapps to its visitors.

Moreover, economic growth, tourism demand increase as well as numerous fairs and congresses – such as HAUS in Dresden and the Book Fair (with a quarter million visitors annually) in Leipzig – have landed both cities into the investors’ focus.

Would you prefer the charming baroque Dresden or the buzzing student atmosphere in Leipzig? This hotel market review gives you an insight into the Dresden and Leipzig markets.

Best regards,



Kay Constanze Strobl
Head of Advisory & Valuation
Services Germany



Patrik Hug
Consultant Advisory & Valuation
Services Germany



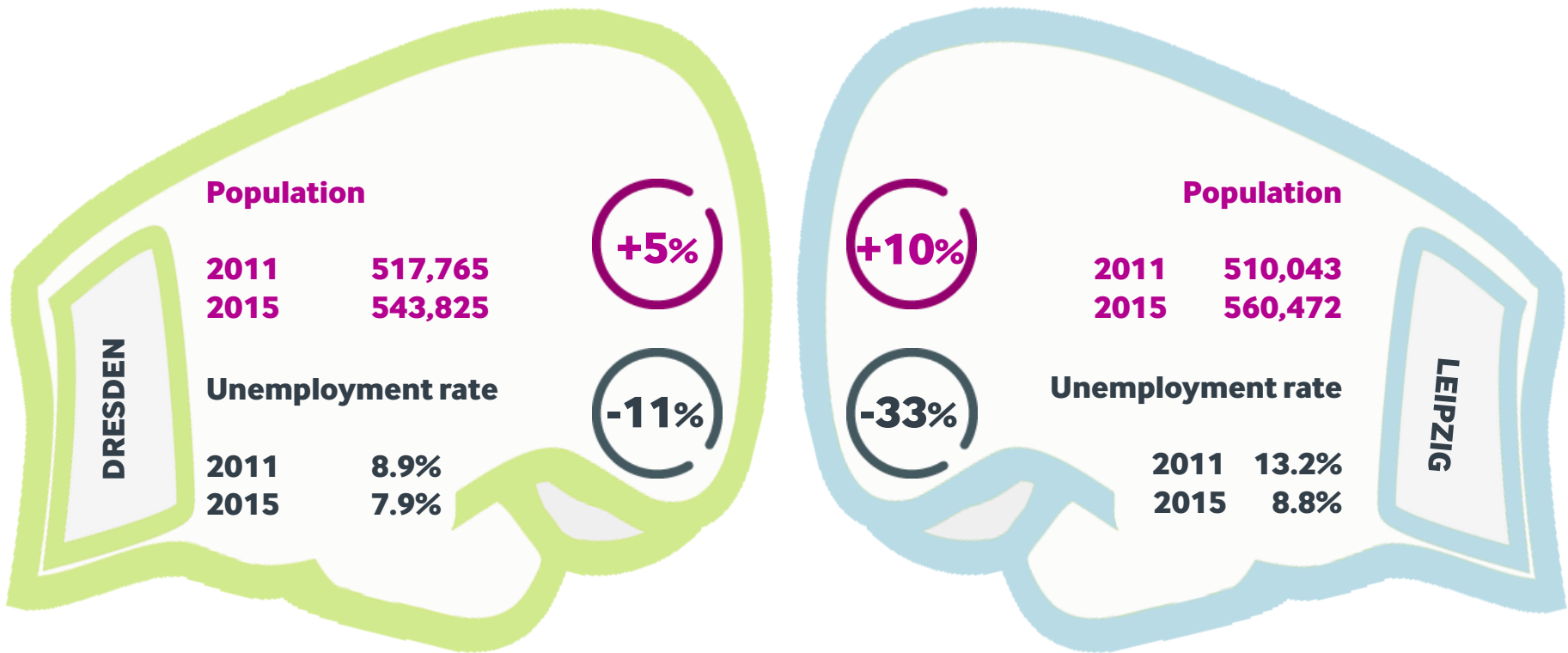
Dresden: Augustus Bridge and Semperoper © Gliwi



Leipzig: The Federal Administrative Court © Dirk Goldhahn

Dresden vs Leipzig

Socio-demographic & economic framework



2011	Dresden	2013*	GDP in m	2011	Leipzig	2013*
€16,500	7%	€17,655		€15,013	16.4%	€17,472
€16,957	1.8%	€17,260	Disposable income**	€15,925	1.2%	€16,109

Sources: Regional Statistical Offices; * latest available data, ** of private households per inhabitant

Mutually Beneficial Rivalry

Inspiring stability and growth

Ideally located on the Polish and Czech border, Saxony constitutes Germany's gateway to Eastern Europe. Its capital, Dresden, was the most populated city until 2013, but got outnumbered by Leipzig, whose population grew by 10 per cent from 2011 to 2015, twice as fast as Dresden's.

Dresden stays ahead in the economy sector. Whereas the unemployment rate in Dresden declined by 11 per cent to 7.9 per cent from 2011 to 2015, the shrinkage was more significant in Leipzig, which recorded a decrease of 33 per cent to 8.8 per cent. Yet, Dresden performs better than Leipzig and even Saxony (8.2 per cent), but poorer than Germany (6.4 per cent).

From 2011 to 2015, the GDP of Dresden rose from €16,500 to €17,655 (+7 per cent), whereas Leipzig's GDP skyrocketed from €15,013 to €17,472 (+16.4 per cent), a similar unfolding as the unemployment rate.

Nevertheless, "Dresdeners" had on average an additional €1,000 of disposable income in 2015 compared to the "Leipzigers".

Overall, Leipzig's population surpassed that of Dresden, which, on the other hand, enjoyed a lower unemployment rate and higher disposable income.

 Leipzig's New Lakeland area offers extensive leisure, relaxation and water sports activities, sandy beaches, and a theme park.



 Dresden's Elbe Valley extends 20 km along the city and through the Pillnitz and Albrechtsberg Palaces.



Overview Accommodation Supply 2011-2015

Accommodation supply

There are significantly more accommodation establishments in Dresden than in Leipzig.

Dresden has, however, reported a slight fall of 1.6 per cent (three properties) during the last five years, though the negative trend can only be observed after 2013. The number of beds during 2011-2015 has conversely increased by 14.3 per cent or 2,836 beds to circa 22,600 beds in 2015.

Leipzig showed a more positive development – 12 establishments opened its doors between 2011 and 2015 (+11.3 per cent) compared to 2011. Similarly, the number of beds expanded by 1,979 (+15.2 per cent) to 14,992 beds.

Hotel supply

Dresden portrays a larger hotel supply than Leipzig in terms of both properties and beds.

Despite the property supply shrinkage by five hotels (-4.4 per cent) in Dresden, available beds notably increased by 14.7 per cent from 2011 to 2015 to a total of 20,048 beds. On the other hand, Leipzig's hotel supply displayed a narrow positive growth of one hotel, while bed supply escalated by almost 14 per cent to 12,766. For both cities, this development implies the closure of smaller hotels and the rise of bigger hotels at the same time. While the average hotel in Dresden had 186 beds in 2015, Leipzig's hotels featured on average 188 beds.

The hotel properties supply growth is lower than overall properties supply growth in both cities, suggesting a higher opening rate of other accommodation establishments other than hotels and B&Bs.

		Dresden	Leipzig
Accommodation establishments	Properties	CAGR -0.4% 186 → 183 Growth -1.6%	CAGR 2.7% 106 → 118 Growth 11.3%
	Beds	CAGR 3.4% 19,794 → 22,630 Growth 14.3%	CAGR 3.6% 13,013 → 14,992 Growth 15.2%
Hotels and B&Bs	Properties	CAGR -1.1% 113 → 108 Growth -4.4%	CAGR 0.4% 67 → 68 Growth 1.5%
	Beds	CAGR 3.5% 17,477 → 20,048 Growth 14.7%	CAGR 3.3% 11,218 → 12,766 Growth 13.8%

Source: Regional Statistical Offices

Overview Hotel Market Supply 2015

Hotel segmentation



Source: Hotelstars

Hotel market share

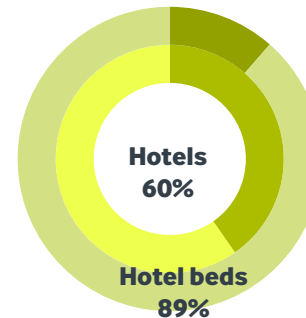
The share of hotels and hotel beds compared to the total accommodation supply in both cities is similar, with Dresden's key indicators being slightly higher. Hotel and B&B establishments make up the majority of the accommodation sector with 60 per cent in Dresden and 57 per cent in Leipzig. They dominate the sector, considering a bed share of 89 per cent and 84 per cent respectively.

Taking population into account, Dresden shows a higher hotel bed density, namely 37 beds per 1,000 inhabitants in contrast to 23 hotel beds per 1,000 inhabitants in Leipzig.

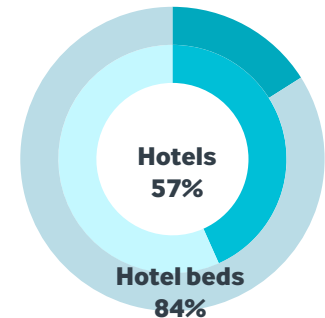
According to DEHOGA, Dresden has 51 classified hotels, while Leipzig featured 35 in 2015. Leipzig strikes better in relative terms – 51 per cent of hotels are classified compared to only 46 per cent in Dresden.

The market is evidently dominated by the 3- and 4- star segment, representing 86 and 91 per cent of the classified hotels in Dresden and Leipzig respectively. Whereas Dresden has clearly more hotels in the upscale sector, the supply in the economy segment in both cities is identical.

Dresden



Leipzig



Source: Regional Statistical Offices.

Hotel Chain Competition

Market share of branded hotel chains

The table shows the room market share of the top ten hotel chains relative to the total number of branded hotel rooms in each city in 2015.

The total share of chain hotels is almost three fourth in both cities, with Dresden being slightly higher.

Accor dominates the branded hotel segment in Dresden with 21 per cent, followed by IHG with only eight per cent. Leipzig on the other hand is led by Marriott & Starwood with 13 per cent market share, followed closely by Accor with 11 per cent.

The mix of the largest branded hotels in Dresden and Leipzig is notably different, suggesting a different mix of tourists and travel purposes between the cities.

Hotels with highest turnover

According to the ranking of of the 200 hotels with the highest revenue in Germany by hospitality weekly AHGZ, only four from Dresden and one from Leipzig have made the list. Among these hotels, all of them belong to branded hotel chains. The Westin, a brand of Starwood, has made the list for both cities.

The small share in the revenue-focused list is due to the lower price level in the New Laender. Nevertheless, investors should take note of the future prospect and promising growth of both cities.

Ranking	Dresden		Leipzig	
1	Accor	21%	Marriott & Starwood	13%
2	IHG	8%	Accor	11%
3	One Hotels & Resorts	7%	H-Hotels	7%
4	NH Hotels	7%	One Hotels & Resorts	6%
5	Carlson Rezidor	5%	Pentahotels	6%
6	Steigenberger	5%	Steigenberger	6%
7	Marriott & Starwood	5%	NH Hotels	5%
8	Hilton	4%	Novum	4%
9	Maritim	4%	Wyndham	4%
10	Grand City Hotels	4%	Carlson Rezidor	4%
Total share	69% chain hotels		67% chain hotels	

Source: Christie & Co Research

Dresden 4/200

Source: AHGZ

Leipzig 1/200

Overview Hotel Market Demand 2011-2015

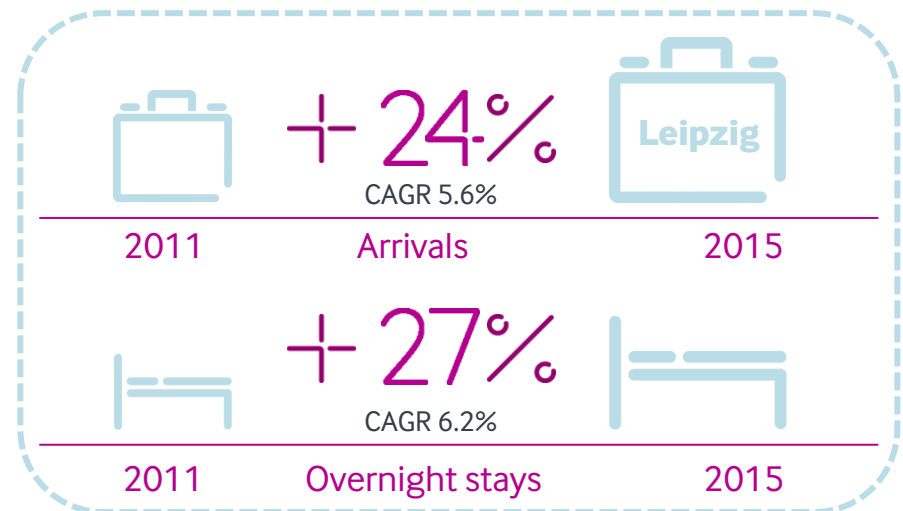
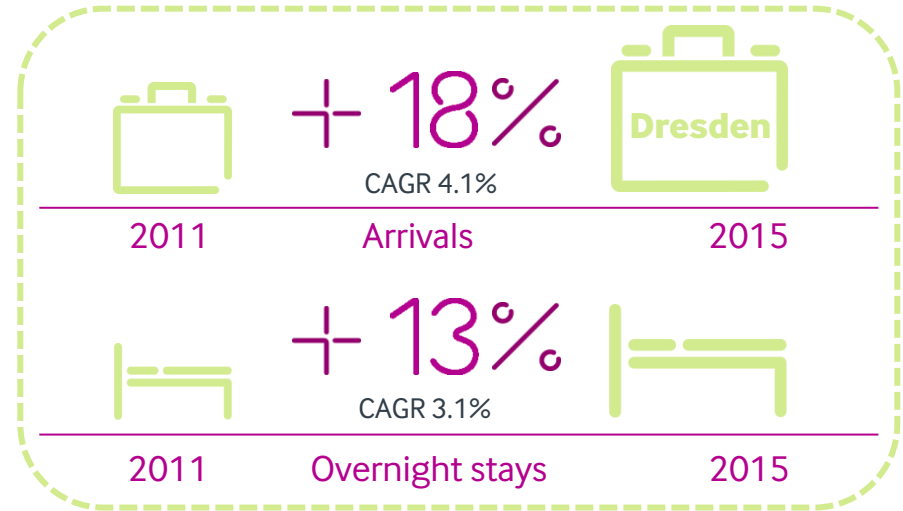
Hotel demand

Both cities recorded increasing tourism demand in hotels and B&Bs during the past five years.

Arrivals in Dresden grew more than overnight stays, suggesting a shorter length of stay from 2011 to 2015, which dropped from 2.11 to 2.03 days. Contrastingly, overnight stays in Leipzig climbed three percentage points more than arrivals, resulting in a longer average length of stay, which increased from 1.74 to 1.78 days. Altogether, tourists spend more time in Dresden, but their interest for Leipzig is growing.

In the last five years Dresden saw an average increase of 4.1 per cent per annum in arrivals and 3.1 per cent per annum in overnight stays with a slight downturn of 2.3 and 3.5 per cent respectively in 2015. On the contrary, growth in Leipzig was positive for the whole observation period, which explains the higher CAGRs, where arrivals and overnight stays have steadily risen at an average rate of 5.6 and 6.2 per cent per annum, respectively.

In absolute terms Dresden still comes on top with its 1.9 million arrivals and 3.9 million overnight stays compared to Leipzig's 1.4 million and 2.5 million. As a result, Dresden is in the lead with 7,118 overnights per 1,000 inhabitants, 2,736 more than Leipzig.



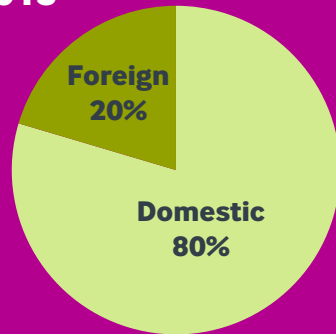
Source: Regional Statistical Offices

Top 5 Feeder Markets 2015

Development of foreign demand

DRESDEN

2015



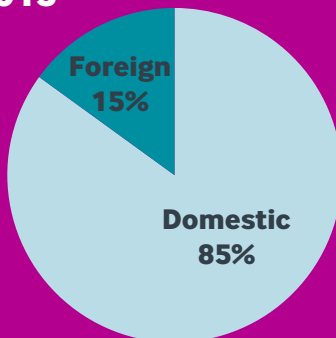
879k (2015)

- 1 USA
- 2 Switzerland
- 3 Austria
- 4 UK
- 5 The Netherlands

676k (2011)

LEIPZIG

2015



425k (2015)

- 1 USA
- 2 UK
- 3 Switzerland
- 4 Austria
- 5 Poland

350k (2011)



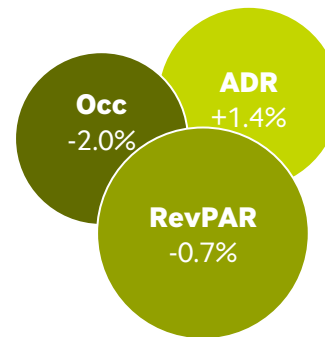
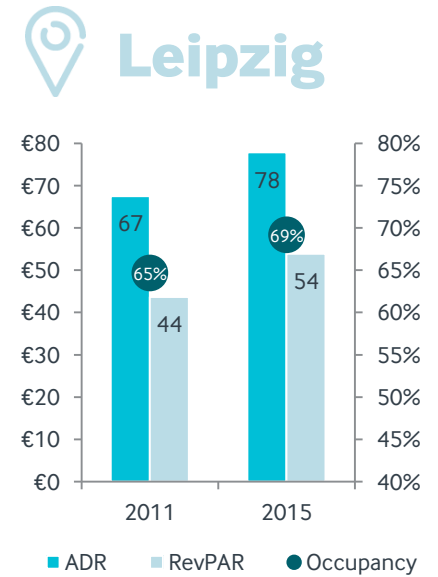
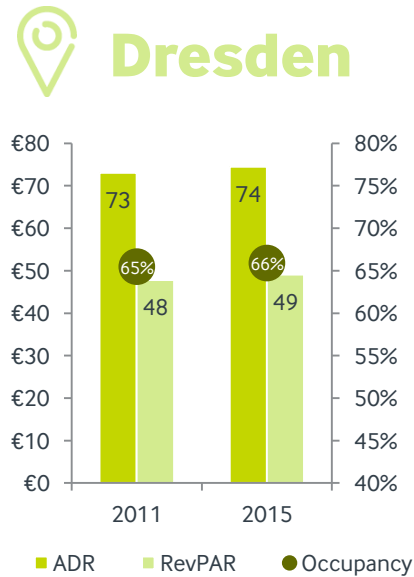
Hotel Market Performance

Who is leading the game?

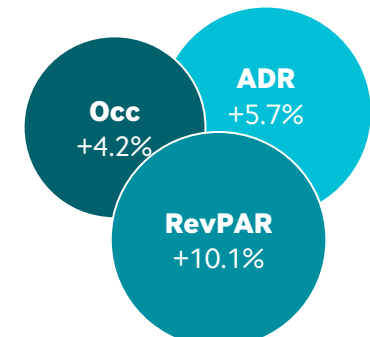
Both cities showed upward trends in the KPIs from 2011 to 2015, however the expectations for 2016 differ. The moderate increase in arrivals and overnight stays in Dresden and the slump in 2015 led to a very slight improvement of ADR, RevPAR and occupancy. Occupancy amounted to 66 per cent in 2015, one percentage point lower than the previous year. Nonetheless, ADR and RevPAR reached their peak in 2015 with €74 (CAGR +0.5 per cent) and €49 (CAGR +0.7 per cent) respectively.

The outlook for 2016 appears less favourable for Dresden. After having registered a massive deterioration of all KPIs in July, YTD August figures show slight improvements. Dresden currently suffers from a tremendous image loss caused by weekly demonstrations of the anti-islamic Pegida movement. Hoteliers regularly record 50 per cent less bookings than usual on Mondays, the day of the demonstration. Further, the harmful “bed tax”, an additional tax levied on overnight stays, challenges local hoteliers.

On the contrary, Leipzig’s growth could keep pace with the rest of Germany. ADR reached €78 (CAGR +3.6 per cent) and RevPAR was at €54 (CAGR +5.4 per cent) in 2015, whereas occupancy raked up to 69 per cent (CAGR +1.7 per cent). While Leipzig was worse off in 2011, it surpassed Dresden by 2015. Looking both forward and at the YTD changes for August 2016, Leipzig’s hotel market performance promises outstanding results, thanks to augmented business and MICE demand.



Change YTD August 2016 to YTD August 2015



Change YTD August 2016 to YTD August 2015

Source: STR Global, Ltd. Republication or other re-use of this data without express written permission is strictly prohibited.

Hotel Market Pipeline

Hotel projects predominantly in the economy segment

The hotel market in Dresden anticipates a limited growth of six hotels and 969 rooms. The Amedia Hotel with 104 keys, located in the heart of the old town, will open in November 2016. Planned for 2017 and managed by the Louvre Hotel Group, a 2-star Hotel Première Classe will offer 113 rooms. Additionally, a Hostel in the Palais Hoym at the Neumarkt and a 3-star Indigo Hotel at Wettiner Square (130 keys) near Zwinger Palace are expected to open in 2018. A Hampton by Hilton with 197 keys is also in planning, yet the opening date remains unknown. The same applies to the budget hotel by project developer benchmark on Antonstraße/Robert-Blum-Straße. In addition, further hotels might be developed at the Wiener Platz and Rathenauplatz squares (former Bundesbank building).

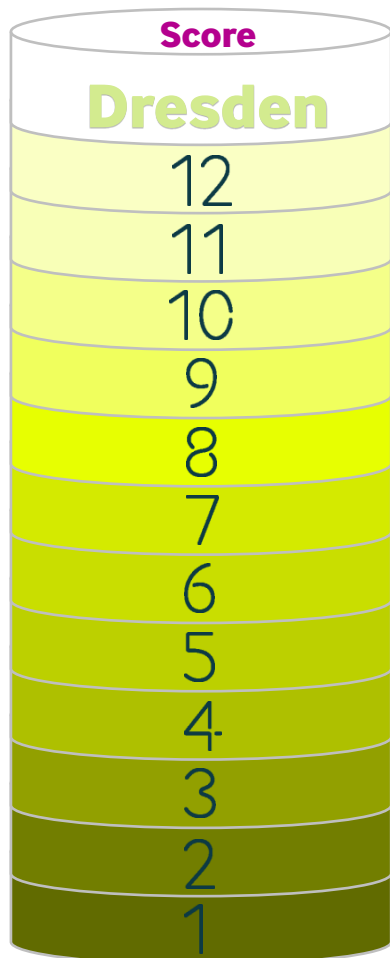
Leipzig has already seen several hotel openings this year, such as the Inside by Meliá Leipzig, the Arthotel ANA Symphonie, the aparthotels Miaboda and Apartment Central, as well as the combo ibis and ibis budget Leipzig City. The openings will continue as Leipzig expects a generous unfolding with six properties under construction and five more in planning, constituting circa 2,000 rooms. Three 2-star hotels will open in 2017: Meininger (126 keys), 7 Days Premium (150) and Charly's House (136 keys), the latter being a new B&B concept with its first upcoming location in Bielefeld. Loginn by Achat (170 keys) and the Philippuskirche (29 keys), a church converted into a hotel that employs disabled staff, will offer 3-star services. Adina will grant 166 4-star apartments by October 2017. Further three 2-star as well as two 4-star properties are planned to be added to the market, amongst which are a hotel park consisting of H2 (336 keys) and Ramada (193 keys), a NH Hotel (197 keys) as well as a Premier Inn (180 keys) with intended openings in 2018. More hotels are planned in the area to the east of the main railway station.

Pipeline	Dresden		Leipzig	
	Hotels	Rooms	Hotels	Rooms
Under construction	1	104	6	777
★	0	0	0	0
★ ★	0	0	3	414
★ ★ ★	1	104	2	199
★ ★ ★ ★	0	0	1	166
★ ★ ★ ★ ★	0	0	0	0
In planning	5	865	5	1.206
★	1	250	0	0
★ ★	2	288	3	816
★ ★ ★	2	327	0	0
★ ★ ★ ★	0	0	2	390
★ ★ ★ ★ ★	0	0	0	0
Total	6	969	11	1,983

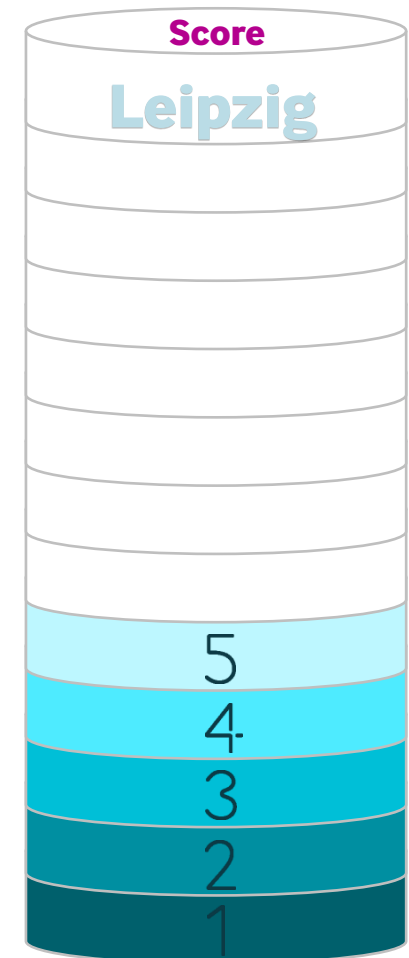
Source: Christie & Co Research, as at the end of September 2016

Dresden vs Leipzig

The winner is...



Population	✓
Unemployment rate	✓
GDP	✓
Disposable income	✓
Accommodation/hotel supply	✓
Average size of hotels	✓
Number of classified hotels	✓
Hotel share of all accommodation facilities	✓
Hotel beds per 1,000 inhabitants	✓
Number of hotels with highest turnover	✓
Market share of branded hotels	✓
Length of stay	✓
Numbers of arrivals and overnight stays	✓
Share of international overnight stays	✓
Occupancy, ADR and RevPAR 2015	✓
Occupancy, ADR and RevPAR August YTD 2016	✓
Hotel pipeline	✓



Christie & Co's Germany Team for Advisory & Valuation Services

Considerable Experience in Hotel Advisory & Valuation Services throughout Germany, Austria and CEE



Lukas Hochedlinger has been responsible for the successful expansion of the company in Austria and CEE since 2010. In 2015 he was also appointed Managing Director for Germany with the aim of strengthening and growing the brand in this European core market with regard to hotel transactions. Previously, Lukas worked amongst others at KPMG Real Estate, Leisure & Tourism CEE. He successfully completed more than 100 advisory mandates including valuations across Europe, feasibility studies, market and product analysis as well as operator searches and hotel transactions. Lukas is a Member of the Royal Institution of Chartered Surveyors (RICS) and a RICS Registered Valuer.



Kay Strobl joined the team as Head of Advisory & Valuation Services in January 2016 from Deloitte und Touche GmbH Wirtschaftsprüfungsgesellschaft where she spent nine years, most recently supervising the department Real Estate & Hospitality in her role as Manager, focusing largely on hotel feasibility and profitability studies, hotel valuation, operator and investor search as well as transaction support. Previously, Kay worked for gato ag, where she contributed to the conception and realisation of large-scale tourist projects. She is certified by PMI as a Project Management Professional and a certified instructor by the Chamber of Commerce. Kay also acts as lecturer at the University of Applied Sciences in Munich, Department of Tourism.



Constanze Maas joined Christie & Co in Munich as a Consultant Advisory & Valuation in July 2012 and progressed to be an Associate Director and Location Manager in Frankfurt. Her consultancy experience includes market assessments, feasibility studies, corporate due diligence, valuations and strategic advice projects throughout Europe. Previously with Horwath HTL in Budapest and CBRE Hotels Germany & CEE in Munich, Constanze gained experience in real estate consultancy and benefited from exposure to hotel markets in Germany and Central Eastern Europe. She has worked in the hotel industry both in Germany and internationally.



Alexandra Markhof joined Christie & Co's Advisory & Valuation team in Munich in February 2014. Her area of responsibility encompasses, amongst others, market research, feasibility studies, due diligence and valuation reports. Prior to this, Alexandra worked at a national hostel and hotel chain as Assistant Manager, where she was responsible for managing operational processes as well as administrative and strategic tasks. During her university studies she acquired operational experience, amongst others in the 4-star Seaside Hotel Los Jameos Playa in Lanzarote.



Patrik Hug joined Christie & Co in September 2016 as a Consultant Advisory & Valuation. Previously, he worked for Union Investment Real Estate GmbH in Hamburg and Frankfurt, where he supported the hotel investment team primarily with the due diligence for acquisitions throughout Europe and the United States, as well as with national and international market studies and strategy papers. He gained operational experience in Switzerland, amongst others, in the 5-star-hotel Grand Resort Bad Ragaz and the boutique hotel 7132 in Vals.

Special thanks to Sajdi Shabani, Intern.

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