



**HOTEL INVESTMENT MARKET AUSTRIA 2021**



# PREAMBLE

## Austria - Cautious optimism within the Hotels asset class

Dear Reader,

After the pandemic and economic ripples of the last two years, which have had a similar impact on the hotel investment market in Austria, we would like to provide an overview of current market events with our annual investment market report.

The last few years were dominated by negative headlines and uncertainty, this year we dedicate ourselves to the long-term view of the impact of the pandemic on the investment market, however we want to show market changes and positive influences that can be an opportunity for the industry as well.

After all, not all changes were negative - some may well endure as lasting innovations beyond the pandemic.

To this end, in the coming pages we will venture to compare transactions made before the pandemic with those made since the first year of the pandemic, 2020, in order to highlight medium-term trends and developments.

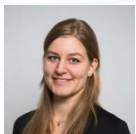
This is because investor behaviour - this much can be anticipated - has changed significantly, which has also had an impact on the types of transactions and hotel properties in demand. Overall, the volume has understandably declined, although confidence in hotel properties has recently increased again somewhat, despite stagnating tourist demand.

We are therefore pleased to provide an insight into the exceptional investment years of 2020/21 in the following report.

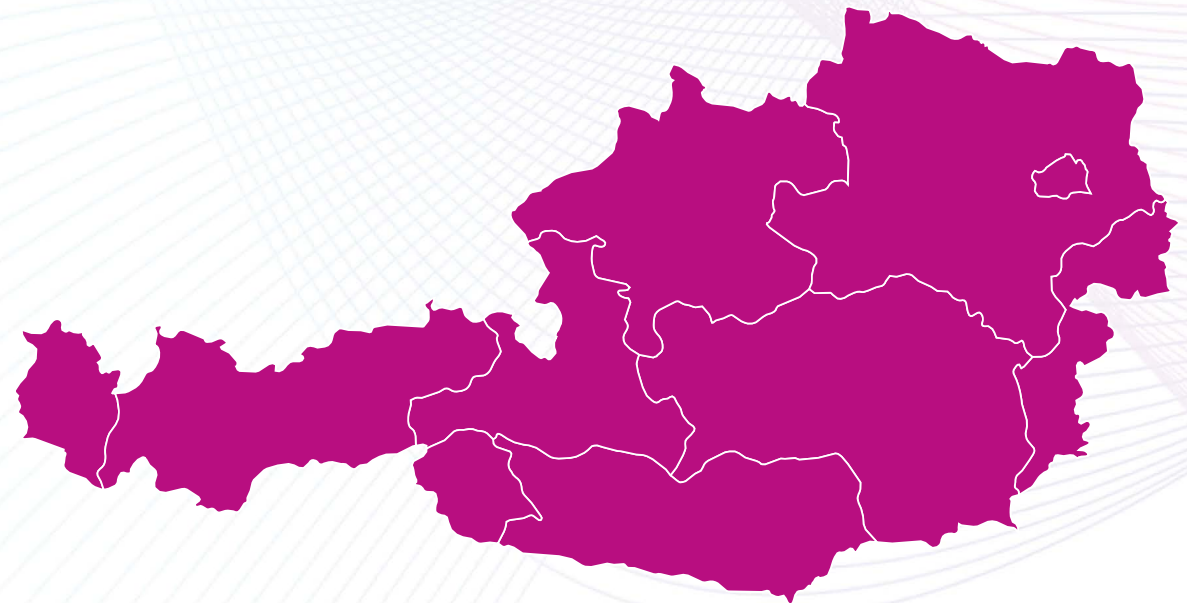
The Christie & Co team hopes you enjoy reading.



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Due to the noticeable recovery of the transaction market especially in the past year, and some exciting upcoming hotel transactions, we expect a further recovery in 2022.



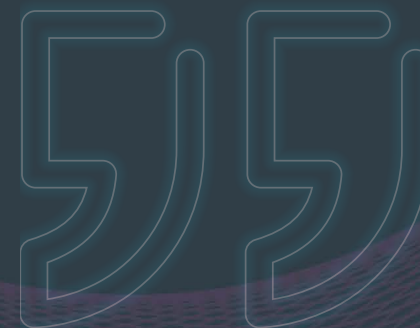
Of course, the industry has suffered a fundamental damper. However, tourism is one of the main economic drivers in Austria and the desire to travel will return as the pandemic curve flattens. The market shakeout will create opportunities to serve new niches or make investments. In addition, on the one hand there will be opportunities for developers to convert, renovate or reposition hotels, and on the other hand remaining hotels can plan for the future with a consolidated market position. In any case, there will be numerous transactions in a timely manner from which the overall market can benefit.



Particularly in the first half of 2020, there was a lot of uncertainty in the market and among investors.



Due to the pandemic, travel behavior and accordingly the performance of different hotels has changed, which is also noticeable in the search profiles of potential buyers. Especially properties with possible conversion to (student) housing or apartment concepts have become more attractive.





# HOTEL TRANSACTION VOLUME AUSTRIA (IN MILLIONS)

## The investment market shows signs of an incipient recovery

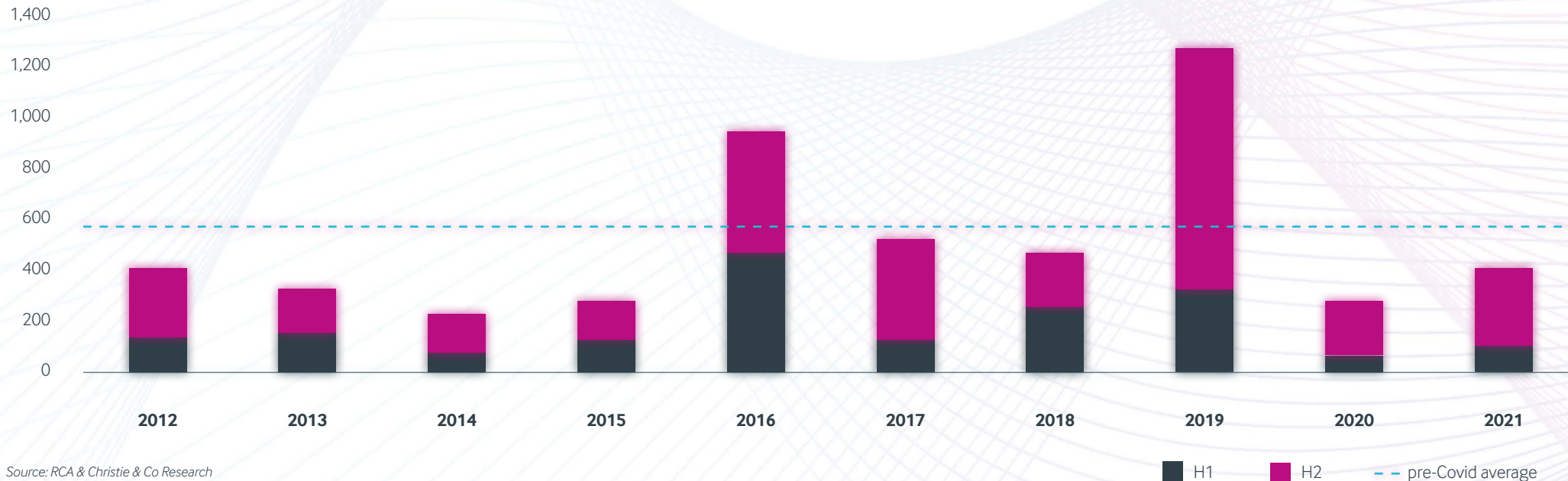
After an absolute record year in 2019, in which Austrian hotel properties were sold for a total of more than 1.25 billion euros, things almost came to a standstill with the onset of the 2020 pandemic. The uncertainty surrounding Covid-19 and specifically the tourism markets also made investors cautious.

Before the pandemic effects were felt in Europe there were still some notable hotel transactions in the first quarter of 2020. However, in March and the onset of the pandemic, the investment market fell into a shock paralysis, and so we recorded a transaction volume of only about 60 million euros in the first half of 2020. With the falling infection figures and the easing of government-mandated measures, the investment market also slowly picked up again in the summer of 2020. With the sale of a few hotels shortly before the end of the year, 2020 could finally be closed conciliatory, but far below average, with a total volume of 280 million euros.

2021 also started with a positive note, and we saw significantly more movement on the market. The first half of the year was thus able to record a transaction volume of over 110 million euros. In the end, the transaction year 2021 came to a total volume of around 400 million euros and was thus only slightly below the value of 2018.

The successful transactions showed, above all, a shift within the buyer profiles and their focus in terms of both location and concept.

### HOTEL TRANSACTION VOLUME 2012-2021



Source: RCA & Christie & Co Research



# SELECTED TRANSACTIONS 2021

CITY	HOTEL	ROOMS	TYPE OF CONTRACT	SELLER	BUYER
Vienna	Hotel Ibis Styles Vienna Messe Prater	102	Franchise	Betha Zwerenz & Krause	Schiehser Hotels
Vienna	Austria Trend Hotel Lassalle	140	Lease contract	Amisola /KWPS	JPI Hospitality
Vienna	Renaissance Hotel Vienna	309	Lease contract	Amisola /KWPS	JPI Hospitality
Vienna	MEININGER Hotel Vienna Downtown Franz	131	Lease contract	CA Immo	LLB
Vienna	Mooons Hotel	170	Vacant	Bridge Group /Moser Architects	Real IS
Vienna	DORMERO HoHo Wien (50% shares)	143	Lease contract	Kerbler Holding	AVV
Tröpolach	FRANZ ferdinand Mountain Resort Nassfeld	144	Vacant	K1 Hotelerrichtung	Arena Hospitality Group
Obertauern	Marietta	120	Vacant	Private	Valamar
Kitzbühel	Q!Resort Health and Spa Hotel	80	Vacant	Private	JPI Hospitality
Fieberbrunn	Sporthotel Fontana	125	Vacant	Verkehrsbüro Group	Auszeit Hotels & Resort AG
Ehrwald	Der Grüne Baum Ehrwald	45	Vacant	Private	Deutscher Immobilienunternehmer
Brunn am Gebirge	Hotel Böck Brunn	85	Vacant	MTK Group	Jamal Al-Wazzan

## Leisure hotels could close the gap with city hotels

As previously mentioned, a change in the focus of active investors has been observed on the Austrian transaction market over the past two years. Thus, one could observe that the investors' attention is oriented towards the tourism demand. As the city hotel industry was hit much harder, transactions also developed away from the city hotel industry and towards the vacation hotel industry.

For example, the Sporthotel Fontana in Fieberbrunn changed hands and was acquired by German developer Auszeit AG in early 2021. The "Grüne Baum Hotel" in Ehrwald in Tyrol also found a new owner in the form of a German real estate entrepreneur.

However, a number of notable transactions were also recorded in the federal capital. For example, the Mooons Hotel Vienna changed hands and was sold to Real IS AG, a subsidiary of the Bavarian pension funds.

In addition, the MEININGER Hotel Wien Downtown Franz in Vienna's 2nd district was sold to Liechtensteinische Landesbank, and the Austria Trend Hotel Lassalle was transferred from Amisola Immobilien AG to JPI Hospitality as part of a property swap. Christie & Co acted as a broker in some of the transactions mentioned.

However, the demanded contract type has also clearly shifted in the last two years. Thus, operator-free assets, especially with regard to potential conversion or repositioning, were clearly a focus for investors.

Source: RCA & Christie & Co Research



# WHO INVESTS IN AUSTRIA?

## Significant shift from institutional investors to real estate companies

With such significant shifts in the investment market, a look at the change in buyer profiles is of course also relevant. An analysis of the investors of the last two years shows that there was a radical change here due to the pandemic.

While institutional investors, who saw hotels as a safe long-term investment, still accounted for well over 50% of the total volume in 2019, their share shrank to below 20% in the last two years. This suggests that the image of hotels as a safe investment was tarnished, at least temporarily, due to volatile tourism demand.

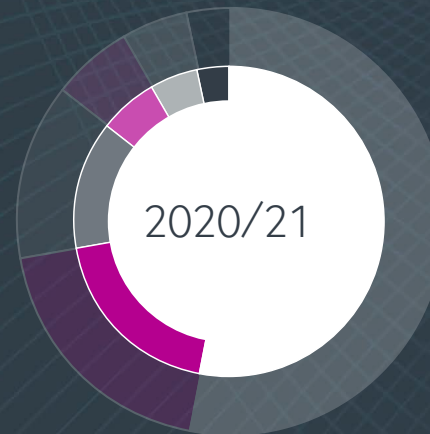
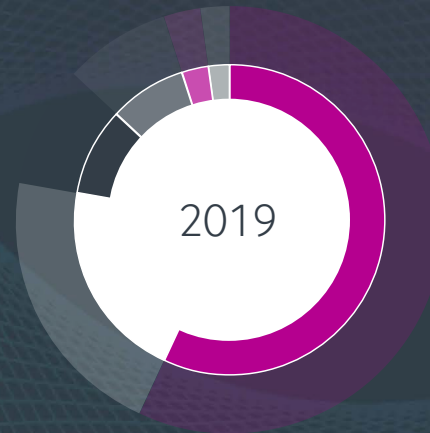
In turn, the share of real estate companies grew almost in the opposite proportion from around 20% to 52%. From this, it can be deduced that hotel properties, due to operator failures, closures or private sales, increasingly came under the scrutiny of "value-add" investors who repurpose, reposition or renovate hotels to increase value. This has been the overriding motive in hotel transactions since the pandemic began.

Concepts such as long-stay or (student) housing have increasingly become the focus of investors. For example, Wombats The Lounge Hotel in Vienna, which was sold to a real estate investor in 2021, is to be converted into (commercial) apartments.

Another notable transaction in this segment was the sale of the Sporthotel Fontana in Fieberbrunn. Still owned by Österreichische Verkehrsbüro AG until the beginning of 2021, the property was sold to the German project developer Auszeit AG, which is also planning a realignment for the location.

However, private hoteliers have also been much more active in the last two years than they were in 2019. Well-managed hoteliers see opportunities to diversify their own portfolios or expand into "crisis-proof" hotels in sought-after leisure regions.

For example, the 5-star Hotel Schloss Pichlarn in Styria changed hands and is now operated by Georg Imlauer, whose focus had previously been on city hotels.



- **57%** Institutional Investors
- **21%** Real Estate Companies
- **9%** HNWI
- **8%** Private Hoteliers
- **3%** Hotel Operators
- **2%** Outside The Sector

- **52%** Real Estate Companies
- **19%** Institutional Investors
- **13%** Private Hoteliers
- **6%** Hotel Operators
- **5%** Outside The Sector
- **3%** HNWI

Source: Christie & Co Research



# WHERE DO INVESTORS COME FROM?

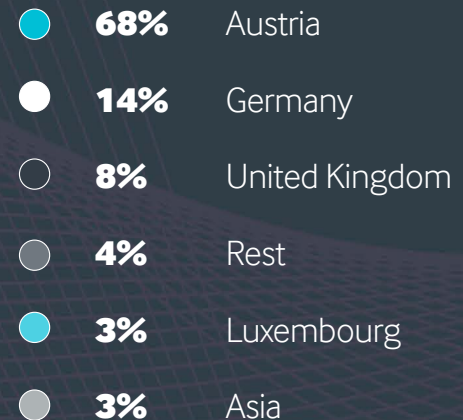
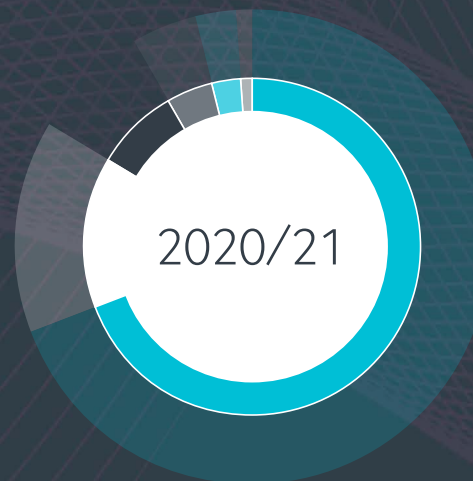
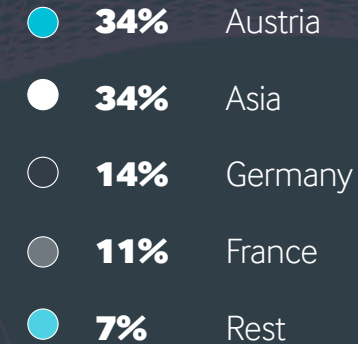
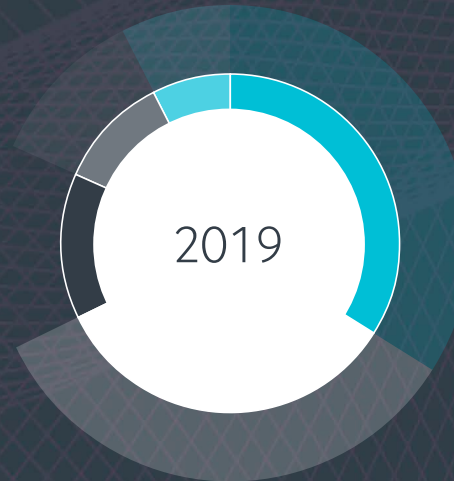
## Share of domestic investors more than doubled

In the course of the last two years, there has been a significant shift in the buyer profiles. An extreme increase in the number of Austrian investors was observed among buyers. Although they have always been the most active on the domestic transaction market, their share in terms of investment volume has more than doubled in the last two years and most recently amounted to almost 70%. Austrian buyers invested around 280 million euros in hotel real estate. As one of the first "post-Covid" transactions, the sale of the 5-star hotel "The Ring" to the Viennese real estate and garage dynasty Breiteneder attracted attention in September 2020.

The Asian buyer market, which still held a share of 34% in 2019, shows a clear change. With a share of the total volume of only 3%, Asian investors withdrew significantly in 2020/21. One reason for this is, of course, the closed operations and borders, as well as travel restrictions triggered by the Covid 19 pandemic.

Somewhat less change is evident among our neighbours. German buyers invested slightly more in the last two years than in 2019 and remained the only foreign source market with a share of more than 10% of the total volume. Due to individual, larger deals, however, a notable share went to Luxembourg and British investors in 2020/21.

The remaining investment share is made up of several countries. These include buyers from Switzerland, Ukraine, and the Netherlands, for example.



Source: Christie & Co Research

# WHAT DID INVESTORS BUY?

## Operator-free leisure hotel most popular investment product

As mentioned above, a shift in the search profile of potential buyers could be observed, these buyers were strongly oriented towards changing travel behaviour and the performance of different hotels.

While in the record year 2019, significantly more than half of all Austrian hotel transactions took place in Vienna, the last two years showed a different picture. Interest in the leisure hotel industry almost matched that in the city hotel industry and came to a share of 42% of the total volume.

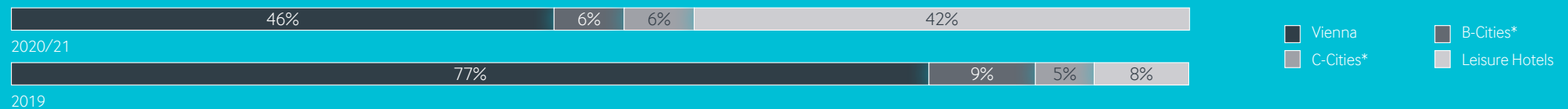
An enormous change is also evident in terms of the contract types of hotel properties sold. While in 2019 half of all hotels were still sold as investment products with a lease, in 2020/21 this figure was just under 4%. Transactions by “value-add” investors, i.e. those who want to increase the value of the property through repositioning, renovation or conversion, have risen in particular. This, in turn, requires operator-free hotel properties. However, the sale of many privately owned hotels also resulted in operator-free transactions. In total, therefore, almost two-thirds of the hotel investment volume was sold without an upright contract.

With the changed travel behaviour of tourists, there was also a restructuring within the categories. While in 2019 there was still a tendency towards upscale and luxury products, in the last two years midscale products were more popular. In 2020/2021, the 3-star segment accounted for 35%, almost as much transaction volume as the 4-star segment.

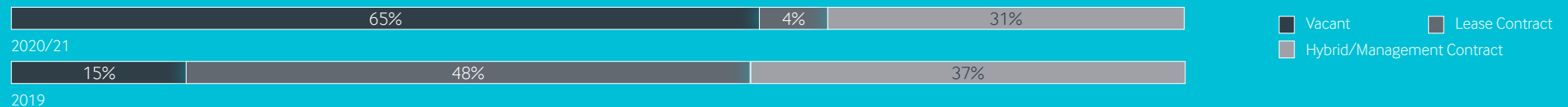
Overall, it can be seen that well-positioned leisure hotels were more crisis-resistant than city hotels and were therefore able to gain in importance as an investment product.

Source: Christie & Co Research

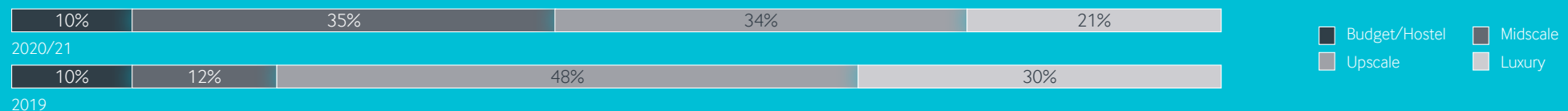
### LOCATION



### TYPE OF CONTRACT



### CATEGORY



\*B-Cities: Graz, Linz, Salzburg; C-Cities: other cities

Source: Christie & Co Research



# YIELD DEVELOPMENT

## More volatile yields and market-dependent adjustments

The popularity of the Austrian investment market has led to a significant yield compression over the last decade due to increasing professionalism of (operator) players and continuous tourism demand increases. In 2019, a historic record result was recorded, with prime yields at around 4% and in some cases even slightly below. However, apart from trophy assets, these were achieved almost exclusively in Vienna.

However, the hotels available for purchase and the mentioned change in buyers in hotel transactions, together with rising tourism uncertainty, have led to a slight increase in yields since the start of the pandemic. Consequently, the change from institutional to more risk-averse

“value-add” investors as well as the increasingly operator-free transactions are reflected in the yields. Due to the lower number of comparable transactions and experience, no general risk premium can be determined, but yields have been shown to be around 25 to 75 basis points above pre-crisis levels. Well-maintained hotel properties in A-locations as well as vacation hotels were significantly less affected by this development.

However, developments over the past two years have shown that the extent of the risk premiums can vary greatly from region to region. Major cities, where a large number of hotels have encountered significantly lower (especially leisure tourism) demand, have been the most severely affected. Regional cities with lower hotel supply or stronger domestic and business tourism have been more stable through the crisis to date and have thus experienced relatively lower risk premiums in returns, even if the general baseline was a higher one.

Leisure destinations are similarly diverse, although investor interest here has increased sharply in some cases due to consistently stable demand (outside of the lockdowns). As already shown on p. 8, the importance of leisure hotel transactions in Austria has risen noticeably. Yields have not fallen overall, but have at least remained stable for the most part, thus closing the gap between city and resort hotels to some extent.

Moreover, interest from institutional or private equity investors was also observed in the leisure hotel industry, which may also have medium-term effects on the hotel landscape. However, there is a very wide range here, mainly due to condition, positioning and location of the hotels. It remains to be seen whether this will be a short-term strategy adjustment, or a long-term trend.

### DEVELOPMENT PRIME YIELDS 2015-2021



Source: Christie & Co Research



# SUMMARY & OUTLOOK

## Shift in investment focus shows incipient recovery with steadily increasing transaction volume

Until 2019, Vienna or the larger cities were responsible for almost 90% of the transaction volume due to the secure tourism demand. However, as these markets were hit much harder by the crisis due to the almost complete loss of leisure and convention travellers, investments in city hotels have declined significantly since the pandemic.

On the other hand, there has been an increase in transactions in the leisure sector, which has seen a steady demand from tourists, especially from Germany and neighbouring countries, even during the pandemic years.

In addition, a shift from the classic investment product to value-add or repositioning projects could be observed. On the one hand, this is due to the increasing economic pressure on operators, which has forced some of them to withdraw from projects or consolidate their portfolios. On the other hand, hotels are temporarily associated with higher risk for institutional investors, as a result of which investments were partially suspended. However, a clear easing in the market has also been noticeable here, especially in the second half of 2021.

While Austria was considered a safe location for many investors in the past, investments from abroad have declined significantly since the outbreak of the pandemic. 2019 was exceptionally good for international interest, so the decline can definitely be explained by the changed access of classic (conservative) investors.

It is noteworthy that German investors were the only country of origin to record a share of more than 10% of the transactions. A good two thirds of the transactions were carried out by domestic investors, which underlines the confidence of local investors in Austria as a tourism destination.

The volatile demand and market development is also reflected in the yields achieved, which for the first time showed an opposite development after years of yield compression, with strong regional and local differences.



Overall, a positive trend can be seen in the investment market since the initial stagnation in 2020, although this is reflected in a significant change in investor strategy and demand. This recovery is expected to continue in 2022, as a result of which it can be assumed that the total volume of hotel transactions will tend to rise again somewhat, irrespective of the pandemic development.





# WHAT CAN CHRISTIE & CO DO FOR YOU?



## PLAN

- Understanding Challenges and Strategic Planning
- Market Entrance Studies and Business Plan Reviews
- Industry Analysis and Market Intelligence Studies
- Development Advice and Feasibility Studies

## GROW

- Acquisition Support
- Acquisition Target Search and Site Identification
- Buyer Due Diligence and Pricing Advice

## OPTIMISE

- Strategic Repositioning
- Performance Optimierung
- Identifying Performance Improvements
- Independent Business Reviews
- KPI Development and Benchmarking
- Rent and Contract Advice
- Operator Search & Selection

## EVALUATE

- Owner and Operator Advice
- Fully RICS „Red Book“ and IVSC Compliant Valuations
- Rent Review Negotiation
- Expert Witness and Litigation Support
- Identifying Market Trends & Value Curves
- Strategic Disposals

## EXIT

- Achieving a Successful Exit at the Best Possible Price
- Vendor Due Dilligence
- Marketing, Sales and PR Strategy
- Route-to-value Planning



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