



HOTEL MARKET REPORT

GERMANY 2019

QUO VADIS HOTEL MARKET GERMANY

February 2019

Dear Readers,

The hunt after hotel real estate in Germany continues while the frequently quoted investment plateau sharpens its form with a transaction volume of approx. EUR 4bn in 2018. The effects of the 10-year boom are becoming more and more visible. Hotel developments are sprouting out of the ground and due to the growing tourism industry, demand still matches the additional supply growth. Looking at the revenue per available room of Germany's top 5 cities, the gap between the historical development of supply and demand compared to the hotel performance is widening. It appears that due to the increased competition, room rates and occupancy levels cannot be enhanced to the same extent. In addition, alternative accommodation forms such as serviced apartments, evolve as serious competition for hotels across all segments.

Where does the journey heading in 2019? Yield compression, product shortage and a growing focus on forward deals will continue to shape the hotel investment market. The consolidation in the operator market is not to be ignored as increasing competition is encouraging the merger of hotel platforms to leverage synergies. Despite more cautious economic forecasts, the hotel market started with positive figures in January and further record-breaking news are expected to follow in 2019.

Thanks to our cooperation partners HQ plus and Fairmas, we can once again present the latest hotel market data. A well-founded base of facts forms the grounds for sustainable investment decisions and we are pleased to present you selected data in this report.

We wish all our readers many exciting insights on the following pages!

Yours sincerely,



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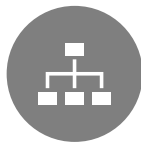
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GROWTH AND INVESTMENT PRESSURE CHARACTERIZE THE MARKET

TRENDS AND DEVELOPMENTS

INVESTMENT PRESSURE REMAINS

In 2019, investment pressure will remain high, resulting in a further decline of prime yields. The total transaction volume is expected to be on a similar level than in previous years.



OPERATOR CONSOLIDATION

Small and medium-sized hotel chains remain attractive acquisition targets for national and international market participants who are looking for fast growth and scaling effects in the face of attractive market conditions.

FURTHER RISING CONSTRUCTION COSTS

Increasing construction costs have become the crux for the feasibility of hotel developments as well as for the conversion of existing properties. Additional investment costs cannot always be compensated by higher lease levels.



COMMERCIAL LIVING CONCEPTS

Diversely positioned concepts in the gap between apartment and hotel are chasing after “the guests of tomorrow”. Project developers see this niche as an opportunity to earn a yield premium. Cities, on the other hand, fear a nationwide dispersion of expensive housing.

PROJECT DEVELOPMENTS

The pipeline is stacked and a multitude of new hotels will enrich the markets. The sustainability of developments will depend to a large extent on the concept at the micro-location, the lease level and the professionalism of the operator.

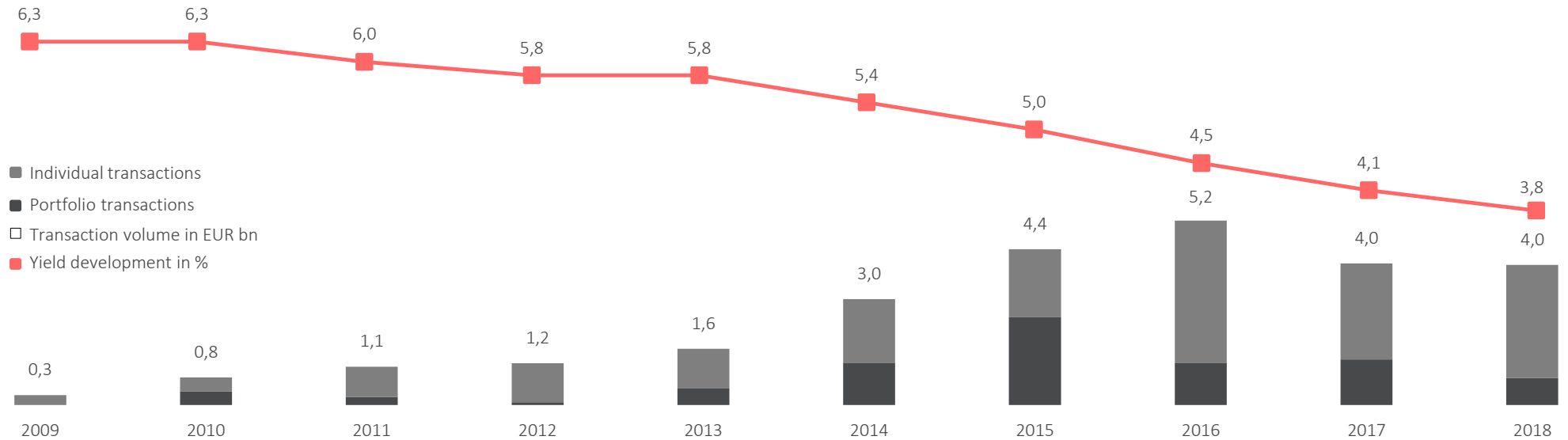


BRANDS, BRANDS, BRANDS

Hardly a month passes without the launch of new brands. Individuality, technology or co-working are recurring keywords. It is still to be seen, who will establish amongst the individual, but often similar concepts.

THE INVESTMENT PLATEAU DEVELOPS ITS EXTENT

TRANSACTION ENVIRONMENT



DEVELOPMENT

The transaction volume in 2018 reached a level of approximately EUR 4bn, similar to the previous year's level. The focus remains on individual transactions with a share of 80% (+18%). Several high-volume single transactions characterized the past year.



RETURN

Prime yields in the top markets continued to decline in the past year and are currently at approx. 3.8%. A return premium of approx. 50-100 base points can still be achieved compared to other asset classes.



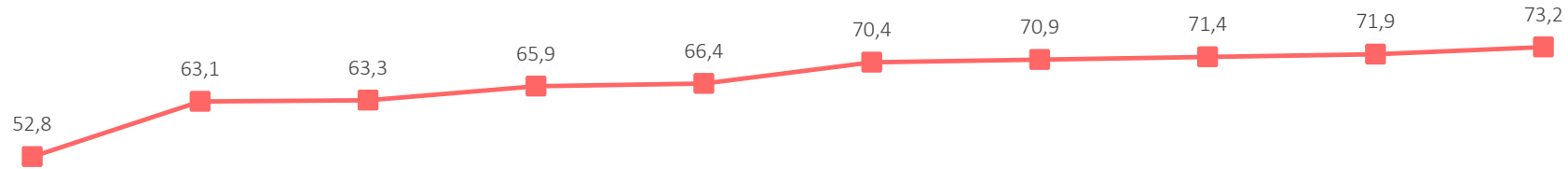
OUTLOOK

Product shortage was the limiting factor for hotel investments in 2018. Portfolio transaction volume declined whereas forward deals have established. For 2019, a similar level of transaction volume is expected.

RECORD PERFORMANCE AT ALL LEVELS

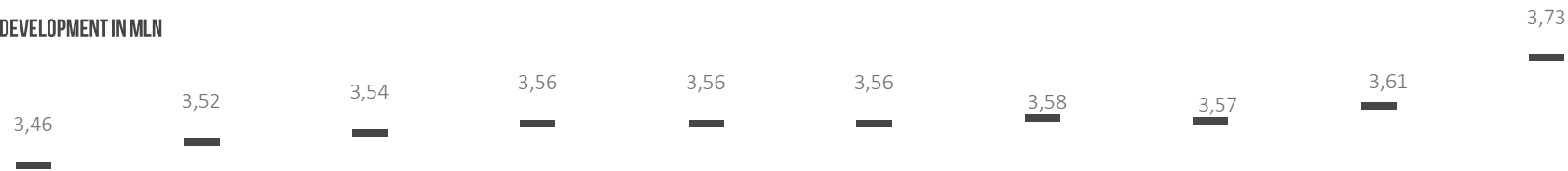
OVERVIEW HOTEL MARKET GERMANY 2009 - 2018

REVPAR DEVELOPMENT IN EUR



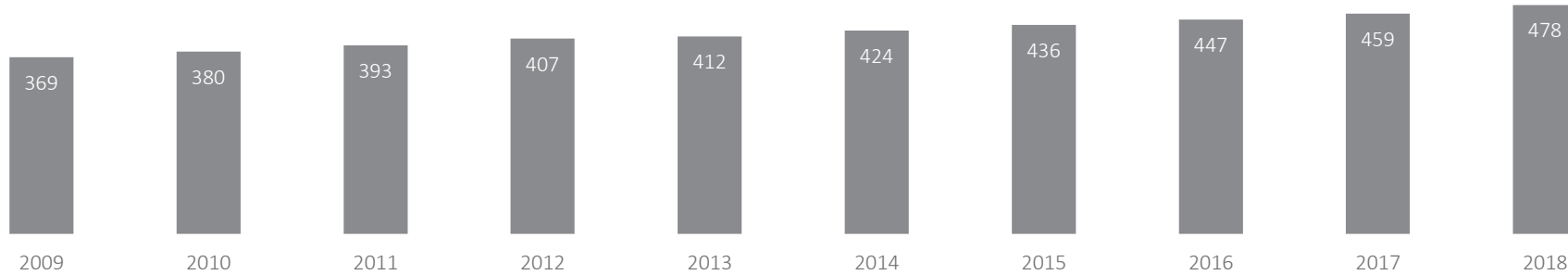
+3.7%
CAGR
2009-2018

BED DEVELOPMENT IN MLN



+0.9%
CAGR
2009-2018

OVERNIGHT STAYS IN MLN

























+2.9%
CAGR
2009-2018



The **past 10 years** have been a **success story** for the German hotel market, characterized by **record figures** in supply, demand and hotel performance. Looking at the **ratio** between **supply and demand**, a general **sustainable development** can be observed whereas regional markets show a differentiated picture. Both **ADR growth (+20%)** and **occupancy increases (+16%)** have been responsible for the **positive development of the RevPAR** over the last 10 years.

TOP 5 CITIES COMPARED TO THE PREVIOUS YEAR

CITY	ADR	OCCUPANCY	REVPAR	OVERNIGHT STAYS*	TRANSACTION VOLUME**
 Berlin	EUR 101 +4.5% 	79% +2.2% 	EUR 80 +6.7% 	32.7mln +5.0% 	approx. EUR 54mln -28.9% 
 Hamburg	EUR 115 -1.4% 	79% -2.2% 	EUR 91 -3.7% 	14.5mln +5.1% 	approx. EUR 420mln -24.3% 
 Munich	EUR 129 +4.7% 	75% 0.0% 	EUR 97 +4.6% 	17.2mln +9.8% 	approx. EUR 524mln -41.9% 
 Frankfurt	EUR 111 -0.2% 	69% -0.3% 	EUR 77 -0.4% 	10.2mln +6.6% 	approx. EUR 532 mln +54.3% 
 Dusseldorf	EUR 105 -7.4% 	69% -2.0% 	EUR 72 -9.3% 	4.9mln +2.5% 	approx. EUR 198 mln +38.8% 

 Delta 2016 > +1.0%  Delta 2016 -1.0 - +1.0%  Delta 2016 > -1.0%

Source: E&V Research *Jan-Nov 2018 incl. Projections Dec 2018 **Information rounded



“ THE GERMAN HOTEL MARKET HAS BEEN CHARACTERIZED BY CONTINUOUS GROWTH FOR ALMOST TEN YEARS. DUE TO ITS STABILITY, THE APPETITE OF NATIONAL AND INTERNATIONAL INVESTORS WILL REMAIN HIGH IN 2019. “



**CITY SNAPSHOT
TOP 5 CITIES
GERMANY**



BERLIN | CONTINUOUS REVPAR GROWTH IN THE CAPITAL


The tourism market in Berlin can look back on another record year in 2018. 32.7 million overnight stays represented a surplus of 5% compared to the previous year.


Looking at the past five years, there is a stronger growth of overnight stays compared to the development of hotel beds which is reflected in a correspondingly increasing RevPAR. The price per available room has increased by approximately 18% since 2014 and reached EUR 80 in 2018. The German capital thus has by far the strongest RevPAR growth among Germany's top 5 locations.

As the development pipeline in Berlin is traditionally well filled, the growth story must continue in the coming years. To be able to fill 8,000 new beds sustainably, additional 2.5 million overnight stays in the next three years are required. This corresponds to an annual growth of 3%, which reflects the past five-year development.

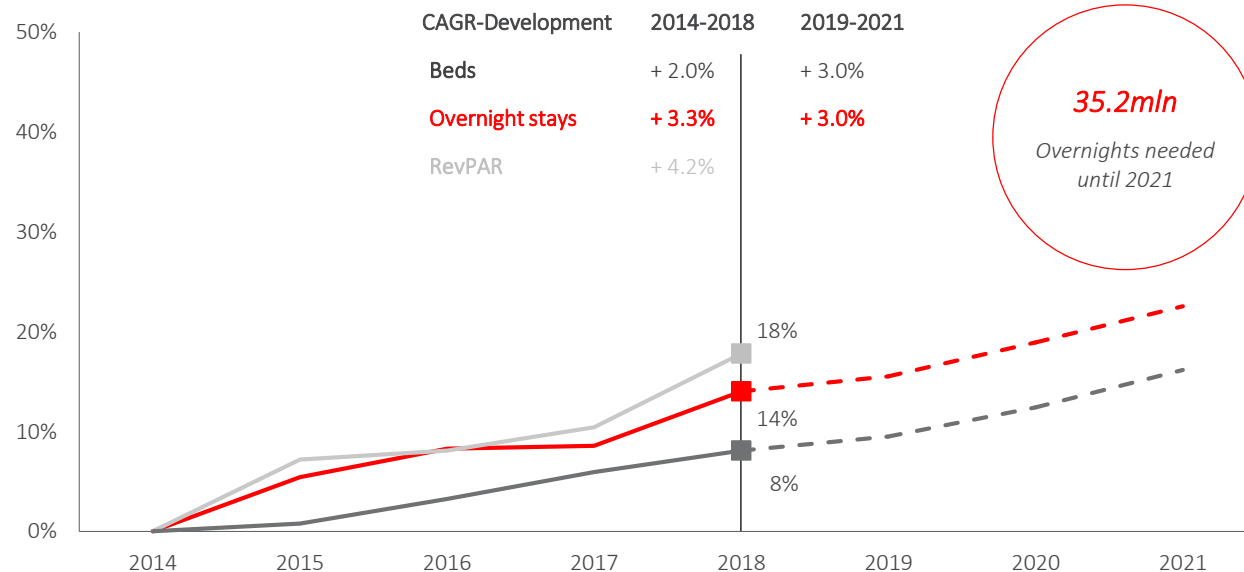
Investors are currently rating the location Berlin exceedingly positive. Two of the largest hotel transactions of the past year took place in Berlin. These included the Hilton Hotel Berlin and the Bristol Hotel, located at Kurfürstendamm.

**Includes projections for December*

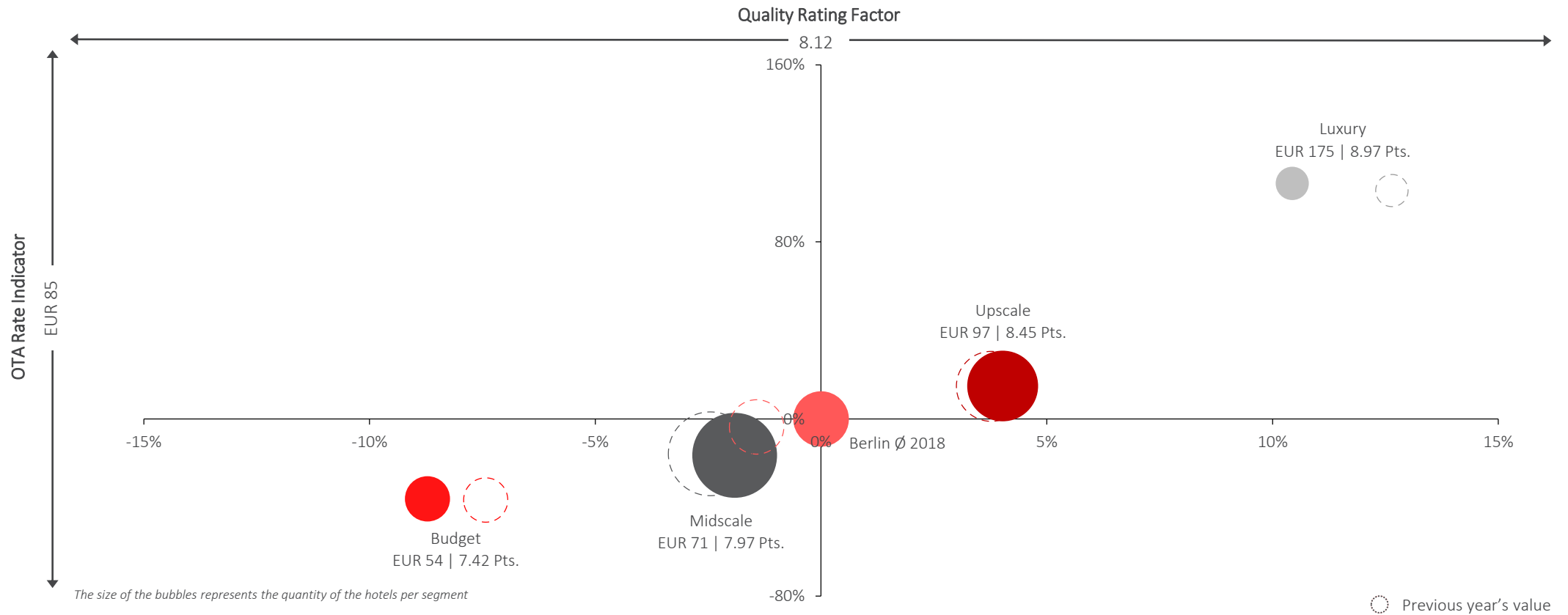
 **146k**
Beds 2018*
+ 2.0% YOY

 **32.7mln**
Overnight stays 2018*
+ 5.0% YOY

 **EUR 80**
RevPAR 2018
+ 6.7% YOY



POSITIVE RATE DEVELOPMENT OF THE ENTIRE MARKET



Looking at the overall hotel market of Berlin, taking into consideration all segments from budget to luxury, a positive rate trend was identified for 2018. The **OTA rate indicator** was at **EUR 85** in 2018, which is approx. 4% above the previous year's level. The **rate spread** was **between EUR 54 in the budget segment and EUR 175 in the luxury segment**. From a guest's point of view, the German capital is now rated best after Munich and achieved a **quality rating factor of 8.12**.




HAMBURG | BED GROWTH SLOWS DOWN HOTEL PERFORMANCE


Tourism in Hamburg is growing steadily. In 2018, the city reached approx. 14.5 million overnight stays. This corresponds to a growth of 5.1% compared to the previous year and a growth of 21% in a five-year perspective.

As a result of the positive demand development, many new hotels entered the market. Especially in 2018, there was a significant supply growth of 6,500 additional beds. For the first time since 2014, bed capacities have grown stronger than overnights.

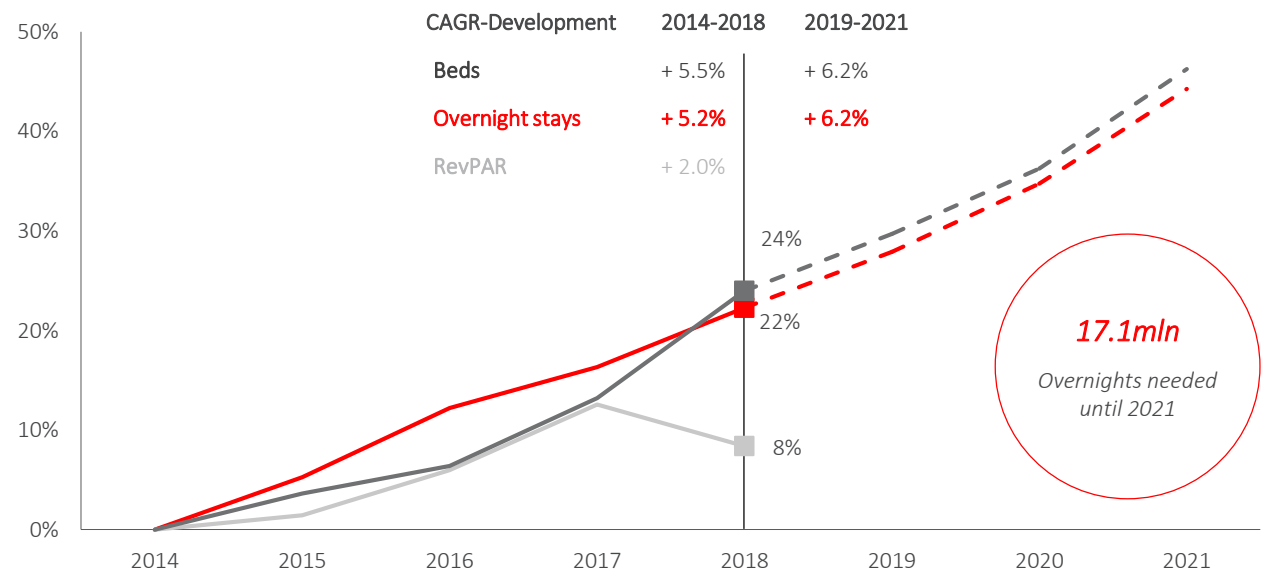
The effects are reflected in the decrease of RevPAR, which at EUR 91 still represents the second highest value of all German Top 5 city destinations. Due to the decline of ADR and occupancy in 2018, Hamburg returned the leading position to Munich.

The investment market Hamburg continues to enjoy great popularity among national and international investors and prime yields are achieved. Selected sales in 2018 included the Ruby Hotel at Stadthausbrücke and the sale of the Ibis Styles Hotel in Barmbek.

 **69k**
Beds 2018*
+ 9.5% YOY

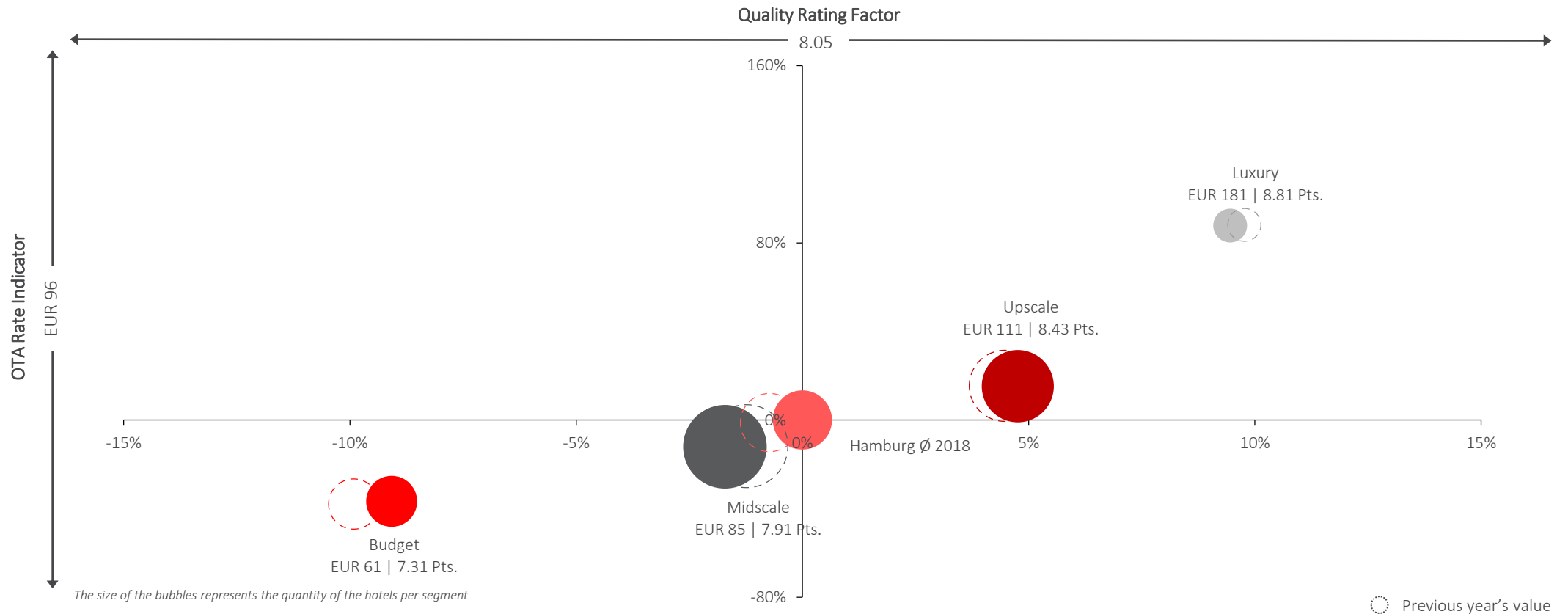
 **14.5mln**
Overnight stays 2018*
+ 5.1% YOY

 **EUR 91**
RevPAR 2018
-3.7% YOY



*Includes projections for December

STABLE RATE LEVEL IN THE OVERALL MARKET



Looking at the overall hotel market of Hamburg, considering all segments from budget to luxury, a positive rate trend was identified for 2018. The **OTA rate indicator** reached **EUR 96** in 2018, slightly above the previous year's level. The **rate range** spreads **between EUR 61 in the budget segment** and **EUR 181 in the luxury segment**. From a guest's perspective, the Hanseatic city is rated with a **quality factor of 8.05** and positioned in the middle of the top 5 cities.



MUNICH | REVPAR STAGNATION DESPITE RECORD GROWTH


In Germany, no other city than Munich has seen such a positive demand development since 2014. Overnight stays have increased by more than 25% since 2014, which corresponds to an annual growth of 6.3%. Despite the continuously increasing demand, the revenue per available room has not improved in the past five years.


One of the reasons for this phenomenon is the capacity expansion, which has risen slightly faster than demand. Further supply growth will shape the Munich hotel market in the coming years. In order to maintain the current occupancy level of 75%, additional two million overnights are needed until 2021.

Hotel operations do not fully benefit from the current boom phase, which is reflected by a nearly stagnant RevPAR since 2014. At EUR 97, the Munich RevPAR still represents the highest value of all German cities.

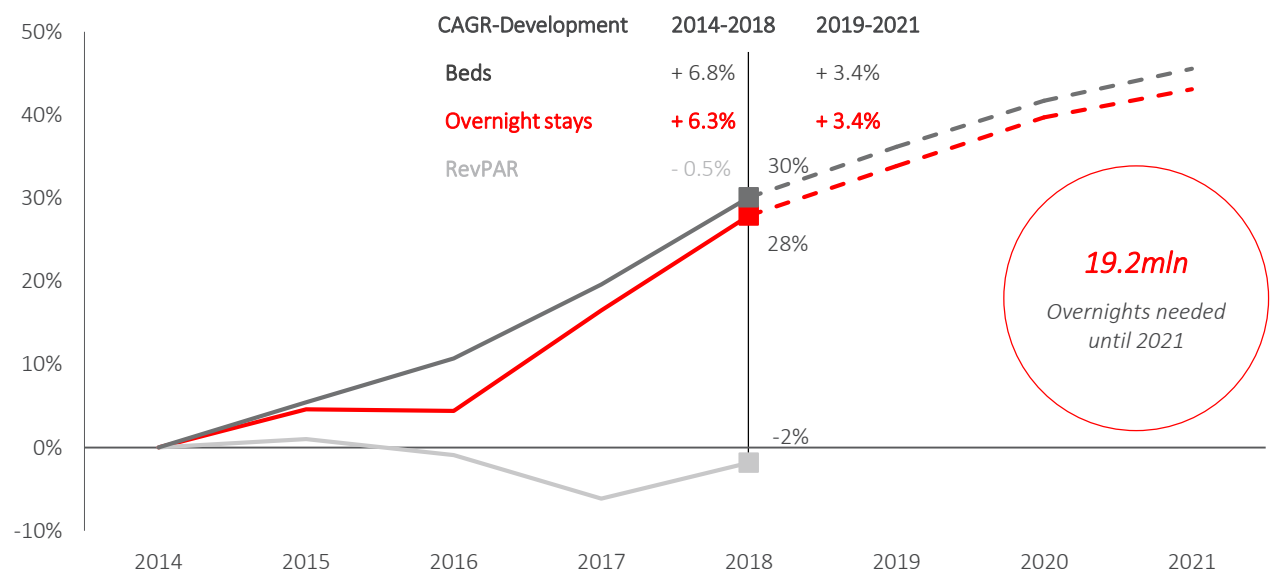
Based on the stability and economic strength, Munich remains one of the most attractive hotel markets in Germany among investors, combined with one of the lowest yield levels. The sale of the 424-room Leonardo Royal Hotel was one of the largest individual transactions in Germany in 2018.

**Includes projections for December*

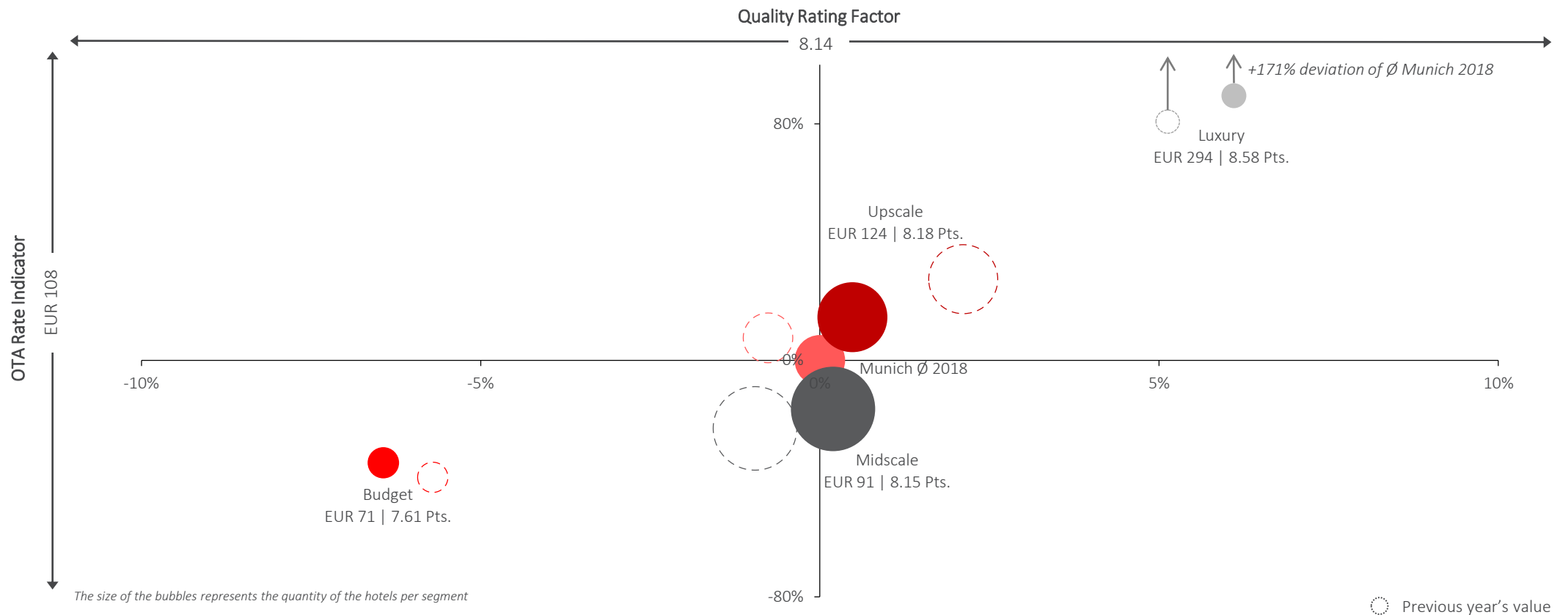
 **81k**
Beds 2018*
+ 8.7% YOY

 **17.2mln**
Overnight stays 2018*
+ 9.8% YOY

 **EUR 97**
RevPAR 2018
+ 4.6% YOY



BY FAR THE HIGHEST RATE LEVEL IN THE LUXURY SEGMENT



Looking at the overall hotel market of Munich, taking into consideration all segments from budget to luxury, the **rate levels declined slightly** mainly due to a drop in the upscale segment. All other segments can demonstrate a positive rate trend. The **OTA rate indicator** reached **EUR 108** in 2018. The **rate range** is most pronounced in Munich, **reaching from EUR 71 in the budget segment to EUR 294 in the luxury segment**. Guests in Munich are the most satisfied in Germany regarding their stay and the quality of hotels which result in a **quality rating factor of 8.14**.



FRANKFURT | GUEST AND BED FIGURES CHASING FURTHER HEIGHTS


Frankfurt reached the major milestone of more than 10 million overnight stays in 2018. Looking at the past five years, overnight stays have increased by 26%, which is one of the strongest growth stories within the Germany hotel market.


Besides the impressive demand development, Frankfurt is experiencing a constant increase in supply. Bed capacities grew by 27% from 2014 to 2018 whereas overnight stays showed a slightly lower development. In the coming years, more hotels will be opened and overnight stays must reach a level of 11.6 million in 2021 in order to maintain the current occupancy level of 69%.

Similar to cities like Munich or Dusseldorf, hotels in Frankfurt have not succeeded in increasing RevPAR in line with the positive development of demand. The gap seems to be increasing, despite the overall positive development over the past five years.

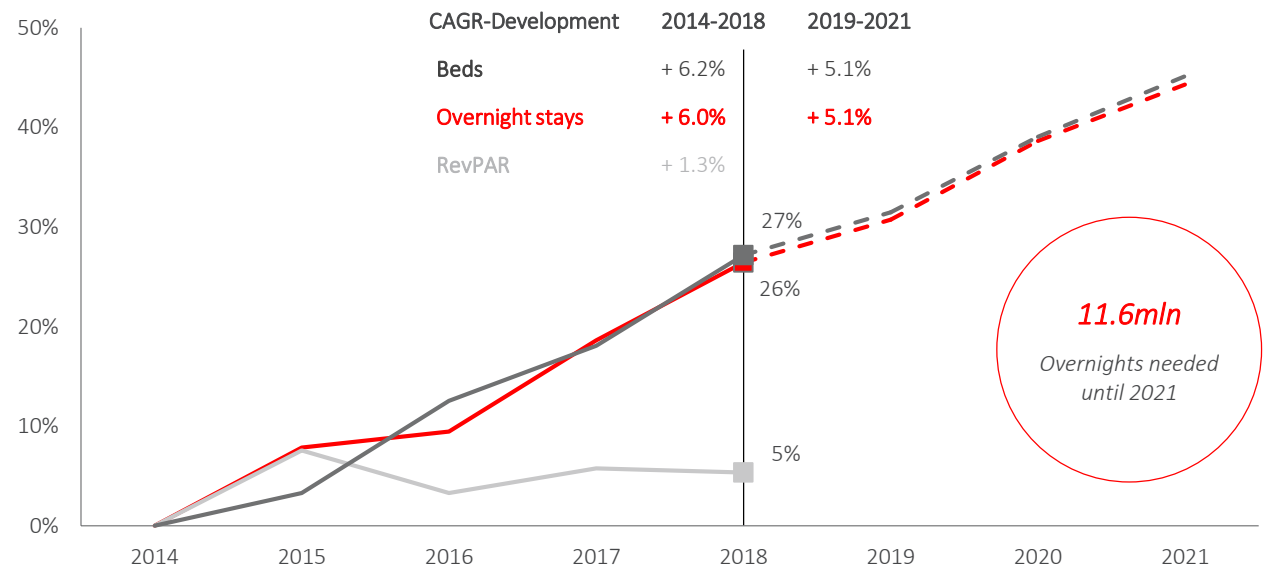
The investment location Frankfurt remains of great interest among national and international buyers. In 2018 for example, the InterCity Hotel Frankfurt Airport and niu Air Frankfurt changed hands.

*Includes projections for December

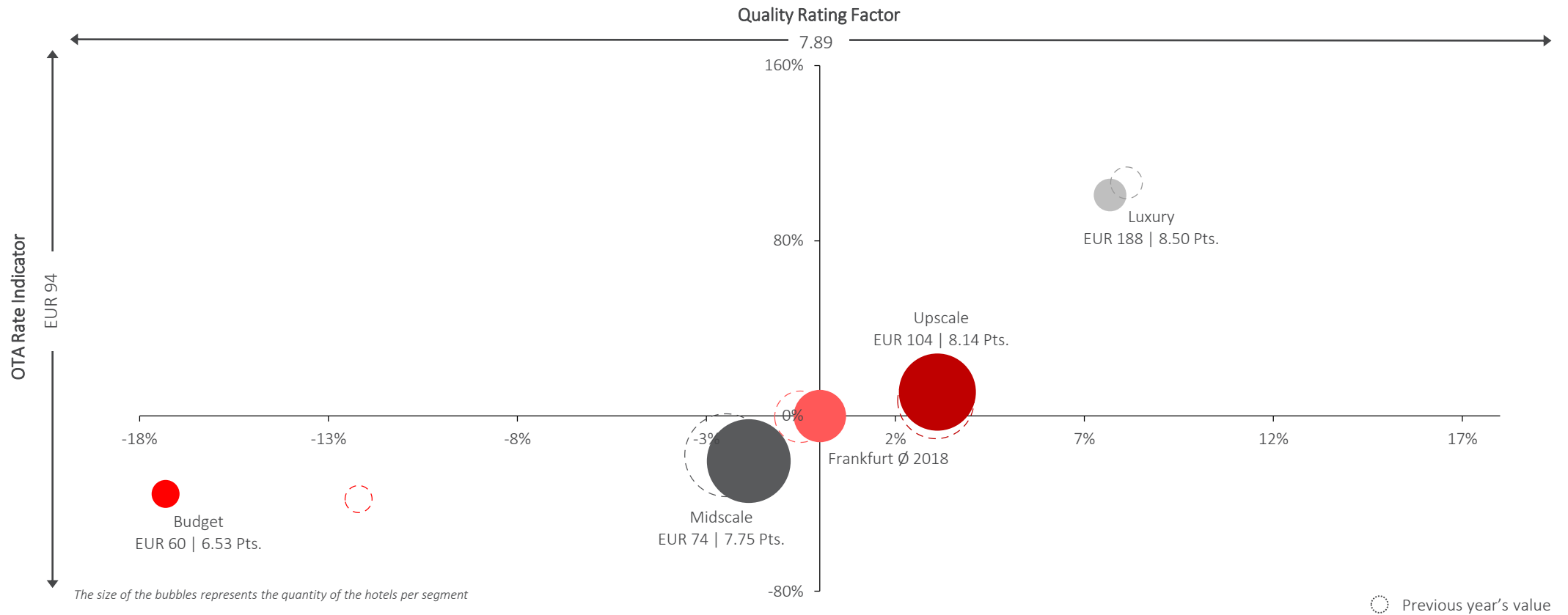
 **56k**
Beds 2018*
+ 7.7% YOY

 **10.2mln**
Overnight stays 2018*
+ 6.6% YOY

 **EUR 77**
RevPAR 2018
- 0.4% YOY



CONSISTENT PRICE LEVEL IN THE OVERALL MARKET



Looking at the overall hotel market of Frankfurt, taking into consideration all segments from budget to luxury, a stable rate trend was identified for 2018. The **OTA rate indicator** reached **EUR 94 in 2018**, the same level as in the previous year. The **rate range** in Frankfurt is comparable to Hamburg and ranged **between EUR 60 in the budget segment and EUR 188 in the luxury segment**. Within the top 5 locations, guest stays were rated lowest with a **quality rating factor of 7.89**.



DUSSELDORF | FUTURE PIPELINE WILL SHAPE THE MARKET

Within the top 5 locations in Germany, Dusseldorf is the smallest hotel market in terms of demand and supply. In the past five years, overnight stays showed a positive development, reaching 4.9 million in 2018. This represents an annual growth of 2.5% since 2014. Despite several new hotel openings, the growth rate of bed developments is still below the growth rate of overnight stays.


To what extent this situation can be continued, remains to be seen. No other German city than Düsseldorf faces a relatively large project pipeline. Therefore, overnight stays must be increased by 36% until 2021 to avoid a significant decline in room occupancy, which currently lies at 69%.

Hardly any German city is as dependent on the trade fair cycle as Dusseldorf. Demand and hotel performance are interrelated with major fairs recurring every two years. It stands out, that in spite of the good trade fair business in 2018, the room rate has dropped significantly. This results in a declining RevPAR.

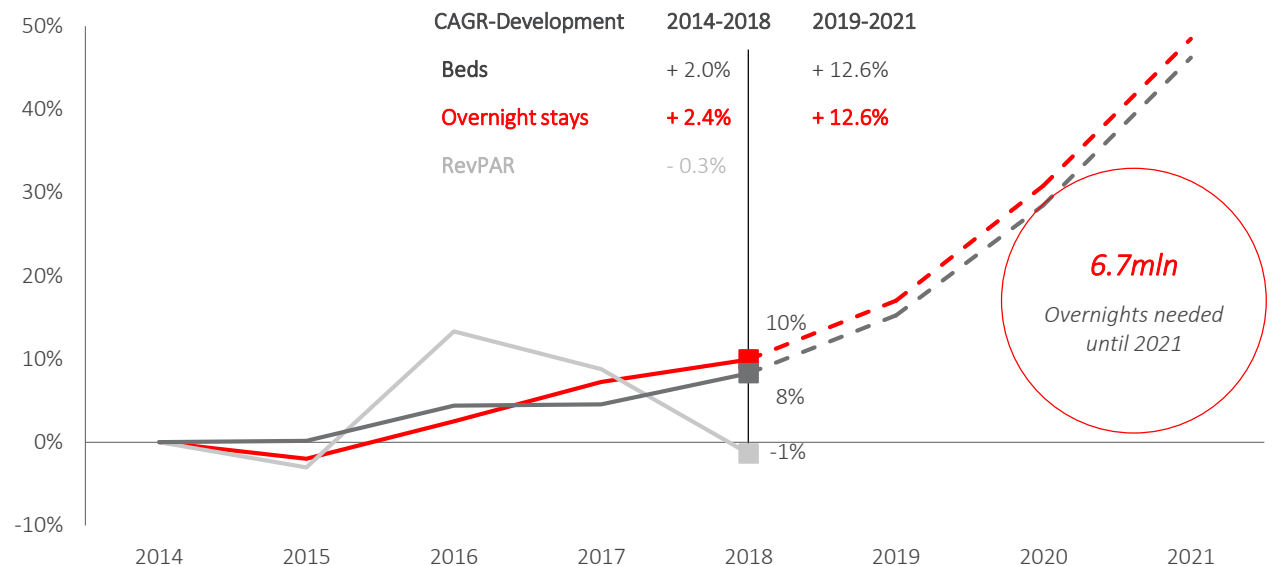
One of the main transactions in Dusseldorf was the double hotel project of Novotel and Ibis, which were sold in the course of a forward deal.

**Includes projections for December*

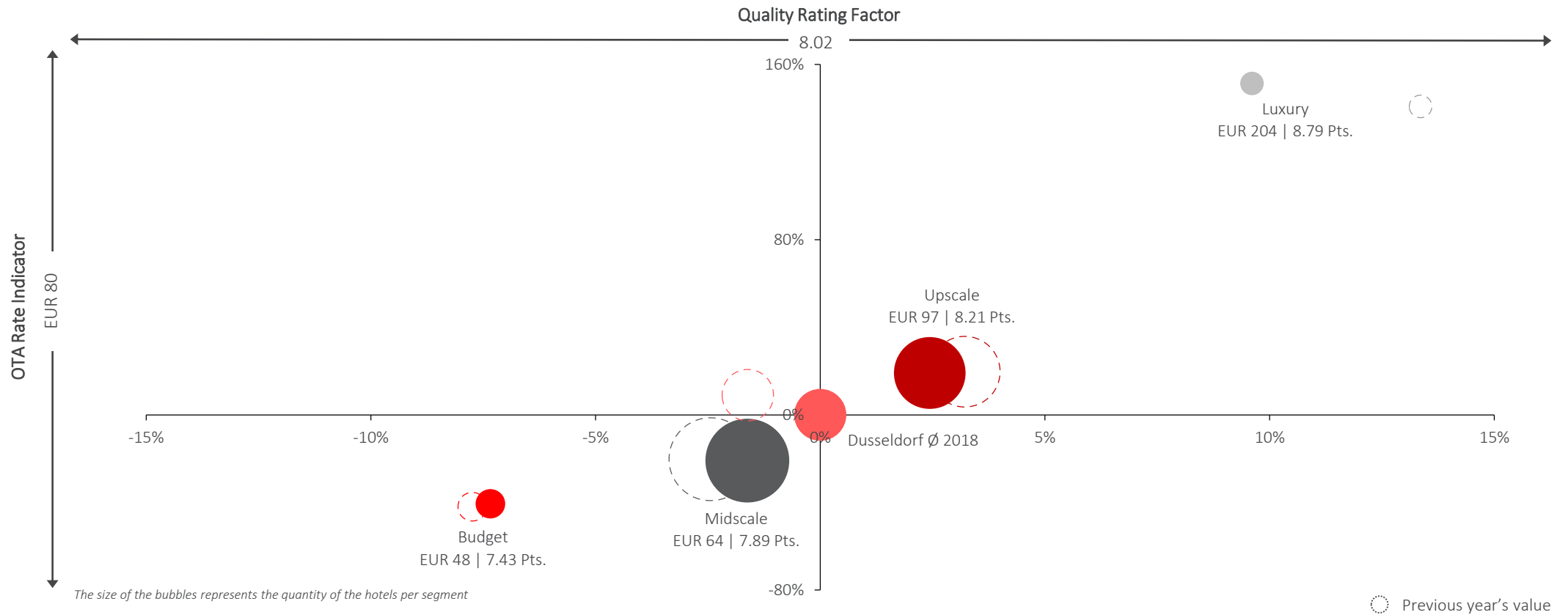
 **28k**
Beds 2018*
+ 3.6% YOY

 **4.9mln**
Overnight stays 2018*
+ 2.5% YOY

 **EUR 72**
RevPAR 2018
- 9.3% YOY



OBSERVABLE RATE DECLINE IN THE PAST YEAR



Looking at the overall hotel market of Dusseldorf, taking into consideration all segments from budget to luxury, the **overall rate level is declining**. The OTA rate indicator reached **EUR 80 in 2018**, thus, below the previous year's level. The **rate spread** in Dusseldorf was strong and ranges **between EUR 48 in the budget segment and EUR 188 in the luxury segment**. Guests rated the hotel stay in Dusseldorf with a **quality rating factor of 8.02 points**.

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Branding
Marketing
Analysis
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Management



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PERFORMANCE HOTEL MARKETS



Overnights and bed supply development

Statistics of overnights and bed supply were taken from the corresponding regional statistical office. Due to the date of publication, numbers regarding 2018 were only taken into account for the period between January and November.



Pipeline hotel projects

The number of hotel openings and the corresponding bed pipeline of the individual destinations are the result of an Engel & Völkers research. All projects are categorized into budget, midscale, upscale or luxury.



Forecast Overnights

Given the current increase in bed capacities, the number of overnights needed to maintain the occupancy from 2018 was forecasted. Opening dates during the year were taken into account accordingly.



Performance Benchmarking

The performance indicators of the German destinations in 2018 compared to the previous year, were derived from Fairmas GmbH, specialist for financial planning, management reporting and solutions as well as benchmarking.

PRICE-QUALITY-MATRIX



Data collection

The booking platform Booking.com was used as a data source for pricing. The quality ratings are derived from approx. 20 rating platforms on one reference date. With this method of data collection, high market coverage is achieved and thus, a representative outcome for the entire market can be displayed.



Data analysis

The OTA Rate Indicator is derived from publicly available prices that are collected and analyzed via an algorithm. The calculated value is displayed excluding VAT and indicates the achieved rates of the market as well as on segment level. The Quality Rating Factor is generated by calculating the mean of published guest ratings on all major rating platforms for every hotel included in the sample.



Matrix

The center of the matrix is the mean of the OTA Rate Indicator and the Quality Rating Factor respectively of the entire market. Based on this, the variance of the segments is displayed using its percentual deviation. While numbers concerning 2018 are shown in filled circles, market averages for 2017 are shown with dashed lines.

AUTHOR INTRODUCTION

ENGEL & VÖLKERS INVESTMENT CONSULTING

Engel & Völkers Hotel Consulting GmbH (EVHC) is the central contact partner within the Engel & Völkers network for global hospitality related matters. The firm offers a full 360° consulting spectrum for investors, operators and project developers and advises along the entire life cycle of a hotel. The team combines over 50 years of cumulated expertise in international hospitality consulting. EVHC is taking advantage of the extensive E&V network, the biggest German real estate related service provider, with over 700 regional offices in 32 countries on 4 continents.

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HQ PLUS

HQ plus supports hoteliers with precise real-time data to achieve a comprehensive overview of distribution channels by combining all relevant price, competition and demand related data on one interface. This enables hotels to advance their pricing strategies within an increasingly competitive market environment, ensures flexibility in market changes and empowers firms to dynamically maximize their occupancy and pricing based on demand. Through this approach, HQ Plus significantly contributes to revenue and profit enhancements. The company was founded in 2012 and currently supports individual as well as chain hotels worldwide and is a market leader in Europe.

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