



# HOTEL MARKET REPORT

GERMANY 2018



ENGEL & VÖLKERS HOTEL CONSULTING

March, 2018

## Europe's hotel market trying to strike a balance between all-time high and sustainability

Dear Readers,

It is indeed exciting being able to work in a segment which evolved from a niche product to a well-established asset class over the last 10 years. In a period of (still) historically low interest rates, hotels have become a popular investment object for investors of all kinds. Leases and rents are flourishing due to a healthy hotel market and hotel real estate that is able to maintain attractive yield premiums compared to other commercial asset classes. Despite an above-average decline in recent years, hotel investments are still producing higher yields on invested capital.

One can find a variety of answers when addressing the issue of resilience in light of potential market downturns. On the one hand, we cultivate positive skepticism – meaning we have learned from previous mistakes and are very well aware of our dependency on the economical and geopolitical environment. On the other hand, a substantial bed pipeline of c. 300,000 beds has been contracted for the upcoming three years which demands an ongoing positive market outlook to avoid excess capacities. The current issue is to identify prevention measures to maintain economical sustainability even during weaker market times. The valuation of location and investment decisions is as critical as ever. Understanding and thoroughly analyzing macro and micro environments reaching down to performance on street level are crucial requirements to sustain. Moreover, assessing the incremental value of different brands in the equivalent segments must be reviewed critically. The growing interest in the hotel market led to an increasing variety of hospitality concepts. Courageous operators who developed segment-specific concepts combined with courageous investors have led to a greater diversity within the market.

Our annual hotel market report discusses the most recent development in the top 5 investment destinations in Germany – Europe's economic engine. In cooperation with our partner HQ plus, we established a revolutionary new performance analysis tool which determines price and quality indicators divided into segments based on online booking platforms. Big Data and digitalization are revolutionizing the market and we want to contribute our innovative expertise and passion.

We wish you an insightful lecture!

Cordially yours,



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# EUROPE & GERMANY MAINTAIN SUBSTANTIAL GROWTH

## ➔ DEMAND DRIVES MARKET GROWTH

Europe achieved a substantial rise of demand in 2017. With a total of 671 million registered visitors, +8% increase compared to the previous year, the region accomplished an increase four times higher than the worldwide growth rate. The key reason, apart from economic growth, was the recovery of many destinations affected by security incidents. Some countries and destinations are even discussing the matter of “overtourism” and are considering regulatory actions regarding hotel developments.

## ➔ PERFORMANCE IMPROVEMENTS ESPECIALLY IN EASTERN AND SOUTHERN EUROPE

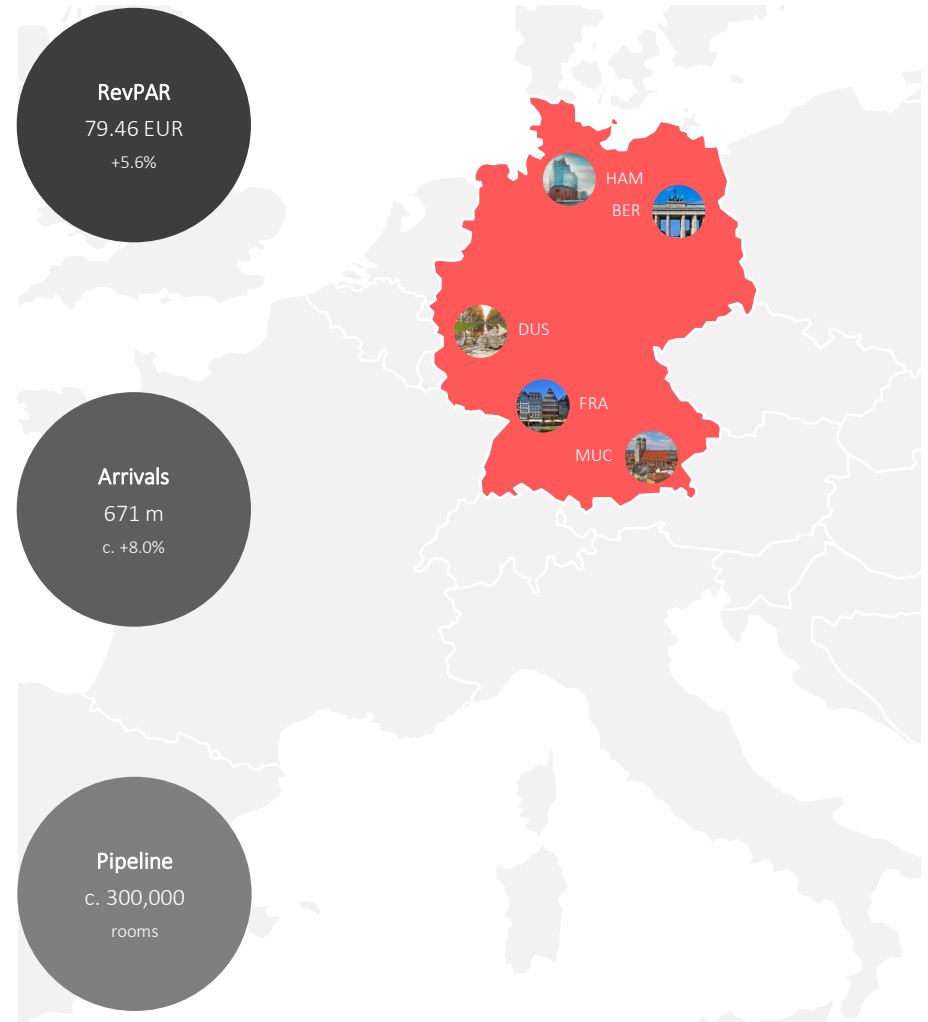
With an occupancy of 71.9% (+2.4%) and an ADR of 110,51 EUR (+3.1%), Europe achieved a substantial performance increase compared to 2016. By looking closely at the regional developments in terms of RevPAR, one can see that Eastern Europe (+10.8%) managed to generate the highest growth rate – though starting from a relatively low level. Followed by the South (+9.5%), North (+4.7%) and West (+2.2%).

## ➔ TRANSACTION RECORDS MEET PRODUCT SHORTAGE

The forecasted transaction volume for 2017 based on the actual numbers of first three quarters confirmed the continuing interest in the market. Availability of capital and pressure for yields are high. The product shortage in key destinations fuels the yield compression and forces investors to focus on secondary locations.

## ➔ NEW BRANDS, NEW CONCEPTS, NEW TECHNOLOGIES, NEW EVERYTHING

New brands, especially in the design-oriented budget and midscale segment, are launched almost monthly and hotel firms are desperately searching for suitable locations. Fierce competition is additionally intensified by customizable and flexible concepts i.e. co-working and boarding houses. These trends try to satisfy the current characteristics of urbanity driven by mobilization and digitalization.

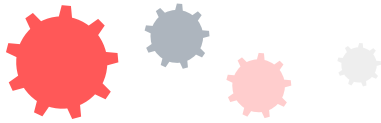


KPIs 2017	ADR	Room-Occ	RevPAR	Overnight stays	Transaction volume	E&V Attractivity Index
 Berlin	96 EUR + 1.9% 	78% - 0.4% 	75 EUR + 1.5% 	28.9 m* + 0.7% 	c. 0.76 EUR bn + 9.4% 	-  +
 Hamburg	117 EUR + 5.3% 	81% + 0.6% 	94 EUR + 6.0% 	12.8 m* + 4.1% 	c. 0.56 EUR bn + 50.1% 	-  +
 Munich	125 EUR - 4.0% 	75% - 0.9% 	93 EUR - 5.0% 	14.3 m* + 10.9% 	c. 0.90 EUR bn + 137.6% 	-  +
 Frankfurt	112 EUR + 1.8% 	70% + 1.6% 	78 EUR + 3.5% 	8.8 m* + 7.7% 	c. 0.34 EUR bn - 48.5% 	-  +
 Dusseldorf	113 EUR - 3.7% 	70% + 0.1% 	80 EUR - 3.6% 	4.4 m* + 4.3% 	c. 0.14 EUR bn - 63.2% 	-  +

 Delta 2016 > +1.0%  Delta 2016 -1,0 - +1,0%  Delta 2016 > -1,0 % \*Period: Jan – Nov 2017

# METHODOLOGY





## 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 2017 could only take into account the period between January and November.



### Pipeline hotel projects

The amount of hotel openings and the corresponding new bed supply 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 2017 was forecasted. Opening dates during the year were taken into account accordingly.



### Performance Benchmarking

The performance indicators of the German destinations in 2017 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

1

### Data collection

The booking platform Booking.com was used as data source for pricing. The quality ratings are derived from c. 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.



2

### Data analysis

The OTA Rate Indicator is derived from publicly available prices that are collected and analysed 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.



3

### Matrix

The centre 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 2017 are shown in filled circles, market averages for 2016 are shown with dashed lines.



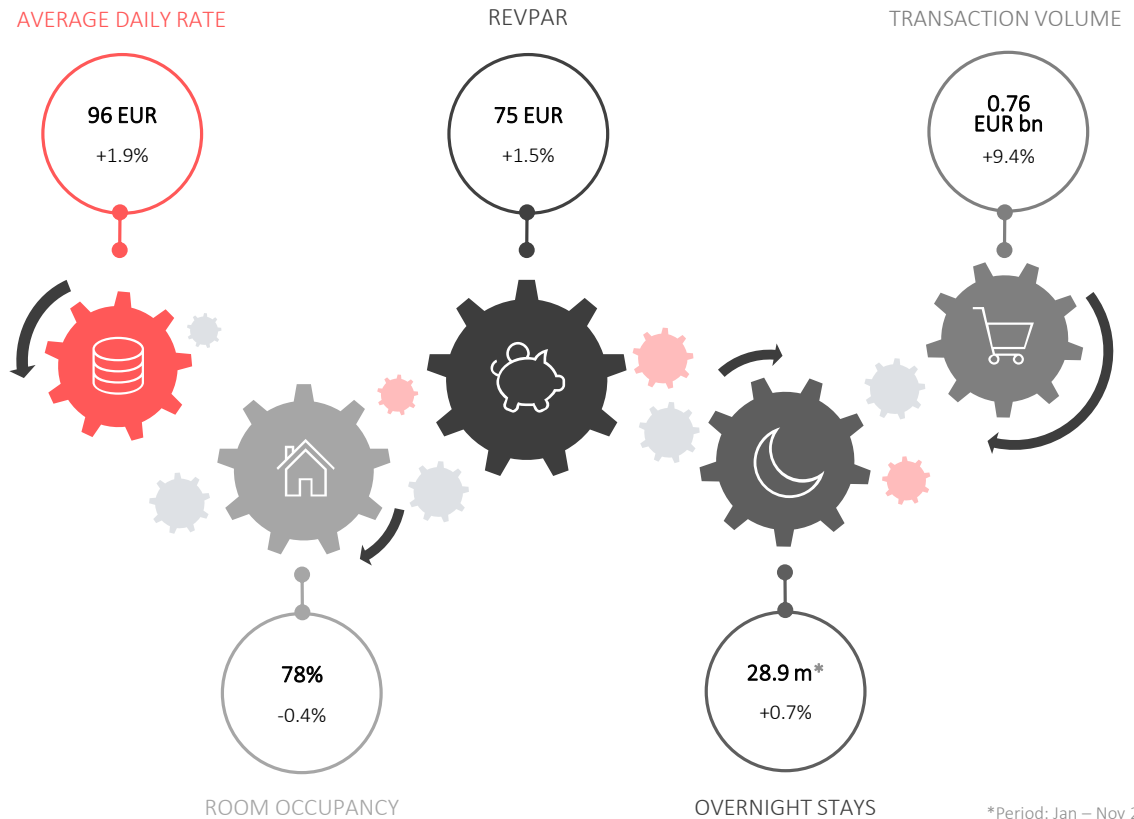


➔ In terms of overnights, Berlin leads Germany's biggest urban tourism destinations. However, looking at the demand curve over the last five years a levelling trend can be witnessed.

While Germany's economy is setting record after record and achieves a declining unemployment rate, Berlin's tourism was struck by the bankruptcy of the formerly second biggest national airline Air Berlin. This resulted in a 4.1% decline in overnights in November compared to the same period in the previous year. Additionally, the new airport Berlin Brandenburg which to this day still being under construction, exemplifies how infrastructure stands for dependence of the industry as well as room for improvement.

The hotel pipeline remains ample and will intensify the fierce competition on the hotel market. 13,000 additional beds need to be occupied and further demand growth is required to maintain an over the recent years continued positive price development.

Berlin being a metropolis is not a fresh player on the market, its outlook remains positive and hence domestic as well as foreign investors hold up their interest in the destination.

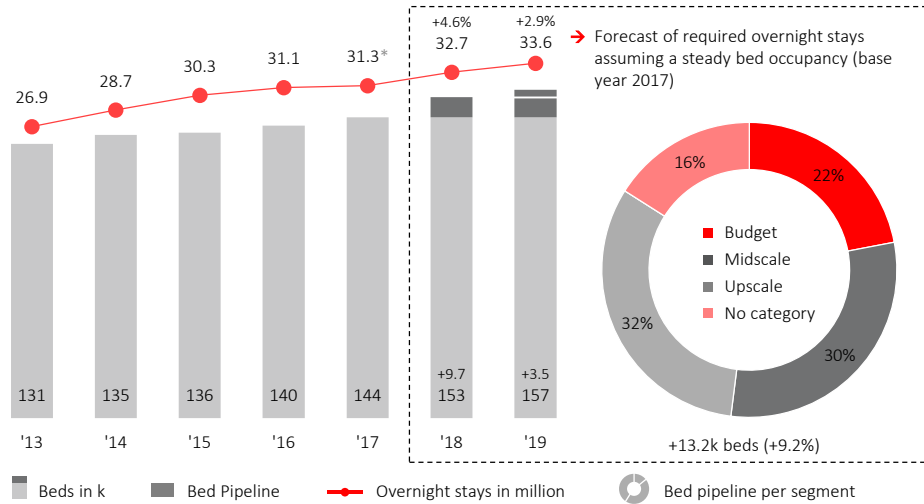


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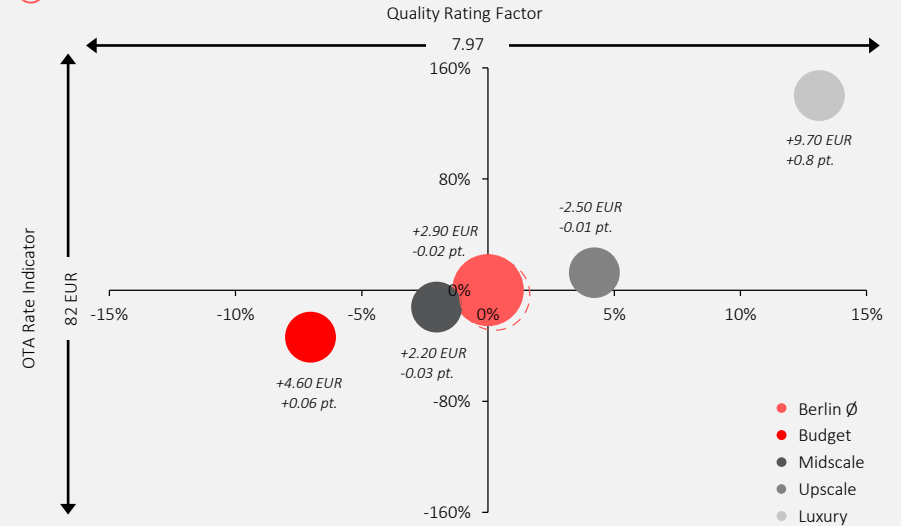


# THE MID- AND UPSCALE SEGMENTS COIN FUTURE GROWTH

## → SUPPLY AND DEMAND DEVELOPMENT



## → PRICE-QUALITY-MATRIX



### WANTED HOTSPOTS

The focus regarding hotel expansion can be currently found around the main station, the Alexander Platz as well as close to the Mercedes-Benz arena in Friedrichshain

### PIPELINE CHALLENGES THE CAPITAL CITY

Due to another increase of roughly 13k beds until 2020, the levelling demand must be fueled once again to meet the required yearly increase of about 4% in order to maintain the current bed capacity utilization

### EVERYTHING BUT LUXURY

The luxury segment in Berlin will not witness any further significant developments in the upcoming years owing to the exhausted potential of rate increases in this segment

### Rising rates in almost all categories

The analysis shows a market-wide rate of 82 EUR in the capital. This equals a growth of c. 4.0% compared to the preceding year.

The price range lies between 54 EUR for a Budget hotel room and 196 EUR for a Luxury hotel room.

### The higher the segment, the higher the guest ratings

In Berlin one undoubtedly can see a strong positive correlation between guest ratings and the service level of hotels. While the Luxury segment with an average rating of 9.0 is by far the best rated category, the Budget segment is achieving the lowest ratings with 7.4. Generally, hotels in Berlin get rated on average at 8.0.

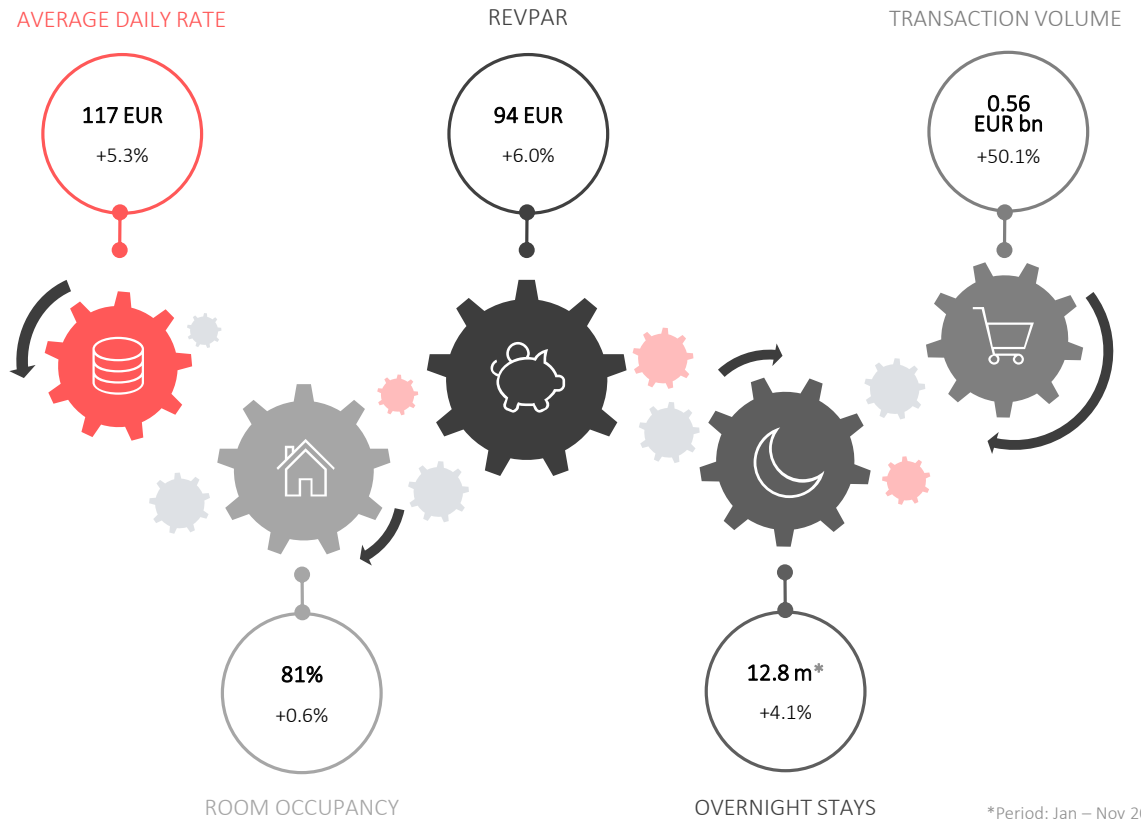


# HAMBURG | GERMANY'S DARLING WITH HIGHEST REVPAR

➔ Between Reeperbahn and Elbchausee – Hamburg, a city full of contrast. Although, the construction of the Elbphilharmonie was seen as a scandal prior to the opening due to overwhelming costs and delays as well as the comprehensively covered violence during the G20 summit, both the opera opening and the summit boosted Hamburg's tourism and established the Hanseatic city on the global stage. This results in growing numbers of international arrivals beyond the average growth rate.

Hamburg benefits from a healthy balance between leisure and business travel. For years, the supply curve could not entirely keep up with the demand curve and hence, hotels are able to optimize their performance indicators which ultimately attracts investors.

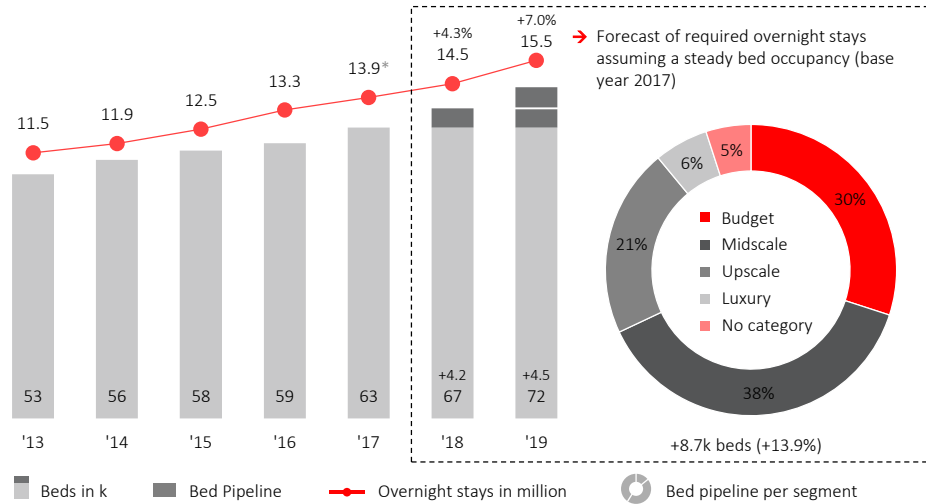
High demand combined with scarce opportunities forces project developers to search for alternative sites. While the plans for the awaited Elbtower were finally presented in February 2018, the area south of the river Elbe has already moved into the focus of investors and operators. Apart from being famous for its port and musicals, the Hanseatic city wants to establish itself as a key MICE destination (modernization of the CCH and construction of a 400-room congress hotel) as well as increase its popularity regarding cruise tourism.



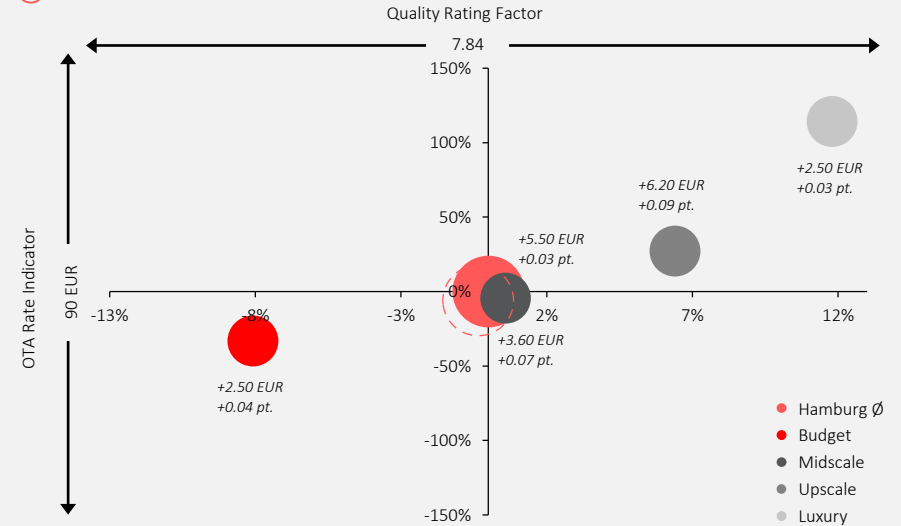
\*Period: Jan – Nov 2017

# HAMBURG'S POSITIVE OUTLOOK

## → SUPPLY AND DEMAND DEVELOPMENT



## → PRICE-QUALITY-MATRIX



### Positive rate developments prove the current market environment

When considering the entire hotel market in Hamburg, a net rate indicator of 90 EUR was achieved. This rate increase equals a percentage growth of 6.5% and stresses once again the positive sentiment. While positive developments can be recognized in all segments, the Budget and Upscale segment achieved the highest percentage increases.

Despite all euphoria, by assessing the rates in the Luxury segment, one can see that Hamburg is still lacking behind European tourism hotspots. Even in Germany, Hamburg's Luxury hotel rates are just slightly above Berlin's.

### Guest ratings do not meet global ambition

Hamburg has one of the lowest rating among the Top 5 tourism cities in Germany. With 7.84 Hamburg is just second to last, despite a slight improvement over the past year. As in Berlin, the higher the segment is, the better the rating.

### HEALTHY DEMAND STRUCTURE

The balance between leisure and business travelers as well as the growth potential of inbound tourism lead to optimism regarding achieving the required increase in demand

### OUTSTANDING PERFORMANCE BOOSTS PIPELINE

The great performance of the market results in a comprehensive bed pipeline until 2020. To maintain a room capacity utilization of 81%, overnights need to reach about 15.5m (+5.6% CAGR) in the same period

### QUO VADIS, HAMBURG?

To secure claims of being a metropolis, Hamburg needs to strengthen its congress and cruise tourism. International flight connections as well as a decentralized urban development are crucial parameters in the future



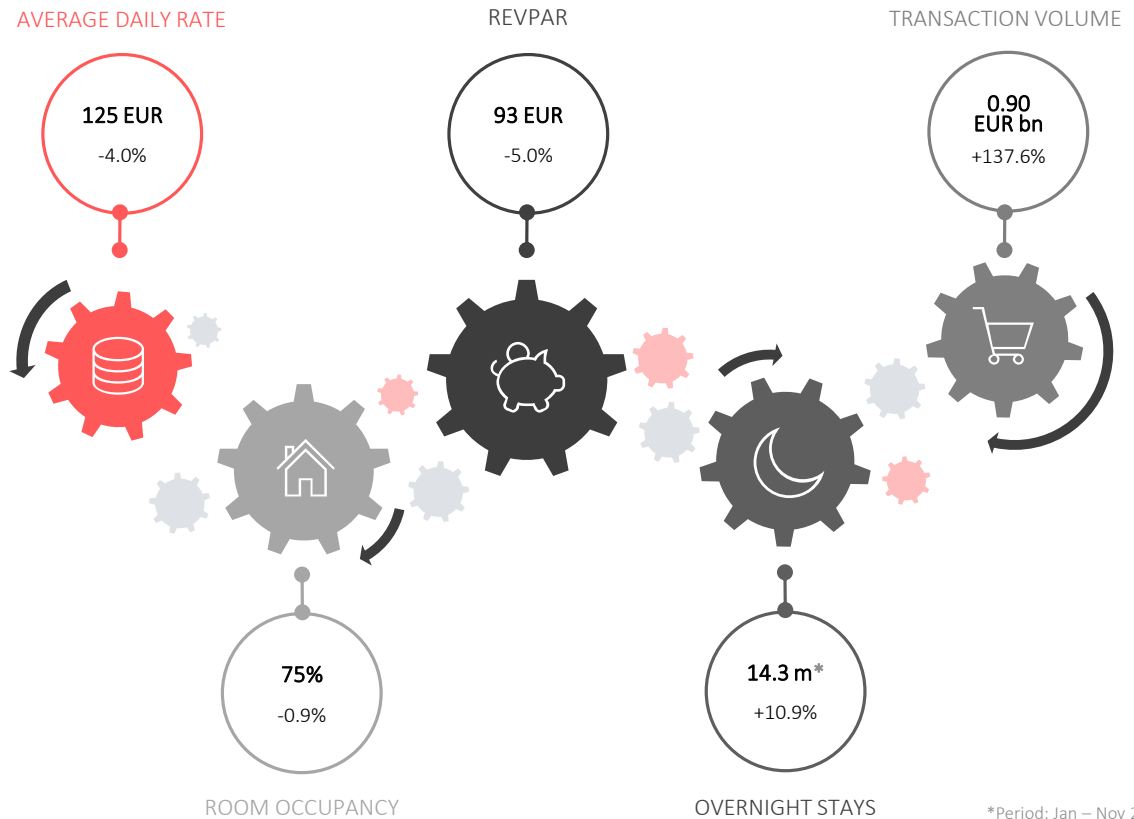
# MUNICH | HOTEL OPENINGS CHASING HOTEL OPENINGS

➔ After a turbulent year, shaped by negative headlines about the rampage at the Olympiazentrum, Munich's touristic demand recovered in 2017 in an astonishing fashion. Between January and November, overnights soared by 10.9% and reached a new record high at 14.3m.

This overwhelming increase was mainly due to sequential exhibitions and fairs i.e. the BAU, Heim + Handwerk or IHM. The Bavarian capital remains an attractive destination and with 6.2m Oktoberfest-visitors, Munich is approaching its previous record results.

Further demand growth is anyway required owing to a substantial bed pipeline. Roughly 13k beds will further stimulate the fierce competition on the market. The key question will be whether Munich can maintain its price leadership after another intensification of competition. New hotel projects will be mainly situated in the vicinity of the Ostbahnhof as well as in Berg am Laim.

Munich will remain a highly attractive market for investors which is among others due to economic stability. The downside are the lowest yields in Germany.



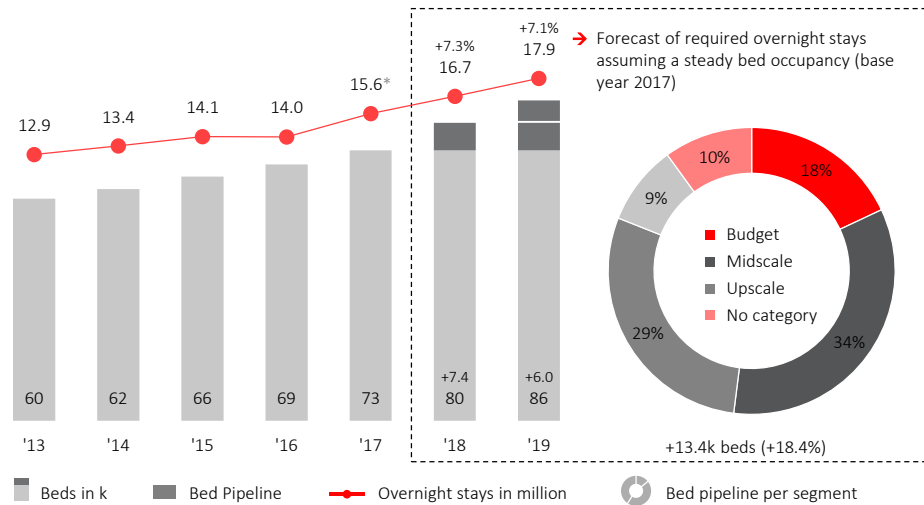
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# THE RATES ARE STILL UNMATCHED

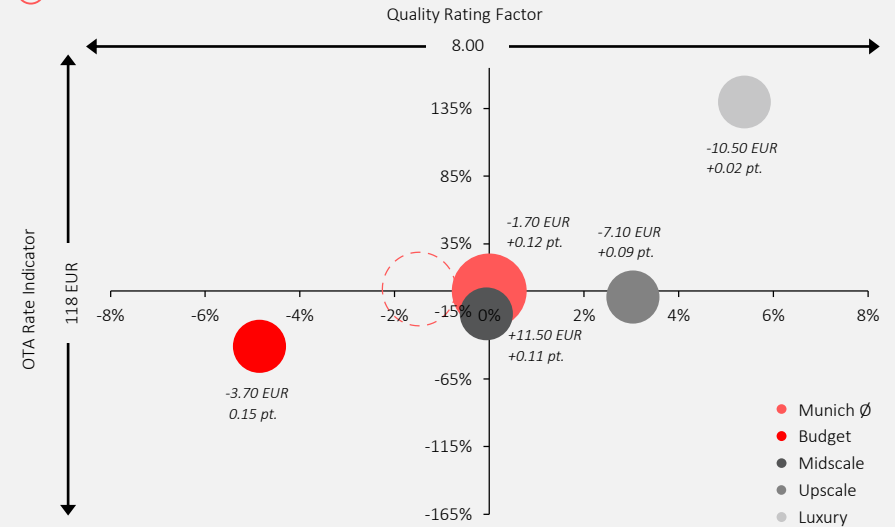


MUNICH

## → SUPPLY AND DEMAND DEVELOPMENT



## → PRICE-QUALITY-MATRIX



### Top performing Midscale segment could not stop overall rate decline

The OTA Rate Indicator is also displaying a decrease in Munich and lies with -1.4% at 118 EUR in 2017. The overall decrease seems to be mainly caused by the higher priced Upscale (-5.9%) and Luxury (-3.6%) segments. That is the reason why a substantial rate growth of the Midscale segment remained largely undetected. Its rate increased from 87 EUR to 98 EUR.

### The quality is right

While the rates are subject to negative changes, Munich's quality rating achieved the highest increase with +1.5%. Especially the Budget segment requires attention, since it defended its first place among the top 5 by increasing by 2% to 7.61. Likewise, the Midscale segment reached the first place among the top cities (8.00 | +1.4%).

### HOTELS IN DEMAND

Munich shines through an increase in transaction volume by 138%. About 20 properties found a new owner in 2017, but Munich's yields are the lowest nationwide with prime yields around 4.0%

### DECLINING OCCUPANCY AT RECORD RATES

The biggest bed pipeline amongst the top 5, led the city on 3<sup>rd</sup> rank. The openings the years to come will present the biggest challenge to hotel investors and operators

### POP-UP MEETS BAVARIAN TRADITION

Munich's hospitality industry is getting more creative. The Lovelace revolutionized the market, even just for a while. Also trendsetters like 25hours, Ruby, Roomers and Co bring fresh air

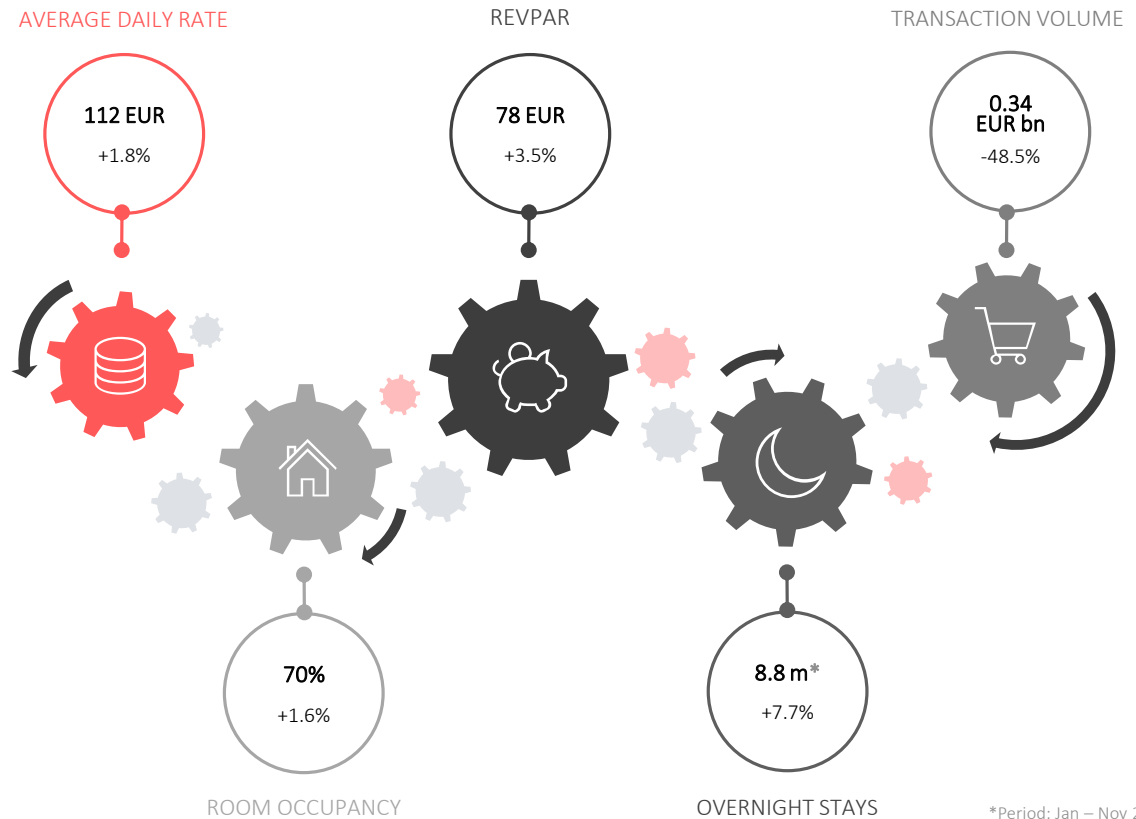
# FRANKFURT | NEW BEDS SEEKING NEW GUESTS

➔ The economy is flourishing, Frankfurt announced an all-time low in unemployment and overnights have almost doubled in the last 10 years. At first glance, Frankfurt seems to be the perfect hotel destination for eager investors, but its worth taking a second look.

The constantly recurring issue in the Mainhattan is the drop in occupancy between weekdays and weekends. An improvement in terms of a well-balanced volume of leisure and business travelers cannot be expected. Also one of the reasons why Frankfurt achieves the lowest occupancy rate among the top 5 in Germany.

The promising economic figures have successfully attracted project developers and investors. The bed pipeline is large. Roughly 9,000 new beds will enter the market until 2020. Thus, a demand growth to 10.8m nights is required (+6.6% CAGR). It will be interesting to see whether or to what extent the city can ensure the growth, which mainly needs to be derived from business travel.

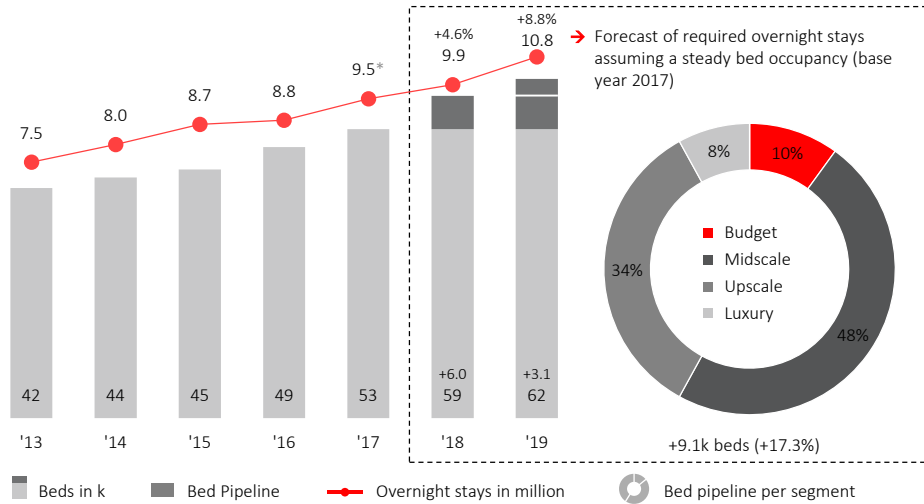
Nevertheless, Frankfurt is still an attractive destination for national as well as international investors – also when talking BREXIT. However, project sites will be assessed more critically in light of future supply.



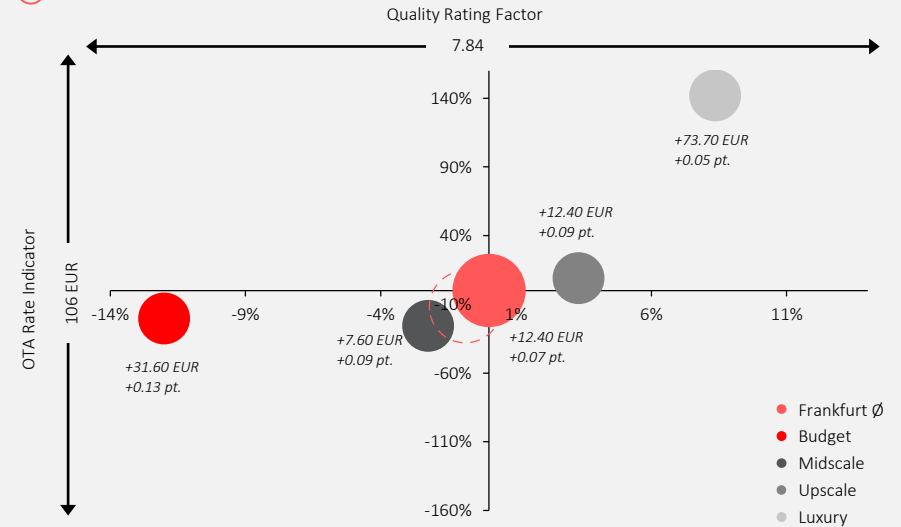
\*Period: Jan – Nov 2017

# 10 MILLION OVERNIGHTS WITHIN REACH

## → SUPPLY AND DEMAND DEVELOPMENT



## → PRICE-QUALITY-MATRIX



### All segments contribute to overall growth

Frankfurt achieved the highest rate growth with 13.3% (105 EUR) among Germany's Top 5. This is mainly due to the overwhelming increase by some 60% in the Luxury segment. However, it must be noted that this exorbitant growth is caused by the entry of the Jumeirah Frankfurt into the sample.

### Frankfurt's demanding guests

The quality ratings could also post growth across all segments. Nevertheless, Frankfurt is still lacking behind in terms of quality, since the city is rated on average at 7.84 which results in being ranked last.

The +0.9% increase is mainly caused by the Budget segment (+1,9%) and the Midscale (+1.2%) segment.

### ADDITIONAL 1.3M OVERNIGHTS NEEDED UNTIL 2020

The preconditions for another demand related growth is a continuing positive economic development as well as the acquisition of additional MICE tourism

### INVESTORS REMAIN HUNGRY FOR OPPORTUNITIES

The city will remain an attractive investment destination with profitable yields which, however, depend on rigid underwriting (location, operator, concept, property)

### MIRROR, MIRROR ON THE WALL...

The competition among accommodation providers is intensifying and the city needs to maintain its price-leadership strategy throughout the weekdays in order to level the stagnation or decline in occupancy

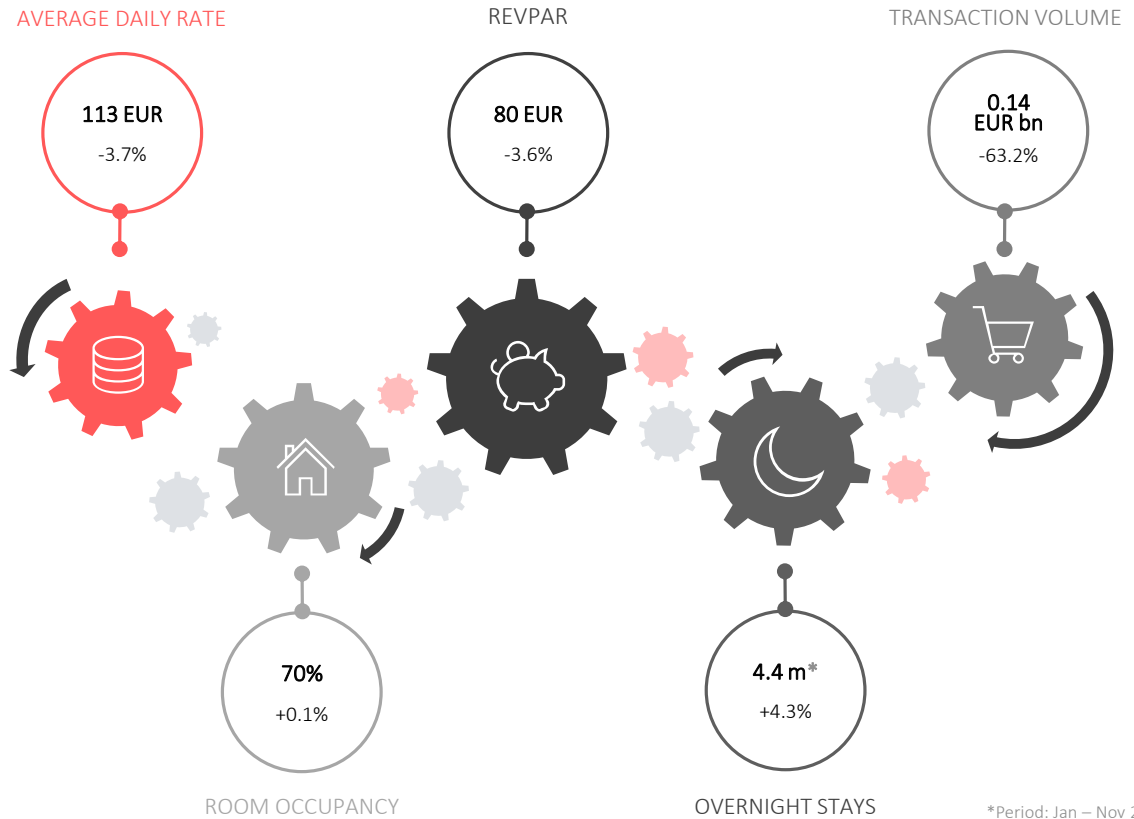


# DUSSELDORF | KEEP THE FAIRS, KEEP THE SHARES

➔ The regional capital at the river Rhine will need to prove itself in the upcoming years. The astonishing growth in overnights and the resulting excess demand caught investors' attention. An ample pipeline has developed with occasionally even two properties of the same brand.

The Tokyo of Rhineland seems to be especially interesting for rollouts of new concepts and brands. Brands like me and all, Hyatt House and Max Brown use the city for launching their first German properties. Moreover, boutique hotels and innovative concepts like Carloft found their new homes in Düsseldorf. The large number of conversions, rededication of offices and retail buildings, is also remarkable.

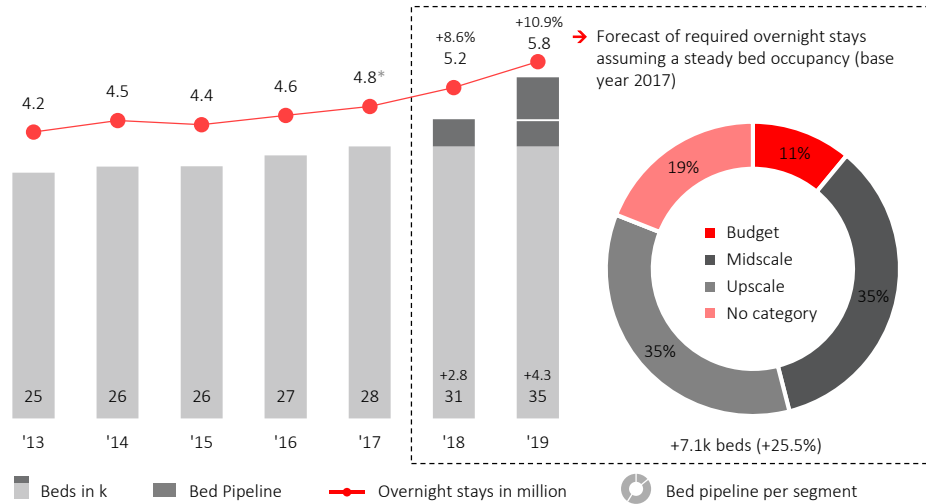
The dependence on the cyclical exhibition calendar and business, which claims 70% of demand, remain a key variable. In contrast to market expectations, the weaker exhibition year 2017 only allowed for a minor RevPAR decline compared to record-setting 2016. However, the ongoing dependence fuels the fear of losing major events which seems justified considering the large pipeline.



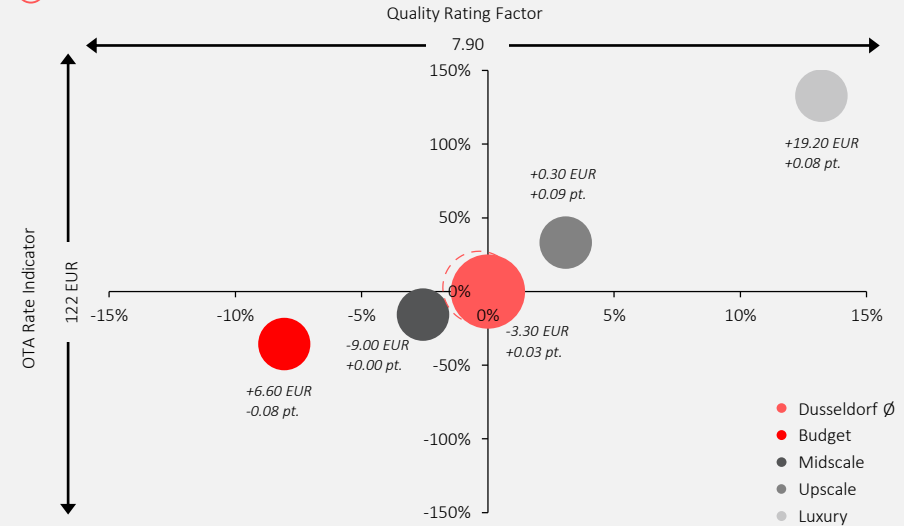


# NEW OPERATORS AND CONCEPTS ARE SPICING UP THE MARKET

## → SUPPLY AND DEMAND DEVELOPMENT



## → PRICE-QUALITY-MATRIX



### The rates mirror a rather weak exhibition performance

Dusseldorf had to recognize a decrease in terms of OTA Rate Indicator in 2017 which is caused by weaker exhibitions this year. Within the analysis scope, the rates are situated at the top level and lie above the published rates by Fairmas.

### Mediocre guest satisfaction compared to the Top 5

Dusseldorf's guests show a rather steady guest satisfaction level at 7.9 which is a mediocre result among the other top destinations. However, a closer look reveals that the Luxury segment (8.9) is the second highest rated among the sample.

### STRENGTHEN YOUR STRENGTHS, BUT ALSO DIVERSIFY

With hosting 14 out of the Top-100 exhibitions, Dusseldorf possesses a strong source for demand, nevertheless, it would be advisable for the market to lower its dependence and use its internationality

### SUSTAINABLE INDIVIDUALISM

The sustainable way of using existing properties and conducting conversions enables new concepts a relatively cheap market entrance and shows responsible investing

### AMBITIOUS GROWTH

The regional cheerful nature is on trial in the upcoming years. The current bed pipeline of about 7k beds (+25.5%) requires an increase in overnights of about 1.0m until 2020 to keep up the current occupancy level



## HOTEL MARKET REPORT

„Hotels are becoming investor’s darling,  
but the product shortage shapes the  
transaction market“

# INTRODUCING THE AUTHORS

## ENGEL & VÖLKERS HOTEL CONSULTING

Engel & Völkers Hotel Consulting GmbH (EVHC) is the central contact partner withing 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 supports hoteliers with precise real time data to achieve a comprehensive overview over 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 market leader in Europe.

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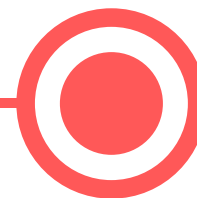
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