Taking Stock of Hotel Investment & Development in German-Speaking Markets

By Maria Puetz-Willems

When it comes to German-speaking hotel markets, Rupert Simoner, CEO of the Austrian Vienna House hotel group, described it succinctly: “Germany is hot, Austria is lukewarm and Switzerland remains select,” he said.

With respect to investment, he is right: This is exactly how the German-speaking hotel market fanned out in 2016. Development in the “hot” German market even runs anti-cyclical toward the trends in EMEA and worldwide. One notable trend last year: hotel operators are increasingly becoming part of the transactions.

According to JLL, in 2016, global hotel investment volume amounted to approximately $USD 61.7 billion, or about €59 billion. In 2015, it global transactions clocked in at $USD 85 billion. Even with respect to EMEA, the hotel transaction volume went down: from $USD 29 billion in 2015 to $USD 20.88 billion in 2016. Compared to that, the positive development resulted in new records on the German and Austrian market was a sensation.

Despite political prophecies of doom, Germany, in particular, is considered a “safe haven” for investment. Markus Beike, who has been Managing Director Northern and Eastern Europe at CBRE since September of 2015 and was responsible for Germany at Christie & Co before that.

“Germany achieved record levels of hotel investment in 2016, in fact, the highest levels of investment achieved to date.”

Markus Beike
Managing Director
Northern & Eastern Europe
CBRE

2016 transaction figures confirm all that: The German hotel property market experienced another record year—the seventh in a row. Transaction volume clearly surpassed the previous year’s results, and there is no end in sight.

However, depending on the statistics, the German record amount slightly varies. CBRE real estate consultancy mentions €5.1, which corresponds to an increase in transaction volume of 15 percent. Colliers International comes up with more or less the same results of €5.2 billion, which is also a 15-percent increase. JLL’s Hotels & Hospitality Group cal-
culated €4.9 billion, an increase of 12 percent. But JLL only included transactions with an investment volume of at least €5 million, while small fry were not taken into account.

The end of year spurt was particularly impressive. According to CBRE, roughly 43 percent of the total volume was attributable to the fourth quarter. This was mainly due to the transfer of major portfolios, not the number of transactions. The latter dropped by 29 percent compared to 2015. The run on German hotel properties was frenetic around the end of the year. Between October and December, there were 60 transactions alone—an increase of 13 percent compared to the previous-year period. Among them were both prestigious deals, such as the sale of Grand Hotel Kempinski in Dresden, and strategically driven deals like the purchase of the well-located Dorint Kongresshotel in Mannheim. Surprising off-market deals included the sale of a portfolio comprising seven hotels from the Invesco Real Estate hotel fund II to Scandinavian owner/operator Pandox.

**ONLY FEW, BUT TOP-NOTCH PORTFOLIOS**

The big-volume portfolios switched owners at three-digit million amounts: the seven transactions concluded added up to €1.9 billion, analyses Thorsten Faasch, SVP of JLL Hotels & Hospitality Group in Germany; €960 million alone accrued during the fourth quarter. In total, the volume of portfolio transactions rose by 50 percent to a grand total of €2.8 billion (CBRE estimates this amount to be lower—only €2 billion. According to JLL, the Interhotel deal amounted to almost 25 percent of the volume and a joint venture between Starwood Capital and Brookfield sold nine hotels with 4,131 rooms in Eastern Germany to the French investor Foncière des Murs at an unknown price.

The capital that made such mega deals possible mostly originated from foreign investors in 2016, whereas German investors were behind 65 percent of all disposals. “Asia is a growing capital market for Germany, Austria and Switzerland,” said Beike.

Concretely, both CBRE and JLL identified the French to be the strongest foreign group of investors. French investors put about €1.3 billion into German hotel properties, which amounts to roughly 27 percent of the entire hotel transaction volume covering German hotels, said JLL. And CBRE considers this share to be even 30 percent.

According to CBRE, open real estate and special funds (€1.2 billion) were the most active buyer group followed by real estate stock companies/REITs (€11 billion). JLL stated that institutional investors were the leading investor type, followed by wealthy private individuals and private equity companies. With respect to agreements, lease agreements remain the most popular ones in Germany: about 80 percent of all transactions were carried out based on this type of agreement.

**WHERE EUROS ARE FLOWING**

2016 recorded a total of 154 hotel transactions with an average deal size of approximately €33 million (+63 percent compared to 2015). “This means that on the German real estate investment market, almost one in every €10 goes into hotel property today,” said Armin Bruckmeier, Head of Corporate Hotel Brokerage Germany & CEE at CBRE in Germany. Thus, the hotel segment’s share in the total German investment volume rose from 8 to 9.7 percent within one year.

“Germany is considered a safe haven in an economically and politically instable market environment. Due to these reasons, there is still a rising interest of investors in hotel property as an asset class despite constant yield pressure,” said Jan Linsin, Head of Research at CBRE in Germany, explaining the development. He identifies the constantly good performance figures in the hotel segment to be another driver of this interest.

**WEIGHTING OF SINGLE TRANSACTIONS VARIES**

There are different views concerning the weighting of single transactions. CBRE counted 112 with a total volume of €3.1 billion and an average volume of about €27 million (+25 percent compared to €22 million in 2015). JLL, however, expects a drop of single transactions by approximately 12 percent. In 2016, 69 (2015: 78) out of the 95 (2015: 101) hotel transactions were single deals with a volume of just over €2 billion.

The five-star Hyatt Regency Düsseldorf was among the largest single transactions in 2016 as it was sold to Primeotel Europe, a European hotel fund, and Algonquin for more than €100 million in the third quarter. The sale of the 386-room Nikko Hotel Düsseldorf by the British Benson Elliott investment company to Art-Invest was another major transaction. Moreover, Maritim Hotel Dresden went from Internos Global Investors to Frasers Hospitality Trust for €58.4 million.
CITIES: TOP 5 LOSE TO SECONDARY LOCATIONS

Investors are still very interested in Germany’s top five cities: Berlin, Duesseldorf, Frankfurt, Hamburg and Munich. However, according to CBRE, they experienced a decrease by 12 percent to 47 percent despite the increasing volume of the entire year compared to investments at secondary locations, which have been rated as attractive investment opportunities by investors. At the same time, the resort hotel industry is gaining in importance, too. With a transaction volume of about €696 million, Berlin surpassed Frankfurt and Duesseldorf with €651 and €376 million, respectively.

Berlin’s passing maneuver concerning transactions simply relates to the fact that hotels in Berlin were more often part of portfolio transactions than hotels in Munich, for example. In Munich, nobody wants to sell properties, real estate is rare and the demand is high. The Bavarian provincial capital remains “the most wanted investment city”. As such, the rents will continue to increase.

Hamburg is waiting for the realization of a large project pipeline, but also enjoys high demand, certainly increased by the opening of the Elbphilharmonie concert hall, in January 2017.

This year, another new luxury hotel in Hamburg will open: The Fontenay, a €100-million project financed by the logistics billionaire Klaus-Michael Kuehne on the ground of the former InterContinental Hotel. Duesseldorf, however, will remain dependent on strong or weak trade show years, but will spread out to Cologne, too. Frankfurt might profit from company and business relocations from London after the Brexit, but continues to develop independently concerning hotels, especially at Rhein-Main-Airport and in the east of the city, where Frankfurt and Offenbach are slowly growing together.

STRONG PERFORMANCE

The market analyst Fairmas from Berlin is not concerned about the German market when looking at the performance development of the hotel industry in 2016 in comparison to 2015.

“As is well known, the German hotel market is under the strong influence of trade shows and congresses. Whether Munich, Frankfurt, Cologne, Duesseldorf, Stuttgart, Nuremberg, Dortmund, or Hanover or an event like DRUPA (a trade show for print and cross media solutions) in Duesseldorf is able to more than triple the customary RevPAR for two weeks,” said Fairmas Managing Director Niels Schroeder.

“For most trade show destinations, 2016 was a good trade show year. Therefore, locations such as Duesseldorf, Stuttgart, Dortmund, Bremen, Nuremberg and Leipzig were even able to increase their RevPAR by double-digit figures in comparison to the previous year. As many important trade shows only take place every two to three years, a reverse development is to be expected at many locations in 2017. Therefore, 2015 was a very good trade show year in Frankfurt and Cologne; in 2016, the RevPAR decreased by 2.5 and 2.7 percent respectively, as expected.”

“As apart from the trade shows, a resilient economy supports the segment of business travels, and the higher readiness to consume increased the demand for short travels and city trips. In addition, the geo-political situation fuels...
the trend for vacations in one’s own country. In nearly all destinations, an increase of KPIs can be recorded on weekends and during holiday season. This trend is also very obvious in the German resort hotel industry, which has enjoyed strong increases in occupancy and rates for some years now.

**EUPHORIA WITH CONTEMPLATIVE THOUGHTS**

At the moment, key performance indicators are close to optimal. But there are also warnings.

“Compared to the stagnation during the financial and economic crisis between 2008 and 2010, the current development of the transactions in the German hotel property market is impressive, but also gives food for thought,” said Otto Lindner, Chairman of the German Lindner Hotels & Resorts from Düsseldorf, commenting on current development. Since June 2016, he has also been President of the German Hotel Association (IHA).

As an hotelier and cautious entrepreneur, he contemplates further: “At the moment, nearly everything is possible. The destinations, especially in Germany, are well supplied; the pipeline containing new projects is enormous. Therefore, the positive moment should be seized, but without making long-lasting mistakes, which could become a burden during the next market adjustment.”

Everybody is taking part in the current euphoria of the moment. The consequences: increasing property and real estate prices, sky-rocketing construction costs and hotel operators who are willing to pay increasing lease rates. At the same time, the yield expectations of potential buyers are decreasing, and there are some market participants who were never interested in this asset class before. The banks and other capital providers are also playing along. In light of this, Lindner remains skeptical.

Similarly dubious is Simoner of Vienna House, the new name for the former Vienna International Hotels. The agile and former Kempinski manager gave the group an entirely new market profile and concept within one year (2016). “In Germany, I see high speed, high prices and high aspirations,” he said. “It is important to take a good look and act wisely for the future. I often pose the following question: Is swarm behavior really clever due to investment pressure in such a phase? I have to be sure that I will be able to afford in future what I can afford today. Because here, things can change really fast.”

Dieter Müller, Founder and CEO of Germany’s Motel One Group, and recipient of the IHIF Lifetime Achievement Award 2016, pointed out that, “There has never been such a run on the asset class of hotel properties before. This brings advantages and disadvantages for the industry. The advantages are the cheap financing opportunities. Nearly every project and every operator is financed or is able to find an exit. The disadvantage is simply the fact that too many hotels are being built because of this market environment, which will lead to overcapacities in the medium term. This applies to Germany, Austria and Switzerland as well.”

Wolfgang Neumann, CEO The Rezidor Hotel Group, noted: “Real AAA locations are increasingly difficult to find. So secondary locations are very much in the focus of interest and in this way gain more importance.”

Nevertheless, last year, the scene was far from pessimistic. In 2016, “located in Germany” seemed to be worth a lot, more than in the rest of Europe.

**RUN ON EXISTING PROPERTIES AND PROJECTS**

The consolidation wave of the last months, symbolically crowned by the merger of Marriott and Starwood, forming the largest chain in the world at the end of 2016, is aggravating competition, both on the part of properties as well as operators. The respective interests of owners and hotel operators are starting to intertwine more and more.

“Presumably, much more capital would have been invested last year had there been more objects and offers available,” said Ascan Kókai, Director Development & Asset Management, Central Europe for the Spanish NH Hotel Group. He observed that many potential sellers are holding back or hope for additional multipliers and thus for an enhancement in value, as long as the interest rates do not increase or at least not significantly.

The lack of properties caused a run on existing properties. “At NH Hotel Group, we experienced a change of owners at nearly every fifth hotel in Germany, Austria and Switzerland last year,” said Kókai. CBRE pointed out in its analysis of the transaction market that in 2016 the four-star category was regarded as especially attractive.

However, last year, the project developers moved at high speed too, and this became apparent concerning the
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operators. “In Germany, Austria and Switzerland, IHG had another record year in development,” said Martin Bowen, Associate Vice President Development Germany of InterContinental Hotels Group; this was mainly driven by new developments concluded by IHG’s multi-development agreement (MDA) partners. Among them were two multi-brand projects with Holiday Inn Express and Holiday Inn, an increasing trend. Project developers/owners are shifting the risk: they no longer want 400 rooms of one brand at one location, but rather 200 Holiday Inn Express rooms and 200 Holiday Inn rooms.

“Our strategy with framework agreements and multiple partners has proved successful,” said Bowen. “An increasing number of our franchise partners are now bankable and concerning openings, 2017 will be a new record year in Germany. Most project developments are placed individually in the market by the respective developer, most often as a forward deal. The investors were diverse, among them insurance companies, family offices and public funds.”

LARGE INSTITUTIONAL INVESTORS FINALLY WITHOUT FEAR

In 2016, large institutional investors finally lost their fear of the hotel asset class. The reports about their purchases accumulated: from the young Art-Invest Real Estate over Deka Immobilien to large names such as the Patrizia Group from Augsburg, a multi-billion-dollar player in housing construction with a growing interest in the hotel industry. In its hotel branch, the group supervises property assets worth about €650 million. In 2016, Patrizia acquired a total of 10 hotels, all of them in Germany. In 2015, there were four. There were no sales.

Among the hotels and project developments were/are, amongst others, the Holiday Inn Express Augsburg, Germany’s first Super 8 Hotel in Munich, the project of the lifestyle brand Ruby with 289 rooms in the city of Hamburg (opening at the end of 2017), as well as the project 25hours Hotels Duesseldorf (opening in 2018). Hotels, often part of a mixed-use development, will be part of a new, second real estate fund for private investors, initiated by Patrizia AG last year.

A pioneer among the institutional investors in Germany is Union Investment Real Estate. Many years ago, it set up the first pure hotel fund and developed a fast interest in budget hotels, too. Its figures remain impressive: In the last three years, it bought hotels for €1.458 billion. About €700 million contributed to this figure in 2016, spread over seven individual transactions: two in the U.S. and five in Germany.

Other hotel operators, that were reluctant for years, became increasingly daring. Invesco Real Estate announced after its super deal with the Scandinavian Pandox owner-operator in November 2016 that it no longer wished to invest in four-star business hotels only, but maybe also in promising segments, such as extended stay or design/lifestyle hotels.

OPERATORS PART OF TRANSACTION

Lifestyle and budget concepts have become increasingly popular. Therefore, operators and owners/financiers are moving closer together in this segment. This way, operating companies are becoming “part of the transaction” and important partners in the context of real estate deals. Just a few years ago, owners and operators rarely fed each other lines. Today, the operator’s solvency and the power of the brand concept also have a say in the transaction sums.

The demand for budget properties is very dynamic: “Nearly every day, I get a call about the sale of a property,” Max C. Luscher, who succeeded Mark Thompson as Managing Director at B&B Hotels Germany on January 1, 2017, said. “In 2016, we opened nine new hotels, but significantly more hotels or projects were sold in Germany; my estimation is about 15 properties.” Just before the end of the year, five B&B hotels alone changed owners—in Berlin, Stuttgart, Wuppertal, Dortmund and Krefeld. As part of a forward deal, List Retail Development GmbH & Co. KG sold the portfolio for

OPENING 2017
Super 8 Hotel
Munich

OPENING 2018
25Hours Hotel
Duesseldorf

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more than €40 million to the German Patrizia group. Four of these five transferred B&B hotels still have to be built, which shows the market’s ravenous appetite and urge for investment.

B&B Hotels is currently stepping up its opening pace significantly of one hotel per month under its new and fourth owner, the European private equity company PAI Partners. The group does not own any property in Germany at the moment, but three hotels are under development (Stuttgart Airport, Rosenheim, Neu-Ulm); one of them will be sold again soon.

The longstanding skepticism concerning “cheap” hotels is definitely over now. “In the meantime, everybody knows that an investment of €10 million euros, for example, in one of our hotels will still be worth something after a contractual period of 20 years,” Luscher said. “The first B&B Hotels in Germany are already nearly 15 years old. They can still be renovated easily and professionally,” he said, praising B&B’s advantages in comparison to full-service hotels, where a re-vitalizing after such a period of time can pose considerable risks, mostly due to technical components or increased fire protection requirements, which can deeply interfere with the structure of a three or four-star hotel.

From the perspective of investors, budget products are easy to handle: they are highly standardized, usually offer good quality, do not cause any great analysis efforts, and have the same asset management structures as higher-quality hotel segments.

**BUDGET-MINDED BRANDS**

Other international brands opened their first properties in Germany in 2016. Moxy, the lifestyle, budget product of InterIkea and Marriott, entered the market with three hotels: Munich Airport, Frankfurt-Eschborn and Berlin-Ostbahnhof. Two more Moxy hotels will follow this year at Frankfurt Airport (Gateway Gardens) and at Stuttgart Airport/Messe (in March and September 2017). Vastint Hospitality is the owner of all properties, with the exception of Stuttgart (GBI AG).

In addition, the first two openings of Wyndham’s long-awaited brand Super 8 took place last year (both properties are in Munich), which were able to position themselves very well in the market from the beginning. This year the next Super 8 will follow in Freiburg, in 2018 openings are scheduled for Dresden and Hamburg.

Moreover, another young budget group was able to embed itself in the minds of the institutional investors last year. Namely, Ruby Hotels, with its concept of “lean luxury.” On February 13, 2017, CEO Michael Struck opened the brand’s third hotel in Munich. In the meantime, renowned institutional investors are interested in the non-standardized lifestyle concept: Patrizia, Art-Invest, Allianz, and CBRE Global Investors have already signed.

Large investors like the modular architectural system designed by Ruby, which uses every floor plan efficiently. Shower, bed or toilet modules can be grouped in various ways, but still allow for a high degree of series production. Upon agreement, Ruby also takes over the planning and realization. Accordingly, the pipeline is full. In the middle of 2018, eight Ruby hotels will be opened: After Munich, three more hotels will follow this year in Vienna (end of March), Duesseldorf (in summer), and Hamburg (in winter); hotels number seven and eight will follow in spring/summer 2018.

Insiders have been observing the slow but continuous rise of these budget hotel brands, which all focus on Munich. First of all, there is the Cocoon hotel group, which has three hotels in top locations, all around the central station, with high occupancy rates and room yields. Their secret: every hotel realizes a theme consistently and stylishly. From the beginning, the “alpine chalet” concept was a complete success at the only six-month old Cocoon Hauptbahnhof (main station), following the motto “cosy alpine hut look in wooden style combined with funky retro design.” In fall 2016, Cocoon’s founder, Johannes Eckelmann, dared to try out something completely new: Buddy Hotels, with rooms starting at 10 square meters at an absolute premium location, in Munich’s Sonnenstrasse, only 200 meters away from the Koenigshof luxury hotel. This super-budget format does not offer any breakfast, but has a coffee machine in every room as well as a coffee machine in the lobby.

The budget brand LetoMotel also forgoes breakfast, but the guests will find a bakery right next door to the hotel. This is the group’s concept, which is backed up by a family office. Currently, there are three hotels, which are always located close to suburban train or underground stations; in 2017, a LetoMotel will open in Nuremberg.
Since 2015, the Austrian budget brand Harry’s Home has been present in Munich. Inventor and hotelier Harald Ultsch targets rate-conscious travelers and long-term guests with the lean and colorful concept and larger rooms. Concerning expansion, he wants to be present in the entire German-speaking market (in 2018 to Zurich/Wallisellen). As a new kid in the block, in 2016 MQ Real Estate in Berlin presented a prototype for his “My Quarter” (MQ) Hotels to be constructed of lightweight modules assembled on the roofs of parking garages or other commercial real estate.

**PREMIER INN CHALLENGES MOTEL ONE & ACCORHOTELS**

Despite all the new brands and enthusiasm for newcomers, insiders are eagerly observing the looming competition between the large budget providers: the pioneer and market leader AccorHotels, its powerful and fast expanding competitor Motel One and the solvent newcomer Premier Inn from Great Britain.

The first German Premier Inn presented itself as “premium economy” product in Frankfurt in 2016. The 201-room property is located near Messe Frankfurt and with its larger rooms (around 20 square meters), it has significantly more space than the normal economy standards (about 17 square meters on average).

The team around Mark Anderson, Managing Director Premier Inn International at the parent company Whitbread, is speeding up now. “Our goal is to have about eight hotels in operation by 2020, and to create a portfolio of top-locations in important German cities in addition,” said Anderson. From the second half of 2018, the next Premier Inn hotels will follow in Hamburg, Munich and Leipzig, every three months. Openings for Essen and Freiburg have been planned for 2019; the premises were already purchased by Whitbread in December. This way, the pipeline already boasts more than 1,100 rooms, including the 201 rooms in Frankfurt. “We bought the above-mentioned premises directly; however, we are currently also considering a few lease projects. This flexibility allows us to realize the best deals,” said Anderson.

In Munich, at Premier Inn’s next location, the British company snatched away a top project at an A location from under Motel One’s nose. However, Motel One was able to snatch away many projects from AccorHotels in the last few years. The carousel keeps turning, but Motel One has the most consistent concept concerning location. For some years now, Motel One’s Mueller has only relied on absolute premium locations and mega volumes.

This year, therefore, the entire industry is waiting for the imminent opening of the two new flagships in Berlin: the Motel One Berlin-Upper West with 582 rooms directly located at Gedaechtniskirche (Kaiser Wilhelm Memorial Church) and directly opposite the Waldorf-Astoria, as well as the Motel One Berlin-Alexanderplatz, which will then be the largest hotel of the group with its 700 rooms. In addition, the Motel One Muenchen-Parkstadt Schwabing (the eighth hotel in Munich) and the Motel One Freiburg will open in 2017.

Regarding the German-speaking market, the budget design hotel group opened three hotels in 2016: The 190-room Muenchen-Olympia Gate, the 141-room Stuttgart-Bad Cannstatt and 143-room and 143-room Basel. This year, Motel One will open eight new hotels with about 3,300 rooms.

However, Motel One is not only operator, but also owner and deal-maker. Due to the real estate boom Motel One as an owner sold several properties in the last four years and reduced its proprietorship from 40 to 25 percent. In 2015, the group caused a sensation for the first time, when it sold the initial generation of its budget hotels (nine properties) to the Louvre Group and Foncière des Murs. Mueller, known as a sensible calculator, knows how to use the prevailing market environment. “We were able to refinance a portfolio of four of our hotel properties with a volume of 165 million euros via sale and leaseback at extremely good conditions,” he said. “However, concerning expansion, we are still very cautious and we only realize projects with a very high location quality, no matter if owned or via lease agreements.”

While Motel One is still primarily an
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operator, the focus of AccorHotels has by and large shifted toward investment and a separate operations company. 2017 will bring many changes in this regard. Broken down into the regional markets and real estate activities of last year, Fabien Valentin, COO HotelInvest Central Europe at AccorHotels, said: “The transactions in the hotel markets of Germany, Austria and Switzerland remained at a high level in 2016, especially in Germany, and independently of single or portfolio deals. Despite a lower rate of return, demand was strong, especially in key cities such as Munich, Berlin, Hamburg or Zurich.”

In Germany, in 2016, AccorHotels opened two economy hotels of the ibis brand (a total of 235 rooms), three hotels of the ibis Styles brand (295 rooms) and two hotels of the ibis Budget brand (327 rooms). Within the HotelInvest portfolio, AccorHotels transacted four purchases in the economy segment (three in Germany, one in Austria) and two sales (both in Austria).

GERMAN CREATIVE CONCEPTS BOUGHT AWAY

In 2016, AccorHotels made headlines, in particular, in Germany, because of the purchase of the lifestyle group 25hours Hotels (€34.7 million for a 30-percent-share with the option for more). In January, the Rezidor Group had already done the same thing: It purchased prizeotel and paid €14.7 million euros for 49 percent with an option for a take-over later on.

25hours’ CEO Christoph Hoffmann said this about the group’s “special” year: “On a shareholder level, we found a globally acting, strategic partner with AccorHotels, which will support our expansion and grant us the entrepre-
neural freedom to keep developing our projects in our atypical and sometimes even adventurous way. The first step in a country with a foreign language has already been taken with the signing of a management agreement for the Terminus Nord Hotel in Paris last December, which will open its doors as 25hours in the middle of 2018. We are eagerly examining projects in other urban destinations such as London, Milan and Los Angeles.” The hotel in Paris is the current Mercure hotel. This way, the property remains within the AccorHotels family.

Marco Nussbaum, CEO of prizeotel, also described 2016 as a “very special year” for his hotel group. He attributed Rezidor’s interest in his small group to the fact that “prizeotel is a highly innovative product” with a concept developed by the international designer Karim Rashid, with whom Nussbaum has had an exclusive agreement for the expansion in the German market from the beginning. Rezidor has now extended this agreement to an international level. “The brand has been chosen deliberately in order to enable international expansion, and with this star designer, we not only distinguish ourselves from other products, but polarize as well. Through flat hierarchies and an authentic business culture, Rezidor bought into a company, which never could have been designed on the drafting table of a corporate head office,” said Nussbaum.

MADE IN GERMANY, LOCATED IN GERMANY

This is the new self-confidence in the German hotel industry. “Made in Germany” has a meaning again, just like “Located in Germany.” Someone who senses this as well is another hotelier. In 2016, David Etmenan, CEO of Novum Hotel Group, became a talking point. The business, which was founded by his father in 1998, has grown substantially since 2000, from originally 12 hotels and 560 rooms to 122 hotels and more than 13,200 rooms at over 35 locations in Europe, among them, 119 hotels with 12,892 rooms in Germany. In the home market, it wants to expand with its own brands; outside of Germany, it wants to be franchisees of InterContinental Hotels Group, Best Western Hotels & Resorts and AccorHotels.

For some years now, Germany has been able to tell a remarkable hotel story. Last year, many of these stories were continued. The signals sent by this great dynamic are the following: The new, fresh, young momentum in the market coupled with the great demand and capital from international investors will become critical for all tired, old hotels, which are no longer able to compete and, as a result, will no longer get their share of this growing business cake.

GROWTH IN TOURISM

In the first six months of 2016, 199.2 million overnight stays of national and international guests were recorded, an increase of 3 percent compared to the same period in the previous year, according to the Federal Statistical Office.

The German Hotel Association (IHA) additionally provided its “summer economy barometer.” According to this, all hotel-specific key parameters were able to generate growth in all.
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segments. From January 2016 until June 2016, hotels in Germany generated average room occupancy of 69 percent (+1.7 percent) and increased revenue per available room (RevPAR) by 5.2 percent to €63 compared to the same period in the previous year. The average net room rate (without VAT and breakfast) was €92 euros (+3.4 percent).

For the eleven months until the end of November (figures for the whole year 2016 were not yet available), the Federal Statistical Office reported an increase of 3 percent concerning overnight stays of guests in Germany, with a total of 420.2 million overnight stays. For the entire year, however, the agency forecasts a new record of about 448 million overnight stays.

RADIANT SUNSHINE OVER RESORT HOTELS

It is not surprising that 2016 also became the “year of the resort hotels” for investments and finances. At Expo Real, in Munich, in October, statements showed that an increasing number of banks are willing to finance these projects. Otmar Michaeler is CEO of Vienna-based developer Falkensteiner Michaeler Tourism Group (FMTG), which has changed its entire strategy from business to resort hotels.

“For a start, rates of return are decreasing in the other non-hotel asset classes. As a consequence, the demand for the hotel industry and the factors in A and even B locations increased to incredible heights in some places. Therefore, more and more investor types, amongst others, institutional investors, have now identified the resort hotel industry as an alternative. Resort hotels are still 1-percent point above the yields of hotels in the German-speaking metropolitan areas,” Michaeler said.

So far, mostly family offices had been active in this segment, which was also the case with the sale of the Falkensteiner hotel portfolio that the group sold to a high-net-worth individual as a sale and leaseback in 2016. “But these times are over, where the resort hotel industry only works as an owner-operator model or can be rejected as a hobby,” Michaeler said.

Other signals for the boom in the German-speaking resort segment are new and pure resort brand concepts, such as Arborea, with a concept very close to nature, or the continuous expansion of Explorer Hotels, which only focuses on hotels in the Alps. In the world of giants, TUI Hotels Group kindled new interest: the group no longer wants market and manage hotels only; it wants to purchase premises and properties actively and operate them itself.

OUTLOOK FOR GERMANY

Alexander Trobitz, Head of Hotel Services at BNP Paribas Real Estate GmbH, regards 2017 with some reserve. “After the phenomenal end-of-year spurt and the record result, a forecast for the current year is increasingly difficult,” he said.

“Basically, there is an exceptionally high demand among investors, both among specialized investors as well as for risk diversification, so that hotels have already advanced to the top three among the asset classes. However, the supply side is insufficient despite a high number of ongoing constructions. And the current annual result is also owed to many large sales in the individual segment and portfolio segment. But this accumulation can probably not be repeated every year. However, reaching €4 billion should be the goal for 2017 again; one year ago, only very few would have bet on surpassing the €4-billion threshold and never on exceeding €5 billion.”

AUSTRIA AND SWITZERLAND: CORNERSTONES OF THE GERMAN-SPEAKING REGION

Austria and Switzerland are, too, attracting hotel investment and development. “The German-speaking market remains exciting; the demand among financially powerful investors (also from abroad) remains high,” said Rezidor CEO Wolfgang M. Neumann, stressing the importance of the German-speaking region. Rezidor is establishing new brands in the region, including Radisson RED and prizeotel, the first of which has been signed in Switzerland and slated to open in Bern by the end of 2019 with 188 rooms.
PROFOUND BELIEF IN SWITZERLAND

Steigenberger Hotel Group, which changed its name to Deutsche Hospitality last year, operates two hotels in Switzerland (Davos, Zurich) and three in Austria (Vienna, Krems, Linz). CEO Puneet Chhatwal is struck by the region’s consistency. “Basically, Germany, Austria and Switzerland comprise one of the most stable and reliable economic areas in the world,” he said. “As a home location and core market, this area offers a reliable framework to be able to expand from here to other regions.”

In the neighboring countries, conditions have become more stable for real estate projects; therefore, it has been a very attractive environment for hotel projects since 2014. “Supply and demand are in a healthy ratio; the market is growing without overheating,” said Chhatwal. “This will remain the same in 2017.”

And while it is true that Switzerland’s hospitality industry went through a difficult period due to the revaluation of the Swiss franc, the country still offers stable conditions.

Vienna House’s Simoner offers a similar positive opinion of Switzerland—though one that is more subdued. He’d know: From 1995 to 2014, he worked for Kempinski and managed the Kempinski Grand Hotel des Bains, in St. Moritz. “The Swiss market is assessable, will remain expensive and therefore offers no great rates of return at the moment,” he said. “But Switzerland is also one of the most innovative countries in the world and therefore attracts money, as well as human resources, and, in this way, creates investment opportunities repeatedly.”

Though the bulk of Moevenpick Hotels & Resorts’ properties are in the Middle East, it has 13 hotels throughout Germany and Switzerland. “[The region] has an elementary significance for Moevenpick’s future,” said Olivier Chavy, the chain’s CEO since September 2016. The company has two hotels planned to open in 2019, in the region, in Basel and a second property in Stuttgart near the airport.

Chavy believes that the region is a guarantor for long-term stability, even if “the high real estate prices are very challenging at the moment, especially concerning negotiations about long-term lease agreements,” he said.

“In addition, the increasing competition through medium-sized operators is straining the lease price. This becomes obvious in strategically important markets, such as Geneva, Munich and Vienna.”

STRUCTURAL CHANGE FROM RESORT TO BUSINESS DESTINATION

Despite goodwill on all sides, Switzerland is currently undergoing a massive structural change. “The country is losing its small-structured resort hotel industry,” said Michael Lidl, Managing Partner at Munich-based Treugast Solutions. “Now, all new projects are concentrated in the cities.” These statements do not include mega projects, such as Buergenstock Resort, an investment of the Sovereign Wealth Fund of Qatar and set to open in 2017.

“The Swiss hotel market cannot be analyzed on the basis of the total market figures but the distinction has to be made between national demand (increasing) and international demand (decreasing),” said Lidl. “Despite a stable occupancy rate in the Swiss market as a whole, RevPAR is decreasing. The main reason is the unfavorable development of the exchange rate in the last few years, which leads to lower realizable rates for the hotels due to the high proportion of foreign demand.”

“The Swiss hotel market cannot be analyzed on the basis of the total market figures but the distinction has to be made between national demand (increasing) and international demand (decreasing), as well as between the city hotel industry (increasing) and mountain regions (decreasing),” said Lidl. “Despite a stable occupancy rate in the Swiss market as a whole, RevPAR is decreasing. The main reason is the unfavorable development of the exchange rate in the last few years, which leads to lower realizable rates for the hotels due to the high proportion of foreign demand.”

Andrea Joerger, Managing Director & Partner at RIMC Hotels & Resorts Switzerland, sees Switzerland as an island in Europe, where demand is concentrated in Zurich, Geneva, Lausanne and Basel, and “the air has become
very thin in the mountain and lake regions,” he said, adding that this has been exacerbated by the decoupling of the franc/euro, unfavorable legislation over second homes and that banks are no longer interested in financing resort hotels.

He explained that continuing interest from investors and operators is due to the fact that they can no longer gain profit from offices and apartments and, therefore, move over to hotels. This generates oversupply. Joeger, who participated in the development of the Zurich Airport a few years ago, is concerned about the balance there today. “In the next three years, the room offer will increase by 25 percent, but where is the demand supposed to come from?” In addition, he believes that even professional investors and operators are often still tempted by the paradise-like performance figures in Switzerland (compared to Austria and Germany) and then tend to forget about the immensely high costs.

Because of its special framework conditions, Switzerland is not a big transaction market. In 2016, mainly private hotels changed owners. The only noteworthy international deal is the sale of the Palace Lucerne to the Chinese investor Yunfeng, which took over the property from the Credit Suisse fund CS REF Hospitality. Victoria-Jungfrau Collection remained the operator. Under negotiation is the sale of the Fairmont Le Montreux Palace, also currently owned by CS REF Hospitality.

**AUSTRIA: GOOD FOR SURPRISES – RECORD YEAR 2016**

2016 was totally different for Austria compared to Switzerland.

Hotel transaction volume in Austria exceeded €900 million for the first time last year— more than doubling the previous high of 2012. And the market hasn’t outperformed only in Vienna, but also in other regions. The result was three times the total of 2015, and amounted to more than a fifth of Germany’s hotel transaction volume, according to an analysis by Christie & Co Austria.

“The record value was driven by a number of large-scale trophy transactions as well as several portfolio deals, including those with AccorHotels and Invesco,” said Lukas Hochdellinger, Managing Director Germany, Austria & CEE at Christie & Co. “Although Vienna accounted for many of the transactions as in recent years, hotel sales in the federal states also contributed to the outstanding result for 2016.”

The majority of deals over 2016 as a whole continued to involve Austrian investors, but international investors dominated where total volume is taken into account.

The year began with Starwood Hotels & Resorts’ €70-million sale of the historic 138-room Hotel Imperial in Vienna to Dubai’s Al Habtoor Group. Meanwhile, local investors Erwin Krause and Franz Kollitsch acquired the 579-room Hilton Vienna for the record sum of almost €200 million in the first quarter of 2016; The Schoeps Group sold the former LaStafa building on Mariahilfer Strasse, site of the 186-room Hotel Ruby Marie; and the MBI Group sold the 68-room boutique hotel The Ring to the AINA Capital fund established by Rothschild. Several smaller hotel transactions were also concluded in the Austrian capital.

The second half of 2016 featured more eye-catching deals, especially portfolio transactions. In Vienna, for instance, the 341-room Ibis Mariahilf and the 198-room Mercure Biedermeier Vienna were sold during the summer; elsewhere, the 115-room Ibis Styles Linz and the 94-room Mercure Bregenz were sold to French Grape Hospitality (AccorHotels’ new operations company) as part of an Austria-wide portfolio. Toward the end of the year, Invesco sold the 499-room NH Vienna Airport and the 140-room NH Salzburg City to investor Pandox, also as part of a wider portfolio. Other transactions of note involved developer UBM, which successfully marketed its Ibis (300 rooms) and Novotel (277) projects at Vienna’s main station under the terms of a forward deal. Hotel deals in Vienna thus accounted for more than two thirds (approximately €650 million) of the value of all hotel transactions in Austria.

In addition to the aforementioned transactions in Linz and Bregenz, some other notable hotel sales were concluded in the federal states. City hotels sold early in 2016 included the 176-room Hilton Innsbruck to the State of Tyrol and the 70-room Goldener Hirsch in Salzburg to private investor Hans-Peter Wild. In the holiday and resorts sector, Christie & Co acted on behalf of the vendor to broker the sale of two Falkensteiner Hotels: Balance Resort Stegersbach and
Taking Stock of Hotel Investment & Development in German-Speaking Markets

Hotel & Spa Bad Leonfelden, comprising 259 rooms in total, to an Austrian private investor. Subsequently, the same buyer also acquired the 185-room Falkensteiner Hotel Carinzia and the 160-room Falkensteiner Funimation Katschberg. Other high-profile holiday hotel investments last year included the 126-room Dorint Hotel Seefeld and the 150-room Austria Trend Hotel Schloss Lehenberg.

Christie & Co contends that the first half of 2017 will be less volume-heavy than the first six months of last year; only the conclusion of several unforeseen portfolio or trophy transactions would sustain the trend of 2016. “We believe 2016 was an exceptional year, and we think the investment volume will settle down at the level of recent years in 2017. Yet, Austria will remain a safe haven for investors and will be high on the wish list of international investors,” said Hochedlinger.

Austria, especially Vienna, predominantly attracts the attention of national but also of international investors. “There, the investment yields are comparable to the ones of the top five cities in Germany,” said CBRE’s Beike. Despite all this, the capital is especially struggling with average rate.

As the performance comparison of 2015/2016 shows, occupancy and RevPAR increased, according to STR, and an increase in demand has shown effect. The hoteliers were even able to compensate the increased VAT on overnight stays (from 10 to 13 percent) that came into effect in May through a higher gross rate.

### CONCLUDING THOUGHT

2016: Good for Germany and Austria, limiting for Switzerland.

2017: Extremely good for Germany, good for Austria and up in the air for Switzerland.

### ABOUT THE AUTHOR

Maria Puetz-Willems is the founder and editor-in-chief of www.hospitalityinside.com. In March 2005, the online magazine for the international hotel management was launched. Based in Augsburg (close to Munich), Germany the magazine publishes in two languages (German/English) every Friday, focuses on pure editorial content, geographically on Continental Europe, Eastern Europe and the Middle East.

The content is based on own research and background articles. The online publication does not accept advertisements in order to secure its independency. Readers are the executives from the hotel industry (chains and upscale private hotels) as well as real estate, hotel owners, bankers, investors, project developers, architects, consultants, etc in over 20 countries today.

Before taking this big step, the classically trained editor worked freelance for 16 years. From 1989 to 2005, she contributed to leading hotel trade, economic and lifestyle media in Germany, Switzerland and UK.

In October 2002, she released her first book “Wellness + Wirtschaft - professionell und profitabel” (“Wellness + Economy - professional and profitable”). In 2004, Maria Puetz-Willems co-organised the 1st “Forum Wellness” at ITB, the world’s biggest tourism fair in Berlin. Since 2006, she has been responsible for the content of the annual hotel conference “Hospitality Day” at ITB Berlin. hospitalityinside is the exclusive media partner for this event which is the one of the most successful events during ITB Convention. In 2008, Maria also took over the organisation of the content of the annual “Hospitality Industry Dialogue” at Europe’s leading trade show for property and investment, EXPO REAL in Munich.