Upwards: Why the Hotel Investment Market Currently Knows Only One Direction

More than 50 percent of the investments in German hotel properties in 2015 came from abroad. The proportion of international investors had been similarly high the year before. They increased their combined turnover to more than 2.2 bn euros to gain a share of just under 51%.

The hotel market in Germany is booming. One indication is the steady growth in the number of overnight stays – the most recent estimates point to a record-breaking figure of around 436 m in 2015 – which ensure a very good occupancy rate. What’s special about this is that this development is not confined to a particular city or region; it is apparent not only in virtually all the major locations but also in many small towns with tourist offerings. Especially in any European comparison, Germany stands out for an abundance of towns and cities that are interesting by international standards, too, and which are benefiting from the trend towards city tours and short trips. The country’s well-developed infrastructure, which guarantees the easy reachability of many international cities and regions, also contributes to this success story. Then there is the favourable value-for-money aspect: Thanks to the strong construction activity there are many modern reasonably priced hotels. All these factors help to create an excellent basis for the hotel market here. So it is hardly surprising that the hotel sector profits not only from the growing scale of tourism but also from the fact that Germany is one of the world’s most popular destinations for conference organisers.

NEW HIGH FOR HOTEL INVESTMENTS

The boom in the hotel market is reflected not just by record overnight stay figures but also by record investment levels. A BNP Paribas Real Estate survey shows that the transaction volume in German hotel properties in 2015 totalled just over 4.38 bn € – more than ever before. Investment has actually been expanding steadily since 2010, at first in small steps but then, from 2013 on, with increasing momentum. This dashing development has been due to the ongoing rise in the number of overnight stays, to the buoyant building activity which provides an attractive supply of assets, and also in the constantly widening circle of investors.

SURGE IN HOTEL PORTFOLIOS

In 2015, single deals accounted for over 2.6 bn €, well over half of the aggregate turnover. The biggest transaction in this segment was the sale of the Sofitel Bayerpost in Munich. This five-star luxury hotel directly by the Central Station changed hands for 180 m €. Other single deals in the triple-digit million range: The four-star Radisson Blu hotel on Dammtor in Hamburg and the four-star andel’s Berlin in the German capital’s Prenzlauer Berg district. But it was not just individual assets which were in demand in 2015; so, too, were portfolios, which have been the focus of increasing investor interest. And in fact portfolios achieved a bigger proportion of turnover than ever before, with close to 1.8 bn €.

One typical feature of the German hotel investment market is that in view of the shortage of supply, many properties are sold a year or two before they are actually completed. In 2015, there were several such forward deals. In Leipzig, for instance with the ibis & ibis budget Am Bildermuseum two hotel projects were sold with the participation of BNP Paribas Real Estate. Another example of
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a hotel being sold before completion was the Adina Apartmenthotel (Height 3) in downtown Hamburg.

GREATER TURNOVER IN ALMOST ALL LOCATIONS Investment in hotels in 2015 was not restricted to the Big Six locations of Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg and Munich – although these cities did account for more than half of the aggregate volume, with around 2.6 bn € – but spread to an increasing extent to places elsewhere, as is revealed by the BNP Paribas Real Estate survey. Taking just single deals into consideration, the proportion of the total generated by cities outside the Big Six is around one quarter. This is something from which large cities with upwards of 250,000 inhabitants have particularly benefited. In the past three years, they have stepped up their investment volume threefold to 340 m €.

Among the Big Six, the leader in the field of hotel investments was Munich again, with turnover of about 747 m €. This result was fuelled by such mega-deals as the Sofitel Bayerpost. In second place in the inter-city ranking came Berlin (647 m €). Excellent results were also registered by Hamburg (around 536 m €) and Düsseldorf (292 m €). All these cities set new records for investment in hotels. At the bottom of the ranking came Frankfurt (250 m €) and Cologne (113 m €), which were the only locations to note year-on-year declines. All the same, their performances were also above average.

HOTEL PORTFOLIOS IN DEMAND FROM INTERNATIONAL INVESTORS More than 50 % of the money invested in German hotel properties in 2015 came from abroad. That is not new; the proportion of international investors had already been similarly high the year before. In 2015 these investors increased their combined turnover to more than 2.2 bn € to gain a share of just under 51 %. Most of the foreign market players come from Europe and together they contributed just over 1 bn € to take first place in the ranking. Also active were buyers from North America, who spent around 800 m € and investors from the Middle East (over 300 m €). Some two-thirds of the capital deployed by market participants from outside Germany went into portfolio deals. This is a segment dominated by foreign investors and they were responsible for 82 % of the relevant turnover. One of the biggest package transactions was the sale of the Leonardo hotel portfolio for around 400 m €. Also notable was the sale of the Accor portfolio; this involved 29 hotels altogether, 18 of them in Germany and 11 in the Netherlands; these changed hands within the framework of a sale-and-franchise-back deal. Overall, there is a trend in the hotel segment – as in other market fields – to pan-European transactions.

LARGE HOTELS MOST STRONGLY FAVOURED The way the investment volume was spread across the different size classes in 2015 was broadly similar to that seen in 2014, but with a slight percentage shift towards the bigger categories. In absolute terms, though, all the segments attracted more capital, with the sole exception of the 10-25 m € bracket. Deals upwards of 100 m € again took first place, with just over 41 %.

OUTLOOK FOR 2016 For quite a long time now, the German hotel investment market has been enjoying a seemingly never-ending upturn, with turnover figures climbing from one year to the next. Will this trend be sustained in 2016? At the moment, that is difficult to say, because although demand remains very buoyant, there is a shortage of supply. So it seems right to assume that turnover in the hotel investment market in this coming year will in fact fall short of that achieved last year. In addition, there are signs that the development of prices has reached its peak.

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