BERLIN — GERMANY’S TOURIST MAGNET

For a long time now, the German capital has offered a high quality of life. This makes it a particularly attractive city, for young people, too, and enables it to stand comparison with any other European metropolis. But Berlin is also gaining momentum as a business centre that is increasingly in line with its status as a capital city. One strong contribution to the very positive development is made by tourism, with substantial revenues being created by rising numbers of overnight stays and over 105 million day-guests. A major factor in this is the convention and congress scene, which – with trade fairs and exhibitions like the International Green Week and the International Consumer Electronics Fair – accounts by itself for around one quarter of all the overnight stays. So it is hardly surprising that Berlin is well ahead of all the other German cities in terms of guest-numbers. Key attractions include the famous landmarks (like the Brandenburg Gate, the museum island, the Bundestag, the TV tower) and the many major events, which are also drawing in more and more visitors from abroad.

NOW IN TOP LEAGUE IN EUROPE

With over 30 million overnight stays, Berlin has established itself one of Europe’s Top 3 destinations, alongside London and Paris. In the past few years, the city’s tourist figures, which head nationwide lists, have risen strongly. Since 2010, for instance, around 37% more arrivals and 45% more overnights have been registered. Most of the guests (61%) come from within Germany, but at about 39%, the proportion of foreign visitors is relatively high by national standards. The main countries of origin are the USA, the UK, Italy, the Netherlands and Spain. The numbers of visitors from Asia (especially China) and the Middle East (Israel) have also been growing. Overall, the foreign-guest proportion has been climbing slightly in recent years.

PEAK FIGURE FOR OVERNIGHT STAYS

In 2015, the number of overnight stays in Berlin expanded by over 5% year-on-year, rising by more than 1.5 million to just over 30 million. That gives the German capital a clear-cut first place among the major German locations; in fact, it registered a greater number of overnights than second- and third-placed Munich and Hamburg together. The combined total generated by the other four cities which help to make up the so-called Big Seven was lower than that which Berlin posted by itself, despite the gratifying fact that all of these, apart from Düsseldorf, could point to increases in this respect. But Berlin not only attracts the largest numbers of guests, these guests also stay longer here than they do elsewhere. With an average length-of-stay of 2.4 days, Berlin heads the field in this category, too, benefiting for instance from its capital city function and the variety of sights.
MARKED RISE IN NUMBER OF BEDS

Between 2010 and 2015, the number of hotels in Berlin grew by some 6 % to 531. In the same period, the number of hotel beds increased by nearly 24 % to the present record level of close to 113,000. That was four times the rise in the number of hotels and highlights the fact that the new establishments tend to have a greater number of rooms; hotels that have opened in the recent past have averaged around 192 rooms each. One decisive contribution to this development has been the strong expansion of the budget/economy hotel sector. A positive phenomenon is that the numbers of hotels and hotel beds have increased less significantly than overnight stay numbers; this not only reflects the good performance data of the hotels but also shows that no unhealthy surplus in availability has been able to develop. And there are no signs of the positive trend coming to a close: at the moment, 25 new hotels, with a total of over 5,300 rooms due for completion by the end of 2018, are in the planning stage or under construction.

COMPARATIVELY APPRECIABLE RISE

Hotel operators have responded to the higher numbers of tourists in all the major cities by steadily increasing the supply of hotel beds. In the Big Seven (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Stuttgart), availability expanded by an average of almost 18 % between 2010 and 2015. With its marked rise of nearly 24 %, the German capital took second place in this respect behind frontrunner Frankfurt (around 26 %). Midfield slots were taken by Munich (22 %) and Hamburg (18 %), while the increases in Düsseldorf, Stuttgart and Cologne were relatively modest. Despite the considerable overall growth in hotel bed numbers, the same positive assessment as in Berlin applies to all these locations: the increase in overnight stays has been far higher, which underlines the healthy structure of the expansion.

MID- AND UPSCALE CATEGORIES PREDOMINATE

The hotel spectrum in Germany, as classified by the DEHOGA star-categories, is dominated by 3- and 4-star establishments and these also easily head the field in Berlin, with a share of 87 %. However, it must be borne in mind that hotels which would obtain fewer stars are generally less likely to seek classification, meaning that this distribution does not present a full picture. Even outside the classified range, growth in the lower star-categories in the brand-name hotel market is also extremely lively and dynamic. Individualised hotel concepts are being launched in an effort to meet changing tourist demands by emphasising fresh experiences and that “certain something”. In recent years, it has above all been the budget hotel segment which has been developing modern, diversified concepts to enable the relevant hotels to tap into new and broader target groups.
NUMEROUS NEW OPENINGS

The most recent completions in Berlin have consisted almost entirely of establishments in the 3- and 4-star categories. The only exception was the luxury hotel TITANIC Deluxe. The newly opened hotels are located in the central districts and in the vicinity of the tourist hotspots and main shopping streets in Mitte, Prenzlauer Berg or by the Spree. Hotels chains have continued to be particularly expensive, accounting for by far the majority of the recently opened establishments. But in Berlin’s large and lively market, there is also a place for private hotels not associated with chains, as exemplified by Grimm’s Potsdamer Platz. As well as new buildings, there have also been cases of repurposing existing structures. Examples are the TITANIC Deluxe within the framework of the Alte Staatsoper or the Amano Group’s boutique hotel ZOE close to the Hackesche Höfe.

DENSE PIPELINE OF PROJECTS

The hotel projects in the pipeline in Berlin distinctly reflect the current general trends in this sector. International chains are represented by several different modern concepts geared to meeting the demand for hotels that are aligned to specific target groups, mainly in the mid- and upscale segment. In the budget category, an independent operator is active, with Hotel Provocateur. Exemplifying the trend towards long-stay and serviced apartment hotels are the planned Capri by Fraser and the SMARTments business. This hybrid class of hotels is increasingly also a focus of investor interest. The Berlin market is diverse, with luxury establishments such as the Merika Hotel on the one hand, and trendy concepts especially in the budget segment on the other. Projects scheduled for completion by the end of 2018 include all of eight budget hotels.
IMPROVED HOTEL PERFORMANCE IN BERLIN

Between 2010 and 2015, the average daily rate (ADR) for hotel rooms in Berlin rose by over 7% to nearly 94 €, reflecting the positive development of hotel business in this city. Price-wise, this puts the capital in the low part of the range covered by the Big Seven markets, well behind the leader Munich or, say, Hamburg. During the same period, the average revenue per available room (RevPAR) has increased by almost 19% to around 72 €.

Apart from minor fluctuations, the RevPAR has basically been tending upwards and last year it rose by over 8%. So both these market ratios have been pursuing a distinct growth trajectory in Berlin. One important reason has been the disproportionate development of overnight stay figures, which has improved the scale of room utilisation.

PERFORMANCE GOOD BY NATIONWIDE STANDARDS

In terms of relative performance last year, Berlin (72 € RevPAR absolute) posted a rise of over 8%; this was above average compared with the other Big Seven cities and gave it third place. The appreciable growth was due to an improved occupancy rate in 2015 in combination with higher room prices. The top performer in 2015 in this field was Cologne (80 €) with a rise of almost 16%. Frankfurt (88 €) took second place. Munich (102 €) and Stuttgart (72 €) registered year-on-year RevPAR increases of nearly 5% each. Only in Düsseldorf (75 €) did the RevPAR fall (-1%). So overall, RevPAR climbed in the German market year-on-year by an average of around 7% to 70 €, an improvement that gratifyingly also extended to most of the Big Seven locations.

IN TOP 3 IN TERMS OF ROOM OCCUPANCY

Further proof that Berlin is one of the top international tourist destinations with a well functioning hotel market is provided by the room occupancy rate. Last year, this rose considerably, to 76%, which puts the German capital closer to frontrunners Munich and Hamburg, which each have an average of around 78%. This produces the anticipated top trio. Occupancy rates in the other cities in the Big Seven are slightly lower, but overall the development in the major hotel markets has been distinctly positive, even though Stuttgart and Düsseldorf – with modest declines after strong improvements in 2014 – tended simply to consolidate their position. At present, all the signs suggest that the upward trend will be sustained in the years ahead.
NEW RECORD IN BERLIN HOTEL INVESTMENT

With a transaction volume of about 647 m €, the Berlin hotel investment market set a new record in 2015, exceeding the prior-year figure by nearly 85%. Following a decline in 2013, aggregate investment has been increasing steadily and is currently well above the long-term average. In the first half of the present year, this development continued even more dynamically to produce a volume of 562 m €, which is already equivalent to 87% of last year’s result. Particularly notable is the high proportion of foreign buyers: in the first six months, this stood at around 89%, most of which however comprised a portfolio deal included on a pro rata basis. The extraordinary six-month performance was fuelled decisively by the sale of the Interhotel package, thus generating the exceptionally high portfolio proportion of 79% at the mid-year point. The very positive and strong overall development suggests that Berlin is set to remain one of the most important and highly favoured locations for hotel investors. At the moment, all the signs indicate that the record volume of 2015 will be surpassed by the end of this year.

BERLIN GAINS TOP SLOT IN INVESTMENT VOLUME

The volume of hotel investment in the Big Seven in the first half of this year totalled just over 1.3 bn €. That exceeded the already very good prior-year figure by one third. Berlin led these major locations by a clear-cut margin, with 562 m €. Then came Frankfurt (317 m €) and Hamburg (188 m €). The only other city with a triple-digit result was Munich, with 145 m €. Results in the remaining cities have been somewhat modest up to now. Where the ten-year average transaction volume is concerned, Berlin reasserted its slight lead over the three other key cities.

Selected transactions

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<tr>
<th>Year</th>
<th>Stars</th>
<th>Name</th>
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<th>Seller</th>
<th>Buyer</th>
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<tr>
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<td>4*S</td>
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<td>Warimpex and UBM Development</td>
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<tr>
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OUTLOOK

Berlin is Germany’s most important tourist destination: No other city generates such strong demand on the part of domestic and international guests. Thanks to its historic significance, the very broad spectrum of what it offers in the field of culture and the arts, and also the ongoing trend toward short breaks, the country’s capital can be expected to produce steadily growing numbers of visitors and overnight stays. Berlin is especially popular with young tourists. It has now established itself as the third-biggest city trip destination in Europe after London and Paris, and exhibits strong cosmopolitan flair. Against this background, the hotel market has enjoyed an extremely positive development in the past years. This is also reflected by the appreciable improvement in performance ratios. The packed pipeline of hotel projects will ensure a continuing stream of new concepts adapted to a diverse range of customer requirements. So there is every reason to expect the Berlin hotel market to go on adding fresh chapters to its success story in the years to come.
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