HAMBURG — PEARL ON THE ELBE

Hamburg, Germany’s “Gateway to the World”, is an attractive city enjoying high living quality and exhibiting a steadily growing population. It is an important economic centre, with the third-biggest harbour in Europe, industrial giants like Airbus, and a host of firms in the print and media sector. Hamburg can also point to an ongoing increase in numbers of tourists, with a role being played for instance by the booming cruise business. In addition to such constant attractions as the port itself, the Elbphilharmonie and HafenCity, this North German metropolis also draws crowds of visitors with a spectrum of events, from the annual Harbour Birthday festivities to well-known musicals and international sports fixtures. Few destinations offer such a wide range, with something for every taste. Last year alone, the city’s major trade fairs and conventions attracted nearly 900,000 people from Germany and abroad. One beneficiary of these factors and developments is the local hotel market, which for quite a few years now has been enjoying an appreciable surge.

MARKED RISE IN GUEST NUMBERS

In Europe and especially in Germany, city trips are a growth segment. This is something from which Hamburg, too, has been profiting, with the relevant figures climbing constantly in recent years. In 2015, guests in Hamburg totalled almost 6.3 million, a new record. The number of overstay stays has also increased, to over 12.6 million; that represents growth of more than 42% since 2010. 78% of these guests come from within Germany, which is a relatively high proportion among the top locations. Of the foreign guests Europe accounts for by far the biggest share with 78%. The largest numbers come from neighbouring Denmark (14%), followed by the United Kingdom (9%), Switzerland (9%), Austria (7%) and the Netherlands (5%). But Hamburg also attracts growing throngs of visitors from Asia and the USA. And the numbers of tourists visiting this city from the Gulf states have also been increasing.

IN TOP 3 FOR OVERNIGHT STAY FIGURES

Compared with the prior year, the numbers of overnight stays in Hamburg rose by about 738,000 to just over 12.6 million, equivalent to a rise of more than 6%. That gives this city third place nationwide, more or less equal with Munich – which benefits disproportionately from the special effect of the Oktoberfest. The clear-cut leader is Berlin, with over 30 million overnight stays. Fourth-placed Frankfurt already registers a considerably lower total than any of the Top 3. Then, some way behind, come Cologne, Düsseldorf and Stuttgart, each with fewer than 6 million overnights. In 2015, with the exception of Düsseldorf, the Big 7 cities posted higher totals year-on-year. The average length of stay in Hamburg, as in Munich, is two days, something due to the numbers of holiday-makers. Only Berlin can point to an even higher average length of stay, with 2.4 days.
HOTEL MARKET ON EXPANSION COURSE

Between 2010 and 2015, the number of hotels in Hamburg rose by 3% to a total of 302. In the same period, the number of hotel beds increased by more than 18% to over 52,000. The fact that the number of beds has risen over six times more strongly than the number of hotels shows that the new establishments tend on the whole to be larger. One decisive factor in this development has definitely been the expansion of the budget/economy hotel industry; almost one bed in every three is located in a brand-name budget/economy hotel. Compared with the trend in the field of overnight stays, the development of hotel and bed availability has been somewhat modest, and has not quite been able to grow at the same rate. This can be considered a positive sign, one which is reflected in the performance ratios and business situation of the hotel sector. At the moment, there is no indication of this very good development in the attractive Hamburg hotel market coming to a close. Right now, 27 new hotels with over 5,000 rooms due for completion by the end of 2018 are under construction or being planned.

DYNAMIC GROWTH BY NATIONWIDE STANDARDS

The development outlined above shows Hamburg in line with the overall trend in Germany. In the period 2010-2015, the number of beds in the Big 7 (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich, Stuttgart) rose by an average of almost 18%. So compared with the other cities, growth in Hamburg in this respect was dynamic and slightly above average. Frontrunner was Frankfurt with an increase of 26%, followed by Berlin (24%) and Munich (22%). In contrast Düsseldorf and Stuttgart (both at 13%) and Cologne (8%) showed a below-average increase. In all these locations, the increase in overnight stay figures was nevertheless higher than the rise in bed-numbers, thus underlining the healthy structure of the expansion.

MID- AND UPSCALE HOTEL CATEGORIES PREDOMINATE

The spectrum of hotels in Germany, as classified by the DEHOGA star-categories, is dominated by the mid- and upscale categories. And this structure is also apparent in Hamburg. Around 46% of the classified hotels are in the 3-star segment, another cluster of about 42% in the 4-5 star category. It must be borne in mind, though, that establishments of just 1 to 2-star quality are generally less likely to have themselves classified, meaning that this distribution does not present a full picture of the market. A further trend in Hamburg is that involving individualised hotel concepts, which represents the effort to meet changing tourist demands by emphasising fresh experiences and that "certain something". In recent years, it has particularly been the budget hotel segment which has been developing modern, individualised concepts to tap into new and broader target groups. In Hamburg, the budget segment is more strongly positioned than in Berlin or Munich.
Selected hotel projects

<table>
<thead>
<tr>
<th>Opening</th>
<th>Hotel</th>
<th>Rooms</th>
<th>Stars</th>
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<tr>
<td>1 10/2016</td>
<td>Sir Nikolai Hotel Hamburg</td>
<td>94</td>
<td>5*</td>
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<tr>
<td>2 11/2016</td>
<td>The Westin Hamburg (Elbphilharmonie)</td>
<td>244</td>
<td>4*</td>
</tr>
<tr>
<td>3 Q1/2017</td>
<td>Grand Hotel &quot;The Fontenay&quot;</td>
<td>131</td>
<td>5*    S</td>
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<tr>
<td>4 Q1/2017</td>
<td>Hampton by Hilton Hamburg</td>
<td>161</td>
<td>4*</td>
</tr>
<tr>
<td>5 Q1/2017</td>
<td>Holiday Inn Express (Sonninkanal)</td>
<td>104</td>
<td>4*</td>
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<tr>
<td>6 Q1/2017</td>
<td>Hotel Pier3 HafenCity</td>
<td>212</td>
<td>3*</td>
</tr>
<tr>
<td>7 Q1/2017</td>
<td>Boutiquehotel &quot;Stadthöfe&quot; (Hotel de Ville)</td>
<td>130</td>
<td>4*</td>
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<tr>
<td>8 Q4/2017</td>
<td>Ruby Hotel Hamburg</td>
<td>289</td>
<td>4*</td>
</tr>
<tr>
<td>9 Q4/2017</td>
<td>Courtyard by Marriott St. Georg</td>
<td>277</td>
<td>4*</td>
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<tr>
<td>10 Q1/2018</td>
<td>Prizeotel Hamburg Reeperbahn</td>
<td>258</td>
<td>2*</td>
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</table>

Location of selected openings

MANY NEW OPENINGS

Recent new openings in Hamburg have mainly involved establishments in the 3-star and 4-star categories. Alongside new buildings, there have also been extensive renovation projects in existing hotels such as the Vier Jahreszeiten or Hotel Atlantic. In the upscale segment, Hilton, the world’s biggest hotel operator, carried out wide-ranging conversion measures in the Reichshof, previously run by Maritim, and opened the establishment last year under the Curio brand. Most of the newly opened hotels are located very centrally, around the Main Station and in the vicinity of tourist hotspots like the Alster, HafenCity and the attractive downtown shopping streets, and the majority of them are operated by international chains, such as Accor or Marriott. This highlights the expansion of hotel chains in Hamburg, where this business is shaped predominantly by private operators. Alongside new buildings, there have also been cases of repurposing existing structures, as for instance at the moment with the Hotel de Ville.

DENSE PIPELINE OF PLANNED HOTEL PROJECTS

The pipeline for new projects in Hamburg is packed and distinctly reflects the general trends in this industry. International chains are represented by several different modern concepts geared to meeting the increasing demand for individualised hotels, in the future, too. Marriott, for example, is planning not just a Moxy but also a Courtyard Hotel. Exemplifying the trend towards long-stay and serviced apartment hotels is the recently opened Citadines Hotel. The Hamburg market is becoming even more diversified, on the one hand with luxury establishment like the Grand Hotel "The Fontenay" and on the other with trendy concepts in the budget and economy segment. Projects scheduled for completion by the end of 2018 include 4 luxury hotels, 13 upscale and 6 budget houses.
HAMBURG'S HOTELS STEP UP PERFORMANCE

Between 2010 and 2015, the average daily rate (ADR) in Hamburg rose by 9% to around 109 €. Price-wise, this gives the city a mid-field position among Germany's seven largest hotel markets, well behind leader Munich but well ahead of the capital, Berlin. It is gratifying to note that there has been a continuous rise in this respect for several years now, which highlights the positive development of the hotel business in this North German city. In the period under review, the average revenue per available room (RevPAR) also climbed, by more than 20%. Here, growth has basically been steady but with slight fluctuations. These key market ratios have pursued a clear-cut upward course, something due both to the increase in the ADR and the disproportionate development of overnight stay figures, which has improved the scale of room utilisation.

REVPAR RELATIVELY HIGH BY IN NATIONWIDE TERMS

Where the important RevPAR ratio is concerned, Hamburg posted an average of 85 € in 2015. This put it among the top group of cities in Germany. Only Munich was able to note a triple-digit result, with 102 €. Frankfurt finished just slightly ahead of Hamburg, with 88 €. In fourth place came Cologne with 80 €, whereas appreciably lower figures were recorded by the hotels in Düsseldorf (75 €) and Berlin and Stuttgart (each: 72 €). In terms of its relative performance, Hamburg posted a rise of only just over 2% in 2015. This was somewhat lower than in most of the other cities; in previous years it had noted much stronger increases. In view of the comparatively high level that has now been reached in this respect, the most recent development must be seen as just a dip rather than as a general trend. Easily the top year-on-year rise was that posted by Cologne, which stepped up its RevPAR in 2015 by a handsome 16%.

BEST ROOM OCCUPANCY RATE TOGETHER WITH MUNICH

Further evidence for the fact that Hamburg is one of Germany's foremost tourist destinations and has a well-functioning hotel market is provided by the room occupancy rate. With averages of around 78% each, Hamburg and Munich head the table of all the major metropolises and have for years been engaged in a neck-and-neck contest, with changes in the leading position. Next comes Berlin with 76%. This produces a top trio that was to be anticipated. Occupancy rates in the other locations in the Big 7 are somewhat lower. Fundamentally, however, all the key hotel markets can point to a distinctly positive development since 2010, even though Stuttgart and Düsseldorf – with minor declines after strong improvements in 2014 – tended simply to consolidate their position. At the moment, all the signs suggest that the upward trend will continue in the years ahead.
HOTEL MARKET HAMBURG - 2016

CITY REPORT

Real Estate for a changing world

HOTEL INVESTMENT GENERATES RECORD VOLUME

With investment turnover of around 536 m € in 2015, the Hamburg hotel market set a new high, exceeding the prior-year record by all of 65 %. The transaction volume in this sector has in fact been increasing steadily and appreciably since 2012. This development also continued in the first half of this present year, producing a six-month total of 188 m €, which is considerably higher than the long-term average. There are several reasons for this dynamic surge. These include the positive development of guest numbers and hotel performance ratios, which have triggered greater construction activity, thus creating more investment product. Then there is the fact that the circle of interested investors has been growing steadily. All the nine hotel investments registered in the first half of 2016 involved single deals. That produces an average volume per deal of around 21 m €, which is about half the prior-year figure. The biggest deal was the sale of the Intercity Hotel Dammtor. Almost 76 % of all investment originated from within Germany, the rest came from neighbouring countries in Europe.

HAMBURG ONE OF TOP 3 IN HOTEL INVESTMENT

With a combined total of more than 1.3 bn €, the volume of hotel investment in the Big 7 in the first half of 2016 increased by the substantial margin of 33 %. Hamburg’s result of around 188 m € was exceeded only by that in Berlin (562 m €) and Frankfurt (317 m €). So these three hotel markets represent the strongest investment locations, with only Munich (nearly 145 m €) coming close to them. Altogether, hotels accounted for almost 9 % of the commercial property transaction volume in Hamburg in the first half of 2016. That was somewhat below the national average of 12 %. The figure for Munich, at about 7 %, was comparable.

Selected transactions

<table>
<thead>
<tr>
<th>Year</th>
<th>Stars</th>
<th>Name</th>
<th>Rooms</th>
<th>Seller</th>
<th>Buyer</th>
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<tr>
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<td>3*</td>
<td>Apartment040</td>
<td>77</td>
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<tr>
<td>2015</td>
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<td>Radisson Blu</td>
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<td>2015</td>
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<td>Marriott Hotel Hamburg</td>
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<td>Union Investment</td>
<td>UK and European Investments</td>
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<tr>
<td>2015</td>
<td>4*</td>
<td>Height3 Adina Apartment Hotel</td>
<td>202</td>
<td>Hochtief Project Development</td>
<td>Commerz Real</td>
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<td>4*</td>
<td>Dorint Hotel Hamburg-Eppendorf</td>
<td>195</td>
<td>B&amp;L Group</td>
<td>Berenberg Real Estate</td>
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<tr>
<td>2015</td>
<td>5*</td>
<td>Sofitel Hamburg Alter Wall</td>
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<td>Art-Invest</td>
</tr>
<tr>
<td>2016</td>
<td>3*</td>
<td>Intercity Hotel Dammtor</td>
<td>275</td>
<td>B&amp;L Group</td>
<td>Deka</td>
</tr>
<tr>
<td>2016</td>
<td>4*</td>
<td>Holiday Inn Lohsepark</td>
<td>268</td>
<td>ECE</td>
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OUTLOOK

For several years now, the Hamburg hotel market has been setting a stream of new records, and definitely provides the framework and basic conditions for continuing its positive development. The expansion of cruise tourism, the staging of new musicals, and the ongoing love of city trips are set to make visitor and overnight stay figures in Hamburg go on growing. The metropolis on the River Elbe has established itself as Germany’s third-biggest urban travel destination after Berlin and Munich. Recent hotel openings will also contribute towards making this city even more attractive as a place to visit. The packed pipeline of hotel projects indicates that this development should be sustained – not least because operators are adapting their concepts to new trends and customer demands. So the prospects for the hotel business in Hamburg look very pleasing, with one reason being that in particular international guests and tourists represent a considerable potential for growth in the years ahead.
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