The surge in the hotel investment market has continued, taking it into new spheres. For the first time ever, the transaction volume passed the 5 bn € threshold, setting a new record with 5.18 bn €, which also represented the seventh turnover increase in succession. No other asset class can point to a comparable success story. Single deals generated almost 3.1 bn €, another new high, while market activity in the field of portfolios was also distinctly dynamic, with a total for the year as a whole of over 2.1 bn €, more than ever before. The year-end spurt was remarkable: around 43% of the aggregate volume was produced during the fourth quarter. In the portfolio segment, the final three months actually contributed nearly half of overall turnover.

Listed real estate companies/REITs currently form the dominant buyers’ grouping, generating more than 29% of the total volume. Their investment activity was mainly confined to portfolio deals. In fact, they accounted for around half of the relevant volume by buying the Interhotel portfolio, which after its purchase in 2015 was immediately sold on to FDM Management. Special-purpose funds – which were active chiefly in the single-deal field – obtained a share of nearly 18%. In third place came equity/real estate funds (13%), which deployed their capital primarily within the framework of portfolio transactions. Other sizeable contributions to the overall result were made by investment managers, acting on behalf of various other types of investors such as insurances and pension funds (about 11%), corporates (8%), and open-ended funds (almost 6%). Together, all the other categories of market players accounted for 16%.

In the past seven years, the ratio between investors from abroad and those from within Germany has been basically quite balanced, with the former leading marginally with proportions ranging from just under 51 to 63%. In 2016, foreign investors again finished out in front, with 57%. In the portfolio segment, they were responsible for several of the biggest transactions, such as the sale of the Interhotel portfolio (to FDM Management) and the acquisition of the A&O hostel chain by TPG. In this segment, foreign investors accounted for 83%, considerably higher than their share in the single-deal field (39%).

**HOTEL INVESTMENT MARKET REALLY SOARING**

**LISTED REAL ESTATE COMPANIES/REITs SECURE TOP SLOT**

**FOREIGN AND DOMESTIC BUYERS MORE OR LESS EQUAL**
MAJOR CITIES WITH INCREASES OVERALL
Aggregate investment in hotels in the seven key investment locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Leipzig and Munich) rose year-on-year by 8% to around 2.93 bn €. So the increase there was considerably lower than that noted nationwide (+18%), indicating that hotels are becoming a growing focus of investor interest outside the major markets, too. Developments in the cities themselves varied in line with asset availability. The inter-city ranking was headed narrowly by Berlin with 693 m € (+7%), followed by Frankfurt, which attracted 688 m € (+175%). That extraordinary result was due among other things to the sale of the Hilton Hotel in the Squire within the framework of the OfficeFirst transaction. In Munich, following the record result of the year before, turnover slipped to 421 m € (-44%), which is, though, still a very good performance. In fourth and fifth places came Düsseldorf with 398 m € (+36%) and Hamburg with 378 m € (-30%). Leipzig once again secured sixth place (204 m €, +74%) ahead of Cologne, where investment totalled 147 m € (+30%).

SIZE-CLASS DISTRIBUTION SIMILAR TO PRIOR YEAR
In the distribution of investment in terms of size classes there were only few year-on-year changes. Just as before, turnover depends especially on deals in the triple-digit million range, and that mainly means the portfolio segment (39%). But there was also extremely lively market activity in the 25-50 m € size class, where numerous sales of individual hotels – including the Holiday Inn Hotel in the Frankfurt Gateway Gardens district – generated all of around 1.2 bn €. That gave this bracket close to 25% of turnover, enabling it to move in front of the 50-100 m € category (23%). Deals of between 10 and 25 m € accounted for a further slice of about 10%, while the smallest size class, of up to 10 m €, generated just under 4%.

OUTLOOK
After the phenomenal end-of-year spurt and the record performance, making any prediction for 2017 is particularly difficult. Fundamentally, investor demand is exceptionally robust, originating both from market players specialising in this field and from those seeking risk diversification. This has enabled hotels to move up into the Top 3 of the asset classes. The supply side, however – despite a strong scale of construction activity – is insufficient. Another factor is that the 2016 result – fuelled as it was by a good many large sales in both the single-deal and portfolio segments – represented a clustering that cannot be simply repeated year after year. Nevertheless, reaching the 4 bn € mark again should represent a feasible goal for 2017. And after all, a year ago only few would have been prepared to wager on the likelihood of the 4 bn € threshold being broken once more, let alone on the probability of the 5 bn € mark being exceeded.