DYNAMIC MARKET PRODUCES NEW RECORD

With a transaction volume of more than 1.12 bn €, the hotel investment market registered the best opening quarter of all time, picking up seamlessly from the outstanding prior-year performance. So the great market dynamism has been sustained undiminished. Particularly pleasing was the exceptionally good result generated by single deals: these accounted for three-quarters of aggregate turnover (858 m €), more than ever before. The biggest deal by far was the sale of the over-550-room Radisson Blu in Hamburg. This sale was one reason for the relatively high proportion (almost three-quarters) of the single-deal total produced by the big cities (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Leipzig and Munich), and it also helped to generate an extraordinarily substantial investment volume in the upscale segment of the market.

FAMILY OFFICES AND SPECIAL-PURPOSE FUNDS NECK-AND-NECK

The buying side in the first quarter was shaped by two investor categories: family offices, which accounted for 23 % of the total, chiefly due to the acquisition of the Radisson Blu by Norwegian family firm Wenaasgruppen, and the traditionally strong special-purpose funds, with 22 %, fuelled by many purchases in the low to medium double-digit million-euro class. Completing the leading trio were investment/asset managers, with just under 17 %. Pension funds also gained a two-figure percentage share, with around 12 %. Other sizeable contributions were made by insurances (over 7 %), and equity/real estate funds and corporates (each: around 5 %). Together, all the other groupings generated about 9 % of all investment.

FOREIGN INVESTORS PROPORTION CLOSE TO 50 %

For several years, the ratio between German and foreign investors has been fairly balanced, with some slight fluctuations. In the first three months of 2017, investors from abroad accounted for around 48 %. That was marginally below the end-of-2016 level but is slightly above (+9 percentage points) the proportion posted in the overall commercial real estate investment market. The largest slice of the foreign capital came from other parts of Europe (approx. 66 %), followed by the Asian region (22 %). North American investors are still somewhat under-represented, with a first-quarter share of just over 7 %.
**VOLUMES VARY STRONGLY BETWEEN DIFFERENT CITIES**

The volume of hotel investment in the key markets (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Leipzig and Munich) varies substantially in line with the scale of supply, and this effect is magnified by looking at just the short period of three months. Altogether, hotels in these cities attracted investment of about 772 m €, 84 % higher than in the prior-year period. The volumes generated by the individual cities ranged from just under 5 m € to over 230 m €. In first place came Hamburg, with 232 m €, fuelled by the Radisson Blu deal. But it was Munich, where the turnover was 180 m €, that posted the largest number of hotel transactions; these included the sale of the NH Hotel Munich Messe. An above-average opening quarter was also registered by Berlin with 175 m €, Düsseldorf with 72 m €, and Cologne with 60 m €. In the corresponding period last year, neither of the two Rhineland metropolises had produced any hotel sales at all. Leipzig also got off to a good start, with 49 m €. In Frankfurt, on the other hand, investment in this field has so far been very limited.

**BALANCED SIZE-CLASS DISTRIBUTION**

Investment was spread fairly evenly across the different size categories. The biggest slice was registered by the 50-100 m € bracket, with a share of 33 %. The triple-digit million-euro class generated around 28 % of the total, fuelled by both single deals and portfolio sales. The low double-digit million class of between 10 and 25 m € gained a share of 24 % but led the field in terms of the number of transactions. These included the Steigenberger Hotel in Kiel, the Motel One by the Nikolaikirche in Leipzig, and the Innside Düsseldorf Seestern. The share posted by the 25-50 m € bracket, which had performed strongly in the prior-year period, has slipped to just 12 %, but market activity in this size class should pick up somewhat during the course of the year. The remaining size category, of deals up to 10 m €, contributed 2 %.

**OUTLOOK**

The signs suggest that the buoyant market activity exhibited in the opening quarter should be maintained unabated in the months ahead. Compared with other forms of occupancy, the hotel investment volume has developed to an exceptional extent. This is due not just to the strong and growing scale of investor interest – something that applies to other asset classes, too – but also to the fact that the robust demand in user markets has triggered lively construction activity and thus created additional opportunities for deploying capital. All the same, the extent to which last year’s record result can be matched remains to be seen.