For years now, the German hotel markets have been speeding from one record to the next. The relevant indicators are many and varied. From the stream of new highs in the field of overnight stays – both nationwide and in most of the larger cities – to the steady growth in the significance of city-break tourism, the trend is upward. This is also reflected by performance ratios in the hotel business, which for some considerable time now have been moving in just one direction: higher and higher. In addition, the good results have prompted the hotel sector to develop new concepts and make the spectrum on offer in many cities not only broader but also more interesting and colourful. Investors, too, have been discovering the attractiveness of hotels, no longer simply as high-yield additions to their portfolios but as a productive asset class in their own right.

In 2016, the development outlined here was sustained and generated many new records. The number of overnight stays rose yet again in 2016, setting a new all-time high. The occupancy rate increased to 70.6 % across Germany. The hotel sector has used the good conditions to invest. This is also necessary.

The eighth consecutive increase: The number of overnight stays rose in 2016, setting a new all-time high. The occupancy rate increased to 70.6 % across Germany. The hotel sector has used the good conditions to invest. This is also necessary.

The number of overnight stays rose yet again in 2016, setting a new all-time record. According to the German Federal Statistical Office, there were around 448 million overnight stays nationwide, which corresponds to an increase of about 3 %. That was the eighth rise in succession. And because even in the crisis year of 2009 there was only a marginal decline, the trend has actually been upward for 11 years now. The proportion of foreign visitors – which is currently around one fifth of the total – has also been climbing modestly for some years. But German guests, too, register growing numbers of overnight stays in hotels, something triggered among other things by a boom in city tourism and brief breaks. So the signs for the hotel business remain positive. It is hardly surprising that this is also reflected by performance figures.

OCCUPANCY RATE HAS CLIMBED

Nationwide, the occupancy rate has climbed to 70.6 %, representing another slight year-on-year increase. During the past six years, the rise has averaged nearly 2 %. The trend in the average daily room rate (ADR) has been similar: in 2016, it actually increased by almost 4 % to 103 € – and since 2010 it has achieved an annual rise of some 2 %.

With just a few exceptions, the hotel sector in all the major German cities has been able to register improved performance ratios. Especially notable is the fact that even cities outside the absolutely top destinations have in fact benefited to a disproportionate extent. Examples in this respect are Leipzig, Essen, Hannover, Heidelberg and Nuremberg. This development also underlines the particular significance of city-break tourism, which has been boosted by new hotel offerings and new concepts geared precisely to specific target groups. The fact that the energy and commitment of hotel operators even outside the key metropolises pays off is impressively documented by the way the performance indicators have developed. This is shown even more clearly by the...
most important ratio of all, the RevPar, the average revenue per available room: in 2016, this rose nationwide by close to 5%. In the past six years, the increase has actually averaged just over 4%.

As indicated above, the hotel sector has taken advantage of the good business environment to invest, in order to make the range of what it offers more varied and in tune with the times. By means of individualised hotel concepts, the aim is to meet the changing requirements of tourists and their desire for a heightened experience and that “certain something”. Above all the budget hotel segment has been developing modern, diversified and trendy concepts in order to reach new and broader target groups. International hotel chains have launched several modern concepts to ensure that they will continue to be able to meet the growing demand for individualised hotels. Fresh impetus also comes from the renovation and upgrading of existing establishments. This trend is especially apparent in the market segment of luxury hotels, where guests are also becoming more demanding. New developments, for instance in the long-stay and serviced apartment business, are precisely noted and responded to appropriately.

**Higher Transaction Volume** In view of this success story, it is hardly surprising that the sustained upturn in hotel markets has also been registered by investors. For three years now, the transaction volume in this field has been increasing strongly, and in 2016 the hotel investment market continued to soar. For the first time ever, turnover passed the 5 bn € threshold, setting a new record with 5.18 bn €. This represented the seventh increase in succession in aggregate investment. No other asset class can point to a comparably successful trajectory. 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 final quarter. In the seven key investment locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Leipzig and Munich), the transaction volume rose year-on-year by 8 % to about 2.93 bn €. But the increase there was actually considerably lower than the nationwide rise (+18 %), indicating that hotels are becoming a growing focus of investor interest outside the major markets, too. Foreign investors evidently also consider the German hotel market particularly attractive and dynamic – this is shown by the fact that in the past seven years, the ratio between investors from abroad and those from within Germany has been basically quite balanced, with the former in fact leading marginally, with shares ranging from just under 51 to 63%. In 2016, foreign investors again finished out in front, with a proportion of 57%.

All in all, 2016 was another outstanding year for the German hotel markets. The question now is whether the upward trend will continue in this present year or whether the markets will take a breather. Right now, this is difficult to predict, one reason being that although risks are apparent, they are difficult to calculate. They include the possibility of more protectionist policies in the USA or turbulence triggered by Brexit. The most likely scenario at present is that the hotel business in 2017 will continue to be boosted by a favourable overall economic climate. This includes stable and robust GDP growth, the further reduction of joblessness figures and record-level employment. The sustained healthy appetite on the part of consumers and their enjoyment of city visits and brief breaks will also make a contribution. And even if one or the other all-time high should not be bettered this year, that would not be a disaster. At any rate, there can be no doubt that overall prospects remain positive and pleasing.

Alexanderm Trobitz, Head of Hotel Services, BNP Paribas Real Estate