Market environment Cologne

Key facts 2017

- Population (1.1.2017): 1,076 k
- Per capita purchasing power (2018): 106.6
- Unemployment rate: 8.4%
- Overnight arrivals: 3.33 m
- Overnight stays: 5.65 m
- Proportion domestic tourism: 67.9%
- Proportion international tourism: 32.1%
- Number of hotels: 245
- Hotel beds: 29,403

COLOGNE — ONE CITY, MANY FACES

Cologne’s history as a trading city goes back more than 2,000 years and the city is cosmopolitan, tolerant and welcoming almost by tradition. And just as diverse as the city itself are the reasons to visit the metropolis on the Rhine, whether on business, as a tourist or for the Carnival. Cologne, as an important business location for the media, retail, chemical, engineering and finance sectors, is therefore always a worthwhile destination for business travellers from Germany and abroad. The cathedral city is also one of the most important trade fair cities in Germany and is a university and science location of international repute. There is also a lot to discover for tourists in Cologne. Whether you are an art connoisseur, music lover, sports fan, night owl, gourmet, shopaholic or all at once: Cologne has something to offer every taste.

ARRIVALS AND OVERNIGHT STAYS, PROPORTION OF FOREIGN GUESTS

- 2017: 5.65 m overnight stays
- 2016: 5.19 m overnight stays
- 2015: 4.84 m overnight stays
- 2014: 4.50 m overnight stays
- 2013: 4.19 m overnight stays
- 2012: 3.94 m overnight stays
- 2011: 3.63 m overnight stays
- 2010: 3.13 m overnight stays

RECORD NUMBER OF GUESTS

After a somewhat weaker year for tourism in 2016, the Cologne hotel industry bounced back strongly in 2017 and achieved a record number of guests with 3.3 million arrivals. Compared to the previous year, an increase of a huge 8% was achieved; in absolute figures, the number of guests increased by 247,000. If you take a step back, the picture becomes even clearer. Since 2010 both the number of guest arrivals and overnight stays have increased by just over 35%, impressive proof that Cologne is an attractive destination for tourists. The share of foreign visitors is, as in previous years, just under one third. Partly due to the short journey, the Dutch and the Belgians make up the biggest visitor groups, while tourists from the UK are also welcome and frequently seen guests. Supported by a few direct flight connections from the land of opportunity, the USA is by far the most important non-European source market. Tourists from China and Hong Kong are also visiting Cologne in increasing numbers.

OVERNIGHTS STAYS AND STAY DURATION IN IMPORTANT CITIES

- Berlin: 27.3
- Munich: 20.6
- Hamburg: 17.9
- Frankfurt: 17.4
- Cologne: 16.0
- Düsseldorf: 16.8
- Stuttgart: 13.9
- Leipzig: 12.0

THIRD HIGHEST GROWTH IN COMPARISON

In 2017 Cologne occupies second place in the city rankings together with Leipzig with a 9% increase in overnight stays compared to 2016; only Munich has a better result (+13%). With the exception of Berlin, where the number of overnight stays is stagnating after the extremely strong growth seen in previous years, all of the major German hotel markets are generating further growth. Regarding the average length of stay of hotel guests, Cologne is on a par with Frankfurt, Düsseldorf, Stuttgart and Leipzig with 1.7 days. The table is headed by Berlin, Hamburg and Munich, which exploit their economies of scale and host their guests for an average 2.0 to 2.3 days.
BALANCE BETWEEN SUPPLY AND DEMAND

The Cologne hotel market has experienced dynamic growth in recent years and increased the capacity for overnight stays for tourists and business travellers. In absolute terms, the number of beds rose between 2010 and 2017 from just over 23,000 to over 29,000, which equates to an increase of 26%. The number of hotels was unable to quite keep pace in the same period, increasing by just over 10% from 222 to 245. What is particularly noticeable in Cologne is that the growth in the number of beds and overnight stays since 2010 is following a very similar pattern, to a degree in phases. There is much to support the theory that a sharp increase in bed capacity - as in 2010 and 2013 - laid the foundation for the simultaneous boom in overnight stays. In summary, it can be said that the Cologne hotel market has experienced a healthy development in this respect.

IN MID-TABLE FOR CAPACITY EXPANSION

In reaction to the steady long-term growth in the number of beds, the bed capacity in some of the major German hotel locations has also risen significantly. With capacity growth of ±26% each between 2010 and 2017, Cologne and Hamburg form the golden mean of the city rankings. The biggest increases in hotel beds were in Frankfurt (+37%), Munich (+35%) and Berlin (+32%). In Leipzig (+23%), Stuttgart (+22%) and Düsseldorf (+20%) the increase in the number of beds has been comparatively moderate. It is positive to note that the growth in the number of overnight stays is without exception higher than the increase in the number of beds. It can therefore be concluded that the expansion in all hotel locations studied is always absorbed by demand and consequently there is no sign of overcapacity.

WIDE RANGE IN THE MIDSCALE SEGMENT

The rating of hotels by stars awarded by the German Hotel and Restaurant Association DEHOGA indicates that the industry is traditionally dominated by the midscale segment. In Cologne too, 3 and 4-star hotels account for around 89% of classified hotels. Although only just under 40% of hotels are certified by DEHOGA and as a result not all of the market is represented, it is clear that there is a shortage of hotels that satisfy the highest standards in the cathedral city. For example, the inadequate availability of upmarket 4 and 5-star hotels is considered by the trade fair industry to be a real obstacle to the anticipated increase in the number of visitors to the Koelnmesse. This problem might worsen still further in the medium term as Koelnmesse is currently launching an extensive investment programme and wants to attract among other things more conferences and company presentations to Cologne by building a new conference centre.
Selected openings

<table>
<thead>
<tr>
<th>No.</th>
<th>Opening</th>
<th>Hotel</th>
<th>Rooms</th>
<th>Stars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>01/2015</td>
<td>B&amp;B Hotel Köln Messe</td>
<td>109</td>
<td>2*</td>
</tr>
<tr>
<td>2</td>
<td>03/2015</td>
<td>Hotel zur Malzmühle</td>
<td>37</td>
<td>3*</td>
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<tr>
<td>3</td>
<td>04/2015</td>
<td>Courtyard by Marriott Cologne</td>
<td>236</td>
<td>4*</td>
</tr>
<tr>
<td>4</td>
<td>08/2015</td>
<td>The Quest hideaway Cologne</td>
<td>34</td>
<td>5*</td>
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<tr>
<td>5</td>
<td>08/2015</td>
<td>Hotel Fortune</td>
<td>37</td>
<td>3*</td>
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<tr>
<td>6</td>
<td>08/2016</td>
<td>Steigenberger Hotel Köln (Rebranding)</td>
<td>301</td>
<td>5*</td>
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<td>7</td>
<td>10/2017</td>
<td>Hyatt Regency Köln (Refurbishment)</td>
<td>306</td>
<td>5*</td>
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<td>8</td>
<td>10/2017</td>
<td>Holiday Inn Express Köln City Centre</td>
<td>323</td>
<td>3*</td>
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</table>

DIVERSE ADDITIONS

The latest development in the Cologne hotel market shows that small, independent hotels can still occupy attractive market niches, in particular if they stand out from the crowd with innovative concepts. For example, the Qvest hideaway Cologne welcomes guests in a renovated neo-Gothic building built in 1867 with ribbed vaulting and pointed arches, while the Hotel zur Malzmühle is attached to a brewery, serves the associated beer and offers as a special attraction a "Brewmaster's suite" with its own Koelsch beer tap. And although the position of private hotels in Cologne tends to be stronger than in other top locations in Germany, it is still clear that the overriding trend of hotel chain concepts remains intact. For unlike owner-managed private hotels, large hotel complexes of 300 rooms and more are not an exception for the big chain hotels, which is causing a corresponding shift in market shares over time.

Selected hotel projects

<table>
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<tr>
<th>No.</th>
<th>Openings</th>
<th>Hotel</th>
<th>Rooms</th>
<th>Stars</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>03/2018</td>
<td>V8 Hotel @ Motorworld</td>
<td>110</td>
<td>4*</td>
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<tr>
<td>2</td>
<td>03/2018</td>
<td>2Hours Hotel Köln - The Circle</td>
<td>207</td>
<td>4*</td>
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<tr>
<td>3</td>
<td>01/2019</td>
<td>Motel One Köln Neumarkt</td>
<td>424</td>
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<tr>
<td>4</td>
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<td>niu Hotel Köln</td>
<td>120</td>
<td>4*</td>
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<tr>
<td>5</td>
<td>2019</td>
<td>R’14 - H’Otello Köln</td>
<td>70</td>
<td>4*</td>
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<tr>
<td>6</td>
<td>01/2020</td>
<td>Adina Apartment Hotel MesseCity Köln</td>
<td>171</td>
<td>4*</td>
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<tr>
<td>7</td>
<td>01/2020</td>
<td>Motel One MesseCity Köln</td>
<td>300</td>
<td>2*</td>
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<tr>
<td>8</td>
<td>02/2020</td>
<td>Urban Loft Hotel Köln</td>
<td>213</td>
<td>2*</td>
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<tr>
<td>9</td>
<td>03/2020</td>
<td>Ruby Hotel Köln</td>
<td>186</td>
<td>4*</td>
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<tr>
<td>10</td>
<td>2020</td>
<td>Althoff Dom Hotel Köln</td>
<td>130</td>
<td>5*</td>
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EXTENSIVE HOTEL PIPELINE

Despite some changes in recent years, the modernisation of the Cologne hotel market has been less dynamic than in most other German metropolises. An increase in accommodation capacity is overdue particularly in the upscale segment. However, property developers, operators and investors have recognised the sign of the times and are reacting to the growing demand. The project pipeline to 2020 totals around 4,300 hotel beds, which equates to just over 15% of the current available bed capacity. Many of the projects, such as the Ruby Hotel, the 25hours Hotel, and the R’14 (H’Otello), will cater for a discerning clientele with a contemporary and original design. One project that is eagerly awaited is the reopening of the venerable Dom-Hotel, which should open its doors towards the end of 2019 with the Althoff Group as its new operator.
**Positive Trend Among Key Performance Indicators**

The number of overnight stays has fluctuated up and down in recent years, and this has also been reflected in the development of key performance indicators: For example, in 2014 and 2016 the revenue per available room (RevPAR) fell, but both years were followed by a massive increase. In 2017 the RevPAR rose by a huge 11.5% to a record of 86 €, after overnight stays had increased in the same year by just under 471,000 (+9%) compared to the previous year. The upturn in the Cologne hotel market is also expressed in a rising occupancy rate and greater pricing flexibility for hotel operators, who were able to enforce an increase in the average daily rate (ADR) of just over 22% between 2010 and 2017. With regard to the RevPAR, Cologne’s hoteliers report an increase of just under 37% in the same period, providing impressive proof of their city’s growing appeal as a tourism and business destination.

**Highest Increase in RevPAR in Comparison**

The Cologne hotel market was in great shape in 2017 and was streets ahead of all other major hotel locations with an 11.5% increase in RevPAR. Well behind in second place is Hamburg with an increase of 7.8%. The RevPAR also increased in Stuttgart, Frankfurt and Berlin, while a decrease was seen in Leipzig, Düsseldorf and Munich. The main reason for the weak performance of the Munich hotel market (-4.2%) lies in a jump in bed capacity in the last two years, with a corresponding negative impact on the ADR and the occupancy rate. However, a new record number of guests in 2017 provides hope of a speedy recovery. In absolute terms, Cologne occupies a mid-table position with a RevPAR of 86.10€ together with Düsseldorf (82.70€) and Frankfurt (85.40€). The highest revenues continue to be achieved in the tourism strongholds Hamburg (94.60€) and Munich (93.00€). The rear is brought up by Stuttgart (76.80€), Berlin (73.90€) and Leipzig (57€).

**Occupancy Rate Increases**

The continuing positive trend of the Cologne hotel market seen with tourist numbers is reflected accordingly in the occupancy figures: Between 2010 and 2017 the occupancy rate improved gradually from 65.4% to a peak of 73.2%. This places the Rhine metropolis level with Stuttgart in a mid-table position. All of the major hotel locations report a much higher occupancy rate for 2017 than for the reference year 2010. In this respect Cologne again occupies one of the mid-table positions with an increase of 7.7 percentage points. The biggest increases in occupancy rate are recorded by Stuttgart (+12.6 percentage points), Düsseldorf (+9.7) and Hamburg (+9.3). The smallest increases are recorded by Frankfurt (+4.1) and Munich (+3.3).
Hotel investment volume in Düsseldorf

HOTEL INVESTMENTS STABLE
With an investment volume of just under 120 m €, Cologne closed the investment year 2017 for the fourth time in a row above the 100 m € mark. At the same time, the average deal volume was comparatively high at 40 m €. However, due to the smaller number of deals, the overall turnover fell by just under 19 % compared to 2016. It can be stated that the shortage in the hotel investment market is clearly on the supply side, while demand from in particular institutional investors remains very strong. This being the case, there is great potential for even higher investment turnover in the next few years, provided that there are suitable properties for sale in the market. With this in mind, the investment year 2018 has made an extremely promising start: With the sale of the Maritim Hotel in Heumarkt Square, a very prominent hotel in Cologne, the total investment volume for the previous year was achieved in the first quarter. Thanks also to the extensive deal pipeline, a top result can be expected for 2018.

MUNICH TOP FOR TURNOVER
The major German hotel locations again benefited from strong demand from Germany and abroad in 2017 and achieve as in the previous year an investment volume of just over 3.1 bn €. The distribution of investment turnover shows that Cologne, despite the good result for the year, is not yet quite able to be considered one of the major players and contributed only 3.8 % to the overall result in 2017. Düsseldorf, Leipzig, and Stuttgart are also currently in the “also ran” category. Instead, all eyes were again on the tourism heavyweights Berlin, Hamburg, Munich and Frankfurt in 2017. Munich topped the city rankings with an extraordinary 934 m €, followed by the capital Berlin (790 m €) and Hamburg (515 m €). Frankfurt occupies fourth place with an investment turnover of 452 m €.

Distribution of hotel investment volume in 2017

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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<tbody>
<tr>
<td>2016</td>
<td>3*</td>
<td>Holiday Inn Express Cologne City Center</td>
<td>323</td>
<td>GBI</td>
<td>Deka Immobilien</td>
</tr>
<tr>
<td>2016</td>
<td>4*</td>
<td>Mercure Hotel Köln City Friesenstraße</td>
<td>103</td>
<td>Closed-end fund</td>
<td>HR Group</td>
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<tr>
<td>2016</td>
<td>4*</td>
<td>Radisson Blu Hotel Köln</td>
<td>393</td>
<td>Invesco</td>
<td>Pandox</td>
</tr>
<tr>
<td>2017</td>
<td>4*</td>
<td>25Hours Hotel The Circle Cologne</td>
<td>200</td>
<td>ImmoFinanz</td>
<td>Quantum / Proximus</td>
</tr>
<tr>
<td>2017</td>
<td>3*</td>
<td>Holiday Inn Express Cologne Mülheim</td>
<td>107</td>
<td>Apollo</td>
<td>Invesco</td>
</tr>
<tr>
<td>2017</td>
<td>4*</td>
<td>Park Inn Hotel Köln City West</td>
<td>205</td>
<td>Institutional Investment Partners</td>
<td>GEG German Estate Group</td>
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<tr>
<td>2018</td>
<td>4*</td>
<td>Maritim Hotel Köln</td>
<td>454</td>
<td>Commerz Real</td>
<td>Art-Invest</td>
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<tr>
<td>2018</td>
<td>5*</td>
<td>Hotel im Wasserturm</td>
<td>88</td>
<td>Investment company</td>
<td>Vicus Group</td>
</tr>
</tbody>
</table>
OUTLOOK

Cologne has always been a city of economic and cultural importance and its influence has increased in recent years not least due to a steadily rising population. This is also reflected in the tourism statistics, which report new record numbers of overnight stays with great regularity. As a result, the number of beds has also risen noticeably, although the increase in capacity in the Cologne hotel market has not entirely kept pace with the other major German hotel locations. Cologne has also been seen to be somewhat more conservative in respect of the level of market penetration by hotel chain concepts. In the short term a further increase in the number of guests is expected due to the continuing trend of city breaks, especially as Cologne is often part of the organised travel itinerary of Asian tourists travelling in Europe. In addition, the Koelnmesse also has ambitious plans and would like to attract even more trade fair visitors to the Rhine. This might result in new potential particularly for the luxury segment, which is currently somewhat underdeveloped in Cologne.
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