With a volume of well over half a billion euros (583 m €), the market for hotel investments got off to an excellent start to the year. Even though the opening months were not quite as dynamic as the final quarter of 2014, the result must be considered outstanding, especially in a long-term comparison (+40 % over the 10-year average). A particular role in this fine performance was played by large hotel portfolios; they generated 345 m € and thus attracted the lion’s share of the total (59 %). By itself, one transaction accounted for over one third of the portfolio volume: the sale of 22 B&B hotels by Carlyle to the French REIT Foncière des Murs, which also acquired two further portfolios.

Hotel assets are on the shopping lists of a wide spectrum of different types of investors. In the first-quarter ranking, the Foncière des Murs purchases helped to give listed real estate companies/REITs a strong top place, with more than 36 % of the aggregate volume. A considerable way behind, with about one fifth of the total, came special-purpose funds, which had already been among the most important sources of demand the year before. Among other things, within the framework of a forward deal, they secured a Super8 hotel in Munich, a brand previously not represented in Germany. Third place in the ranking was shared by property firms and corporates, each with just over 13 %. The only other categories to make sizeable contributions were open-ended funds (12 %) and private investors (5 %).

For some years now the interest shown by foreign investors has been at a high level. But domestic buyers are also increasingly on the lookout for hotel properties and so they compete for the low number of assets available. In the first quarter of 2015, almost one euro in every two came from abroad (more than 45 %), with activity being limited almost entirely to market players from other parts of Europe. By far the most active were French investors. However, this situation does not mean any lack of interest in German hotels by buyers from other regions, especially Asia, it is simply that they have not finalised anything yet. While large-volume portfolio business is dominated by foreign investors, single deals are chiefly the domain of German market participants.
MOST LOCATIONS POST HIGHER TURNOVERS

Investment in hotel properties has also grown (+38 % year-on-year) in most of the major German cities (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg and Munich). Hamburg was also the scene of the biggest single deal so far, the sale of the Sofitel to Art-Invest. Only Frankfurt and Munich registered declines, but the results achieved by both these cities the year before had been exceptionally good. The largest amounts of capital – 111 m € and 110 m € – flowed into Berlin and Hamburg (+258 % and +55 % compared with Q1 2014). Although lower than last year, the totals posted by Munich (55 m €) and Frankfurt (45 m €) were still very good, exceeding the long-term averages by +82 % and +56 % respectively. At the bottom of the list, with just one transaction up to now, comes Cologne ahead of Düsseldorf (just under 32 m €).

DEALS ABOVE 50 M € PRODUCE OVER TWO-THIRDS OF TOTAL

Transactions upwards of 50 m € account for more than two-thirds of all turnover, so large deals have been much more prevalent than they were in the same period last year, when there were no sales at all on this scale. Apart from two sizeable single deals, this result mainly reflects portfolio transactions – which had been lacking in the first quarter of 2014. So the average volume per sale has risen accordingly by a substantial margin, from just under 17 m € to 31 m €. Apart from the top categories of 50-100 m € (48 %) and of over 100 m € (22 %), the strongest size classes have been 25-50 m € (14 %) and 10-25 m € (11 %), but neither of these attracted as much investment as in the prior-year period. Small hotels valued at up to 10 m € generated a share of just over 5 %.

OUTLOOK

In the coming months, demand for hotel properties can be expected to remain buoyant. One key reason is that hotels – despite marked price increases in recent quarters – still offer higher returns than other asset classes, such as offices or retail buildings. So for a broad spectrum of different investor categories they represent a favoured target, especially given the framework of historically low interest rates. In view of the sustained trend towards short trips and the good occupancy rates, the project volume and construction activity are high, so that several attractive assets will be coming onto the market in the near future. Against this background, market activity should pick up perceptibly in the months ahead, especially in the small and mid-range size classes. The year as a whole can therefore be expected to produce a very good transaction volume, one which might even exceed the record set up last year.