MARKET REPORT
2017/2018

Colliers
INTERNATIONAL

Accelerating success.

Hotel Investment Germany

Fast Facts		
INVESTMENT	2017	2016
Transaction Volume in million €	4,186	5,161
Portfolio Transactions	31 %	46 %
TOP 7	69 %	52 %
Share by International Buyers	46 %	54 %
Share by International Sellers	41 %	40 %
Prime Yield Hotel	4.10 %	4.50 %

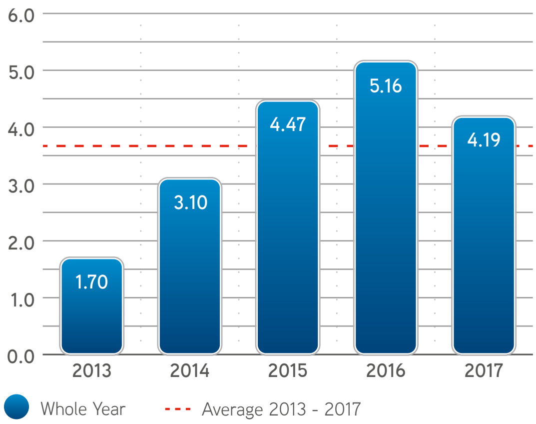
Hotel Investment

Transaction Volume

The German hotel investment market cooled down somewhat in 2017 in the wake of several record-breaking years but still managed to post a strong annual result. With a transaction volume of roughly € 4.2 bn, 2017 fell short of record year 2016 by 19 %, nevertheless giving us the third-best result we have seen in the past ten years.

Single hotel assets again accounted for the majority of transactions in 2017. The lack of assets available on the hotel investment market limits transaction volume despite ongoing high demand and could be felt in the shrinking share of high-volume portfolio deals. Portfolio deals saw a yoy decrease of 15 percentage points with a 31 % share of transaction volume, or more than € 1.3 bn. Single-asset deals accounted for just under € 2.9 bn. One of the larger transactions to change hands in 2017 was the sale of a Hamburg hotel project, comprised of a Holiday Inn and a Super 8, to Union Investment.

Transaction Volume Hotel (in billion €)



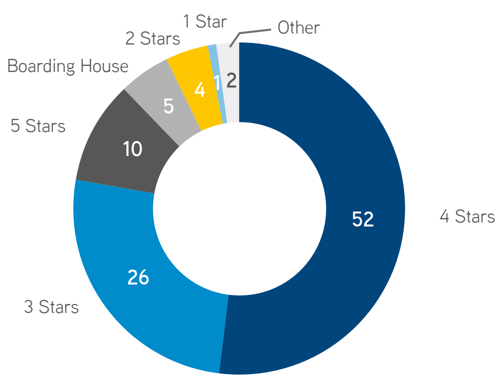
Supply and Demand

Compared to the previous year, German investors claimed the lion's share of the market from foreign investors, basically trading places in terms of market share. Whereas in 2016 foreign investors accounted for around 54 % of transaction volume, in 2017 German investors were involved in the majority of investments buy-side, pouring almost € 2.3 bn into the German hotel market.

Activity was similar sell-side with German investors disposing of hotel assets for almost € 2.5 bn, maintaining their 59 % share.

4-star hotels again generated the largest share of transaction volume in 2017, down a mere 2 percentage points yoy and accounting for roughly € 2.2 bn of total transaction volume, or 52 %. They were followed by 3-star hotels, which represent the lion's share of all rated hotels in Germany. They increased their market share yoy by 7 percentage points to around € 1.1 bn. 5-star-hotels managed to maintain a relatively stable share of transaction volume with around € 400 m. 1 and 2-star hotels generated around € 230 m. Boarding houses again increased their share of transaction volume, accounting for roughly € 220 m.

Transaction Volume by Star Segment (in %)



As in the two previous years, open-ended real estate funds and special funds were most active buy-side, down by 2 percentage points yoy to 28 % (€ 1.2 bn). Asset/fund managers followed in the ranks, accounting for roughly € 780m. REITs came in third with a transaction volume of roughly € 480m (12 %).

Property developers and development companies came out on top sell-side, disposing of hotel assets for just under €1.2 bn (28 %). Open-ended and special funds followed in the ranks at 18 %, corporates and owner-occupiers accounted for 13 %.

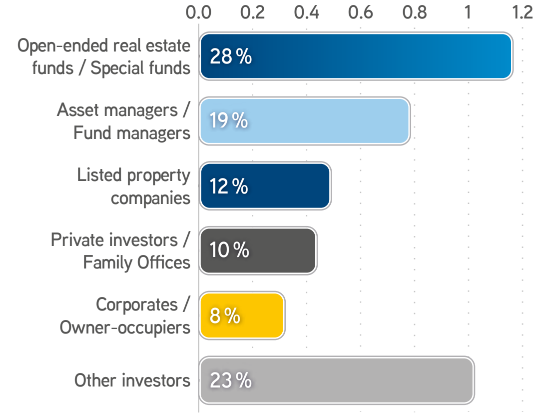
Yields

Lower yields, which can primarily be attributed to scarce supply and high demand, resulted in price hikes, particularly in prime locations. Germany's seven major hotel locations, Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart, generated almost € 2.9 bn, or 69 % of total transaction volume. The majority of deals, however, took place outside the Big 7. The shortage of suitable properties in prime locations goes hand-in-hand with rising prices, forcing an increasing number of investors to shift their focus to secondary locations. Property developments in the BIG 7 particularly experienced significant price increases, which, in combination with rising construction costs, considerably impacted their cost effectiveness. Nevertheless, property developments managed to maintain a fairly stable share of transaction volume at 19 %, trailing behind stock buildings (61 %). Buildings under construction and new-builds accounted for a combined share of 12 %. The lively activity we saw on the part of developers/construction companies is also an indication of Germany's robust, prospering tourism sector, which favors an increase in accommodation capacity.

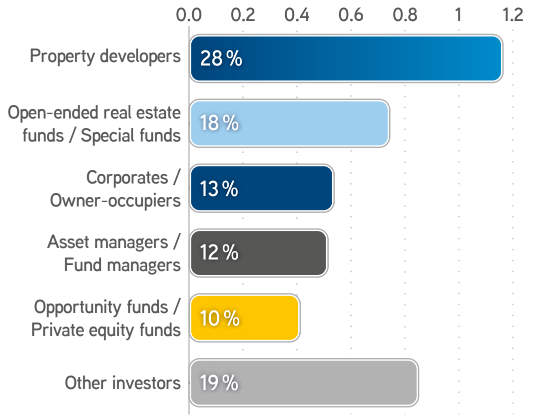
Summary and Outlook

Even though 2017 fell shy of 2016's record result, it was still a strong year for the German hotel investment market. High demand combined with limited supply put a damper on the overall result. Stock properties and portfolios proved particularly popular but were in short supply. We therefore expect investors to increasingly shift their focus to property developments and assets in secondary locations. Despite the unabated shortage of product and the yield compression that goes with it, we expect 2018 to perform similarly to a strong 2017.

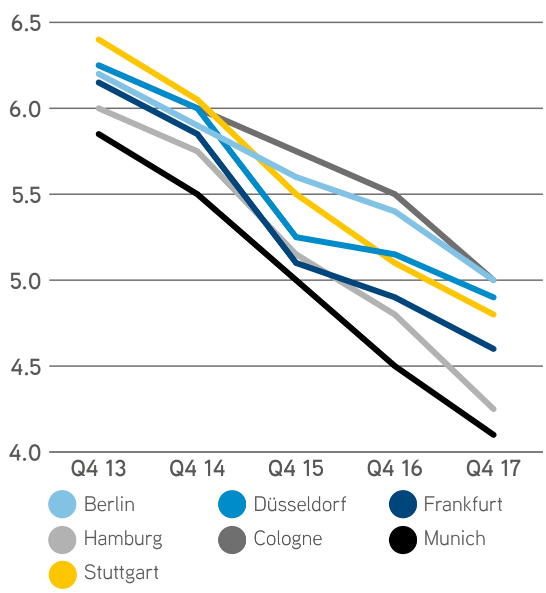
Transaction Volume by Buyer Groups (in billion €, share in %)



Transaction Volume by Seller Groups (in billion €, share in %)



Prime Yield Hotel in the TOP 7 (in %)



403 offices in **68** countries on **6** continents

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€ 2.3
billion
global turnover

€ 95
billion in transaction volume with more than 80,000 investment and leasing deals

170
million sq m
under management

Over
15,000
professionals

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