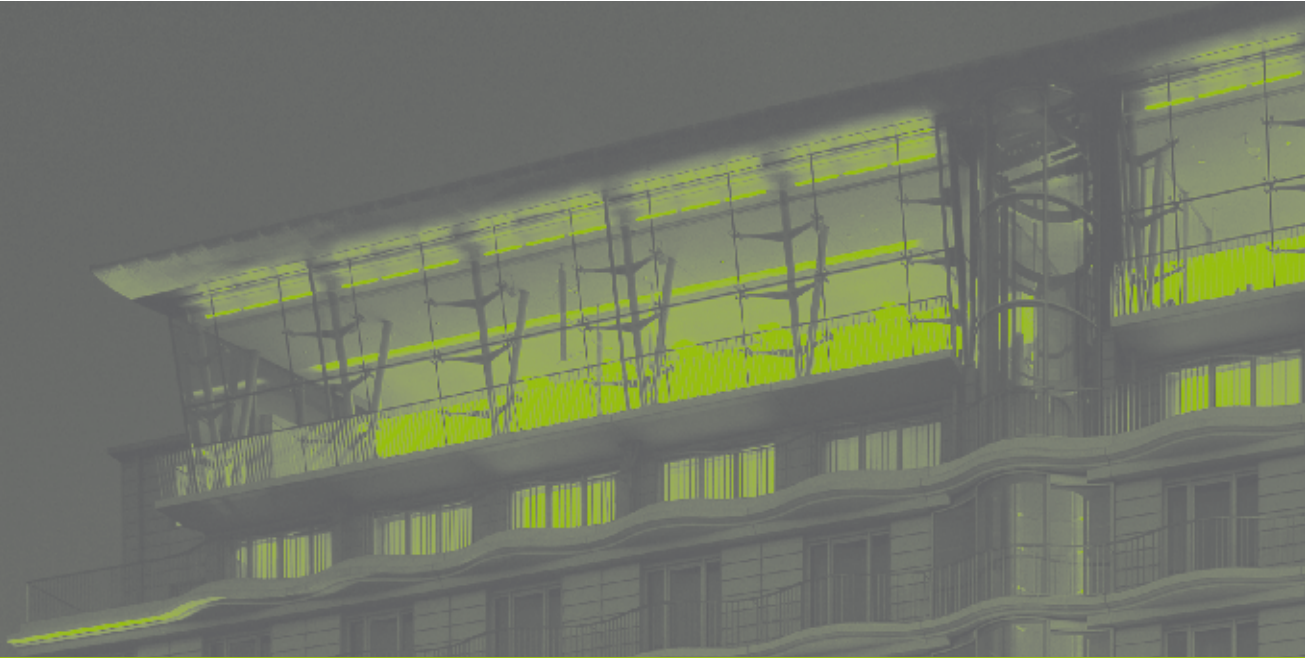




*Visionary Hotel Development · Established 1959*



# THE EUROPEAN HOTEL TRANSACTION MARKET

## Single Assets



Issued in cooperation with:

**viador**

A Feuring Vivico Venture



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# INTRODUCTION

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## 1. FEURING HOTELCONSULTING GMBH

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For tens of years now, Feuring has stood for the development and realisation of innovative and successful upscale and luxury hotels that are in line with the market and meet international requirements. The company's main objective always is to set up the ideal business concept for a hotel project and to implement it efficiently.

In its capacity as an international hotel development and consulting company, Feuring is reputed for the successful consulting and development of the Le Royal Méri­dien hotel in Hamburg and the Le Méri­dien hotels in Munich and Vienna and the Steigenberger Hotel de Saxe in Dresden. Current projects are – amongst others – the Hyatt Regency hotel in Dusseldorf and the InterContinental hotel in Davos. The portfolio of projects is a collection of the most innovative ideas and concepts in the hotel industry.

A total of more than 400 existing hotels give reference to Feuring's scope of services and competences.

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## 2. VIADOR GMBH

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Viador GmbH is a joint venture between Feuring and Vivico Real Estate GmbH (Vivico). Both companies have joined their forces in order to be able to meet – today as much as tomorrow – the ever-increasing requirements set by the hotel industry.

Vivico is one of the largest and most successful developers of city quarters in Germany. Vivico's main aim is to develop urban city quarters that satisfy the multifaceted needs of different occupants. Based on this philosophy, Vivico develops centrally located areas that connect three factors, i.e. a place for people to live, work and find recreation.

By bundling the wide scope of skills each partner has, Viador is in a position to offer a complete package. It starts with the creative development of new ideas and concepts for the hotel and travel industry, continues with offering advice in view of all economic- and hotel-specific aspects and supporting the owner in building a hotel and ends with the opening of the new hotel.

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## 3. CONTENTS

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The following study solely looks at the single asset transactions that have been realised on the European hotel market since 2001. It provides information about the development of different markets and market segments, pricing as well as the number of transactions. It also makes comparisons with general economic figures and questions the connection between the number and the volume of transactions and hotel branding.

The second part of the study specifically deals with the German market and puts it in contrast with the rest of Europe.

In order to compile this study, a total of more than 820 single asset transactions since 2001 were registered and analysed. The study did not take into consideration any form of portfolio transactions.

# SINGLE ASSET TRANSACTIONS ON THE EUROPEAN MARKET

The following chapter deals with the recent developments of single asset transactions on the European hotel market, in particular with the sensitivity of the single asset market to market developments. As far as available, the figures from 2001 to 2009 have been used for this purpose. In a next step, it identifies the most important transaction markets since 2001 and examines the theory that there is a connection between the number of transactions, transaction prices and chain penetration.

# 1. RECENT DEVELOPMENTS ON THE EUROPEAN HOSPITALITY MARKET – THE WAY OUT OF THE CRISIS

2009 was a difficult year for the travel and hotel sector in Europe. In the face of the global economic crisis, growing unemployment rates and the concerns about the swine flu, many private consumers decided not to go on holiday and stay at home. Even business trips were cancelled or reduced in standard.

This resulted in a decline in spending of more than 31% by European hotel guests at the beginning of 2009. As a result of lower occupancy and room rates, the revenue per available room (RevPAR) in European hotels went down by nearly 17%. Nearly all cities in Europe experienced a decline in the number of arrivals and overnight stays.

The crisis hit some of the hotels in Europe more severely than others. The countries in Eastern Europe were particularly negatively affected; in the Czech Republic, Estonia, Latvia, Lithuania, Romania, Russia and Slovakia, the RevPAR partially slumped by more than 30%. West and Central Europe were not affected quite as badly. Here, Ireland was among the worst with -22.5%, followed by Spain with -20%. In France, RevPAR fell by approx. 13.5%. In comparison, Germany (-12.5%) and Great Britain (-10%) did quite well. A lot of people from Great Britain and Germany went on holiday in their own country and boosted these hotel markets.

Despite the increase in the number of vacations at home, hoteliers in Germany were also faced with a fall in demand. Overall, demand in Germany remained at a low level in 2009. With an average occupancy of 62%, the RevPAR dropped to an average of € 47 and an average room rate of € 79. But things did not look quite as bleak everywhere: Occupancy rates in

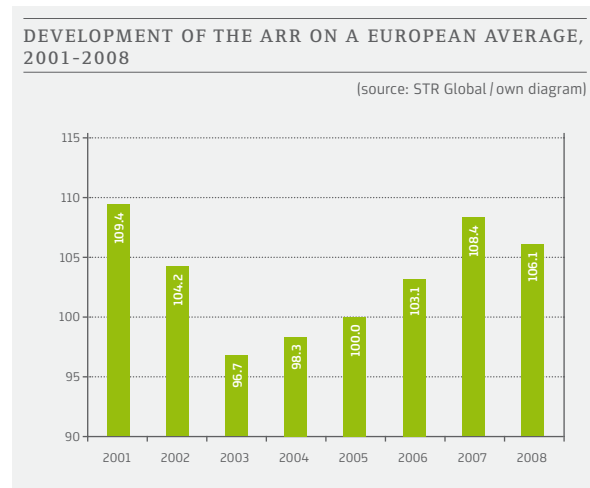
Hamburg, Berlin, Frankfurt and Cologne, for example, only showed a relatively low decline. Amongst these, Hamburg and Berlin – with an occupancy rate of 71.7% and 67.6% respectively – even belonged to the leading cities in Europe.

## FIRST SIGNS OF THE ECONOMIC RECOVERY IN 2009

Although the European hotel market has shrunk, it has good prospects of recovering in the near future. This is what we can learn from looking at the development after times of crisis during the last decades. After the attacks of September 11 in 2001, for example, the average rate per room (ARR) fell down very noticeably. However, only 18 months later the figure started picking up again throughout Europe and was not affected by minor fluctuations in the market that came later. This upward trend was only stopped by the commencing “worldwide economic crisis” in 2008.

DIAGRAM → 01

Diagram → 01



According to many surveys and studies, orders and sales figures in German companies have started picking up again since the third quarter of 2009. This development has already started having a positive influence on business travel and flight bookings.

Following the declines in the last quarter of 2008 and in the first quarter of 2009, the Federal Office for Statistics is announcing a slight increase in the the gross domestic product (GDP) for the second and third quarter of 2009. The experts from the Institute for the World Economy (IfW) are also forecasting a slight increase in GDP for 2010. The reason for these optimistic forecasts is based on indicators such as the industrial production or the number of new orders. During the last few weeks of 2009, the economy throughout Europe was already beginning to show first signs of recovery and according to the IfW this was particularly noticeable in Germany and continues to be so.

These positive forecasts are also relevant for the hotel industry since demand in the hotel industry is clearly correlated with the economic situation. There is proof that the development of the average room rate (ARR) goes along with the development in GDP. The commencing economic recession in 2008 resulted – with a slight delay – in a fall in demand for hotel accommodation and hence to lower yields in the hotel industry. Subsequently, with the start of the upswing, demand for hotel accommodation and hence room rates can be expected to rise – again with a slight delay – as of the first half of 2010.

#### **2010 WILL BE THE YEAR FOR BARGAIN HUNTERS**

After two weak years, 2010 is also expected to show an increase in hotel transactions. Whilst in 2009 hotel transactions all over the world amounted to only US\$ 9 billion, this figure is expected to rise again to as much as US\$ 11- 13 billion in 2010. However, it is still a long way to go before the US\$ 24.8 billion hotel transaction volume of 2008 is reached.

Single asset transactions that can be financed in the region or country in which they take place and have a volume of up to US\$ 100 million are expected to have the best prospects. 2010 will most probably still be too early for large cross-border transactions, although there might be one or the other surprise. Bargain hunters will be very active in 2010. The reason is that each crisis usually brings about a certain market adjustment and this time the brand-name hotel sector will be the one to benefit. Those hotels that were already struggling with bad occupancy rates before the crisis will now be faced with serious liquidity problems. Unfortunately, these will often be privately run hotels that will not find many opportunities to refinance during difficult times. Most major hotel chains consider the subject of “repositioning” existing hotels to be THE growth strategy for the years to come. Large hotel chains are already looking for such hotels that are struggling as a result of the financial crisis and investment companies also have a keen interest in these “distressed assets”. This is particularly interesting in view of the fact that there is a lack of inner-city locations, especially in Europe.

## 2. EFFECT OF EXOGENOUS FACTORS – HOTELS CONTINUE TO RISE IN VALUE, DESPITE STAGNATING SALES

The following examinations were based on the evaluation of more than 800 single asset hotel transactions and a collection of figures about hotel investors, purchase prices per property and per room in the years 2001 - 2008.

When looking at the effective transaction volumes it should be taken into consideration that the purchase price is not disclosed in every case. In some cases, the vendor and purchaser agree to maintain silence about the price. Nevertheless, there are enough available and published figures to base calculations on and to give an indication of the total transaction volume for a particular year. For this purpose, the average room prices per segment and market were projected onto the total number of sold rooms.

Contrary to the number of rooms sold – a figure that can be influenced by the kind of single transaction – the number of single asset hotel transactions can serve as a reliable indicator about the activities on the respective markets.

### SHARP DECLINE IN THE NUMBER OF HOTEL TRANSACTIONS

A closer look at single asset transactions carried out in the last few years clearly shows the market's vulnerability to exogenous factors. For example, after the terror attacks of September 11 in 2001 there was a sharp decline in the number of transactions in 2002. Whereas in 2001, there were 80 registered single asset transactions, the year after, the number dropped by approx. 58% to only 34 transactions. The financial crisis, which began in 2008, is also having a very noticeable effect on the number of transactions taking place. This is reflected in the number of single asset

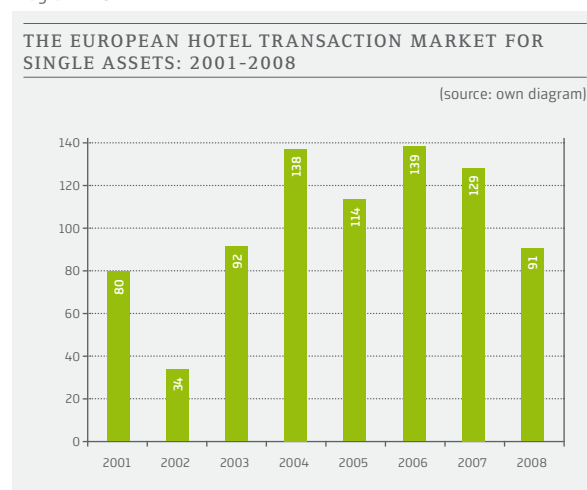
purchases registered in 2008, which – compared to 2007 – went down by around 30%. The analysis revealed that in 2008 there were 91 single asset transactions with around 17,000 rooms in Europe. Overall, the market volume is expected to be just below € 5 billion. This is a decline of 22% compared to the previous year.

The following diagram shows the number of effective single asset transactions for hotel properties in Europe between 2001 and 2008. **DIAGRAM → 02**

### HOTEL TRANSACTION MARKET REACTS ACCORDING TO INTERNATIONAL MARKETS

A comparison between the number of single asset transactions and the percentage development of the Gross Domestic Product (GDP) in all 27 EU-countries shows a similar pattern.

Diagram → 02



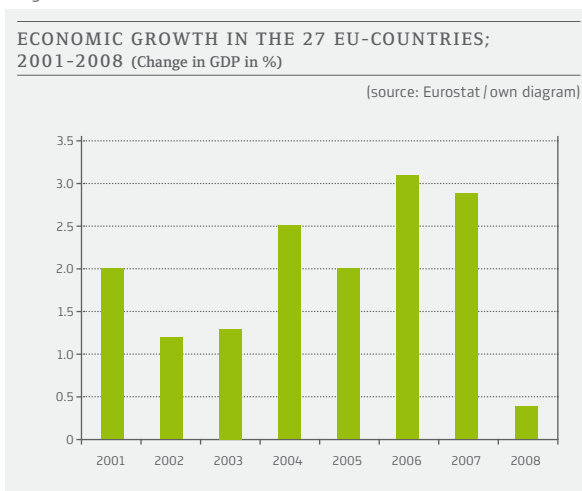
In its statistics for Europe for the years 2002, 2005, 2007 and 2008, for instance, the European Commission in some cases identifies a clearly smaller increase in GDP than in the respective years before. A closer look at the single asset transactions on the European hotel market shows that this corresponds to the periods in which there was a decline in sales and purchases. **DIAGRAM → 03**

**HOTEL PROPERTIES BECOMING MORE EXPENSIVE DESPITE STAGNATING SALES**

The total volume in single asset transactions in a particular year will change according to the decline in the number of transactions in that year. Even though the volume may not always proportionally follow the number of transactions, both values will usually be correlated. The standard deviation amounts to approx. 15%. Nevertheless, just by looking at the total transaction volumes we can conclude that they seem less vulnerable to external influences. In fact, since 2001

the total volume during negative years always went down by more than the number of transactions whereas in positive years, the increase in the total volume was even higher than in the number of transactions. A comparison between the figures of 2006 and 2007, for example, shows a decline in the number of transactions of more than 7.1%, whereas the total transaction volume only went down by 5.5%. A comparison between 2004 and 2005 even shows an increase of around 20% in the total volume, although the number of single asset transactions during this period went down by more than 18%. The only exception from this rule was 2004 when the number of single assets transactions increased by 50% whilst the increase in the total volume was only 25%. The reason for this was that in the 4-star segment the realised average purchase price was relatively low in 2004.

Diagram → 03



We can therefore conclude that in recent years there has generally been an increase in the volume of hotel transactions or at least that the volume has not gone down as much as the actual number of single asset transactions. At first glance, the obvious explanation could be that in recent years more 5-star hotels have been sold. This, however, is not the case. In fact, the share of 5-star hotels in the total number of hotel purchases has even slightly gone down. The share of 4-star hotels that have been sold since 2001 has, however, gone up. The only explanation can therefore be that the overall increase in hotel purchase prices has resulted in the total volume increasing more strongly than the number of single transactions. In other words, hotel properties have on the whole become more expensive. **DIAGRAM → 04**

This can be verified by looking at the development in the average purchase price paid for hotel rooms in Europe. For example, after the terror attacks of September 11, 2001 and the resulting difficulties for

the international hotel industry, the purchase price per hotel room in 2002 went up by just under 6.9% compared to the previous year. This is substantiated by the sale of the Four Seasons Hotel Milan for a price of around € 1.5 million per room. It was one of the most expensive transfers in recent years. Although in terms of the economy, the hotel industry in Europe went through some of its worst years ever, on average, the purchase price per hotel room in Europe could be increased by just below 2%.

The years 2005 and 2008 also show a positive development in prices per unit despite a decline in the number of transactions. **DIAGRAM → 05**

Summed up, it is right to say that although the economic factors of recent years are having a clearly perceptible impact on the number of single asset transactions, they do not necessarily have an effect on transaction prices. Exogenous factors therefore have a lot more influence on demand than on the value of economic commodities.

Diagram → 04

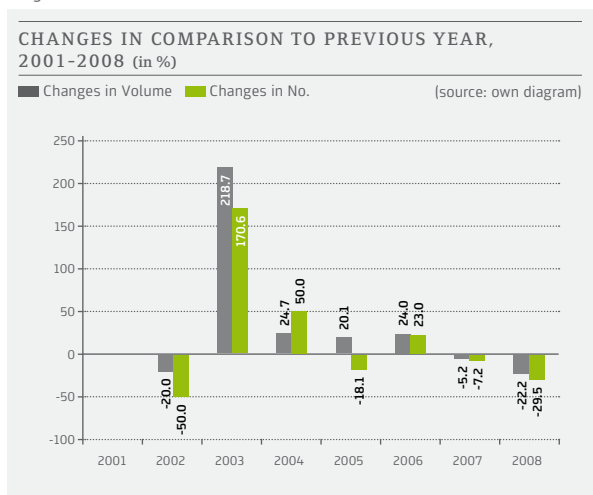
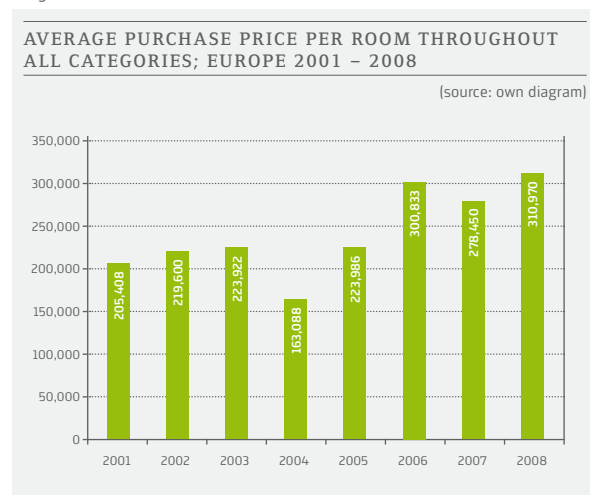


Diagram → 05



## **LUXURY SEGMENTS LESS VOLATILE THAN BUDGET SEGMENTS**

A differentiated look at the development in all hotel segments reveals that each hotel category shows a different reaction to market influences. With just below 47% of the total number of single asset transactions since 2001, 4-star hotels have the largest share in the transaction market (3-stars: 27%: 5-stars: 21%, 2-stars: 5%). The 3- to 4-star segment shows the strongest growth trend. The most volatile is the 2-star segment. In this segment, the reaction of sellers and investors comes in cycles i.e. after 2001 the market for 2-star hotels collapsed quite dramatically whereas by 2007 it had recovered more strongly than other segments. The most stable is the 4- to 5-star market. Overall, all segments basically react to external influences in a similar way but to a different extent.

But what does this mean for hotel investors? Generally, a high grade of volatility is brought in connection with a high grade of risk. Hence, the 4- to 5-star luxury segment is more suitable for investors who do not like to take a higher grade of risk and for those who want to act against the stream i.e. show a counter-cyclical reaction.

### 3. COMPARISON BETWEEN COUNTRIES ON THE EUROPEAN HOTEL MARKET

#### GERMANY RANKS THIRD IN A COMPARISON OF COUNTRIES

With 23 single asset transactions, Great Britain was the country with the largest number of sales in 2008. Spain came second with 17 single asset transactions, followed by Germany with 16 transactions. This was the second best result in eight years for Germany despite the economic crisis. The observation made in 2008 is symptomatic of the whole period of evaluation. Since 2001, statistics continuously show the largest number of sales in Great Britain or Spain. In most years, Germany has also been amongst the first three countries when it comes to the number of single asset transactions in Europe and even ranked second in the years 2005 and 2007. Only in 2002 and 2006 did other EU-countries succeed in achieving the same level or better sales figures than Germany. **DIAGRAM → 06**

This trend can be observed in terms of single asset transactions carried out in the major European cities. With 78 listed single asset transactions for hotel

properties, London is by far the most active market amongst the major European cities in the period of evaluation starting in 2001, followed by Paris with 32 sales as well as Barcelona and Berlin, both of which recorded 21 transactions in recent years. **DIAGRAM → 07**

#### ACTIVE HOTEL INVESTMENT MARKETS IN UK & SPAIN

But what is the reason for this difference in the number of transactions in the different countries? Why is there so much more activity on the British and Spanish hotel investment markets than there is on the Italian market, for example? **DIAGRAM → 08**

*The three most important criteria, which make a hotel investment market attractive, are:*

1. Attractiveness and stability of the local tourism market;

Diagram → 06

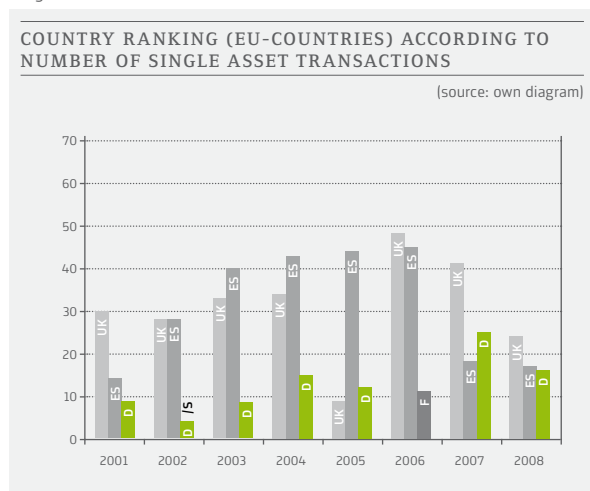
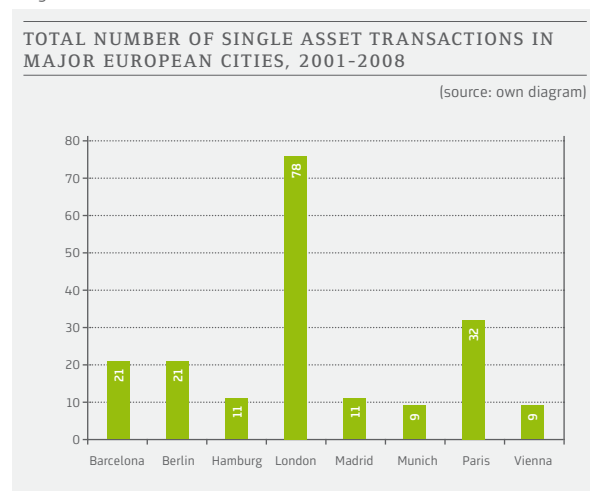


Diagram → 07



2. Stability of the national economy and political environment;
3. Ideal investment conditions and market transparency from a legal and fiscal point of view.

The above mentioned countries all fulfil these three criteria to the same extent. Hence, the reasons for the different number of activities are to be found in the properties themselves rather than in a particularly high economic strength, for example. It is rather a case of the hotel property itself needing to be attractive to the investor, i.e. it should either

- a) hold a lot of market potential or*
- b) simply achieve stable results.*

a) includes, for example:

- Hotels that are located in growth markets, e.g. Eastern Europe, Asia, etc.
- Hotels that will be re-positioned after being purchased by the new owner, or

- often new hotel chains that were positioned in hotel markets which were not ready or too old for the product.

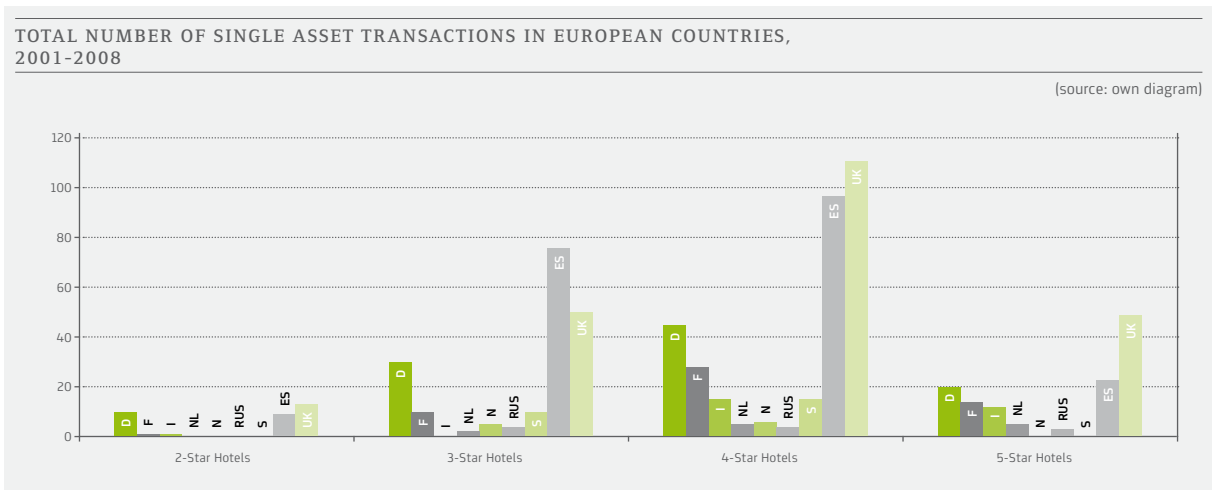
b) includes, for example:

- Hotels in prime locations,
- Hotels with a long-time good reputation or
- Hotels in very stable markets.

### CHAIN DENSITY IS MOTIVATION FOR TRANSACTION MARKET

This means that not only the location of the hotel, but also the hotel chain plays a very important role, either because it belongs to a well-known hotel chain or has a high, preferably trans-regional level of awareness. A look at the chain penetration does indeed reveal that Great Britain and Spain are the two countries with the highest level of chain concentration and that they also belong to those countries that have the highest number of single asset transactions. Germany and

Diagram → 08



France also already have a double-digit chain penetration in terms of the number of hotels. **DIAGRAM → 09**

This becomes even more evident when taking a closer look at the chain penetration of available hotel rooms. In Spain, for example, approx. 45% of all hotel rooms belong to a chain hotel, whilst in Italy only a mere 8% do so.

We can therefore conclude that there is a connection between the number of available chain hotels and the number of activities in a particular transaction market. This observation is supported by the evaluation of transactions in major European cities shown in the diagram above. This shows that almost all cities with the highest number of single asset transactions belong to countries with a relatively high level of chain penetration.

The following diagram shows that even the actual size of a hotel market does not really have an influence

on the number of transactions. It shows that although the hotel markets in Spain, Germany and Great Britain are quite small compared to those in Italy and France, they are the countries with the higher number of transactions. **DIAGRAM → 10**

### GREAT DIFFERENCES IN THE EUROPEAN HOTEL MARKETS

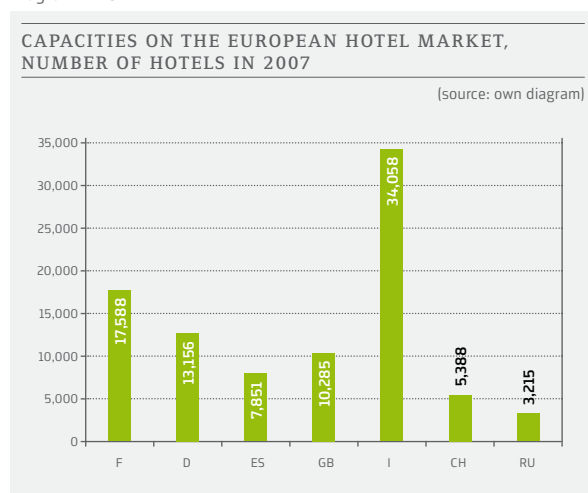
On the whole, all European countries have the most different characteristics when it comes to chain penetration with chain hotels. Whilst the hotel markets in the USA and Asia are dominated by internationally recognised operators like Hilton, Hyatt, Marriott, Sheraton or InterContinental, the European hotel market still disposes of a wide variety of independent hotel businesses and quite a few national operators.

*Basically, the selected markets can be described as follows:*

Diagram → 09



Diagram → 10



- Germany: The German hotel market is dominated by mainly national hotel operators, such as Steigenberger or Maritim. However, in recent years, a lot of large international hotel operators have also entered the German market. At the moment, the market penetration with chain hotels is approx. 11.2% and the trend is still rising.
- France: With Accor, the French hotel market disposes of one of the largest international hotel groups in the world. The strong presence of Accor in France makes it difficult for foreign hotel operators to enter the market. The international hotel chains mainly concentrate their strengths on Paris. On the whole, however, the number of chain hotels in France is also steadily increasing.
- Spain: There is a wide variety of national hotel chains on the Spanish market. Some of these have also made a name for themselves on an international level. These are, for example, RIU Hotels, Sol Meliá, Barceló and NH Hoteles. The chain concentration is particularly high in the major Spanish cities and popular holiday regions. The market entry by foreign operators took a lot longer than in France and Germany. The expansion of these companies in Spain is also taking place at a much slower pace.
- Italy: Although Italy is one of the three most perambulated countries in the world, the Italian market is dominated by privately run hotels and small national chains, such as Boscolo Hotels. The penetration of the Italian market by international hotel operators is only happening at a very slow pace so that the share of hotel chains is only 3.9%.
- Great Britain: On a European comparison, the British hotel market is by far the one with the most chain-affiliated hotels. The main reason for this is that the hotel industry in Great Britain split up hotel operations from the property a long time before the hotel industry in continental Europe did and hence created an investment market for hotel real estate at an earlier stage. This resulted in the numerous hotel chains that are now to be found on the island. Most of them are not active on an international level but are recognised as chain hotels. However, the largest hotel company in the world, InterContinental Hotels Group, has its head office in Great Britain.
- Switzerland: Just like Italy, Switzerland hardly has any chain hotels. Although a few internationally active companies, such as Mövenpick or Kempinski, have their head offices in Switzerland, the chain penetration is only 3.4%. One of the reasons for this is that during the last decades there has hardly been any development on the Swiss hotel market. Only during the last five years, have there been first signs of new developments in the Swiss hotel market so that in the medium term an increase in chain hotels can be expected.
- Russia: The Russian hotel market is still virtually untapped in terms of international hotel chains but a wide variety of hotel operators have the intention to expand there. Hilton, for example, is planning to open 25 hotels in various categories on the Russian market within the next five years. The largest Russian hotel company is Azimut Hotels.

Hence, the number of single asset transactions does not just depend on the size of the hotel market in question or on the economic strength of its environment. It seems that the penetration of the market with chain hotels is much more decisive. This means that if a hotel belongs to a chain it will be easier to sell.

### MORE CHAIN HOTELS THAN INDIVIDUAL HOTELS SOLD

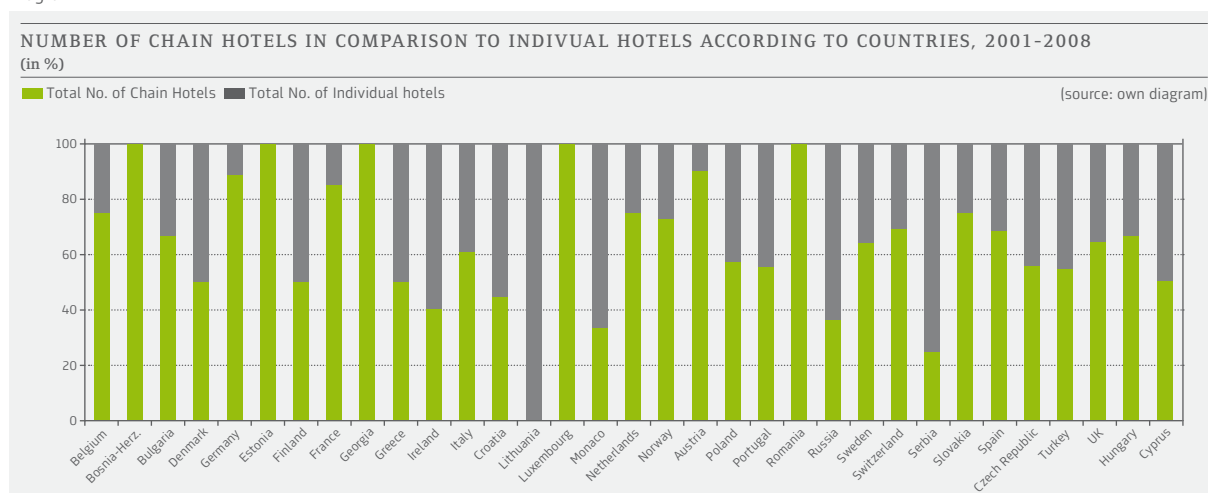
A closer look at the actual purchases per segment reveals the same clear picture. Overall, just under 50% more chain hotels than individual hotels were sold during the period under review. This confirms how attractive chain hotels are to investors. With more than 80%, the share of chain hotels in sales transactions was particularly high in Germany, France, Austria and Eastern Europe. In hardly any other country so many internationally renowned chain hotels were sold as in Germany. In the most active transaction countries, Spain and the UK, the share of chain hotels in total

purchases was just over 60%. This is due to the fact that this examination only considered hotel chains with transregional activities and more than 5 hotel businesses.

However, it is not possible to identify a positive correlation between a country's level of chain penetration and the share in purchased chain hotels. It can rather be identified that in regions with a weak economy like Eastern Europe, for example, chain hotels tend to be purchased more often than individual hotels. In recent years, individual hotels were only purchased with the purpose of re-positioning them in countries with more emphasis on tourism, like Croatia and Bulgaria. However, difficult investment conditions in the form of restrictions on direct investments – as is the case in Croatia, for example – also play a role in this.

DIAGRAM → 11

Diagram → 11



**AVERAGE PURCHASE PRICES PER ROOM IN INDIVIDUAL HOTELS ARE HIGHER**

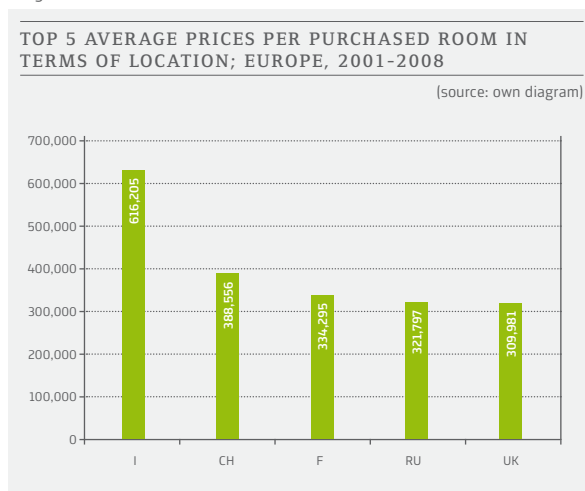
The analysis of the average purchase price per room in Europe shows a completely different picture. With an average transaction price of just below € 620,000 per room over the last eight years, Italy is by far the most expensive market in terms of single asset transactions, followed by Switzerland (approx. € 390,000/room) and France (approx. € 334,000/room).

For this reason the above-average price in Italy needs to be put into perspective. Nevertheless, it is quite right for the country to be the first on the list of transactions in terms of the highest achieved average purchase price as the re-sale of the Four Seasons Hotel Milan in 2006 illustrates. After the hotel had already been sold for € 1.5 million per room in 2002, it was re-sold for just under € 1.7 million per room in 2006 so that one of the most expensive single asset transactions in the world took place in Italy. **DIAGRAM → 12**

Amongst the countries with the largest number of transactions, Great Britain – with an average price of around € 310,000/room – is the only country that is also amongst the five most expensive European locations.

Given the low number of transactions compared to other European countries, single asset purchases, for example in Italy, have a stronger influence on the average price than in Great Britain or Spain, for example.

Diagram → 12



As the following diagram reveals, however, it is not possible to identify a connection between chain penetration and the level of purchase prices. In terms of chain penetration it is quite realistic to compare countries like Italy and France with Scandinavia but not in terms of the average purchase price per room. Here, there is quite a clear difference. **DIAGRAM → 13**

### ROOM PRICES DEPEND ON REVPAR

Room prices depend a lot more on the operating results and hence on the level of the RevPAR that can be achieved on the market in question. A closer look at the RevPAR achieved in Europe in 2008 reveals that the majority of countries with the highest average rate per room were those that also achieved the highest

Diagram → 13

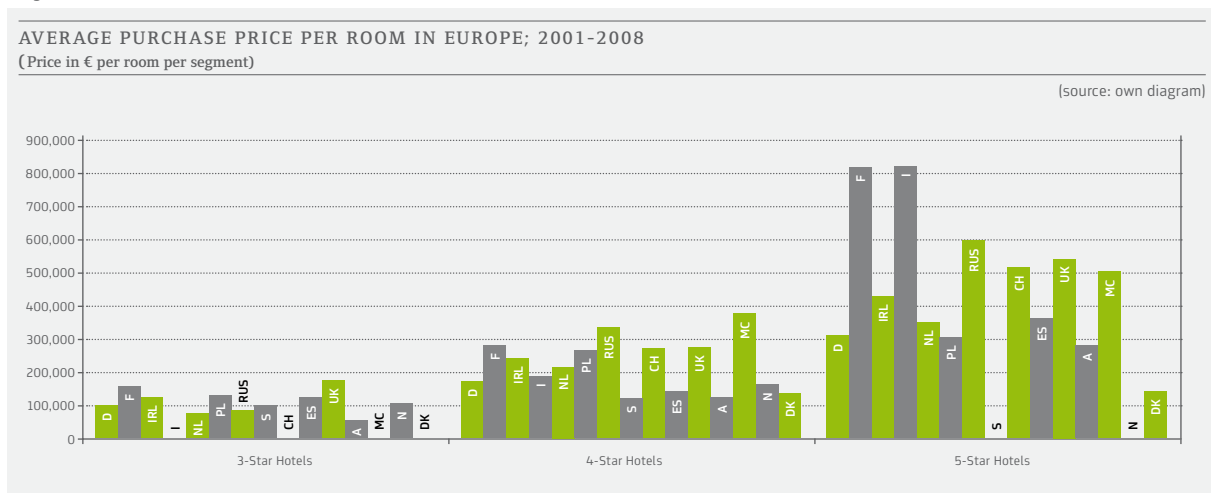


Diagram → 14

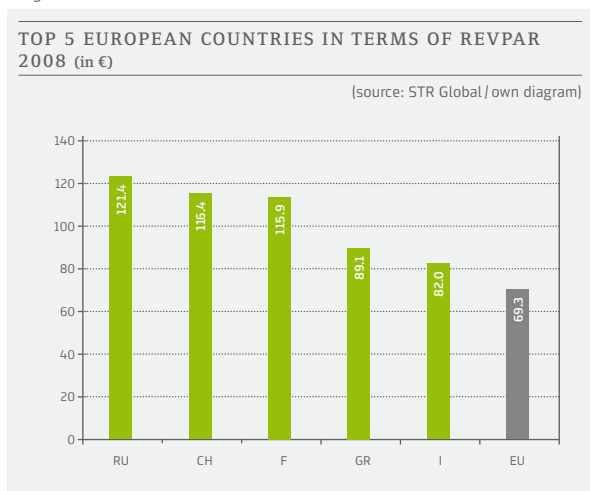
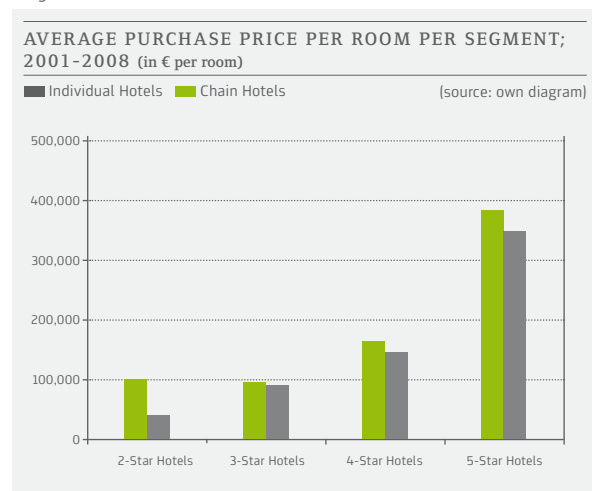


Diagram → 15



transaction prices. These countries also had a much better RevPAR than the European average for 2008.

DIAGRAM → 14

Although it is not possible to identify a connection between chain penetration and purchase prices, there definitely is a connection between chain affiliation and purchase prices, as revealed by the diagram above.

DIAGRAM → 15

#### **INDIVIDUAL HOTELS MORE EXPENSIVE THAN CHAIN HOTELS**

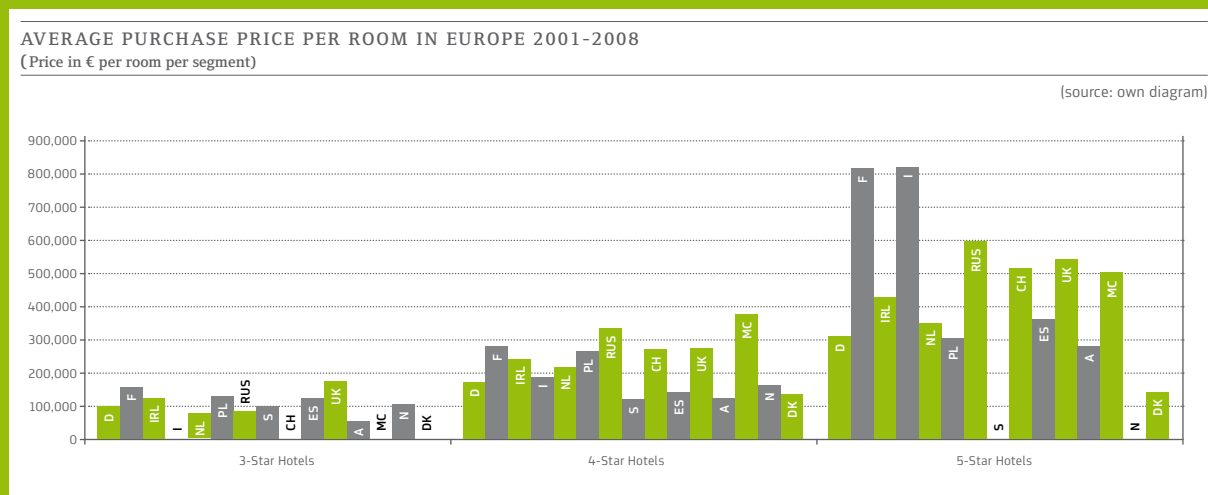
The diagram above shows quite clearly that from 2001 to 2008 average purchase prices per room in all segments in Europe were lower for chain than for individual hotels. Does this mean that chain hotels are cheaper than individual hotels? As always, the devil is in the details: a comparison of the share of chain hotels and hotel rooms that are linked to a chain with individually run hotels in one particular market shows that on the whole chain hotels are usually a lot larger. As a result of this, smaller hotels tend to achieve a higher purchase price per room, even if they underlie the same market conditions.

# THE GERMAN SINGLE ASSET TRANSACTIONS MARKET

With more than 82 million inhabitants and one of the strongest economies in the world, Germany is a very important mainstay within the European Union.

It is therefore quite surprising that in a European comparison, the figures for the German hotel market and the market for the single asset transaction of hotels that goes along with it are to be found midfield.

With around € 172,000 per room, the average purchase price achieved in Germany in 2008 – within the scope of a single asset transaction – was far below the European average. The German RevPAR of € 53.80 in 2008 was also lower than the European average.



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## 1. GERMANY AS A HOTEL INVESTMENT LOCATION – CURRENT DEVELOPMENT

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### FACTS

In 2008, the Federal Office for Statistics registered around 70.5 million arrivals and 144 million overnights in Germany. On average, arrivals have gone up by 2.8% and overnights by 2.25% per year since 2001.

In 2008, the average length of stay in the 13,156 German hotels was approx. 2 days per guest.

The majority of guests in German hotels come from Germany. Their share in the total number of arrivals and overnights is around 78%.

The accommodation industry in Germany disposes of approx. 2.6 million beds in all business types. Approx. 1 million beds are in hotels. Most trans-regional hotel investors are only interested in hotels with a capacity as of 100 rooms. Approx. 6% of the

hotels in Germany or 750 hotels belong to this category. They provide approx. 31% of all available hotel beds.

The effects of the financial crisis are being perceived by the hotel industry and hence by hotel investors with a slight delay. In 2008, the hotel investment volume amounted to approx. one billion Euros. This was 50% less than in the record years, 2007 and 2006. In 2009, there also was a further decline in the number of transactions. At the moment investors are still waiting to see what comes next. It continues to be difficult and expensive to raise funds. Hence, many hotel owners are putting their plans to sell their properties on ice. The uncertainty on the market is causing new hotel projects to be called off or postponed until better times.

## 2. SINGLE ASSET TRANSACTIONS ON THE GERMAN MARKET

Between 2001 and 2008, a total of 97 single asset transactions were registered in Germany.

An evaluation of the single asset transactions carried out in Germany since 2001 shows a positive trend. In terms of the number of single asset transactions, Germany as a hotel location can keep pace with the rest of Europe and even ranks amongst the best during the evaluated period. **DIAGRAM → 16**

The majority of single asset transactions were recorded in the major German cities. 21 or nearly a quarter of those single asset transactions carried out in recent years were in Berlin, followed by Hamburg (11), Munich (9), Frankfurt am Main (7) as well as Dusseldorf and Cologne with 6 single asset transactions each.

With a share in chain hotels of 50% in Berlin and 65% in Hamburg, these are the cities with the highest chain density in Germany in terms of rooms. **DIAGRAM → 17**

An evaluation of prices in Germany per purchased room shows a slightly different picture. The highest average prices were achieved in Wiesbaden which has a high share of middle-class hotels. **DIAGRAM → 18**

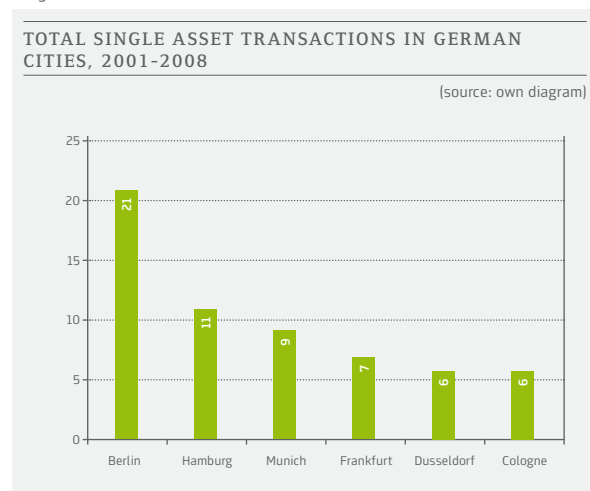
Summed up, the analysis shows that in Germany the existence of chain hotels also clearly influences the number of transactions but that it does not have a decisive influence on the development of purchase prices.

A comparison of the purchase prices per room in terms of category on the European and German markets reveals that prices in Germany are below average. This is particularly evident in the 5-star hotel sector which shows a price difference of more than 34%. **DIAGRAM → 19**

Diagram → 16



Diagram → 17



The reason for this can be found in the below-average room rates (ARR) in Germany compared to the rest of Europe. These mainly have an effect on the upper price segment.

This becomes even more evident when comparing the average price per available room in major

German cities with other cities in Europe. In this ranking, Berlin, Munich and Hamburg are amongst the last. **DIAGRAM → 20**

Despite these figures that are below the European average, a closer look at the average RevPAR in Europe and Germany for the period from 2001 to 2008

Diagram → 18

**AVERAGE PRICES PER PURCHASED ROOM IN GERMANY, 2001 - 2008**

(source: own diagram)

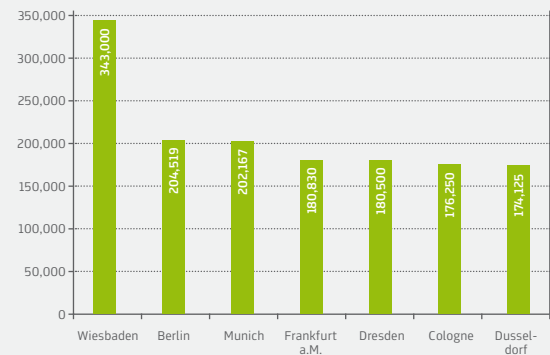


Diagram → 19

**COMPARISON OF AVERAGE PRICES PER PURCHASED ROOM IN TERMS OF CATEGORY, 2001-2008**

(source: own diagram)

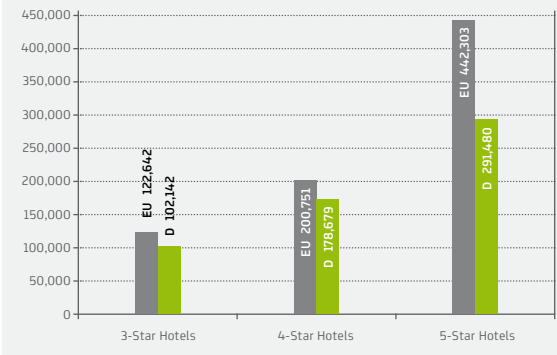


Diagram → 20

**REVPAR IN MAJOR EUROPEAN CITIES, 2008**

(source: STR Global / own diagram)

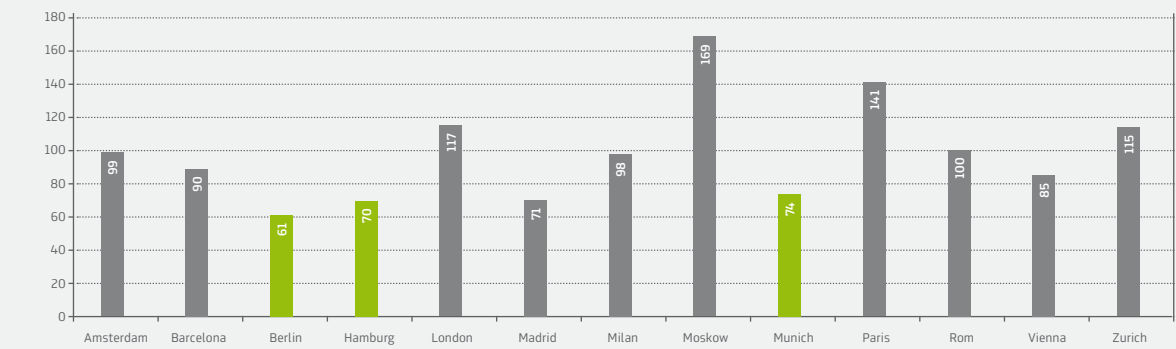
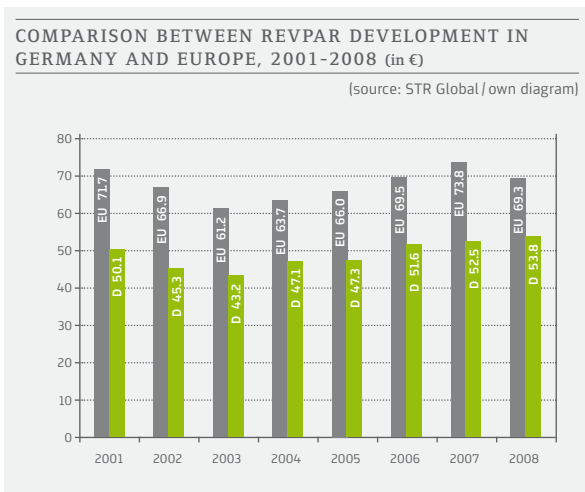


Diagramm → 21



also reveals some interesting aspects. A comparison between 2007 and 2008 shows that the RevPAR in Germany continued to rise, whereas in Europe it went down by an average of more than 6%. During the overall examined period, the hotel industry in Germany showed a RevPAR increase of more than 1.2% per year, whereas in Europe it went down by 0.3% per year.

DIAGRAM → 21

Furthermore, the analysis of the single asset transaction market in Germany shows another current trend. Whilst during the first few years of the examined period, nearly all transactions took place in Berlin, Munich and Hamburg, in 2007 around 56% of purchases took place in middle-sized cities such as Freiburg, Marburg and Nuremberg.

One of the reasons for this is the “sellout” on the hotel markets in most major German cities during the last few years, mainly caused by foreign investors.

# CONCLUSION

Summed up, we can come to the conclusion that the overall trends and theories that are true of Europe are also reflected in the single asset transaction market in Germany.

A high market penetration with chain hotels has a positive effect on the number of transactions in a particular market but also limits the level of purchase prices.

The countries with the highest number of single asset transactions are Great Britain and Spain, which also have the largest share in chain hotels in Europe. On the other hand, the highest average purchase prices are achieved in Italy and Switzerland, two countries with an extremely low share in chain hotels.

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## CONCLUSION GERMANY

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In terms of the number of transactions carried out during the period under review i.e. between 2001 and 2008, Germany is already one of the most attractive locations in Europe. In terms of the average purchase prices per room, however, Germany is far below the European average. One of the main reasons for this is the low RevPAR achieved in Germany which is particularly noticeable in the price of transactions in the 5-star hotel segment. Despite the comparatively low RevPAR, the German market is very interesting for investors as between 2001 and 2008 the RevPAR showed a steady increase, even during periods of decline in the rest of Europe.

Another possible explanation for the comparatively low transaction prices are the stipulations made in lease agreements that are so widely spread in Germany. Although, the fixed "room lease" that is

stipulated in these agreements allows the investor to do a more exact calculation than he would be able to do under the stipulations of a management agreement, it also has a negative effect on the price of transactions.

Before the beginning of the economic crisis, many large international hotel operators like Hilton or InterContinental announced their expansion plans. These promise the German hotel market an interesting future as they not only underline Germany's importance within the European hotel market but also offer many opportunities for further interesting reactions. To what extent, for instance, will the increasing share of management agreements affect transaction prices and what effect will the steady increase in chain penetration have on the RevPAR?

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## AUTHORS

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**Matthias Lowin**, born in Mainz in 1967, is an executive member of Feuring in Mainz. The graduate in commercial studies and economics was appointed as a member of the managing board of Feuring Hotelconsulting GmbH in 2001 and since 2004 has been the Managing Director of Corona GmbH, the Feuring Group's project development company. Within the group, his main fields of competence are Project Development, M&A and Hotel Operator Relations.

Before taking on his executive function at Feuring, Matthias Lowin spent three years working as project manager and was mainly involved in the projects Le Méridien Munich, Le Royal Méridien Hamburg, Steigenberger Hotel de Saxe Dresden and Le Méridien Vienna. He also accompanied a number of sale & leaseback transactions, amongst them the sale of the Le Méridien Barcelona.

In 2007, Matthias Lowin was appointed as Managing Director of Viador GmbH.



**Christopher Gladen**, born in Paderborn in 1982, started working as project manager for Viador GmbH in November 2008. He is a graduate business engineer and started his professional career at the beginning of 2007 working for the Feuring Group's project development company, Corona GmbH. Here – in his role as Deputy Project Manager – he was involved in the development of the InterCityHotel in Mainz, owned by Feuring. He also accompanied the development of the new Hyatt Regency Hotel in Dusseldorf.

Within Viador GmbH, Christopher Gladen is in charge of the development of the new Grand Hyatt Hotel in Frankfurt am Main and of a planned Grand Business Hotel in Cologne. He is also involved in the development of a hotel that will be part of the Stuttgart 21 project.

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## SOURCES

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### The study is based on the following sources:

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- [www.bfs.admin.ch](http://www.bfs.admin.ch)

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## LIST OF ABBREVIATIONS

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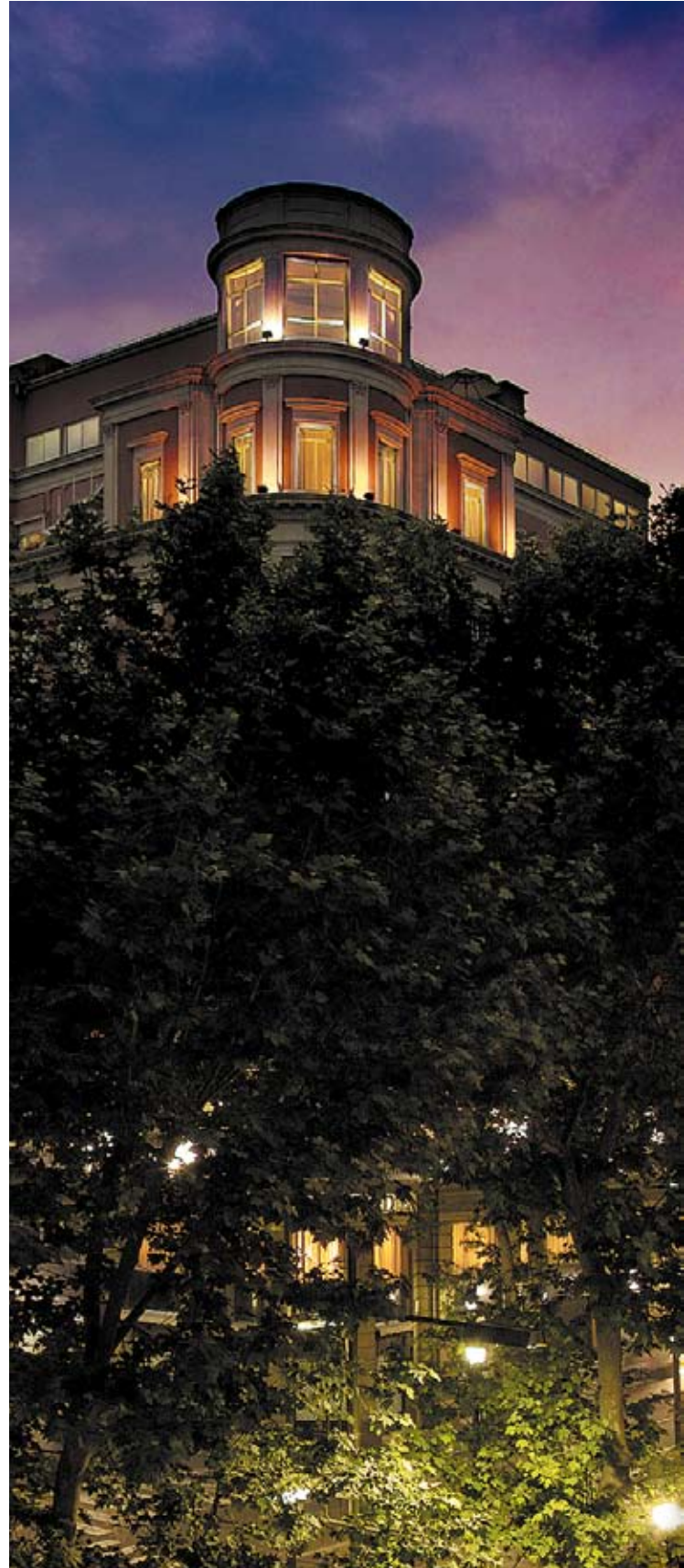
→ ARR: Average Room Rate is the average rate achieved per hotel room per night

→ AOC/OCC: Average Occupancy is the average occupancy of available hotel rooms.

→ GDP: Gross Domestic Product

→ RevPAR: Revenue Per Available Room is the average rate achieved per available hotel room. It is calculated by multiplying the ARR and AOC.

→ Country indicator: A = Austria, CH = Switzerland, D = Germany, DK = Denmark, ES = Spain, EU = Europe, F = France, GR = Greece, IRL = Ireland, I = Italy, MC = Monaco, N = Norway, NL = Netherlands, PL = Poland, RU = Russia, S = Sweden, UK = United Kingdom



Le Méridien Barcelona





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