



Sentiment Report Hotel Market Germany

2022/2023

Table of contents



Executive Summary
P. 4

Market Overview
P. 6

Survey Results
P. 10

Editorial

Dear Readers,

The hotel industry is capable of overcoming crises. The industry has demonstrated this ability impressively over the last two years, although with state aid. Segments such as the German leisure sector have even become even stronger during the pandemic. Certainly, the real estate industry has lost a handful of investors over the years, but new, agile and equity-strong players are now trying to steer their expansion plans in new directions. They see advantageous risk-return profiles on the hotel real estate market, are quick in their decisions and are paving the way for what is to come. We look forward to shaping the future of the most beautiful asset class together.

A big thank you goes to the participants in our survey, who gave us the possibility to feel the pulse of the industry with this Sentiment Report.

Have fun reading!





Executive Summary

At a glance



33%

of investors give ESG
top priority



75%

of investors favour
budget concepts in A-
locations



18%

delta in pricing between
buyer and seller



6-12

months until the delta
closes in pricing



€ 2,1 Bil.

forecast hotel
transaction volume for
2022



Hamburg

has the most
sustainable hotel market
according to the survey



90%

of operators see cost
increases as the biggest
challenge



4,4%

prime yield for hotels
increases by 20 basis
points



5,2%

average expected return
for real estate properties
in leisure locations



100%

of the surveyed
operators plan to
expand in the coming
years



Market Overview

Trends, opportunities and risks

Financing environment
puts pressure on investors

ESG is the fundamental
requirement for business activities
of investors and operators

Geopolitical situation causes
uncertainty



Operators have secured
profitability during the pandemic
through digitalisation and efficient
staff deployment

Institutional investors have
arrived in the **leisure**
segment

Brands and investors use the
market environment for their
expansion plans

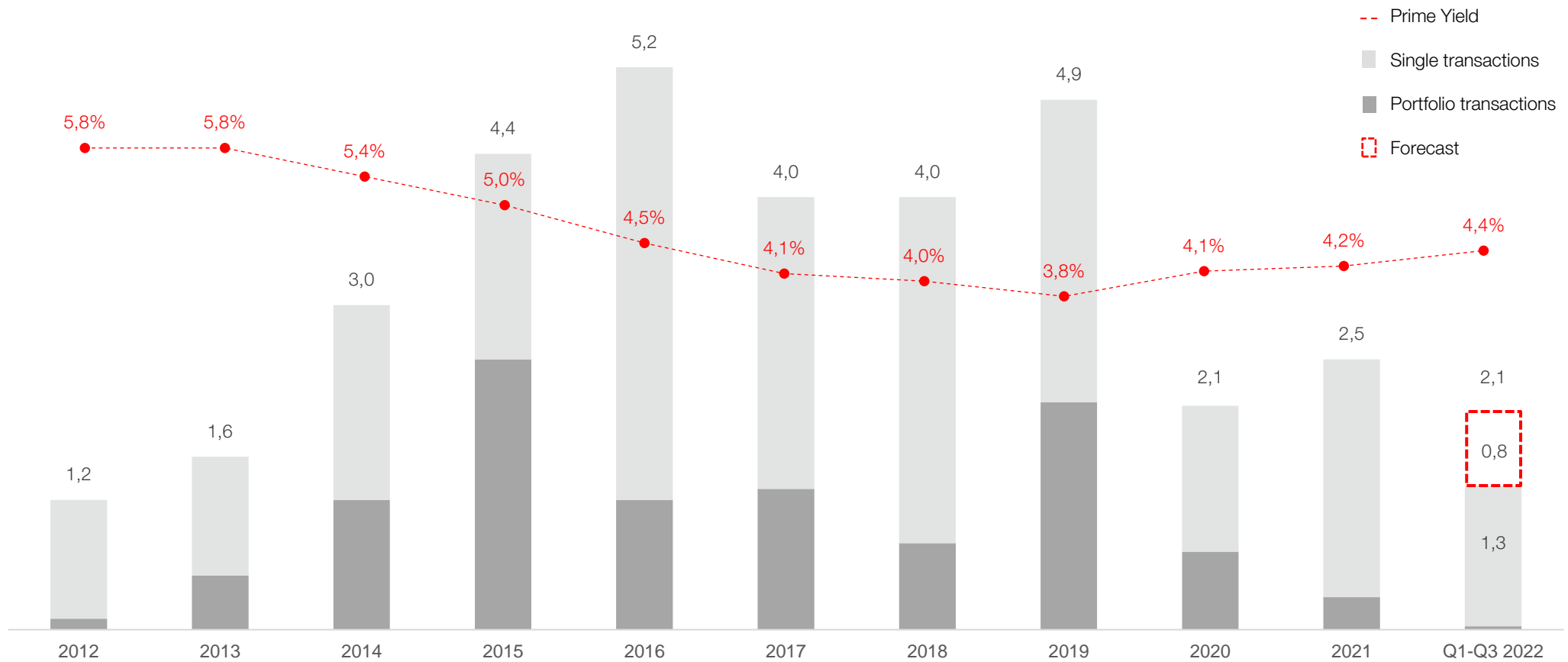
Commentary



„Operating models are stabilising, average room rates are exceeding pre-crisis levels and hotel chains are securing additional locations - the pandemic appears to be overcome. Hotel real estate offers investors a wide range of products, extending into the residential segment and now entices with attractive returns.“

Andreas Ewald
Managing Partner | Engel & Völkers Hotel Consulting

Price expectations and interest rate development slow down transaction volume



The transaction volume in 2022 remains at pandemic levels, large portfolio transactions and sales of core properties remain rare.

Price expectations between buyers and sellers continue to diverge. Small-volume single transactions are predominant. Interest rate developments continue to exert pressure on prices and yields.

Survey Results



Yields are getting under pressure

A-Cities

2022 Ø 4,3%
2021 Ø 3,9%
2020 Ø 4,5%

B-Cities

2022 Ø 5,0%
2021 Ø 4,5%
2020 Ø 5,1%

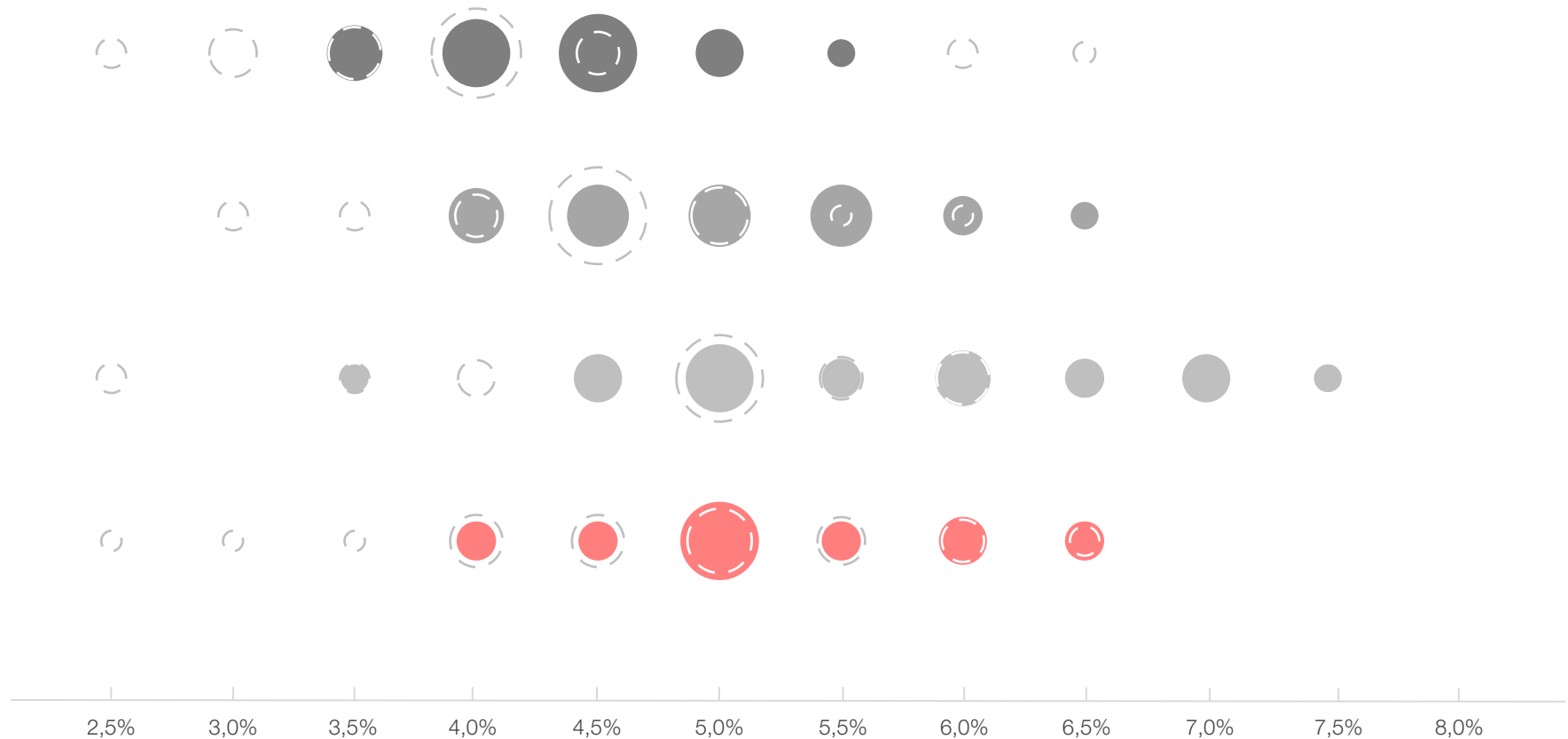
C-Cities

2022 Ø 5,6%
2021 Ø 4,9%
2020 Ø 5,7%

Leisure

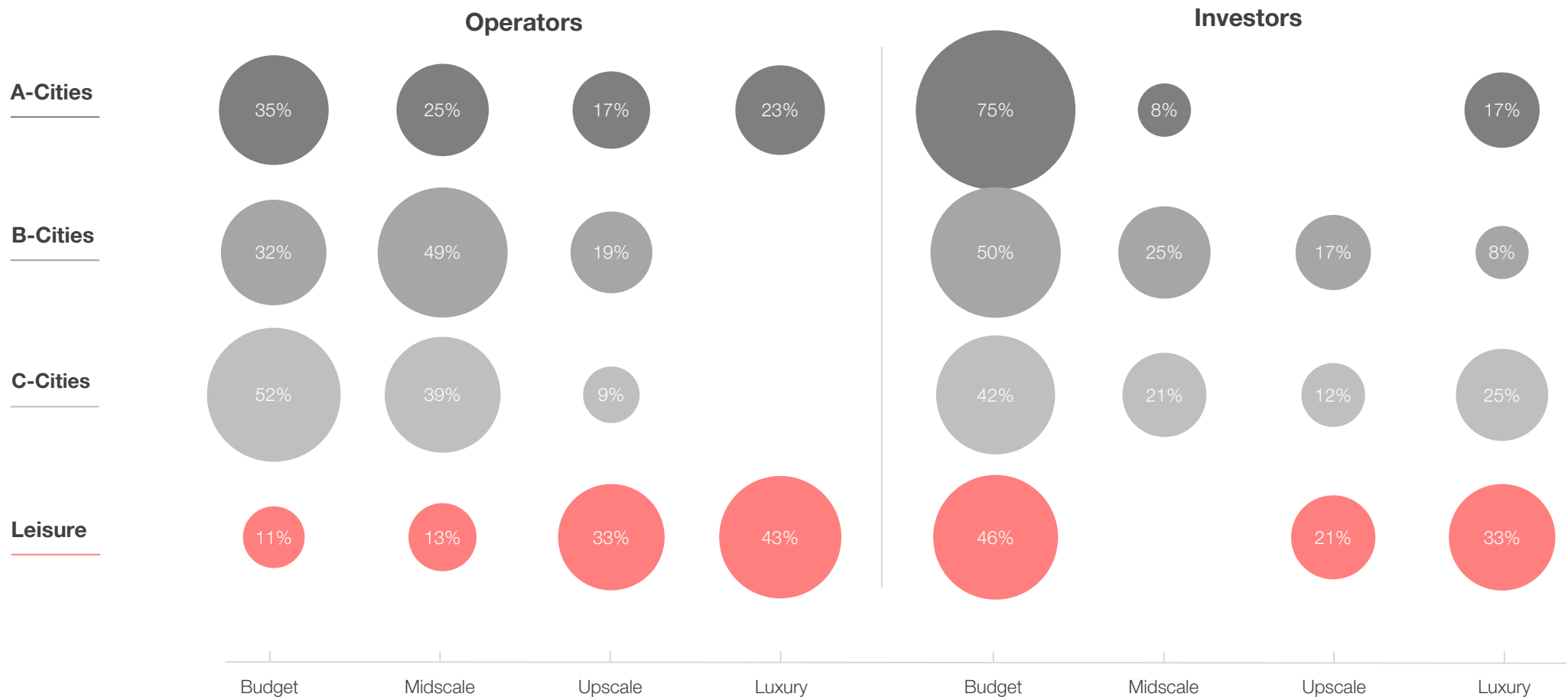
2022 Ø 5,2%
2021 Ø 4,8%

○ Previous year
value



The uncertain economic and geopolitical environment leads to higher risk premiums. The leisure segment as well as core products receive higher degrees of trust due to the good business development in 2022. The heterogeneity of the B- and C-Cities leads to a broader yield spread.

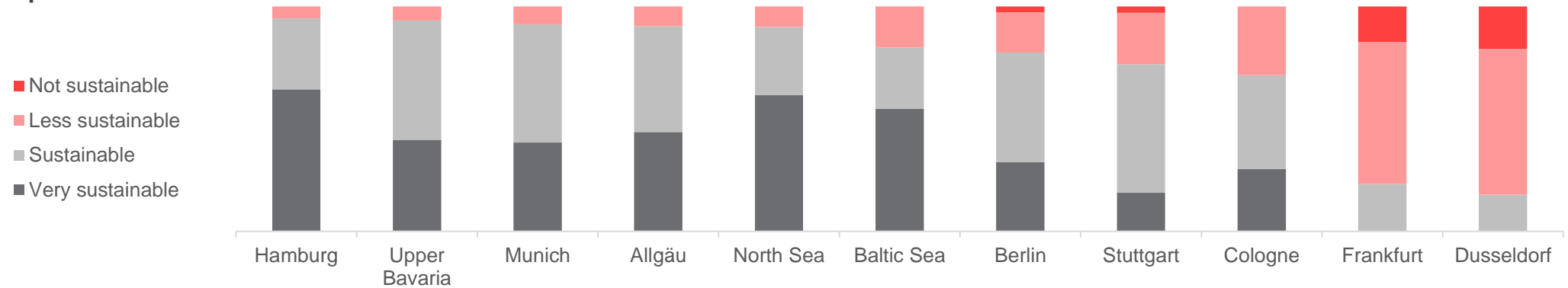
Attractiveness is in the eye of the beholder



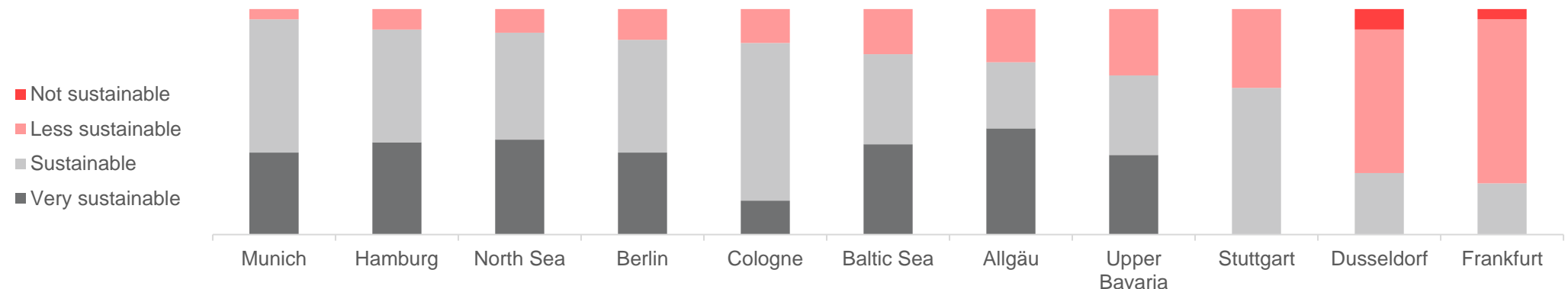
Regardless of the city categories, operators consider budget and midscale products to be the most economically attractive as a result of lean operating concepts. On one hand, investors rely on the previous reliable mantra of „location, location, location“, but shy away from lower investment volumes and the heterogeneous markets. Operators, on the other hand, see potential in B- and C-cities due to less competition.

Hamburg and Munich are considered the most sustainable hotel markets

Operators

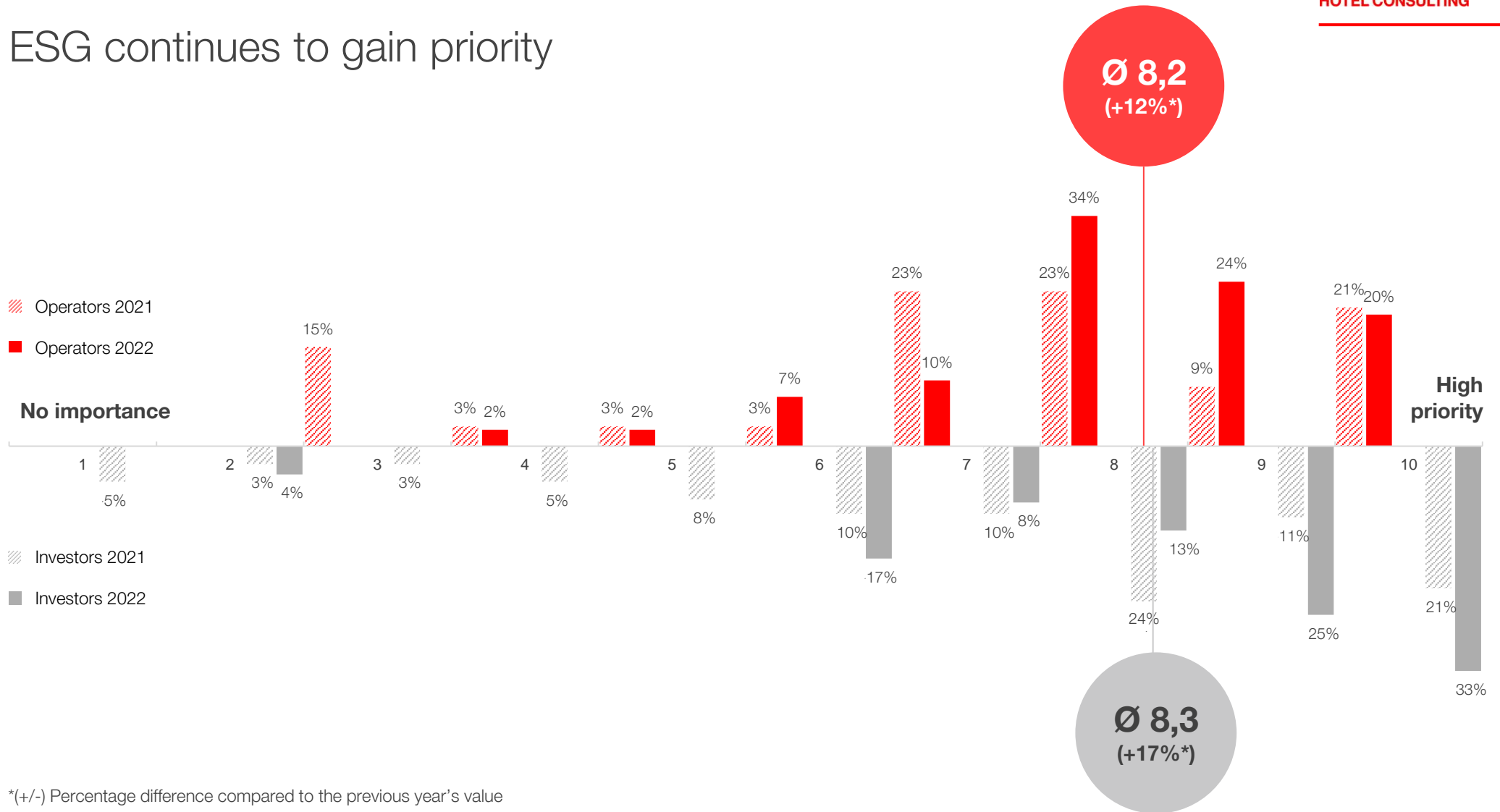


Investors



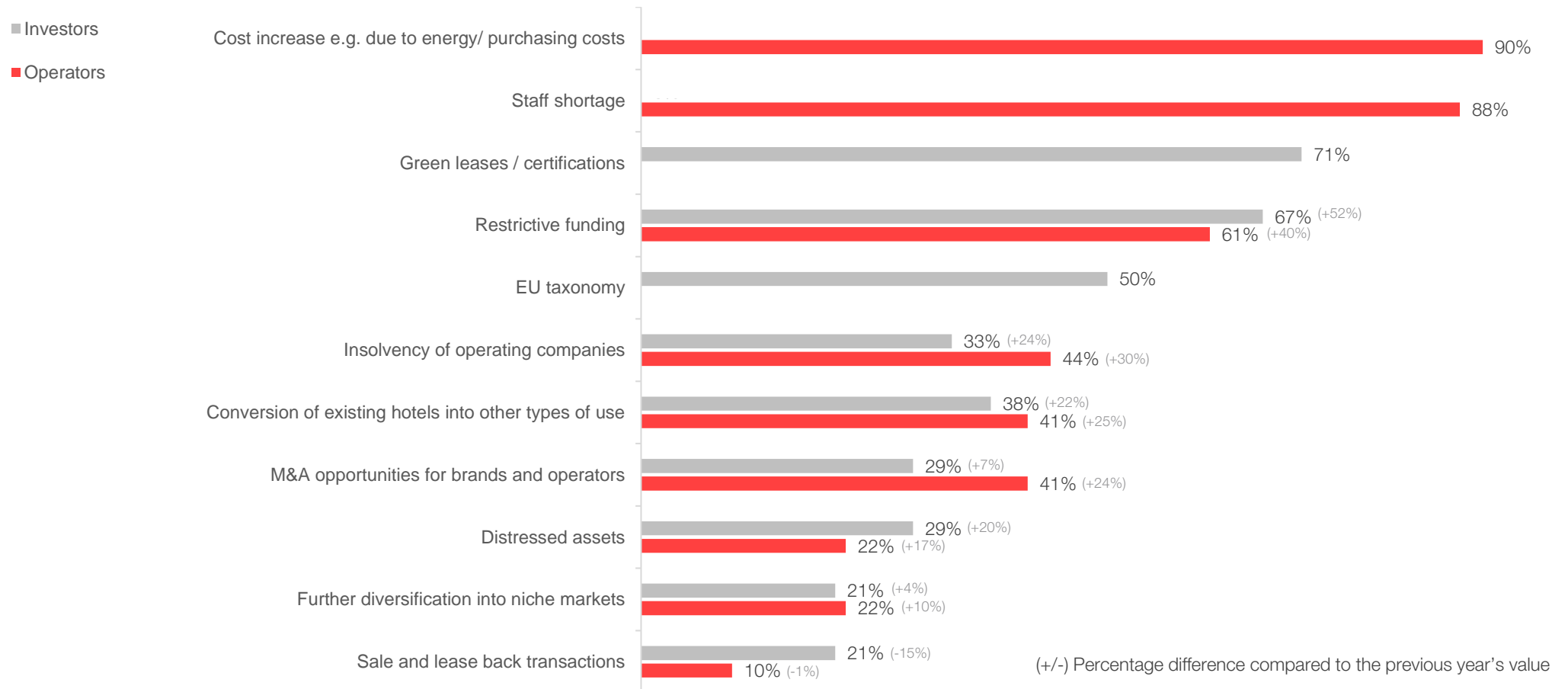
Among the top German destinations, cities with a diversified demand structure such as Hamburg and Munich, as well as established leisure regions lead the ranking. Destinations with a high proportion of international guests and a strong MICE demand are currently considered less sustainable.

ESG continues to gain priority



ESG is becoming a much higher priority for all players in the market. Operators are out under pressure not only from customers, but also due to increasing regulatory requirements from owners. Investors are under pressure due to the EU taxonomy as well as the necessary certifications of their fund products.

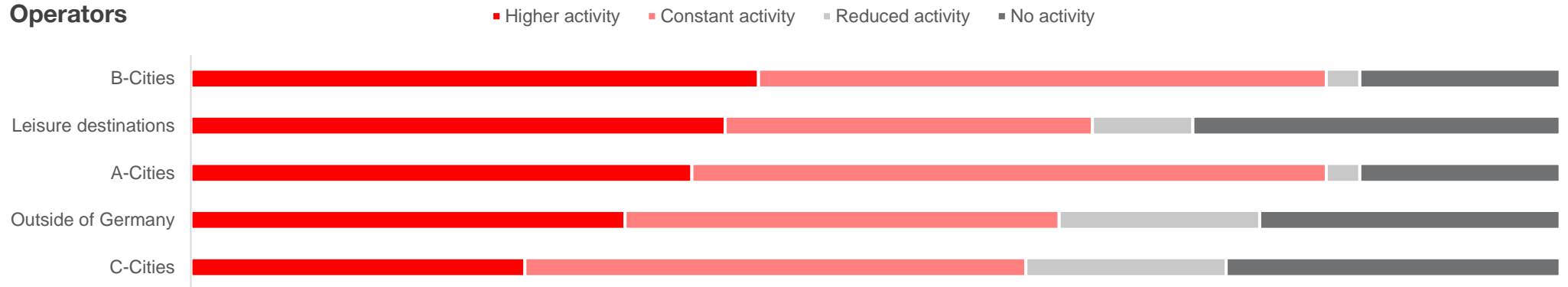
Cost pressure, staff shortage and ESG as biggest influencing factors



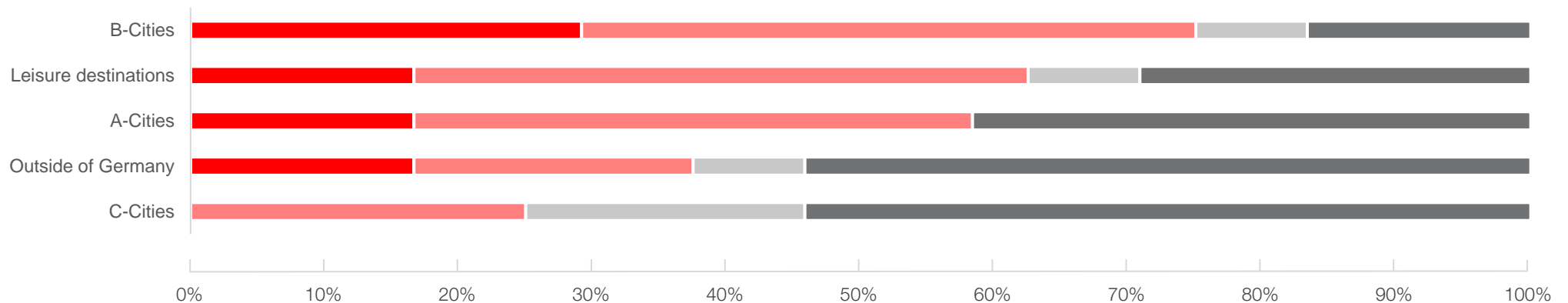
Highly digitalised operating models that can take advantage of their economies of scale seem to benefit the most from the current market environment. The ESG theme and the financing environment are strongly influencing the hotel real estate market. Lower market entry barriers offer opportunities for equity-strong investors as well as strategically operating hotel groups.

Stronger focus on B-Cities and leisure destinations

Operators



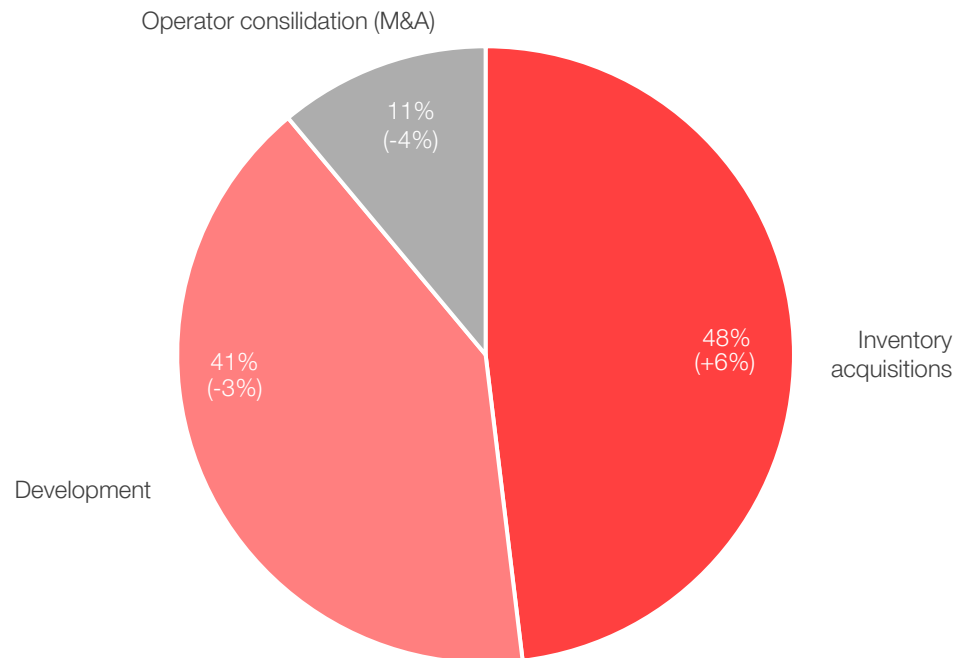
Investors



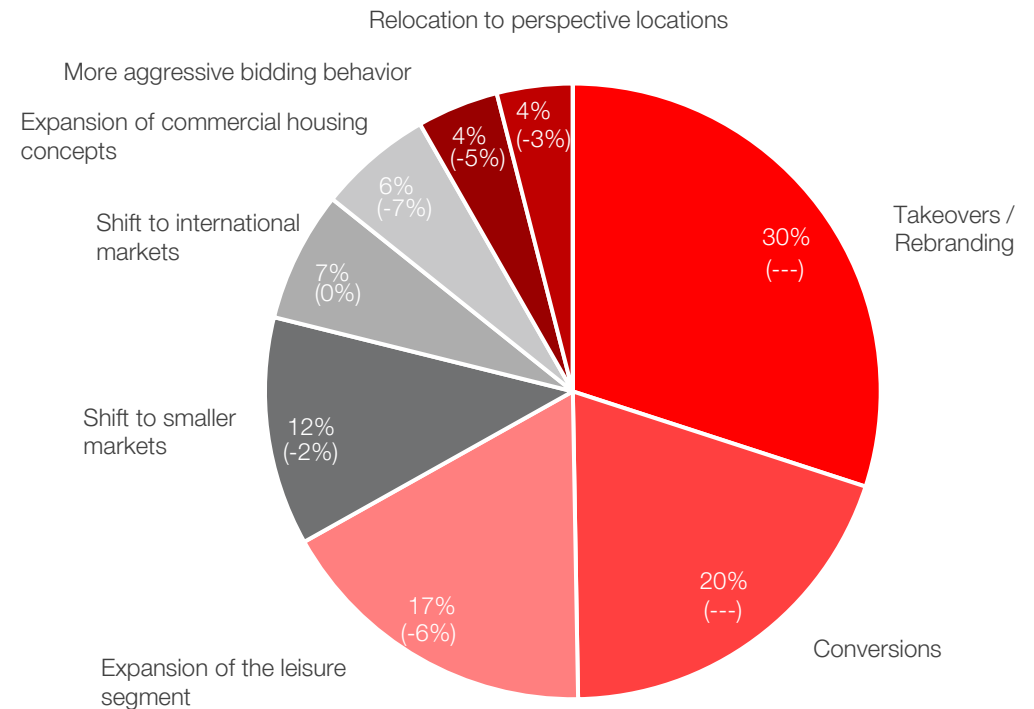
In contrast to the previous year, international expansion is becoming less attractive. Operators focus on A- and B-Cities and the leisure hotel industry. Investors, on the other hand, see the highest attractiveness in B-Cities. As these offer smaller investment volumes as well as less dependence on international tourism and thus a greater opportunity to diversify risk.

Operators continue to grow

Growth strategy



Adjustments in the expansion strategy

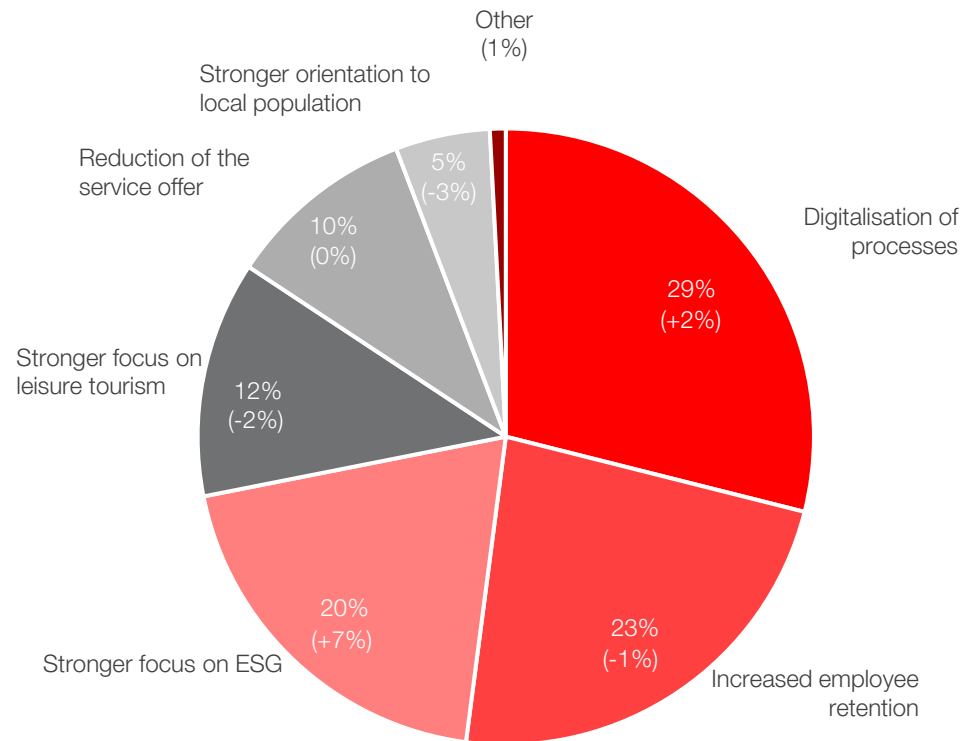


(+/-) Percentage difference compared to the previous year's value

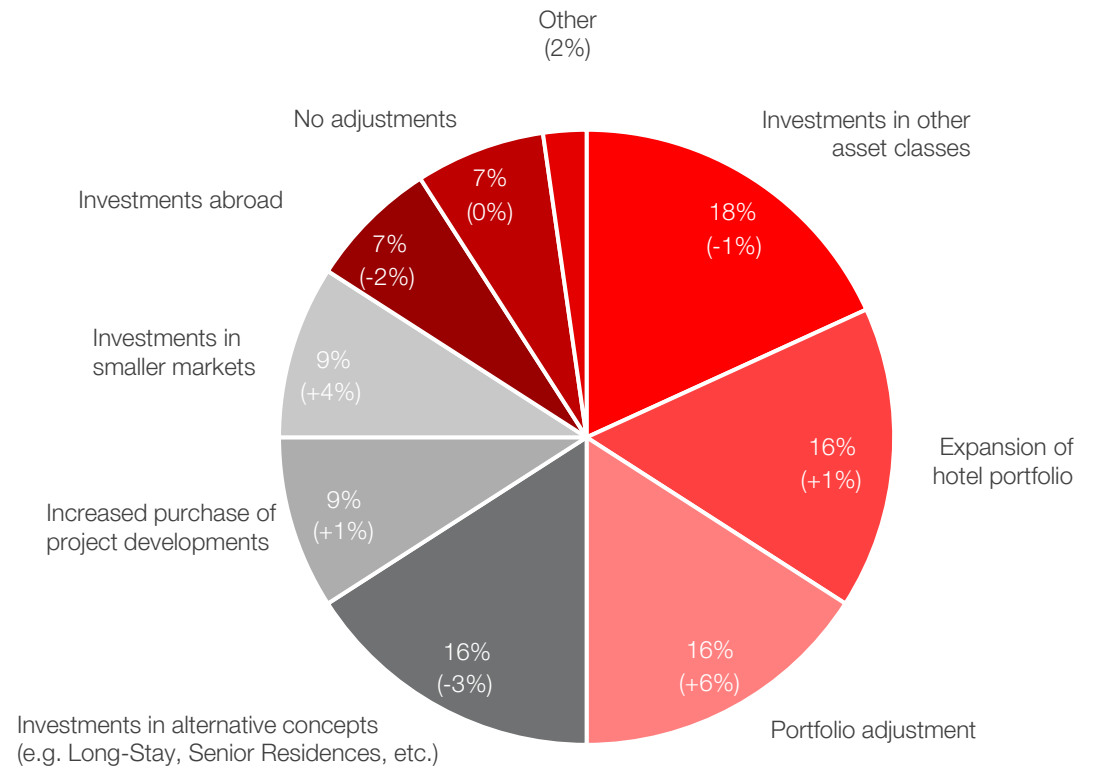
All surveyed operators plan to further expand their hotel portfolio. Despite the challenges in development, they are sticking to their previous growth strategy. However, the majority is driving their expansion through existing properties, whether it be in the form of acquisitions or conversions. Some of them are still planning to expand the leisure segment.

Few strategic adjustments among operators and investors

Strategic measures of operators



Investment strategy of investors



(+/-) Percentage difference compared to the previous year's value

Operators place the greatest focus on the issues of staff shortages and cost reductions. On the investor side, the matters of interest continue to be differentiated. Some are using the market development for portfolio adjustments, while others want to further expand their hotel portfolio. Overall, however, the values remain relatively constant compared to the previous year.

Rising interest rates and capital requirements slow down transaction market

Main reasons for unsuccessful transactions

**25%**

Interest rate development

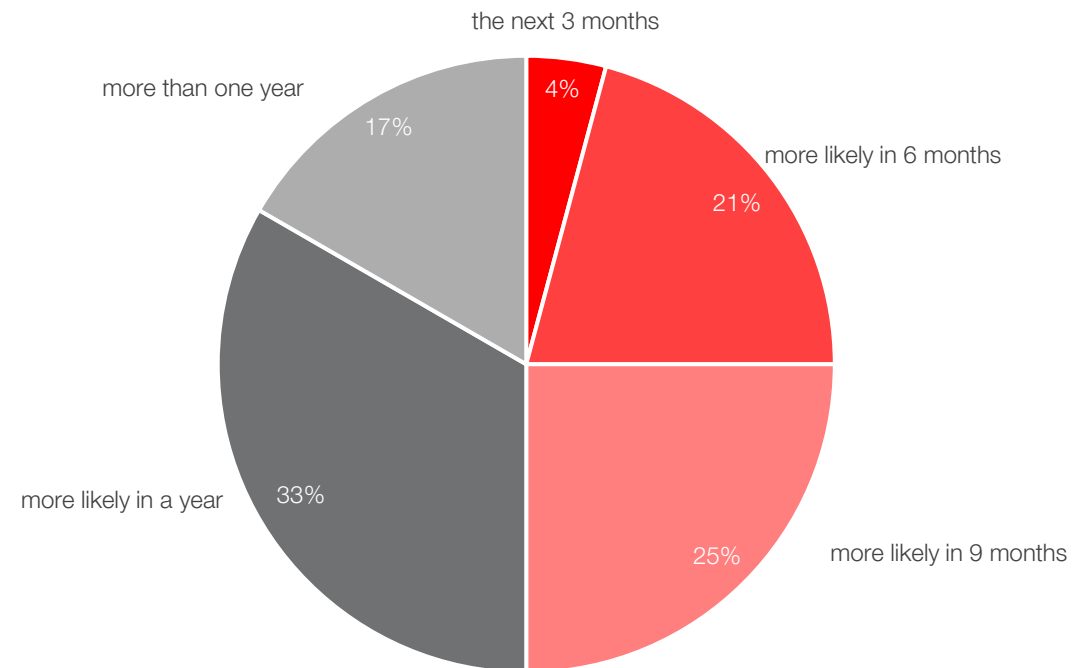
**20%**

Diverging price expectations

**12%**

Increase in construction costs

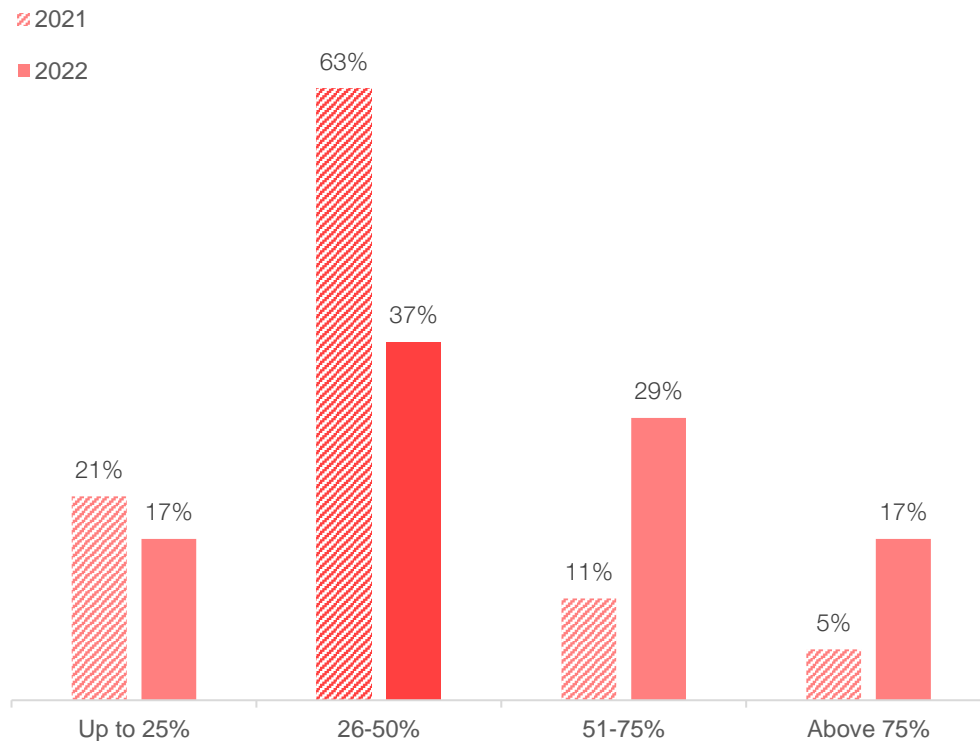
Bid-Asking Gap closes in ...



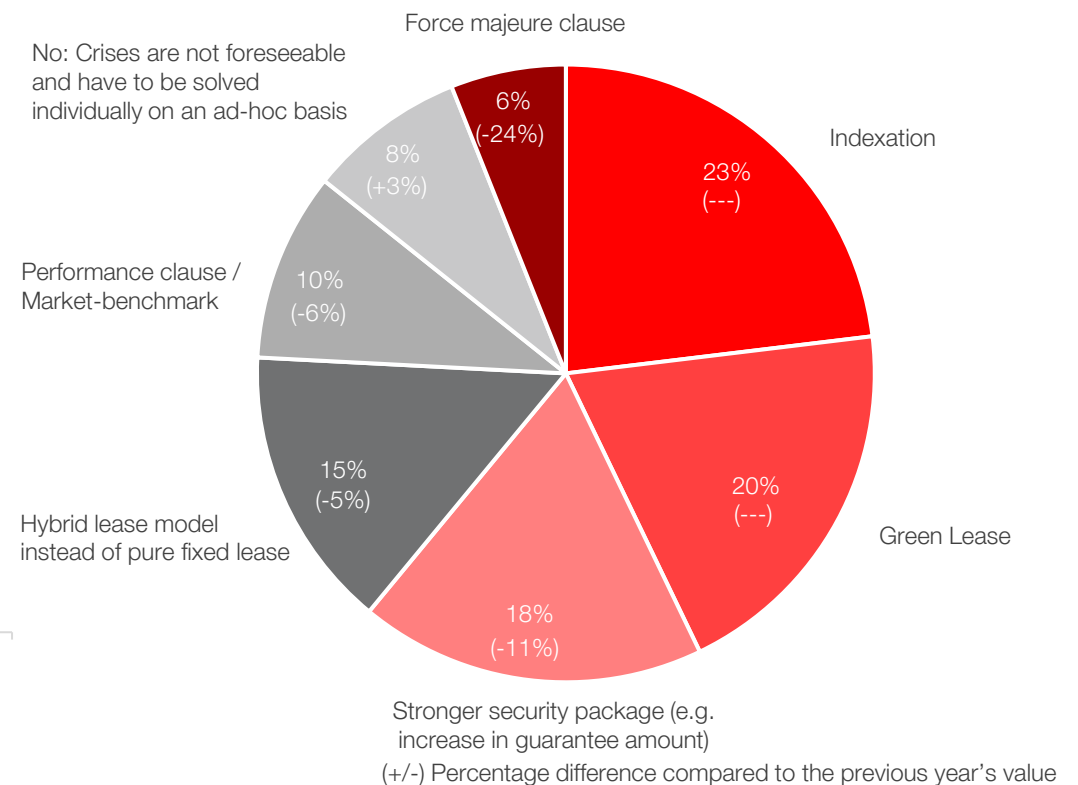
The purchase price delta has increased by 5 percentage points compared to last year. An increase in the transaction volume is expected due to possible refinancing scenarios or portfolio shifts. Equity-strong investors with a medium to long-term investment horizon are taking advantage of the current market environment for market entries or acquisitions.

Market participants seek to minimise risk

Capital requirements for investments



Relevant aspects for future contract design

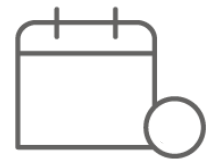
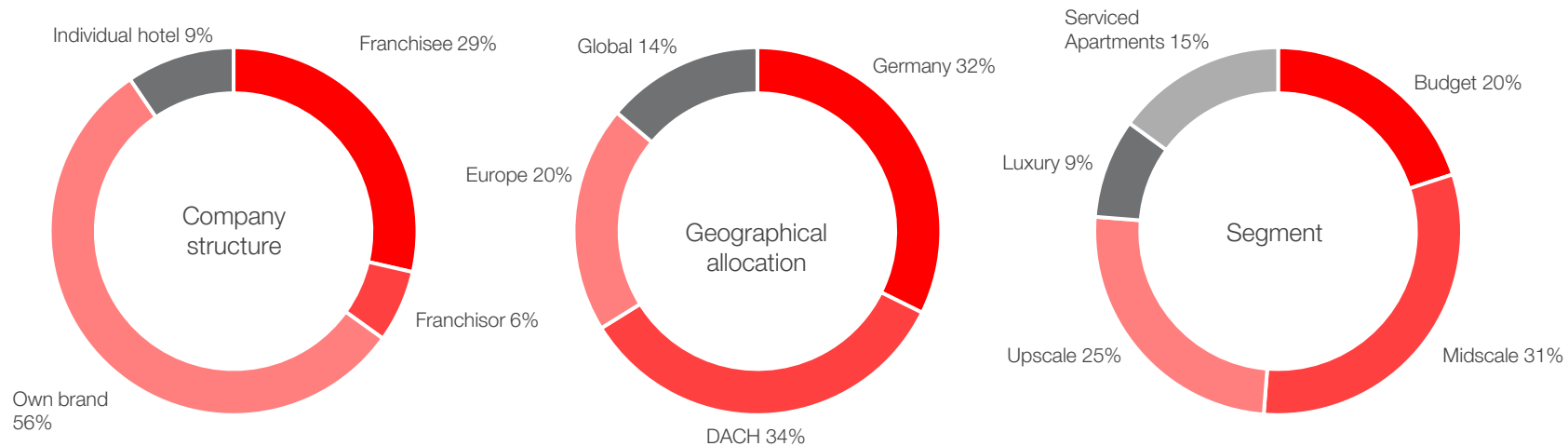


Investors, operators and financiers are balancing between risk minimisation and yield optimisation. In new leases, the covid-clause is moving into the background and the protection of capital flows through indexation into the foreground. The growing influence of ESG and EU taxonomy is becoming apparent in contract design in the form of green lease clauses.

Participant profiles and survey design

Operators 63%

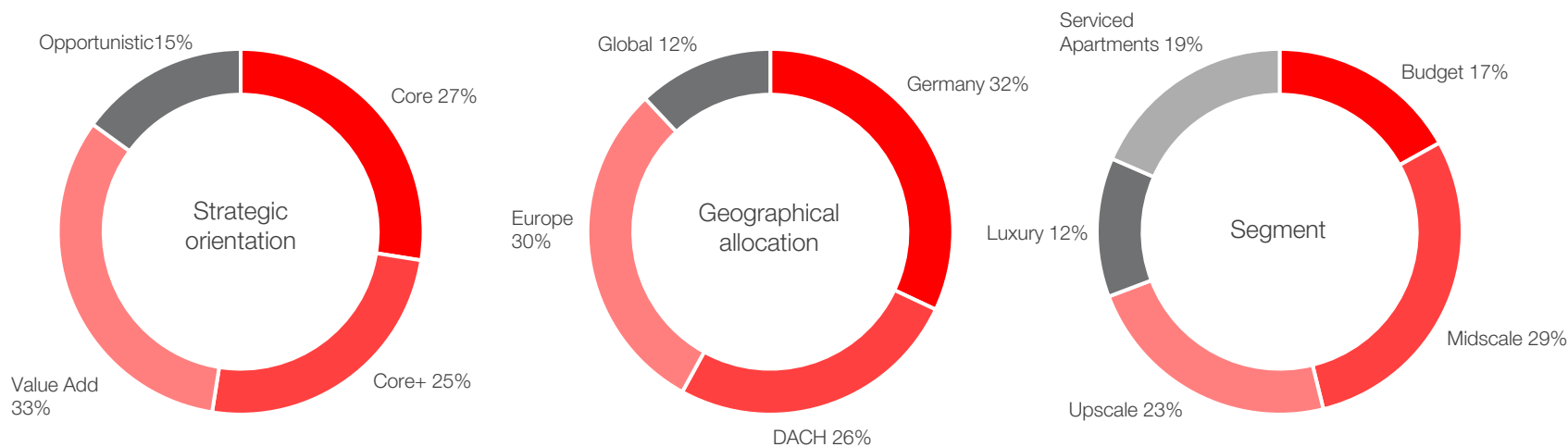
Ø Hotel Size: 129 Rooms



Survey period:
November 2022

Investors 37%

Ø Transaction volume (p.a.): 146 Mil. €



Form of survey:
Online survey

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