

Hotel market Berlin

A capital in a class of its own



Berlin – Economic environment

Berlin – A city of diversity

Berlin was recently named the world's tenth most important city (Wealth Report 2012, Knight Frank). The German capital is highly regarded as the country's political center as well as a guiding light for the entire European Union. As a dynamic center for business, science and research, the city on the River Spree is a global trendsetter, offering an ideal environment for start-ups and sunrise industries. The focus is on five innovation clusters: healthcare; energy; optics; mobility, transportation & logistics; as well as IT, media & the creative industries. With four internationally renowned universities and other (private) institutes of higher learning located in the city, these industries are sure to get the young, qualified talent they need.

Despite the appeal of this vibrant capital, relatively few international corporations have their headquarters in Berlin. The corporate landscape is dominated by small to medium sized enterprises and the unemployment rate is exceptionally high.

Located at the crossroads between Eastern and Western Europe, Berlin is Germany's most multicultural city. More than 180 nations are represented here, giving a distinctive flair to the city's cultural, arts, lifestyle, culinary and fashion scene. Both its unique history and its countless tourist attractions have made Berlin Germany's favorite city destination. Across Europe, Berlin ranks third behind London and Paris, surpassing both Rome and Madrid with roughly 25 million overnight visitors per year. And Berlin is the only German city being ranked among the top 25 most popular travel destinations in the world (Travellers' Choice Destination Awards, Trip Advisor).

The key drivers of Berlin's business tourism are politically motivated travel and the trade fair, event and convention circuit. According to the 2013 Meeting & EventBarometer, Berlin is and remains Germany's favorite city for MICE business. The International Congress & Convention Association ranks Berlin third after Vienna and Paris for international association meetings, with 172 such events in 2012 alone. In April 2013, the international trade publication Exhibition News gave Berlin their award for the Best International Venue. Among other winning factors, the journal was much impressed by the on-time, on-budget completion of the city's new exhibition center ExpoCenter Airport.

Messe Berlin, the city's successful trade fair company, reported record sales of EUR 245 million in 2012, due in large part to its five key trade fairs: International Green Week, the fruit and vegetable marketing exhibition Fruit Logistica, the travel trade show ITB, the consumer electronics fair IFA and Innotrans, the international trade fair for transport technology.

A new multifunctional venue, CityCube Berlin, is due to open its doors at the end of March 2014, yet another building block for Berlin's success as an event destination. While there is still no final decision on the future of the ICC Berlin, it seems unlikely that it will continue to be used as a convention venue.

Overview

Berlin	
Population (June 2013)	3.3 million
Area (km ²)	892
Unemployment (% , January 2013)	12.3
Purchasing power (€ per capita, forecast 2013)	18,757

Sources: Statistical Office for Berlin-Brandenburg, German Federal Employment Office, GfK

Infrastructure – Controversy-in-progress

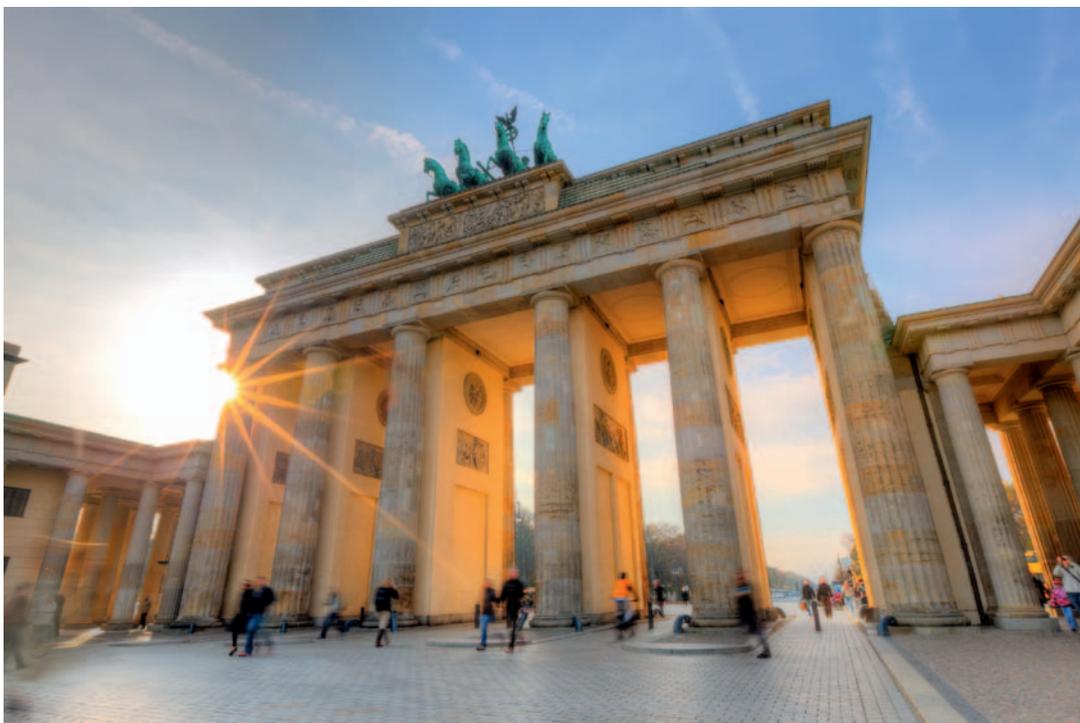
A city with as many controversies as building sites

The world sees Berlin as a dynamic, welcoming city that is always worth a visit. Thanks to its well-developed infrastructure, it is easy – and affordable – for travelers to get there. The new Berlin Brandenburg Airport will make the city a hub for international air travel, but we are still waiting for the new airport to open its doors, as was originally planned for 3 June 2012, and for the rising demand that promises to come with it, particularly from abroad.

Another infrastructure project that always seems to be in the headlines is the extension of the A100 highway, where work finally started in May 2013. The 3.2 km section of road between the Neukölln junction and Trepower Park carries a price tag in excess of EUR 450 million and is not expected to be completed until 2021/22.

Progress has also been made on the reconstruction of the Berlin Palace. At a cost of roughly EUR 590 million, the new Humboldt-Forum is expected to open its doors in 2019 as a sanctuary for art, culture and science, returning the historical cityscape to its original glory. The official cornerstone-laying ceremony is scheduled for 12 June 2013. This controversial project will be an extension of the popular Museumsinsel, the island in the River Spree with some of the city's most magnificent museums and a UNESCO World Heritage Site since 1999.

Another cultural building site is the Berlin State Opera "Unter den Linden", which was closed for complete renovation after the 2010/11 theater season. The city has invested approximately EUR 290 million in adapting the listed building to the requirements of a modern opera house. This is yet another major building site that is the subject of much debate among Berliners, particularly because construction costs keep rising and the opera company has already twice postponed its return to the historical landmark.



Tourist demand – Always exceeding expectations

Boomtown Berlin – by far the number one destination in Germany

Berlin's hotel sector reached an important milestone in the year 2000, selling a record 10 million room nights. Ten years later, experts expected that figure to top 15 million, but the city exceeded expectations once again with more than 20 million room nights sold in 2012. And with an average growth rate of 9.0% in tourist arrivals and room nights since 2003, it would not be surprising if Berlin managed to reach its room night goal of 30 million before the target date 2020.

The city on the River Spree sold 24.9 million room nights in 2012 alone, more than double those recorded in Munich, significantly widening Berlin's lead as the most popular city destination in Germany. Even on a global scale, Boomtown Berlin is well ahead of its international competitors with 11.4% growth in room nights from 2011 to 2012.

The first quarter results for 2013 have far exceeded projections yet again, suggesting that there is little standing in the way of Berlin's continued success. The average length of stay has leveled off at around 2.3 days, which surpasses that of many other major cities in our analysis.

Demand

Year	Arrivals (thou.)	Overnight stays (thou.)	Length of stay days
2003	4,984	11,425	2.3
2004	5,924	13,26	2.2
2005	6,465	14,62	2.3
2006	7,077	15,91	2.2
2007	7,583	17,293	2.3
2008	7,895	17,759	2.2
2009	8,263	18,875	2.3
2010	9,049	20,796	2.3
2011	9,866	22,359	2.3
2012	10,849	24,896	2.3
Q1/2013	2,287	5,246	2.3
CAGR 2003–2012	9.0%	9.0%	-

Source: Statistical Office for Berlin-Brandenburg

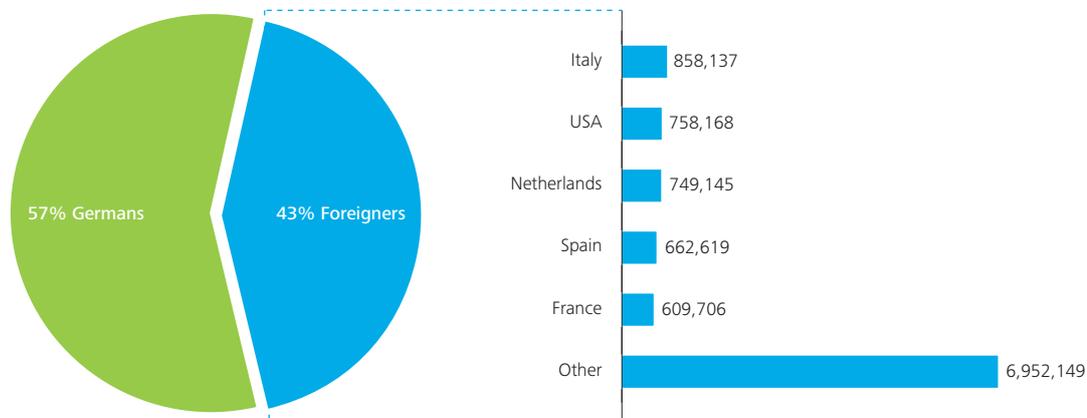
Explanation: Arrivals/overnight stays in all types of accommodation; as of 2009, incl. camping; as of 2012 establishments with at least ten beds

Demand – internationalization on the rise

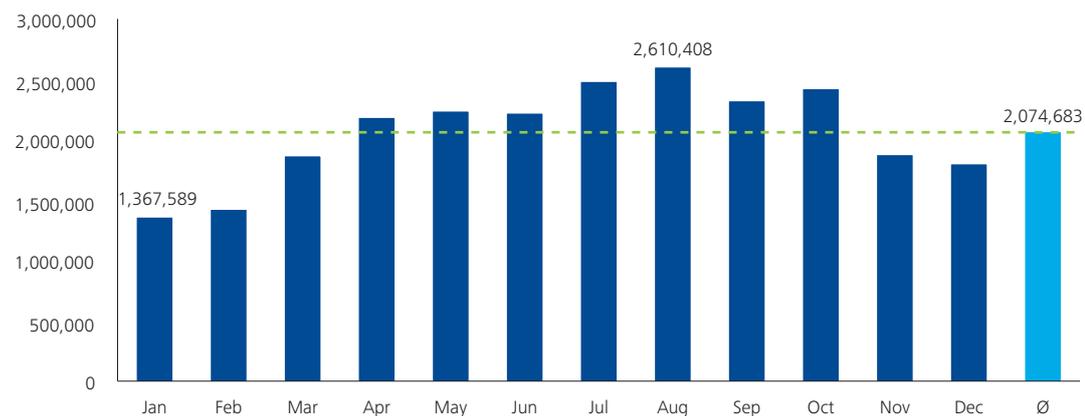
Foreign guests are the main drivers of the rise in room nights. They already account for a share of 43%, with that figure increasing significantly every year. Italy is the biggest source market for 2012, followed by the United States and the Netherlands.

While the months from April to October reported above-average results, it is encouraging to note that in a year-on-year comparison demand rose for all twelve months, and the 2012 high season outperformed that of the previous year. Thanks to holiday-related spikes and a wide range of events and festivals, August is still the strongest month.

Visitors' origins



Seasonality



Source: Statistical Office for Berlin-Brandenburg

Explanation: Overnight stays 2012 in all types of accommodation

Tourist services – More beds, higher occupancy levels

Market saturation? Demand is growing faster than supply

Demand is not the only thing that has been on the rise in recent years – supply has grown just as rapidly. But as room night figures have been growing faster year after year, we have seen a stable upward trend in occupancy levels since the economic and financial crisis as well. Last year, occupancy hit a record 53.2%, although this figure is still behind that of Munich and Hamburg.

2013 got off to a promising start with the grand opening of the long-awaited 232-room luxury hotel from the Waldorf Astoria brand near Bahnhof Zoo. Other hotels that recently entered the fiercely competitive Berlin hotel market include: B&B Hotel Berlin-Airport (140 rooms), Amedia Hotel Berlin Kurfürstendamm (194 rooms), i31 Hotel Boutique Hotel Berlin Mitte (103 rooms), Winters Hotel Berlin Mitte – The Wall at Checkpoint Charlie (145

rooms and 25 apartments), Generator Hostel Berlin Mitte (139 rooms), HotelKlee (81 rooms), ibis Berlin Kurfürstendamm (180 rooms) and ibis budget Berlin Kurfürstendamm (168 rooms).

In addition to the new hotels, several properties changed brands in the past year, among them the Mercure Berlin at Urania (formerly Hotel Castor the Vine, 78 rooms), Hotel Wyndham Grand Berlin on Potsdamer Platz (formerly Crowne Plaza, 256 rooms) and the Leonardo Hotel Berlin City West (formerly Best Western Queens Hotel Berlin City West, 108 rooms).

Surrounded by so much change, Berlin's well-established hotels were hard pressed to keep up. The Berlin Hilton recently underwent renovations to its lobby and ballroom, while the rooms at the Berlin Marriott got a much-needed facelift.

Beds on offer

Year	Establishments	Beds	Bed occupancy
2003	555	69,141	45.3%
2004	558	75,009	48.3%
2005	580	81,779	49.0%
2006	581	87,816	50.5%
2007	592	90,989	52.6%
2008	659	97,441	50.8%
2009	726	109,694	48.8%
2010	751	114,087	50.1%
2011	769	123,945	50.2%
2012	778	128,129	53.2%
Q1/2013	786	131,22	45.0%
CAGR 2003–2012	3.8%	7.1%	1.8%

Source: Statistical Office for Berlin-Brandenburg

Explanation: No. of establishments/beds in all types of accommodation; as of 2009 incl. camping; as of 2012 establishments with at least ten beds

Hotel market – large share of 5-star hotels

The following table provides a market segment breakdown of available rooms in the Berlin hotel market:

Rooms on offer

	*	**	***	****	*****	Total
Number of rooms in private hotels	286	931	4,497	5,107	967	11,788
Number of rooms in branded hotels	1,031	5,377	5,65	18,827	6,145	37,03
Total number of rooms	1,317	6,308	10,147	23,934	7,112	48,818

Sources: Berlin Hotel Guide 2013, Deloitte analysis

These figures relate to properties in the hotel or B&B category in the city of Berlin, as documented in the Berlin Hotel Guide and data collected by Deloitte. Pensions, guesthouses and inns were not included. Those hotels not officially recognized by the German Hotel and Restaurant Association DEHOGA were classified according to the establishment’s own records, star ratings on popular booking websites like HRS, Trivago or Expedia, and, in some cases, our own rankings.

Across all star categories, there are a total of 48,818 rooms available in Berlin. Branded hotels account for 76% of these rooms, with 24% in privately owned properties. About one-half of all of these rooms are in the 4-star segment. The share of 5-star hotels is also very high, with several luxury hotel brands represented in the capital for reasons of prestige.

Accor is the undisputed market leader according to Deloitte’s ranking. This chain, the largest hotel corporation in Europe, owns around 13% of all the branded hotel rooms in Berlin. Taking second place, we have Grand City Hotels, which has just entered into a strategic partnership with Wyndham. If the ranking were not made according to corporation, but rather purely by brand, this would put Wyndham in a strong position. IHG, Carlson Rezidor and Motel One are also among the top 5 hotel groups in Berlin.

Ranking

Hotel company	Share of branded rooms
Accor	13%
Grand City	7%
IHG	7%
Carlson Rezidor	6%
Motel One	6%
NH	6%
Best Western	4%
Hilton	3%
Leonardo	3%
Hospitality Alliance	3%

Source: Deloitte analysis

Hotel performance – Improvements across the board

Key performance indicators – good, but by comparison not good enough

As compared to the previous year, the first quarter of 2013 saw improvements in performance for the hospitality industry as a whole. Occupancy levels increased further across all star categories during the months that traditionally experience weaker demand. That said, the highly competitive mid-market segment declined slightly in terms of average daily rate.

With an overall occupancy rate of 61.4%, Berlin is at the bottom of the list of major German cities. In the battle for every last guest, it is pricing that generally suffers, with that indicator also fairing poorly in comparison to other cities. The City Tax introduced by the Berlin city

council adds more fuel to the fire. As of autumn 2013, this 5% tax will apply to all room charges for leisure travellers. As we have seen in many other German cities, this move is very controversial; DEHOGA is gearing up to take legal action against the levy. In addition to the legal uncertainty surrounding the charge and the increased costs for hoteliers, the City Tax is a major competitive issue for Berlin – the capital of low-priced accommodation in Germany. If this move puts more pressure on hoteliers, we could see the structure of the hotel market developing more in favor of the branded hotels in future. A further price drop could even threaten the existence of many privately owned establishments, especially those in need of renovation.

Performance

Hotels	Occupancy		Average daily rate		Revenue per available room	
	1Q 2013 YTD	Change YOY	1Q 2013 YTD	Change YOY	1Q 2013 YTD	Change YOY
2-3 star hotels	64.0%	+7.4%	63.73 €	+2.3%	40.79 €	+9.9%
3-3+ star hotels	62.7%	+3.6%	66.87 €	-1.6%	41.92 €	+2.0%
4 star hotels	64.4%	+4.8%	86.17 €	-0.9%	55.47 €	+3.9%
5 star hotels	65.4%	+1.8%	151.93 €	+0.8%	99.38 €	+2.6%
All hotels	61.4%	+2.7%	88.49 €	+1.5%	54.36 €	+4.3%

Source: STR Global, selected competitive sets



Hotel projects – Tumultuous growth

Hotel projects in the pipeline – everyone wants a piece of the nation's capital

We believe Germany's capital city will continue to have strong appeal for hoteliers and investors in the coming years and expect to see growth in virtually every star category. While the top performers are likely to grow

their market share further, we see a host of new products flooding the market. Marriott, for instance, is about to launch two new properties, the first Autograph hotel in Germany and one of the first of the new budget chain Moxy.

Hotel projects

Project	Operator	Location	No. of rooms	No. of stars	Opening
25hours Bikini Berlin	25hours	Budapester Straße	149	3	Autumn 2013
AC Hotel am Steinplatz (refurbishment, brand affiliation)	Marriott	Steinplatz	84	5	Autumn 2013
InterCity Hotel Berlin Hauptbahnhof	Steigenberger	Katharina-Paulus-Straße	412	4	Autumn 2013
Leonardo Hotel Berlin Mitte	Fattal	Am Zirkus	310	4	Autumn 2013
Design & Style Hotel Berlin	Novum Group	Franklinstraße	130	2	Autumn 2013
RIU Plaza Berlin	RIU	Martin-Luther-Straße	357	4	Winter 2013/14
B&B Hotel Berlin Tiergarten	B&B	Englische Straße	185	2	2013/2014
Motel One	Motel One	Leipziger Platz	231	2	Spring/Summer 2014
Titanic Hotel am Gendarmenmarkt	Titanic Hotels	Französische Straße	208	5	Summer 2014
Titanic Hotel	Titanic Hotels	Chausseestraße	388	4	Summer 2014
Holiday Inn Berlin East Side	Tristar/Inter-Continental	Mühlenstraße	217	3	Summer 2014
Steigenberger am Kanzleramt	Steigenberger	Ella-Trebe-Straße/ Berta-Benz-Straße	339	4	Autumn 2014
Dormero Hotel Berlin	Gold Inn	Stralauer Platz	265	4	Winter 2014
Four Points by Sheraton Berlin Airport	E&O Hotels/ Starwood	Schützenstraße	253	4	Winter 2014
Moxy	Nordic Hospitality/Marriott	Nähe Flughafen Berlin Brandenburg	n.d.	3	2014
ibis Berlin Hauptbahnhof	Accor	Invalidenstraße	173	2	2014
Steigenberger Airport Hotel	Steigenberger	Willy-Brandt-Platz	322	4	Autumn 2015
Amano Hauptbahnhof	Amano Group	Invalidenstraße	250	3	2015
Motel One Upper West	Motel One	Breitscheidplatz	582	2	Summer 2016

2013 is showing almost as much action in the transaction business as it has on its many building sites. The Grand Hyatt, the Nhow and Motel One Berlin-Bellevue all changed owners in the early part of the year. The Holiday Inn East Side, currently being constructed near the O2World arena, was acquired by the pension fund of the Hessen State Medical Association and the EB Group has recently taken over the Adrema Hotel Berlin. The PPHE hotel group just bought the two art'otel properties in Berlin Mitte and on the Kurfurstendamm for EUR 17.5 million. After a strong start on the hotel transaction market this year, we expect to see a lot more interesting deals as the year moves forward.

We promise to stay on the case for you! Look out for our analysis of the Frankfurt hotel market in the third quarter of 2013.



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