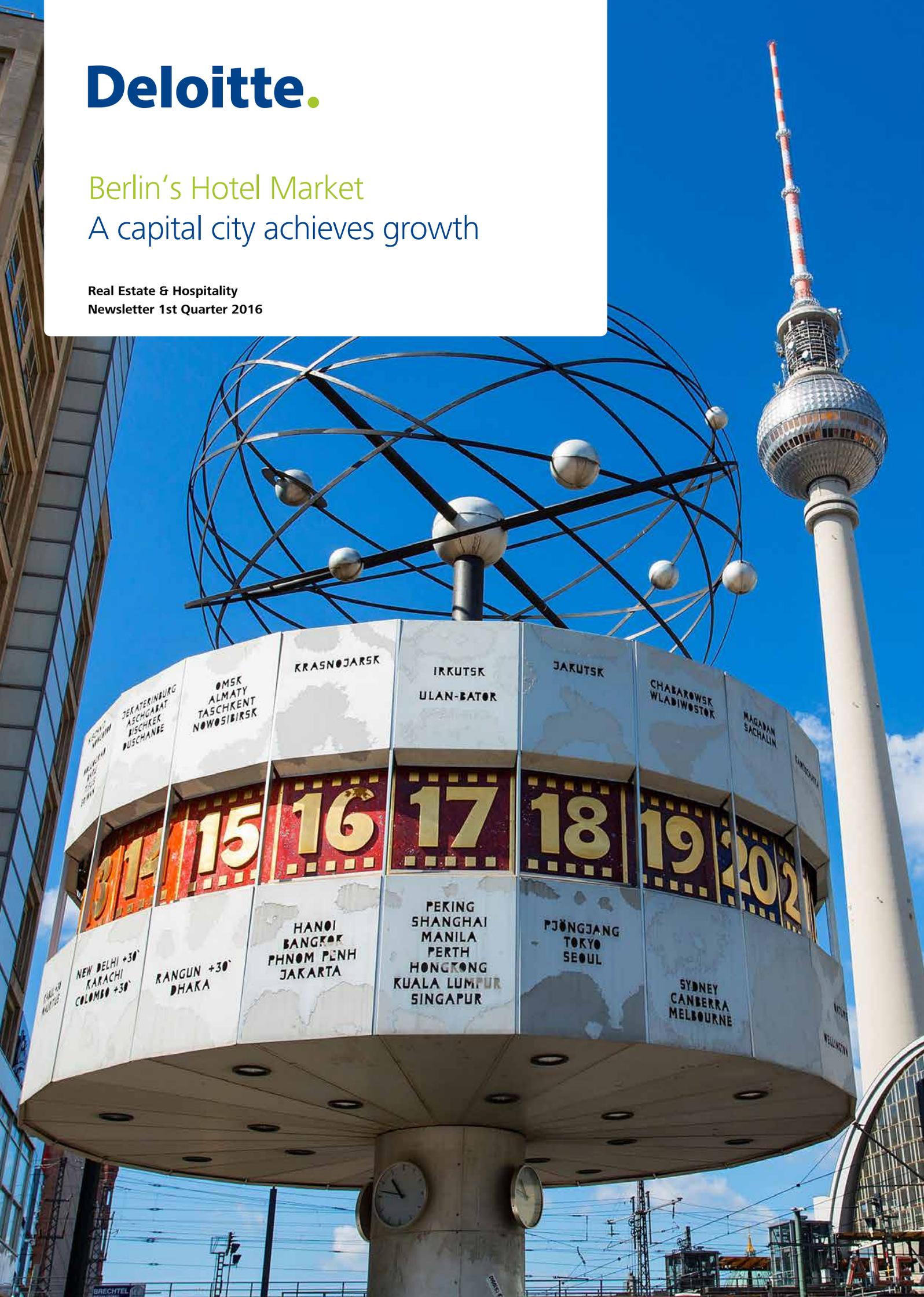


# Deloitte.

## Berlin's Hotel Market A capital city achieves growth

Real Estate & Hospitality  
Newsletter 1st Quarter 2016



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# Berlin – Economic environment

## Berlin – a magnet for people with ideas

Berlin is ranked third, behind Tokyo and Vienna, as one of the most livable cities in the world according to the current Monocle ranking. As the political heart of Germany, this metropolis on the Spree river is considered to be one of the most dynamic cities in Europe. Berlin's economic structure is shaped by a variety of industrial companies, young start-ups, and a strong service sector. In particular, there is focus on innovative branches such as information and communication technologies, health care as well as media and creative industries. The start-up scene has been particularly active in the last few years. Many young companies are attracted to the German capital in order to realize their business ideas because of the city's excellent conditions including good infrastructure, an international environment as well as low office and location costs. In the last year, international investors invested around 2.1 billion euros in start-ups based in Berlin, thus ranking the German capital first in national and European rankings.

It does not matter if the business is a start-up or an established company, neither has to worry about finding skilled specialists in Berlin as there are around 170,000 students at internationally renowned universities, higher education institutes and research centers, which ensures a constant supply of qualified young professionals.

## A city with an international focus

Berlin has earned itself a reputation for its cosmopolitanism – people from 189 nations live in the city together and the city's diversity shapes all spheres of life. It is one of the most popular city destinations in Germany thanks to its numerous attractions, its special flair and its moving history. In Europe, Berlin is ranked third behind London and Paris.

Berlin has also established itself as a city for trade fairs and congresses despite competition from other national and international metropolises and remains Germany's most popular major city for MICE events according to the Meeting- & EventBarometer 2015. With a total of 193 international association conventions, Berlin ranks fourth globally behind Paris, Vienna and Madrid.

In 2015, Messe Berlin welcomed more than two million visitors and achieved its best business result, which amounted to 238 million euros, in an odd business year that routinely performs poorly. 2016 will be a strong trade fair year for Berlin not only because the International Green Week and the ITB celebrated their 50th and 90th anniversaries respectively but also because there are a number of leading trade fairs this year.

## Germany's Capital of Medical Care – a new challenge

In addition, medical tourism is becoming increasingly significant. The Senate of Berlin has focussed on developing Berlin as a location for providing medical care and will invest one million euros in its "Health Excellence – Medizinhauptstadt Berlin" project this year. In this regard, a variety of renowned clinics, hospitals and research institutes will support the city in achieving its goal to become the number one location for providing medical care in Germany.

## Overview

Berlin	
Population (2015)	3.47 million
Area (km <sup>2</sup> )	892
Unemployment rate (%, December 2015)	10.1
Purchasing power (€ per capita, prognosis 2016)	19,990

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

# Infrastructure – significant milestones attained every year

## **Berlin – a city that is constantly developing**

Thanks to its well developed infrastructure, travel to Berlin is both quick and cheap. One of the most controversial municipal construction projects is without doubt the Berlin-Brandenburg airport. The new airport in the south-east of the city intends to create additional capacity to stimulate growth in demand and establish the capital as an international transportation hub. However, this major project is still a problem child for the politicians in Berlin and has repeatedly made the headlines. The targets in terms of costs and deadlines have been adjusted several times and the airport is currently scheduled to begin operations in 2017. Until then, flights linking the capital to the rest of the world are provided by Tegel and Schönefeld airports. As the planned capacity of the new airport is already considered to be limited, it remains to be seen whether Berlin can perhaps boast about three airports in the future again.

CityCube Berlin, which opened in 2014, is in close proximity to Messe Berlin. This new ultra-modern venue has an exhibition space of 12,030m<sup>2</sup> and offers a total of 47 meeting rooms for up to 11,000 participants. In addition, the Estrel Congress & Messe Center expanded its capacity to 25,000m<sup>2</sup> and can now welcome up to 12,000 guests at its venue.

## **ICC – redevelopment at Messedamm**

Another infrastructure project that has repeatedly hit the headlines is the renovation of the International Congress Centre (ICC). In summer 2015, the Senate of Berlin decided to renovate the building with the help of private investment. As the MICE industry in Berlin is booming and the number of large congresses is continuously increasing, the current venue capacity barely suffices in order to exploit existing potentials for growth. While there is discord regarding the financing of the ICC, politicians have sent a strong signal regarding its future use; the ICC is intended to be a modern congress center that on completion in 2022 ensures the city to be positioned optimally for the MICE industry.

## **New urban district next to the Mercedes-Benz Arena**

Since July 2015, Mercedes-Benz has been the new sponsor for the sport and event venue which was previously known as the O2 World Berlin and is located between the Ostbahnhof and Warschauer Brücke. In the next few years, a new entertainment district will be built around the central Mercedes Platz. In addition to a shopping center, cinema, bowling alley, two hotels and numerous restaurants, a “music box” with space for up to 4,000 people has been designed. The development costing around 200 million euros and the area is planned to be completed by 2018.

## **Visitor magnets – preservation and reconstruction of valuable historical buildings**

Berlin is perceived as a dynamic cultural city steeped in history that is always worth a visit. Two controversial construction projects, the modernization of the Berlin State Opera House and the reconstruction of Berlin Palace, which is the largest cultural construction project in Germany, will strengthen the city’s image in the near future and attract tourists from all around the world. The topping out ceremonies for both construction projects were celebrated in summer 2015.



# Tourism demand – Growth sets new standards

## Berlin – ranked 3 as the most popular European city destination

Berlin is booming – the German capital has enjoyed record growth in the number of overnight stays over the last few years and in 2015 it set a new record of 30 million overnight stays. This metropolis has managed to establish itself as a leading destination for city breaks in Germany and is ranked third in Europe behind London and Paris in terms of the number of overnights stays. The aim of superseding Paris in the near future is within sight.

Nearly 12 million arrivals and 30 million overnight stays were registered in Berlin in 2015, thus setting new records. During the period analyzed, the city increased both the number of guests and the number of overnight stays continuously. The average rate of growth, which was 6.4% for arrivals and 7.4% for overnight stays, confirms this impressive development. In the last ten years alone, the number of overnight stays has doubled and in the last five years, an increase of 10 million contributed to this remarkable development in particular. Guests stay longer in Berlin than in any other German city and the average length of stay is 2.4 days.

## Demand

Year	Arrivals (thou.)	Overnight stays (thou.)	Length of stay days
2006	7,077	15,910	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
2013	11,325	26,942	2.4
2014	11,871	28,689	2.4
2015	12,369	30,250	2.4
CAGR 2006–2015	6.4%	7.4%	-

Source: Statistical Office for Berlin-Brandenburg

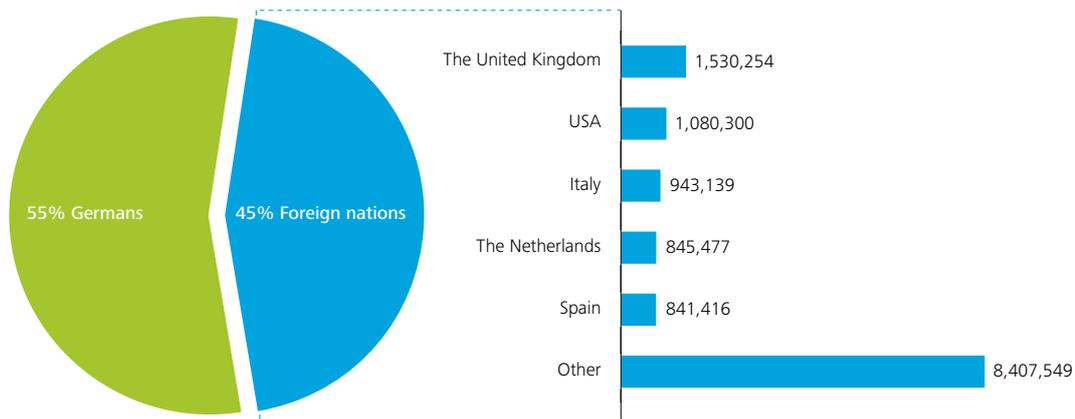
Note: Arrivals/overnight stays in all types of accommodation; from 2009 incl. camping; from 2012 incl. establishments with at least ten beds

**Berlin is trendy – a balance between foreign and domestic visitors**

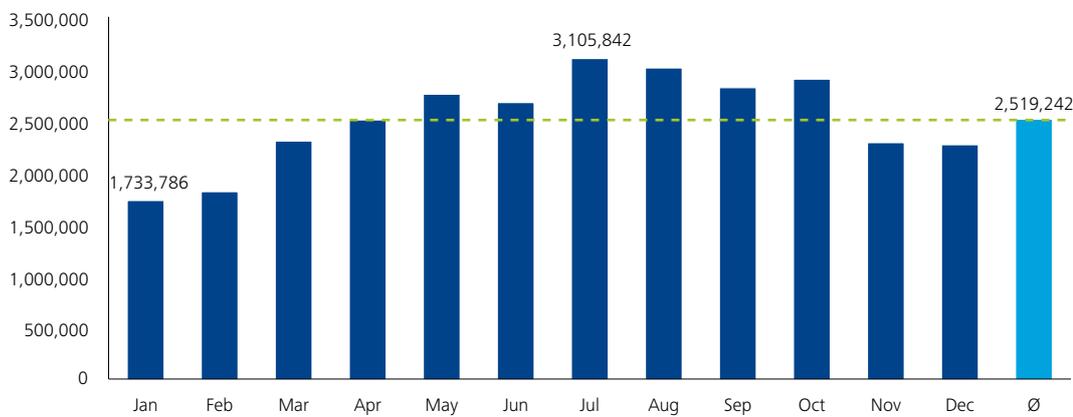
Increasing numbers of international visitors are discovering Berlin and staying longer in the city. In 2015, 45% of the visitors were foreigners and this percentage has been increasing year on year. The foreign guest's origins are very diverse due to the city's tourist attractions and its popularity as a travel destination. Last year, the most significant foreign source markets were the United Kingdom and the USA.

In particular, the highest rates of growth in the last year came from Asia and the Middle East in terms of overnight stays. Political circumstances have led to a sharp decline in the numbers of Russian visitors (-27.1%). Although Berlin is a all-year travel destination, the highest demand occurs in the months from May to October. In addition to the Berlin's tourist attractions, tourists are also attracted to a wide range of events during the summer months.

**Origins of Visitors**



**Seasonality**



Source: Statistical Office for Berlin-Brandenburg

Note: Overnight stays in all types of accommodation in 2015

# Tourism Supply – healthy growth in beds on offer

## Berlin – a sought-after location

In keeping with demand, the supply of accommodation in the German capital has developed dynamically. In the period from 2006 to 2015, supply in the city increased from 581 to 780 establishments (CAGR 3.3%). The number of beds also increased in this period from 87,816 to 139,997 (CAGR 5.3%). There was first a decline in the number of establishments in 2015. In this regard, the number of beds has developed much more dynamically which is due to structural changes and the related increase in size of operations for new establishments.

The average growth rates by establishments and beds was lower than by arrivals and overnight stays. This is an indication that the expansion in supply is moderately linked to the development in demand and that the market can absorb this newly created capacity. This positive development is reflected in the increasing level of bed occupancy.

Many new hotels opened in Berlin in 2015 and there has been a trend towards establishments in the 3- and 4-star category. The 5-star hotel Titanic Deluxe Berlin (208 rooms) opened in March 2015. In summer, the 3s-star Amano Grand Central (250 rooms) welcomed guests in what is the largest Amano Group establishment to date.

The 4-star Hotel Riu Plaza Berlin (357 rooms) ensured the Spanish hotel chain's first location in the city. The hotel chains AccorHotels and A&O expanded the budget segment with the ibis Berlin Hauptbahnhof (172 rooms) and the hostel A&O Berlin Kolumbus (220 rooms). In 2016, the 4-star hotel Titanic Chaussee Berlin (389 rooms) and the 3-star Hotel Zoe (108 rooms) were opened by the Amano Group.

In addition to new openings, there were also several changes in operator. The Grand Hotel Esplanade now operates as part of the Sheraton brand and the former Wyndham Grand Berlin Potsdamer Platz operates as the Crowne Plaza Berlin Potsdamer Platz. Scandic secured for itself a second establishment in the capital with the Scandic Berlin Kurfürstendamm (formerly Alsterhof Berlin).

The city is equally popular with leisure and business travelers. Several Berliner want to profit from the tourism in the city and rent out apartments and rooms via sharing economy portals such as Airbnb, Wimdu or 9flats. However, this has recently attracted the attention of the Senate of Berlin. Owing to increasing rents and a shortage of accommodation in the city, a law banning the misappropriation of living spaces (Zweckentfremdungsverbotsgesetz) come into force in May 2014 and prohibits renting a rented apartment as a holiday apartment without permission.

## Beds on offer

Year	Establishments	Beds	Bed occupancy
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%
2013	791	134,740	55.0%
2014	794	137,099	57.0%
2015	780	139,997	59.3%
CAGR 2006–2015	3.3%	5.3%	1.8%

Source: Statistical Office for Berlin-Brandenburg

Note: Number of establishments/beds in all types of accommodation; from 2009 incl. camping ; from 2012 incl. establishments with at least ten beds

## Hotel market – chain hotels dominate the 4-star segment

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

### Rooms on offer

	*	**	***	****	*****	Total
Number of rooms in private hotels	807	1,244	4,532	5,166	789	12,538
Number of rooms in branded hotels	1,177	6,210	7,090	20,630	7,367	42,474
Total number of rooms	1,984	7,454	11,622	25,796	8,156	55,012

Sources: Berlin Hotel Guide 2015, Deloitte analysis

These figures relate to establishments in the hotel or B&B categories, as documented in the Berlin Hotel Guide and from data collected by Deloitte. Pensions, guest houses and inns have not been included. Those hotels that are 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 such as HRS, Trivago, Booking or Expedia and, in some cases, our own rankings.

According to this evaluation, the number of rooms across all categories in Berlin amounted to 55,012 in 2015. Around 77% of all rooms available are provided by hotel chains, whereas the remaining 23% are provided by private hotels. The 4-star segment with a total of 25,796 rooms has by far the highest volume of rooms.

According to our Deloitte rankings, AccorHotels with its diverse brand ranging from 1- to 5-star establishments is undisputed market leader in Berlin. The French group has the largest share of all branded rooms available in the city, namely 13%. InterContinental ranks second, followed by Grand City, Motel One and Carlson Rezidor. Steigenberger, Novum and A&O are starting to catch up and have all secured places in the top 10. Steigenberger realized its Hotel am Kanzleramt (339 rooms) and A&O opened its fourth hostel (220 rooms). Novum expanded its portfolio with four establishments in the capital by taking over the Winters Hotel Company.

### Ranking

Hotel company	Share of branded rooms
AccorHotels	13%
InterContinental	7%
Grand City	6%
Motel One	6%
Carlson Rezidor	5%
NH Hoteles	4%
Steigenberger	4%
Novum	3%
A&O	3%
Leonardo	3%

Source: Deloitte analysis

# Hotel performance – positive development in all segments

## Hotel performance – a noticeable increase in RevPAR compared to last year

The STR Global and Fairmas benchmark figures for 2015 show that all performance indicators have developed positively in comparison to the previous year. The reasons for this include continually increasing demand, the mix of business and leisure guests combined with trade fair and congress visitors as well as increasing numbers of medical tourists. At present, there has been particularly positive development in 2015 owing to the rate of increase in RevPAR.

The upscale and luxury hotels experienced the largest increases in rates which in combination with increases in occupancy rates led to the best increase in RevPAR. These hotels are among the biggest winners of 2015 with RevPAR increases of 9.5% and 8.9% respectively.

The budget segment followed by the upscale segment achieved the largest increases in occupancy. Only the midscale segment remained behind the increases in RevPAR of all hotels in Berlin.

The largest RevPAR increases were recorded in June. Hotels profited from the UEFA Champions League Final being hosted in Berlin for the first time as well as a state visit from the British monarch. In 2015, Berlin demonstrated that the regular cycle of leading trade fairs does not have to be a catastrophe for the hotel industry. For example, the Innotrans, which occurs every two years and regularly ensures good rates in the city, did not take place. The capital was however able to increase its revenue from a multitude of small events due to generally higher prices. It remains to be seen whether 2016, a strong trade fair year, can achieve similar growth.

## Performance

Category	Occupancy		Average daily rate		Revenue per available room	
	2015	Change YOY	2015	Change YOY	2015	Change YOY
2- to 3-star hotels	75.8%	+3.4%	€69.34	+4.5%	€52.53	+8.1%
3- to 3s-star hotels	75.4%	+2.5%	€71.14	+4.1%	€53.63	+6.7%
4-star hotels	76.5%	+2.8%	€89.31	+6.5%	€68.32	+9.5%
5-star hotels	77.3%	+2.6%	€100.43	+6.1%	€77.68	+8.9%
<b>All hotels</b>	<b>76.4%</b>	<b>+3.2%</b>	<b>€93.86</b>	<b>+4.1%</b>	<b>€71.72</b>	<b>+7.7%</b>

Source: STR Global/Fairmas, selected competitive sets



# Hotel projects – everyone wants to visit Berlin

## Hotel projects in the pipeline – the budget segment continues to be a significant trend

It goes without saying that every year numerous new hotels expand the supply in Berlin. In the medium term, this will not change. In particular, the budget sector is booming. After only a few hotels opened in 2015, the supply in this area will increase considerably in the next few years. The hotel chain Marriott is about to open its second hotel from the Moxy budget chain. Motel One is planning two establishments in the city. One of these, the project at Alexanderplatz with more than 700 rooms, is presently the largest establishment planned in the Design hotel brand. Toyoko Inn, a Japanese economy brand, is also planning to gain a foothold in Berlin.

In addition to established brands, new concepts are set also make their debut in Berlin in the future. These include the second German establishment from Capri by Fraser as well as the German premiere of the Hard Rock Hotel. By 2020, the Estrel Tower, which will expand the existing building, will create the tallest hotel in Germany and become an architectural highlight in the capital.

In addition to the projects mentioned below, there are many more that still need to be specified in concrete terms.

## Hotel projects

Project	Operator	Location	No. of rooms	No. of stars	Opening
Moxy Berlin Ostbahnhof	Nordic Hospitality	Holzmarktstrasse/Andreasstrasse	204	2	April 2016
IBB Blue Hotel Berlin Airport	IBB Hotels Germany	Groß-Berliner Damm	84	3	May 2016
Amano Home Apartmenthaus	Amano Group	Rosa-Luxemburg-Platz	34	3–4	Spring 2016
Provocateur Berlin	Gekko Group	Brandenburgische Strasse	59	4	June 2016
Meininger Hotel Berlin East Side Gallery	Meininger Hotels	Mühlenstrasse	206	2	Autumn 2016
Mercure Hotel Berlin Wittenbergplatz	AccorHotels	Wittenbergplatz	183	4	November 2016
Holiday Inn Express Berlin Alexanderplatz	UMG	Klosterstrasse	184	3	Late 2016
B&B Hotel Berlin Tiergarten	B&B Hotels	Englische Strasse	185	2	2016
Capri by Fraser	Fraser's Hospitality Group	Petriplatz	144	4	Early 2017
Amano Hotel	Amano Group	Friedrichstrasse	100	3	Spring 2017
Hampton by Hilton Berlin Alexanderplatz	Primestar Hospitality	Otto-Braun-Strasse	344	3	Spring 2017
Motel One Upper West	Motel One	Kantstrasse	582	2	Summer 2017
Hampton by Hilton City East	Tristar Hotel GmbH	Mercedes Platz/Mühlenstrasse	254	3	Autumn 2017
Indigo Berlin-East Side Gallery	Tristar Hotel GmbH	Mercedes Platz/Mühlenstrasse	119	4	Autumn 2017
Motel One Alexanderplatz	Motel One	Grunerstrasse	708	2	Autumn 2017
Steigenberger Airport Hotel	Steigenberger	Willy-Brandt-Platz	322	4	Autumn 2017
Volt Berlin	Lindner Hotels & Resorts	Voltairestrasse	165	3–4	Late 2017
Barceló	Barceló Hotels & Resorts	Hauptbahnhof	272	4	2018
Toyoko Inn	Toyoko Inn	Alexanderplatz	500	3	2018
Estrel Hotel Berlin (Expansion)	Private	Sonnenallee	814	4	Late 2020
Hard Rock Hotel	Hard Rock Hotels	Friedrichstrasse	372	n.d.	2020

The Berlin market has significantly contributed to the record years of hotel transactions in Germany over the last few years and the German capital has proved to be a popular investment location. Institutional investors as well as private individuals have shown their interest in the Berlin transaction market. For example, a joint venture between Amundi Real Estate and the investment arm of Electricité de France (EDF Invest) acquired the Steigenberger Hotel am Kanzleramt Berlin. Other acquisitions include a private investor in Berlin purchasing the Ramada Hotel Berlin Mitte, Foncière des Murs the Motel One Berlin-Mitte and Union Investment acquiring andel's and Meliá Berlin.

Even before construction was complete, the two hotel projects at Alexanderplatz were in great demand. The Holiday Inn Express Berlin Alexanderplatz and the Hampton by Hilton Alexanderplatz were both acquired by Union Investment during the project stage. In addition, further establishments in the capital were sold as part of several portfolio transactions.

We will stay informed about any new developments and will be devoting our next newsletter in the third quarter 2016 to the hotel market in Frankfurt – don't miss it!



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