

Munich – Economic environment

Growth at all levels

Munich epitomizes economic power, quality of life and tolerance. In contrast to other German cities, the state capital of Bavaria has profited from population growth, positive net migration and increasing numbers of new students. The diverse range of industries, the numerous research institutes as well as the prestigious universities create an excellent breeding ground for young and upcoming companies and also ensure the growth of global players and medium-sized enterprises based in Munich. As one of the leading economic locations in Europe, Munich has enjoyed one of the lowest rates of unemployment and the highest levels of disposable income in Germany for many years. This has led to a constant influx of international professionals who make a significant contribution to the cosmopolitan character of the city. Munich has residents from 180 different countries and the highest proportion of non-nationals in all of Germany (24.6%). As such, it is a city open to the world as recently demonstrated by Munich residents who not only warmly welcomed thousands of refugees at the central station, but also undertook voluntary work and donated money and goods.

The economic strengths of the city together with its high quality of living, leisure and recreation help make Munich one of the most attractive property markets in Europe. Demand, particularly for core properties, far exceeds supply. This has led to increasing prices and diminishing prime yields for buyers on the one hand and significant capital growth and possibilities to streamline portfolios for sellers on the other hand. This was seen in the numerous transactions that took place – with Le Méridien Hotel being the most high profile of these.

Tourism in Munich is booming mainly because of the numerous cultural and leisure opportunities on offer as well as the charming countryside in which the city is located. MICE visitors also value the city's excellent infrastructure and Munich is regularly ranked as one of the most popular German cities for conventions and events. Last but not least, one of the world's leading trade fair companies Messe München generates significant demand and helps drive economic growth by hosting around 40 trade fairs.

Overview

Munich	
Population (July 2015)	1,505,589
Area (km ²)	310.7
Unemployment rate (% , August 2015)	4.6
Purchasing power (€ per capita, 2014)	29,085

Sources: German Federal Employment Office, GfK, Munich Office of Statistics



Infrastructure – Managing growth

Munich Airport – planned increase in capacity

Munich Airport with passenger figures of 39.7 million (2014) is one of the ten busiest passenger airports in Europe and thus an important aviation hub. The 'World Airport Awards' 2015 voted this airport as the best airport in Europe and ranked it third in the world behind Singapore Changi Airport and Incheon International Airport in South Korea. Indeed, Franz Josef Strauß Airport is a decisive locational factor for companies based in the metropolitan area of Munich. A new satellite terminal is due to open in April 2016 and will have 27 adjacent aircraft park positions. This will create additional capacity for 11 million passengers and allow passengers to board flights directly from the terminal. An underground personal transport system will take passengers from terminal 2 to the new terminal. The debate about building a third runway is still ongoing – despite the decision of the German Federal Administrative Court in Leipzig that legally paved the way for it.

MVV – cycle-friendly and focussed on the future

Public transport in Munich also is highly rated. According to a study by Simon Kucher & Partners (2014), it is ranked first in Germany and seventh in comparison with 21 major cities around the world. From October 2015, the Munich Transport Corporation (MVG) will be expanding its range of services with a bicycle sharing scheme, MVG Rad, thus supporting Munich's campaign to become the nation's capital city for cycling.

The construction of a second trunk line is another environment-friendly infrastructure project to meet the increasing transport demands in the city. The first invitations to tender for the main construction project are scheduled for later this year and form the foundation for determining the project's total cost and deciding its final realization. However, it is expected that this second trunk route will not be operational until 2022.

There are also plans to construct a new station building at Munich central station and transform the Starnberg Wing Station into a landmark that is up to 75m high. The renovation of the train shed is already underway, whereas the construction on other sections will begin depending on how the project for Munich's second trunk line progresses.

Visitor attractions – preservation and modernization

Two further major projects have been the subject of great controversy. The Olympic Stadium which was built for the Olympic Games in 1972 is to be renovated for around 76 million euros so that it can still be used for major sporting and cultural events in the future. The first phase of construction is due to be completed in October 2015.

However, the renovation of the cultural and educational center at Gasteig will be significantly more expensive. From 2020, up to 550 million euros are to be spent in order to ensure that this building is fit for the future.

Tourism demand – Growth for the last 12 years

Continuous demand, although less dynamic

Since 2003, Munich has smashed record after record, although this trend now seems to be slowing down. In 2010 – in the aftermath of the financial and economic crisis – double digit rates of growth were recorded for arrivals and overnight stays. In 2014, this was 4.6% and 4.3% in comparison to the previous year, which is below the 10-year CAGR of 5.4% in each case.

Around 3.2 million arrivals were recorded in the Bavarian capital in the first half of 2015, which is about 0.2 million more than in 2014. In the case of overnight stays, it was possible to generate a surplus of 0.3 million in comparison to the previous year, although not all months contributed towards this result. The average length of stay remained consistently 2.0 days.

Simply Munich

The tourist strategy which Munich implemented a year ago aims to position the city in the long term as the European metropolis for cultural enjoyment and enjoyable culture which is both innovative and steeped in tradition. In this regard, visitors are to be given an opportunity to take part in the real authentic life of the city. The 'simply Munich' strategy was conceptualized this summer and the new corporate design has been consistently implemented and publicized around the world by München Tourismus/TIM.

Demand

Year	Arrivals	Overnight stays	Length of stay
	(thou.)	(thou.)	days
2005	4,122	8,356	2.0
2006	4,371	8,859	2.0
2007	4,702	9,533	2.0
2008	4,830	9,847	2.0
2009	4,984	9,909	2.0
2010	5,573	11,096	2.0
2011	5,931	11,738	2.0
2012	6,133	12,366	2.0
2013	6,303	12,895	2.0
2014	6,594	13,448	2.0
H1 2015	3,153	6,322	2.0
CAGR 2005-2014	5.4%	5.4%	2.0

Source: Bavarian State Office for Statistics

Note: Arrivals/overnight stays in all types of accommodation incl. camping

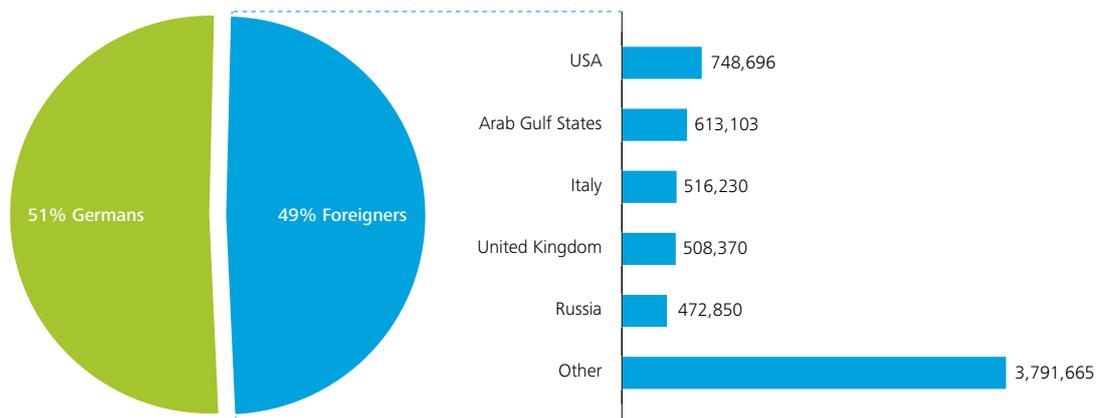
And the world is warmly welcome in Munich – not just when celebrating the Oktoberfest festival. This was proven by the international year-round volume of overnight stays (49%) as well as the higher growth rates from abroad compared to Germany – all of which positively affected average room rates and length of stay.

Traditionally, the USA represents the strongest source market. The Arab Gulf States have pushed Italy from second place and their demand has expanded into a high double-digit percentage range since 2011.

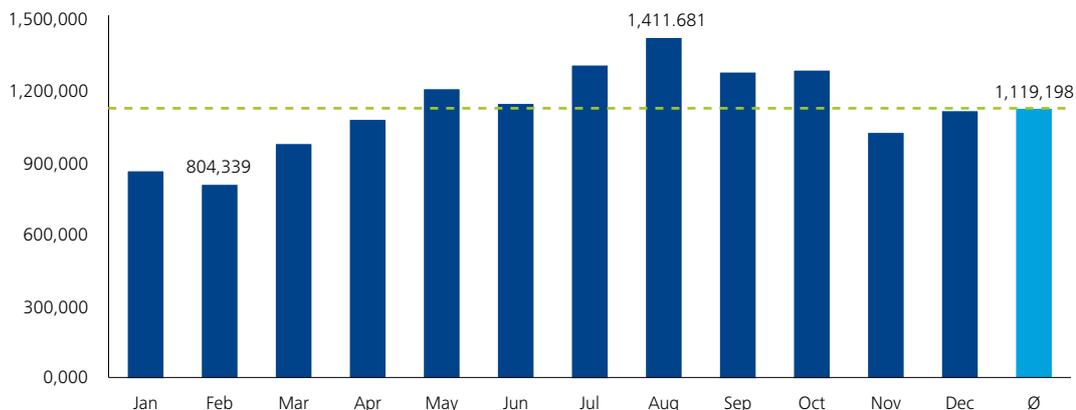
The next three countries have been the same for many years, however, their ranking varies depending on changing macro-economic and political circumstances.

Although Munich is a city that appeals to visitors throughout the year, the highest demand is recorded from May to October because these months are particularly attractive for business and leisure visitors. It is also worth noting that these two target groups are more or less balanced.

Visitor's origins



Seasonality



Source: Bavarian State Office for Statistics

Note: Overnight stays in all types of accommodation in 2014

Tourism Supply – More beds, higher occupancy rates

An increase of around 20,000 beds since 2005

The number of establishments and beds in Munich's accommodation market increased continuously until 2012. In this regard, the growth in the number of beds was significantly more dynamic than that of establishments – although this did not negatively affect bed occupancy. With an average growth rate of 3.9%, the expansion of supply lags behind the increase in overnight stays so that the market has been able to absorb the newly created capacity. A wide variety of hotels opened in all star categories this year. There was a balanced mix of new developments, redevelopments and rebrandings.

Examples of new developments include hotels in the economy segment such as LetoMotel Munich City, ibis Munich City East, Star Inn Hotel Premium, Harry's Home Hotel Munich Moosach, aloft Hotel Munich or ibis Munich City Arnulfpark and the neighbouring Novotel. Vi Vadi Hotel Bayer 89 is a good example of a redevelopment and H'Otello B'01 has undergone a total renovation. Leonardo secured two new establishments with the hotels Mayerhof and Best Western Aparthotel, while the Comfort Hotel Munich East now operates under the name Mercure Hotel Muenchen Ost Messe.

Beds on offer

Year	Establishments	Beds	Bed occupancy
2005	351	43,083	53.8%
2006	357	44,690	52.5%
2007	357	45,653	57.4%
2008	367	48,667	57.9%
2009	380	51,888	49.8%
2010	396	54,277	58.6%
2011	396	57,550	57.9%
2012	395	57,223	62.3%
2013	398	58,975	63.3%
2014	396	60,630	61.7%
H1 2015	401	63,542	62.6%
CAGR 2005-2014	1.3%	3.9%	1.5%

Source: Bavarian State Office for Statistics

Note: Number of establishments/beds in all types of accommodation incl. camping, as of June each year

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

Rooms on offer

	*	**	***	****	*****	Total
Number of rooms in private hotels	0	915	6,667	3,304	573	11,459
Number of rooms in branded hotels	253	3,444	4,760	11,657	1,901	22,015
Total number of rooms	253	4,359	11,427	14,961	2,474	33,474

Sources: Munich Hotel Guide 2015, Deloitte analysis

These figures relate to accommodations in the hotel or B&B categories, as documented in the Munich 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 like HRS, Trivago or Expedia as well as, in some cases, our own rankings.

The number of rooms in the Bavarian capital across all star categories amounts to 33,474. Hotel chains account for 66% of these rooms, whilst the private hotels make up the remaining 34%. The 3- and 4-star segments have the highest volume of rooms and together they account for nearly 80% of the total number of rooms.

According to Deloitte rankings, Accor has managed to increase its leading market position and accounts for 20% of all branded rooms available in Munich. Starwood, which recently celebrated its opening of aloft, is ranked second. Leonardo ranked third owing to its acquisition of two hotels this year, just ahead of Motel One.

Ranking

Hotel company	Share of branded rooms
AccorHotels	20%
Starwood	8%
Leonardo	6%
Motel One	6%
Hilton	4%
Marriott	4%
InterContinental	4%
Derag	4%
NH Hoteles	3%
Meliá	2%

Source: Deloitte analysis

Hotel performance – positive development

Increases above the national average

According to STR Global benchmark figures, all hotel segments were able to increase their year-on-year performance in the first half of 2015. Mid-scale hotels experienced the highest level of growth in occupancy. When combined with price increases, this led to the best RevPAR percent change. The 4-star hotels were able to implement the largest increases in rates, followed by the luxury segment, which lagged behind the RevPAR increases of other hotels in Munich – despite recording the highest occupancy figures.

In addition to tourism, trade fairs and events particularly contributed to the positive developments in the first half of 2015. January began strongly because of the leading

trade fair BAU, which takes place every two years and stimulated average net room rates. This was surpassed in February due to ISPO, f.r.e.e., the Internationale Handwerkmesse and Garten München as well as the Munich Security Conference. While March and April were up on the previous year, a weak May exhibited a RevPAR decrease of 5.0% owing to the absence of IFAT. The luxury segment profited from the G7 summit in June, while Intersolar, ees Europe and LASER World of PHOTONICS also helped ensure that beds were occupied. Following the end of Ramadan, July and August welcomed high numbers of Arabic visitors again, before Munich once more stepped onto the international stage because of the Oktoberfest festival.

Performance

Category	Occupancy		Average daily rate		Revenue per available room	
	H1 2015	Change YOY	H1 2015	Change YOY	H1 2015	Change YOY
2/3- star hotels	74.2%	+3.0%	€84.15	+5.3%	€62.43	+8.4%
3/3s-star hotels	71.7%	+4.1%	€88.64	+5.5%	€63.52	+9.9%
4-star hotels	74.2%	+1.8%	€100.65	+6.1%	€74.66	+8.1%
5-star hotels	75.1%	+1.5%	€178.21	+5.9%	€133.90	+7.5%
All hotels	75.0%	+2.4%	€120.90	+5.5%	€90.71	+8.0%

Source: STR Global, selected competitive sets



Hotel projects – everyone wants a project in Munich

Enhancing growth through the franchise partners of international brands

The development pipeline is currently full to bursting. A lot of different products and new brands have come onto the market and will further enhance the hotel landscape in Munich. Many hotels are planning renova-

tions or expansions so that they can remain competitive in the future. Redevelopments are also expected – for example, to convert offices that no longer meet demand – into hotels. 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
nordic pure hotel Munich	nordic hotels	Zamdorfer Strasse	192	3	Late 2015
Buddy Hotel	Johannes Eckelmann	Sonnenstrasse	75	1	Late 2015
Cocoon Hotel	Johannes Eckelmann	Mittererstrasse	103	3	Late 2015
Bold Hotel Munich Centre	Bold Hotels	Lindwurmstrasse	142	2	Early 2016
Moxy Hotel Munich Airport	Nordic Hospitality	Eichenstrasse (Schwaig)	252	3	Early 2016
Super8 Munich City Centre	GS Star	Landsberger Strasse	168	2	Spring 2016
Motel One Munich – Olympia Gate	Motel One	Petra-Kelly-Strasse	189	2	Spring 2016
Super8 Munich City	GS Star	Frankfurter Ring	205	2	Autumn 2016
25 hours Hotel The Royal Bavarian	25 hours	Bahnhofplatz	175	4	Autumn 2016
Leonardo Hotel	Leonardo Hotels	Hofmannstrasse	159	3s	Late 2016
Ameron Hotel Munich-Freimann	Althoff	former locomotive shed 24 (Freimann)	149	4	Late 2016
Sir Xam Munich	GCH Hotels	Landsberger Strasse	77	4	2016
Wyndham Grand Hotel	GCH Hotels	Landsberger Strasse	216	4	2016
Leonardo Hotel	Leonardo Hotels	Hofmannstrasse	220	4	Early 2017
Courtyard by Marriott Munich-Garching	Bierwirth & Kluth	Forschungszentrum (Garching)	253	4	Early 2017
Hilton Munich Airport (Expansion)	Hilton	Terminalstrasse	162	5	Early 2017
Apartmenthotel Galileo Munich-Garching	Bierwirth & Kluth	Forschungszentrum (Garching)	170	2	Spring 2017
Hampton by Hilton	Foremost Hospitality	Landsberger Strasse	235	3	Summer 2017
Hilton Garden Inn	Foremost Hospitality	Landsberger Strasse	125	4	Summer 2017
Andaz Munich	Hyatt	Leopoldstrasse	274	5	Summer 2017
Ramada Hotel Bogenhauser Tor	Hospitality Alliance	Vogelweideplatz	344	4	Summer 2017

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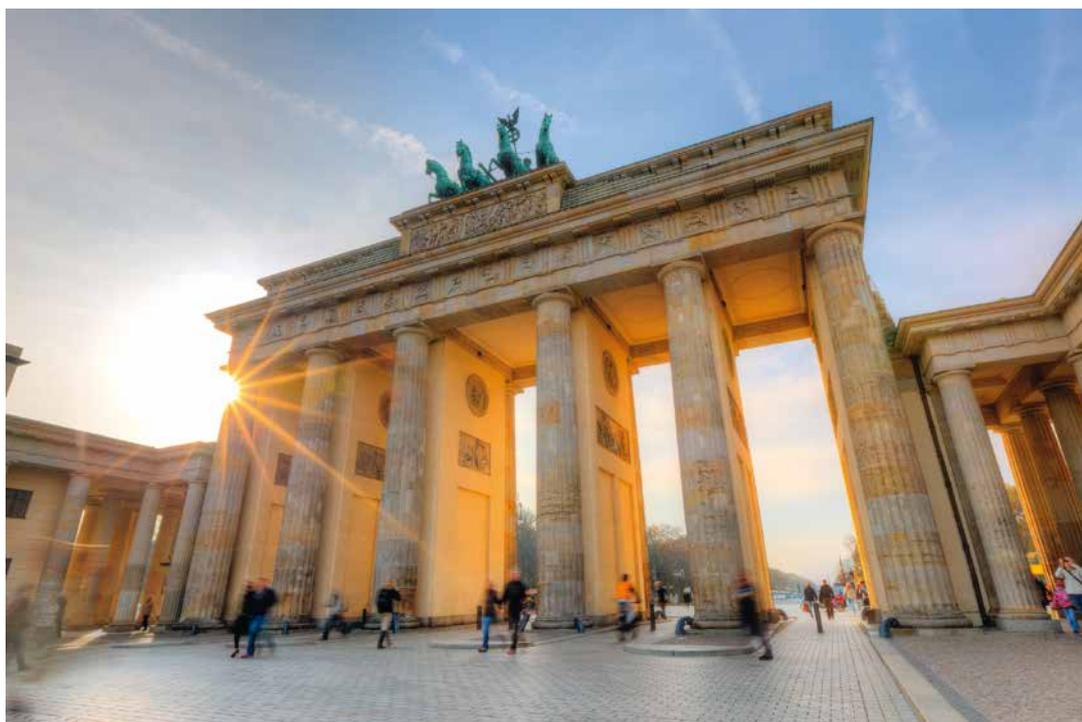
Hotel projects (continued)

Project	Operator	Location	No. of rooms	No. of stars	Opening
Angelo Hotel (Expansion of Rooms)	VIENNA INTERNATIONAL Hotel- management AG	Leuchtenbergring	131	4	Late 2017
Leonardo Hotel	Leonardo Hotels	Carl-Wery-Strasse	220	3s	Late 2017
Courtyard by Marriott Oberpfaffenhofen	Bierwirth & Kluth	Friedrichshafener Strasse (Oberpfaffenhofen)	150	4	Late 2017
Meininger Hotel Munich Olympiapark	Meininger	Landshuter Allee	173	2	Late 2017
Holiday Inn Express Munich City-West	Success Group	Birketweg	302	3	2017
Neubau Cosmopolitan Hotel	Geisel Privathotels	Hohenzollernstrasse	95	3	2017
Adina Apartment Hotel	Adina	Werksviertel	200	4	2017
Steigenberger Hotel	Steigenberger	Berliner Strasse	292	4	2017
Motel One Parkstadt Schwabing	Motel One	Anni-Albers-Strasse	434	2	2017
Dolce Munich Unterschleißheim (Expansion)	Conference Center & Hotel Munich Unterschleißheim	Andreas-Danzer-Weg (Unterschleissheim)	200	4	2017
Moxy München	SV Group	Werksviertel	150	4	2019
Residence Inn by Marriott	SV Group	Werksviertel	72	4	2019
New construction of Königshof	Geisel Privathotels	Karlsplatz	95	5	2019/2020
Hotel project Bayerische Hausbau	n.d.	Kardinal-Faulhaber-Strasse	120	5	2020
Mandarin Oriental (Expansion)	Mandarin Oriental	Hildegardstrasse	51	5	2022

Source: Deloitte Research

Munich proved to be a strong location for investment in the first half of 2015. The sale of Le Méridien at Munich's central station to Deka Immobilien GmbH for 158 million euros was one of the largest individual hotel transactions in Germany ever. Other institutional investors were also active such as Patrizia who secured the first Super 8 hotel development in Germany and Union Investment who acquired the project Holiday Inn Express Munich City-West.

Our next hotel market newsletter will be published in March 2016 and focusses on the German capital which will host the IHIF and ITB once again.



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