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AFTER THE STORM: GERMANY IN THE SPOTLIGHT

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Data provided by  Fairmas



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In time for the Expo Real in Munich, HVS has prepared a comprehensive hotel performance analysis of a number of German cities between 2008 and year-to-date 2011. This article compares the most important primary and secondary hotel markets in Germany.

For each city we have prepared a graph showing the recent hotel performance and forecast growth until 2014. The historical performance data were contributed by Fairmas Germany, a strategic partner of STR Global. Furthermore, HVS has forecast occupancy, average rate and revenue per available room ('RevPAR') from 2011 to 2014 for each market. HVS projections result from expected supply and demand dynamics, incorporating underlying economic fundamentals and specific trends in the commercial, MICE (meeting, incentive, conference and exhibition) and leisure segments for each market.

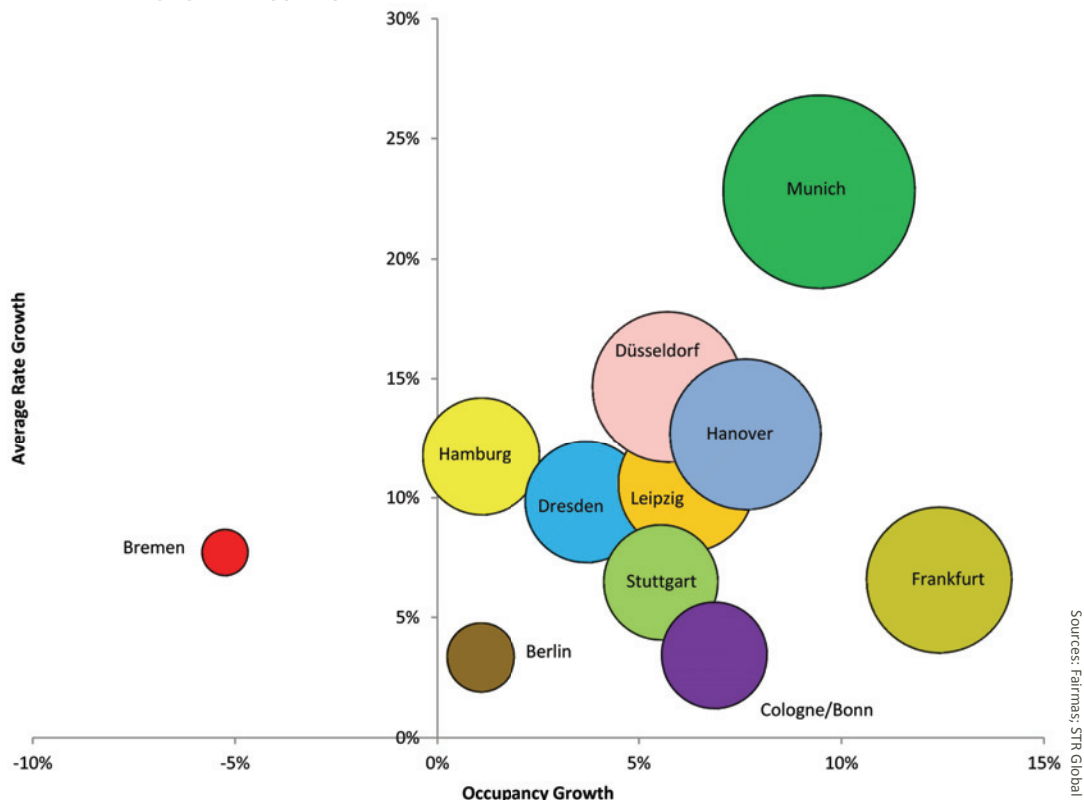
Two markets, Leipzig and Cologne/Bonn, have been selected to incorporate the results of Fairmas' Trendbarometer. The Trendbarometer is an opinion poll amongst hoteliers and general managers in the market and aggregates their personal opinion on how the hotel market will perform in the next quarter.

Setting the Scene

The German hotel market has always differed from other markets in Europe, such as France and the UK, since room rates are relatively low in comparison. Unlike many countries, which began to feel the effects of the economic downturn by the end of 2008, the German hotel market showed a 2% increase in the number of overnight stays by domestic and international visitors. It was not until the first few months of 2009 that Germany began to feel the impact of the downturn on tourism, led by a fall in corporate travel as well as a decrease in trade fair business. While leisure demand from foreign source markets suffered from decreasing consumer confidence, domestic tourism remained relatively strong. Therefore, cities that predominantly rely on the commercial segments – such as Frankfurt, Stuttgart, and Düsseldorf – saw huge declines in occupancy.

However, in 2010, the German market showed signs of brisk recovery and proved to be a star performer in terms of RevPAR growth (see Chart 1). The country's strong manufacturing industry and continued demand for exports

CHART 1: REVPAR GROWTH 2009-10



Note: the size of each circle reflects that city's RevPAR growth

helped Germany's economy and hotel sector to recover faster than those of other European cities. Also, the return of trade fair/exhibition and convention visitors has helped to boost occupancy rates in many German markets, albeit those events are of a cyclical nature.

This recovery was also boosted by a decrease in VAT from 19% to 7% for overnight stays in hotels, which was implemented in January 2010. In most cases, the hotels did not transfer this decrease in VAT to guests but used it to increase investment in hotels, leading to high levels of renovation during the downturn, with the hopes of creating a competitive advantage as the economy recovered.

In 2011, a new hotel tax called 'Bettensteuer' was introduced in some cities in Germany, with hotels paying a tax of 5% on room rate. This tax, labelled a cultural tax, intends to maintain the diversity and quality of the cities' cultural activities. The tax has already been implemented in mostly secondary or tertiary cities: Bingen, Trier, Cologne, Duisburg, Dortmund, Eisenach, Darmstadt, Erfurt, Gera, Suhl, Jena, Weimar, Osnabrueck and Goettingen, and Oldenburg and Bremen will join in 2012. The 'Bettensteuer' has been quite a controversial topic these past few months, since many are debating if passing the tax onto guests will result in losing customers to cities close by who have not yet or will not implement the tax.

Overview of Hotel Market Performance by City



Berlin

Berlin is one of the most popular city destinations in Europe. Since the re-unification, Berlin has developed into a vibrant, modern city with most of the German government and institutions based there. However, Berlin still lacks the economic power generated by large corporations, and even though they have subsidiaries in Berlin the major companies' headquarters are usually located elsewhere.

Most of Berlin's demand for transient accommodation is therefore driven by leisure travel, since the city is home to numerous cultural sites with trendy and creative dining options making it the ideal place for a short city break or a longer holiday. The majority of visitors (around 60%) are domestic, but other major source markets include the UK (10% of all foreign arrivals), Italy (10%) and the Netherlands (8%).

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Berlin saw a lower decrease in average rate than its European counterparts, mainly due to lower base levels

Despite lacking large company headquarters, Berlin has managed to position itself among the top five conference and congress destinations in the world according to the ICCA city ranking (2010).

The hotel market in Berlin is characterised by three- and four-star hotels (which make up more than 70% of supply), with around 12% of all rooms falling into the five-star category.

Throughout the downturn, Berlin was able to maintain a relatively stable occupancy of around 70%, whereas average rate fell by as much as 7.5% in 2009, leading to an overall RevPAR drop of 8.7% to €60.

However, Berlin has always been very competitive in regards to average rate and therefore has been able to maintain its performance levels better than some of its European counterparts. Out of some of the top-performing hotel markets, Berlin saw the smallest drop in rate in 2009 (see Chart 2).

CHART 2: PERCENTAGE CHANGE IN AVERAGE RATE 2008-09 (IN LOCAL CURRENCIES)



In 2010, the Berlin hotel market was able to recover both occupancy and average rate, leading to a RevPAR increase of 4.5%. This was due to important events, such as the six-day Berlin Air Show, which attracted 1,153 exhibitors and more than 250,000 visitors. Almost at the same time, the LinuxTag conference was held, attracting about 12,000 visitors.

Year-to-June 2011 data suggest that 2011 will not be able to match the strong year-end results of 2010. This can be attributed to the large increase in hotel room supply. Berlin saw the addition of almost a dozen hotels between February 2010 and February 2011. By the end of 2011, at least ten new hotels will have opened their doors, bringing an additional 2,600 rooms into the market. The new Motel One Berlin Hauptbahnhof alone will add 505 rooms. Supply growth will continue into 2012, although the pace will slow down. By the end of 2012, 870 additional rooms are predicted to have entered the market.

Owing to the continued growth in supply, especially in the economic and budget sectors, HVS expects occupancy to suffer in 2011 and 2012.

However, we consider that demand will be boosted at the end of 2012 with the opening of the new Berlin Brandenburg International Airport (BBI). We envisage the airport to greatly enhance the attractiveness of Berlin as a business destination, especially for foreign companies and therefore we foresee stronger growth in occupancy and average rate in 2013 and 2014.

CHART 3: OCCUPANCY, AVERAGE RATE AND REVPAR – BERLIN 2008-14

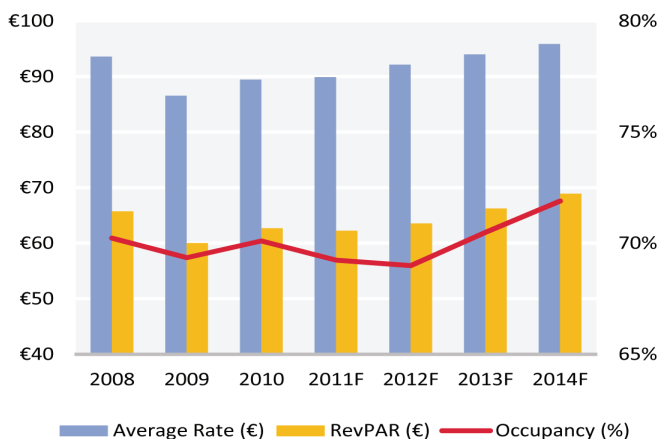
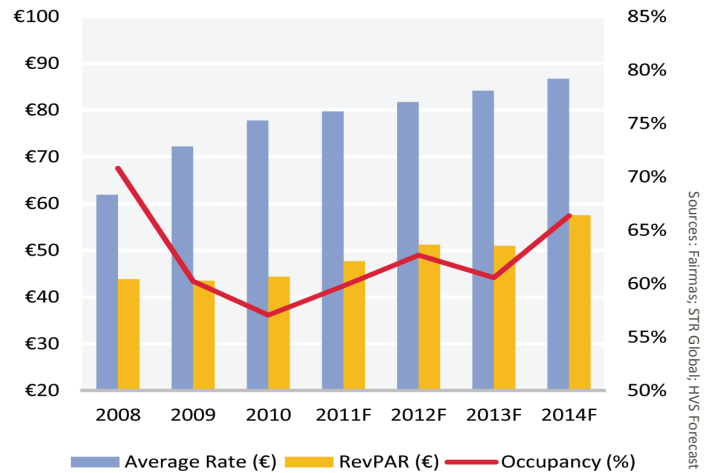


CHART 4: OCCUPANCY, AVERAGE RATE AND REVPAR – BREMEN 2008-14



Bremen

Bremen, a Hanseatic city-state, is a port city and is the 10th most populous city in Germany. Technology, logistics and service branches have an increasing influence on Bremen's economy. The city has long been important for the car industry, with the second-largest car manufacturing plant in Europe. Companies such as Daimler have factories in the city. Bremen is also known as the 'City of Science', with expertise in aerodynamics and lightweight construction. Additionally, the city is home to many globally recognised food and beverage companies such as Kraft Foods Inc., Kellogg's, and Beck GmbH & Co., benefiting from the city's proximity to the port of Bremerhaven.

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Bremen saw the smallest change in RevPAR from 2008 to 2010 out of the German cities surveyed

In contrast to other German markets, Bremen experienced a RevPAR decline of only 0.8% to €43.50 in 2009, which was the smallest out of the 11 markets. While occupancy fell by 11%, this was offset by a 17% increase in average rate. In 2010, RevPAR grew by 2% to €44.

Even though the first few months of 2011 showed positive growth, with a RevPAR increase of 5.4%, the next few years will bring mixed results for Bremen. Bremen will be negatively impacted by the reduction of Ryanair flights to the city due to a new aviation tax introduced this year.

Despite decreased projections in demand, new hotels are still entering the market. A four-star Courtyard by Marriott with 155 rooms and large conference facilities opened in 2010. In 2013, a new 110-room Cityresort will open close to the university and a Steigenberger Hotel is also in the pipeline.

HVS expects occupancy to return to pre-downturn levels within the next three years. Owing to supply increases and a mixed outlook for demand, 2013 will see a slight drop in occupancy but will recover as the new supply is absorbed by the market. There is further potential in converting day guests to overnight guests. Currently, 51% of the visitors to Bremen are day visitors.

Cologne/Bonn

Cologne is the fourth-largest city in Germany, with a population of just over one million, and it is an important centre for trade, science and the economy in Germany. Just 25 km from Cologne lies Bonn, the previous capital before re-unification and a vibrant university city, a cultural centre and still home to a number of government authorities, and the future headquarters for several United Nations organisations.

Cologne has one of the best transportation systems in Germany with more than 1,300 trains entering or leaving the station every day. The Cologne-Bonn international airport has become the German hub for budget airlines and air freight, and the harbour is the second largest inland port in Germany.

In line with most German markets, 2009 had a negative impact on air traffic, with total passenger movements at Cologne-Bonn Airport dropping by almost 6% to 9.7 million. In 2010, as the economy started up again, the stage was set for growth, with passenger movements increasing to 9.9 million. However, growth was suppressed in 2011 as a new federal tax on air traffic was implemented.

Overnight stays in Cologne and Bonn decreased by a combined 4.2% in 2009 to almost 5.3 million. Cologne generates almost four times as many overnight stays as Bonn. In 2009, Cologne suffered a 12% decrease in foreign visitor bednights, whereas Bonn was impacted equally by a drop in foreign and domestic overnight stays. In 2010, Cologne saw an 11% increase in overnight stays to 4.6 million. Bonn saw a more gentle recovery of only 5% to 1.2 million. For both cities, around 30% of the demand is driven by convention and trade fair guests, with another 30% by corporate visitors.

RevPAR in Bonn and Cologne decreased by almost 10% in 2009, mainly driven by a fall in rate. In 2010, both markets saw an increase in RevPAR of more than 10%. However, the *Bettensteuer* was recently implemented in Cologne. This could make the city less competitive for the MICE market in the future, especially since Düsseldorf voted against the implementation of a new tax. However, despite the tax, RevPAR has grown by more than 9% so far in 2011.

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Cologne generates almost four times as many overnight stays as Bonn

HVS expects 2011 to end on a strong note, since the events and conference market has made a comeback. The Trendbarometer by Fairmas suggests 2011 will end 3% up on 2010. Owing to the new supply coming into the market at the end of 2011 and mid-2012, occupancy will decrease slightly but the new supply will be absorbed as demand continues to grow.

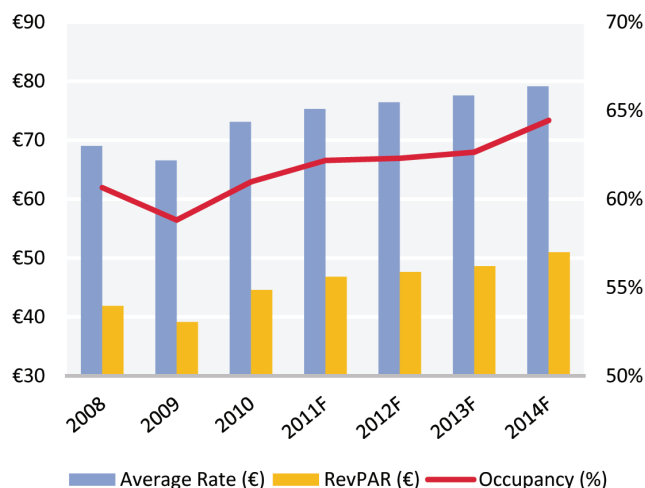
Dresden

Dresden, the capital city of the Federal State of Saxony, has around 500,000 inhabitants. Dresden is an important city for research, science, blue chip companies and education. It has eight universities with around 40,000 students. Dresden also has many historical and cultural sights and is a popular destination for music and art lovers.

Dresden mainly attracts leisure tourists, which make up around 65% of visitors, with the business and MICE segments making up the other 35%. Only 20% of visitors come from international destinations.

Dresden Airport only offers a limited number of international flights. However, many domestic flights to the big international airports of Frankfurt and Munich are in operation. The city is not well connected by the Deutsche Bahn rail service, so access overall is poorer than it is in many other German cities.

CHART 5: OCCUPANCY, AVERAGE RATE AND REVPAR – COLOGNE/BONN 2008-14



Sources: Fairmas, STR Global, HVS Forecast

Overnight stays have steadily increased since 2008 from 3.2 million to 3.5 million in 2010. The growth from 2009 to 2010 is mostly attributed to a 32% increase in overnight stays from international visitors, whereas domestic growth has remained at around 2%.

Dresden has limited capacity to hold conferences and does not offer large exhibition halls. However, Börse Dresden, a new conference centre, opened in May 2011 and is expected to help increase the number of congresses/events held in the city.

Unlike the other German cities surveyed, Dresden saw its biggest year-on-year drop in RevPAR in 2008 rather than in 2009. This was primarily due to a decrease in occupancy, which was heavily impacted by the problems experienced by blue chip companies; Qimonda closed down its operation and Infineon laid off a large number of employees. These developments dragged into 2009, leading to a further fall in RevPAR of 7%. By that time, the overall economy felt the pinch and consumer confidence declined rapidly. The hotels lowered rate in order to slow the fall in occupancy and to attract more leisure customers. The upscale hotels managed to drop their rates less than the midscale segment.

2010 brought a 14% increase in RevPAR as rate increased by almost 10% compared to 2009 and occupancy increased by 2.2%. 2011 has seen continued growth in RevPAR of 8.2% and is predicted to end well. The city hosted four of the FIFA Women's World Cup matches this summer, the Protestant Church Congress (which attracted around 120,000 visitors), and will be celebrating a few other cultural events before the year ends.

DRESDEN MAINLY ATTRACTS LEISURE TOURISTS OWING TO ITS BAROQUE HERITAGE AND ARCHITECTURE



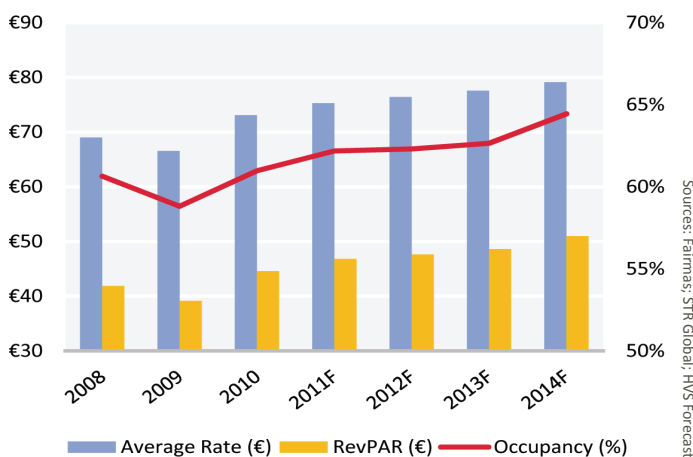
By the end of 2011, the Holiday Inn and Etap hotels will have opened their doors, bringing 440 rooms into the market. A 235-room Swissôtel will enter the already saturated luxury market in 2012 and Dresden will see the addition of a 288-room Motel One in 2013.

Potential future growth for Dresden lies in the business segment. The vast number of existing upscale hotels make it an attractive destination for business and MICE segments. By continuing to attract large companies to the area, improving the conference infrastructure and enhancing the transportation network, the city could attract an increasing number of higher-spending commercial visitors.

The outlook for Dresden in 2012 continues to be positive. Multiple cultural events are going to take place in 2012, which are expected to draw both leisure guests and academics to the city. With only a limited number of new hotel openings and demand continuing to rise, HVS expects occupancy to increase over the next three years.

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Unlike the other cities surveyed, Dresden saw its biggest RevPAR decline in 2008, rather than 2009, owing to the difficulties experienced by many blue chip companies

CHART 6: OCCUPANCY, AVERAGE RATE AND REVPAR – DRESDEN 2008-14



Düsseldorf

Düsseldorf is the capital of the federal state of North Rhine-Westphalia. The city is an important hub when it comes to advertising and communications and it holds many trade fairs and events related to these industries. Additionally, the city is home to around 5,000 branches of foreign companies as well as industry giants such as E.ON, Metro, ThyssenKrupp AG and Vodafone D2.

Owing to the presence of diverse national and international enterprises, the Düsseldorf market predominantly attracts business guests. The leisure segment makes up only 30% of visitor demand.

Trade fairs play a significant part in Düsseldorf, where the Messe Düsseldorf receives around 28,000 exhibitors a year and 1.4 million attendees. In 2010, 40 trade shows were held.

Overnight stays have taken a positive turn since they fell by 4% in 2009 to 3.2 million. This was solely due to a decrease in overnight stays by foreigners, which fell by 11.7% in 2010, while domestic overnight stays increased by 1%. Out of the selected cities in this article, Düsseldorf saw the steepest RevPAR decline from 2008 to 2009 of 29% to a meagre €54. This was due in part to 2008 being a particularly strong year since two of the largest trade fairs –

Interpack (which occurs every three years) and DRUPA (which occurs every four years) – took place. 2010, however, saw a strong recovery of 21% driven by rate growth of about 15%.

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Düsseldorf experienced a strong recovery in 2010, despite the large increase in new supply of more than 800 rooms that year

Year-to-June 2011 data show that the strong upwards trend that began in 2010 is continuing. RevPAR has grown by more than 25% compared to 2010, owing to a 17% growth in rate and an 8% increase in occupancy. Düsseldorf is benefiting from the return of the conference sector as well as an increase in leisure demand. The Eurovision Song Contest 2011, which was held in Düsseldorf in May, contributed to the increase in average rate.

The strong recovery in 2010 was achieved despite continuous increases in supply with the Hyatt Regency opening 303 guest rooms in Düsseldorf's Media Harbour, a major regeneration scheme. 2011 will see the opening of a 138-room Hampton by Hilton and a 170-room Derag Hotel, and two more hotels are currently in the pipeline for 2012 and 2013.

In the coming years, Düsseldorf will benefit from a new marketing campaign for its trade fair in close collaboration with Cologne. This will help to increase international awareness. Furthermore, the city will host the DRUPA conference again in 2012, which is predicted to attract thousands of visitors and exhibitors. Therefore, HVS projects growth until 2012, with only small fluctuations thereafter, especially since new supply is limited.

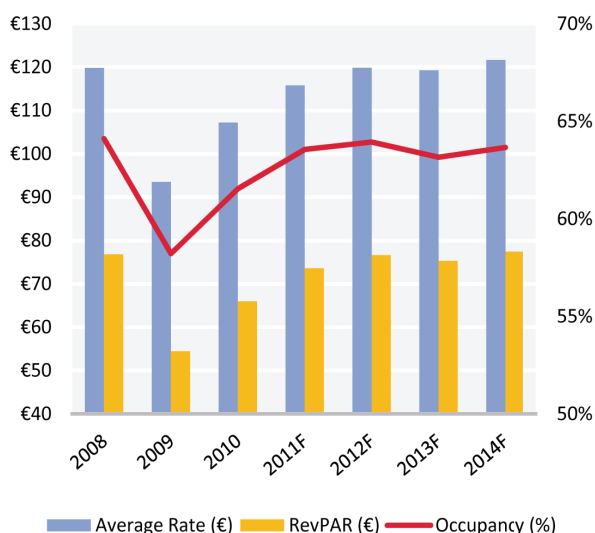
Frankfurt

Frankfurt am Main is the financial and transportation centre of Germany. It is home to the European Central Bank, the Frankfurt Stock Exchange, and the German Federal Bank, as well as Europe's third busiest airport. Thus, hotel demand in the city comprises more than 70% business travellers, many of whom take part in world-renowned trade fairs. Almost half of all overnight stays are generated by demand from abroad.

Due to the city's dependence on the business segment, the economic downturn had a noticeable impact on visitation to Frankfurt in 2009. Travel budgets shrank or were frozen during the downturn, leading to a decrease of almost 4% in visitation to the city. The total number of airport passengers also decreased by 4% to 51 million in 2009.

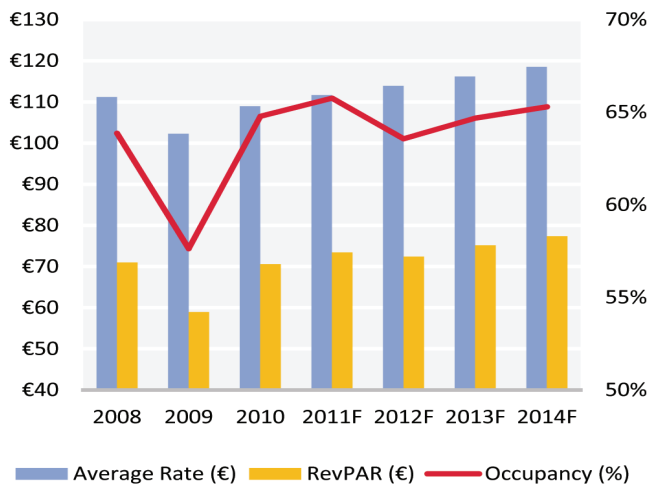
However, 2010 brought more visitors than in the past eight years, reaching 3.68 million, an increase of 13% on the previous year. This increase was driven by both domestic visitors, up 15% on 2009, and international visitors. The biggest international markets were the USA and the UK. However, the largest year-on-year increase of 34% came from Asian visitors.

CHART 7: OCCUPANCY, AVERAGE RATE AND REVPAR – DÜSSELDORF 2008-14



Sources: Fairmass, STR Global, HVS Forecast

CHART 8: OCCUPANCY, AVERAGE RATE AND REVPAR – FRANKFURT 2008-14



Sources: Fairman, STR Global, HVS Forecast

After more than ten years of intensive planning and extended approval procedures, construction of Frankfurt airport’s new northwest runway started in May 2009. The runway will allow the biggest airport in Germany to remain competitive and ensure that the Frankfurt region will continue to prosper. The runway should be finished in late 2011. The airport’s extended runway system will be able to handle about 700,000 aircraft movements a year compared to about 500,000 handled currently. This will allow more than 90 million passengers a year to fly into and out of the airport. Furthermore, since June 2010, the A380 has started regular operations in Frankfurt and Lufthansa plans to increase its fleet, allowing more international passengers to travel to and from Frankfurt.

Around 30% to 40% of the corporate business in Frankfurt over the past year has been consultant business. The acquisition market has been strong in 2010 and 2011, with large companies acquiring smaller competitors, such as the takeover of Post Bank by Deutsche Bank.

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In 2010, Frankfurt’s RevPAR was almost 20% higher than in 2009

The recent activity within mergers and acquisitions has helped the city generate further corporate business and drive the commercial and MICE segments. In 2010, the city saw a record number of events and participants, even though most of the events were relatively small. However, final 2011 convention numbers should reflect the growth in the economy.

Owing to its strong dependence on business customers and a relatively small leisure segment, Frankfurt saw RevPAR drop by 17% in 2009. However, 2010 saw RevPAR growth in almost every month, hitting €70 at the end of the year, which is almost 20% higher than in

2009. This increase is not only due to returning business clients, but also because Frankfurt has improved its city marketing strategy and is now attracting more weekend leisure guests than in the past. While these leisure guests are more price sensitive, they have helped boost occupancy.

The 2010 trend continued into the first few months of 2011, with year-to-June RevPAR rising by 2% to €73. In July 2011, Frankfurt was one of the host cities for FIFA’s Women’s World Cup finals, which drew thousands of visitors to Frankfurt in mid-July, a time of year that is usually less busy, pushing RevPAR up by almost 10% during the three weeks of the tournament, compared to the same period in 2010.

Even though Frankfurt hotels have one of the highest room counts in Germany, developers and investors are still very active in the city. By the end of 2011, 1,100 rooms will have entered the market, including the recently opened 219-room Jumeirah, the first in continental Europe. By 2012, another four properties (970 rooms) will open their doors, most of which are located at the airport.

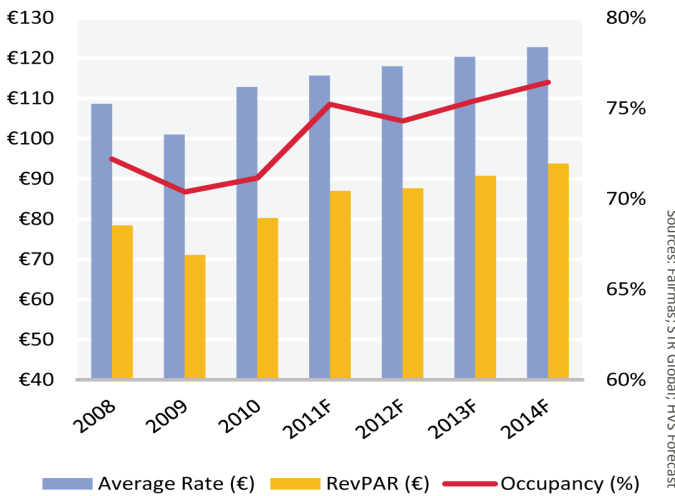
Owing to the large increase in supply at the end of 2011, HVS expects occupancy to decline in 2012 as the new supply is absorbed, while rate will continue to increase by inflation. HVS forecasts that occupancy will reach around 65% by 2014.

Hamburg

With more than 1.7 million inhabitants, Hamburg is the second-largest city in Germany. Since it hosts numerous musicals, it is known as ‘Germany’s Capital for Music’. The city’s port is the largest in Germany, making it a logistical and commercial centre. Large-industry companies such as Airbus, Philips Siemens, and Beiersdorf have plants in the city, which attract business demand.

About 12 million passengers used Hamburg Airport in 2009, in comparison with around 13 million passengers in 2008, a decline of 4.7%. This was primarily due to a decrease in business and leisure travel resulting from the impact of the economic downturn. 2010, however, saw an upswing to 2008 levels. The growth in passenger numbers was primarily the result of the deployment of larger aircraft and a better load factor.

CHART 9: OCCUPANCY, AVERAGE RATE AND REVPAR – HAMBURG 2008-14



Sources: Fairman; STR Global; HVS Forecast

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Hamburg experienced only minor declines in occupancy in 2009, thanks to the strong leisure market

Overnight stays in Hamburg have risen steadily over the past few years. In 2010, Hamburg witnessed 8.9 million overnight stays, which is an increase of around 14% on 2008. From 2008 to 2010, hotel supply grew substantially. By the end of 2011, an additional 500 rooms will have entered the market. Thus far, the market has been able to absorb the new supply and increase performance. In 2012, 1,225 rooms will be added and another 775 will enter the market by 2013, which is expected to increase the competitive pressure amongst Hamburg hoteliers in the coming years.

Hamburg has the 11th biggest exhibition centre in Germany, the Messe Hamburg. In 2008, Hamburg witnessed a record number of events and conferences taking place in the city, and the city has not yet recovered to those levels. For 2011, the city expects positive growth for events and conferences.

Throughout the downturn, Hamburg saw relatively low declines in occupancy owing to a stable leisure segment, which made up around 70% of demand in 2009. However, rate declined by 7% in 2009 to €101. The three-star and five-star segments dropped their rates more than the other segments. Hence, the RevPAR decline of 9.4% was mostly attributed to the decrease in average rate.

In 2010, Hamburg hoteliers saw a strong recovery, as leisure visitor numbers continued to boom and the corporate and MICE segments picked up. In March 2010, Internorga, a hotel and gastronomy exhibition, attracted more than 100,000 visitors. By the end of 2010, RevPAR was almost 3% higher than in 2007.

2011 began with a strong performance in January and has continued to show strong results, with a year-to-June increase in occupancy of almost 10% compared to 2010 and a rate increase of 2% to €145, leading to a RevPAR rise of 12% to €82. HVS expects Hamburg to end the year strongly, with a number of big conventions, such as the EFIC Pain Conference, still to take place.

HVS expects occupancy to fall in 2012 owing to the opening of four new hotels, before returning to 2011 levels in 2014. 2013 will be a strong year for Hamburg, with many important conventions and fairs already booked, including the Lions Club International Convention and the Protestant Church Congress.

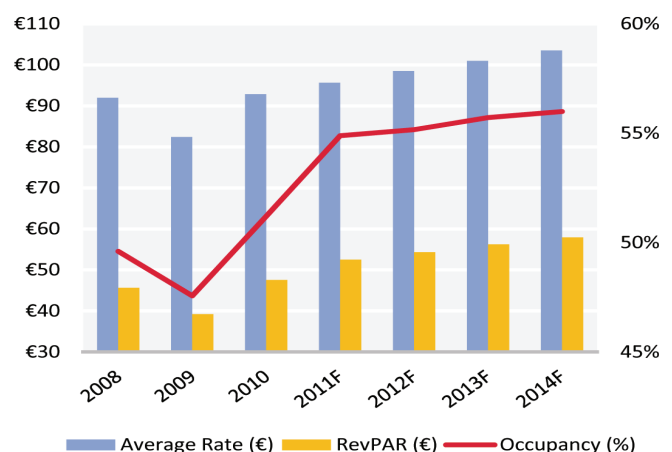
Hanover

Hanover is an important city in Northern Germany, particularly for insurance and consulting businesses. Nonetheless, the city has the lowest average occupancy out of all of the markets studied, at around 50%.

Overnight stays in Hanover dropped by 2% to 1.8 million in 2009 owing to a 14% decrease in overnight stays by international travellers resulting from the weakened economy. International overnight stays only make up 20% of the total. In 2010, overnight stays grew by 6.5%. The Hanover market is characterised by heavy weekday demand owing to a strong reliance on business, while weekends are less busy.

Hanover is known for hosting large, annual commercial exhibitions at the Hanover Messe, the largest fairgrounds in the world, with 27 halls and pavilions and a

CHART 10: OCCUPANCY, AVERAGE RATE AND REVPAR – HANOVER 2008-14



Sources: Fairman; STR Global; HVS Forecast

convention centre with 35 function rooms. Every year, the city hosts the Hannover Messe (Hanover Fair), which attracts more than 6,000 exhibitors and 200,000 visitors, the CeBIT Conference (Centrum für Büroautomation, Informationstechnologie und Telekommunikation), the DOMOTEX, and the EuroBlech.

Hanover saw a 14% decrease in RevPAR from 2008 to 2009. This was primarily due to a 10% drop in rate. Even though in 2010 the city hosted relatively few conventions, RevPAR was able to surpass 2008 levels to reach €48. 2011 got off to a good start with RevPAR growth of 17%. The CeBIT Conference in March helped boost the growth, with visitor and exhibitor numbers finally returning to pre-downturn levels.

The outlook for Hanover is steady. The conference market will continue to be strong in 2012. Hanover will host the didacta conference, which takes place in a different German city each year. Furthermore, after a very successful Hannover Messe 2011, with attendance up 30% on 2009, the trade fair is planning to expand to include 'Industrial Green Tec' and will grow the scope of the 'Metropolitan Solutions Show', which was launched at the fair in 2011. The IAA trade fair relating to commercial vehicles, which occurs every two years, will also take place in 2012.

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There are currently no new hotel projects in the pipeline for Hanover

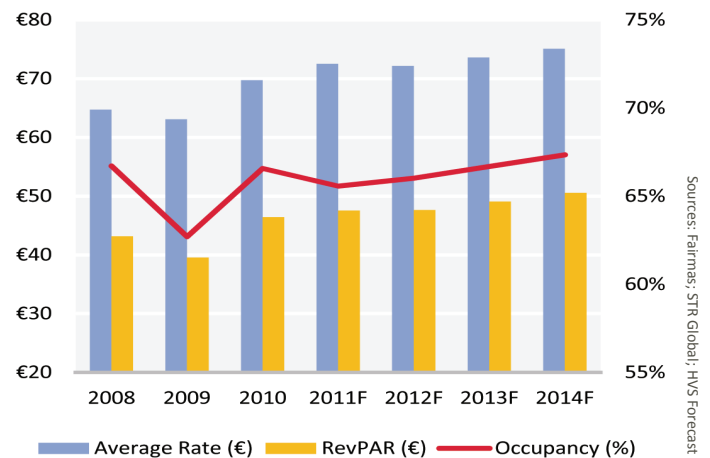
Furthermore, since Hanover will not see any hotel supply growth in 2011 and there are currently no projects in the pipeline for the near future, HVS expects occupancy to continue to increase slowly.

Leipzig

Leipzig is the largest city in the Federal State of Saxony, with more than 518,000 inhabitants. The city is famous for housing one of the oldest trade fairs in the world, the Leipziger Messe, and is the home town of Johann Sebastian Bach, thus benefitting from a long tradition of music and culture. Leipzig is also a significant city for sporting events and was one of the host cities for the FIFA World Cup in 2006.

Leipzig has made remarkable progress with regards to economic development after reunification. The motor vehicle industry is extremely important in Leipzig and major companies such as BMW and Porsche have plants in the city, generating steady hotel demand.

CHART 11: OCCUPANCY, AVERAGE RATE AND REVPAR – LEIPZIG 2008-14



Leipzig is considered to be more of a business than a leisure destination, even though in the past few years the city has managed to attract increasing numbers of leisure visitors, which has helped to stabilise visitation in the summer months.

Conventions also play an important part in generating room nights in the city. However, since 2008, the number of trade fairs and congresses has fluctuated. Eleven more congresses took place in 2010 than in previous years. Trade fairs, on the other hand, have suffered. The fact that the Computer Game Conference was moved to Cologne in August 2009 contributed to a loss of at least 200,000 visitors. Furthermore, the Automobile Trade Fair AMI – one of Leipzig's biggest and most important conferences, attracting more than 280,000 visitors – will now occur every two years, rather than annually.

Hotel supply in Leipzig is growing slowly. In April 2011, the Steigenberger Grand Hotel opened with 177 rooms and suites. Only two new hotels, the InterCity and the Holiday Inn Express, are expected to enter the market in 2012. The Hotel Arcona Living Bach 14 is a project comprising 52 apartments and suites, which is due to open in 2013.

In 2009, overall RevPAR in Leipzig decreased by 8.4%. This was due to a decrease in conventions held in the city and is reflected by especially low RevPAR in April and September, which usually would have seen a busy conference market.

In 2010, as business improved, Leipzig saw the return of a number of conferences, such as the 'German Fire Brigade Event' (which lasted for five days and attracted more than 150,000 delegates). RevPAR increased by 17% in 2010.

The year-to-June 2011 performance has not been too encouraging. Both average rate and occupancy dropped by more than 3%, leading to a RevPAR decline of 7.5%. However, the city has a number of big conferences scheduled for the latter half of the year, such as the 50th ICCA Congress in October. HVS expects the city to be able to recover some of the losses incurred in the first half of 2011 and, owing to an average rate increase, end the year with a similar RevPAR as 2010. The participants of the Trendbarometer by Fairmas predict a slightly lower RevPAR for 2011 than indicated in Chart 11. However, the participants of the Trendbarometer do suggest that the last quarter will be stronger than the same months in the previous year.

The outlook for 2012 is more promising. The city will host the 38th GTM (German Travel Market) conference in May, which takes place in a different city every year. Furthermore, the AMI Messe, which now takes place every two years, will take place in June 2012. On a cultural note, the historic city of music will celebrate the 800th anniversary of the famous

.....
Leipzig's outlook for 2012 is bright as it will host a number of big conferences and celebrate the 800th anniversary of the St Thomas Boys Choir

St Thomas Boys Choir, Church and School, and will also open the new Leipzig Music Trail, which is expected to attract leisure guests.

In order to remain competitive in the congress market, the city has started building a new congress hall, which should be completed by the end of 2013 (with a subsequent 'Phase Two' opening

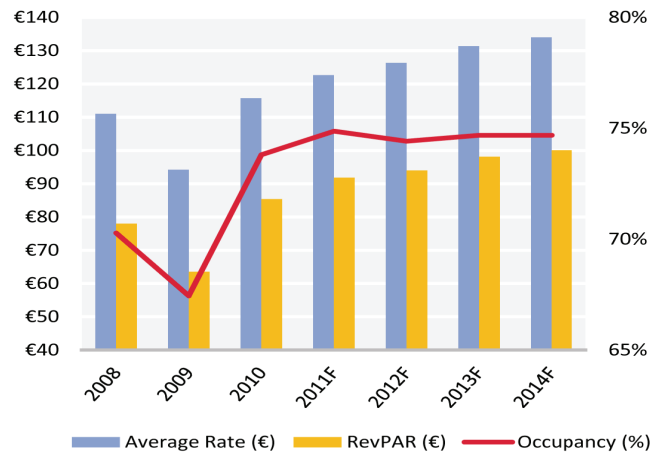
in 2016). The facility will provide conference space without accommodation, which will benefit the hotels in the area. Furthermore, the BMW and Porsche plants are planning to expand within the next five years, which will attract increased visitation from engineers and delegates from company headquarters.

In 2013, the city will celebrate a number of cultural events, including Wagner's 200th birthday. Owing to the exceptionally strong trade fair calendar in 2012, HVS expects occupancy to fall slightly in 2013, but to rise again in 2014.

Munich

Munich is the largest city in Bavaria and houses the headquarters of seven DAX (German Stock Index) companies: Allianz, BMW, Linde, MAN, Infineon, Munich Re and Siemens. The city has become especially attractive for business on account of the extensive transportation infrastructure, which includes Germany's second-largest airport and a dense public transportation network.

CHART 12: OCCUPANCY, AVERAGE RATE AND REVPAR – MUNICH 2008-14



Sources: Fairmas; STR Global; HVS Forecast

In 2009, the airport witnessed some 32.7 million passenger movements, a drop of 5.3% compared to 2008. 2010, however, saw a record 34.7 million passengers at Munich airport, a 6.2% increase on the previous year. International arrivals account for the majority (70%) of passenger movements at the airport.

In February 2011, Munich Airport and Lufthansa gave the green light to start building the new Terminal 2 satellite facility, which will have two passenger levels and 52 gates. Under current expectations, the new facility should begin operations in 2015 and will be able to handle 11 million passengers a year.

Munich attracts both business and leisure guests. The busiest time of year for the city is during Oktoberfest, when more than 5.5 million visitors are lured to the city. The MICE market also plays a particularly important part for Munich with more than 34,000 exhibitors and 1.8 million visitors holding events at Munich's fair locations every year. Additionally, more than 170,000 people took part in over 150 congresses held in 2010, which was one of the main contributors to the city's recovery.

New hotel openings are absorbing some of the growing demand and, by the end of 2011, 1,700 additional rooms will have entered the market. New openings in 2011 include two Motel One hotels as well as the Leonardo Royal, which opened in January. The city's extended stay market is also growing, with the opening of a Residence Inn by Marriott and an Adagio City Aparthotel. In 2012, supply growth will slow, but 2013 will see the addition of 475 rooms to the market.

MUNICH SAW REVPAR GROW BY 7% FOR YEAR-TO-JUNE 2011



Munich saw one of the largest declines in RevPAR in 2009, which was almost 19% lower than in the previous year. 2010, on the other hand, saw the greatest increase in RevPAR out of all of the German cities surveyed (34% to just over €85). The Bauma Convention, which occurs every three years, contributed significantly to this growth, attracting more than 3,200 exhibitors and 420,000 visitors. Furthermore, Munich celebrated its 200th Oktoberfest, which saw a record number of visitors. Overall, the events and congresses that returned to the city in 2010 drove occupancy and average rate, fuelling the rapid recovery.

For year-to-June 2011, both occupancy and average rate have increased, allowing RevPAR to average at €80, which is 7% higher than the same period the previous year.

.....
Munich saw the greatest recovery in RevPAR in 2010 (34%), owing to the return of corporate and convention business

The outlook for 2011 continues to be positive with a number of large-scale events booked. In 2012, Munich will host the German Special Olympics as well as football's Champions League final. However, owing to the increase in

supply, HVS estimates 2012 occupancy will fall to just below 2010 levels before the new supply is absorbed by the market and occupancy begins to increase again.

Stuttgart

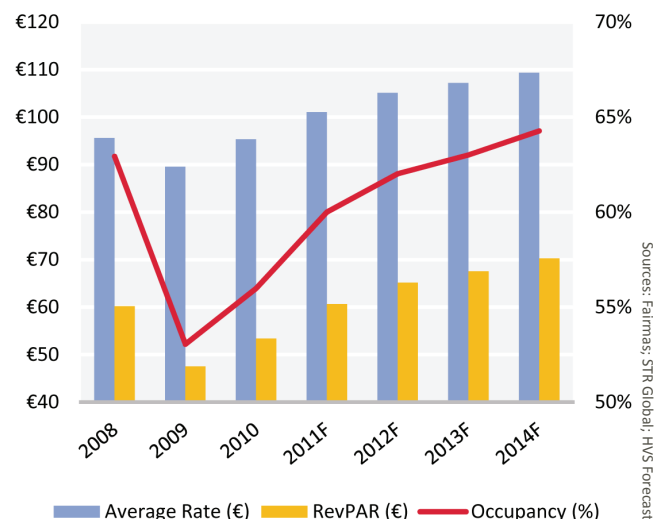
Stuttgart is not only an industrial city with world-famous automobile companies such as Daimler and Porsche and state-of-the-art science and research facilities, but also a cultural city that is renowned for its State Opera, ballet programmes, and galleries.

Stuttgart offers an excellent transportation infrastructure with a good rail service. Currently, the city is planning a very controversial expansion, which is predicted to cost €5 billion, called Stuttgart 21. It envisages new tracks being built to modernise the connections between Paris, Vienna and Budapest, with the hopes of making Stuttgart 'the new heart of Europe'.

2008 saw a record high of 2.7 million overnight stays. More than 60% of overnight stays are generated by business demand. Besides the automobile industry, the aerospace, engineering, financial services and telecommunications industries are well represented and generate a significant amount of demand. On the leisure side, demand is generated by the city's cultural and wine-related offerings. Following the trend of the overall German market, overnight stays decreased in 2009 by 8.3%. Unlike in other cities, however, domestic overnight stays decreased more than foreign stays. In 2010, overnight stays recovered, although numbers hover just below 2008 levels.

The Messe Stuttgart generates close to 70 events a year with 20,000 exhibitors and 1.6 million visitors. Most of the events are related to the automobile and pharmaceutical industries, which generate significant hotel demand. In 2007, a new exhibition centre

CHART 13: OCCUPANCY, AVERAGE RATE AND REVPAR – STUTTGART 2008-14



between the airport and the city centre opened – ICS (International Congress Centre Stuttgart) – which is one of the largest and most modern conference facilities in Germany. This new facility has helped improve Stuttgart’s MICE image. In 2010, the ICS held 65 conferences, a 12% increase on the previous year, with more than 19,000 exhibitors, which was the second highest in the history of the Messe Stuttgart.

RevPAR in 2009 suffered due to a 10% decrease in occupancy and a 22% decrease in average rate to reach a low of €48. The recession had a particularly negative impact on demand generated by the automotive industry. However, as the economy in Germany started to expand in 2010, the city saw growing levels of demand, and RevPAR increased by 12%. A rate growth of 7% helped to boost RevPAR.

According to year-to-June 2011 data, this upward trend continued on account of the return of corporate and conference demand, with a RevPAR increase of 18% over 2010 levels. Occupancy was the main driver and reached almost 60% (+11%), but rate also increased, to €102 (+6%). This was in part due to the CMT Conference in January and the didacta in February.

Supply remained relatively unchanged up until 2009. However, since 2010, four new properties have opened their doors bringing an additional 650 rooms into the market. In 2011, a 454-room Dormero Hotel will enter the market and a second Motel One is currently under construction and is expected to open in 2012 with 231 rooms.

The outlook for the coming years for Stuttgart’s hotel market is positive. The city is trying to attract more leisure customers by adding tourist attractions related to the automobile industry, such as old-timer rallies. The Mercedes and Porsche Museums are attracting a significant number of leisure tourists. The conference and trade fair markets also look strong in 2012, with a number of big conferences already booked, such as the R+T Conference, which is one of the largest in Stuttgart.

Taking Centre Stage – The Big Picture

Munich and Hamburg have fought over who could achieve the highest occupancy in Germany for the past few years. In 2010, Hamburg lost the competition for the first time and Munich was the winner with an occupancy of 74% (see Chart 14). In terms of average rate, Munich was again in the spotlight, followed closely by Hamburg. Third place for average rate went to Frankfurt, whereas Berlin almost fell completely off of the radar, with an average rate of only €89. Therefore, in terms of RevPAR, Munich is the clear victor, with Hamburg and Frankfurt following closely behind. The bottom of the table is made up of Dresden, Leipzig, and, at the tail end, Bremen.

CHART 14: OCCUPANCY 2010

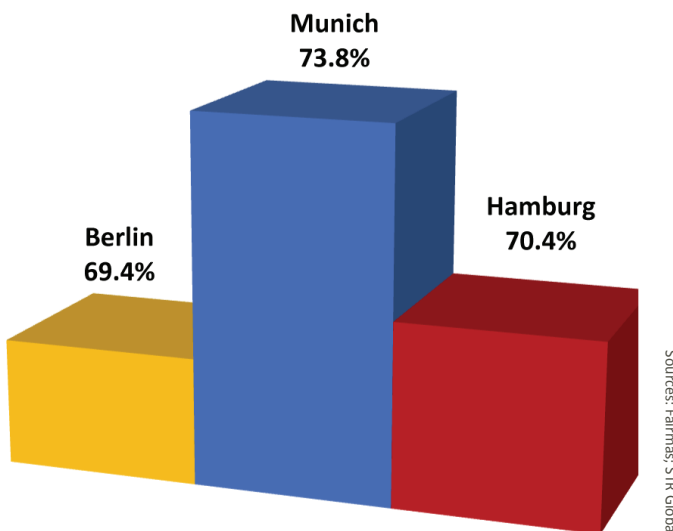
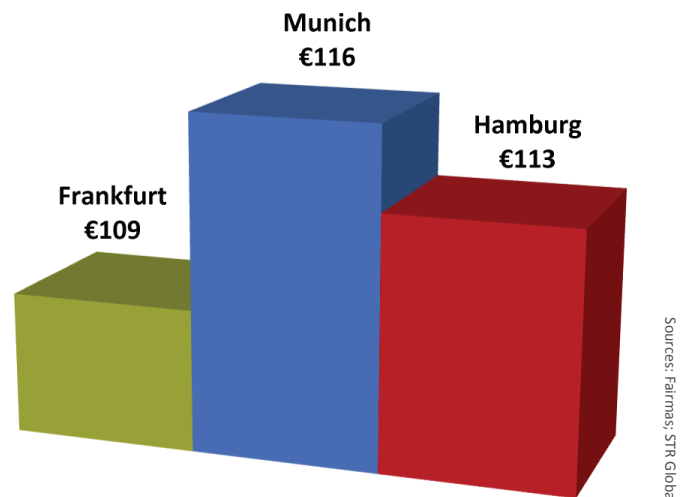


CHART 15: AVERAGE RATE 2010



Investment Activity

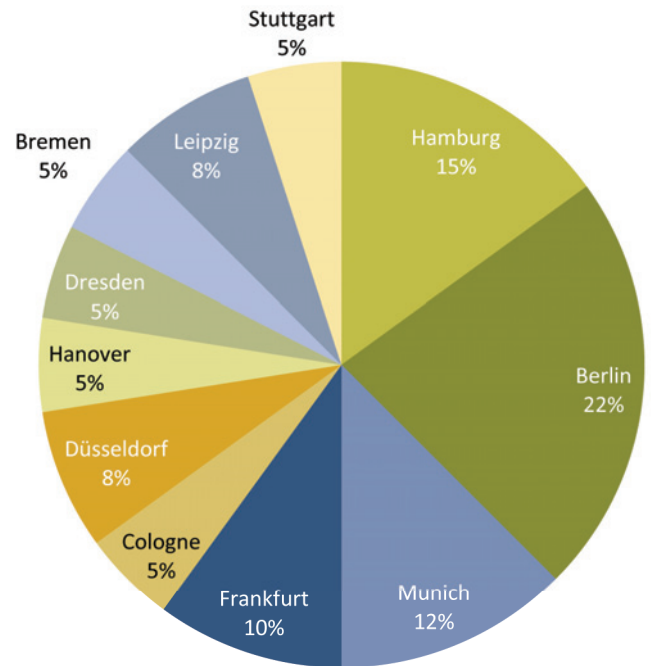
The economic downturn affected hotel investment in Germany in 2009, just as it did in other markets, where a freeze on lending by commercial banks suppressed transactions. Activity fell by around 50% compared to 2008 levels, reaching approximately €430 million. This was more or less expected after the collapse of Lehman Brothers in September 2008. The year saw 16 single asset transactions of which one of the key properties was the Radisson Blu in Hamburg, which sold for €155 million (€279,000 per key). No portfolio transactions took place.

In 2010, a sharp increase in volume of around 200% in the hotel transaction market was registered in Germany, owing to a particularly dynamic second half with the return of international investors. The latter half of 2010 realised more than 80% of the total hotel transactions, whilst the first six months were still restrained by the downturn. This increase in transactions was mainly due to a rise in cash flows by hotels and an increasing willingness of banks to resume lending for prime properties in key locations. The total transaction volume reached around €870 million, which is just under 2008 levels.

Contrary to 2009, where no portfolio transactions were realised in Germany, in 2010 portfolio transactions represented around 55% of the total volume, including the B&B hotels portfolio. Investors were primarily interested in the budget and midscale hotels, making up more than half of the hotel transactions in Germany in 2010.

Hamburg saw the highest value of transactions, reaching around €210 million. Berlin, Munich and Frankfurt followed. In the past, these

CHART 17 NUMBER OF SINGLE ASSET TRANSACTIONS 2008-11



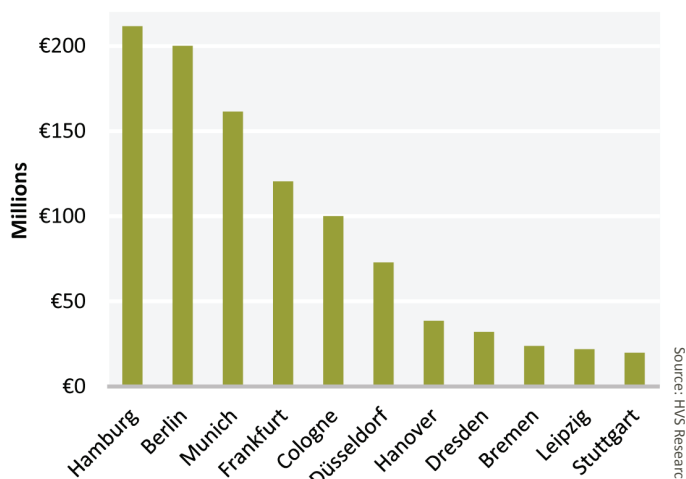
Source: HVS Research

markets have been the most active in terms of transactions, and are also the cities with the highest RevPAR. In terms of the number of single asset transactions, Berlin realised the most, followed by Hamburg, Munich and Frankfurt (see Charts 16 and 17).

Just recently, a portfolio of five luxury hotels came to the market for around €380 million, including Kempinski hotels in Dresden, Berlin and Hamburg. However, many opportunities also lie in the midscale sector where value upside is achievable through rebranding, repositioning or renovation, and potentially in the less obvious, secondary cities. However, in those instances more creative financing options might need to be considered. Also, the dominance of the lease structure versus management agreement still plays an important role in obtaining financing.

HVS expects Germany to be one of the leaders in hotel transactions in Europe in 2011. Throughout the first half of 2011, investors were attracted by what was considered a safe investment market compared to other struggling economies and hotel markets in Europe. However, that situation has changed slightly, since Germany vowed to help the more indebted members of the European Union. Thus far, 2011 has seen 15 single asset transactions, of which the key transaction was the Steigenberger Airport Hotel Berlin at a sales price of €59 million (€183,000 per key). The value of transactions to date sits at close to €400 million. HVS considers that the debt challenges in the Eurozone will slightly dampen the transaction rate for the rest of the year.

CHART 16: VALUE OF SINGLE ASSET TRANSACTIONS 2008-11



Source: HVS Research

The Final Bow

In terms of overall growth, Munich hit a home run with its RevPAR recovery. Of all the cities surveyed, Munich's RevPAR growth was the highest in 2010, 10% higher than it was in 2008, indicating that the city has truly recovered. This recovery was due to the return of large conventions and fairs to the city in 2010. Following closely behind, Leipzig and Dresden also recorded strong RevPAR growth in 2010, actually allowing the markets to surpass 2008 levels.

As shown in Chart 18, our study further confirmed that markets which depend heavily on the commercial segment – especially those that are reliant on the main German industries such as the automotive, banking, and insurance industries, like Frankfurt and Munich – have seen the most volatile performance from 2008 to 2010, showing large RevPAR decreases in 2009 followed by noticeable increases in 2010 owing to the extremely quick recovery of the German export sector and economy in general.

Another result from the detailed analysis confirms that secondary cities are recovering slower than primary cities. For example, Düsseldorf and Stuttgart, where the hotel market is closely tied to the trade fair calendar, still lag behind 2008 RevPAR levels by 14.1% and 11.3%, respectively. Of all the cities surveyed, Bremen was the most robust, with RevPAR in 2009 and 2010 almost identical to that of 2008 at €43; however, it also shows the least upside potential in the short term.

Data for year-to-June 2011 show that Düsseldorf is the clear winner, with a RevPAR increase of 25.6% on 2010 (see Chart 19). Stuttgart and Hanover, which rely heavily on

business demand, have also recorded strong RevPAR growth in 2011, of 18% and 17%, respectively. All of the markets examined showed RevPAR growth in the first half of 2011, with the exception of Berlin (-1%) and Leipzig (-7%).

Germany's transaction market has shown to be amongst one of Europe's most active so far in 2011, with investors being attracted by the strong performance recovery, a less risky investment market due to the predominant hotel lease structure and selective financing being available.

With some grey clouds on the horizon relating to the European economic uncertainties and a weakening US economy which might result in a tightening of banks lending activities again, as well as impact the economy and business demand for transient accommodation in the short term, we hope that the storm is not returning. It will be interesting to watch the developments in the final quarter of the year and into 2012.

– HVS –

CHART 18: REVPAR VARIANCE FROM PREVIOUS YEAR 2009-10

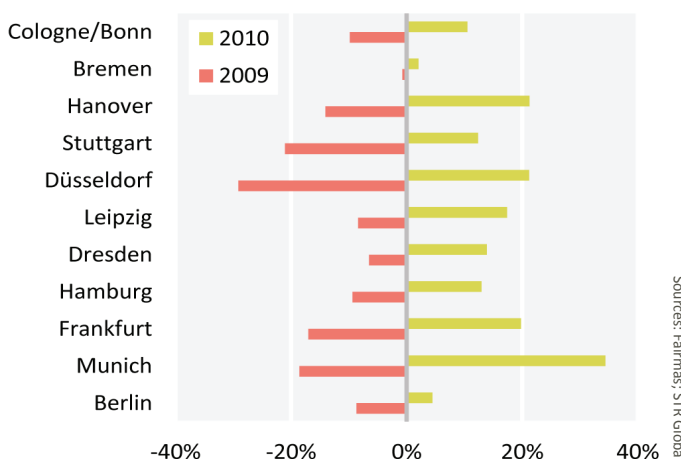
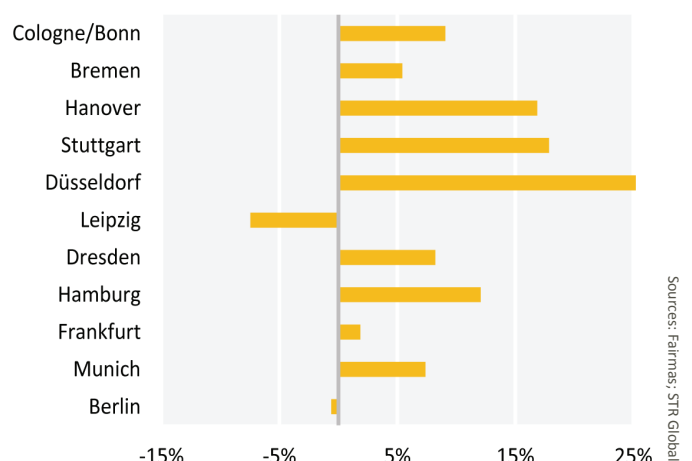


CHART 19: REVPAR CHANGE YEAR-TO-JUNE 2011





About HVS

HVS is the world's leading consulting and services organisation focused on the hotel, restaurant, shared ownership, gaming and leisure industries. Established in 1980, the company performs more than 2,000 assignments a year for virtually every major industry participant. HVS principals are regarded as the leading professionals in their respective regions of the globe. Through a worldwide network of 30 offices staffed by 300 seasoned industry professionals, HVS provides an unparalleled range of complementary services for the hospitality industry. For further information regarding our expertise and specifics about our services, please visit www.hvs.com or contact Arlett Oehmichen at aehmichen@hvs.com or +44 (0) 207 8787 753 .

About Fairmas



FAIRMAS Gesellschaft für Marktanalysen mbH was founded in 2003. The focus of its business is on software development, mainly in the areas of benchmarking, budgeting, controlling and forecasting. Fairmas is also a high-quality data provider of hotel performance data with a focus on the German-speaking market; however, being a strategic partner with STR Global offers the company access to the pool of global data. For further information, please visit www.fairmas.com or contact Gabriele Kiessling at kiessling@fairmas.com or +49 (0)30 322 940 520.

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Veronica Waldthausen is an Intern with HVS's London office. Veronica is currently reading for her Bachelor's degree in International Hotel and Business Management at Ecole Hôtelière de Lausanne, where she will graduate in 2012.

About the Data Provider



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