

## Development

# Germany construction boom fueled by chains

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Unprecedented expansion and consolidation in key German cities has become an advantage for brand-affiliated hoteliers and local and foreign investors.



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REPORT FROM GERMANY—Germany is enjoying an eight-year growth spurt in key destinations, accompanied by steady hikes in overnight stays, operating profit and foreign travelers, according to sources.

The German Hotel Association, known in Germany by its German initials IHA, said 695 new, renovated and expanded properties are expected nationwide by the end of 2018, compared with 571 in 2017.

Colliers International research states that in the first three quarters of 2018, transaction volumes in Germany equaled €2.9 billion (\$3.3 billion).

Hamburg, Frankfurt, Düsseldorf, Berlin, Munich, Cologne and Stuttgart are the cities leading in hotel development, although growth is shifting now to secondary and even tertiary locations.

“Despite signs of overcapacities at some locations, the hotel industry will continue to expand its offerings in the coming years,” said Otto Lindner, IHA chairman and CEO of family-managed Lindner Hotels & Resorts, which counts 20 German hotels in its 37 pan-Europe portfolio.

The construction boom and upturn in global investors is being accompanied by brand concentration, Lindner said, who added the number of beds is rising but the same is not true of the number of hotels. In fact, larger hotels are crowding out small units.

“We are currently experiencing an unprecedented expansion but also a wave of consolidation,” Lindner said. “Corporate and brand concentration continues to increase, with more and more international investors entering the market.”

Hotel investments and specialized new brand concepts are members’ priorities at the moment, Linder said.

“Those concepts demand clearly defined design and guest propositions,” he said. “New competitors, the digitization and the rapidly changing demands of the guests are forcing the hotel industry to constantly reorganize itself.”

### **Changing landscape**

The shifting sands present obstacles for many independent hotels, according to Stefanie Zimmermanns, a partner at Düsseldorf-based Hotel Affairs Consulting GmbH.

“The backbone of the German hotel industry, existing business travel and conference hotels in the 3- to 4-star segment are being pushed out of focus, while older hotels are facing leases that expire and weaken profitability in the midst of increasing crowding and must look to investments, upgrades and re-brandings to survive,” Zimmermanns said. “Within a few years, the hotel industry turned from outsiders’ to investors’ darling. The industry is growing fast, and new hotels are entering the established brand landscape and conquering even so-called ‘B’ and ‘C’ locations, banking on creative new lifestyle concepts.”

Zimmermanns said many “small, outdated hotels” are falling by the wayside due to being non-competitive, downgraded in category and facing revenue strife “as a result of creeping discounts.”

“In German ‘A’ city locations alone, the number of hotel beds on the market is due to rise by 17%—70,000 beds—by 2021,” she said. “Chains are going on the offensive.”

According to the IHA, the number of branded hotels nationwide has risen by an average of 7.2% in the last five years.

Among them is Munich-based Ruby Hotels, which has a pipeline of approximately 1,200 rooms, all in key German markets. CEO, managing director and founder Michael Patrick Struck said the company is currently bolstering its management structure to facilitate a fast-track expansion strategy in Germany, and beyond.

Five of [Ruby Hotels](#)’ properties in construction or planning are in Germany, and include a 218-room asset in Frankfurt to open in 2019 and two hotels, in Düsseldorf and Cologne, due to open in 2020.

Struck said investor interest isn’t beginning to wane, at least not in Germany’s hotspot cities he has his sights on.

“Our ‘lean luxury’ concept works particularly well in major cities, so our focus still lies with the top seven (German cities). I have not witnessed any drop in investor interest there,” Struck said.

### **Opportunity knocks**

Struck welcomes the competition.

“The current heated market rewards those who bring fresh new approaches and novel solutions, benefiting smaller, more agile players and leading to more rather than (fewer) players,” Struck said.

Another group pursuing German expansion in the “A” cities is Spanish firm NH Hotel Group, which will open its fifth Hamburg property, NH Hamburg Zentrum, in 2021.

“Such an attractive hotel market is of course very interesting for further investment, and we prefer hotels in a central location to further consolidate our portfolio of long-term contracts in successful markets,” said Ascan Kókai, [NH](#)’s senior director of development and asset management for Northern Europe, United Kingdom and South Africa.

Struck also is [not worried about the players with the most scale](#), such as Marriott International.

“We are a niche player, with all the competitive advantages such a focus brings ... Technological advances and changes in consumer behavior are altering the success factors in our industry,” he said. “Certainly, speed is becoming more important, while one could argue that size is becoming less and less so.”

Tuomas Laakso, [Marriott](#)’s VP of development in Germany, Austria, Switzerland and the Nordics, said his company is continuing to look for development opportunities in Germany, which he described as “safe haven for real estate investors.”

“We still see potential in the top seven,” he said. “They are growing, and they are strong both for business and leisure markets. ‘B’ and ‘C’ cities still constitute growth in Marriott’s overall German pipeline.”

As Germany’s hotel supply appears set to continue, Olivia Kaussen, managing director and head CBRE Hotels Germany, predicts fiercer competition for core hotel products in prime locations.

“Investment is riding at such record highs, there is a scarcity of stock for sale in the major markets,” Kaussen said, adding her “B” cities include Hanover, Leipzig and Nuremberg.

Competition is equally fraught for staff, sources admitted.

“Securing the demand for skilled workers is the most important task for the future,” Lindner said.

“Nowadays you have to be lucky in the face of strong competition for talent,” Struck added.