



# Berlin – Capital of Hotel Investment?

## Market Snapshot



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## Introduction

The rapidly evolving metropolis of Berlin enjoys an international reputation for its festivals, contemporary architecture, nightlife and avant-garde arts. A major tourist centre and home to people from more than 180 nations, Berlin is a hub for individuals who are attracted by its liberal lifestyle, urban eclecticism and artistic freedom. On the other hand, Berlin is also home to the German government, numerous ministries, embassies and company headquarters.

Berlin is characterised by continuous change, a city constantly rejuvenated and at the same time determined to preserve the many elements of its history.

This article analyses the existing hotel demand and supply in Berlin as well as future developments and opportunities.

## National Economic Overview

Key indicators of future hotel demand are those trends that reflect the relative health of the economy and the spending power of individuals. We have focused on those primary national economic factors that are likely to have the greatest influence on Berlin's hotel demand. Table 1 summarises these economic indicators.

**Table 1 Key Economic Indicators –Germany**

	Actual	Forecast					
	2007	2008	2009	2010	2011	2012	2013
Real GDP growth (%)	2.5	1.3	(2.4)	0.1	1.4	1.7	1.8
Consumer price inflation (av %)	2.3	2.8	0.0	0.7	1.6	1.5	1.1
Budget balance (% of GDP)	0.0	0.2	(3.7)	(4.3)	(4.2)	(4.0)	(3.9)
Current-account balance (% of GDP)	7.7	7.7	5.2	4.4	4.7	4.6	4.6
Short-term interest rate (av %)	4.3	4.6	1.9	1.9	2.6	3.5	4.1
Exchange rate US\$:€ (av)	1.4	1.4	1.4	1.4	1.4	1.5	1.5

Source: Economist Intelligence Unit, February 2009

The Economist Intelligence Unit's (EIU) Germany Country Forecast indicates that GDP growth in 2007 was strong compared to previous years. However, owing to the global economic slowdown the EIU estimates that national GDP growth will sharply decline from the 1.3% registered in 2008 to minus 2.4% in 2009, with a flat 0.1% growth in 2010



before starting to recover from 2011 onwards. The German economy moved into recession in the third quarter of 2008 mainly owing to the weakening of global demand for export goods such as automobiles and engineering.

### **City Overview**

Berlin is the capital of Germany and also gives its name to one of the country's 16 states. It is at the heart of the Berlin-Brandenburg metropolitan region and its proximity to the Polish border offers Berlin an important role as a gateway to the developing cities in Eastern Europe. The city covers an area of approximately 900 km<sup>2</sup> (four times the size of Paris) and, with a population of approximately 3.4 million, Berlin is the largest city in Germany.

Since 1999 and the relocation of most of the Federal Government from Bonn to Berlin's Reichstag, Germany's government effectively resides in Berlin. The city is a melting pot of different nationalities. The largest groups of foreigners are from Turkey, Poland, Serbia and Russia, creating a diverse mixture of lifestyles, trade and culture.

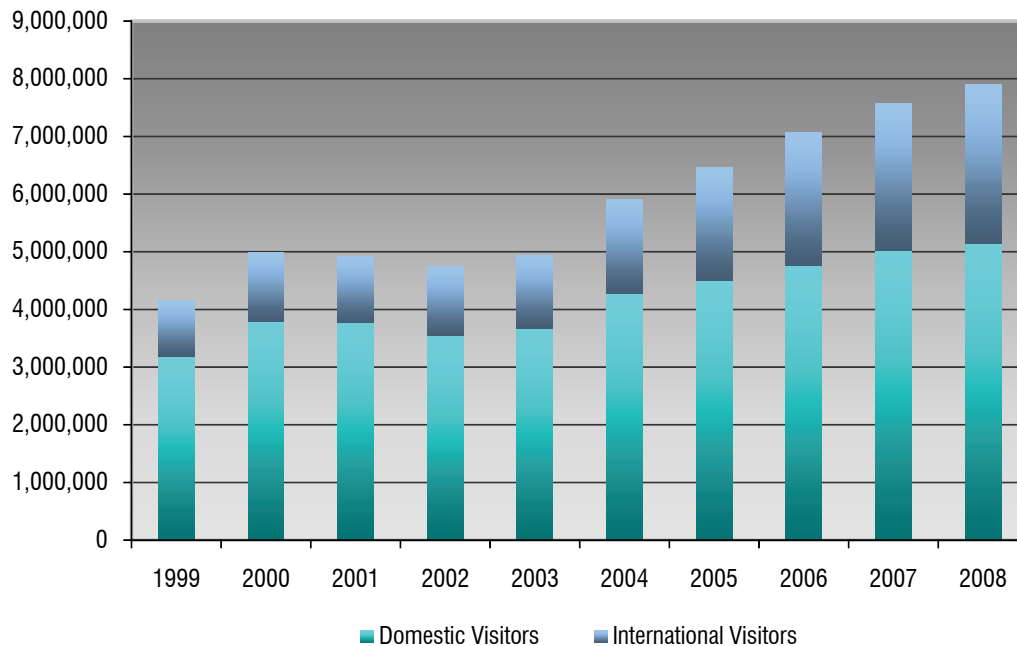
### **Tourism and Visitation**

Berlin currently benefits from both leisure and business demand, although business demand has remained fairly stable and leisure demand has grown significantly in the last few years.

The main generators for leisure demand are the museums and galleries, shopping and retail facilities, as well as historic landmarks such as Brandenburg Gate and Checkpoint Charlie.

The main generators for business demand are company headquarters, the Messe Berlin, ICC, international embassies and the government.

Table 2 summarises the trend in foreign and domestic tourist visitation to Berlin over the last ten years.


**Table 2 Domestic and International Visitation – Berlin 1999-08**


Source: Statistische Landesamt Berlin, 2009

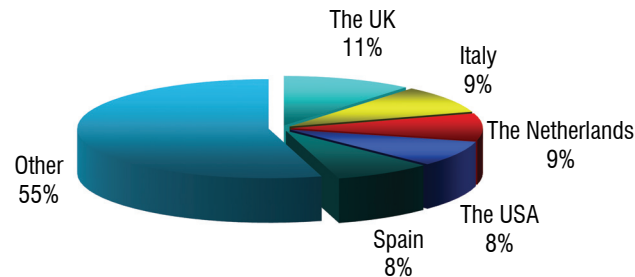
As illustrated above, total visitation to Berlin has continuously increased since 2003, resulting in a compound annual growth rate of 9.8% from 2003 to 2008. A remarkable increase can be observed in domestic and international visitation in 2004, relating to the introduction of low-cost carriers and the increased number of airlines serving Berlin's airports. Further increases in 2006 and 2007 can be partly attributed to the FIFA World Cup which took place in several cities in Germany, including Berlin. Although the second part of 2008 started to show signs of a slowdown, overall annual visitation to Berlin reached record levels.

A common characteristic of visitation to many German cities is the reliance on the domestic market. Berlin had a share of about 65% of domestic travellers in 2008, a reduction from approximately 76% in 1999.

Table 3 indicates the main international feeder markets for Berlin in 2008.



**Table 3 Major International Source Markets (by Overnights) 2008**



Source: Amt für Statistik Berlin-Brandenburg

The primary international source market for Berlin is the UK with 11% of the 17.4 million overnights in 2008, followed by Italy (9%), the Netherlands (9%), the USA (8%), and Spain (8%). Other countries (15 countries worldwide) represent 55% in terms of overnights. Owing to the current economic downturn, overnight stays from the UK and USA have decreased notably compared to 2007.

### **Airport Passenger Arrivals**

Airport passenger movements are important indicators of transient hotel demand.

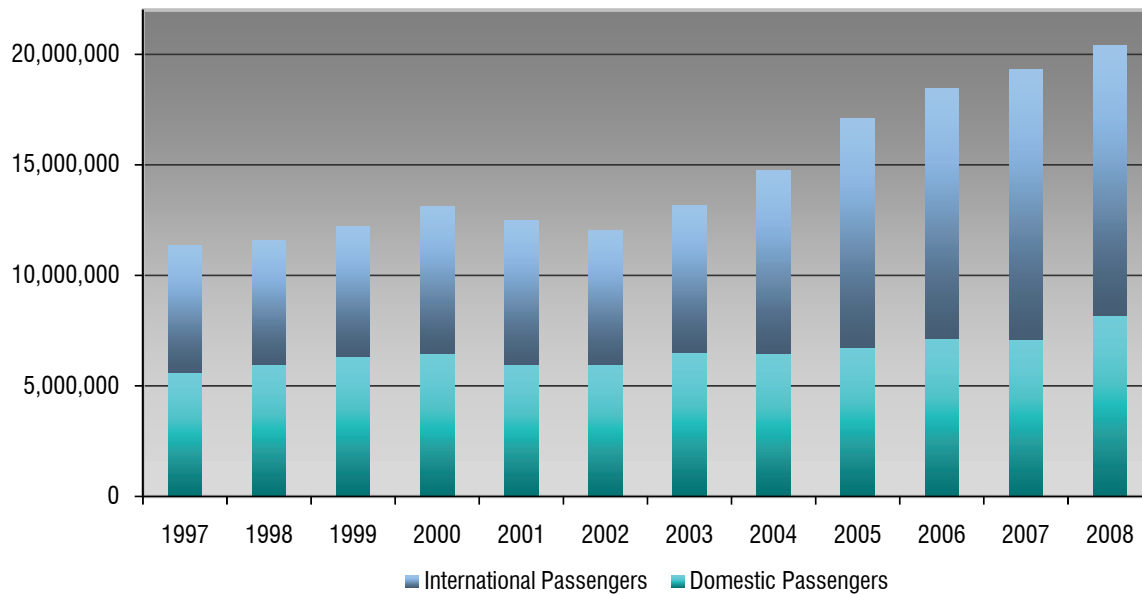
Berlin has three airports (Tegel, Schönefeld and Tempelhof) of which two are currently in operation. Schönefeld lies southeast of the city (approximately 20 km from the city centre) and Tegel is in the heart of the city. In February 2007 the Higher Administrative Court announced the closure of Tempelhof airport and business has been transferred since then to Tegel airport. Schönefeld airport is currently being redeveloped as the new Berlin Brandenburg International Airport (BBI). This new airport is scheduled to open by the end of 2011 and will have the following characteristics.

- Journey times to downtown Berlin will be approximately 20 minutes with a new airport shuttle service, and about 30 minutes by car;
- BBI will target foreign flagship carriers to set up European hubs in Berlin mostly originating in the Middle East, Asia and America;
- Passenger capacity will be up to 25 million. Potentially the airport could accommodate up to 40 million passengers depending on future traffic growth;
- Flight times from Berlin to Asia will be approximately one hour less than from other airports in Western Europe;
- The focus will be on European point-to-point traffic and further selected long-haul connections.



Table 4 illustrates historic passenger movements for the three existing airports.

**Table 4 Airport Passenger Movements to Berlin (Schönefeld, Tegel and Tempelhof) 1997-08**



Sources: ACI Worldwide Airport Traffic Report; www.berlin-airport.de (2008)

Domestic passengers accounted for more than 7 million passengers in 2007 while international passengers accounted for over 12 million. We note that total arrivals increased by 15.6% in 2005, 7.9% in 2006 and 7.0% in 2007. From January to November 2008 total passenger numbers have increased by 7% to 19.8 million. Of the three airports Berlin Tegel has historically received the majority of passengers, accounting for about 67% in 2008. Berlin Schönefeld holds second place with a share of about 30% of total passengers to Berlin.

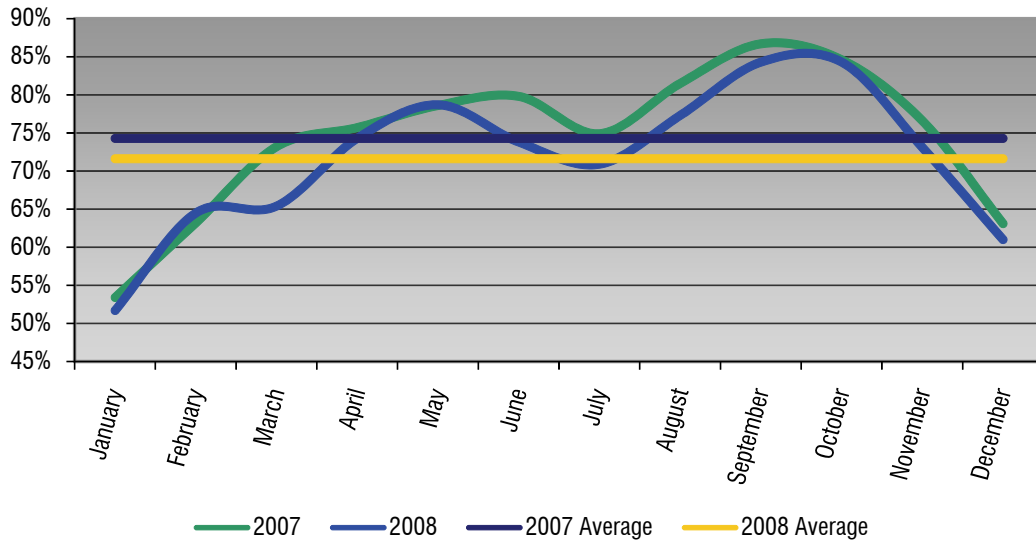
Compared to other major European airports, Berlin is currently a hub for primarily low-cost carriers that make up to 55% of total passengers. We expect this to change once the new BBI airport is open.

### Seasonality

Table 5 illustrates the city's seasonality by monthly hotel occupancy for the four-star city hotel market.



**Table 5 Seasonality – Monthly Occupancy 2007-08**



Source: Fairmas

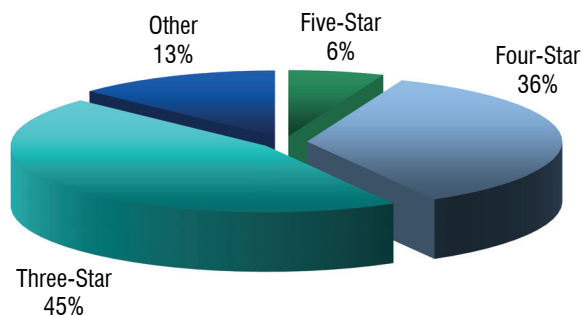
Table 5 indicates that peak months for tourism arrivals are usually April, May, June, August, September, and October, when occupancy usually exceeds the yearly average of 74% (2007) and 72% (2008).

December, January and February still show potential for an increase in visitation. Overall, annual occupancy in 2008 has been marginally lower than in the previous year.

**Supply Analysis**

Table 6 shows the city’s current hotel supply.

**Table 6 Existing Hotel Supply –Berlin 2008**



Source: Dehoga 2009

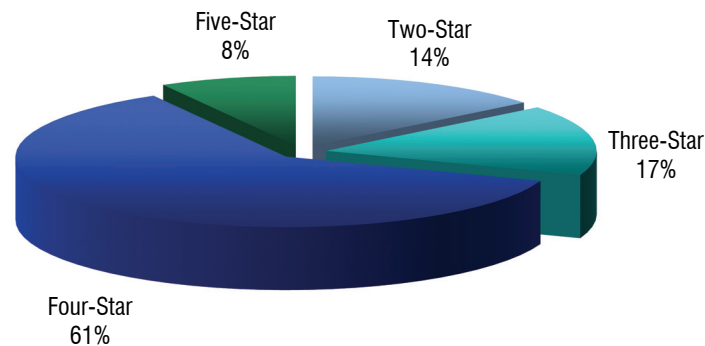
As can be seen from Table 6, three-star hotels accounted for the largest percentage of hotel supply with approximately 45% of the total supply in



2008. Four-star hotels followed with 36% of total hotels. Five-star hotels account for 6% of total hotels. However, it should be noted that Berlin has a notably high proportion of international luxury brands even though occupancy and average rate are lower than in other Western European cities. Other hotels (two-star and one-star hotels) account for the balance of 13% of total hotels in the market.

Table 7 shows the future hotel supply within the city.

**Table 7 Future Hotel Supply – Berlin**



Source: Treugast

There is clear evidence of investor belief in the growth potential of the city in the shape of another 49 hotel projects in the pipeline adding 11,669 rooms to Berlin's inventory within the next three years. According to Treugast, there will be 30 new establishments in the four-star upscale to upper-upscale segment, representing more than 60% of the market. There will be four additional hotels in the five-star luxury segment and 15 new hotels entering the market in the two-star and three-star segments.

However, owing to the recession we expect the majority of these projects to fail to materialise or to be delayed by at least two to three years.

Among the confirmed projects are the Arcotel Hilton Waldorf-Astoria at Berlin Zoo (242 rooms); the Adina Hauptbahnhof (139 rooms); the 575-room Scandic hotel at Potsdamer Platz; a five-star Eurostars design hotel (180 rooms); the 385-room, four-star NH Medienhafen; and a 175-room, luxury five-star H10.

## Real Estate Profile

Since reunification, Berlin has experienced a major profile shift accompanied by the eventual acceptance of the city as the German capital. Owing to the city's post-war history, each of Berlin's districts has a different image with its own characteristics. City-East (Friedrichstrasse, government buildings, Unter den Linden, Brandenburg Gate, Cultural Forum, Philharmonic Concert Hall and the National Gallery) contrasts





with City-West (Kurfürstendamm, Memorial Church, Charlottenburg and the Zoo) with both areas attracting millions of visitors every year.

In the mid 1990s Potsdamer Platz became known as the biggest building site in Europe. Redevelopment and reconstruction in the city continues and green-field sites have been developed into a pulsating centre with hotels, shopping facilities, office space, casinos, cinemas, and so forth. This was mainly driven by factors such as the availability of space, adequate terms for investment for developers and master planning.

Between 2000 and 2006 the city experienced rapid growth and gained importance within Germany as well as the EU, which resulted in a thriving real estate development market supporting growth in offices, residential, retail and hotels. There are still vacant buildings and pre-unification office space that need to be refurbished. This represents an attractive proposition for domestic and international investors looking to enter the city. Compared to other European capitals, the price per square metre for real estate in the centre of Berlin is relatively low, which is another reason why investors have been attracted to Berlin.

Relatively low prices, high expectations for growth and the fact that almost all the major hotel brands were entering the market created momentum and resulted in a confirmation for future investors that Berlin was a good opportunity to pursue.

It is clear that Berlin will continue to grow and to change but the real estate being made available for hotel development is creating a real threat of serious oversupply. Our research indicates that this situation is expected to last for the next five to eight years.

The current approach of the urban planning department in Berlin is to restore and renovate the city's original layout and shape within its original borders. Within this master plan the city is revitalising areas such as the following.

- Alexanderplatz (mainly refurbishment of existing buildings predominantly for retail development);
- New Humboldtforum (castle reconstruction and further additional elements of Museum Island);
- Stadtquartier Hauptbahnhof (new cultural hub);
- Science and Business Park Adlershof;
- Mediaspree (huge development scheme to attract communication- and media-related business and create a mix of offices, retail, townhouses, lofts and restaurants);



- City West including a 185 m Ferris wheel (in the style of the London Eye) at Zoologischer Garten, regeneration projects for mixed-use property, retail, office and hotel development.

## **Conclusion**

Berlin, as the capital of Germany, has an extraordinary history and is well known in Europe and many countries around the world. As a result, visitation has increased significantly over recent years. Berlin benefits from both leisure and business demand, with leisure demand still showing potential to increase, especially through a change in image as well as by targeting guests with a higher spending profile than the current budget-conscious visitors.

New key development areas such as Mitte and City-West, as well as new suburban areas like the developments in Adlershof and Mediaspree, will also attract the interest of hotel investors towards the regeneration plans for the city. Furthermore, the new BBI airport offers significant potential for hotel development.

In order to attract a higher-spending guest profile the city is further improving its image with the development of Museum Island (costing more than €1 billion) and several other projects under construction or in the pipeline.

Equally, the city is focusing on attracting more company headquarters (especially in the media, communication and IT sectors) as well as actively promoting itself as one of Europe's major conference and convention cities.

The current economic environment makes it difficult to predict hotel performance, trends and developments over the coming 12 to 24 months, but as it consolidates its role as Germany's capital, and despite the shadow of oversupply, Berlin still has potential and remains an attractive location for hotel investment in the long term.



### About the Authors



**Gabriele Kiessling** is a Market Intelligence Analyst at HVS's Madrid office. Gabriele is originally from Berlin and, in addition to her native German, speaks English, Spanish and French. She graduated from the University of Surrey in 2003 and holds a Bachelors Degree in Tourism and Management. Since joining HVS in 2007, she has been responsible for all aspects of market intelligence and supports the activities of the Madrid office through research, analysis, consultancy and writing publications.



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