

GERMAN HOTEL MARKET STILL FAR FROM THE PRE-CRISIS LEVELS



After two years in a state of emergency, the German hotel market is still far from pre-crisis levels. Now, the situation seems to be improving, even though the industry is still wavering between hope and fear, according to an analysis by bulwiengesa.

When the lockdown was lifted, tourist demand picked up again in many places - at least slowly. Accordingly, the monthly surveys on the real estate climate at the end of 2021 and the beginning of 2022 showed that the mood in the hotel asset class recovered after a rapid decline in 2020. **However, not long after that, with the beginning of the war in Ukraine, hope faded for many players.**

The German hotel market has held up relatively well in the crisis so far. The mass insolvency feared at the beginning of the crisis did not materialize, although overnight stays in the German lodging industry fell by almost 40% in both 2020 and 2021. At the same time, some vacation regions achieved higher tourism figures in the summer months of 2020 and 2021 than before Corona, from which some hoteliers may also have benefited. Thus, many people are already talking about the "new significance of the vacation hotels".

Corona has also had a severe impact on large parts of the German hotel market. In particular, hotels in large and medium-sized German cities, which were the main drivers of tourism demand in Germany before Corona were therefore highly favored by investors for many years. In cities with more than 500,000 inhabitants, the decline in overnight stays was 56% in 2021 compared to 2019. However, a closer look at individual cities reveals differences. While the level of overnight stays in the twelve major cities was almost 50 to 60 % below normal even at the start of 2022, the situation in smaller cities was often not quite as dramatic. This is increasingly attracting the attention of operators and investors to C and D cities.

Despite all the euphoria in the vacation hotel industry, it should also be remembered that not all vacation regions in Germany were in as much demand as the coastal regions, for example, and that demand was particularly directed toward types of accommodation that offered a high degree of flexibility and privacy, namely vacation homes and apartments or even campsites. It is no coincidence that project developers are desperately looking for land for new vacation home developments; the purchase prices for vacation apartments and houses are rising significantly. In addition, it is questionable whether Germans will continue to visit German vacation areas with the same intensity when other countries become accessible again. After all, not only have hardly any guests from abroad traveled to Germany in the last two years, but hardly any Germans have traveled abroad either. This will most certainly change again. Because countries in which tourism is the main source of income, in particular, will use every means at their disposal to bring tourists into the country. One effective means of doing so is price. In this respect, the high increase in room rates on the North Sea and Baltic Sea, as well as the high inflation in Germany, which has already exceeded the five percent mark, does not bode well. The Germans' high price sensitivity does the rest.

It is also more than questionable how companies worldwide will deal with trade fairs and congresses

or with business travel in general in the future. Various survey results show that many companies will reduce their travel activities. Accordingly, it requires a certain degree of optimism to believe in a pre-Corona level and a rising rate level in the near future. Especially since competition in the city hotel industry has increased rather than decreased in the last two years, as new hotels have opened in many places and are still under construction or in planning.

The German hotel market is not only under enormous pressure on the revenue side - which, by the way, has not been characterized by particularly high growth rates in recent years either. In the nine years before Corona, RevPAR (revenue per available room) rose by just 29%; in the two Corona years, it fell by 64%, which is why supporting factors such as liquidity assistance, VAT cuts, short-time working allowances or rent reductions were absolutely necessary to save businesses.

But for the most part, these measures are only temporary; hotel operators are burdened by rising costs. First and foremost are wages, which are now finally rising in the hotel and catering industry, a long-overdue measure in view of the lack of workers in the industry and the shockingly low wage levels in the hotel and catering sector. On the cost side, there are also rising energy costs, rising costs of goods and supplies, and rising construction costs, which are being further fueled by the current high inflation rates. This also applies to rents for leased operations, which are generally indexed.

In addition, many companies need to invest in digitization and sustainability in order to remain fit for the future. Neither of these comes as a surprise, but they are hitting the industry at a very inopportune time.

The pandemic was not foreseeable, but the need to design operations that are more people-extensive, more digital and more sustainable, as well as portfolios with higher diversity, was in order to be prepared for the future. Some operators, investors and developers recognized this early on and have therefore come through the crisis comparatively well so far. Accordingly, investor interest is currently focused on innovative hotel concepts, serviced apartments or operator-free properties with restructuring potential. However, many companies lack the funds to invest now, which is why the path the hotel market will take in the coming months remains unclear.

At the present time, we do not yet see any clear signs pointing to an all-clear in the German hotel real estate market. Rather, we expect to see further closures, takeovers and conversions of hotel properties in the coming months, as well as falling property prices and a decline in the volume of new construction.

This could cause problems in some places, as tourism in Germany is not possible without an attractive hotel industry; this contributes to around seven percent of Germany's value-added and employs around nine percent of all workers in Germany. The future of hotel real estate, therefore, does not depend solely on the return of tourist demand, but on the support of all those who benefit directly or indirectly from an attractive hotel landscape in Germany.

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