

2010 compared to...

	2008	2009
Investment turnover	↓	↑
Prime yield Hotel	→	→
ADR	↑	↑
Occupancy	↑	↑
RevPAR	↑	↑

Source: CBRE Hotels, STR Global

2010 from expert's point of view

Olivia Kaussen, Head of CBRE Hotels Germany:

'For most of the transactions which took place during 2010, we recorded yields between 6.25% and 7.25%. We expect the transaction volume for the current year to reach at least € 1 billion.'

'Many international investors are interested in the German market and in large core properties in top locations in particular. If the right product had been on the market, we would have realised a much higher transaction volume. As a result of the strong demand and limited supply in the core segment, we expect yields to fall. If the owners of top hotels decide to sell their properties in 2011, the signs of achieving a high purchase price are good.'

OVERVIEW

• Economy

The economic upswing in the German economy has continued. The economic engine continues to drive forward, even though the rate of expansion in the last quarter of the year slowed down slightly; this was expected. According to the most recent statement from the Federal Statistical Office, the Gross Domestic Product in the fourth quarter of 2010, seasonally and working day adjusted, increased by 0.4% to 0.7% in real terms in the third quarter. In 2010 the German economy grew by 3.6% and therefore confirmed its strengths in a European and international comparison.

The macroeconomic recovery brought employment growth in almost all economic sectors. According to recent statements from the Federal Statistical Office, over 41 million employees worked in Germany in the fourth quarter of 2010. This is 422,000 or 1.0% higher than the figures released for the previous year. The longer-term forecasts for the employment market are positive according to the early indicators, which would suggest that the number of unemployed people should fall further.

In view of the welcome developments in the employment market, German consumer sentiment is improving. Increased income expectations and a higher tendency to spend will ensure that Germans maintain their position as travel world champions in 2011, preferring to travel to German tourist destinations. Germany also enjoys an excellent reputation as a travel and holiday destination with travellers from abroad and therefore a further rise in the numbers of overnight stays of approx. 2.0% compared to 2010 is expected in 2011.

• Hotel investment market

The positive outline economic conditions in 2010 not only produced good operational results for hotels, but also more than doubled the previous year's investment volume, with a total investment turnover in the hotel sector of approx. € 890 million. This roughly corresponds to the long-term average before the boom years of 2006 and 2007, in which more than € 2 billion was transacted in each year.

Hotel investment volume accounted for an approx. 5% share of the € 19.1 billion invested in commercially used properties in Germany in 2010. Foreign investors were particularly active, accounting for approx. € 500 million of the investment volume. The lion's share of transactions took place in the second half of the year, whilst the first half of the year was still very restrained. While 2009 was dominated by single asset transactions, portfolio sales shifted more to the forefront in 2010, accounting for an almost 50% share in the total volume. It is important to note that only international investors were active as purchasers of portfolios. German investors were particularly active in the case of smaller transactions in the 2- to 3-star categories. At present, net yields for hotels with operating leases are in the region of 6.25% to 7.25%, depending on the location and quality of the property, creditworthiness of the operating company and terms of the operating lease.

Hotel market key data

	2009	2010	Annual change
Investment turnover, € million	351.0	886.1	+ 152.5%
Prime yield Hotel, %	6.25	6.25	0.0%-Pts.
ADR, €	80.38	90.49	+ 12.6%
Occupancy, %	59.90	63.40	+ 3.5%-Pts.
RevPAR, €	48.17	57.37	+ 19.1%

Source: CBRE Hotels, STR Global

Tourism in Germany 2010

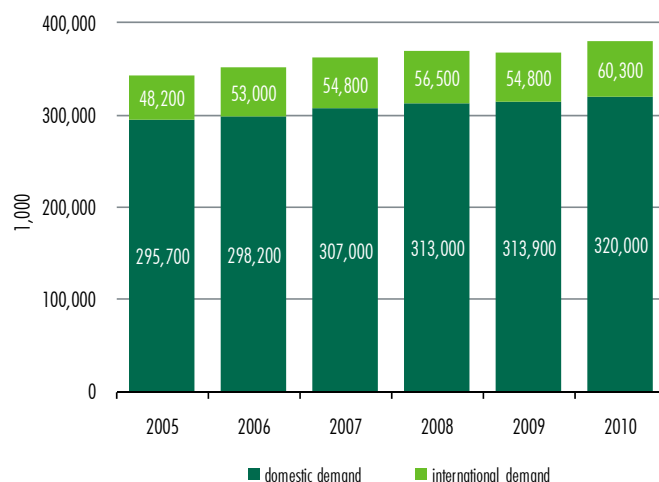
The tourism industry in Germany had a successful year 2010. According to the preliminary year-end figures released by the Federal Statistics Office, a historic high in the number of guest overnight stays was achieved in 2010 as a result of the rapid macroeconomic recovery following the financial and economic crisis and the attractive supply of German holiday destinations. The figure of approx. 380.3 million overnight stays across all accommodation types in Germany (+3.2% on 2009) is the highest since the start of the surveys in 1992. There was also a significant rise of approx. 10% in the number of guests coming from abroad. The 60 million-mark (with approx. 60.3 million overnight stays) was exceeded for the first time in Germany, with a rise in overnight stays by both business travellers and leisure tourists compared to 2009. Approx. 76% of all international visitors were Europeans.

The German lodging industry registered the highest annual growth rate of all types of accommodation of approx. 6% compared to the previous year, which was inter alia influenced by the rise in business travel. A slight fall was only registered in preventative care and rehabilitation clinics, with year-on-year overnight stay figures for other facilities such as campsites and holiday homes remaining unchanged. For the first time since 2006, the German lodging industry registered growth of a nominal 2.2% over the previous year. The highest rise in turnover of 6.9% was registered by the accommodation sector, with hotels, guesthouses and B&B establishments registering the highest growth in turnover.

Passenger volume at German airports increased significantly in 2010 compared to the previous year: 166 million passengers were recorded in 2010, which is approx. 8 million more than in the previous year. This corresponds to a growth of approx. 5%. A more substantial rise would have been possible if there had not been such adverse winter conditions, which caused passenger numbers in December to fall again. In a Germany-wide comparison for 2010, Frankfurt Airport registered the highest number of passengers of approx. 52.7 million, ahead of Munich with 34.6 million and Berlin (Schönefeld and Tegel) with 22.3 million.

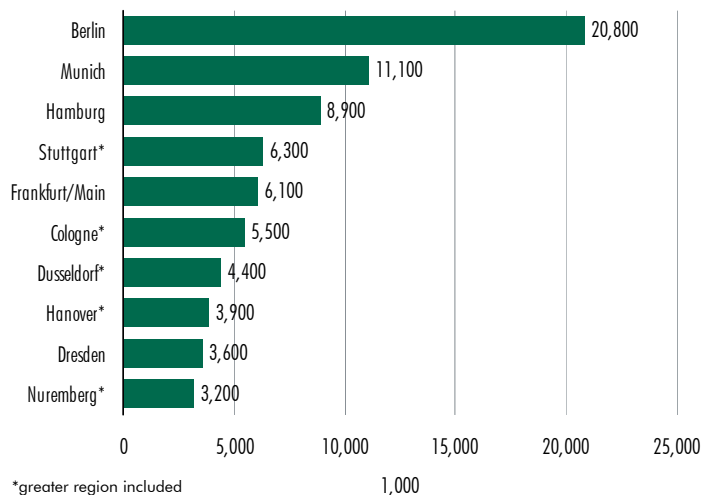
According to estimates by leading representatives of the tourism industry, this upwards trend will continue over the course of the coming year. This means that a further rise in the number of overnight stays is anticipated, boosted by some major events taking place in 2011, including the Women's Football World Cup and the Alpine Skiing World Championship in Garmisch-Partenkirchen. The focus for tourism in Germany in 2011 are city and spa breaks, consistent with the annual theme of 'Health and Spa breaks' promoted by the German Tourist Board.

Overnight stays across all accommodations Germany 2010



Source: Federal Statistical Office

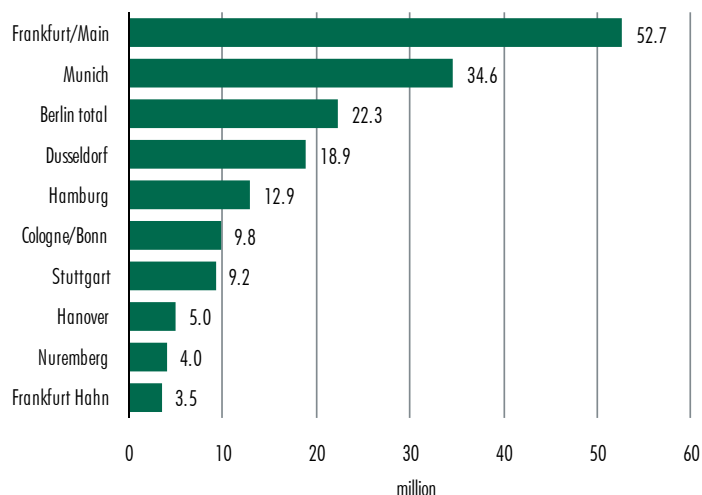
Overnight stays across all accommodations Germany Top 10 2010



*greater region included

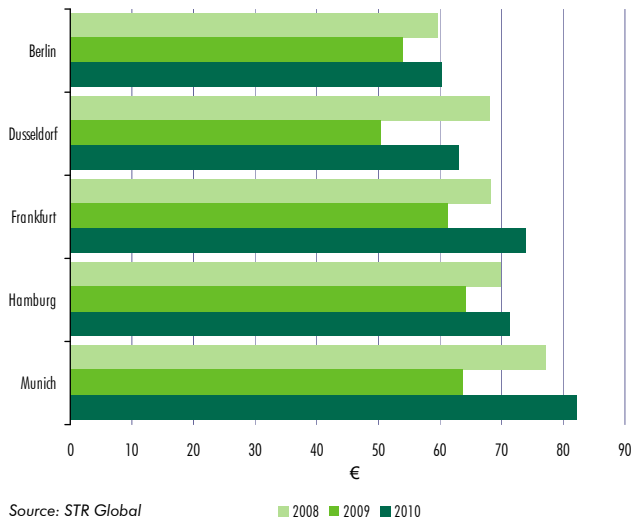
Source: Federal Statistical Office

Passenger volume at German airports Top 10 2010



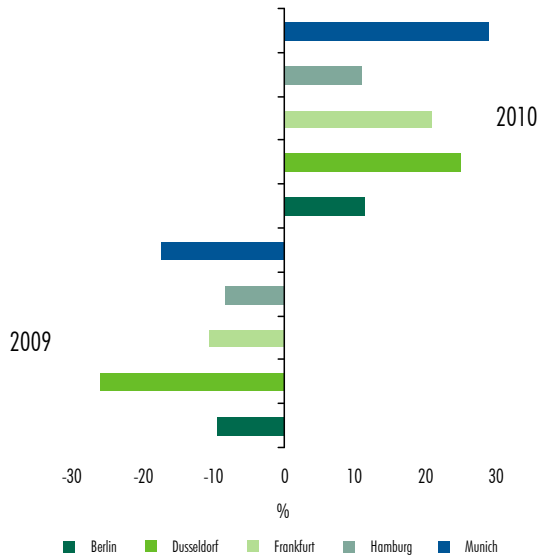
Source: ADV

RevPAR annual comparison Top 5 Germany



Source: STR Global

RevPAR annual change Top 5 Germany



Source: STR Global

Historic ADR development Top 5 Germany



Source: STR Global

Hotel market development

In 2010 the German hotel market benefited not only from the general recovery of global economic conditions, but particularly from the strong domestic economic growth. According to the Federal Statistical Office, hotels, guesthouses and B&B establishments in Germany were able to increase turnover in 2010 by a nominal 7.1%. According to STR Global, growth rates in the chain lodging industry in the major German cities grew on average by a staggering 19% compared to the previous year. Since registering strong falls in revenue per available room (RevPAR) in 2009, Berlin, Dusseldorf, Frankfurt, Hamburg and Munich realised rapid recovery in terms of occupancy and the net average daily rate (ADR) in 2010. The positive RevPAR development in the key German hotel markets resulted from an increase in overnight stays and visitors numbers, particularly in international guests, and from the reduction of VAT for accommodation services from 19% to 7% in January 2010, which had a significant impact on the achieved rate increases – as this tax benefit was very rarely passed on by hoteliers to their guests.

The city of Berlin has the largest supply of hotels in Germany and registered a record result of over 20 million overnight stays in 2010. This corresponds to 5% growth compared to the previous year. The number of foreign guests rose by 13.7%. This confirms that there are signs of growth in hotel operational results following the difficult crisis year 2009: RevPAR rose by almost 12% to € 60. Average occupancy was 69% (+2.5%), the ADR stood at € 87.00 (+9%). This positive result was also boosted by the well attended trade fairs, ILA and LinuxTag. Nevertheless, the RevPAR of € 60 is still very low when compared with other major cities. In Berlin, 90,000 hotel rooms are available in 489 establishments and approx. 7,000 rooms are under construction or in planning. This means that the Berlin hotel market in some segments remains subject to intense competition. There are currently approx. 5,150 rooms under construction, including the Waldorf Astoria Hotel (242 rooms, planned opening in the fourth quarter of 2011), the Steigenberger BBI (332 rooms, planned opening in the fourth quarter of 2012), the Sheraton Hauptbahnhof in the Lehrter city district (464 rooms) and the adjoining InterCity Hotel Berlin Hauptbahnhof, both of which should open by the end of 2012.

Dusseldorf registered a RevPAR growth of 25.1% in 2010. This development is comparable with Munich and is due mainly to a considerable uplift in the ADR from € 88 to € 104 (+18.2%). At the same time, hotel occupancy remained comparatively low at 60.4% (2009: 57.1%). In general, the Dusseldorf hotel market is strongly tied to the trade fair calendar. Whilst in 2009 only three major trade fairs took place, which contributed to a strong fall in the RevPAR of 26%, 2010 was a much more dynamic trade fair year.

Irrespective of the positive trend, the RevPAR of € 63 continued to lag behind the result from the pre-crisis year 2008 (€ 68), during which the world's largest trade fair for printing and paper DRUPA took place. With the 194 room 4-star Superior Van der Valk Airport hotel Dusseldorf, the supply of airport hotels increased in June 2010. The 290-room Hyatt Regency Hotel in Medienhafen opened in October 2010; however, the hotel pipeline in Dusseldorf has almost come to a standstill and this aspect offers particular opportunities for the next few years.

According to STR Global, Munich registered the strongest RevPAR growth of all major European cities in 2010. Compared to 2009, the Bavarian state capital was able to register an increased turnover per room of 29%, thanks to growth in occupancy of 8.4% and a rise in the average rates of 19%. Comparing the ADR with the rest of Germany, Munich (€ 113) took over the leading position from Frankfurt (with € 115) as the best performing market. In terms of occupancy, Munich took first place from Hamburg, with 71.6% compared to 71.0%. The success of the metropolis on the river Isar was helped by the good trade fair year, particularly by the BAUMA in April. There was growth in the supply of hotels by the end of 2010 and at the beginning of 2011 due to the opening of two Motel One hotels (Deutsches Museum and City South) and the 4-star Superior Hotel Leonardo Royal with 424 rooms. A further approx. 1,250 rooms are under construction. The majority of the planned hotels are in the 2- to 3-star categories and are situated in peripheral locations.

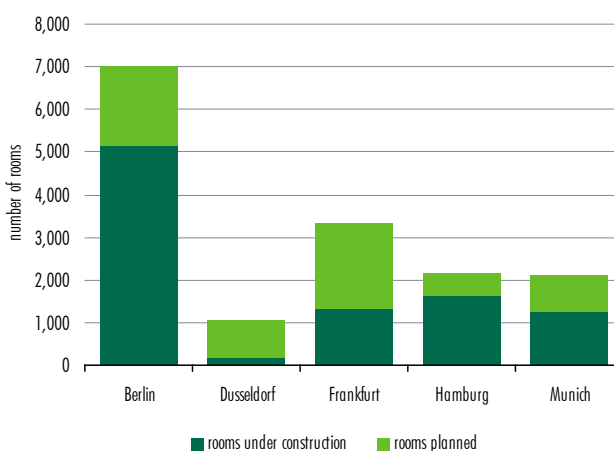
As an international hotel market, Frankfurt am Main is almost exclusively focussed on business travellers. This is reflected by the relatively low occupancy due to weaker demand during weekend and holiday periods. Nevertheless, Frankfurt registered considerably higher occupancy in 2010 (65.5%) compared to the previous year (58.1%). The ADR reached a level of € 113, which equates to an increase of 7.2% compared to the year before. In addition to the macroeconomic recovery, Frankfurt profited from a successful trade fair year (e.g. Automechanika) and the strengthening of the "Meetings, Incentive, Conferences and Events" (MICE) business. Germany's largest airport, Frankfurt Airport, also registered further growth. The opening of the Jumeirah Hotel Frankfurt with 219 rooms has been announced for September 2011. The Hilton Hotel Frankfurt Airport and Garden Inn by Hilton (together 582 rooms), both of which are included in the 'The Squire' development at Frankfurt Airport, are under construction and should open in July 2011. Other hotels in planning include the Japanese Toyoko Inn with over 400 rooms and the extension of the InterCity Airport Hotel, which will offer approx. 800 rooms by 2013 as part of the airport extension (construction of the new Terminal 3). The construction of the 405 room Grand Hyatt Hotel in the Europaviertel has not yet commenced. A total of approx. 1,300 rooms are under construction and a further 2,000 are in the planning stage.

Historic occupancy development Top 5 Germany



Source: STR Global

Hotel future supply (2011-2014) Top 5 Germany

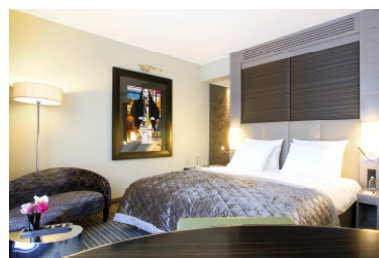


Jumeirah Hotel Frankfurt



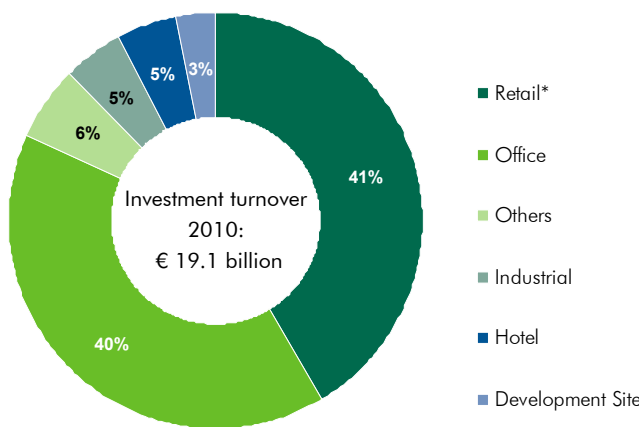
Copyright PalaisQuartier GmbH & Co. KG

Hyatt Regency Hotel Dusseldorf



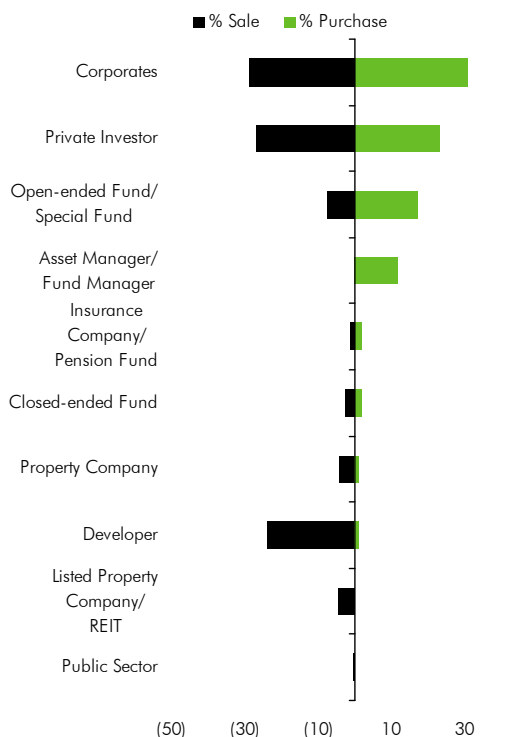
Copyright Hyatt Hotel Corporation

Investment turnover by type of use



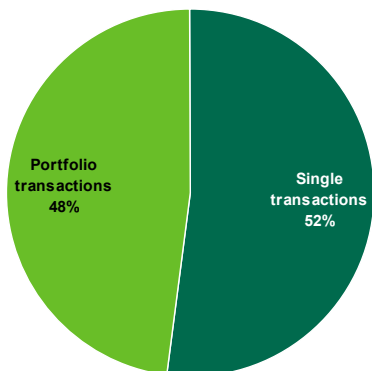
* High street retail, shopping centres, retail warehouses and retail parks

Hotel investment turnover by type of investor*



*Share of investment turnover 2010, %

Hotel investment turnover by type of transaction



Around 80% of hotel demand in Hamburg came from Germany. This makes the Hanseatic City the least international hotel market of the major German city markets described in this report; however, Hamburg is a popular destination for both business travellers and leisure tourists. In 2010 the city registered occupancy of 71%, which was almost at the same level as the previous year (70%). The ADR rose by 9% to € 100. Compared to the other key markets, RevPAR growth in Hamburg was rather low, as the Hanseatic City did not experience a dramatic downturn the year before. RevPAR in 2010, at € 71, was almost at the same level as the pre-crisis year 2008. Numerous new hotel projects are under construction in conjunction with the development of the harbour site. A total of approx. 1,650 rooms are currently under construction and a further 500 rooms are in the planning stage. The most prominent of the projects under construction is the 244-room 5-star hotel above the Elbphilharmonie, which should open in 2013. Westin Hotels and Resorts has been named as a potential operator.

Hotel investment market

Following the boom years of 2006 and 2007, each with a transaction volume of over € 2 billion, the volume halved in 2008 due to the effects of the financial crisis. The German hotel investment market almost came to a standstill in 2009, registering only € 350 million. International purchasers were scarce and practically no portfolio transactions took place. In the boom years, it was the latter which contributed significantly to activity and the globalisation of the market. With the return of the international investors, the market recovered in 2010, registering over double the transaction volume, at approx. € 890 million. This is almost equal to the level that was achieved on average during the 10 years before the boom in 2006/2007. The commercial property investment market recorded a turnover of 19.1 billion €, which corresponds to a growth of 83% from the 2009 level. In terms of investment volume, the hotel investment market played a minor role, accounting for only 5%.

The hotel investment market mainly began to recover during the second half of 2010, during which time approx. € 550 million was transacted. The reason for this was not only the increased cashflows of the hotels, but also the increasing willingness of banks to finance hotel transactions. Approximately half of the investment volume was driven by portfolio transactions. Most of these were done by foreign investors, very few of which were active in 2009. The vendors in the two largest portfolio transactions were the hotel operators (corporates): B&B Hotels sold Hotels in France and Germany to Foncière des Murs, a French institutional investor as part of the take-over of the hotel operating company by Carlyle Group. The same group joined forces with Predica, which belongs to Crédit Agricole, to acquire a European portfolio from the French hotel chain Accor SA at a price of € 367 million.

This portfolio included seven German Novotel and Ibis hotels with a total of approx. 1,200 rooms. Accor also sold four hotels to the Irish Dorlan Hotels LLP and secured the Mercure brand by way of franchising agreements. The most important German institutional investors, such as CommerzReal AG, Deka Immobilien GmbH, LB Immo Invest GmbH and Union Investment Real Estate GmbH, were active in the domestic market with their open-ended public funds and special funds. We also registered individual acquisitions by closed-ended funds and pension funds.

The Motel One brand was particularly popular with German investors. For instance, Motel One hotels in Leipzig, Berlin and Hamburg changed hands and were sold to Lloyd Fonds AG, RREEF Investment GmbH and CommerzReal AG. The trend towards the 2- to 3-star hotel category was confirmed by the acquisition of the Holiday Inn Express hotel in Dresden by Union Investment Real Estate GmbH. Of the almost 50 hotels sold in Germany, approx. a third belonged to the 2-star category and a third to the 4-star category. However, 4-star hotels accounted for the majority share of the transaction volume with 43%.

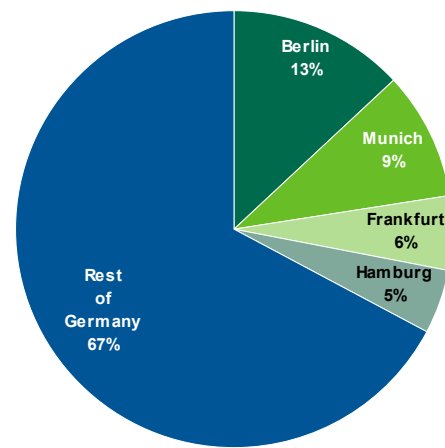
Hotel investment turnover Top 4

Only approximately a third of the 2010 transaction volume was recorded in the four largest German hotel markets: Berlin, Munich, Frankfurt and Hamburg. Of this volume, Berlin took the lead with 13%, ahead of Munich with 9%. Frankfurt and Hamburg only accounted for 6% and 5% of the volume respectively. One of the largest transactions was the Alexander Parkside Development in Berlin, including two hotel projects (a Holiday Inn Express Hotel and a Hampton by Hilton). The vendor was IVG AG and the project was purchased by Azure Properties from Luxembourg. The largest transactions in Munich included the sale of the NH Hotel Deutscher Kaiser at the central railway station and the Novotel at the airport.

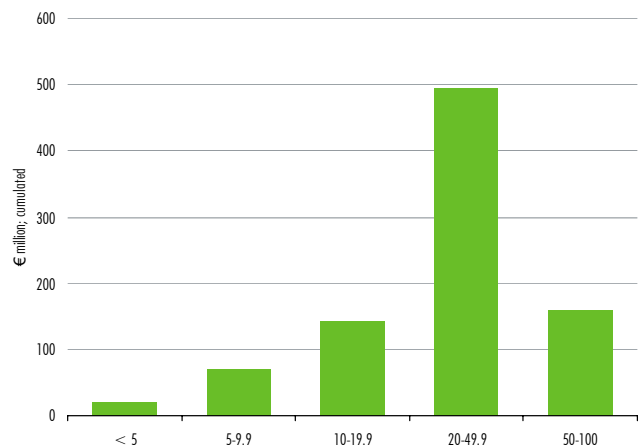
Development of prime yields

In contrast to other commercial property market segments, the hotel market has registered few transactions and very little information is available. Achieved yields can therefore often only be estimated. The prime net initial yield in 2010 was 6.25% and the gap in net yields between 2- and 4-star hotel categories continues to narrow. The 2-star hotel category, which until now was not favoured by institutional investors due to the location and low investment volume, gained in attractiveness in 2010. This was encouraged in particular by the hotel chain Motel One, which offers investor-friendly operating leases for large hotels, some with more than 400 rooms in city centre locations. We assume that the sustained strong demand for core properties in 2011 will put pressure on prime yields in the hotel asset category.

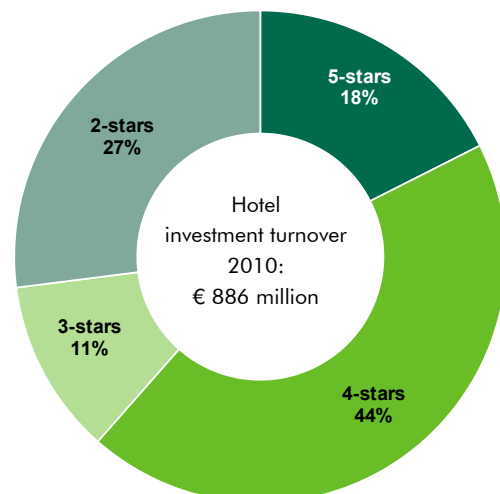
Distribution of the Hotel investment turnover in Germany



Hotel investment turnover by size



Hotel investment turnover by stars classification



Selected Hotel single asset transactions 2010

Hotel name	City	Classification	Number of rooms	Vendor	Purchaser
Sana Hotel	Berlin	4-stars	208	Grupo Urovasco	Sana Hotels
Motel One Spittelmarkt	Berlin	2-stars	303	GBI AG	Commerz Real AG
Schlosshotel Bühlerhöhe	Baden-Baden	4-stars	90	Dietmar Hopp	Anna Maria Vermögensverwaltungs GmbH
Le Meridien Domhotel	Cologne	5-stars	120	Lammerting Immobilien Gruppe	Bayerische Versorgungskammer
Holiday Inn Express	Dresden	3-stars	218	Foremost Real Estate	Union Investment Real Estate GmbH
Radisson Blu Scandinavia	Dusseldorf	5-stars	309	Private investor	Weenaas-Gruppe
Atlantic Hotel	Essen	4-stars	248	Zech-Gruppe	Deka Immobilien Investment GmbH
Motel One Hamburg Airport	Hamburg	2-stars	252	Private investor	RREEF
Hyatt Regency	Mainz	5-stars	268	Mainzer Aufbaugesellschaft	Azure Properties

Selected Hotel portfolio transactions 2010

Portfolio name	City	Classification	Number of rooms	Vendor	Purchaser
B&B Hotels	Germany	2-stars	1,850	B&B Hotels GmbH	Foncière des Murs
Accor	e.g. Berlin, Frankfurt, Munich, Nuremberg	3- / 4-stars	1,140	Accor Hotels	Joint Venture Predica & Foncière des Murs
Ghotel	Brunswick, Hanover, Munich	2-stars	747	Deutsche Annington Immobilien GmbH	Aurelius AG
Mercure	e.g. Brunswick, Hagen, Hamm	4-stars	588	Accor Hotels	Dorlan Hotels
Citadines Hotels	e.g. Munich	3-stars	n/a	Ascott Ltd	Ascott Residence Trust

Outlook

It can be assumed that the positive trend in the German hotel market will continue through 2011. Thanks to the strengthening demand in the leisure and business segment including the conference business, which is of major importance to the city hotel business, operational results of hotels will likely improve further. However, the growth rates are likely to be lower than in 2010. Due to the improving economic conditions, we assume that banks, irrespective of Basel III, will finance a greater number of hotel investments in the core and core plus segments in the future and, as a result, the gap between the purchase price expectations of vendors and the achievable sales prices will narrow, allowing more transactions to take place than in 2010. We expect the investment volume to reach at least € 1 billion in 2011. In Germany, even the most recent results of the Bank Lending Survey suggest that there are no signs that banks are holding back the upswing. In the third quarter of 2010, they showed a slight easing of lending regulations for companies for the first time since the beginning of the financial crisis. The recent ifo Credit Constraint Indicator also points towards a clear easing of tensions in bank lending for 2010; nevertheless, we expect new financing deals for hotel investments to remain limited and assume that margins – particularly in the case of LTVs above the 60% mark – will remain high due to the restrictive equity capital requirements imposed by banks. Low interest rates will make it possible for borrowers to extend current loans with existing lenders, whilst re-financing by other banks will often not be possible due to the increased equity capital requirements for new deals.

In view of the Germany-wide sustained high demand for hotels, particularly in the core segment, we expect prime yields for individual types of properties to fall. High demand is confronted with a limited supply of hotels for sale. In our opinion, some owners who held onto their hotel properties during the crisis could be encouraged to release them onto the market for sale in 2011. The trend towards the modern, design-oriented 2-star hotel category will, in our opinion, be sustainable. The increasing supply of hotels in this category in city centre locations will improve the attractiveness and suitability of these projects for financing. Furthermore, we expect that a greater number of 4- to 5-star hotels will be released onto the market and dormant projects realised.

Hotels, which are operated on the basis of a management agreement, will continue to be difficult to sell in the German market because German institutional investors focus on fixed rental income. As a result, these hotels will also continue to be acquired mainly in the Anglo-Saxon market.

DEFINITIONS

Prime yield

The prime yield (net initial yield) is the ratio between the initial annual net rental income (rent less non-recoverable costs) and the total amount invested (purchase price plus purchaser's on-costs = gross purchase price), expressed as a percentage figure, achievable in the relevant prime location, in an asset that is in first-class condition and fully let in line with market levels. It is based both on sale & purchase contracts concluded during a period as well as on the market view of the local investment department.

RevPAR

The RevPAR ('Revenue per Available Room') is calculated by dividing total rooms revenue for a certain period by the total number of rooms available during that period.

ADR

The ADR ('Average Daily Rate') is equal to the net average rate charged per occupied room and is calculated by dividing total rooms revenue for a certain period by the total number of rooms occupied during that period. It may also be referred to as ARR.

Disclaimer 2011 CB Richard Ellis

Information herein has been obtained from sources believed reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by CB Richard Ellis GmbH clients, and cannot be reproduced without prior written permission of CB Richard Ellis GmbH.

For further information:

CBRE Research Germany

Dr. Jan Linsin

Director,
Head of Research Germany

t: +49 69 170077 663

e: jan.linsin@cbre.com

Tobias Brandt

Analyst,
t: +49 89 24206076
e: tobias.brandt@cbre.com

CBRE Hotels Germany

Olivia Kaussen

Director,
Head of Hotels Germany

t: +49 89 24206025

e: olivia.kaussen@cbrehotels.com

Peter Hamacher

Analyst,
t: +49 89 24206022
e: peter.hamacher@cbrehotels.com