

# [ Hotel Market Germany ] and the Corona crisis

## – Impacts and prospects as of December 2020 –

In recent years, the German hotel market has seen steady growth in the key performance indicators *average room occupancy*, *net room rate* and *RevPAR* (revenue per available room). With the onset of the Corona pandemic in Germany, RevPAR plummeted by around 66 % year-on-year in March (source: Fairmas/STR). In the following two months, the declines amounted to more than 90 % compared to 2019. Between June and October, RevPAR averaged between 47 % and 77 % below the prior year’s level. With further pandemic containment measures implemented for November and December, declines will continue to increase.

### Situation until 2019

#### » Growing capacities

+16 % more hotel beds between 2010 and 2019 (+1.6 % p. a.)

2017-2019: accelerated expansion of bed capacities by 2.7 % p. a.

numerous new hotel projects under construction and in the planning stage: continuous hotel boom

increasing competition in some markets due to growing supply

#### » Continuous increase in demand

+39 % more overnights between 2010 to 2019 (+3.7 % p. a.)

The share of overnights by foreign guests has remained stable at around 25 % over the ten-year period, with some variations depending on the individual market.

#### » Rising occupancy rates due to disproportionately high growth in demand

monthly RevPAR in Germany (YTD October)



The future development in the course of the Corona pandemic is subject to various influences in the individual market segments (including supply and demand structure), in addition to economic, political and social conditions. Looking back at past crises, common assumptions regarding the development of demand assume that

- » markets with a focus on **national** guests will recover faster than those with a high dependency on **international** guests,
- » markets that can compensate for the decline in the **business** travel segment with **leisure** travelers will also recover faster.

## Methodology

Based on experiences from past crises and the impact of the pandemic on the individual markets YTD, it is assumed that there will be significant differences in the performance of the individual segments in terms of recovery in the coming years. To derive a possible future scenario, the development of the individual segments in 2020 was evaluated at first (historic figures: source Fairmas/STR; see p. 3f).

The cities in Germany with the highest demand were classified based on their guest mix (origin and purpose of travel, see matrix). A distinction was made between the **TOP 6 cities** (>5 m overnights in all accommodations in 2019), which – except for Hamburg – have a comparatively high share of international guests, and the **secondary cities** with 1-5 m overnights. A selection of cities was examined for both of the secondary location segments. In order to take the markets mainly targeting leisure travelers into account, a selection of hotels in typical vacation regions (**mountain, lake and sea destinations**) participating in the Fairmas benchmark comparison was made.

In summary, the following clusters arise:

- » TOP 6 cities with a high share of international guests and business/leisure mix
  - › Berlin, Munich
- » TOP 6 cities with a high share of international guests and a strong business focus
  - › Cologne, Düsseldorf, Frankfurt
- » TOP 6 with comparably high share of national guests and a business/leisure mix
  - › Hamburg
- » Secondary cities with a strong business focus
  - › Dortmund, Essen, Hannover, Mannheim, Nuremberg, Stuttgart
- » Secondary cities with a strong leisure focus
  - › Baden-Baden, Dresden, Rostock
- » Mountain, lake and sea destinations with mostly national leisure guests
  - › *Selection of hotels*

The clusters are based on examples and are not generally valid for individual locations. Due to the various influences, the recovery period can vary considerably in some cases.

The following projection of the development of the individual clusters represents a snapshot based on the current situation and is subject to the following assumptions in particular:

- » 2020/2021: quick approval of an effective vaccine and distribution among large parts of the population
- » 2021: continuation of some restrictions in Germany and many parts of the world and thus further RevPAR declines compared to pre-crisis levels
- » From 2022: gradual weakening of the pandemic in conjunction with successive lifting of international restrictions and incremental stabilization of overall economic conditions
- » Faster recovery of domestic tourism compared to international tourism
- » Faster recovery of leisure tourism compared to business travel (especially in the trade fair and event segment)

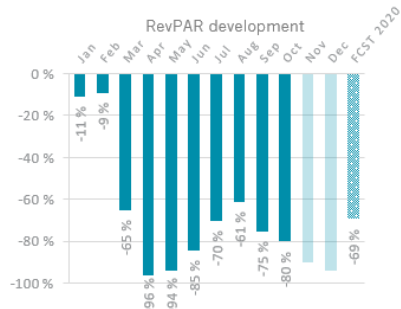


Sources: PKF hotelexperts; guest origin (2019) according to Destatis

### TOP 6 cities

strong international focus, business leisure mix

The TOP 6 markets **Berlin** and **Munich**, with a particularly strong international focus and a balanced mix of business and leisure travelers, recorded RevPAR declines in 2020 of around 68 % up to and

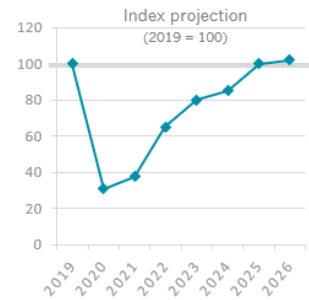


including October (source: Fairmas/STR). In Munich, RevPAR was already below the prior-year's level in January and February. For November and December, we expect declines of around 90 % due to further travel restrictions.

We also anticipate a significantly low level in 2021 with RevPAR declines compared to pre-crisis level to be only slightly below 2020 levels due to continued restrictions.

Due to their flexibility in terms of attractiveness for both

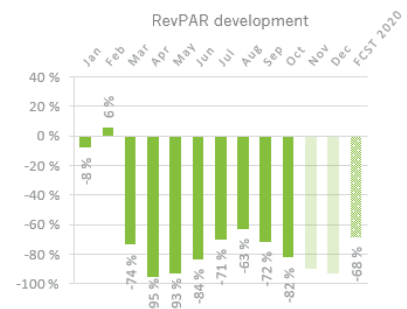
business and leisure travelers, we expect the two markets to fully recover to pre-crisis levels in 2025 following a significant easing of the situation in 2022.



### international and business focus

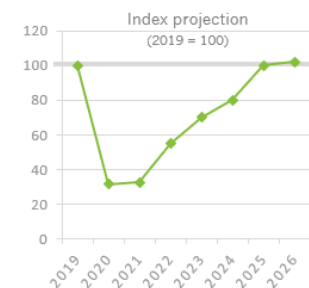
In the three TOP 6 locations with an international focus and a high share of business guests **Düsseldorf, Frankfurt** and **Cologne** RevPAR declines of around 64 % were recorded YTD October 2020.

The slightly lower declines compared to Berlin and Munich are mainly due to fewer rate discounts.



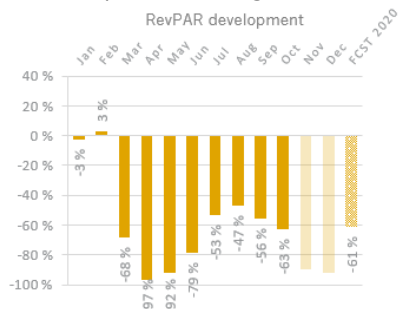
For the coming years, we expect a somewhat longer

recovery period due to the dependency on business travelers (esp. in the MICE segment) and assume that the pre-crisis level will be reached in 2025.



### national focus, business/leisure mix

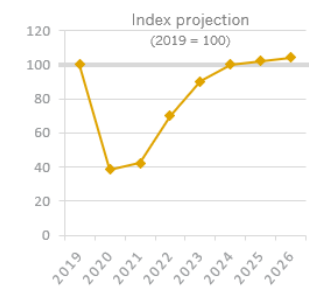
With a share of domestic overnights of around 75 % (as of 2019), the city of **Hamburg** is an exception among the TOP 6



German cities. The strong focus on national guests led to a lower decline in occupancy in the first ten months of 2020. While Hamburg was similarly affected in April and May, the RevPAR declines of 47-79 % from June onwards were significantly lower than in the other TOP 6 locations (61-85 %).

In line with this development, our projection assumes that Hamburg will be able to recover

faster from the effects of the Corona pandemic due to the lower share of international guests and will reach pre-crisis level in 2024.

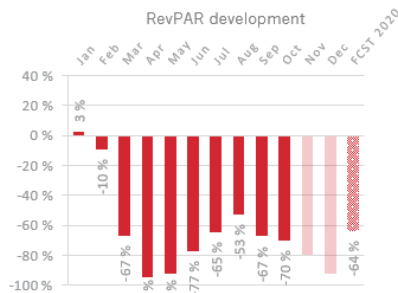


## Secondary cities

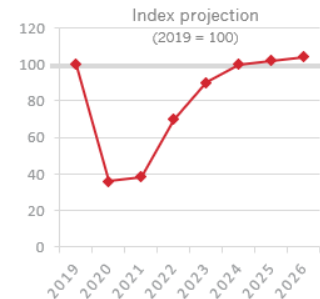
### Business focus

The selected secondary cities with a strong business focus **Dortmund, Essen, Hannover, Mannheim, Nuremberg** and **Stuttgart** recorded RevPAR declines of around 61 % year-on-year up to and including October.

We assume that pre-crisis level can be reached by 2024, given

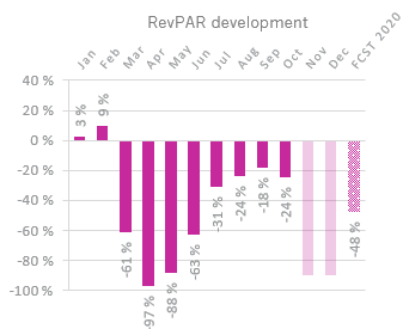


the comparatively higher proportion of national business travelers.



### Leisure focus

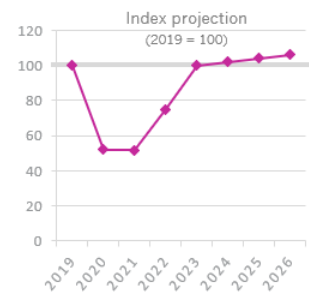
The selected secondary locations with a strong leisure focus are **Dresden, Rostock** and **Baden-Baden**. Baden-



Baden was included despite its high proportion of international guests compared to the other secondary locations, assuming that it could largely compensate the temporary loss of international guests through domestic travelers.

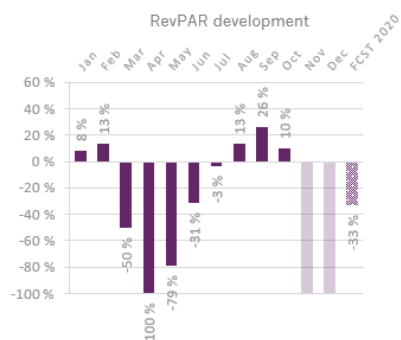
From January to October 2020, RevPAR declines of 43 % were recorded. This value is the lowest among the examined city clusters.

Against this background, we assume that the cluster under review will be able to return to the level of 2019 in 2023.



## Mountain, lake and sea destinations

The sample for vacation destinations in Germany includes selected hotels located in proximity to large German lakes, mountains or the sea.

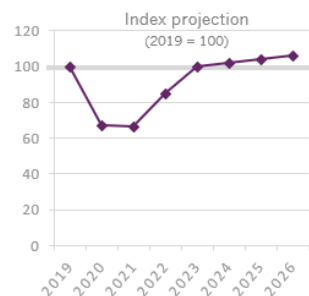


As a result of the increased domestic tourism, partly due to the numerous international travel restrictions, this cluster recorded significantly lower declines of 17 % than all other markets.

It was the only cluster to even record a positive RevPAR development between August and October. However, the positive result in these three months was primarily due to significantly higher net room rates (+20-23 % each), which partly compensated for the mostly

lower occupancy (YTD October: -31 %).

However, due to the focus on national leisure guests, we expect the market segment to recover quickly by 2023.



				YTD October								
		Focus	Selection	OCC			ADR			RevPAR		
				2019	2020	Chg.	2019	2020	Chg.	2019	2020	Chg.
<b>TOP 6 cities</b>	internat.	Business	Berlin, Munich	78	30	-61%	111	90	-19%	86	27	-68%
		Business /Leisure	Cologne, Düsseldorf, Frankfurt	70	28	-61%	111	100	-10%	77	28	-64%
	national	Business /Leisure	Hamburg	79	37	-53%	112	93	-16%	88	35	-61%
<b>Secondary cities</b>	national	Business	Dortmund, Essen, Hannover, Mannheim, Nuremberg, Stuttgart	69	30	-56%	99	88	-11%	69	27	-61%
		Leisure	Dresden, Rostock, Baden-Baden	70	42	-40%	86	81	-5%	60	34	-43%
<b>Mountain, lake and sea</b>	national	Leisure	Selected hotels	70	49	-31%	131	158	20%	92	77	-17%
Germany			Total	72	33	-55%	102	91	-11%	74	30	-60%

Source Fairmas/STR

### Future prospects

Based on experiences from past crises, it will take some time until most markets can return to the positive development of the previous years, even after all travel restrictions and other regulations have been lifted.

Our projection assumes a successful gradual containment of the pandemic and is therefore subject to strong uncertainties. In particular, the recovery of the markets and individual segments is also dependent on further global developments, structural changes in our working habits, the MICE segment, air travel, and supply, among others.

According to our current projection, markets with a high

proportion of domestic guests and leisure travelers can recover more quickly than markets with an international business focus (especially in the strongly affected MICE segment). In addition to a stabilization of occupancy, room rates must recover.

We expect the examined market segments to recover in the following order:

- 1 **Mountain, lake and sea** destinations (recovery approx. in 2023)
- 2 **Secondary cities** with **leisure** focus like Dresden (approx. 2023)
- 3 TOP 6 city **Hamburg** with national focus and business/leisure mix (approx. 2024)
- 4 **Secondary cities** with **business** focus like Stuttgart (approx. 2024)
- 5 **TOP 6 cities** Berlin and Munich with **international** focus and **business/leisure** mix (approx. 2025)
- 6 **TOP 6 cities** with **international business** focus like Frankfurt (approx. 2025)

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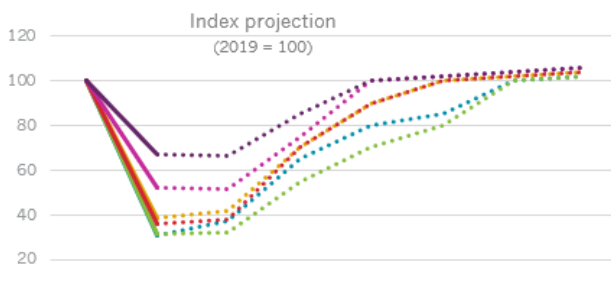


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As of December 2020



	2019 Actual	2020 FCST	Projection					
			2021	2022	2023	2024	2025	2026
TOP 6 internat. busi.+leis.	100	31	37	65	80	85	100	102
TOP 6 internat. business	100	32	32	55	70	80	100	102
TOP 6 national busi.+leis.	100	39	42	70	90	100	102	104
Secondary business	100	36	38	70	90	100	102	104
Secondary leisure	100	52	52	75	100	102	104	106
Mountain, lake, sea	100	67	67	85	100	102	104	106

Source PKF hotelexperts (as of December 2020)