

# Global Hospitality & Leisure

NEWSLETTER

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## Germany: Office-Hotel Conversions Increase

The German hotel investment market remains strong with a lack of high quality assets available for sale. This trend is likely to continue. The German hotel market currently has some interesting characteristics, namely the significant number of unbranded hotels (although many of these hotels are burdened with material capex requirements), a strong German economy, a robust business travel market as well as an increasing attractiveness of German cities such as Berlin and Munich for international tourists.

This is resulting in an increasing number of investments being made into office properties but with potential for subsequent conversion into hotels. Just as there is a strong demand for hotel space there has been a decreasing demand for office space in some areas (particularly non-central CBS locations) as tenants are opting for “home office” solutions, shared office space and other ways to minimise the need for office space.

The German legal framework provides for the necessary flexibility to convert office space into hotel properties. Accordingly, we see an increasing appetite of international investors in particular with conversion experience in other jurisdictions joining other developers in exploring this alternative method of acquiring assets for hotel use.

The key legal aspects to consider are:

1. Is a hotel permissible in downtown areas where most of the conversion projects are located? In most cases, urban zoning plans and state building law will allow for conversions. There are few legal hurdles preventing the grant of the necessary building permits.
2. The newly created hotel space must of course comply with all regulatory requirements applicable to all hotel projects (e.g., safety, fire protection, etc.). The usual suite of professionals such as architects, engineers and, if necessary, lawyers can help to address these requirements quite easily. In this context, it is important to understand that office conversions are counted as completely new buildings. The developer cannot rely on the privileged status quo under the original (office) building permit. In other words, grandfathering regulations will not apply and the refurbishment is subject to the up-to-date building requirements which apply to hotels.
3. Negotiations of a hotel lease or hotel management agreements for future hotel use will not materially deviate from the usual negotiations of such agreements for hotels under development although stipulations on timing and permit related issues might be more detailed to cover



the future tenant or operator. Brand standard compliance may also need care and attention depending on what structural restrictions impact the design and an operator's preferred brand requirements. A few waivers may need to be "mutually agreed"!

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