

GERMANY

# Office Market Snapshot

First Quarter | 2016



## Overview

Economic growth remains positive and unemployment is falling. However, there are some uncertainties currently influencing business sentiment but the effects are not expected to be long lasting. In terms of real estate, the market recorded a strong performance both from an occupational standpoint as well as investor activity.

## Occupier focus

The big 5 German office markets recorded a total in excess of 763,000 sq.m of take-up in Q1. This was down on the typically active Q4 2015 but up 20% on the robust levels seen in Q1 2015. Berlin and Frankfurt were the top performing markets in a year-on-year comparison with the public sector especially active, seeing some of the requirements come to fruition. The largest deal of the quarter took place in Berlin whereby Bundesministerium der Gesundheit leased 27,200 sq.m space at Mauerstraße.

With the exception of Hamburg, the vacancy rate declined over the three months to Q1 in all key cities as the noted strong demand, coupled with low speculative deliveries led to the erosion of excess space. However, developers are not accelerating their construction plans and are responding with a certain amount of caution to the supply constraints and focusing on securing pre-lets before breaking ground. This is likely to lead to an uplift in rents.

## Investment focus

Activity in the German office sector remained robust due to the continued wealth of demand for assets in the sector and volumes in Q1 2016 reached €3.7 billion Domestic funds continue to drive the majority of activity, accounting for a third of overall investment in Q1 followed by institutional investors – typically strong office sector investors. The most lucrative deal that concluded however, was by Wealthcap who acquired the Munich BayWa highrise office building for €280 million.

## Outlook

With the persistent lack of quality space and a development pipeline unlikely to satisfy rising occupier interest, the demand/supply imbalance is expected to continue across most prime locations in 2016. Second tier markets are forecast to gain further momentum as 2016 progresses.

## MARKET INDICATORS

### Market Outlook

Prime Rents:	With quality supply decreasing rents are expected to see positive growth – led by the Big 5 cities first.	▼
Prime Yields:	A firming up in the occupational markets and unbroken high levels of investor interest will see yields sharpen.	▲
Supply:	Supply falls as speculative development stays on a low level and developers continue to react with caution.	▲
Demand:	Strong demand expected to continue led by the prime segment but secondary increasing sought after	▼

### Prime Office rents – March 2016

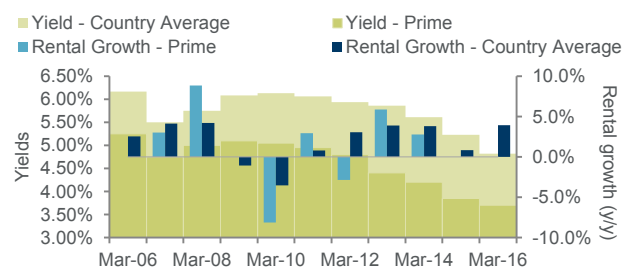
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Berlin (CBD)	24.00	288	29.6	6.7	1.8
Berlin (Decentralised)	12.50	150	15.4	13.6	5.6
Frankfurt (CBD)	37.00	444	45.7	0.0	1.1
Frankfurt (Decentralised)	15.50	186	19.1	10.7	3.6
Hamburg (CBD)	24.50	294	30.2	2.1	1.7
Hamburg (Decentralised)	14.50	174	17.9	11.5	7.7
Munich (CBD)	33.50	402	41.4	0.0	2.9
Munich (Decentralised)	16.50	198	20.4	3.1	5.7
Dusseldorf (CBD)	26.00	312	32.1	0.0	2.0
Dusseldorf (Decentralised)	12.00	144	14.8	4.3	3.7

### Prime Office yields – March 2016

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Berlin	4.00	4.10	4.50	5.75	4.00
Frankfurt	4.35	4.35	4.50	5.50	4.35
Hamburg	4.00	4.15	4.25	5.25	4.00
Munich	3.70	3.70	3.85	5.25	3.70
Dusseldorf	4.35	4.35	4.60	6.00	4.35

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

### Recent performance



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