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Düsseldorf | Office Leasing and Investment | Q1 2015

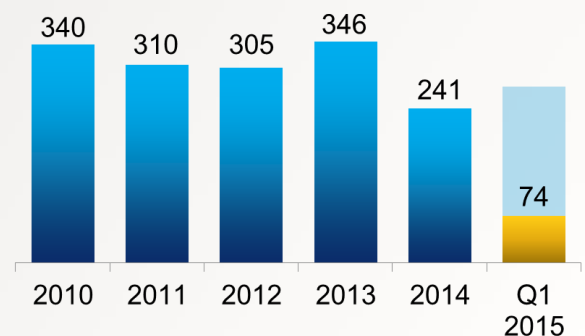
MARKET REPORT

Leasing market posts increase in take-up – Slow activity on investment market

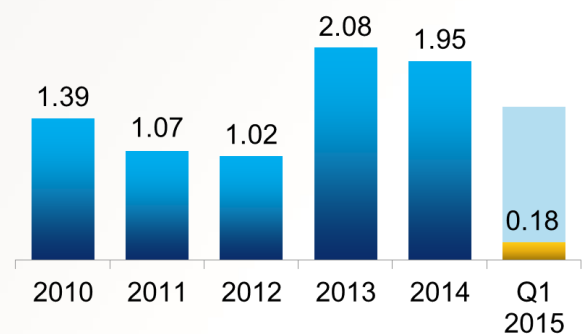
LARS ZENKE | Research Analyst | Düsseldorf

- > Office take-up within Düsseldorf city limits at 73,500 sqm in Q1 (up 8%)
- > Medium-size space segments with excellent leasing performance
- > Several large-scale leases expected in coming months
- > Vacancy (including space for sub-let) falls slightly below 10% mark
- > Weighted average rent drops to €13.70 per sqm (down 7%)
- > Commercial transaction volume within Düsseldorf city limits at €180 million in Q1
- > International buyers account for an approx. 45% market share
- > More than 60% of deals signed in the office segment

Office take-up (in 1,000 sqm)



Commercial transaction volume (in € billion)





Media Harbor (Image: hespasoft, www.fotolia.com)

The Düsseldorf office leasing market got off to a good start in 2015 and was able to outperform previous year results by a slim margin. The city's commercial investment market saw slower activity. This was no surprise in view of an extremely strong Q4 2014, in which we saw a large number of deals signed due in part to the property tax hike that became effective at the beginning of 2015.

Office Leasing

The Düsseldorf office leasing market (within city limits only) recorded take-up of 73,500 sqm in Q1 2015, reflecting a year-on-year increase of 8%. Excluding deals signed by owner-occupiers, the increase in take-up was recorded as high as 28%. A total of 120 leases have been signed so far this year within Düsseldorf city limits.

This increase in take-up can primarily be attributed to excellent leasing performance registered in the two medium-size space segments of between 1,000 and 5,000 sqm. With a total of 18 leases, the number of leases signed in these segments doubled year over year.

Roughly three-quarters of all leases totaling 24,100 sqm were signed in the small-space segment (up to 500 sqm), which accounts for more than 30% of total leasing activity and can be described as the backbone of the leasing market. Activity in the space segment of between 501 and 1,000 sqm, which saw take-up of 6,800 sqm, has been rather slow so far this year.

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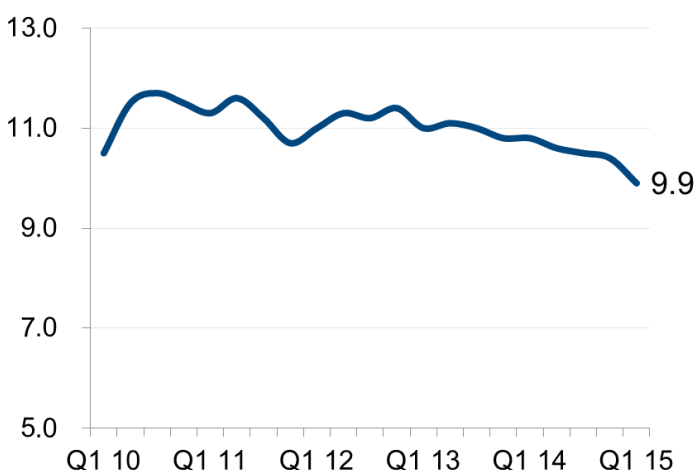
Focus on existing properties in three submarkets

The majority of office take-up was generated in the Linksrheinisch (19,400 sqm) and Düsseldorf North (18,500 sqm) submarkets. The City Center submarket also posted an excellent quarterly result with take-up at 12,300 sqm. The eleven largest leases in Q1 were all signed exclusively for space in existing properties in these three submarkets.

Vacancy rate drops below 10% mark for first time since 2009

The vacancy trend brought about excellent results in Q1. While the vacancy rate was still recorded at 817,000 sqm within Düsseldorf city limits at the end of March 2014, excess supply has now dropped to 753,000 sqm. This can primarily be attributed to space available for sub-let (roughly 26,000 sqm), reflecting a year-on-year decrease of roughly 35,000 sqm. Some vacant office buildings were also taken off the market and converted into residential or hotel properties within the scope of repurposing projects. The current vacancy rate (including space available for sub-let) was recorded at 9.9%, the first time we have seen this number below the 10% threshold since mid-2009. Excluding space available for sub-let, the vacancy rate comes to 9.5%.

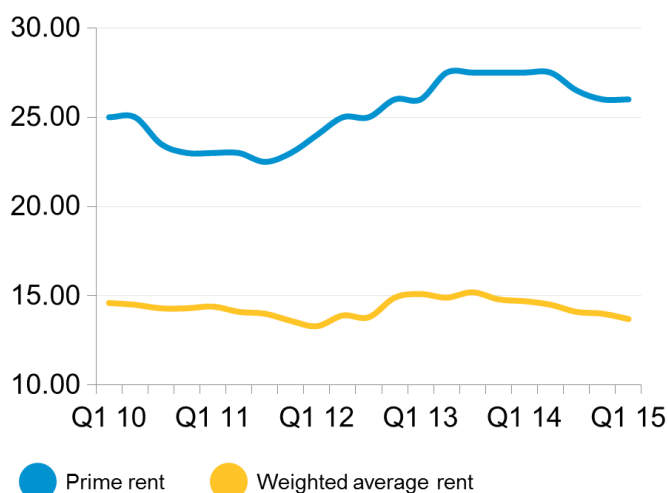
Office vacancy rate (in %)



Larger-scale, price-sensitive leases put pressure on weighted average rent

The large number of leases signed in the medium and large-scale space segment in the Linksrheinisch and Düsseldorf North submarkets, the majority of which recorded rents of between €10.00 und €12.50 per sqm, had a tangible impact on weighted average rent within Düsseldorf city limits. Average rent dropped by almost 7% year over year to a current €13.70 per sqm. Prime rent posted an all-time high in 2013 at €27.50 per sqm and gradually dropped during 2014 as expected. It is currently recorded at €26.00, matching the results we saw at end of 2014.

Prime and average office rents (in €/sqm)



The demand situation on the Düsseldorf leasing market at the beginning of the year paints a very homogeneous picture. Three industries were particularly active, each generating between 15% and 16% of total take-up: consulting firms (11,500 sqm), ICT (11,300 sqm) and construction and real estate firms (10,700 sqm). While weighted average rent for leases signed by consulting firms came to around €16.20 per sqm, the ICT, construction and real estate industries were far more price-sensitive, renting at an average of €12.50 per sqm.

Pre-leasing rate for projects to be completed in current year still below 50%

Due to upcoming completions of projects that have not been fully pre-leased, the vacancy rate may once again rise slightly during the course of the year. The pre-leasing rate for projects that are scheduled to be completed this year is currently recorded at a mere 45%. We expect a total of 100,000 sqm of space to be completed in 2015, currently giving us 55,000 sqm of new space available to potential tenants.

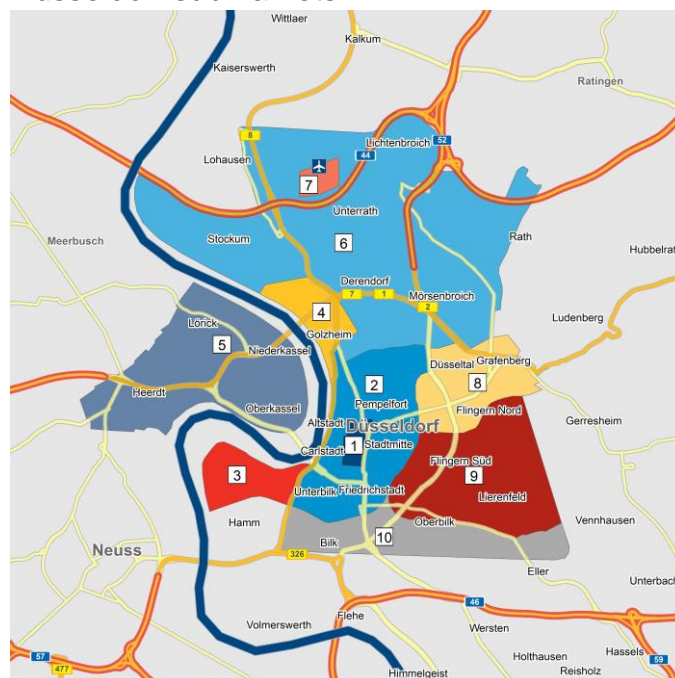
Outlook

The Düsseldorf office leasing market got off to a good start in 2015 and was able to outperform previous year results by a slim margin. This can primarily be attributed to solid leasing performance recorded in the medium-size segments. We are also expecting several large-scale leases to be signed in the coming months.

We believe a take-up result of at least 275,000 sqm to be realistic in 2015. Due to current demand for large-scale space on the market, there is a chance that this annual result will be much higher and could significantly exceed the 10-year average of 307,000 sqm.

Fast Facts	
Office leasing	
Office space take-up	73,500 sqm
Take-up excl. owner occupier	73,500 sqm
Prime rent	26.00 €
Average rent	13.70 €
Vacancy rate	9.9 %
Office stock	7.6 million sqm

Düsseldorf submarkets



Düsseldorf office leasing market KPIs (Q1 2015)

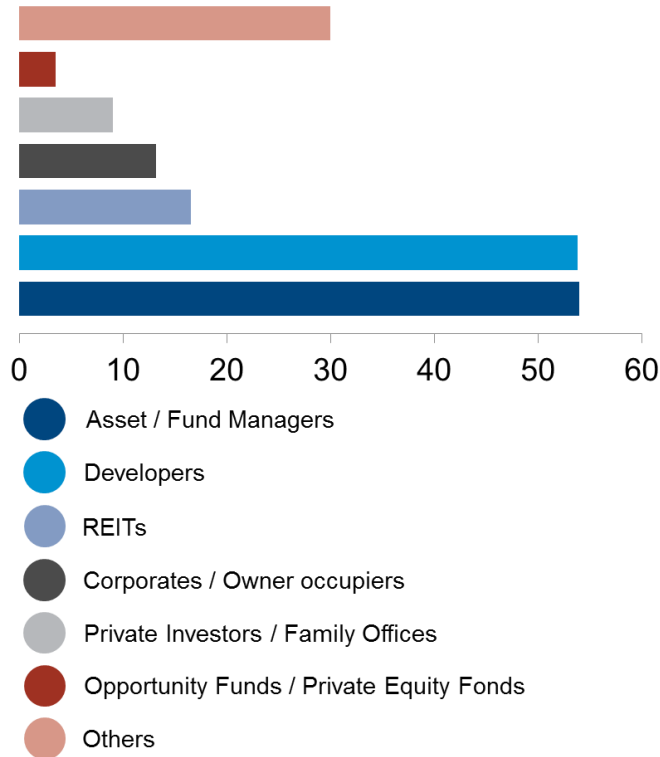
Market overview				
Submarket	Take-up in sqm	Prime rent in € per sqm	Average rent in € per sqm	Vacancy (including space for sub-let) in sqm
(1) CBD	4,800	26.00	19.70	63,400
(2) City Center	12,300	19.00	12.50	96,800
(3) Harbor	8,200	22.00	16.70	82,600
(4) Kennedydamm	3,100	20.50	15.80	45,800
(5) Left Bank of Rhine	19,400	15.50	11.30	233,300
(6) Düsseldorf North	18,500	16.50	10.90	124,400
(7) Airport City	1,000	16.50	15.50	12,200
(8) Grafenberger Allee	4,300	12.50	11.40	49,800
(9) City Center East	200	13.50	11.00	14,700
(10) Düsseldorf South	1,700	11.50	9.20	30,000
City of Düsseldorf	73,500	26.00	13.70	753,000

Investment

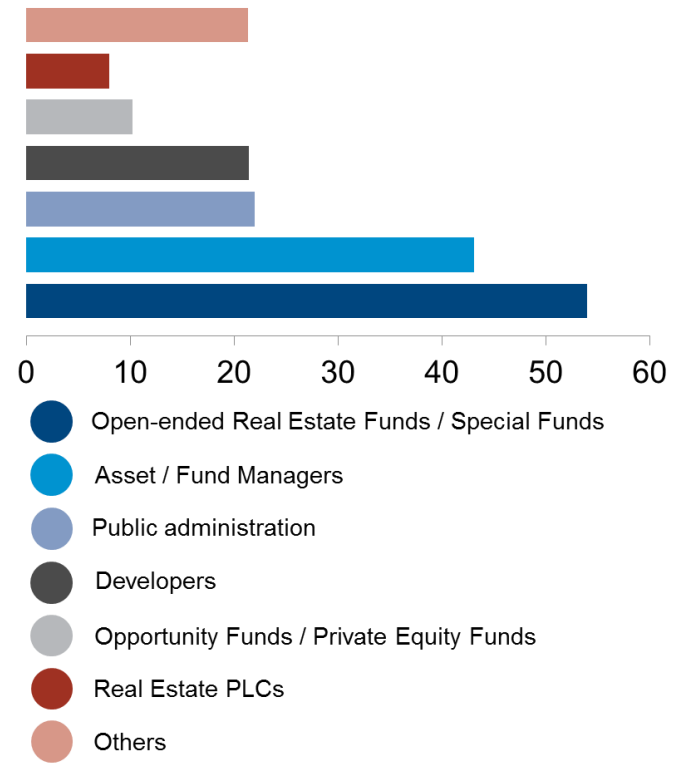
A total of €180 million was invested on the Düsseldorf commercial investment market in Q1 2015. After a strong Q4 2014, which saw increased activity primarily due to the property tax hike scheduled to take effect in 2015, the start to the year was relatively slow as expected. We believe that activity will pick up in Q2 based on the current market situation. Many deals will soon be completed and numerous owners have decided to sell in view of the currently favorable market situation. This will lead to more restricted supply and have an impact on transaction volume.

The results recorded in Q1 2015 experienced a drop in transaction volume by 68%. This can primarily be attributed to the remarkably high result posted in the previous year (€560 million), which was heavily boosted by the sale of Herzogterassen (around €350 million). At the same time, almost 20 deals have been signed this year, two-thirds of which involved office space. The only deal exceeding €50 million was the purchase of Living Office located in Unternehmerstadt by Schroder Real Estate (Schroders) from UBS.

Transaction volume by buyer group (in € million)



Transaction volume by seller group (in € million)



Office property highlights – Appetite of international buyers remains high

Office properties were the number one investor favorite in Q1, accounting for a 62% share (around €120 million). Commercial properties (18%, or €32 million) and several hotel deals (15%, or €27 million) followed in the ranks.

Throughout all asset classes, non-German buyers demonstrated their tremendous appetite for commercial properties in Düsseldorf, accounting for a market share of around 45%. Interestingly, all non-German buyers in Q1 2015 came from the EMEA region.



DUO - GREEN OFFICE & FUTURE LOUNGE (Image: Deko Immobilien GmbH)

Limited supply in core segment

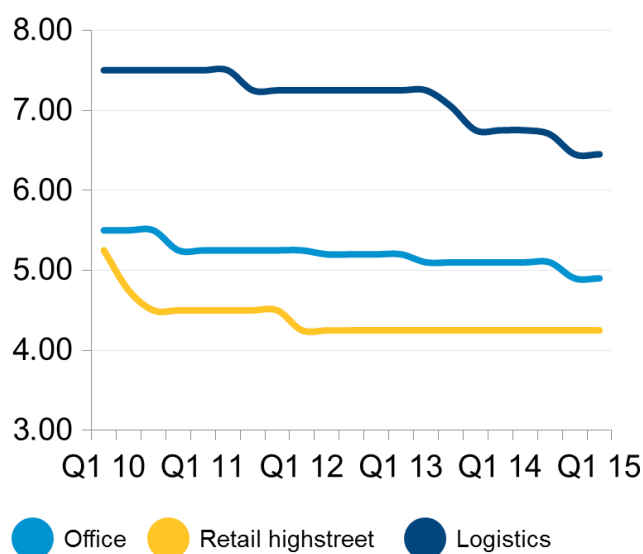
The core segment is still experiencing very limited supply. This bottleneck in supply not only led to a drop of 20 basis points to a current 4.90% in prime yield for office space at the end of 2014, it also put investment alternatives in the limelight. This can be seen in the fact that so far this year half of all deals have been signed for properties in the value-add and opportunistic risk classes. However, in most cases these deals did not exceed €20 million.

Outlook

Following a strong annual result in 2014, the Düsseldorf investment market took a short breather during the first three months of 2015. We expect activity to pick up over the course of the year based on the current market situation. We believe that our forecast for transaction volume in 2015 of around €1.5 billion is still on track.

Fast Facts	
Investment	
Transaction volume	180 million €
Largest purchaser group: Asset / Fund managers	30.0 %
Largest vendor group: Open-ended real estate funds / Special funds	30.0 %
Most demanded property type: Office	62.2 %
Prime yield office	4.90 %

Prime yields by usage type (in %)



502 offices in 67 countries on 6 continents

USA: 140

Canada: 31

LATAM: 24

Asia-Pacific: 199

EMEA: 108

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€ 1.75

billion
in annual revenues

€ 75

billion in transaction volume with
more than 84,000 investment and
leasing deals

160

million square meters
under management

16,300

professionals

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