Market in Minutes
Germany office markets

Q1 2016

The facts at a glance

Take-up is still rising but the supply shortage is stifling growth

■ Office take-up in the top six office markets totalled almost 800,000 sq m in the first quarter of 2016, surpassing the very strong corresponding quarter last year (Graph 1).

■ Although this result may initially appear unsurprising in view of the rising population and employment figures as well as the growing economy, the situation is far from straightforward. While office demand is rising in all six markets, the currently very scarce supply is beginning to stifle growth.

■ The vacancy rate in the first three months of the year fell by an average of 30 basis points across the six markets to 6.5% (Table 1). In view of the foreseeable urban growth combined with the continuing low completion volume in the office sector (Graph 5), vacancy rates should continue to decline. In central locations of some cities, there is scarcely any available space even at present, which explains why such locations' share of take-up has long been in decline (Graph 4).

■ Property owners are undoubtedly among the beneficiaries of this trend. Not only are vacancies at their lowest level for 15 years, rents are also at the upper end of their 10-year range (Graph 6) and growth is expected to continue.

■ For occupiers, however, the market environment is becoming increasingly challenging. They can often only expand their office space with long lead times and at higher rents or by accepting lower quality space and/or locations.

Top six office markets at a glance

In the first quarter, just 22% of take-up applied to central submarkets

TABLE 1

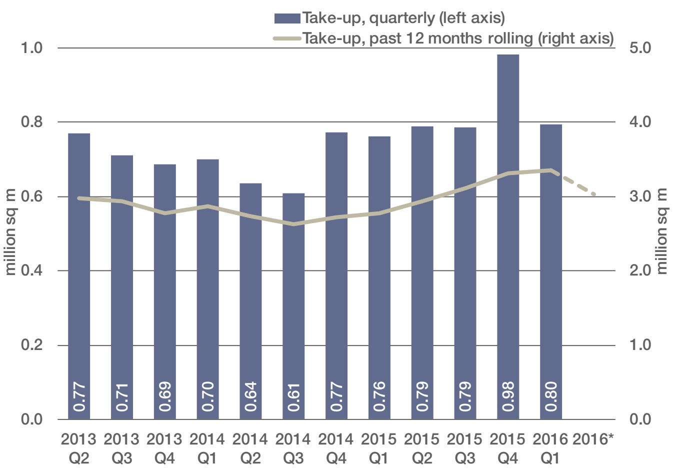
Key office market figures

	Take-up (sq m)				Vacancy rate (%)		Prime rent (€ per sq m/month)		Average rent (€ per sq m/month)	
	Q1 16	against Q1 15	Q2 15 - Q1 16	against Q1 15 - Q4 15	Q1 16	against Q4 15	Q1 16	against Q4 15	Q1 16	against Q4 15
Berlin	240,900	+9.2%	961,100	+2.2%	3.5	-10bps	24.50	+0.8%	15.10	+2.0%
Düsseldorf	93,000	+34.8%	438,600	+5.8%	9.7	-20bps	26.00	+/-0.0%	14.50	+2.1%
Frankfurt	115,300	+35.3%	422,300	+7.7%	9.1	-110bps	38.00	-2.6%	19.30	+1.6%
Hamburg	108,000	-16.7%	505,300	-4.1%	5.4	-10bps	25.00	+/-0.0%	14.60	+0.7%
Cologne	60,800	-11.7%	283,600	-2.8%	6.5	-0bps	22.50	+2.3%	13.05	-0.8%
Munich	177,000	-5.5%	740,300	-1.4%	4.7	-0bps	34.00	+/-0.0%	16.25	+0.9%
Top 6	795,000	+4.5%	3,351,200	+1.0%	6.5	-30bps	28.33	-0.2%	15.47	+1.1%

Source: Savills

GRAPH 1

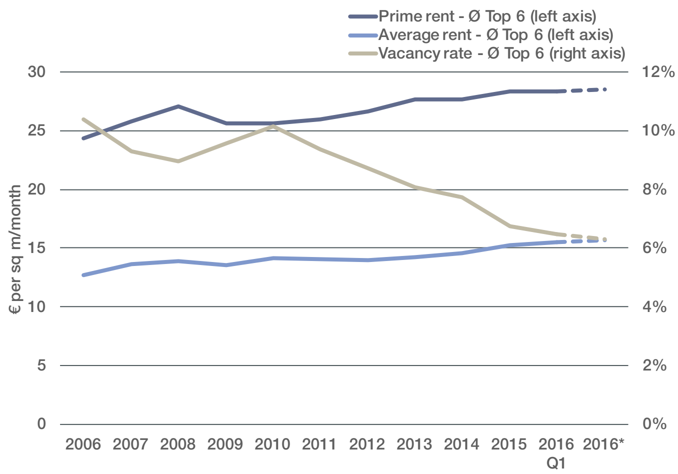
Take-up in the top 6



Source: Savills / * forecast

GRAPH 2

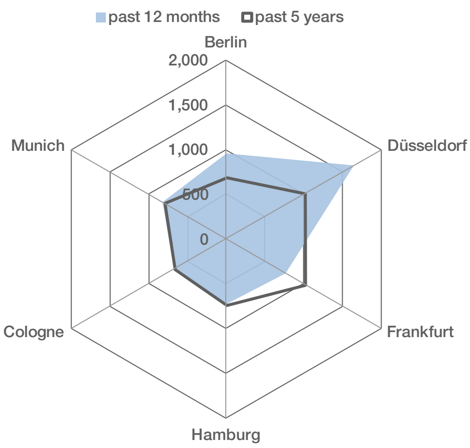
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 3

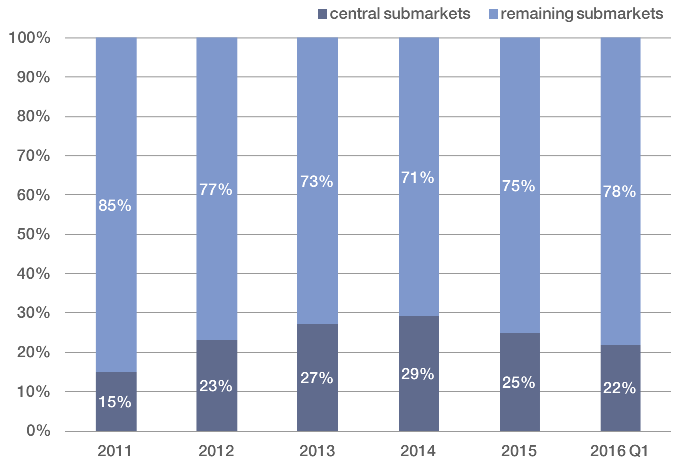
Take-up per transaction



Source: Savills

GRAPH 4

Share of take-up in central submarkets*



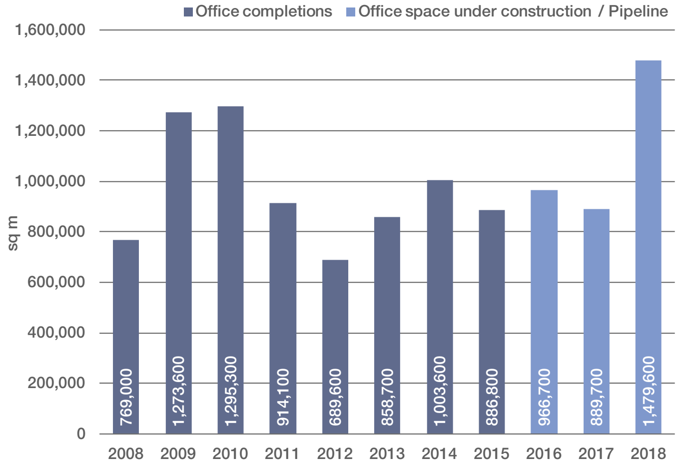
Source: Savills / * central submarket of each Top 6 market (Berlin: City East and City West)

Top six office markets at a glance

Development pipeline in 2016 slightly above-average at approx. 1.0m sq m

GRAPH 5

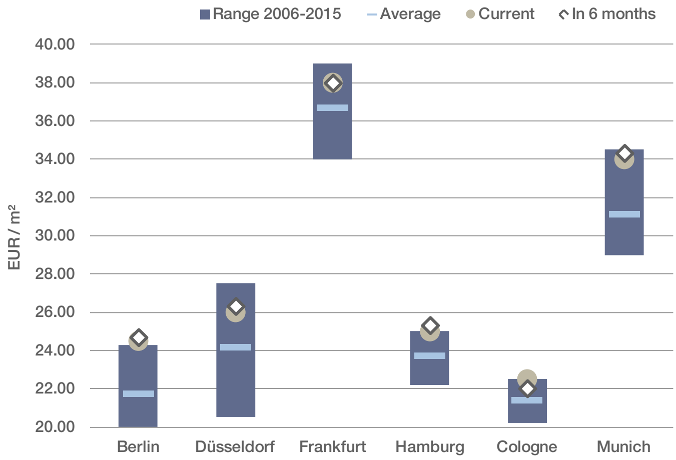
Development pipeline



Source: Savills

GRAPH 6

Development of prime rents



Source: Savills

TABLE 2

The largest letting transactions in Q1 2016 at a glance*

Location	Tenant	Office space (sq m)
Frankfurt	ECB	approx. 17,800
Munich	MorphoSys	approx. 13,500
Cologne	City of Cologne	approx. 12,200
Berlin	KPMG	approx. 11,900
Frankfurt	SAP	approx. 10,000
Munich	EDF GmbH Engineering & Design im Fahrzeugbau	approx. 10,000
Munich	City of Munich	approx. 8,600
Berlin	Zalando	approx. 8,200
Munich	Private school	approx. 6,800
Frankfurt	City of Frankfurt	approx. 6,700

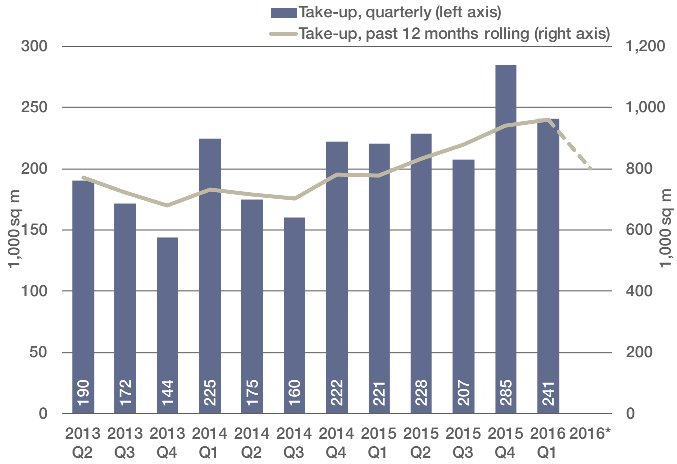
Source: Savills / * only published transactions are shown

Berlin

Low supply and development pipeline | Rents increase significantly

GRAPH 7

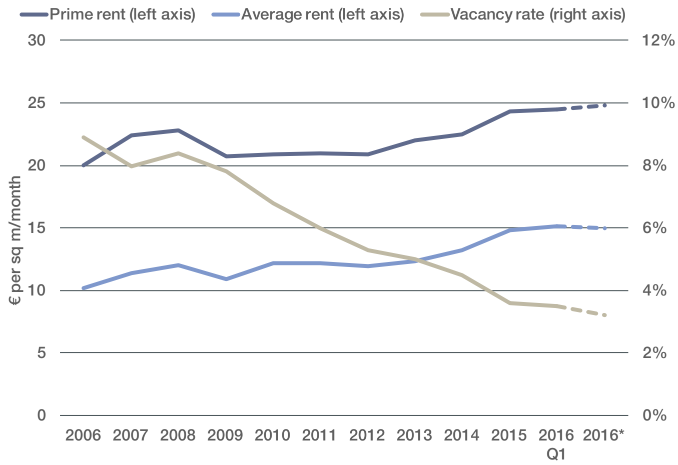
Take-up



Source: Savills / * forecast

GRAPH 8

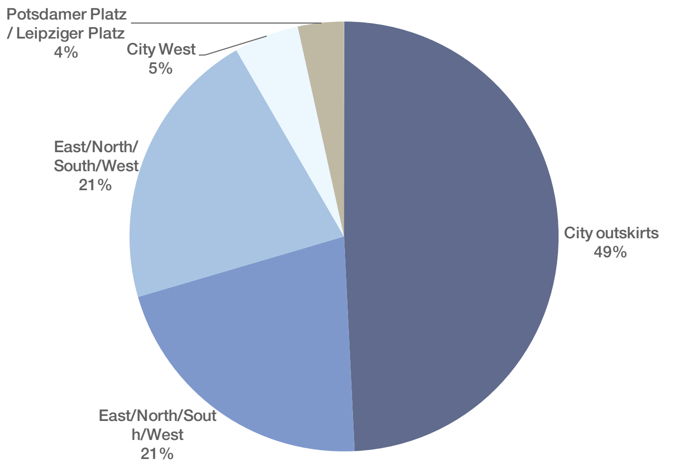
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 9

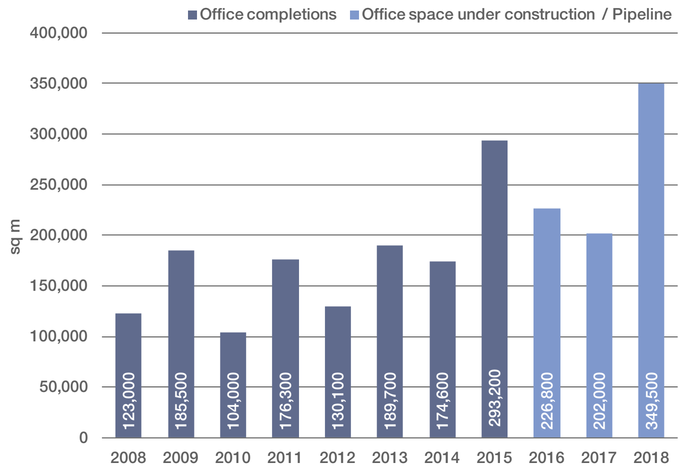
Take-up by submarket*



Source: Savills / * past 12 months

GRAPH 10

Development pipeline



Source: Savills

Berlin market in minutes

Vacancy rate falls to 3.5% and the trend is set to continue

- The Berlin office market is characterised by a scarce supply of space combined with the (excessively) small number of development projects. Consequently, rents are rising once again. The prime rent rose by 7.5% compared with the corresponding quarter last year to €24.50 per sq m/month, while the average rent gained 8.6% to reach €15.10 per sq m/month.

- Despite the increasingly scarce supply of office space, take-up rose by 9% compared with the corresponding quarter last year to 240,900 sq m. However, in view of the supply shortage, it is evident that tenants are increasingly tending to prolong existing leases and make more efficient use of existing space.

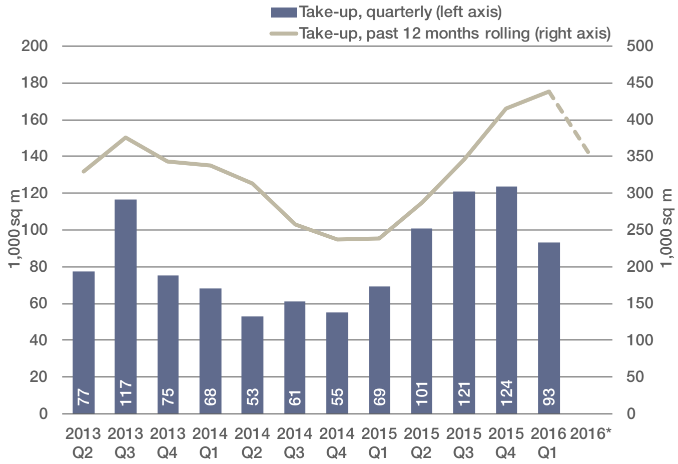
- While around 226,000 sq m of new office space will be completed in 2016, 63% of this is already pre-let. The pipeline for the following year comprises around 200,000 sq m of new office space. As a result, rents will continue to rise for the foreseeable future while the vacancy rate is likely to fall below 3%.

Düsseldorf

Lawyers dominate lettings in CBD | Occupiers increasingly sign longer lease terms

GRAPH 11

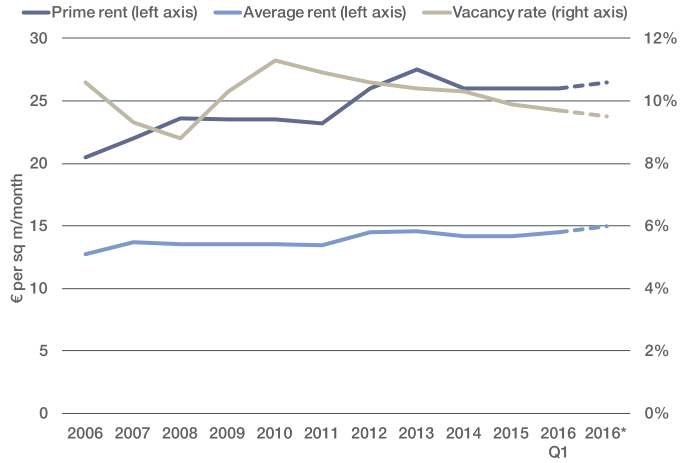
Take-up



Source: Savills / * forecast

GRAPH 12

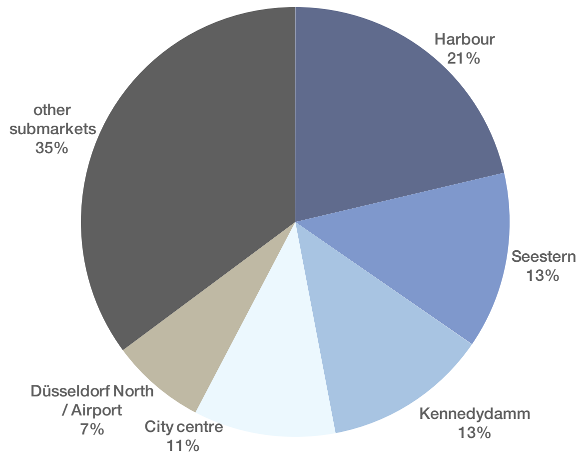
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 13

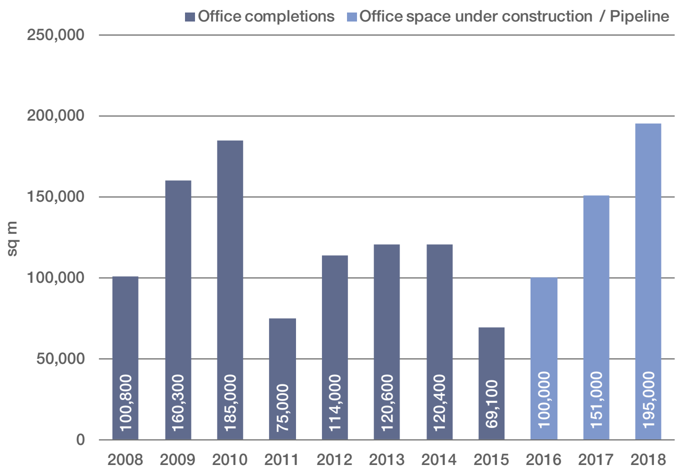
Take-up by submarket*



Source: Savills / * past 12 months

GRAPH 14

Development pipeline



Source: Savills

Düsseldorf market in minutes

Supply shortage in the city centre intensifies

- The supply of office space in Düsseldorf is scarce across all size categories and particularly in the city centre. Even office space below 1,000 sq m is becoming increasingly difficult to acquire. In the central locations, the market is threatening to become a landlords' market. However, vacancy rates continue to decline across the entire market. Over the last twelve months, the vacancy rate has fallen by 120 basis points to 9.7%.

- In line with recent years, law firms are among the largest demand groups in the city centre. These accounted for around 15% of take-up over the last twelve months (Q2 14 to Q1 15: 10%). Banks, on the other hand, are increasingly withdrawing from central locations, often to reduce costs.

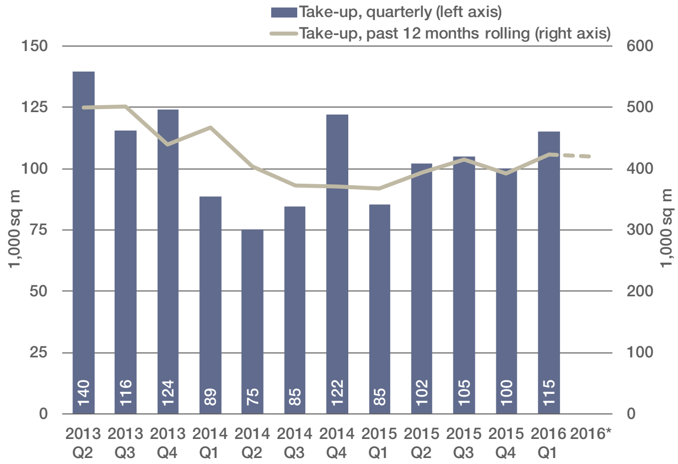
- Since rents are expected to continue their upward trend and supply remains scarce, tenants are increasingly prepared to agree longer lease terms than the standard five years.

Frankfurt

Requirments of more than 250,000 sq m in the market | Rental level keeps stable

GRAPH 15

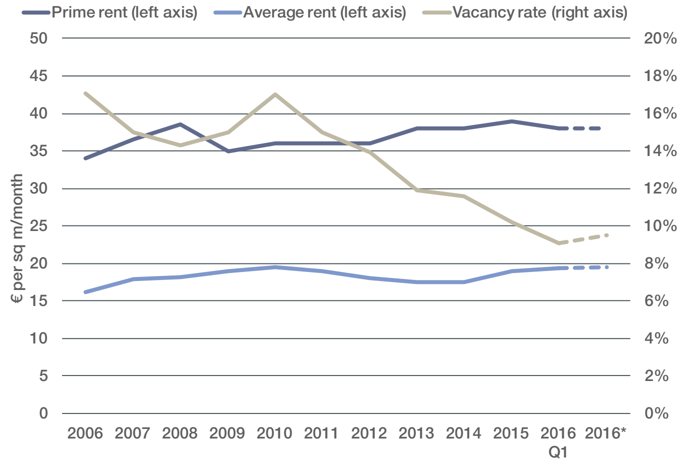
Take-up



Source: Savills / * forecast

GRAPH 16

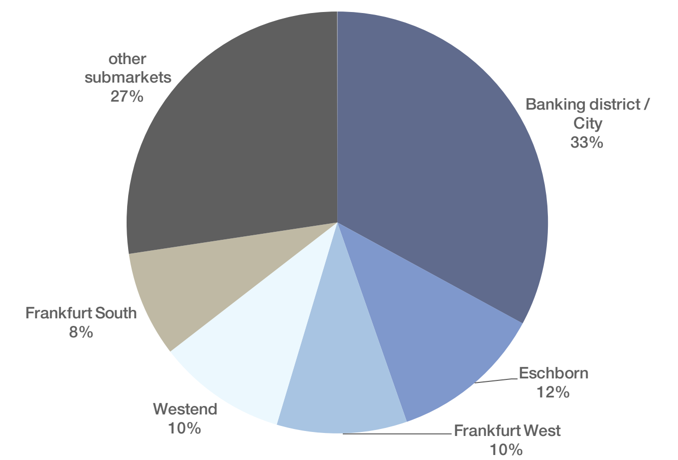
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 17

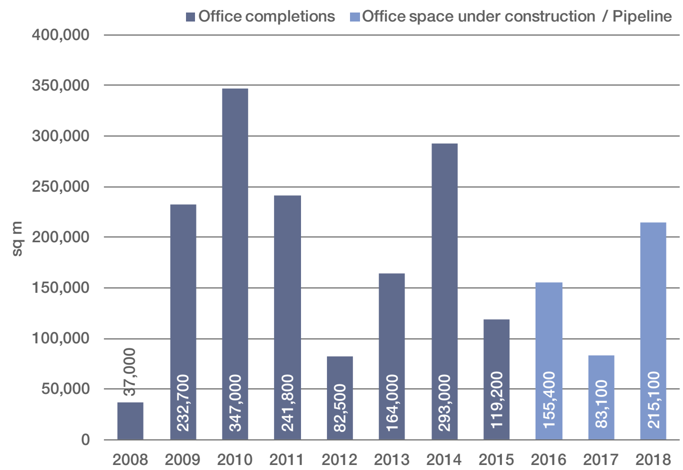
Take-up by submarket*



Source: Savills / * past 12 months

GRAPH 18

Development pipeline



Source: Savills

Frankfurt market in minutes

Take-up in Q1 16 higher than in any quarter of 2015

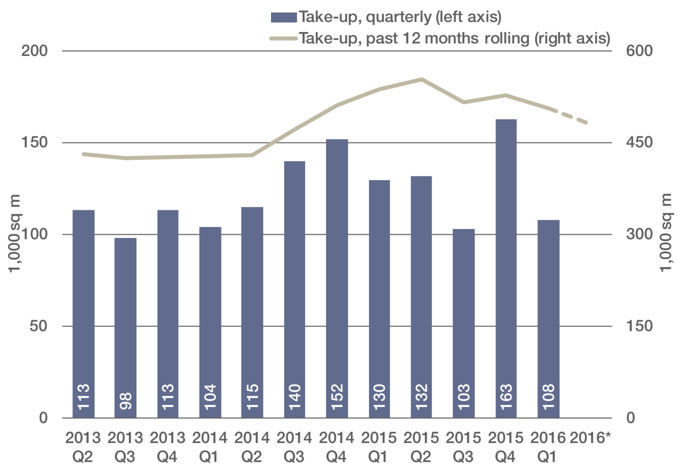
- The first three months of the year were characterised by a high level of activity, which resulted in take-up of 115,300 sq m (+35.3% compared with Q1 15). Consequently, the first quarter of 2016 was stronger than any single quarter of last year.
- Furthermore, with requirements totalling more than 250,000 sq m in the market, we expect take-up for the year as a whole to reach significantly more than 400,000 sq m, which would surpass last year’s total. However, demand is being driven less by the large requirements previously typical of the Frankfurt market and more by the small and medium size segments.
- Despite the generally high supply of space in 2016, the average rent is expected to show moderate growth. The prime rent remains stable at €38.00 per sq m/month.

Hamburg

Office completions of 170,000 sq m in 2016 is not sufficient to satisfy demand

GRAPH 19

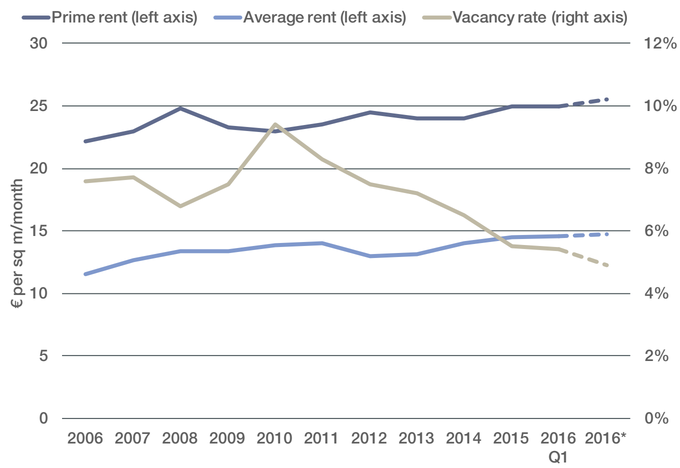
Take-up



Source: Savills / * forecast

GRAPH 20

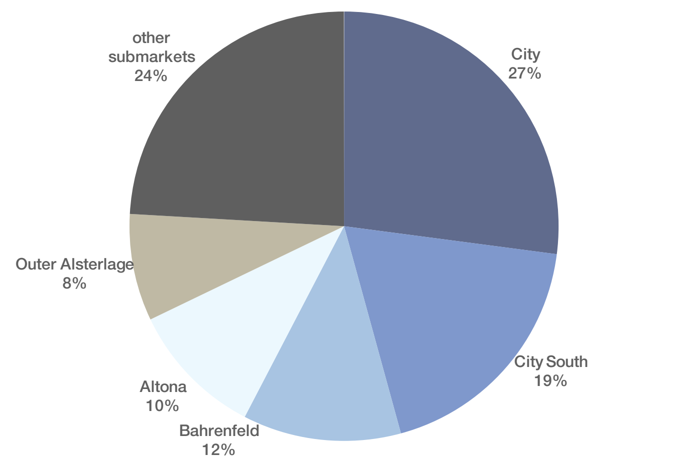
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 21

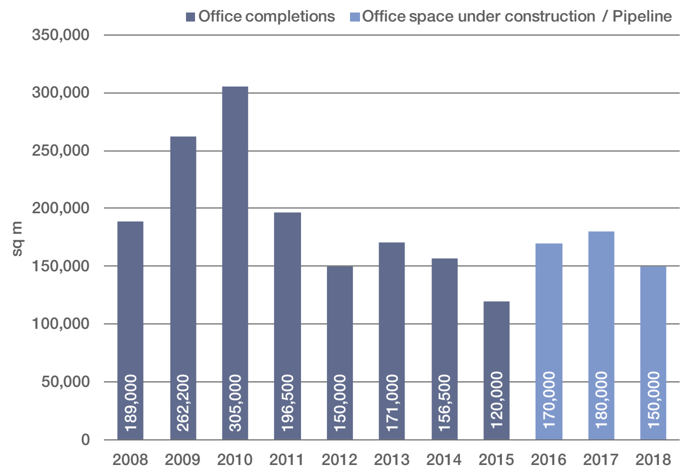
Take-up by submarket*



Source: Savills / * past 12 months

GRAPH 22

Development pipeline



Source: Savills

Hamburg market in minutes

Surplus demand is driving rents higher

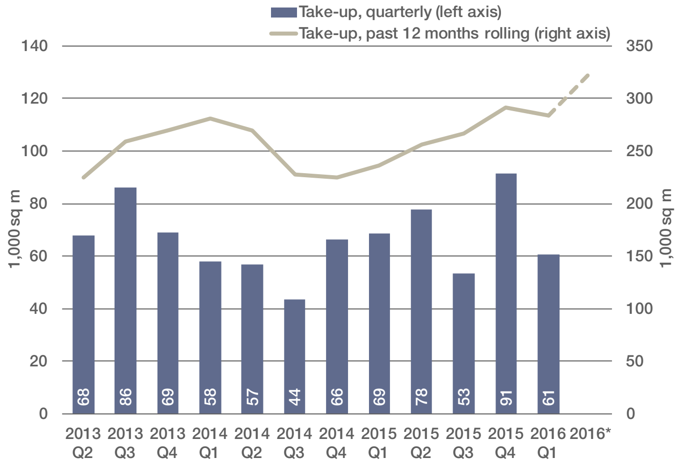
- In view of the high demand and relatively low supply, tenants in the Hamburg office market will have to adjust to further increases in rents in the medium term. The prime rent currently stands at €25.00 per sq m/month, representing an increase of 2% year on year.
- The completion volume of approx. 170,000 sq m for the current year is somewhat higher than in previous years but is not sufficient to completely satisfy demand. In the medium to long term, more new development projects are required. However, when seeking development sites, developers of commercial space are in strong competition with residential developers, who can normally pay higher prices for land.
- While there are a number of large requirements in the market this year, the scarce supply means that last year's take-up total of 527,000 sq m is unlikely to be reached in 2016.

Cologne

Ehrenfeld submarket is in high demand | Occupier tend to prolonge contracts

GRAPH 23

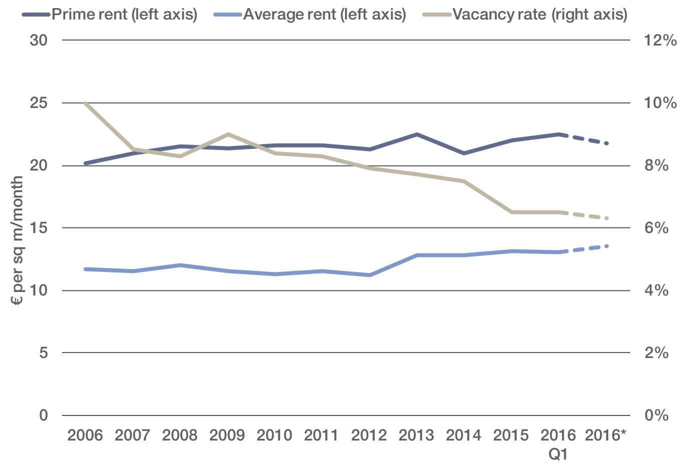
Take-up



Source: Savills / * forecast

GRAPH 24

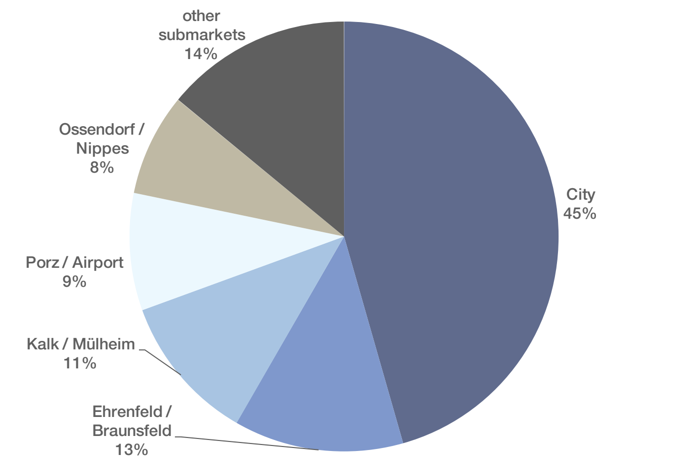
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 25

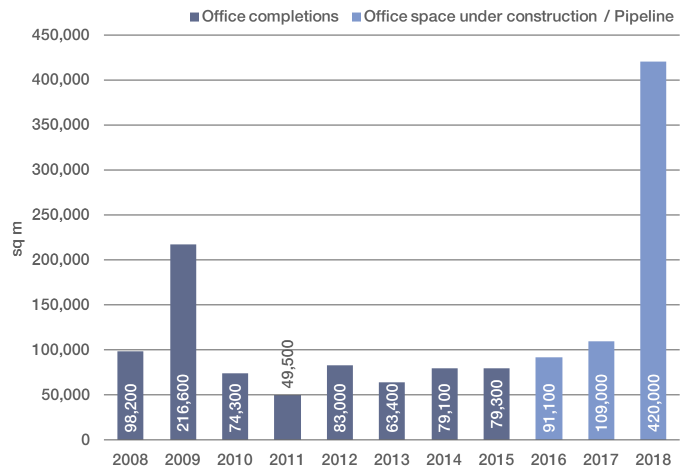
Take-up by submarket*



Source: Savills / * past 12 months

GRAPH 26

Development pipeline



Source: Savills

Cologne market in minutes

Developers are benefiting from the supply shortage

- The supply of space above 1,000 sq m in Cologne city centre is very limited. Faced with a lack of alternatives, many occupiers are prolonging their existing leases. Occupiers requiring more space often have only four options: higher rent, lesser quality of space, poorer location or dividing their space across several floors or locations.

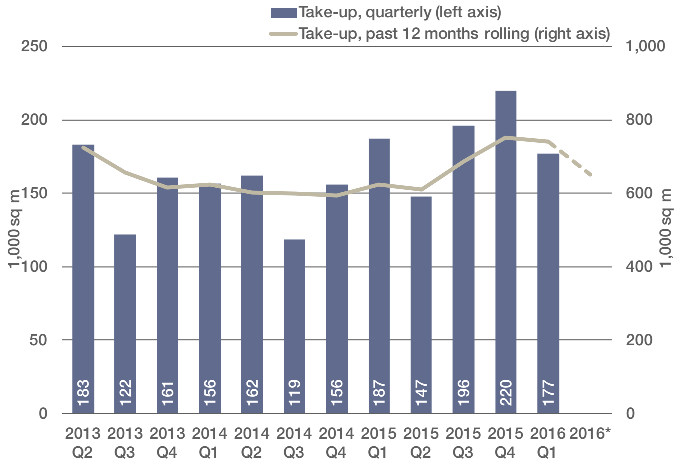
- Developers completing (speculative) projects are benefiting from this supply shortage. This model has been particularly successful in the Ehrenfeld submarket, which is currently benefiting from the scarce supply in Cologne city centre. Ehrenfeld registered 20 small and large deals in the first quarter and accounted for almost 20% of take-up in the first three months of 2016. The submarket impresses with its sound infrastructural connections and is popular with media and advertising agencies owing to its vibrant urban quarters. The rents of €12 to €14 per sq m/month are moderate compared with the city centre.

Munich

Occupier switch to Outskirts North and City West due to supply shortage in centre

GRAPH 27

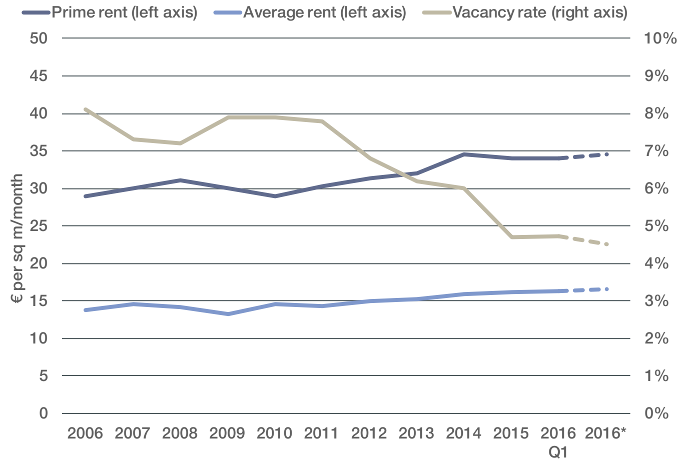
Take-up



Source: Savills / * forecast

GRAPH 28

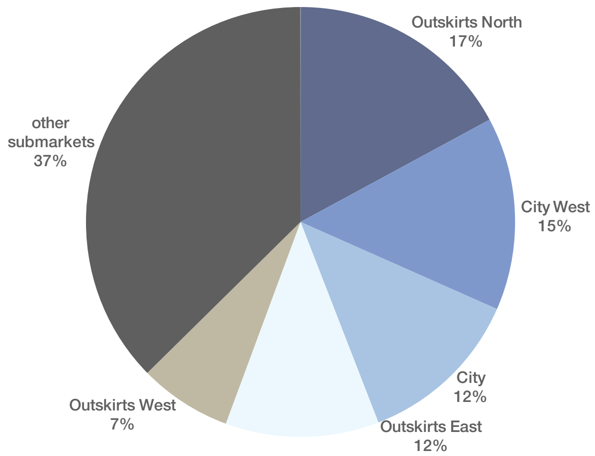
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 29

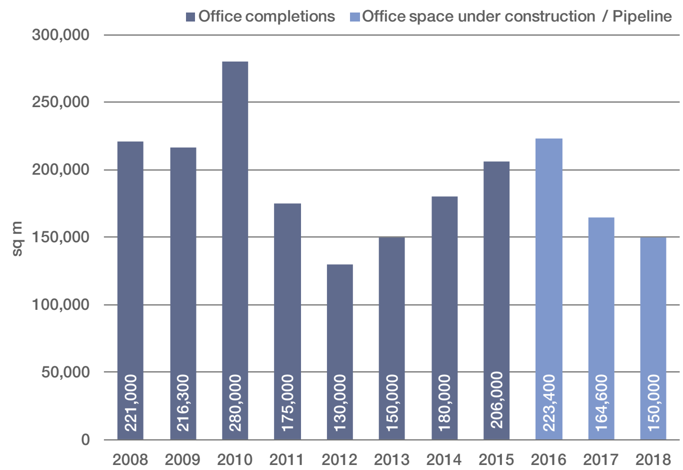
Take-up by submarket*



Source: Savills / * past 12 months

GRAPH 30

Development pipeline



Source: Savills

Munich market in minutes

Occupiers are starting to adjust to the supply shortage

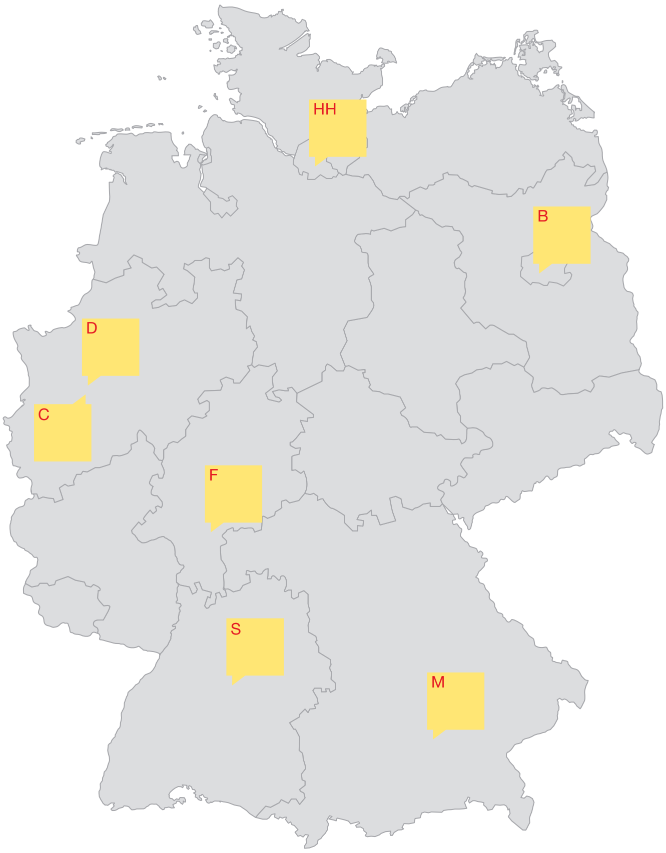
- Demand in the Munich office market continues to significantly exceed supply. The vacancy rate across the entire market currently stands at just 4.7%. In the city centre and indeed the entire area inside the main ring road (Mittlerer Ring), the vacancy rate is much lower at below 2%. In view of the supply shortage, take-up this year could be slightly lower than last year's total.

- Tenants have now recognised the strained market situation and are already planning with longer lead times. In the short term, they will only find space of a similar quality to their existing offices at a higher rent or space at a similar rent in a poorer location.

- While the completion volume in 2016 will be the highest since 2010 at 223,400 sq m, this will be insufficient to satisfy demand. The scarcity of development sites raises the question in the medium term of how sufficient office space can be provided in future.

Savills Germany

Savills is present in Germany with around 200 employees with seven offices in the most important estate sites Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart. Today Savills provides expertise and market transparency to its clients in the following areas of activity:



Our services

» Purchase and sale of single assets and portfolios
» Corporate Finance - Valuation
» Leasing of office and retail buildings
» Leasing and sale of industrial and warehouse properties
» Landlord and Occupier Services

www.savills.de

Savills Germany

Please contact us for further information

Marcus Mornhart
Office Agency Germany
+49 (0) 69 273 000 70
mmornhart@savills.de

Christian Leska
Office Agency Berlin
+49 (0) 30 726 165 186
cleska@savills.de

Jan-Niklas Schroers
Office Agency Düsseldorf
+49 (0) 211 22 962 223
jnschroers@savills.de

Benjamin Remy
Office Agency Frankfurt
+49 (0) 69 273 000 34
bremy@savills.de

Ken Hoppe
Office Agency Hamburg
+49 (0) 40 309 977 132
khoppe@savills.de

Simon Löseke
Office Agency Cologne
+49 (0) 221 933 313 32
sloeseke@savills.de

Nico Jungnickel
Office Agency Munich
+49 (0) 89 427 292 114
njungnickel@savills.de

Matthias Pink
Research
+49 (0) 30 726 165 134
mpink@savills.de

Savills is a leading global real estate service provider listed on the London Stock Exchange. The company, established in 1855, has a rich heritage with unrivalled growth. It is a company that leads rather than follows and now has over 700 offices and associates throughout the Americas, Europe, Asia Pacific, Africa and the Middle East with more than 30,000 employees worldwide. Savills is present in Germany with around 200 employees with seven offices in the most important estate sites Berlin, Dusseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart.