Germany
Market Report

Office and Investment Market

Mid-year 2015

Colliers INTERNATIONAL

Accelerating success.

Rising demand for space – very lively investment market

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Office Letting

A total of 1,521,200 sqm were taken up in Germany's seven top office markets of Berlin, Düsseldorf, Frankfurt am Main, Hamburg, Cologne, Munich and Stuttgart during the first half of 2015. This reflects a 13% year-on-year increase and is also the highest mid-year take-up result we have seen since 2011.

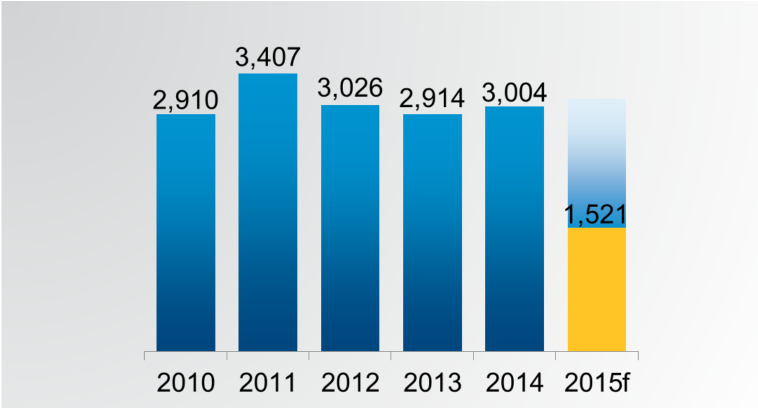
Increase in take-up in most of the Big 7

All seven office markets saw an increase in take-up that exceeded 2014 mid-year results. Berlin recorded the most take-up, emphasizing the city's growing significance on the office market. 337,000 sqm were taken up in the German capital, a 15% increase compared to the first half of 2014. The two largest deals not involving owner-occupiers in all of the top locations were signed in Berlin. Rocket Internet leased around 22,000 sqm in Kreuzberg and Daimler leased around 18,000 sqm in Friedrichshain.

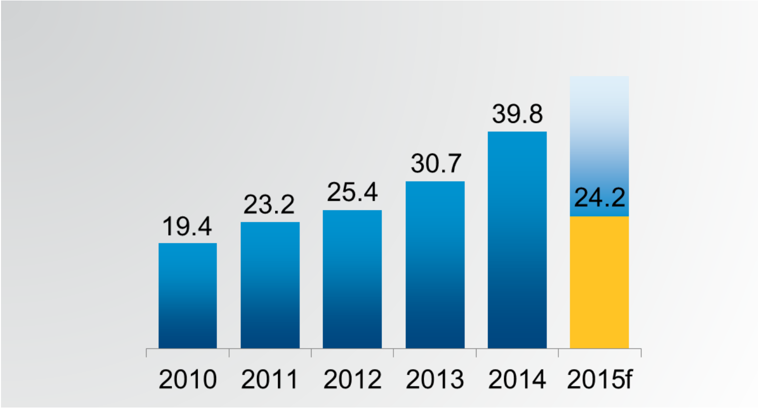
Munich came in second recording 305,700 sqm in take-up or almost 1% more year over year, the slightest increase among Germany's Big 7. Q2 was somewhat more subdued following a strong Q1. Only two leases for more than 5,000 sqm were signed between April and June: Steelcase at Brienner Forum near Königsplatz and Barmer GEK on Landsberger Straße.

Take-up in Hamburg increased by 12% to 251,000 sqm. Six leases for more than 5,000 sqm accounted for almost 32% of total take-up.

Take-up of Office Space in the Top Seven Cities (in 1,000 m²)



Commercial Transaction Volume in Germany (in billions of euros)



Two large-scale leases in Hamburg alone contributed significantly to total take-up results: 32,000 sqm owner-occupier in the Axel-Springer-Haus building and 20,000 sqm leased for several tax offices in a new-build project in Hammerbrook.

Frankfurt am Main recorded 177,700 sqm in take-up, reflecting a year-on-year increase of 6%. The largest owner-occupier deal in the German banking capital was signed by Deutsche Vermögensberatung for around 32,000 sqm near the central train station. Because only two other leases exceeded the 5,000-sqm mark, no significant increase in take-up was recorded.

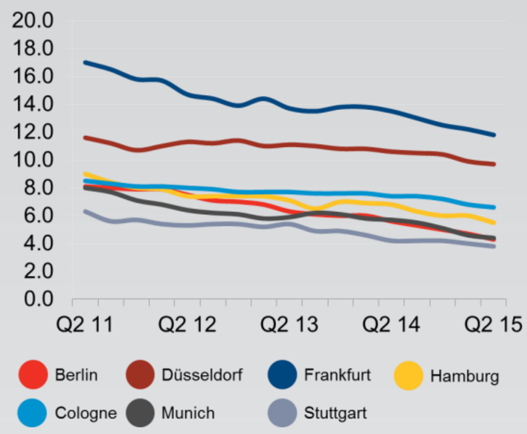
Düsseldorf recorded the steepest growth percentage, up 36% to 169,000 sqm. L'Oréal signed the largest lease for roughly 16,700 sqm in a project development in Kennedydamm. The mid-scale segments of between 1,000 and 5,000 sqm continued to post strong take-up results.
Stuttgart recorded 146,800 sqm in take-up also with a significant increase of 27%. Almost half of take-up in Stuttgart was the result of large-scale leases including roughly 30,000 sqm leased by Robert Bosch GmbH in an owner-occupier project on Borsigstraße. The largest lease in the city was signed by pharmaceutical retailer Celesio for around 10,500 sqm in the Europe Plaza project development at Stockholmer Platz.

Cologne recorded roughly 134,000 sqm in take-up with another strong increase of 13%. The lease signed by Bank für Sozialwirtschaft for 8,000 sqm in a project on Konrad-Adenauer-Ufer was the largest of a total of five leases signed for more than 5,000 sqm.

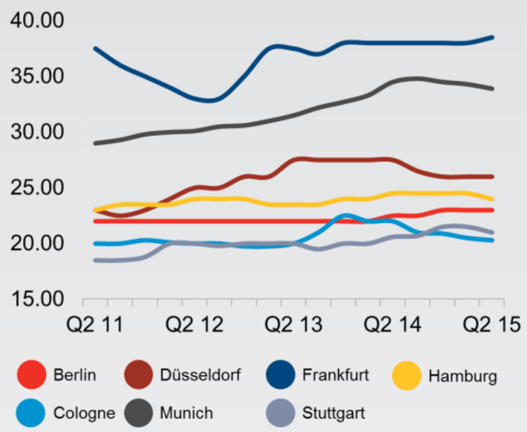
Considerable drop in vacancy

Around 5.4 million sqm of office space was available for immediate tenancy in Germany's top 7 cities at the end of Q2 2015, reflecting a drop in vacancy of 1,055 million sqm over the past twelve months. The average vacancy rate in the Big 7 was still at 7.3% in late 2014 and has fallen since then to 6.1%. The lowest vacancy rate was recorded in Stuttgart with only 3.8% of total office space currently vacant. Vacancy in Berlin (4.3%) and Munich (4.4%) currently only slightly exceeds Stuttgart's results. We are even seeing supply bottlenecks in some submarkets in these locations. The supply situation in Hamburg (5.5%) and Cologne (6.6%) is only slightly more relaxed. Düsseldorf (9.7%) and Frankfurt (11.8%) are currently experiencing higher vacancy rates but with a downward trend.

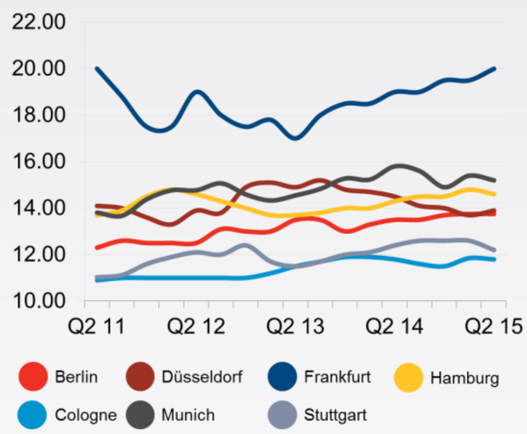
Comparison of Vacancy Rates (in %)



Comparison of Prime Rents (in /m²)



Comparison of Average Rents (in €/m²)



This considerable decrease can be attributed to solid leasing performance as well as to a relatively low completion rate. Despite the fact that vacancy rates have been dropping for some time now, slightly less office space is scheduled to be completed in 2015 than on average in 2010-2014.

Varied rent trends

Rent trends vary in Germany's Big 7. Frankfurt remains the most expensive office location with rents for office space posting an average of €20.00 per sqm. Frankfurt also recorded the steepest year-on-year increase of 5%. Prime rents were recorded there at €38.50 per sqm. Leases signed for space in well-known high-rises such as the Taunusturm and Opernturm towers have helped boost prime rents. In Munich, average and prime rents fell to €15.20 and €33.90 per sqm, respectively, as only limited space was available in high-end buildings in good locations. Düsseldorf recorded decreases for this same reason as well. Average rents in Düsseldorf were recorded at €13.90 per sqm and prime rents at €26.00 per sqm. The other locations posted only minimal changes. Tenants paid average rents of €14.60 per sqm in Hamburg with prime rents at €24.00 per sqm. Berlin recorded €13.75 and €23.00 per sqm, Stuttgart €12.20 and €21.00 per sqm, and Cologne €11.80 and €20.30 per sqm.

Outlook

The German office leasing market was in good shape during the first half of the year. Take-up was higher in all top locations than at mid-2014. The current economic situation is also comparatively favorable, something that will impact demand for office space and, with a few months' delay, take-up as well. Based on the number of businesses currently looking for space, we can expect take-up to continue to increase after the end of the year. As long as the German economy is not heavily affected by the European crisis, there is nothing standing in the way of us seeing an above-average year on the office market.

Investment

Activity on the German commercial investment market remains lively. The first half of 2015 closed out with a transaction volume of €24.2 billion, reflecting a 40% increase year over year.

Steep increase in demand in some top locations

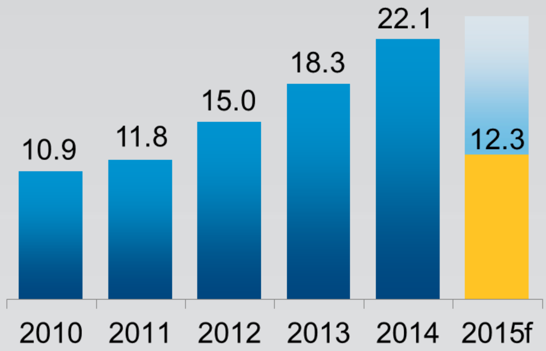
A total of €12.3 billion, or around 49% of total investment volume, was poured into Germany's seven real estate investment hubs of Berlin, Düsseldorf, Frankfurt, Hamburg, Munich, Stuttgart and Cologne during the first six months of the year. Only one third of total volume was generated in these top locations during the previous quarter, a development that can primarily be attributed to large-scale single transactions. Larger volume assets in the Big 7, however, also played a major role in terms of portfolio deals, which continue to grow in number (+ 1.4%), primarily due to the sale of more than 40 Kaufhof stores.

The economic stability and recent growing popularity of leasing markets make Germany the second most significant investment destination in Europe after the UK. Portfolios were at the heart of the above-average mid-year results in the top cities as well as throughout the rest of Germany. There is enough potential in all asset classes on the German real estate market. This potential, however, is becoming increasingly limited in core locations in the top cities. This can be seen in rising prices and falling yields.

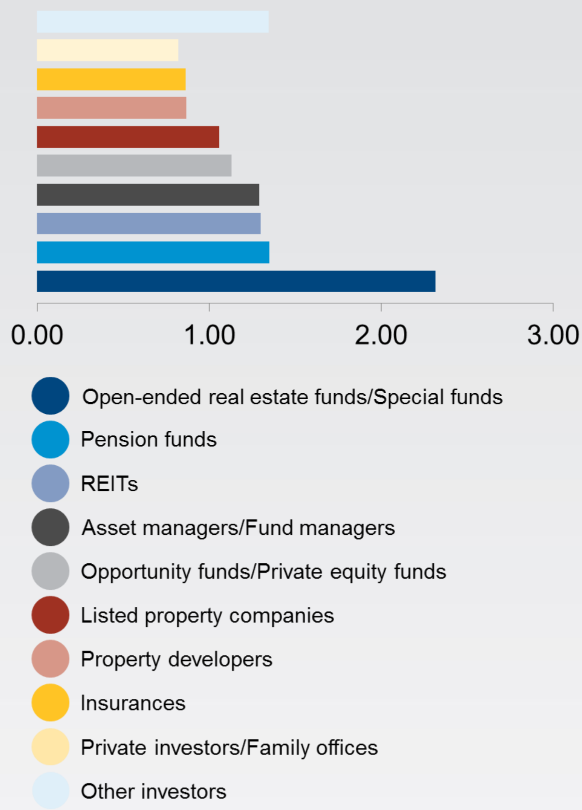
The market continues to become more international – even outside top locations

The average share of international buyers was recorded at 48% in all of the top locations, reflecting a year-on-year increase if 8 percentage points. Stuttgart posted the lowest share at 29% just ahead of Berlin (33%), and Düsseldorf saw the highest share of international activity with 65%. International investors also accounted for the majority in Frankfurt (60%), Hamburg (53%) and Cologne (51%). The share of international investors in Munich just missed the majority at 48%.
International investors were also active in retail portfolio deals throughout Germany. In addition to the Kaufhof deal, which changed hands for €2.4 billion, Corestate purchased a portfolio comprised of 35 retail properties for around €370 million. In total, international investors purchased retail portfolios valued at roughly €5.3 billion, a volume around five-times that recorded at mid-2014. As long as foreign capital continues to be poured into Germany at this rate, large-volume portfolios will remain the center of investor focus. Demand by investors from Asia, North America and France for trophy buildings in conurbations remains high as well.

Commercial Transaction Volume in the Top 7 Cities (in billions of euros)



Transaction Volume according to Buyer Groups (in millions of euros)



Development of the Gross Initial Yield

	Office	Retail	Industrial & Logistics
Berlin	–	–	↓
Düsseldorf	↓	–	↓
Frankfurt/M.	↓	↓	↓
Cologne	↓	–	↓
Hamburg	↓	↓	↓
Munich	↓	↓	↓
Stuttgart	↓	↓	↓

Office buildings just ahead of retail properties

The position of office buildings as the most popular asset class once again weakened to a current €9.5 billion or around 40%, just slightly ahead of retail properties with slightly more than €9 billion or 38%. The increase in the share of retail-use properties can primarily be attributed to large-volume portfolio transactions. In the first six months of the year, these totaled at €6.3 billion with the five largest transactions generating 73% of the total transaction volume posted by all retail portfolios.

In addition to the retail portfolios mentioned above, trophy assets as single properties are still in high demand on the office and retail markets in Germany's top locations, even though prices in this segment have already risen considerably. Hotel properties, which generated a transaction volume of over €1.5 billion, are also becoming increasingly popular followed closely by industrial and logistics properties, which just missed the €1.5-billion mark.

Almost all top locations indicate upward trend

The lively start to the year continued seamlessly in the German Big 7 in Q2. Munich and Frankfurt recorded a transaction volume during the first half of the year of around €2.8 billion, followed closely by the German capital of Berlin with €2.7 billion and Hamburg with €1.9 billion. Cologne (€0.9 billion), Düsseldorf (€0.7 billion) and Stuttgart (almost €0.6 billion) followed in the ranks. Almost all of the top real estate hubs recorded significant increases in transaction volume with the exception of Düsseldorf, where the first half of 2014, however, saw two transactions, Kö Galerie and Herzogterrassen, that sold for a total of almost €650 million alone.

Aside from Cologne (+240%), which recorded a very low transaction volume in the first half of 2014, the largest upward trend was recorded in Berlin (+123%). One of the largest single deals in the first half of 2015 was signed in Berlin with the sale of the Stettiner Carré office complex for roughly €210 million. High-volume single deals in Frankfurt, such as the sale of the Trianon high-rise to North Star for around €540 million, caused transaction volume to double year over year. High-volume transactions, i.e., the sale of the Brainlab Zentrale and Elisenhof located directly at the central train station, also dominated the Munich market, which recorded 35% growth, followed closely by Hamburg with 34%. Stuttgart recorded an increase of 8%, particularly due to the sale of the centrally located Zeppelin-Carré complex.

Yields for core assets dropped again slightly over the course of the year. Gross initial yields for prime office properties in Germany's top locations currently range from 3.75% (Munich) to 5.00% (Cologne). Yield compression goes hand-in-hand with investors being willing to take more risk, resulting in increasing demand in B and C locations as well. Yields for other asset classes also continued to fall (see table on the next page).

Outlook: Transaction volume increase to continue

Both German and foreign institutional investors continue to focus on high-volume transactions in Germany. The depreciation of the euro as well as ongoing low borrowing costs continue to make investments in German commercial real estate an attractive option. Despite yield compression, the risk-return ratio continues to be attractive as well compared to many other top European locations, and the German market still allows sufficient room for diversification in terms of location and asset class. Based on the deals currently underway, we can expect foreign investors to set the tone in the second half of the year as well with portfolio transactions continuing to play a key role. Just the planned sale of around 15 properties at Potsdamer Platz alone should total at more than €1 billion.

Product scarcity is only being reported in a few areas. Additional portfolio transactions and sales of trophy buildings in the major conurbations are already lined up for the second half of the year with a total investment volume of around €50 billion appearing feasible. With these results, 2015 could significantly outperform the result of €40 billion posted in 2014.

Office Letting and Investment Market Germany (figures mid-year 2015)

Key Facts

	Top 7	BERLIN	DÜSSELDORF	FRANKFURT	HAMBURG	COLOGNE	MUNICH	STUTTGART
OFFICE LETTING MARKET								
Take-up 2015 in m²	**1,521,200**	**337,000**	**169,000**	**177,700**	**251,000**	**134,000**	**305,700**	**146,800**
Take-up 2014 in m²	*1,348,000*	*293,300*	*124,300*	*167,000*	*225,000*	*119,000*	*303,400*	*116,000*
Change y-o-y	*1,348,000*	*293,300*	*124,300*	*167,000*	*225,000*	*119,000*	*303,400*	*116,000*
Prime rent 2015 in €/m²	+ 12.8%	14.9%	36.0%	6.4%	11.6%	12.6%	0.8%	26.6%
Prime rent 2014 in €/m²		**23.00**	**26.00**	**38.50**	**24.00**	**20.30**	**33.90**	**21.00**
Change y-o-y		*22.50*	*27.50*	*38.00*	*24.50*	*20.10*	*34.50*	*20.60*
Average rent 2015 in €/m²		2.2%	-5.5%	1.3%	-2.0%	1.0%	-1.7%	1.9%
Average rent 2014 in €/m²		**13.75**	**13.90**	**20.00**	**14.60**	**11.80**	**15.20**	**12.20**
Change y-o-y		*13.50*	*14.50*	*19.00*	*14.30*	*11.70*	*15.80*	*12.40*
Vacancy 2015 in m²		1.9%	-4.1%	5.3%	2.1%	0.9%	-3.7%	-1.6%
Vacancy 2014 in m²	**5,411,200**	**795,500**	**739,300**	**1,365,200**	**729,200**	**507,000**	**991,800**	**283,200**
Vacancy rate	*6,465,900*	*1,040,000*	*801,800*	*1,550,000*	*901,000*	*553,000*	*1,304,500*	*315,600*
COMMERCIAL INVESTMENT MARKET								
Transaction volume in millions of euros, mid-year 2015	**24,202**	**2.700**	**705**	**2.751**	**1.950**	**850**	**2.779**	**569**
Transaction volume in millions of euros, mid-year 2014	*17,081*	1.210	1.150	1.364	1.450	250	2.054	525
Change y-o-y	+42%	+123%	-39%	+102%	+34%	+240%	+35%	+8%
Largest group of investors	Open-ended real estate funds/ Special funds 20%	Listed property companies 26%	REITs 60%	Pension funds 28%	Asset / Fund manager 31%	REITs 29%	Open-ended real estate funds/ Special funds 34%	Open-ended real estate funds/ Special funds 50%
Largest group of sellers	Corporates / Owner-occupiers 20%	Open-ended real estate funds/ Special funds 25%	Corporates / Owner-occupiers 60%	Asset / Fund manager 22%	Open-ended real estate funds/ Special funds 40%	Opportunity Fonds / Private Equity Fonds 33%	Property developers3 0%	Opportunity funds/ Private equity funds 46%
Most important type of real estate	Office 40%	Office 44%	Retail 57%	Office 84%	Office 70%	Office 48%	Office 69%	Office 57%
Prime yield office		4.75%	4.90%	4.60%	4.30%	5.00%	3.75%	4.80%
Prime yield retail		4.50%	4.25%	4.05%	4.30%	4.25%	3.00%	4.00%
Prime yield industrial		6.55%	6.40%	6.05%	6.50%	6.45%	6.00%	6.30%

Source: Colliers International, Grossmann & Berger (Hamburg), Larbig & Mortag (Cologne)

502 offices in **67** countries on **6** continents

United States: **140**
Canada: **31**
Latin America: **24**
Asia Pacific: **199**
EMEA: **108**

€ 1.75
billion
In annual revenue

€ 75
billion in transaction volume with more than 80,000 investment and leasing deals

160
Million square meter under management

16,300
professionals worldwide

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