

MARKETBEAT OFFICE SNAPSHOT



GERMANY

A Cushman & Wakefield Research Publication

Q1 2015



OVERVIEW

The German office market experienced a dynamic start to 2015, with take-up levels in the top-5 cities increasing 6% from the same period last year and 17% above the ten-year average. Investors still continue to

target high-quality assets in the best locations but limited supply has led more opportunistic players to seek prospects higher up the risk curve.

OCCUPIER FOCUS

With leasing volumes standing at 182,000 sq.m in Q1, Munich once again took first place among the top-5 locations and take-up exceeded the previous five first quarters by 22%. Berlin also experienced robust occupier demand with 152,000 sq.m let in the first three months, albeit slightly short of the 160,000 sq.m seen in Q1 14. Nevertheless it was the second-strongest start to a year ever in the city, with levels bolstered by a new lease for 22,000 sq.m in City Ost by Rocket Internet.

A total of 5.61 million sq.m of office space is currently available for immediate occupancy across the top-5 cities, the lowest level in twelve years. Particular reductions were seen in Munich, Frankfurt and Berlin where vacancy fell y/y by 10%, 8% and 7% respectively. In Munich and Berlin this has been largely due to the combination of strong demand and comparatively low levels of speculative development. In Frankfurt however, a large amount of vacant space has been removed from the market due to refurbishments and conversions.

INVESTMENT FOCUS

Office investment hit €4.1 billion in Q1 and accounted for 43% of total investment activity across all sectors. Investors continued to target centrally located, high-quality space where possible but a shortage of Grade A stock has resulted in many seeking quality secondary assets. Yields have continued to harden, with some considerable downward movement in markets such as Central Munich where yields fell by up to 15bp.

OUTLOOK

Buoyed by positive economic growth, leasing volumes are expected to at least equal the levels of 2014, if not exceed them. Vacancy levels are expected to see a moderate decline due to strong occupier demand and relatively limited speculative development, putting upward pressure on prime rents. Investors will continue to compete for the best assets in prime markets but as prices rise and prime stock dwindles, many will begin to look for value further afield.

MARKET OUTLOOK

Prime Rents:	Rising demand and lack of suitable supply has put further upward pressure on prime rents.	▼
Prime Yields:	Prime yields continue to harden as investors compete for prime assets.	▲
Supply:	Vacancy levels continue to fall due to strong demand and limited development activity.	▲
Demand:	Positive economic fundamentals continue to fortify occupier demand.	▼

PRIME OFFICE RENTS – MARCH 2015

MARKET (SUBMARKET)	€		US\$	GROWTH %	
	SQ.M/MTH	SQ.M/YR	SQ.FT/YR	1YR	5YR CAGR
Berlin	22.50	270	26.9	2.3	1.9
Frankfurt	37.00	444	44.3	0.0	1.7
Hamburg	24.00	288	28.7	0.0	0.9
Munich	33.50	402	40.1	3.1	3.3
Dusseldorf	26.00	312	31.1	-5.5	3.4

OUT OF TOWN OFFICE RENTS – MARCH 2015

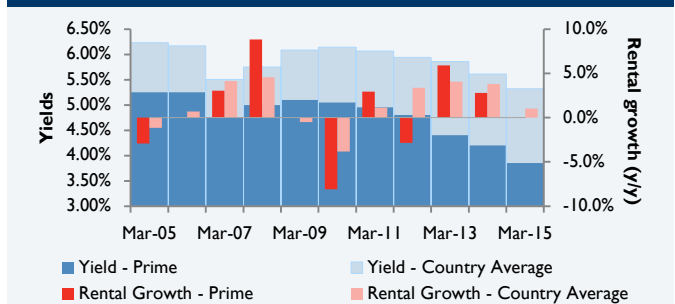
MARKET (SUBMARKET)	€		US\$	GROWTH %	
	SQ.M/MTH	SQ.M/YR	SQ.FT/YR	1YR	5YR CAGR
Berlin	11.00	132	13.2	0.0	3.0
Frankfurt	14.00	168	16.8	0.0	1.5
Hamburg	13.00	156	15.6	4.0	5.4
Munich	16.00	192	19.2	6.7	5.1
Dusseldorf	11.50	138	13.8	0.0	2.8

PRIME OFFICE YIELDS – MARCH 2015

MARKET (SUBMARKET) (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	QUARTER	QUARTER	YEAR	HIGH	LOW
Berlin	4.50	4.50	4.75	6.00	4.50
Frankfurt	4.50	4.70	4.75	5.50	4.50
Hamburg	4.25	4.50	4.60	5.50	4.25
Munich	3.85	4.00	4.20	5.25	3.85
Dusseldorf	4.60	4.60	4.70	6.00	4.60

With respect to the yield data provided, in light of the lack of recent comparable market evidence in many areas of Europe and 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



Source: Cushman & Wakefield