MARKETBEAT
OFFICE SNAPSHOT

GERMANY
A Cushman & Wakefield Research Publication

Q2 2015

OVERVIEW
The German office market stabilised in the second quarter, following a robust performance in Q1, which saw take-up in the top-5 cities exceed the 10 year average by 17%. Healthy underlying economic activity and strong business confidence is supporting occupational and investment activity across both prime and secondary markets.

OCCUPIER FOCUS
Recent indicators suggest that business activity is steadily improving, with a growing number of firms looking at expansion strategies. Market activity has picked up across all markets. A combination of stable letting volumes in the small scale segment backed by a number of large scale deals has pushed the H1 total to 1.27 million. This result is up 9% year-on-year and 6% ahead of the 5-year average.

The availability of space in the top-5 cities is at its lowest level for twelve years and declined marginally in Q2, driven primarily by high letting activity and low speculative completion in cities such as Munich and Berlin, while in Frankfurt, the decline in vacancy was driven by refurbishments and conversions. Developers are still cautious but development activity is steadily improving, boosted by healthy demand for pre-let opportunities, while the better availability of development finance is also helping.

INVESTMENT FOCUS
In the investment market, there is a considerable weight of local and overseas capital targeting the German office market. Office investment volume hit €9.34 billion in H1 and was thus 26% above previous year's level. Demand for Grade A stock far outstrips supply, which has led to an increase in demand for shorter income stock and secondary assets in good locations, especially where there is potential to improve the income through asset management/refurbishment. The lack of prime stock in some markets is also tempting investors with higher return requirements to consider joint ventures with developers and/or opportunities for funding speculative development. Prime yields continued to harden in Q2, with some compression also being noted in second tier CBD locations and secondary markets.

OUTLOOK
Take-up volumes in 2015 are expected to exceed 2014 volumes. Vacancy rates are expected to see further moderate declines given the limited speculative pipeline. The demand/supply imbalance will also force investors to look further afield for opportunities, and further yield compression is expected across prime and secondary markets.

MARKET OUTLOOK

Prime Rents:	Remaining under upward pressure across prime and, increasingly, secondary areas.
Prime Yields:	Further yield compression anticipated, given the weight of capital targeting the sector.
Supply:	Declining due to high absorption levels and the limited development pipeline.
Demand:	Occupier and investor demand expected to strengthen further over the medium term.

PRIME OFFICE RENTS – JUNE 2015

MARKET (SUBMARKET)	€ SQ.M/MTH	€ SQ.M/YR	US$ SQ.FT/YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Berlin	22.50	270	27.9	2.3	1.9
Frankfurt	37.00	444	46.0	0.0	1.7
Hamburg	24.50	294	30.4	2.1	1.7
Munich	33.50	402	41.6	3.1	3.3
Dusseldorf	26.00	312	32.3	-5.5	2.9

OUT OF TOWN OFFICE RENTS – JUNE 2015

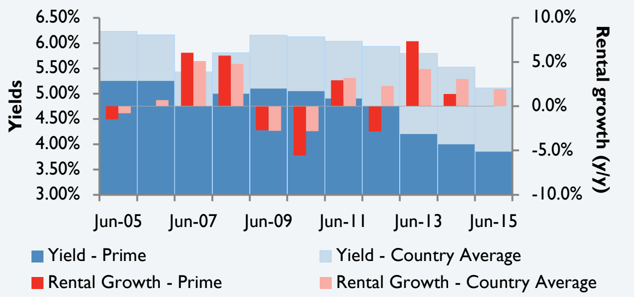
MARKET (SUBMARKET)	€ SQ.M/MTH	€ SQ.M/YR	US$ SQ.FT/YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Berlin	11.50	138	14.3	4.5	3.9
Frankfurt	14.50	174	18.0	3.6	2.2
Hamburg	13.50	162	16.8	3.8	6.2
Munich	16.00	192	19.9	6.7	5.1
Dusseldorf	12.00	144	14.9	4.3	3.7

PRIME OFFICE YIELDS – JUNE 2015

MARKET (SUBMARKET) (FIGURES ARE NET, %)	CURRENT QUARTER	LAST QUARTER	LAST YEAR	10 YEAR HIGH	10 YEAR LOW
Berlin	4.25	4.50	4.50	6.00	4.25
Frankfurt	4.40	4.50	4.75	5.50	4.40
Hamburg	4.25	4.25	4.50	5.50	4.25
Munich	3.85	3.85	4.00	5.25	3.85
Dusseldorf	4.50	4.60	4.60	6.00	4.50

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

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