

GERMANY

# Office Market Snapshot

Third Quarter | 2015



## Overview

Business sentiment has waned slightly, mainly due to the effects of global geopolitical risks, but the economy is robust and this is supporting healthy levels of occupational and investment activity.

## Occupier focus

Leasing activity is steadily rising across all prime locations and in many non-central and suburban locations in the top cities, with a growing number of firms pursuing expansion strategies. There is sustained demand for space over 10,000 sq.m, but take-up volumes have also been boosted by a strong pick-up in demand for space between 1,000 and 3,000 sq.m from smaller occupiers. With demand ahead of supply in the top-5 cities, vacancy rates have continued to decline. Speculative development is low in these locations, with any new Grade A stock being absorbed quickly. There is growing demand for pre-let opportunities, which is helping boost development activity, while the better availability of development finance is also encouraging more developers to restart or commence new projects. Prime CBD rents are generally stable, with the exception of Berlin, which saw CBD rents rise 2.2% in Q3. Some rental growth is being seen in non-central locations in the biggest cities.

## Investment focus

There is significant demand and activity across all prime investment markets, with a broad range of local and overseas investors competing hard for opportunities across all income lengths. Investor demand is mainly focused on prime stock, but as rental growth prospects strengthen in non-core locations, investors are more willing to consider shorter income stock, especially where there is potential to improve the income on lease expiry. Investment volumes are being boosted by a slow improvement in supply, with more vendors now looking to lock in profits. Demand is still well ahead of supply however, and prime yields are expected to remain under downward pressure over the coming quarters.

## Outlook

Occupational and investment demand is forecast to strengthen further in 2016, with increased appetite for space in second-tier and secondary locations. Demand will continue to outstrip supply across most prime markets, with vacancy rates expected to see further moderate declines.

## MARKET INDICATORS

### Market Outlook

Prime Rents:	Stable in core locations, but under pressure to rise in well-located out of town and suburban markets.	▼
Prime Yields:	Remaining under downward pressure in core markets, with demand continuing to outstrip supply.	▲
Supply:	Falling. Speculative development pipeline is weak, while absorption rates are high.	▲
Demand:	Strengthening across prime markets, and increasingly in second tier locations.	▼

### Prime Office rents – September 2015

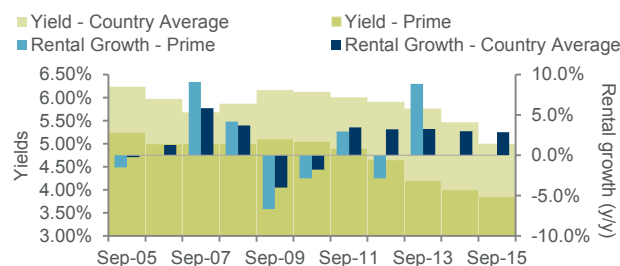
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Berlin (CBD)	23.00	276	28.6	4.5	2.3
Berlin (Out of Town)	12.00	144	14.9	9.1	4.8
Frankfurt (CBD)	37.00	444	46.0	0.0	1.7
Frankfurt (Out of Town)	14.50	174	18.0	3.6	2.2
Hamburg (CBD)	24.50	294	30.5	2.1	1.7
Hamburg (Out of Town)	13.50	162	16.8	3.8	6.2
Munich (CBD)	33.50	402	41.7	1.5	3.3
Munich (Out of Town)	16.50	198	20.5	6.5	5.7
Dusseldorf (CBD)	26.00	312	32.4	-1.9	2.9
Dusseldorf (Out of Town)	12.00	144	14.9	4.3	3.7

### Prime Office yields – September 2015

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Berlin	4.20	4.25	4.50	6.00	4.20
Frankfurt	4.35	4.40	4.70	5.50	4.35
Hamburg	4.20	4.25	4.50	5.50	4.20
Munich	3.85	3.85	4.00	5.25	3.85
Dusseldorf	4.40	4.50	4.60	6.00	4.40

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



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