

Market in Minutes

Germany office markets

Q2 2015



The facts at a glance

Take-up rises further - decline in vacancy rates and rental growth continues

■ Take-up in the top six office markets totalled approximately 1.45 million sq m in the first half of 2015, representing an increase of more than 8% compared with the corresponding period last year. Take-up over the last 12 months totalled 2.8 million sq m, which was approximately 3% higher than the corresponding figure to the end of the previous quarter.

■ All cities registered an increase in take-up year on year, with Düsseldorf (+41%) and Hamburg (+13%) witnessing double-digit growth.

■ The vacancy rate also fell further in all six markets, declining by 40 basis points year on year to 7.4%.

■ This contraction in vacant space is also explained by the relatively low completion volumes in recent years (average over the last three years: 0.85 million sq m p.a.). While development activity has recently risen again, this remains on the low side with anticipated completion volumes of little more than 1 million sq m for 2015 and 2016.

■ The prime rent across all six markets rose on average by 1.4% compared with the corresponding quarter last year to €27.74 per sq m/month. The average rent rose by 6.1% to €14.82 per sq m/month.

■ With large requirements outstanding in all markets, take-up for the full year is certain to reach the 2.8 million sq m mark, thus exceeding last year's total (2014: 2.7 million sq m). In the event that some of these rather large requirements are fulfilled this year, the final total may even be significantly higher.

Top six office markets at a glance

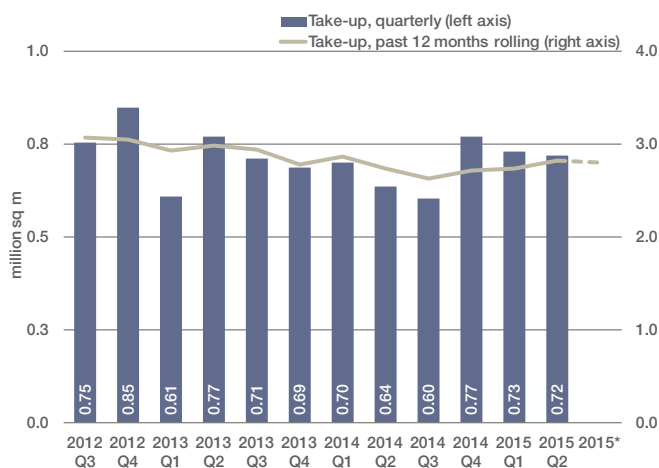
+++ Prime rent +0,4% | Average rent +0,6% | Vacancy rate -10bps. +++

TABLE 1
Key office market figures

	Take-up (sq m)				Vacancy rate (%)		Prime rent (€ per sq m/month)		Average rent (€ per sq m/month)	
	Q2 2015	y-o-y change	12 months rolling	q-o-q change	Q2 2015	q-o-q change	Q2 2015	q-o-q change	Q2 2015	q-o-q change
Berlin	402,500	+0.8%	776,100	+3.6%	3.9	-40bps.	22.70	-0.4%	14.20	+2.2%
Düsseldorf	170,000	+40.8%	286,600	+20.3%	10.2	+/-0bps.	26.00	+/-0.0%	13.30	-6.3%
Frankfurt	167,900	+2.7%	374,400	+2.4%	11.4	+/-0bps.	38.00	+/-0.0%	18.50	+5.7%
Hamburg	248,200	+13.2%	540,100	+2.4%	6.0	-10bps.	24.50	+/-0.0%	14.50	+/-0.0%
Cologne	125,700	+9.3%	235,700	+0.5%	7.2	-20bps.	21.25	+6.3%	12.80	+3.2%
Munich	334,600	+5.1%	609,300	-2.3%	5.7	-10bps.	34.00	-1.4%	15.60	-1.6%
Top 6	1,448,900	+8.4%	2,822,200	+3.0%	7.4	-10bps.	27.74	+0.4%	14.82	+0.6%

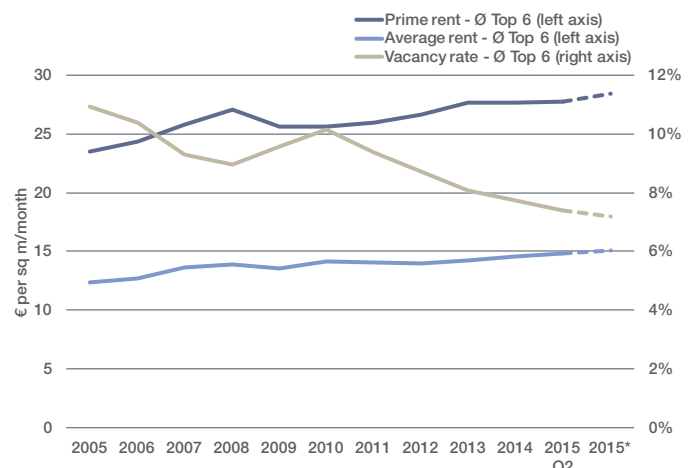
Source: Savills

GRAPH 1
Take-up in the top 6



Source: Savills / * forecast

GRAPH 2
Rental levels and vacancy rate



Source: Savills / * forecast

Top six market in minutes

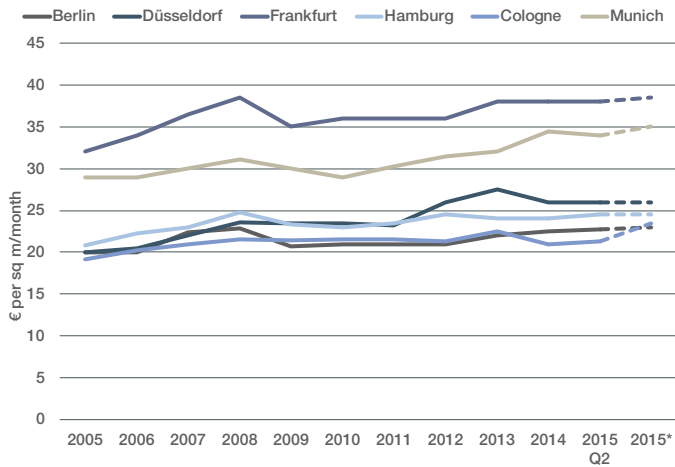
Completion volumes higher but still relatively low

- Office take-up across the top six markets totalled 1.45 million sq m, representing an increase of 8% compared with the corresponding period last year. Take-up over the last 12 months totalled 2.8 million sq m (+3% compared with the 12-month take-up to the end of Q1 15). The prime rent rose by 1.4% year on year to €27.74 per sq m/month while the vacancy rate fell by 40 basis points year on year to 7.4%.
- The breadth of the upturn in the office lettings markets is demonstrated by the fact that, in addition to a number of large deals, there was also a multitude of transactions in the medium size segment between 1,000 sq m and 5,000 sq m.
- Thanks to increased, yet still relatively low, completion volumes and a pre-letting rate of approximately 70% on new space that has come and is yet to come to the market this year, rents are expected to rise for the remainder of the year and beyond.

Top six office markets at a glance

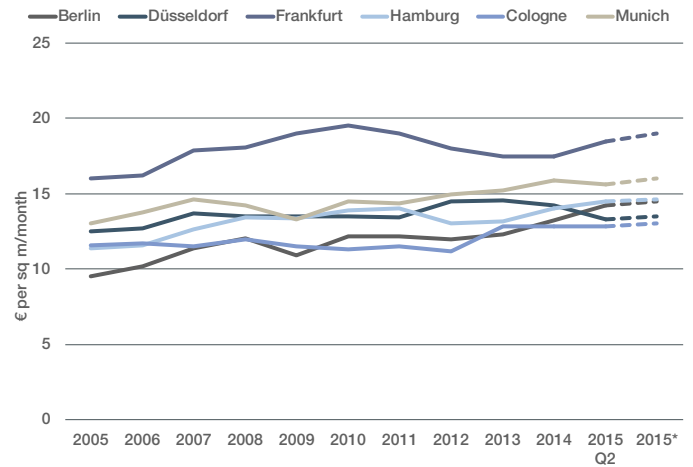
+++ Development pipeline 2015: 1.1 million sq m | Increase in employment: +0.6% +++

GRAPH 3
Prime rent by location



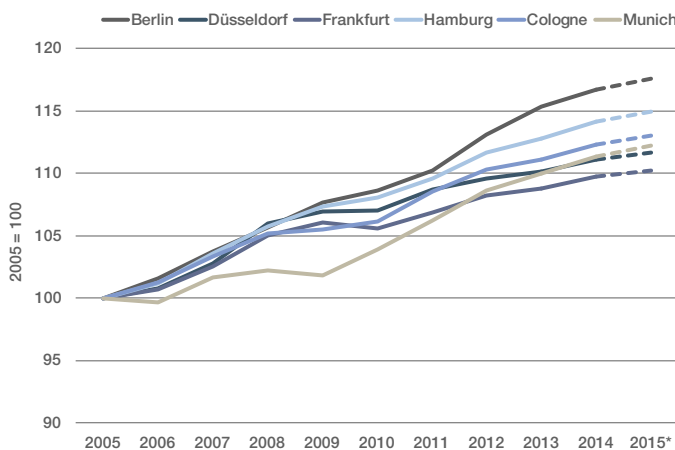
Source: Savills / * forecast

GRAPH 4
Average rent by location



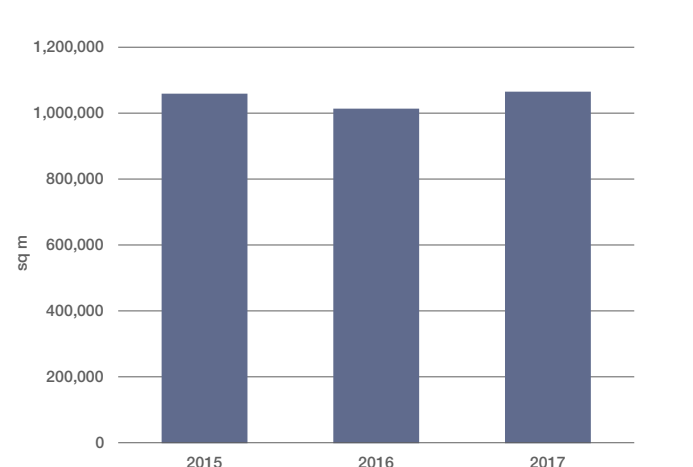
Source: Savills / * forecast

GRAPH 5
Office employment



Source: Oxford Economics / * forecast

GRAPH 6
Development pipeline



Source: Savills

TABLE 2
The largest letting transactions in Q2 2015 at a glance*

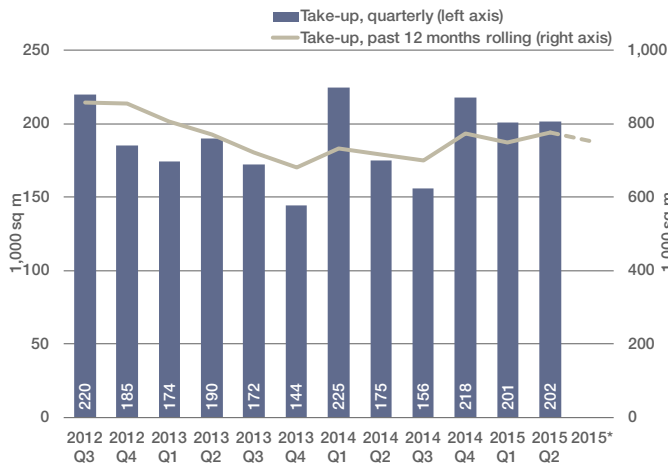
Location	Tenant	Office space (sq m)
Hamburg	Finanzbehörde	approx. 19,400
Düsseldorf	L'Oréal	approx. 16,700
Munich	Steelcase	approx. 14,500
Berlin	Zalando	approx. 13,000
Cologne	Bundesamt für das Personalmanagement der Bundeswehr	approx. 11,000

Source: Savills / * only published transactions are shown

Berlin

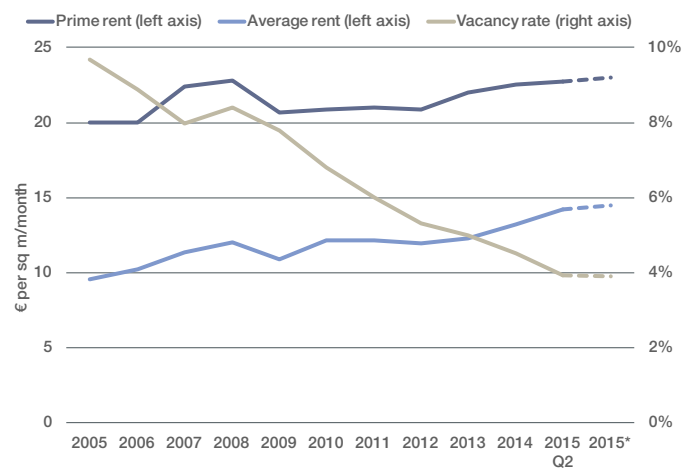
+++ Prime rent -0,4% | Average rent +2,2% | Vacancy rate -40bps. +++

GRAPH 7
Take-up



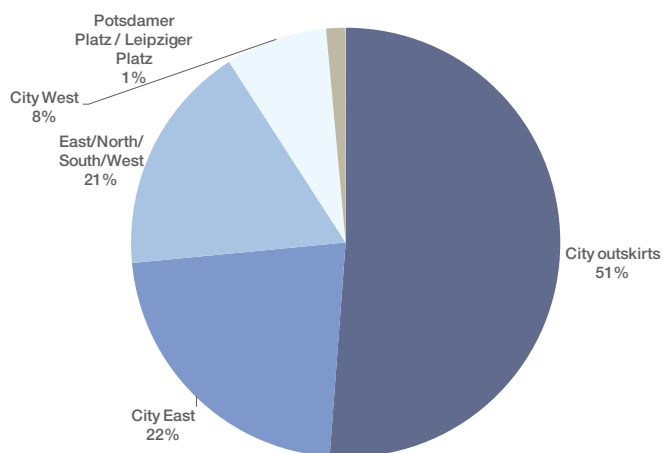
Source: Savills / * forecast

GRAPH 8
Rental levels and vacancy rate



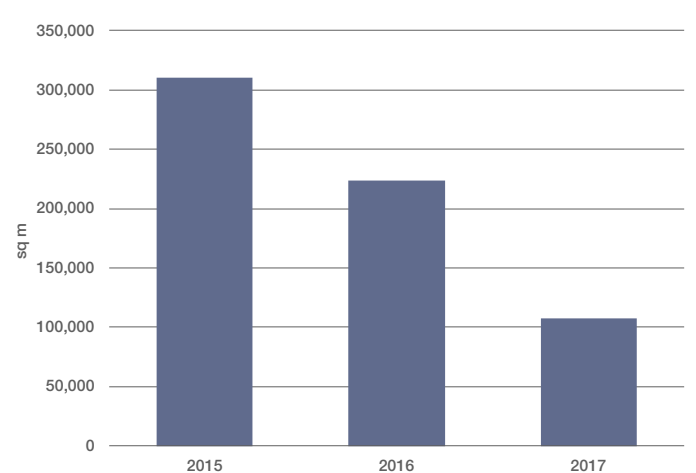
Source: Savills / * forecast

GRAPH 9
Take-up by submarket*



Source: Savills / *past 12 months

GRAPH 10
Development pipeline



Source: Savills

Berlin market in minutes

Technology sector drives market activity and pushes rents higher

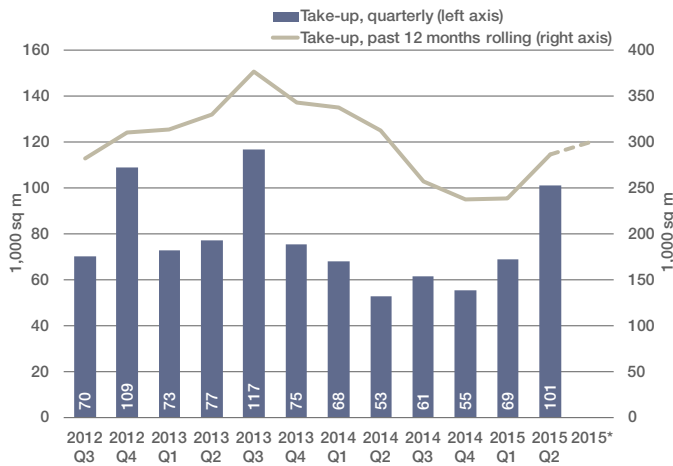
- Office take-up in the first half of 2015 totalled 402,500 sq m, representing an increase of 1% compared with the corresponding period last year. Take-up over the last 12 months totalled 776,100 sq m (+4% compared with the 12-month take-up to the end of Q1 15). The prime rent rose by 3.2% year on year to €22.70 per sq m/month while the vacancy rate fell by 80 basis points year on year to 3.9%.
- A large element of the take-up, positive net absorption and rental growth is attributable to lettings in the information and communications sector. The sector accounted for 42% of overall take-up in the first six months of the year.
- Although more than 300,000 sq m of new office space is scheduled for completion in 2015, which is around two and a half times more than last year, the vacancy rate will remain at its current level since almost 90% of this space is already let.

Düsseldorf

+++ Prime rent +/-0,0% | Average rent -6,3% | Vacancy rate +/-0bps. +++

GRAPH 11

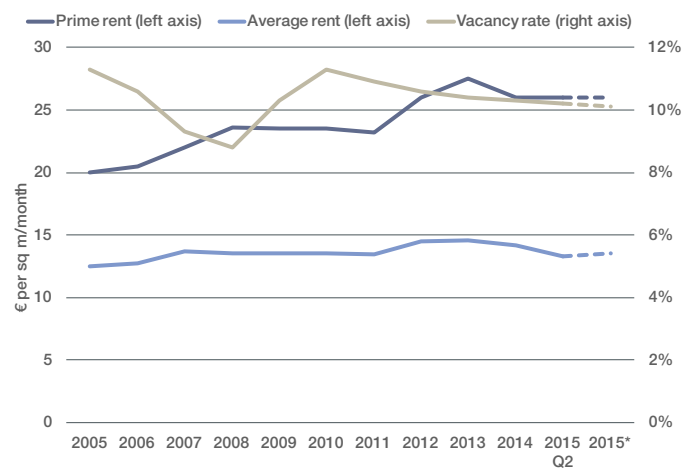
Take-up



Source: Savills / * forecast

GRAPH 12

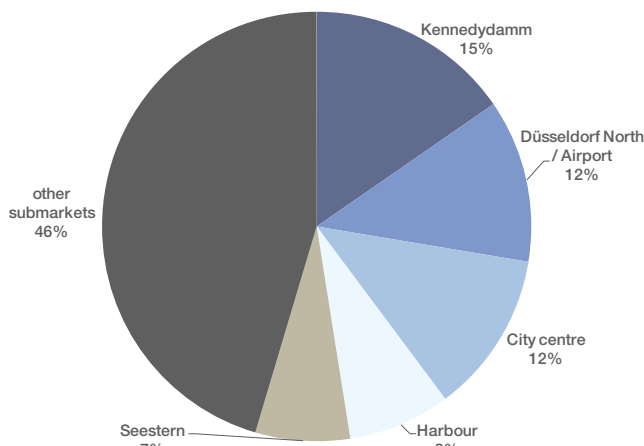
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 13

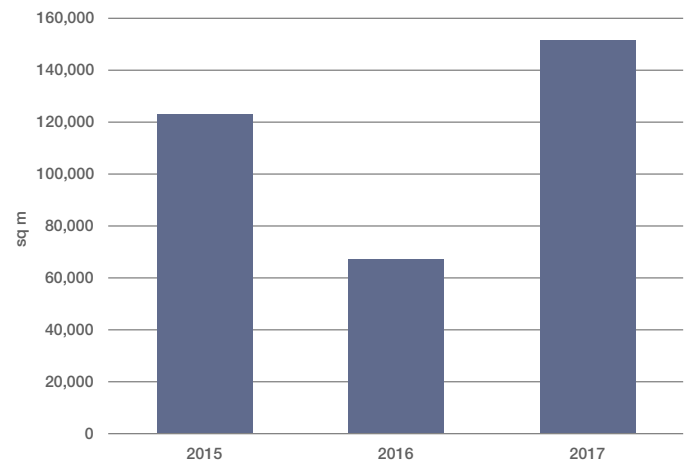
Take-up by submarket*



Source: Savills / *past 12 months

GRAPH 14

Development pipeline



Source: Savills

Düsseldorf market in minutes

Large number of average-sized deals drives significant rise in take-up

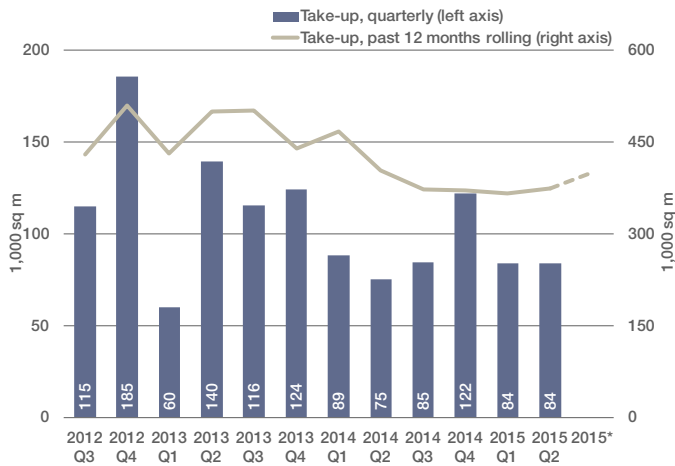
- Office take-up in the first half of 2015 totalled 170,000 sq m, representing an increase of 41% compared with the corresponding period last year. Take-up over the last 12 months totalled 286,600 sq m (+20% compared with the 12-month take-up to the end of Q1 15). The prime rent fell by 1.9% year on year to €26.00 per sq m/month while the vacancy rate fell by 10 basis points year on year to 10.2%.
- Take-up was driven by a small number of large deals and, particularly, by buoyant activity across all sectors in the medium size segment between 1,000 sq m and 5,000 sq m. This size category accounted for 31 deals in the first half year (corresponding period last year: 18).
- While the prime rent declined modestly, the average rent fell by 10% to €13.30 per sq m/month. This is explained by the fact that many of the larger transactions took place in the peripheral office submarkets and at relatively low rents.

Frankfurt

+++ Prime rent +/-0,0% | Average rent +5,7% | Vacancy rate +/-0bps. +++

GRAPH 15

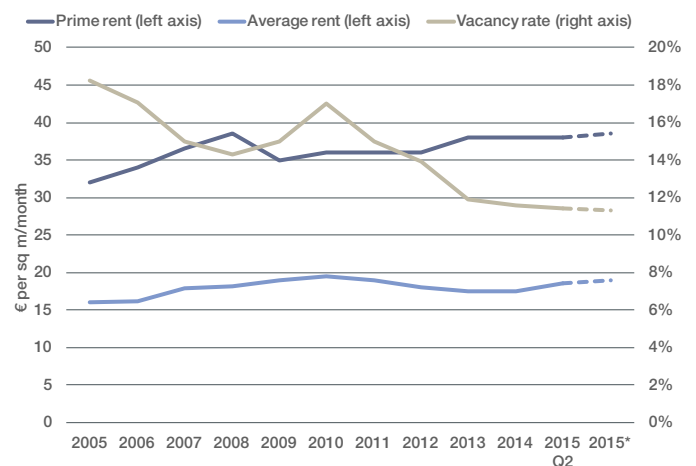
Take-up



Source: Savills / * forecast

GRAPH 16

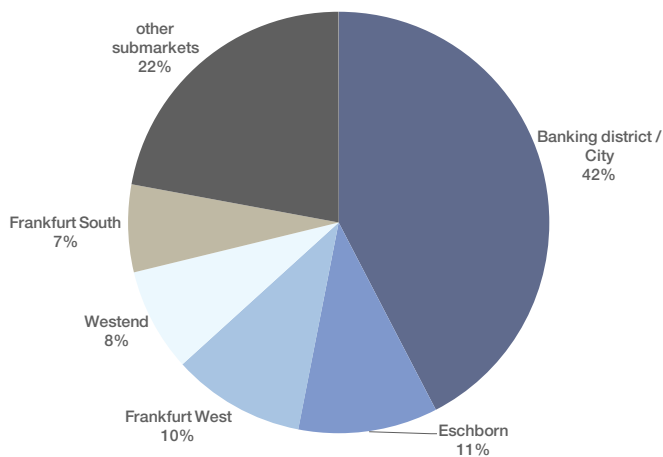
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 17

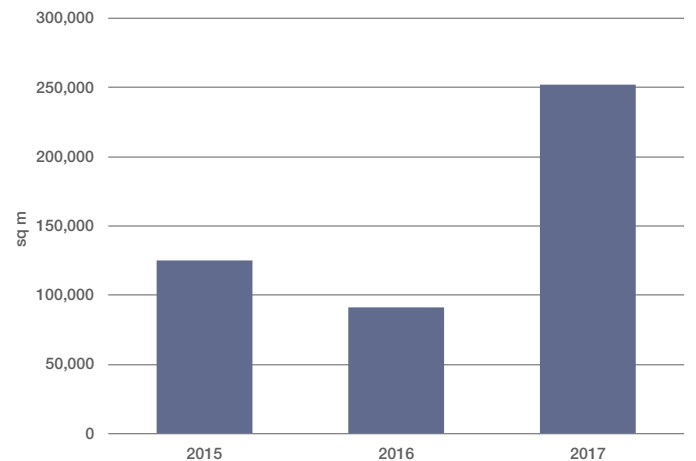
Take-up by submarket*



Source: Savills / *past 12 months

GRAPH 18

Development pipeline



Source: Savills

Frankfurt market in minutes

Stable take-up but many (speculative) developments

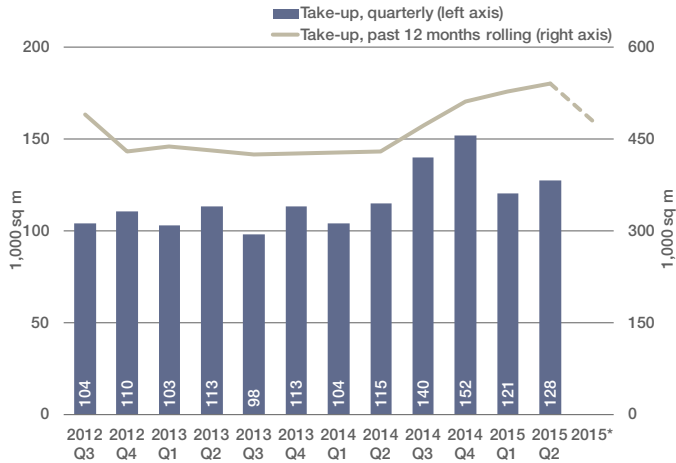
- Office take-up in the first half of 2015 totalled 167,900 sq m, representing an increase of 3% compared with the corresponding period last year. Take-up over the last 12 months totalled 374,400 sq m (+2% compared with the 12-month take-up to the end of Q1 15). The prime rent remained unchanged year on year at €38.00 per sq m/month while the vacancy rate fell by 20 basis points year on year to 11.4%.
- While demand and take-up remain relatively low, development activity, including the former Metzler site for example, is relatively high and some of this is even speculative. A total of 125,000 sq m of new office space will come to the market this year, of which more than half is already let.
- Based upon the amount of space due to come to the market, prime rental growth is expected to be limited for the remainder of the year. Indeed, the incentives landlords are required to offer to secure new tenants for their property may even increase.

Hamburg

+++ Prime rent +/-0,0% | Average rent +/-0,0% | Vacancy rate -10bps. +++

GRAPH 19

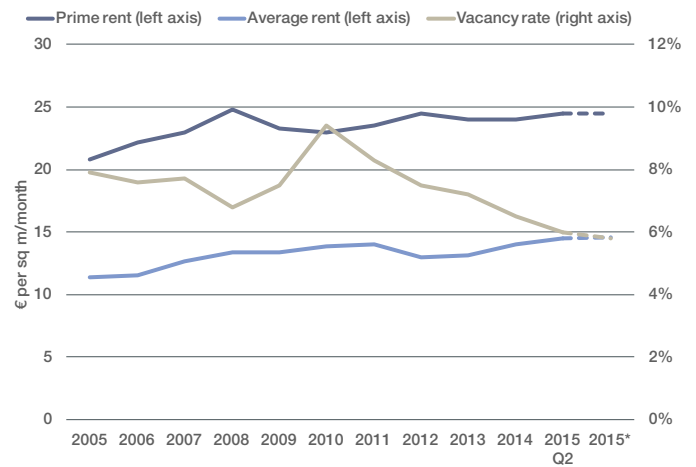
Take-up



Source: Savills / * forecast

GRAPH 20

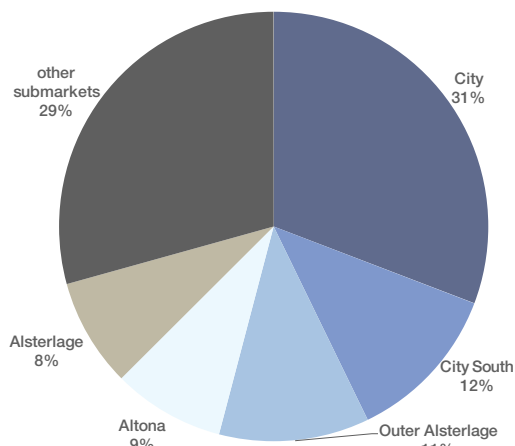
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 21

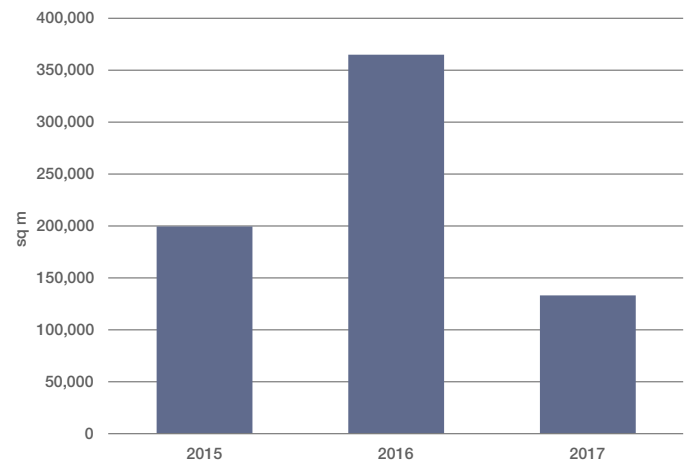
Take-up by submarket*



Source: Savills / *past 12 months

GRAPH 22

Development pipeline



Source: Savills

Hamburg market in minutes

Buoyant activity in all size categories drives increase in take-up

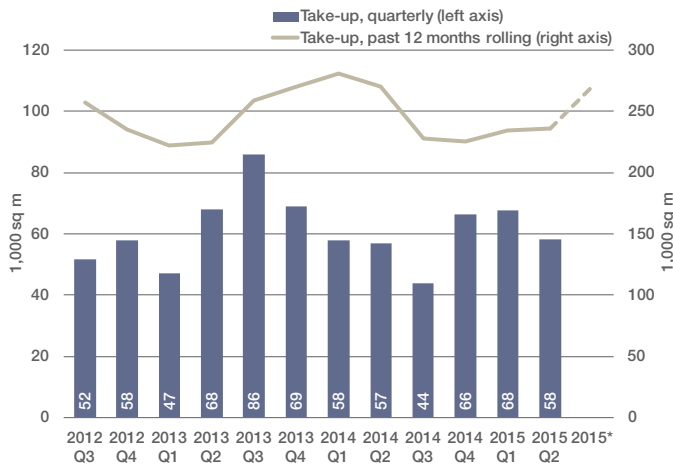
- Office take-up in the first half of 2015 totalled 248,200 sq m, representing an increase of 13% compared with the corresponding period last year. Take-up over the last 12 months totalled 540,000 sq m (+2% compared with the 12-month take-up to the end of Q1 15). The prime rent rose by 2.1% year on year to €24.50 per sq m/month while the vacancy rate fell by 90 basis points year on year to 6%.
- While transaction activity in Q1 was dominated by a number of large owner-occupiers, Q2 was characterised by a particularly high number of deals in the small size category below 1,000 sq m, as well as one large letting of almost 20,000 sq m to the City of Hamburg. Overall, the public sector was the most active sector in the first half year, accounting for almost 25% of take-up.
- Faced with a lack of alternatives, many tenants are extending their leases. Thus far, the scarcity of high-quality space has only benefited developers, who are building speculatively.

Cologne

+++ Prime rent +6,3% | Average rent +3,2% | Vacancy rate -20bps. +++

GRAPH 23

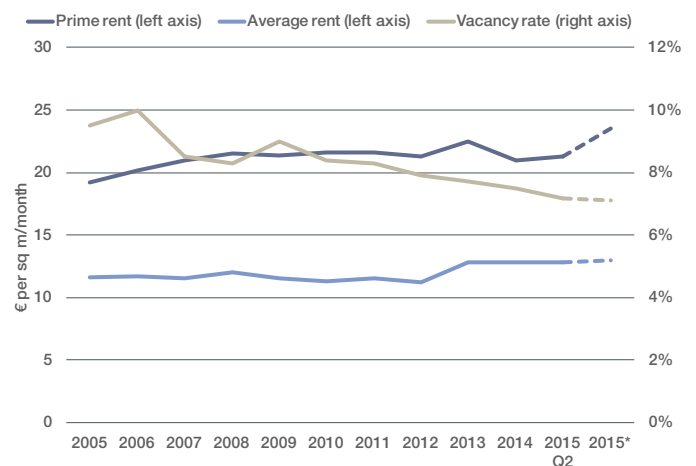
Take-up



Source: Savills / * forecast

GRAPH 24

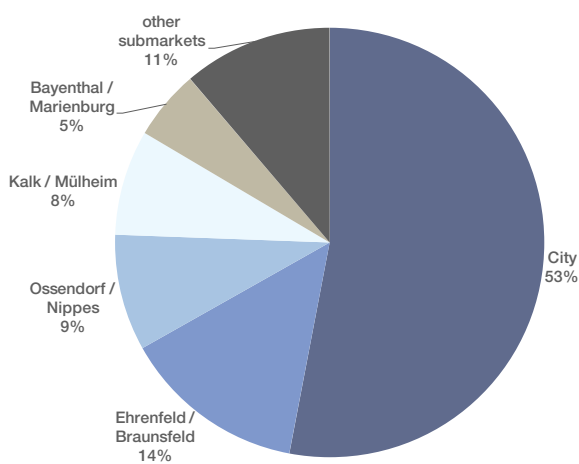
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 25

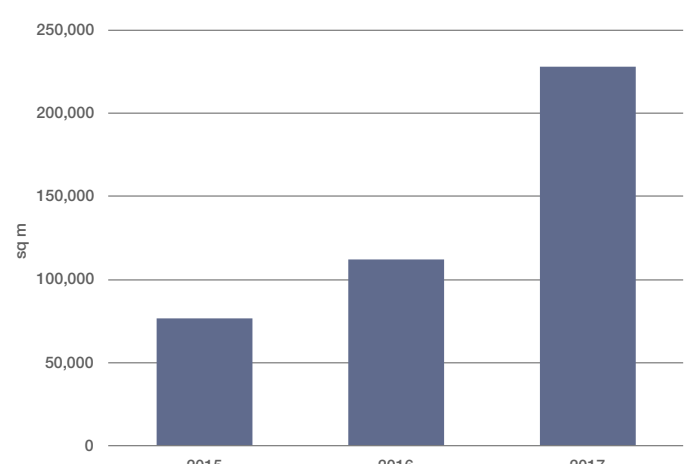
Take-up by submarket*



Source: Savills / *past 12 months

GRAPH 26

Development pipeline



Source: Savills

Cologne market in minutes

A number of large requirements promise high take-up in the second half year

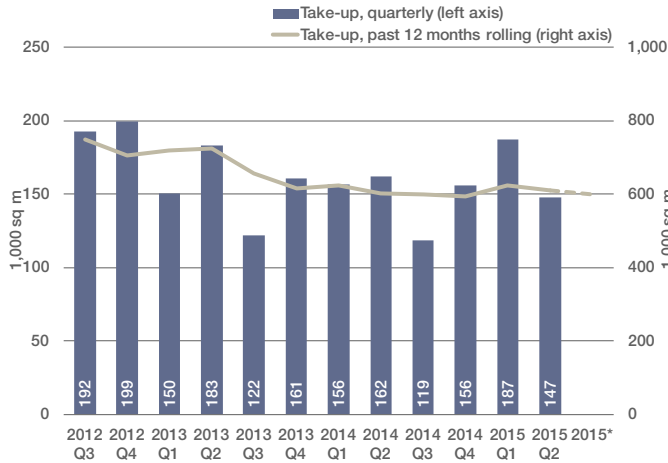
- Office take-up in the first half of 2015 totalled 125,700 sq m, representing an increase of 9% compared with the corresponding period last year. Take-up over the last 12 months totalled 238,600 sq m (+/-0% compared with the 12-month take-up to the end of Q1 15). The prime rent fell by 3.4% year on year to €21.25 per sq m/month while the vacancy rate fell by 30 basis points year on year to 7.2%.
- The increase in take-up in the first half year was attributable to a number of large lettings. Demand was particularly high from the public sector, which accounted for the three largest lettings in the first half year.
- With only a small number of (speculative) developments in the City as well as in the Cologne market as a whole, the vacancy rate is expected to fall further. The prime rent, on the other hand, is likely to rise further by the end of the year owing to an increasing demand surplus. In any case, take-up is expected to reach 270,000 sq m (2014: 225,000 sq m) owing to the many large requirements currently in the market.

Munich

+++ Prime rent -1,4% | Average rent -1,6% | Vacancy rate -10bps. +++

GRAPH 27

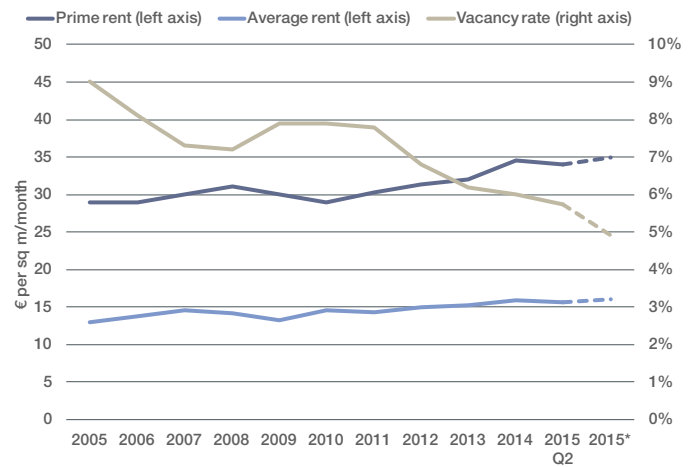
Take-up



Source: Savills / * forecast

GRAPH 28

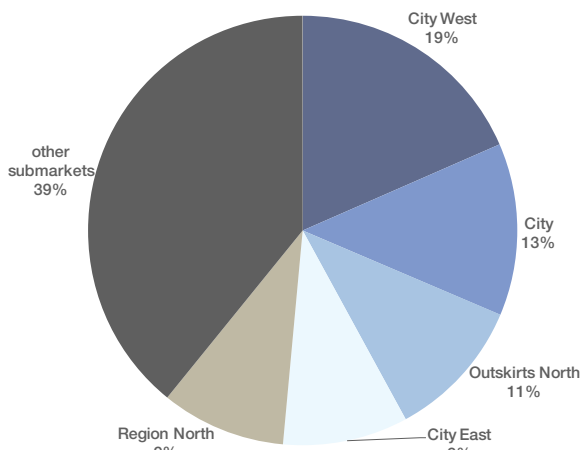
Rental levels and vacancy rate



Source: Savills / * forecast

GRAPH 29

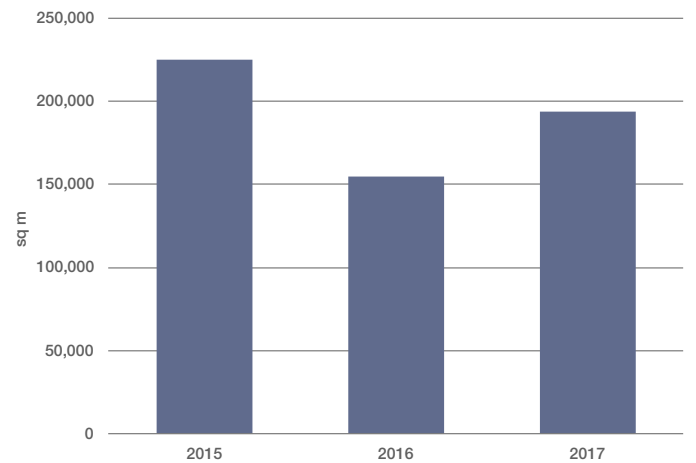
Take-up by submarket*



Source: Savills / *past 12 months

GRAPH 30

Development pipeline



Source: Savills

Munich market in minutes

Completion volume rises – rents decline modestly

- Office take-up in the first half of 2015 totalled 334,600 sq m, representing an increase of 5% compared with the corresponding period last year. Take-up over the last 12 months totalled 609,300 sq m (-2% compared with the 12-month take-up to the end of Q1 15). The prime rent fell by 1.4% year on year to €34.00 per sq m/month while the vacancy rate fell by 30 basis points year on year to 5.7%.
- Developers have responded to the fact that the vacancy rate has been in decline for several years by initiating an increasing number of projects. This is reflected in a higher completion volume of 225,000 sq m for this year (2014: 180,000 sq m). While some developments in good city-centre locations have been commenced speculatively, work typically commences when a project is 30% pre-let.
- Consequently, there was a large number of pre-lets in the first half year. Some of these pre-lets were also agreed with longer lease terms than the typical 10 years.

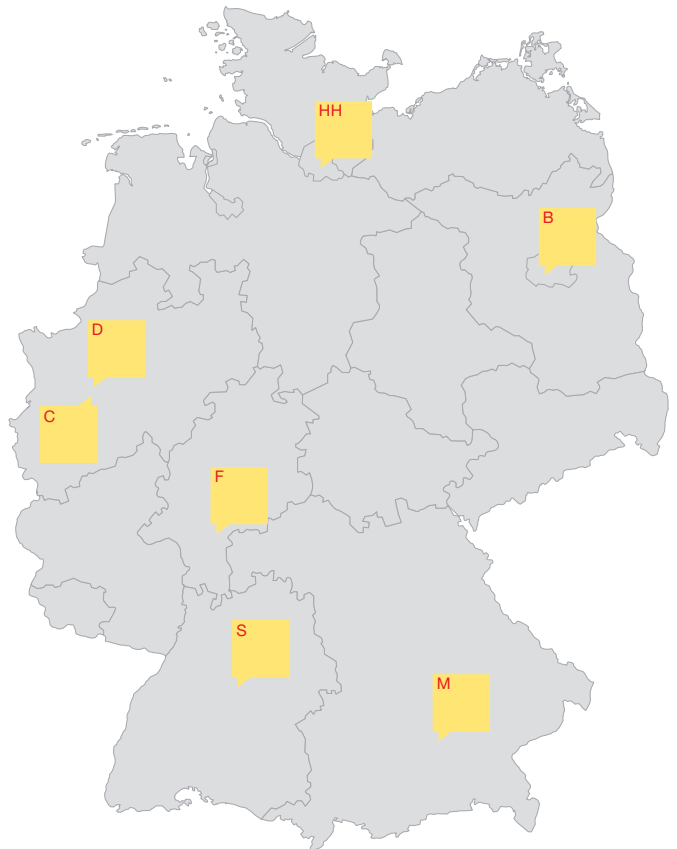
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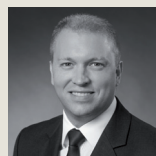
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