

OFFICE LEASING AND INVESTMENT

Q1-Q3 2015

Office Leasing Activity Remains Lively – Transaction Volume with Considerable Increase

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Office Leasing

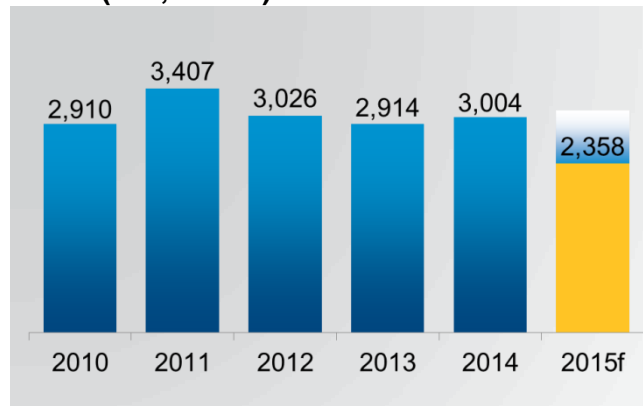
The seven major German real estate hubs posted 2,358,400 sqm in office take up at the end of Q3 with office tenants in Berlin, Düsseldorf, Frankfurt am Main, Cologne, Munich and Stuttgart taking up over 300,000 sqm, or 15%, more space year over year. This is also the highest take-up result for the first nine months of a year that we have seen since 2011.

Considerable Differences in Take-Up in some Locations

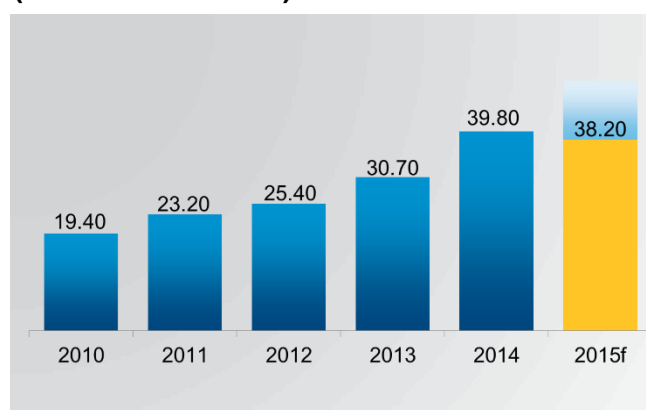
Although take-up was once again up considerably compared to 2014, there were strong regional differences among the top locations, ranging from impressive quarterly results in Düsseldorf to slight drops in Hamburg and Stuttgart. The two major office leasing markets of Berlin and Munich also posted significant increases whereas Frankfurt and Cologne just managed to pass previous year results.

As in 2014, Berlin took pole position with 527,000 sqm in take-up, with tenants leasing just over 100,000 sqm, or 23%, more office space than in Q3 2014. These favorable results can primarily be attributed to businesses from the IT industry, which dominated market activity, signing several large-scale leases and showing considerable interest in the small and medium-sized segments as well.

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



Commercial Transaction Volume in Germany (in billions of euros)



Munich came in second with 506,400 sqm in total take-up. The Bavarian capital also recorded a considerable y-o-y increase of 25%, with around 200,000 sqm taken up in Q3 alone. The largest-scale lease of the summer was signed by Unify for space at Highlight Towers.

Take-up in Hamburg was recorded at 355,000 sqm, down almost 7% from 2014. However, the city still managed to beat its five-year average by 1%. The public sector was particularly active in Hamburg with the Hamburg-Mitte Administration Office's decision to sign an owner-occupier deal at the Axel-Springer building and the lease signed by the tax offices of the City of Hamburg for space at a project in Hammerbrook.

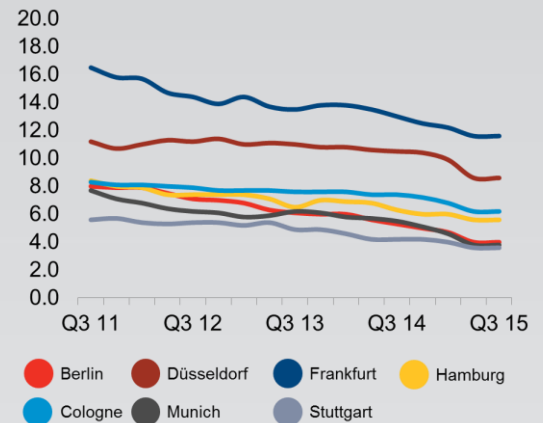
Among Germany's top 7, Düsseldorf recorded the steepest increase in take-up at the end of Q3. Tenants snapped up 297,000 sqm, a y-o-y increase of almost 60%. These high take-up results can primarily be attributed to three large-scale leases signed by Deutsche Telekom, L'Oréal and trivago (70,000 sqm combined). Frankfurt am Main posted a slight increase of almost 3% to 269,900 sqm. This increase is worth mentioning because no leases have been signed for more than 10,000 sqm this year to date except for the owner-occupier deal involving Deutsche Vermögensberatung for 32,000 sqm.

The Cologne office leasing market remained fairly stable with a 7% increase in take-up. 11,000 sqm of the 215,000 sqm in total was taken up at the new-build of the German Bundeswehr's human resources headquarters alone. Stuttgart posted the lowest take-up results, down at the end of Q3 by 3% year over year to 188,100 sqm, almost half of which was taken up by companies from the manufacturing industry. Robert Bosch and Daimler were particularly active in several deals as both tenants and owner-occupiers.

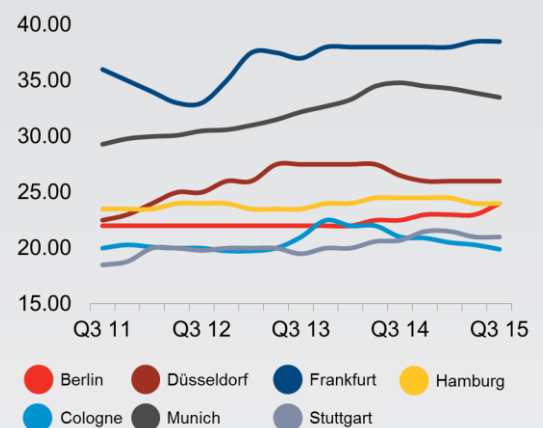
Vacancy Rate Down in All Top Cities

Around 5.1 million sqm of office space was available for immediate tenancy in Germany's top 7 cities at the end of Q3, giving us a vacancy rate of 5.7% with total stock at just under 89 million sqm. This reflects a decrease of 1.1 million sqm compared to Q3 2014 (7.0%). Vacancy rates fell in all locations with steep drops recorded in some. Stuttgart continues to have the lowest vacancy rate at 3.6%, followed closely by Munich at 3.8%. The vacancy rate in Berlin is only slightly higher at 4.0%. Hamburg recorded 5.6% and Cologne 6.2%. Düsseldorf posted a vacancy rate of 8.6%, making Frankfurt the only top location to record a double-digit result of 11.6%.

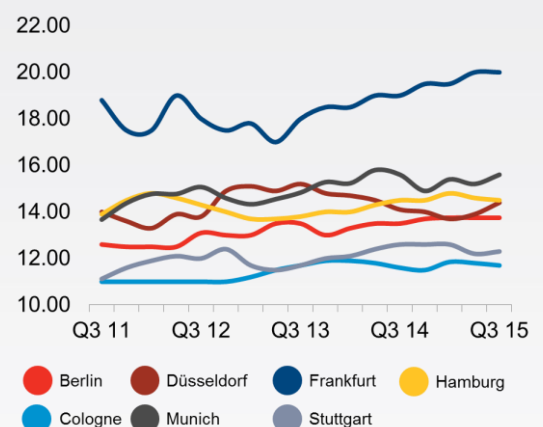
Comparison of Vacancy Rates (in %)



Comparison of Prime Rents (in /m²)



Comparison of Average Rents (in €/m²)



Completion rates in the top 7 total at almost 1 million sqm this year to date, with around 80% already leased or taken up by owner-occupiers by the end of Q3. With comparatively little new-build space scheduled to be added to supply in the coming years, we can expect vacancy rates to continue to drop.

Rents Relatively Stable

Average and prime rents in the top 7 cities remained relatively stable in Q3. Frankfurt, the most expensive location, was the only city in which average rents posted a change of more than 3% year over year. Tenants paid €20.00 per sqm for space in the Hessian metro, an increase of 5%. Prime rents were up slightly more than 1% to €38.50 per sqm. Average rents in Munich remained stable at €15.60 per sqm with prime rents down 4% to €33.50 per sqm due to the scarcity of high-quality space. Düsseldorf also recorded a slight drop in prime rents to €26.00 per sqm (down 2%) with average rents increasing by €0.30 per sqm to €14.40 per sqm. Tenants leasing space in Hamburg paid average rents of €14.50 per sqm and prime rents of €24.00 per sqm.

Berlin recorded €13.75 and €24.00 per sqm, Stuttgart €12.30 and €21.00 per sqm, and Cologne €11.70 and €20.50 per sqm.

Outlook

The lively activity seen on the German office leasing market during the first half of the year continued into Q3. This can be attributed to factors such as the current stability of the German economy, which is causing businesses to be optimistic about the future and look into leasing new office space. This situation is accompanied by historically low vacancy rates in some cities, which we can expect to decrease even further due to a relatively modest completion pipeline. Use of typically older office buildings as refugee housing also continues to account for vacant space absorption. Because we expect tenant demand to remain strong in coming quarters, high-end office space in particular will continue to be a rarity in many locations. That means that project developments and office building revitalization projects have excellent chances of success.



Investment

Transaction volume on Germany's commercial investment market continued its upward trend in Q3. Roughly €38.2 billion had been invested by the end of September, a significant y-o-y increase that topped previous year results of €25.5 billion by an impressive 50%. That puts total investment volume this year to date almost equivalent with the entire volume recorded for 2014 (€39.8 billion). Transaction volume in the top 7 cities also increased by 30% to €19.3 billion.

Portfolio and High-Volume Deals in Top 7 Spur Market Activity

Not only are portfolio deals a crucial factor on the residential market, they play a key role on the commercial investment market as well. €14.5 billion was poured into package deals, reflecting a total transaction volume of 38%.

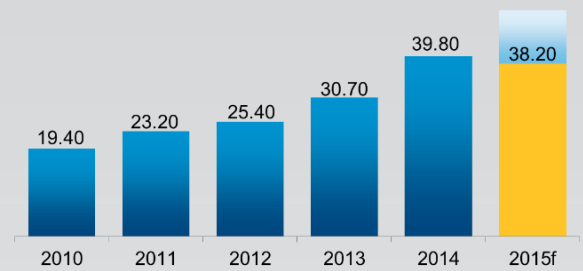
The highest volume deals in Q3 included Deka's purchase of the Julia portfolio comprised of 51 buildings featuring an office-retail mix for roughly €700 million. GE Capital's sale of its stock property to Kildare was also one of this summer's highest volume portfolio deals. Single deals clearly focused on the top 7 markets. One of the highest-volume single deals of the past three months was signed in Berlin with Tishman Speyer's purchase of the Q office-retail mix building for around €330 million. The two Frankfurt office towers, Trianon and Eurotower, which changed hands during the first half of the year, remain the highest-volume single deals this year to date.

General economic indicators and the situation on the financing market continue to have a positive impact on the German commercial real estate market. High market liquidity means that high-volume assets and package deals are particularly popular and are spurring market activity. The importance of the top markets, which accounted for an almost 51% share of the total market, as well as increasing transaction activity in B and C locations, are good indications of Germany's excellent standing with both German and foreign investors.

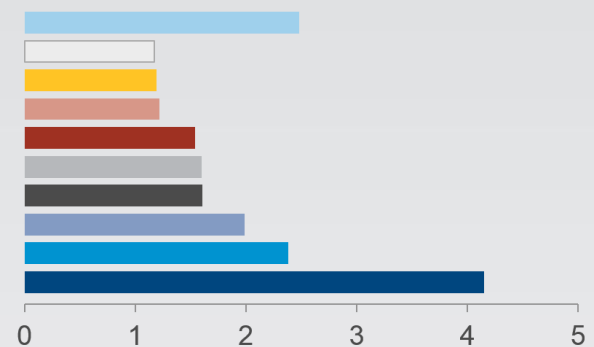
More Than Half of Invested Capital of International Origin

Slightly more than half of capital invested in the first 9 months of the year came from outside Germany. International investors generated around 50.8% of transaction volume, or roughly €18.9 billion.

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



Transaction Volume according to Buyer Groups (in millions of euros) Q1-Q3 2015



- Open-ended real estate funds / Special funds
- Asset- / Fund Manager
- Project Developers
- Opportunity funds / Private equity funds
- Pension funds
- REITs
- Insurance companies
- Private investors / Family office
- Listed property company
- Other investors aggregated

Development of the Gross Initial Yield

	Office	Retail	Industrial & Logistics
Berlin	↔	↔	↓
Düsseldorf	↓	↔	↓
Frankfurt	↓	↓	↓
Cologne	↓	↔	↓
Hamburg	↓	↓	↓
Munich	↓	↓	↓
Stuttgart	↓	↓	↓

International investors, particularly from the US, France and the UK, expressed the most interest in high-volume deals. Asian investors also added tangibly to total transaction volume, accounting for around €1.4 billion.

International investors also posted a slight lead in Germany's 7 real estate hubs with a share of 51%. In Munich and Stuttgart, however, the share generated by international investors was well below average at 43% and 33%, respectively.

Office Buildings and Retail Assets Still Investor Favorite

Office buildings increased their mid-year lead somewhat during Q3. Roughly 42% of capital was poured into office assets followed by retail with just under 34%.

Investors also expressed considerable interest in hotel assets. The structure of the hotel business in Germany continues to shift with new hotel chains in all classes expanding. Due to the significant number of hotel projects currently under construction in Germany, investors can expect sufficient supply for now. High-volume single deals such as the sale of the Sofitel Munich Bayerpost 5-star hotel for a 9-figure sum as well as the sale of entire portfolios kept the market share at around 8%, similar to previous year results. Industrial and logistics assets and mixed-use properties followed with a market share of 6% each, with both property types well over the €2 billion threshold.

Investment in Top 7 Markets up 30%

Activity on the investment market reflected Germany's federal structure. Berlin particularly enjoyed a lively summer with more than €1.8 billion generated in Q3 alone, putting total transaction volume this year to date at €4.5 billion (+81% year over year). Transaction volume in two of Germany's real estate hubs leveled out at around €4 billion.

Frankfurt and Munich recorded €4.0 billion and €3.9 billion, reflecting increases of 83% and just under 7%, respectively. Hamburg saw similar activity, posting a considerable increase of 31% with assets changing hands for €3.2 billion. The two metros along the Rhine, Düsseldorf (€1.7 billion) and Cologne (almost €1 billion), are currently savoring growing transaction activity as well. The increase in investment activity in Düsseldorf (+17%) was more moderate than in Cologne where transaction volume almost doubled.

With demand for core products exceptionally high on a market currently experiencing shrinking supply, yield compression for top properties could be felt in almost all asset classes. Although office assets are most expensive in Munich (3.75%), Hamburg and Stuttgart (each at 4.30%), yield compression is growing in Berlin as well (4.50%). Even with yields already low in top locations, we can expect this downward trend to continue and competition for core assets to intensify. This development also appears to be rubbing off on B and C locations in Germany's top 7 as well as on B and C locations in other areas as evidenced by recent deals.

Outlook: Look for Transaction Volume Growth Trend to Continue with Further Yield Compression

Europe's continued expansionary monetary policy and the fact that the US has yet to raise interest rates continue to spur investment activity. With Q4 just around the corner, in which investors are typically very active, these excellent results could result in an exceptionally high-volume year on the investment market. Many investors are looking to benefit from the good market conditions and are listing new investment products that they plan to sell by the end of the year - an excellent indication of an end-of-year rally. In Berlin alone there are plans to finalize a deal this year for an asset at Potsdamer Platz with an asking price in the billions. Several Germany-wide portfolios were also listed during the summer. The favorable developments on the leasing market will most likely boost the investment market even further, giving us cause to expect an end-of-year result for the entire German market in the €50 billion range, around €10 billion over previous year results.

Office Letting and Investment Market Germany (Q3 2015 figures)

Key Facts								
	Top 7	BERLIN	DÜSSELDORF	FRANKFURT	HAMBURG	COLOGNE	MUNICH	STUTTART
Office Leasing Market								
Take-up 2015 in m ²	2,358,400	527,000	297,000	269,900	355,000	215,000	506,400	188,100
Take-up 2014 in m ²	2,056,300	427,700	186,000	263,200	380,000	201,000	405,100	193,300
Change y-o-y	+ 14.7%	23.2%	59.7%	2.5%	-6.6%	7.0%	25.0%	-2.7%
Prime rent 2015 in €/m ²		24.00	26.00	38.50	24.00	19.90	33.50	21.00
Prime rent 2014 in €/m ²		22.50	26.50	38.00	24.50	20.50	34.80	20.70
Change y-o-y		6.7%	-1.9%	1.3%	-2.0%	-2.9%	-3.7%	1.4%
Average rent 2015 in €/m ²		13.75	14.40	20.00	14.50	11.70	15.60	12.30
Average rent 2014 in €/m ²		13.50	14.10	19.00	14.50	11.90	15.60	12.60
Change y-o-y		1.9%	2.1%	5.3%	0.0%	-1.7%	0.0%	-2.4%
Vacancy 2015 in m ²	5,098,100	740,000	662,000	1,343,500	740,300	483,000	859,800	269,500
Vacancy 2014 in m ²	6,202,800	980,500	798,000	1,490,000	839,800	520,000	1,261,700	312,800
Vacancy rate	5.7%	4.0%	8.6%	11.6%	5.6%	6.2%	3.8%	3.6%
	Germany	BERLIN	DÜSSELDORF	FRANKFURT	HAMBURG	COLOGNE	MUNICH	STUTTART
Commercial Investment Market								
Transaction volume in millions of euros Q1-Q3 2015	38,209	4,550	1,700	3,983	3,150	975	3,939	1,027
Transaction volume in millions of euros, Q1-Q3 2014	25,451	2,510	1,450	2,172	2,400	480	3,685	757
Change y-o-y	+50.1%	+81.3%	+17.2%	+83.4%	+31.3%	+103.1%	+6.9%	+35.7%
Largest group of investors	Open-ended real estate funds/Special funds 22.9%	Property developers 17.3%	Open-ended real estate funds/Special funds 32.9%	Pension funds 22.4%	Asset / Fund manager 23.3%	REITs 24.9%	Open-ended real estate funds/Special funds 32.8%	Open-ended real estate funds/Special funds 48.1%
Largest group of sellers	Open-ended real estate funds/Special funds 17.1%	Open-ended real estate funds/Special funds 19.1%	Asset-/ Fund Manager 29.3%	Asset-/ Fund Manager 20.7%	Open-ended real estate funds/Special funds 29.8%	Opportunity funds/ Private equity funds 28.7%	Property developers 26.0%	Opportunity funds/ Private equity funds 36.8%
Most important type of real estate	Office 42%	Office 53%	Retail 50%	Office 82%	Office 71%	Office 51%	Office 68%	Office 68%
Prime yield office		4.50%	4.75%	4.60%	4.30%	5.00%	3.75%	4.30%
Prime yield retail		4.50%	4.10%	4.05%	4.30%	4.20%	3.00%	3.90%
Prime yield industrial		6.55%	6.40%	6.05%	6.00%	6.45%	5.90%	6.00%

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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