

# Briefing Note

June 2011

## Sustainable Office Properties in Germany

### Sustainability and real estate

The term “sustainability“ in the sense of the consideration of environmental, social and economic aspects first appeared in 2005 in the German real estate industry. Although at the beginning the concept was new and niche in the sector, while it had been established for a long time in other areas, it quickly evolved into a well-recognized megatrend under the label “green buildings“. Hardly any real estate event gets by without the discussion of this subject. The number of Green Building certificates is growing as is the number of advisors engaging their clients in the topic. Driven by the growing attention attributed to the sustainability of buildings in public discussion, also market participants increasingly live to the promise to act “green“. In terms of real estate this means that when leasing or buying a property they pay attention to the sustainability attributes of the respective building. It is, however, still largely unclear whether the perceived presence of the subject will be reflected in the actual market development, i.e. whether “green“ buildings are not only good for marketing purposes but will in fact

influence the market participants' decision in favour or against a property or space respectively.

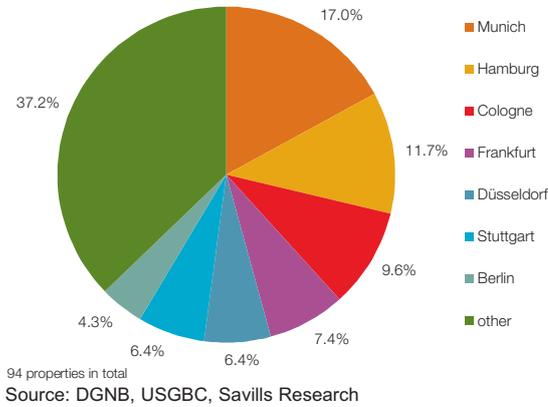
The office market certainly is the most advanced in establishing green buildings. Office properties represent approximately half of the number of certified properties in Germany. By far the most common certification systems are those of Deutsche Gesellschaft für Nachhaltiges Bauen (DGNB) introduced in 2009 and U.S. Green Building Councils (LEED) certifying buildings since 1996. In total 94 German office properties have been awarded (pre-)certifications of these two companies – 83 buildings received a DGNB seal, ten have a LEED certificate. The Green Towers of Deutsche Bank are the first buildings which have been certified to comply with both systems (data as per February 2011). This stock of sustainable office buildings is examined more closely in this *Analysis*. Of particular interest are the questions around relevance that “green“ office buildings have gained for the letting and investment markets in the meantime and the conclusions that can be drawn for the future.

### Key findings

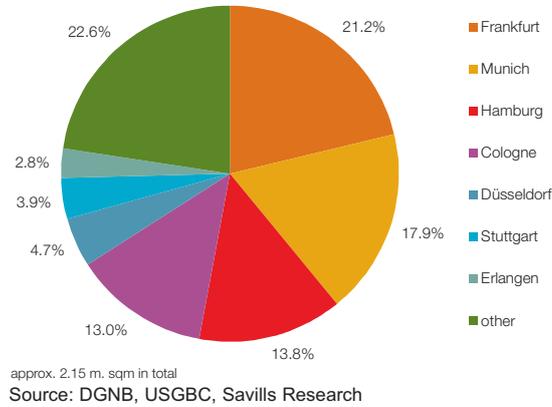
- A total of 94 office properties in Germany (as of 28 February 2011) have been awarded LEED or DGNB sustainability certification (incl. pre-certificates). The total area of these properties adds up to approximately 2.15 million sqm or ca. 0.5% of the total German office stock.
- The three cities with the largest “green“ office stock are Frankfurt (approx. 21% of the total German office stock), Munich (approx. 18%) and Hamburg (approx. 14%).
- The largest groups of owners of sustainable office properties are developers (approx. 29% of all properties), Corporates (approx. 18%) and open-ended funds (approx. 16%). The reason why the former are represented to such a large extent is that many of the certified buildings are still under construction or in the planning stage.
- In the years 2005 to 2010 over 560,000 sqm of “green“ office space was taken up in the big five German markets. In terms of total take-up in this period this corresponds to a share of 3.5%. Over the past two years the share was notably higher in a number of cities.
- Until the end of 2010 approximately €2 billion were invested in green buildings in Germany. Their share in total investment volume of 2010 was almost 15%.
- “Green“ office properties still play a rather subordinate role but gained market penetration, which is likely to continue. Insofar sustainable office buildings are likely to establish quickly, particularly in the core segment.

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**Fig. 1: Sustainable office properties**



**Fig. 2: Sustainable office space stock**



## Stock of green buildings

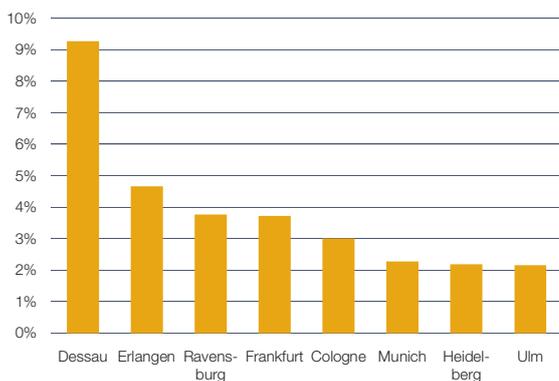
Out of the 94 sustainable office properties reflected in this report 44 buildings and hence almost half of the total number of properties are located in the five major German office markets Berlin, Düsseldorf, Frankfurt, Hamburg and Munich (fig. 1). In terms of the number of buildings Munich (16) is top of the league table followed by Hamburg (11) and Cologne (9). In terms of the amount of space the list is headed by Frankfurt (approx. 455,000 sqm), followed by Munich (385,000 sqm) and Hamburg (297,000 sqm) (fig. 2). On aggregate the "green" office stock in Germany totals slightly above 2.15 m sqm which corresponds to 0.5% of the total office stock. Although selected cities indeed have higher shares (fig. 3) this figure nonetheless clearly demonstrates that currently sustainable office buildings still are the absolute exception. In the five major German office markets they achieve a share in the total stock between 0.1% in Berlin and 3.7% in Frankfurt.

Over four fifths of the currently (pre-)certified office buildings are newly built, solely 18% of all properties were or are being refurbished under sustainability

aspects. Several properties are still in the planning or construction phase. Therefore a large part of almost one third of the properties is (still) in the ownership of property developers (fig. 4). The second largest group of owners are Corporates, i.e. non-real estate companies who occupy the buildings themselves. Companies of the public sector, which own a share of just some 9% of all sustainable office buildings serve as owner-occupiers, too. Hence in total approximately one quarter of all properties is owner-occupied. Apart from open-ended real estate funds (approx. 16%) public real estate companies and REITs (approx. 9%), closed-ended real estate funds as well as insurance companies and pension funds (approx. 5% each) are among the largest third-party owners.

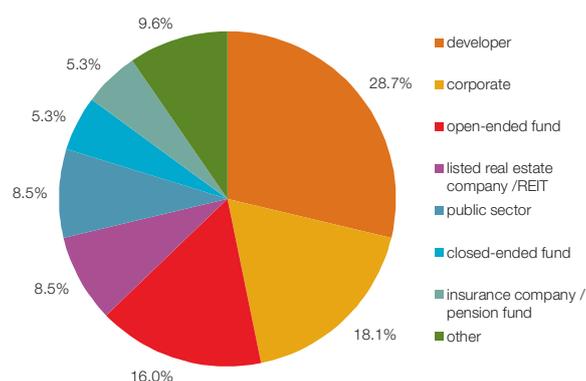
The building criteria outlined and the ownership structure alike suggest that sustainable office buildings in most cases are typical core properties in central locations of well-established office markets, have newly built standard and normally long-term leases. Insofar it can be concluded that their relevance to the core segment is significantly higher than to the overall office market.

**Fig. 3: Share of sustainable office space by city**



Source: DGNB, USGBC, Savills Research

**Fig. 4: Owners of sustainable office properties**

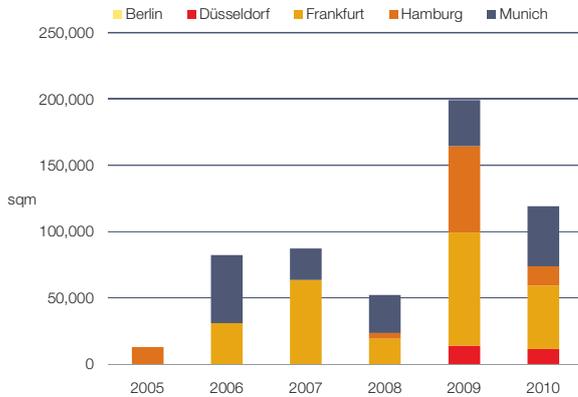


Source: DGNB, USGBC, Savills Research

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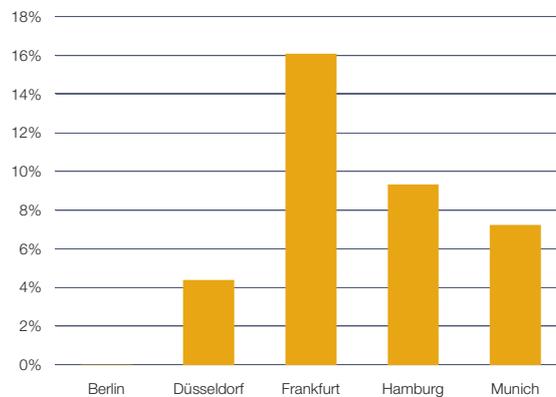
## Sustainable Office Properties

Fig. 5: Take-up of sustainable office space



Source: Savills Research

Fig. 6: Share of sustainable take-up 2009/10



Source: Savills Research

### Letting demand for green buildings

The fact that companies increasingly place value on the sustainability of the office space occupied by them is illustrated by the take-up statistics of the five major German office markets over the past few years. Between 2005 and 2010 take-up in “green” office buildings in these markets totalled more than 560,000 sqm, which corresponds to a share of circa 3.5% of the total transaction volume during this period. Frankfurt, Munich and in the past two years also Hamburg accounted for the largest share in take-up (fig. 5). In total all cities except for Berlin show an upward trend. The reason for the decline in take-up in 2010 is that solely certified buildings were considered in the survey. Thus the letting of approx. 90,000 sqm to Vodafone in Düsseldorf was not included. Following successful certification of the building this deal would also be reflected in the statistics, thus increasing the total letting volume of 2010 after considerable time has elapsed.

Berlin has a special status within the established German office markets. The office stock certified as sustainable is not only very small but also only few

“green” office areas were absorbed. There is a number of possible explanations. On the one hand the number of new developments in the Berlin office market has been limited for some years, which explains the comparatively low supply of sustainable space. On the other hand the presence of international corporations is below average and only few of these companies are headquartered in Berlin. But precisely these corporations have been integrating sustainability aspects into their company policies in recent years. The sustainability of buildings is therefore an important criterion of the decision-making process when leasing new premises or may even be a prerequisite for a property to be considered suitable for a company’s accommodation. Insofar there should be reasons on both the supply and demand side in Berlin why sustainable office buildings still play a subordinate role. But it is just a matter of time before a green building office market will evolve in the federal capital, too. Beside the buildings already certified others, including the two buildings “Tour Total” developed by Vivico and the new Mercedes site, are seeking sustainability certification and will fuel the Berlin market by approximately 44,000 sqm of “green” office space (table 1).

Table 1: Selected office development schemes with level of certification sought

Name of project (Yr. of constr.)	City	Office area	Certificate sought
Skygarden (2011)	Munich	28,000 sqm	LEED (unknown)
Tour Total (2012)	Berlin	18,000 sqm	DGNB (Silver)
Cubes (2013)	Düsseldorf	13,500 sqm	DGNB (unknown)
Mercedes sales HQ (2013)	Berlin	26,000 sqm	DGNB (unknown)
Taunusturm (2013)	Frankfurt	60,000 sqm	LEED (at least Gold)
HanseMercur office building (2014)	Hamburg	12,000 sqm	DGNB (Gold)

Source: Savills Research

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In the other four cities sustainable office areas have already evolved to a certain extent. This applies particularly to Frankfurt where green buildings accounted for ca. 16% of total take-up in 2009/2010. In the other three cities green buildings made up between 4% and 9% (fig. 6). In the recent past sustainable office areas constituted a significantly higher part of take-up than of existing stock in all four cities. This indicates that there is a specific demand for sustainable office space, which means that the sustainability of a building plays a certain role in choosing a location or offices to rent.

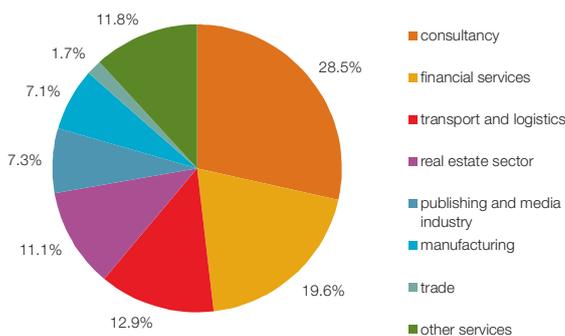
Throughout the five markets sustainable office space accounted for 96 transactions between 2005 and 2010. The average size of unit was approx. 5,900 sqm, which compared to the total office market is considerably above average. This shows that demand for sustainable office space is mainly driven by large or international corporations who are the most ahead in implementing sustainable building strategies. This is not least due to the fact that these corporations are first of all in the focus of attention from a critical public such as shareholders, clients, the press or politics.

Moreover, demand for sustainable office areas is mostly fuelled by certain sectors (fig. 7 and fig. 8 in comparison). Business consultancies (ca. 29% ) and the financial services sector (ca. 20%) account for almost half of the “green” take-up. Compared to take-up generated in recent years notably the former are more than adequately represented. The logistics sector accounted for approx. 13% of “green” take-up but this was mostly due to the letting of approx. 71,000 sqm to Deutsche Bahn in Frankfurt last year. The real estate sector generated a further double-digit share of “green” office space take-up (ca. 11%). Compared to its overall share this sector is equally more than adequately represented. In contrast, the public sector is far behind accounting for only slightly in excess of 1% of total “green” take-up. Its overall demand for office space is however much stronger. In 2010 the public sector ranked fourth place throughout the five markets

accounting for just under 9% of office space take-up. Despite politicians encouraging a greater level of sustainability the demand for green space from the public sector has been rather weak as yet. Likewise, the telecommunications and information services sector despite being one of the key drivers for office space demand overall has only taken up a small amount of “green” office space so far. However, the letting of approx. 90,000 sqm office space to Vodafone in Düsseldorf has not yet been considered as the scheme has not been certified yet.

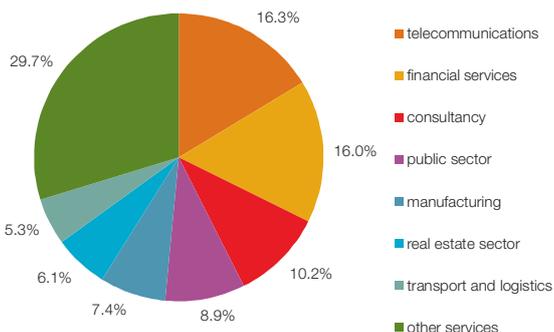
In summary, in the past the largest proportion of “green” take-up was generated by a few sectors. Four sectors accounted for almost three quarters of the total “green” take-up. However, the concept of sustainability has become a concern throughout all sectors and it is likely that the market will see a wider spread of “green” take-up across the sectors in the coming years.

Fig. 7: “Green” office space take-up by sector



approx. 563,000 sqm in total  
Source: Savills Research

Fig. 8: 2010 office space take-up by sector

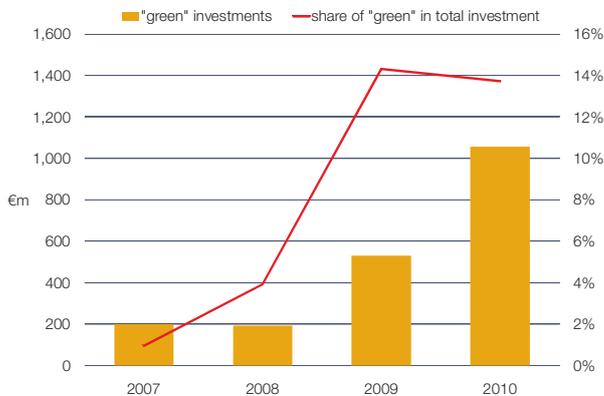


approx. 2.65 m. sqm in total  
Source: Savills Research

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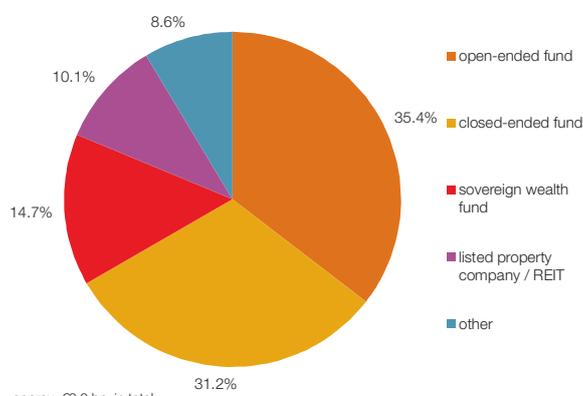
## Sustainable Office Properties

Abb. 9: "Green" office market investment volume



Source: Savills Research

Abb. 10: "Green" investment volume by group of buyer



approx. €2.0 bn. in total  
Source: Savills Research

### Investment demand for green buildings

The increase in demand for "green" space in the letting market is also reflected in the investment market. Between 2007 and 2010 investors acquired fifteen certified office properties throughout Germany (table 2) accounting for around one fifth of the existing stock of "green" tenant-occupied buildings. The transaction volume of these schemes amounts to almost €2 bn or slightly over 5% of the total office investment market transaction volume in Germany over this period. "Green" buildings accordingly play a similar role both in the letting and in the investment market. As in the letting market there is a clear upward trend to be seen. More than half of the total "green" investment volume was transacted in 2010. As in 2009 this equals to approx. 14% of the total investment volume (fig. 9).

As many of the buildings were newly built or were still under construction at the time of sale most of the sellers were developers. The majority of buyers were open-ended and closed-ended property funds (fig. 10). Around half of the transactions were generated in the five major German office markets in line with the spread of total office stock. The average price for a

"green" office building stood at around €115 m or €3,500/sqm. This means that "green" properties range among the high-priced segment, which hardly comes as a surprise given the prime locations and the high quality of the buildings. Due to the small number of transactions and the general difficulty of comparing real estate it is still too early to decide if the concept of sustainability played a major role in achieving the purchase price. Several US surveys report that certified "green" buildings sell at a higher price than buildings without certificate but this may be a US-specific finding. However, it would come as a surprise if "green" buildings in Germany could not achieve higher sales prices than conventional buildings as due to lower service charges it might be possible to achieve higher net rents. Once the market has become sufficiently broad and there is enough market data available this will most probably bring on surveys on the German market as well.

Table 2: Selected transactions of certified office properties

Property name	City	Purchase price	Buyer
maxCologne	Cologne	€200 m.	HIH
AREVA building	Erlangen	€98 m.	MPC Capital
Nord 1	Hamburg	€93 m.	UIRE
H2 Office (2nd phase)	Duisburg	€33 m.	Commerz Real
Lighthouse	Düsseldorf	€31 m.	Swiss Life
Laim290	Munich	€30 m.	UIRE

Source: Press releases, Savills Research

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### Conclusion and outlook

In summary, “green” office properties currently do not hold a significant role but gain market penetration in both the letting and the investment markets. Throughout the five major German office markets “green” office areas recently generated a partly double-digit market share. There is no reason to believe that this trend won’t continue in the coming years given for instance the state of the development pipeline. The majority of new buildings in the major five German markets is built according to “green” specifications and is either seeking certification or has been already certified. Particularly major schemes such as the Tower 185 in Frankfurt or the Skygarden in Munich are seeking certification. This will presumably result in a rapid growth of “green” office stock in these cities and increase their share in total stock considerably.

It is most likely that green buildings will become standard in the major German office markets but this will presumably cause less interest than in the years before. In the core segment certified properties have already emerged as a de facto standard. As investors cannot be sure that properties without a certification can still be placed in the prime market within the next five or ten years many of them will most likely deem a certification essential. The financial surplus value of a certification will presumably lie in a reduced purchase price for uncertified buildings as opposed to a higher price for certified buildings but this issue will doubtless be covered by future surveys.

It is impossible to say for sure which certificate will prevail in the future but it seems likely that the current market leaders LEED and DGNB will continue to be the most sought after certificates. The comparability of properties plays an important role for investors and occupiers alike in making investment or leasing decisions. Consequently it will be increasingly difficult for new certification systems to enter this market. The LEED certificate benefits from its world-wide use, which is particularly relevant for investors. The advantage of the DGNB certificate lies in their broader and stricter list of criteria, which may better meet the requirements of German office occupiers. It stands to reason that both certificates will maintain their key role in the future.



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