

Market report Germany offices

H1 2012



Summary

Top six office markets at a glance

■ Office take-up in the Top six markets amounted to approx. 1.38m sq m in 1H 2012. This means a decrease of almost 11% compared to the same period last year.

■ All six markets were affected by the decline in demand, albeit to significantly different degrees. The sharpest loss was observed in Cologne (-29%) while Hamburg and Munich saw the most stable development (-1% and -2% respectively).

■ Despite weaker demand due to low completion levels vacancy rates declined in all markets. This positively affected rental developments, particularly in the prime segment.

■ The second half of the year will probably not see any major changes. The demand for office space should remain at a similar level as recorded in 1H and rents are expected to remain stable too. The vacancy rates will decrease further, albeit at a slower pace.

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 "The Top six German office markets proved to be resilient during the first half of 2012. All signs indicate that this will also be the case for the remainder of the year." Robert Kellersohn, Savills Office Agency

Real economy: Healthy but with significant downside risk

Making an accurate assessment of the state of the German national economy is certainly no easy task at the moment. On the one hand, a glance at the macro-economic fundamentals provides every reason for optimism. On the other hand, events concerning the future of the eurozone hold tremendous risks, particularly for the German economy.

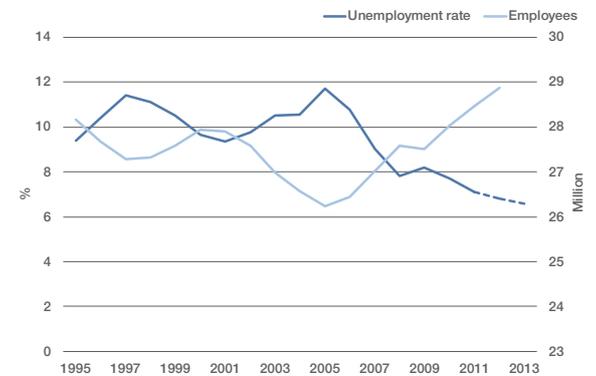
The start to 2012 appeared highly promising with gross domestic product growth of 0.5% in the first quarter. Since then, however, economic activity has noticeably declined, meaning that lower growth rates are anticipated for the subsequent three quarters. Nevertheless, the German economy remains in good health. Employment has reached an all-time high with almost 29 million employees subject to social insurance contributions while the unemployment rate currently stands at its lowest in decades at 6.6%. In addition, significant increases in some wages and salaries mean that a large proportion of the German population is enjoying higher income.

With positive reports from the labour market supporting domestic consumption, the sentiment among German consumers is also as good as it hasn't been for a long time. The monthly Consumer Confidence Index calculated by market research company GfK has now been above the five-point mark for almost two

years. This positive sentiment is also appreciably reflected in the composition of the gross domestic product. An increase in private consumer spending of 1% is anticipated for the current year. Thus, consumption will contribute markedly towards GDP growth, as it did last year, which is quite remarkable in export-dominated Germany.

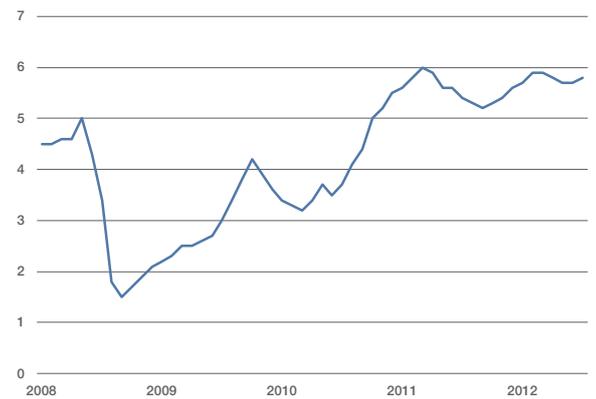
However, a closer look at the most recent data reveals that both sentiment and real economic trends may have already peaked. Unemployment declined only negligibly and less strongly than expected in June while recent consumer sentiment has seen only marginal improvement and the business climate has remained continually cloudy for more than a year - interrupted only by a ridge of high pressure in spring. The business expectations of companies determined by the Ifo Institute have since fallen below the important 100-point mark and point towards a deterioration in economic conditions in Germany. This picture is underlined by recent decreases in industrial production as well as a slowdown in export performance. Against this background, it comes as little surprise that the gross domestic product forecasts for the current year published by banks and economic research institutes have been increasingly revised downwards in recent weeks. According to the consensus forecast from July, the German economy will grow by 0.8% this year. In view of the expected growth rates of other national

GRAPH 1 **Labour market** Employment reaches historic high



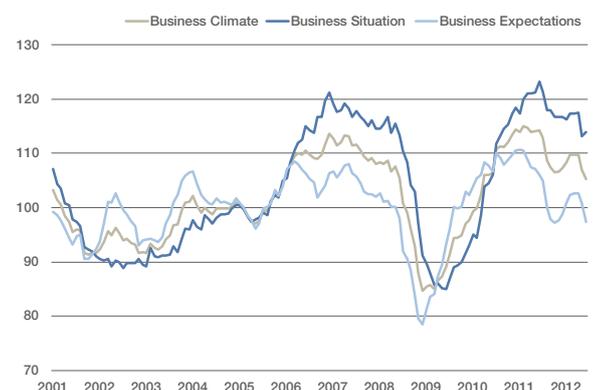
Source: Bundesagentur für Arbeit, Focus Economics

GRAPH 2 **Consumer climate** Customers are rather optimistic



Source: GfK

GRAPH 3 **Business climate** Enterprises become more sceptical



Source: cesifo

TABLE 1 **Forecast of macro-economic key figures**
Consumption promotes the economic growth

Figure (y-o-y change in %)	2012	2013	2014	2015	Ø 07-11
Gross domestic product	0.8	1.4	1.5	1.6	1.2
Private consumption	1.0	1.3	1.2	1.3	0.5
Industrial production	0.6	3.0	4.1	3.8	1.7
Consumer prices	2.1	1.8	1.9	1.9	1.7
Exports	2.8	4.6	5.1	5.4	3.8
Imports	2.9	5.3	5.5	5.4	3.7

Source: Statistisches Bundesamt, Focus Economics

economies in Europe, this is quite solid. However, it equates to just 50% of the growth rate forecast at the same point last year.

Financial environment: Source of downside risk

The negative momentum is not least attributable to the Euro crisis, which has now dominated the financial markets for more than two years. While the problem was originally confined to Greece, a number of eurozone countries are now in difficulties and dependent on financial assistance from the economically strong member states of the single currency area. Germany is playing a central role in this scenario and the problems in the eurozone and associated rescue measures are negatively impacting the German economy in two principal ways.

Firstly, the German government has already provided, or promised in the form of guarantees, several hundred billion euros via the EFSF bailout fund and ESM stability mechanism. This money is, therefore, no longer available for domestic investment, which also reduces the likelihood of reductions in taxes and social security contributions originally intended by the parties in power in order to relieve the burden on individuals. Recent debates have even seen calls for tax increases from some politicians in opposition.

Secondly, the problems are long since no longer confined to the national budgets of the states in crisis. They have now caused substantial consequences for the real economy, which are particularly affecting Germany. Discounting Germany, economic performance in the single currency area is expected to contract this year as well as next year. For Germany, this means a decrease in exports to partner nations. Since the eurozone accounts for some 40% of German exports, this deterioration has a significant weighting, and correspondingly negative consequences, on economic growth.

Besides Germany, the European Central Bank is one of the key figures in resolving the Euro crisis. In recent months, it has agreed a range of measures to appease players in the financial markets and to relieve the burden on states in crisis. One such

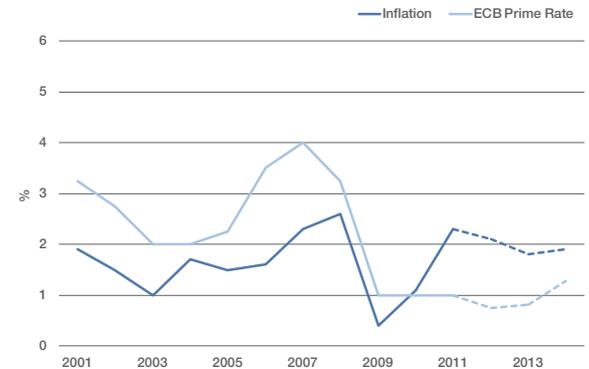
measure has seen the ECB lend banks in the eurozone a total of over a trillion euros for three years in two tranches. This should stabilise the banks in the southern European states in particular. To further relieve pressure on the states in crisis, the ECB also reduced its key interest rate by 25 basis points in July to a historic low of 0.75%.

The consequences of the low interest rate are not entirely positive for Germany. While there is greater incentive for growth-stimulating investments, the risk of misallocation is high. There is also a significant increase in the risk of inflation, which creates uncertainty for consumers in particular. Fear of currency devaluation is driving people to increasingly invest in assets, which are supposed to be inflation-proof, such as gold and property. Some significant price increases can currently be observed in the residential market in particular. At the moment, this trend is supported by the good fundamentals. However, in the long term, there is the risk of a (local) bubble developing.

Overall, the currently prevailing financial conditions pose significant risks for the German economy. Although it has cultivated an outstanding competitive position in recent years, even Germany cannot permanently escape a sustained eurozone crisis.

GRAPH 4

ECB prime rate and inflation Low interest rates lead to higher inflation risk



Source: ECB, Statistisches Bundesamt, Focus Economics

Outlook

Euro crisis - How much longer?

Hopes of a swift end to the Euro crisis and the associated problems appear to be without foundation. All attempted solutions thus far have sought to create time for the affected nations to consolidate their budgets and to implement structural reforms. However, experiences to date show that such reforms have only been partially addressed and that their implementation is taking more time than the German government in particular would like. Furthermore, as much as it may be the right answer, structural reform takes several years to bear fruit. Often cited as a prime example, Agenda 2010 in Germany provides evidence for this assertion. The reform of the German social system and labour market was introduced between 2003 and 2005, yet its successes are only just becoming clearly apparent today.

However, since the other proposals brought to the table are either scarcely politically viable or only tackle the symptoms of the problems, it is highly probable that we will continue to pursue the current course of action. Whether it will be successful and the affected states can gradually resolve their problems with the help of the partner nations or whether the challenge is too great a burden for the eurozone remains to be seen. However, it is already apparent today that the consequences of the crisis will continue to be felt in the years and possibly decades to come.

Top six office markets show decline in take-up

The slowdown in the economy and, in particular, the considerable uncertainty surrounding future developments also impacted German office markets in the first half of 2012. Take-up in the six largest German office markets of Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne and Munich totalled just under 1.4m sq m in the first six months of the current year. This represents a decrease of almost 11% compared with figures from the same period last year. However, in view of last year's very good results, this decline is no surprise and has proved relatively small.

All six markets were affected by the decline in take-up, albeit to significantly different degrees. While Hamburg (-1%) and Berlin (-2%) were almost able to sustain take-up levels from the first half of 2011 this year, Frankfurt (-8%) and Düsseldorf (-11%) recorded moderate decreases. However, take-up in Munich (-18%) and Cologne (-29%) was significantly below last year. In Cologne, this is primarily due to the two major lettings to Lanxess and RheinEnergie that dominated the first half of last year. On the whole, the half-year take-up in all markets is largely in line with average volume recorded over the last ten years.

Decline in vacancy rates continues

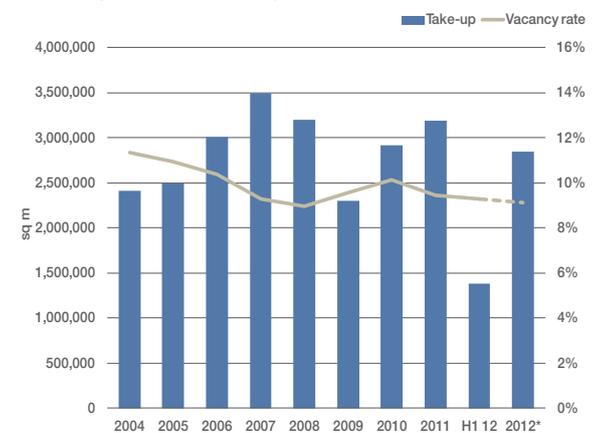
Against a background of generally healthy demand for space and simultaneous low level of completions,

vacancy rates declined in all markets. Berlin recorded the lowest vacancy rate at the end of the first half year with 5.8%, while Frankfurt saw the highest rate of 14.7%. On average, 9.3% of office stock across the six markets stood vacant. By way of comparison, the average vacancy rate for the last ten years in the Top six cities stands at 9.9% and the current figure represents the lowest vacancy rate since 2008 (9%).

Prime rents show upward trend

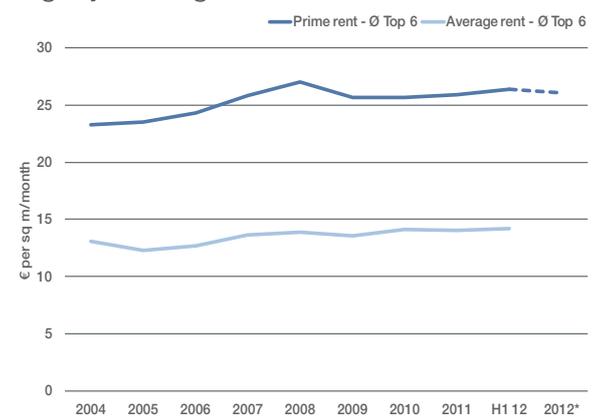
Not least due to the declining vacancy rates, rental trends in recent months have been mostly positive, particularly in the prime segment. In Hamburg (+6%) and Düsseldorf (+5%), prime rents were significantly above the corresponding values from last year. The average prime rent across all six locations stood at €26.40 per sq m/year, an increase of almost 1% compared with last year. Average rents remained on the whole stable, showing an increase on last year's values in three locations and decreasing in the other three cities.

GRAPH 5 Take-up and vacancy Despite lower take-up the vacancy rate declines



Source: Savills / * forecast

GRAPH 6 Rental levels Prime rents increase slightly, average rents remain stable



Source: Savills / * forecast

TABLE 2 Office market key figures Overall decrease in take-up - sharpest loss recorded in Cologne

	Take-up (sq m)		Vacancy rate (%)		Vacancy (m sq m)		Prime rent (€ per sq m/month)		Average rent (€ per sq m/month)	
	1H 2012	y-o-y change	1H 2012	y-o-y change	1H 2012	y-o-y change	1H 2012	y-o-y change	1H 2012	y-o-y change
Berlin	383,400	-2.3%	5.8	-9.4%	1.08	-9.2%	22.00	+5.8%	11.96	-3.2%
Düsseldorf	131,000	-10.9%	11.1	-4.3%	0.85	-2.3%	24.70	+5.1%	13.89	-3.1%
Frankfurt	219,000	-8.0%	14.7	-15.0%	1.75	-14.2%	36.00	-5.3%	19.00	-5.0%
Hamburg	215,600	-1.1%	8.1	-9.0%	1.06	-7.8%	24.40	+6.1%	13.87	+0.2%
Cologne	117,000	-29.1%	8.8	-6.4%	0.61	-4.7%	20.60	-4.2%	11.70	+3.5%
Munich	313,300	-17.7%	7.2	-7.7%	1.58	-7.6%	30.50	+0.7%	14.92	+5.1%
Top six	1,379,300	-10.5%	9.3	-9.3%	6.93	-8.8%	26.37	+0.7%	14.22	-0.8%

Source: Savills

Berlin: Take-up only marginally down on last year

Just over 380,000 sq m of office space was transacted in Berlin in the first half of 2012, which is a similar volume to that achieved in the same period last year. Take-up in each of the first and second quarters amounted to approximately 190,000 sq m. Thus, despite the unfavourable economic conditions, the Berlin office market has proven itself highly robust yet again. Furthermore, it is anticipated that this level of demand will be sustained for the remainder of the year.

Vacancy rate remarkably low

High demand for space on the one hand and the continued low level of development activity on the other hand have led to a further slight decrease of the overall vacancy rate. At the end of the first half year, 5.8% of Berlin's office stock, approximately 1 m sq m, stood vacant. This is the lowest vacancy rate seen since the mid-1990s.

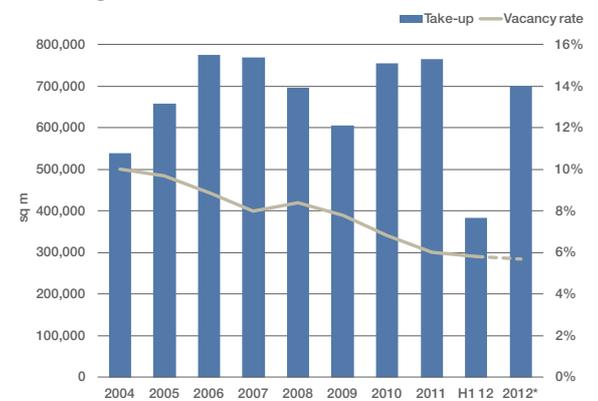
Prime rent shows strong increase

The low and further decreased vacancy rate combined with sustained high demand for space resulted in rising rents in some areas. This was particularly true for the prime segment. The prime rent increased significantly in the last three months to €22.00 per sq m/month, almost 6% above the corresponding value recorded last year. As a result of this growth, the prime rent has also exceeded its average value over the last five years of €21.60 per sq m/month. Should the prime rent maintain its current level to the end of the year or decline only slightly, it would record an increase for the third successive year.

However, across the market as a whole, rental levels have not increased but have shown a slight decline. The average rent remained stable compared to the end of the first quarter at just under €12.00 per sq m/month. However, this represents a decrease of some 3% compared with last year.

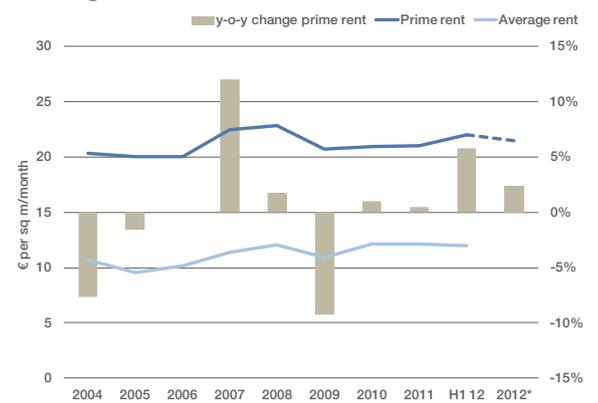
"Given the above-average take-up achieved in 1H and the still high level of demand, take-up could exceed 700,000 sq m at year-end." Christian Leska, Savills Office Agency Berlin

GRAPH 7 Take-up and vacancy Turnover remains at a high level



Source: Savills / * forecast

GRAPH 8 Rental levels Prime rent increasing, average rent stable



Source: Savills / * forecast

TABLE 3 Selected lettings

Tenant name	Sector	Submarket	Area
Bundesministerium der Verteidigung	Public services	City fringe	16,700 sq m
Fraunhofer Institut	Public services	City fringe	9,100 sq m
Jobcenter Berlin-Mitte	Public services	City East	12,400 sq m
Rocket Internet	Telecommunications	City East	8,500 sq m
Vivantes Netzwerk für Gesundheit GmbH	Healthcare and social services	Berlin North	11,300 sq m

Source: Savills

Highest demand comes from public sector

A glance at the take-up figures by sector reveals a particularly wide distribution. The five largest sectors account for just below half of the total take-up volume, with the rest divided between other sectors. Only two sectors recorded a double-digit share of the take-up. As usual, this included the public sector, which accounted for 13% of take-up in the first half of the year. If associations, which are subsumed under 'other' in the adjacent graphic, were added, public institutions and associated organisations would account for around one fifth of total take-up. The telecommunications sector also recorded a double-digit proportion of take-up, accounting for 11%.

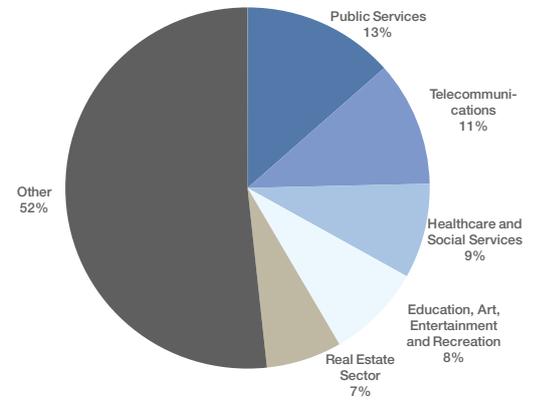
City periphery records almost half of take-up

Significantly less diverse than the sector distribution is the spatial structure of the take-up. The City fringe submarket accounted for almost half of total take-up in the first six months, meaning that this remained the most active office submarket by take-up in line with previous years. This is not least attributable to the fact that office agglomerations are beginning to establish themselves in this submarket and are increasingly attracting demand from corporate occupiers. This particularly includes the area around the central train station as well as the Mediaspree area.

Take-up of more than 700,000 sq m is achievable

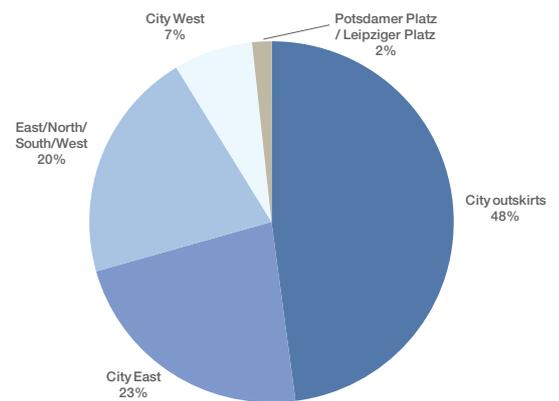
In the second half of the year, it can be expected that demand for space will remain stable at its current level as the volume of requirements currently on the market remains high. Total annual take-up should therefore exceed the 700,000 sq m mark again, as it has for the last two years. As a total of just under 140,000 sq m of new office space will come to the market this year, which is also largely prelet, the vacancy rate should also further decline. Against this background, rental levels should remain stable. The same volume of office accommodation due for completion this year is also scheduled for completion in both of the next two years. In this respect, supply-side pressure is likely to remain low in these years and the stable trends should continue provided that demand remains at its currently high level next year.

GRAPH 9 Take-up by sector A well-balanced breakdown



Source: Savills

GRAPH 10 Take-up by submarket City fringe remains the strongest submarket



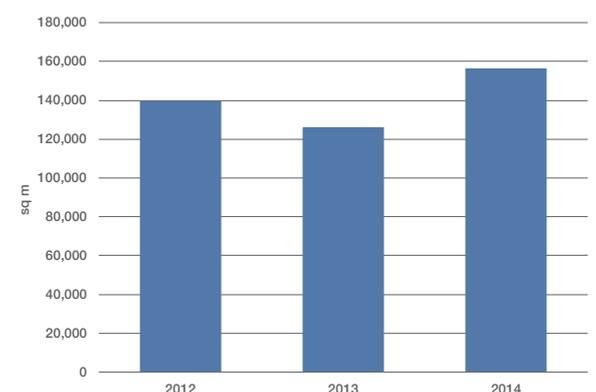
Source: Savills

TABLE 4 Berlin office market at a glance Rental levels are above long-term average

Figure	H1 2012	H1 2011	2012 vs. 2011	Ø 07-11*
Take-up	383,400 sq m	392,300 sq m	-2.3%	718,200 sq m
Vacancy rate	5.8%	6.4%	-9.4%	7.4%
Prime rent	€22.00	€20.80	+5.8%	€21.60
Average rent	€11.96	€12.36	-3.2%	€11.72

Source: Savills / * annual figures

GRAPH 11 Development pipeline Approximately 150,000 sq m is expected per year



Source: Savills

Düsseldorf: Take-up is down by 10%

The Düsseldorf office market remained relatively restrained in the second quarter after the first three months were characterised by relatively low levels of activity. Some 65,000 sq m of office space were transacted in both quarters, bringing the letting volume for the first half of 2012 to approximately 131,000 sq m. This represented a decrease of some 11% or approx 16,000 sq m compared with the corresponding period last year. Demand was well balanced across the different size segments. Take-up in the first half year was divided almost equally between the ranges above and below 2,000 sq m. The major lettings have thus far failed to materialise. Only one contract for a space upwards of 10,000 sq m was signed in the first half of the year.

Vacancy rate declines, average rent is stable

Despite the slightly below-average take-up, the office vacancy rate declined slightly further over the last three months. At the end of June, 11.1% of the office stock, some 845,000 sq m, stood vacant. Over

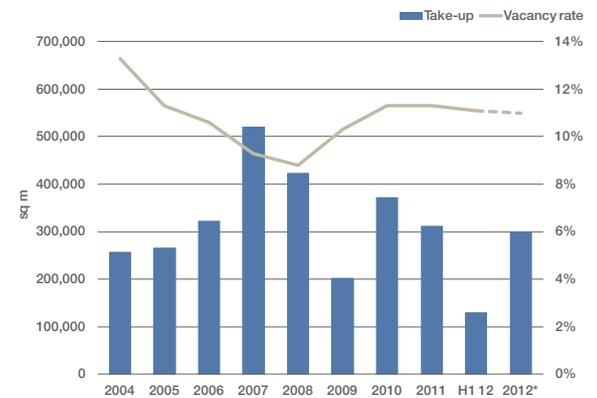
the course of the last 12 months the vacancy rate declined by more than 4%. The average rent also remained largely unchanged in the second quarter to stand at €13.89 per sq m/month at the end of June, just over 3% below last year's figure.

Prelets drive significant growth in prime rent

The stable trend in rents and vacancy rates is not least attributable to the low completion volume – just a few hundred square metres of new-build office accommodation were brought to the market in the first half of the year. Some 113,000 sq m is due for completion in the second half of the year. However, the majority of this space is already prelet, meaning that the vacancy rate should remain stable until the end of the year. These prelets were particularly responsible for the prime rent showing a recent appreciable increase to €24.70 per sq m/month. This is some 5% above last year's figure of €23.50 per sq m/month.

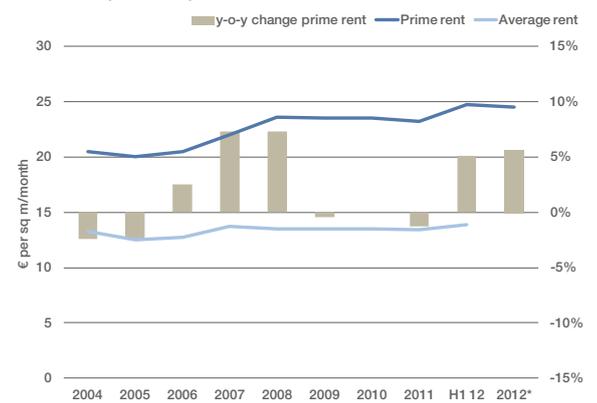
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 "The demand for office space is very well-balanced across the different size segments. Businesses demand offices of all sizes." Panajotis Aspiotis, Savills Office Agency Düsseldorf

GRAPH 12 Take-up and vacancy High but decreasing vacancy rate



Source: Savills / * forecast

GRAPH 13 Rental levels Prime rent is currently close to €25 per sq m/month



Source: Savills / * forecast

TABLE 5 Selected lettings

Tenant name	Sector	Submarket	Area
ALPS Electric Europe GmbH	Manufacturing	West-Left bank of Rhine	3,300 sq m
Brandzeichen Markenberatung und Kommunikation GmbH	Other services	Kennedydamm	800 sq m
Bündnis 90 / Die Grünen - Landesverband NRW	Other services	City centre	1,300 sq m
net mobile AG	Telecommunications	Seestern	4,000 sq m
Roland Berger Strategy Consultants GmbH	Consultancy	City centre	3,000 sq m

Source: Savills

Demand is driven mainly by the telecommunications sector

Enterprises from the telecommunications sector accounted for more than a quarter of the overall take-up in the first half of the year. Companies in the sector completed 18 lettings totalling around 34,000 sq m. Public sector institutions were responsible for almost a fifth of take-up, with lettings totalling just under 25,000 sq m. A striking statistic is that public institution signed six lettings for spaces larger than 1,000 sq m. Consultancies (including legal and tax consultants) also accounted for a significant proportion of the overall take-up. Lettings totalled slightly more than 15,000 sq m, with deals ranging from 100 sq m to 6,500 sq m. In terms of location activity was predominantly concentrated in the financial district and city centre submarkets.

Office demand is concentrated in the city centre

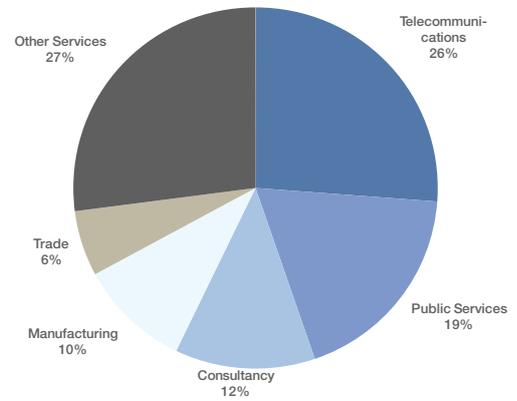
The city centre was the preferred submarket in highest demand during the first six months of the year, totalling 16% of the overall take-up. West-Left bank of Rhine was close behind, while the Kennedydamm and Harbour submarkets each accounted for around 14% of overall take-up. On the whole, it can be observed that companies have a clear preference for central locations.

Short to medium-term outlook is stable

In the second half of the year, take-up is expected to be somewhat above that of the first six months to reach an annual overall take-up of around 300,000 sq m. Given the scarcity of new supply coming onto the market, and the fact that this has also been predominantly prelet, a further slight decrease in the vacancy rate is expected. These circumstances should also contribute to prime and average rents maintaining their current level throughout the remainder of the year.

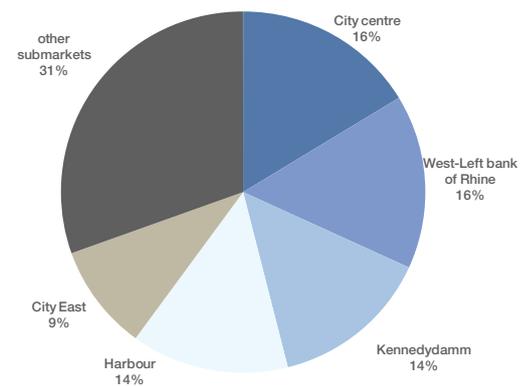
According to our projections, the volume of office space completed in 2013/14 will be moderate. Some 90,000 sq m of new office accommodation is expected in 2013 while over 100,000 sq m is projected for the following year. If this remains the case, the key figures of the Düsseldorf office market should also remain largely stable in the medium term.

GRAPH 14 Take-up by sector Public sector is unusually active



Source: Savills

GRAPH 15 Take-up by submarket Central locations are preferred



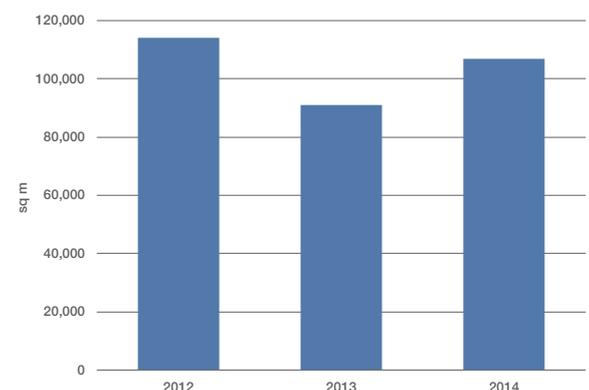
Source: Savills

TABLE 6 Düsseldorf office market at a glance Vacancy is decreasing in spite of below-average take-up

Figure	H1 2012	H1 2011	2012 vs. 2011	Ø 07-11*
Take-up	131,000 sq m	147,000 sq m	-10.9%	366,400 sq m
Vacancy rate	11.1%	11.6%	-4.3%	10.2%
Prime rent	€24.70	€23.50	+5.1%	€23.20
Average rent	€13.89	€14.34	-3.1%	€13.53

Source: Savills / * annual figures

GRAPH 16 Development pipeline The pipeline until 2014 is well-balanced



Source: Savills

Frankfurt: Demand declined noticeably in the second quarter

Activity in Frankfurt's rental market declined noticeably in the second quarter of 2012. The take-up of 80,000 sq m in the last three months was around just half the volume transacted in the first quarter. A total of some 219,000 sq m of office space was let or taken up by owner occupiers in the first six months of the year. This represents a decrease of 8%, or 19,000 sq m, compared to the same period last year. The market was dominated by lettings of accommodation below 3,000 sq m. Just two transactions above this threshold were recorded in the second quarter, compared with seven in the first quarter. These nine deals totalled just under 90,000 sq m, accounting for some 40% of overall take-up in the first half year.

New office space is limited

In addition to the decline in take-up, the completion volume also showed a significant decrease, with no new accommodation brought to the market in the second quarter. In total, just over

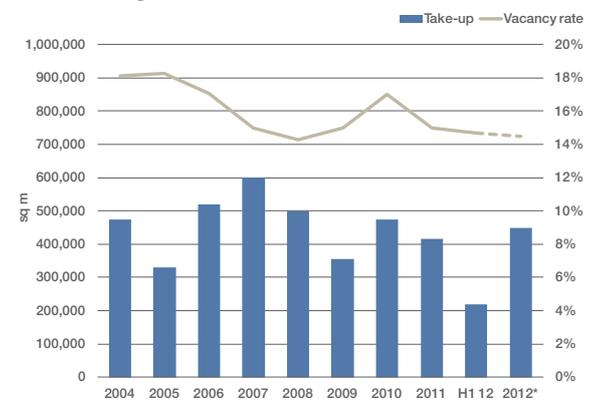
80,000 sq m of new office space will be completed at the end of the year.

No significant change in vacancy rate and rents is expected

Owing to the modest increase in supply, the decline in take-up had no impact on rental growth or vacancy rates. The latter even declined slightly to 14.7%, meaning that a total of 1.75m sq m of office space currently stands empty on the Frankfurt market. Rents remained unchanged from the first quarter of 2012. The prime rent stood at €36.00 per sq m/month while the average rent at the end of June was €19.00 per sq m/month. Both figures are some 5% below the corresponding values from last year and are broadly in line with their averages over the last five years.

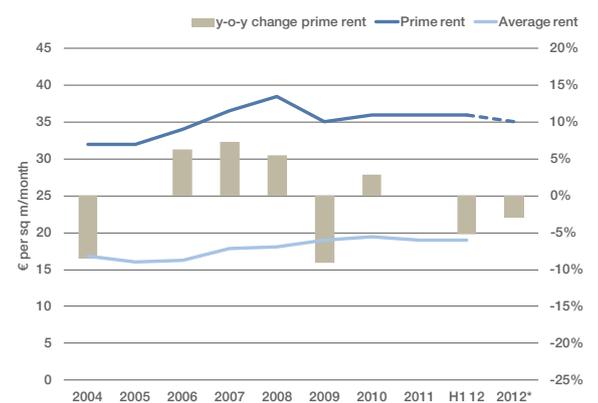
"The financial sector, notably banks once again have proven their key role for the Frankfurt office market in the first six months of 2012." Marco Mallucci, Savills Office Agency Frankfurt

GRAPH 17 **Take-up and vacancy** The vacancy rate is trending downward



Source: Savills / * forecast

GRAPH 18 **Rental levels** Prime rent remained almost stable since 2009



Source: Savills / * forecast

TABLE 7 **Selected lettings**

Tenant name	Sector	Submarket	Area
Deutsche Bahn AG	Transport and logistics	Frankfurt West	9,800 sq m
KfW Bankengruppe	Financial services	City West	13,000 sq m
SEB AG	Financial services	Bankenviertel / City	13,600 sq m
Union Investment Gruppe	Financial services	Bankenviertel / City	12,700 sq m
WISAG	Other services	Frankfurt North	2,800 sq m

Source: Savills

Financial sector remains key pillar

Despite the current stresses of the Euro crisis, the financial sector remained an important pillar of the Frankfurt office market in the first half of 2012. No other sector took on more new space, with the financial sector accounting for about 40% of overall take-up in the first six months of the year. Three individual lettings above the 10,000 sq m mark accounted for a significant proportion of overall take-up in the sector. While this is positive news for the Frankfurt market, it does, however, indicate a certain dependence. A deepening in the Euro crisis and the corresponding consequences for banks, insurance companies and other financial service providers should, therefore, have a particular effect on Frankfurt and impact the office market.

Besides the financial sector, other sectors claimed a noteworthy proportion of take-up. This is particularly true for management, legal and tax consultancies, which totalled 16% of the overall take-up. Here too, there were a number of larger lettings above 1,000 sq m, albeit none above the 3,000 sq m mark as seen in the financial sector. However, there were similarities in the spatial distribution of take-up, with the majority of lettings coming in the financial district and Westend area. Similar preferences can be observed among financial service providers.

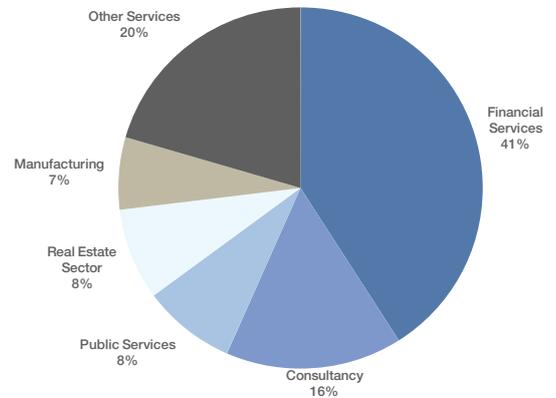
Bankenviertel remains the preferred location

The location preferences of the two strongest sectors by take-up are also reflected consistently in the spatial distribution of the overall take-up. The Bankenviertel / City submarket benefited from strong demand in the first half of 2012 totalling 40% of the overall take-up. Double-digit shares were also recorded in the Westend area (16%) and City West (12%). The airport submarket, which accounted for a considerable proportion of overall office take-up last year, totalled a share of 17% of the letting volume and appears to have established itself as an office location. Overall, the spatial distribution indicates a clear preference of office occupiers for central locations.

Stable outlook - provided the eurozone holds

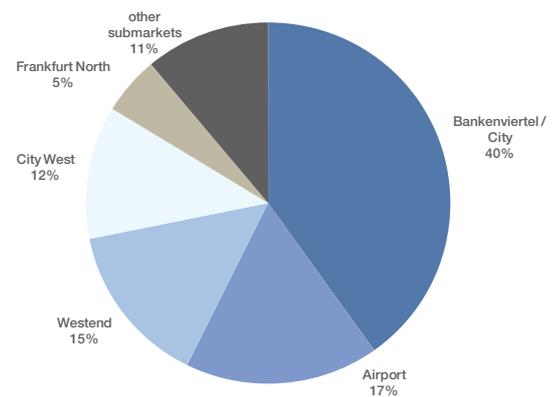
Provided that no extreme scenarios present themselves in the Euro zone, take-up in the second half year should be similar to that in the first six months. Against a background of an extremely low completion volume, the vacancy rate should decrease slightly over the remainder of the year while rents should stabilise.

GRAPH 19 Take-up by sector Demand driven by the financial sector



Source: Savills

GRAPH 20 Take-up by submarket Airport establishes as an office submarket



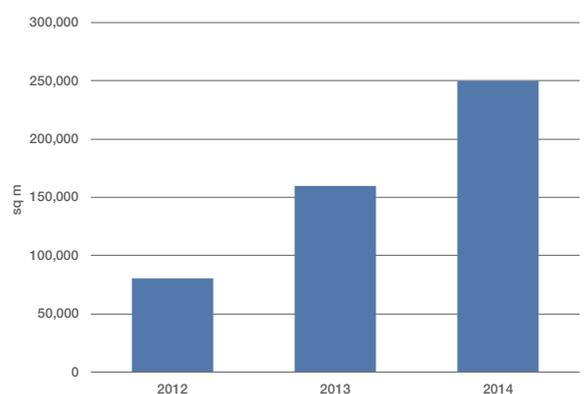
Source: Savills

TABLE 8 Frankfurt office market at a glance Vacancy rate is below its 5-year average for the first time since a while

Figure	H1 2012	H1 2011	2012 vs. 2011	Ø 07-11*
Take-up	219,000 sq m	238,000 sq m	-8.0%	469,000 sq m
Vacancy rate	14.7%	17.3%	-15.0%	15.3%
Prime rent	€36.00	€38.00	-5.3%	€36.40
Average rent	€19.00	€20.00	-5.0%	€18.70

Source: Savills / * annual figures

GRAPH 21 Development pipeline Development activity is expected to pick up



Source: Savills

Hamburg: Take-up at last year's levels

Transactions in Hamburg's office market totalled more than 215,000 sq m in the first half of 2012, almost equalling the volume from the first half of last year (approx. 218,000 sq m). Demand for office space decreased slightly in the second quarter but remains at an above-average level. This demand was widely distributed across all size segments. Indeed, take-up was divided evenly across the three size categories of up to 1,000 sq m, 1,000 sq m to 3,000 sq m and upwards of 3,000 sq m.

Vacancy rate falls further but remains above average

Owing to the sustained high demand for office accommodation and simultaneous low completion volume, the vacancy rate also fell in the second quarter. At the end of June, 8.1% of the office stock remained vacant, representing a 9% decline in the vacancy rate compared with last year. Since only around 180,000 sq m of new office space will come to the market in the current year, most of which is prelet, the decline in the

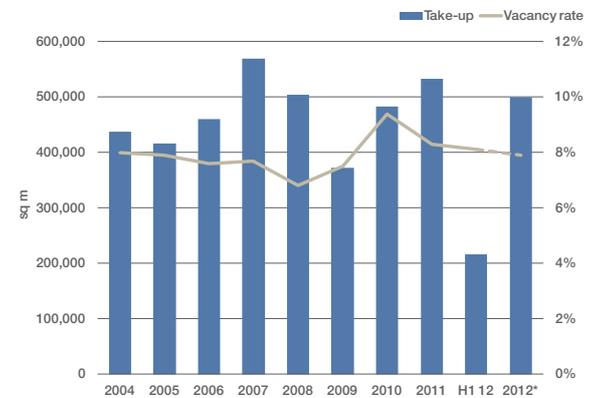
vacancy rate should continue into the second half of the year. However the vacancy rate remains at an above-average level. On average, 7.6% of Hamburg's office stock has stood vacant over the last ten years.

Prime rent rises by more than 6%

High demand and the declining vacancy rate have resulted in rental growth, particularly the premium accommodation segment. The prime rent, which consistently fluctuated between €23.00 per sq m/month and €24.00 per sq m/month in the last twelve months, rose to €24.40 per sq m/month to reach its highest level since 2008. This represented a 6% increase year-on-year. The average rent of €13.87 per sq m/month is above average (10-year average: €12.87 per sq m/month) but has remained stable in recent months.

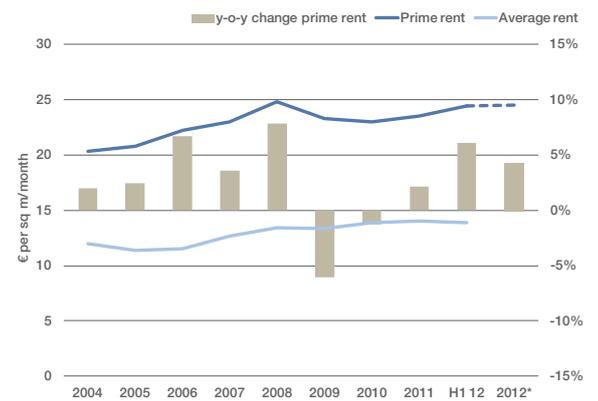
"In 2012 we probably won't reach last year's take-up level again. However, the result should be above the 10-year average." Sebastian Peters, Savills Office Agency Hamburg

GRAPH 22 Take-up and vacancy Stable demand leads to decreasing vacancy rate



Source: Savills / * forecast

GRAPH 23 Rental levels Prime rent increases significantly to €24.40 per sq m/month



Source: Savills / * forecast

TABLE 9 Selected lettings

Tenant name	Sector	Submarket	Area
ADAC	Other services	City South	7,600 sq m
AIDA Entertainment GmbH	Hospitality	Altona	4,000 sq m
Baumarkt Praktiker Deutschland GmbH	Trade	City South	8,200 sq m
White & Case	Consultancy	City	6,500 sq m
Xing AG	Telecommunications	City	6,000 sq m

Source: Savills

Take-up is fuelled by business services

The stable take-up figures are well balanced across the different economic sectors. Only two sectors - management, legal and tax consultancies (19%) and trade (12%) - recorded double-digit shares of overall take-up in the first half year. A further indicator of the healthy sector mix was the fact that take-up remained stable despite the decelerating activity in the logistics sector, which is traditionally a consistent significant contributor to Hamburg's take-up, accounting for just 3% of take-up in the first six months of the current year. Only one large transaction exceeding 1,000 sq m was signed in the first half of the year in addition to a number of smaller lettings. The "wait-and-see" attitude from logistics companies is an indicator of the economic slowdown, which could impact other sectors in the second half of the year. Nevertheless, the balanced distribution of take-up across a variety of sectors provides assurance of relatively stable trends in the Hamburg market.

City centre remains the preferred office submarket

The relatively high average rent is explained by the spatial composition of take-up. The City centre submarket accounted for more than a quarter of overall take-up in the first half of the year, making this by far the most attractive area. Second place in the take-up rankings was filled by another central office submarket Altona, which

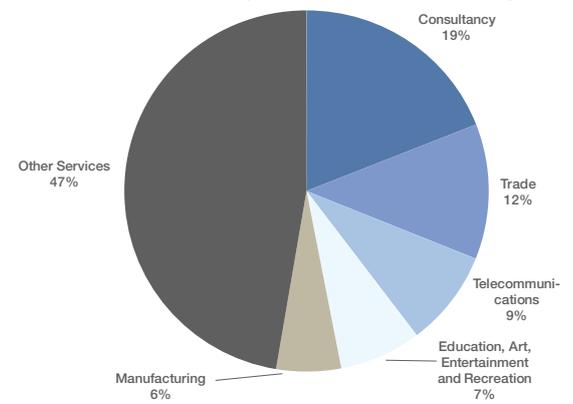
accounted for 19% of the overall take-up. City South also recorded a double-digit share of take-up (17%).

Annual take-up of 500,000 sq m is achievable

Current requirements on the market suggest that take-up in the second half of the year will be somewhat higher than that of the first six months. We believe an annual take-up of some 500,000 sq m is achievable. This would be an increase of more than 10% compared to the 10-year average.

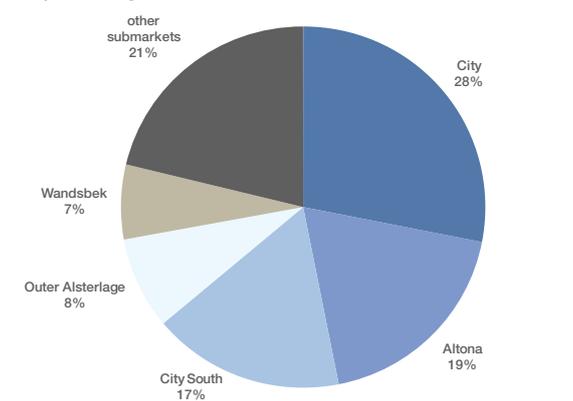
With no impetus from the supply side, both the prime and average rents should maintain their current levels for the remainder of the year. However, this will change in the next two years, due to the level of new supply expected to come onto the market. A completion volume of almost 250,000 sq m is scheduled for 2013, with additionally some 350,000 sq m are expected the following year.

GRAPH 24 **Take-up by sector** Logistics sector accounted for only 3% of total take-up



Source: Savills

GRAPH 25 **Take-up by submarket** HafenCity not in Top 3 anymore



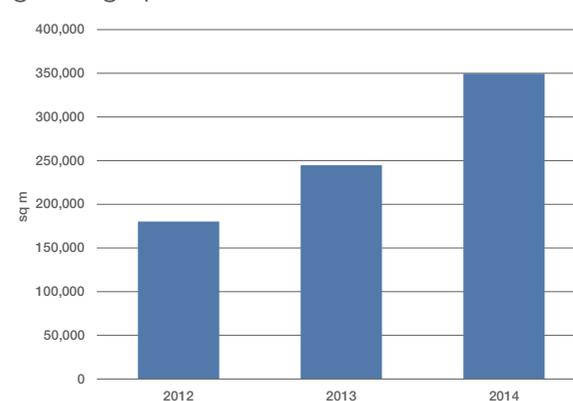
Source: Savills

TABLE 10 **Hamburg office market at a glance** Demand is healthy, vacancy is decreasing and rents are on the rise

Figure	H1 2012	H1 2011	2012 vs. 2011	Ø 07-11*
Take-up	215,600 sq m	217,900 sq m	-1.1%	492,700 sq m
Vacancy rate	8.1%	8.9%	-9.0%	7.9%
Prime rent	€24.40	€23.00	+6.1%	€23.50
Average rent	€13.87	€13.84	+0.2%	€13.46

Source: Savills / * annual figures

GRAPH 26 **Development pipeline** Continuously growing up until 2014



Source: Savills

Cologne: Take-up is almost 30% down on last year

Some 117,000 sq m of office space was let or taken up by owner occupiers in Cologne's office market in the first half year of 2012, representing a decrease of some 30% on the corresponding period last year. However, in view of last year's extraordinarily high volume, this is not surprising. Indeed, the result from the first half year is in line with the 10-year average. The activity slow down is mainly due to the absence of large transaction. There were no lettings above 10,000 sq m in the first six months of the year and just three transactions above 5,000 sq m.

Low completion volume results in reduced vacancy rate

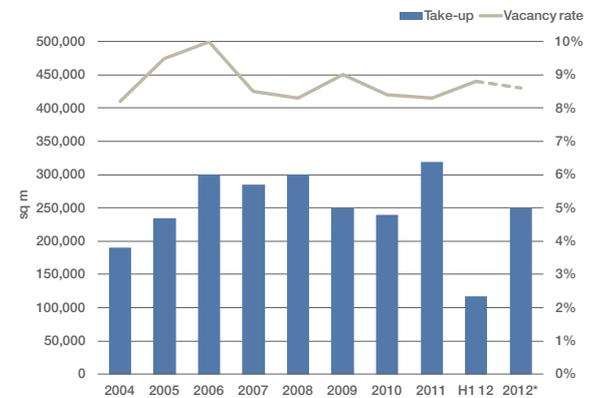
Despite the reduced take-up, the vacancy rate declined in the first half of the year. At the end of June, the vacancy rate stood at 8.8%, 60 basis points, or more than 6%, below the corresponding figure from last year. This trend is substantially attributable to the current very low completion volume. Some 80,000 sq m of office

space is scheduled for completion this year, of which more than 80% is already prelet. Therefore, no new vacant space will be created.

Prime rent decreases, average rent increases

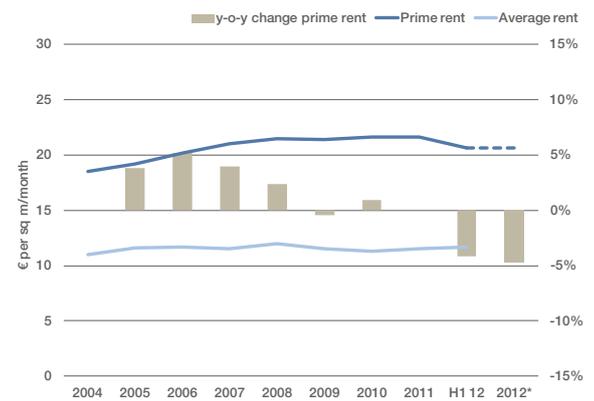
The decreasing vacancy rate has also had a stabilising effect on rents. The prime rent declined slightly over the last twelve months to stand at €20.60 per sq m/month (-4.2%). However, this is primarily attributable to a significantly lower number of prime transactions compared with last year rather than a decrease in achievable rents. Aside from the prime rent, the average rent increased slightly on last year's figure. This stood at €11.70 per sq m/month at the end of June, representing an increase of €0.40 per sq m/month or 3.5% on last year.

GRAPH 27 **Take-up and vacancy** The letting volume in 1H decreased as expected



Source: Savills / * forecast

GRAPH 28 **Rental levels** The prime rent remains broadly unchanged



Source: Savills / * forecast

"Office take-up declined but was still healthy in the first six months of 2012 and all signs indicate to a rather stable development for the second half-year too."

Simon Löseke, Savills Office Agency Cologne

TABLE 11

Selected lettings

Tenant name	Sector	Submarket	Area
Bayer Real Estate GmbH	Manufacturing	Ossendorf / Nippes	4,600 sq m
Pfeifer & Langen KG	Manufacturing	West	8,100 sq m
PSA Peugeot Citroën	Manufacturing	Porz / Airport	8,000 sq m
R+V Versicherung AG	Financial services	Sülz / Lindenthal	2,500 sq m
SELLGATE Personal Selling GmbH	Consultancy	Ehrenfeld / Braunsfeld	1,500 sq m

Source: Savills

Large lettings recorded in the manufacturing sector

Take-up in the first half of the year was relatively well balanced across a number of sectors. However, the manufacturing sector was clearly dominant compared with others, accounting for 30% of the overall take-up. Only a small number of industrial companies leased office space in the considered period but the transactions were generally for very large floor areas. Two deals alone accounted for some 8,000 sq m each.

The public sector recorded a 10% share of overall take-up, which was largely attributable to a letting of 7,000 sq m signed by the Techniker Krankenkasse. This sector was the third-biggest new office tenant in the first half year. The leasing landscape was somewhat different for consultancies, which recorded 12% of overall take-up in the first half of the year. Companies in the sector mostly leased office accommodation below 1,000 sq m, of which almost half was based in the City submarket. This indicates the importance of location in consultancies' leasing decisions.

One third of take-up is located in the City submarket

The City was not only in demand from consultancy companies in the first half year. In total, the submarket accounted for a quarter of the overall take-up. This was followed by Ossendorf / Nippes with an 18% share and, in third

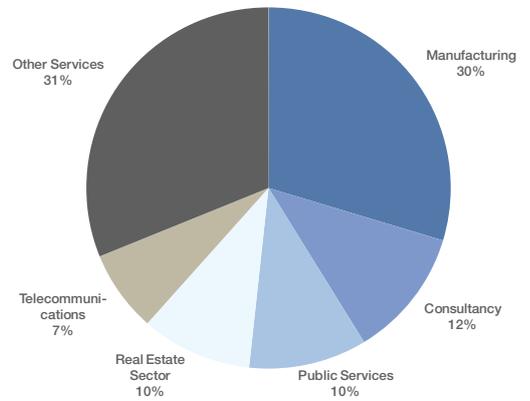
place, by the Porz / airport submarket with 14%. Consequently, these three submarkets accounted for more than half of the total take-up.

Annual take-up of approx. 250,000 sq m is expected

Take-up in the second half of the year should equal or slightly exceed the volume achieved in the first six months. This means an anticipated total take-up for 2012 of approximately 250,000 sq m, which is broadly in line with the 10-year average. The vacancy rate is also expected to decline slightly further, while rents should remain largely unchanged.

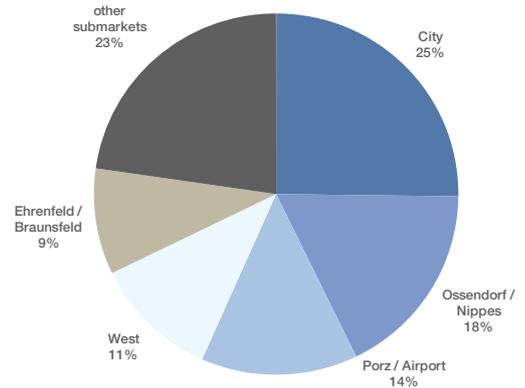
As completion levels in the following two years will be similar to that in 2012, supply-side conditions are not expected to change significantly. However, it remains to be seen how demand will develop in view of the foreseeable economic slowdown.

GRAPH 29 Take-up by sector Manufacturing sector is leading the activity



Source: Savills

GRAPH 30 Take-up by submarket Demand concentrates on City centre



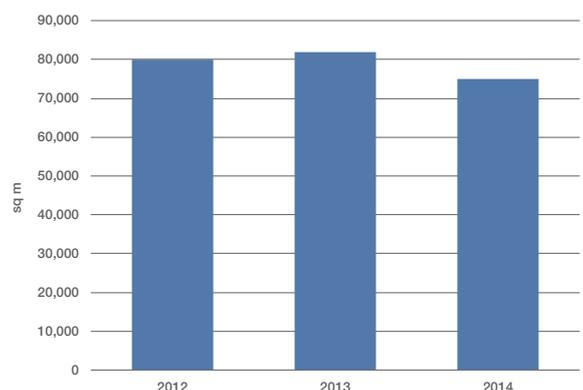
Source: Savills

TABLE 12 Cologne office market at a glance All values are close to their long-term averages

Figure	H1 2012	H1 2011	2012 vs. 2011	Ø 07-11*
Take-up	117,000 sq m	165,000 sq m	-29.1%	278,800 sq m
Vacancy rate	8.8%	9.4%	-6.4%	8.5%
Prime rent	€20.60	€21.50	-4.2%	€21.40
Average rent	€11.70	€11.30	+3.5%	€11.56

Source: Savills / * annual figures

GRAPH 31 Development pipeline Steady volumes expected until 2014



Source: Savills

Munich: Take-up decreased significantly but is in line with long-term average

With a take-up of some 313,000 sq m, activity in Munich's office market in the first half of 2012 remained significantly below last year's results. This represents a decrease of 18% compared to last year (almost 381,000 sq m). However, the first half of 2011 was extraordinarily good and this year's volume is in line with the average figure. A further positive sign for the remainder of the year is that take-up increased significantly in the second quarter. At just below 180,000 sq m, the volume in the last three months was some 25% higher than that in the first quarter.

Vacancy rate decreases by further 20 basis points

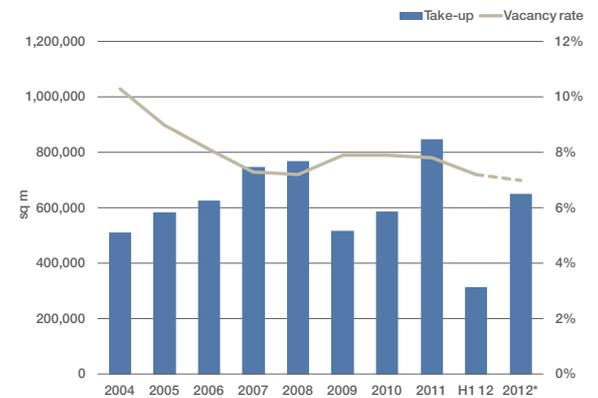
Despite the decline in take-up, the downward trend in the vacancy rate was maintained in the last three months. The vacancy rate at the end of the last quarter stood at 7.2%, representing a further decrease of 20 basis points. This also equates to an 8% decrease compared to 2011.

"Take-up increased by approximately a quarter in Q2 compared to the first three months of 2012. Almost 180,000 sq m found new occupiers." Nico Jungnickel, Savills Office Agency München

Prime rent is rising slightly, average rent is increasing significantly

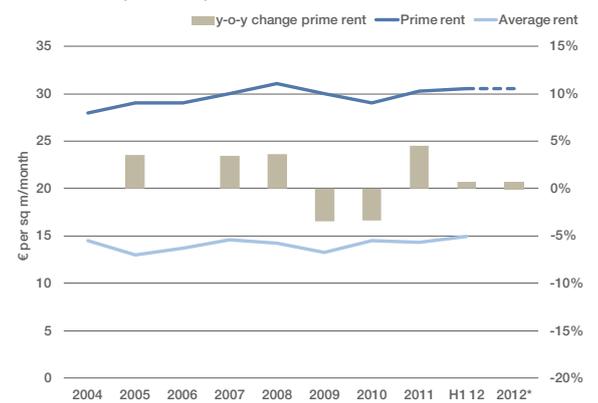
The favourable developments in respect of the vacancy rate also had a positive impact on rental levels. The prime rent increased slightly to €30.50 per sq m/month and remains significantly above its 10-year average of €29.40 per sq m/month. The average rent also showed a recent significant upward trend. The current figure of €14.92 per sq m/month is exactly €0.50 per sq m/month above its 10-year average and more than 5% above last year's corresponding value.

GRAPH 32 Take-up and vacancy Take-up decreases by 18% y-o-y in 1H



Source: Savills / * forecast

GRAPH 33 Rental levels Prime rent remains above the €30 per sq m/month mark



Source: Savills / * forecast

TABLE 13 Selected lettings

Tenant name	Sector	Submarket	Area
1&1 Internet AG	Telecommunications	City West	6,500 sq m
Cancom AG	Telecommunications	City West	4,500 sq m
Deutsche Bahn AG	Transport and logistics	Outskirts West	2,200 sq m
NTT Data Deutschland GmbH	Telecommunications	Outskirts North	10,000 sq m
Robert Half Deutschland GmbH & Co. KG	Other services	City	800 sq m

Source: Savills

The manufacturing sector is the key driver of demand

Take-up was dominated by three sectors. Manufacturing accounted for 22% of the overall take-up, followed by companies from the telecommunications sector (21%) and management, legal and tax consultancies (18%). Consequently, these three sectors accounted for almost two thirds of the total take-up in the first half of the year. While take-up in the two largest sectors was predominantly attributable to a few major lettings exceeding 1,000 sq m, take-up in the consultancy sector comprised numerous smaller lettings. Aside from these dominant sectors, the public and financial sector accounted for 5% shares of the overall take-up each. In the case of the public sector, this volume was largely explained by two major deals totalling 10,000 sq m of office accommodation, including the letting of over 6,600 sq m to the City of Munich and a letting of almost 4,300 sq m to the JobCenter.

Northern and western submarkets are dominating

Letting activity in the first half of the year was concentrated in the northern and western areas of Munich's office market. The City West submarket concentrated the highest proportion of take-up (25%), followed by the northern region (11%), the northern and western outskirts (9% each). The central submarket ranked fifth, also with a 9% share of the overall

take-up. The brisk activity in the western submarkets and particularly City West is not least attributable to a number of new buildings, primarily in the Arnulfpark, which are providing additional supply. The high proportion of take-up in the northern submarkets, which has increased constantly in recent years, is partly attributable to the fact that these areas offer an advantageous location for many companies owing to their good accessibility to the airport.

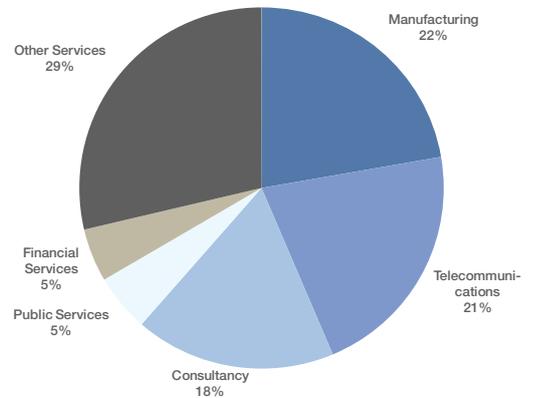
The annual take-up should reach 650,000 sq m

Take-up in the second half of the year should exceed the volume of the first six months, meaning that total annual take-up will probably reach the 650,000 sq m mark. This would represent an increase of approx. 5% on the 10-year average, which is around 618,000 sq m.

The vacancy rate should decrease in the foreseeable future, with only 130,000 sq m of new office space coming to the market in the current year and even lower completion volumes currently planned for the years 2013/14. The current vacant volume of almost 1.6m sq m should even fall to 1.5m sq m at the end of the year.

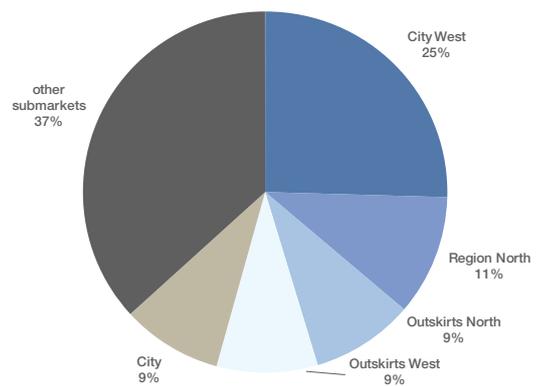
The declining vacancy rate will also support rents, which should remain at their current high levels for the remainder of the year.

GRAPH 34 **Take-up by sector** Three sectors accounted for almost two thirds of take-up



Source: Savills

GRAPH 35 **Take-up by submarket** Demand for office space located in City West is high



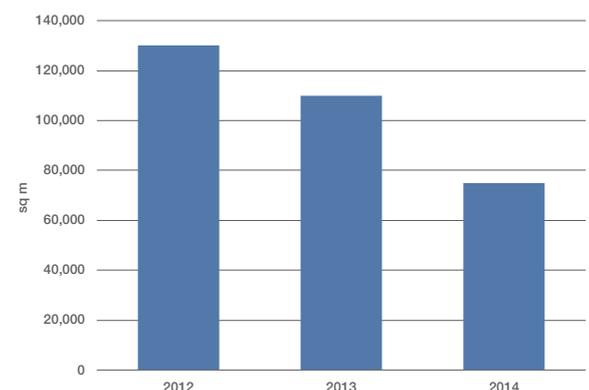
Source: Savills

TABLE 14 **Munich office market at a glance** Average rent is high compared to its long-term average

Figure	H1 2012	H1 2011	2012 vs. 2011	Ø 07-11*
Take-up	313,300 sq m	380,700 sq m	-17.7%	693,400 sq m
Vacancy rate	7.2%	7.8%	-7.7%	7.6%
Prime rent	€30.50	€30.30	+0.7%	€30.10
Average rent	€14.92	€14.20	+5.1%	€14.18

Source: Savills / * annual figures

GRAPH 36 **Development pipeline** Development activity is expected to slow down



Source: Savills

Outlook for second half of the year is stable

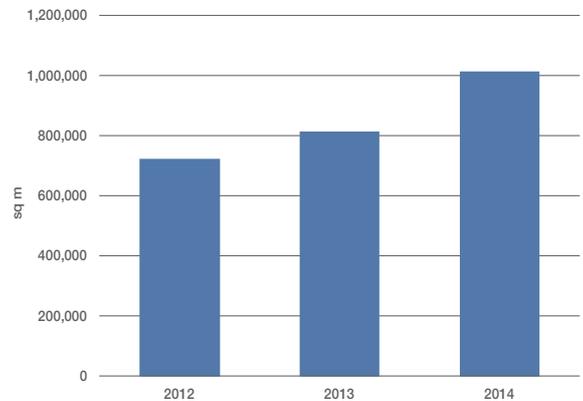
The outlook for the Top six markets for the second half year is relatively stable. Demand should essentially remain at the same levels seen in the first six months while, the relatively low completion volumes in all markets this year should maintain rental levels largely unchanged. The decline in vacancy rates is also likely to continue, albeit at a slower pace. However, in view of what is now quite clearly an economic slowdown, it would also seem apparent that the German office markets have passed their cyclical peak. It is reasonable to foresee that the low economic growth in the last quarter will be reflected in a weaker office demand. Nevertheless, potential for decline is limited. Firstly, relatively few new office jobs were created during the last upturn that could be cut again in a downturn. Secondly, as seen in the last crisis of 2009/10, most companies will be anxious to keep their employees, even at a

lower workload, to avoid losing vital expertise.

Escalation of the Euro crisis is the main threat

There is, however, a caveat that this scenario only applies if the Euro crisis does not escalate. In the event of an uncontrolled break-up of the common currency, for example, or further countries reaching a situation where they are unable to refinance via the capital markets, a similar situation could arise to that seen following the insolvency of Lehman in autumn 2008, when companies largely deferred leasing decisions. Demand for offices could then decrease drastically.

GRAPH 37 **Development pipeline Top six** Higher construction level is expected in 2013/14



Source: Savills

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