

The Occupier's Perspective: Germany

Severe lack of supply

March 2017

Key takeaways:

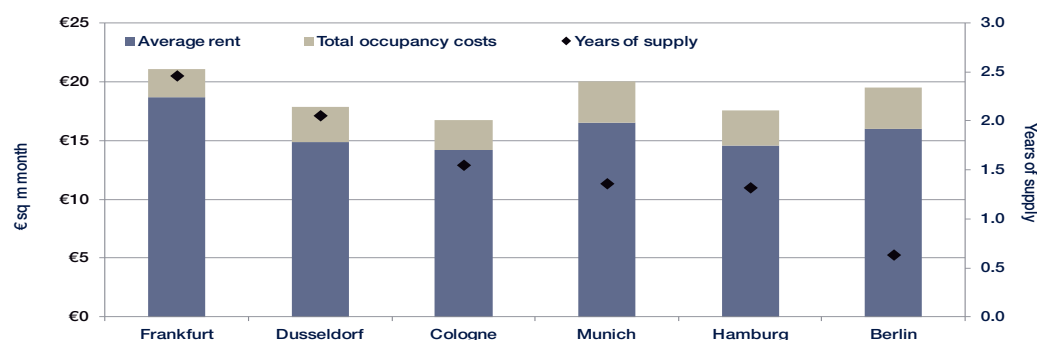
M&A activity 5x higher than 10-year average
 ↓
 strongest take-up in 10 years

German business confidence at a 6-year high

Vacancy rate to fall below 5% in most CBD markets in 2017

Desk-sharing + co-working
 ↓
 change in occupier requirements

FIGURE 1
Occupancy costs and years of supply: Highest costs and supply in Frankfurt



¹ Savills monthly occupancy costs are calculated by summing up average rents, service charges, taxes and deducting landlord incentives. Please note that service charges used in the analysis are average values. The actual service charge depends on the amenities provided in the building.

² Years of supply is calculated by dividing current availability over average annual take-up levels over the last five years

Source: Savills

Occupiers shift to suburbs:

■ **Intense competition** for modern office space is resulting in a **severe shortage** of supply across the main office markets with vacancy rates significantly **below** their five-year averages. There is only **1.4 years** of supply left in the market, the **lowest** level in more than 15 years.

■ **Occupier choice** varies markedly across the main cities. While there is **only 0.6 years** of supply left in **Berlin**, 1.2 years in Hamburg and 1.3 years in Munich, **Frankfurt** has the **highest availability** and currently offers 1.1 million sq m which translates into 2.6 years of supply.

■ In the **central areas** of all top six cities, vacant modern office space is practically non-existent. As a result, occupiers are shifting to **peripheral locations** which benefit from excellent transport links, modern amenities and lower occupancy costs. Examples include Grafenberger Allee in Dusseldorf, Burostadt Niederrad in Frankfurt, Deutz and Kalk/Mulheim in Cologne and Obersending in Munich.

■ With **increased demand**, availability in these **alternative locations** is also starting to decline which has been reflected in strong rental growth over the last year. Rental growth is set to continue in 2017 with **average rents** across the top six markets expected to **rise** by 2.1% and **prime rents** by 1.7%.

TABLE 1
Key office occupier figures

Q4 2016	Average rent (€/sq m month)	Total occupancy cost (€/sq m month)	Vacancy rate (%)	Immediate supply (sq m)	5-year annual average take-up (sq m)
Berlin	16.00	19.50	2.7	524,000	834,000
Dusseldorf	14.90	17.80	8.8	668,000	326,000
Frankfurt	18.70	21.10	8.6	1,100,000	448,000
Hamburg	14.60	17.60	5.1	638,000	485,000
Cologne	14.20	16.70	5.8	444,000	287,000
Munich	16.50	20.00	4.0	919,000	677,000
Top 6	15.82	18.80	5.8	4,293,000	509,000

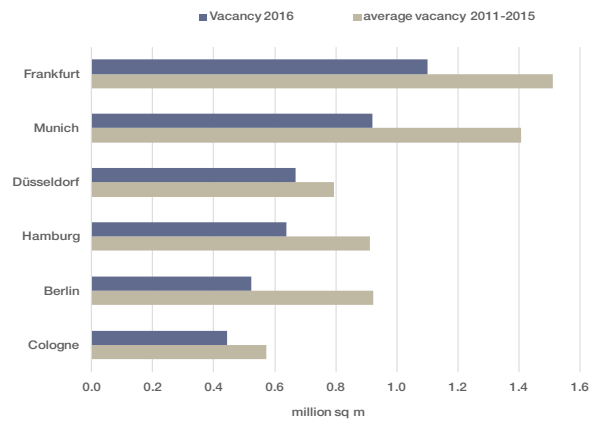
Occupiers need to be more proactive:

Excess demand, scarce availability and limited future supply (800,000 sq m expected in 2017, of which more than half is already pre-let) mean that occupiers will increasingly need to adapt to the landlord favourable environment.

Options left to occupiers:

- 1. Become an owner occupier:** Debt is currently cheap but it requires the longest lead time of all options.
- 2. Extend the lease:** occupiers can extend their existing leases prematurely to secure space for the long term.
- 3. Improve efficiency of space:** efficiency can be improved by desk-sharing, working from home and leasing co-working space.
- 4. Pre-let in a new development:** it requires a long lead time.
- 5. Sub-leasing:** occupiers can sublet some of their space until they require it. For instance, in Berlin, Tech firms and start-ups are particularly active in this segment of the market.

FIGURE 2
Vacant floorspace across top 6 cities



Source: Savills

New ways of working - opportunity for occupiers?

- **New occupier trends** such as **desk-sharing** and **co-working** are challenging the traditional German working practises.
- The implementation of desk-sharing, gaining popularity particularly amongst **creative and Tech occupiers**, is still at early stages in Germany. For instance, in **Google's office in Hamburg** each employee has a fixed workstation. In contrast, **Microsoft's office in Munich** uses exclusively desk-sharing.
- While the **co-working** segment is currently small compared with the traditional office market, it is **growing** rapidly. For instance, **Berlin** has the second largest co-working segment in Europe, only behind London. While lettings from co-working providers accounted for 3% of the total take-up in 2016, the share is set to **rise** markedly over the next few years particularly on the back of **limited availability of stock**.
- The impact of new concepts of working on **space requirements** remains unclear. Using desk-sharing and co-working does not necessarily imply smaller space requirements as occupiers will need more **communal space** for meeting areas and quiet workstations.

Agent Q&A (Marcus Mornhart)

What do you see as the main occupier trend in 2017-18?

Large occupiers need to consider working in multiple locations rather than consolidating into one office space. In addition, attractive workspace and good infrastructure are key to win talent.

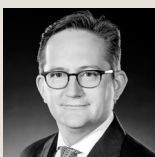
Which sector is of the most interest to you?

While Tech occupiers cluster in Berlin and Munich, Legal and Finance tend to locate in Frankfurt and Dusseldorf. Hamburg attracts Accounting and Insurance firms.

What do you consider the main challenges facing occupiers over the medium-term?

We expect costs, particularly average rents, to increase in all markets. Incentives are set to decline while vacancy rates will remain/fall below 5% in most CBD markets.

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