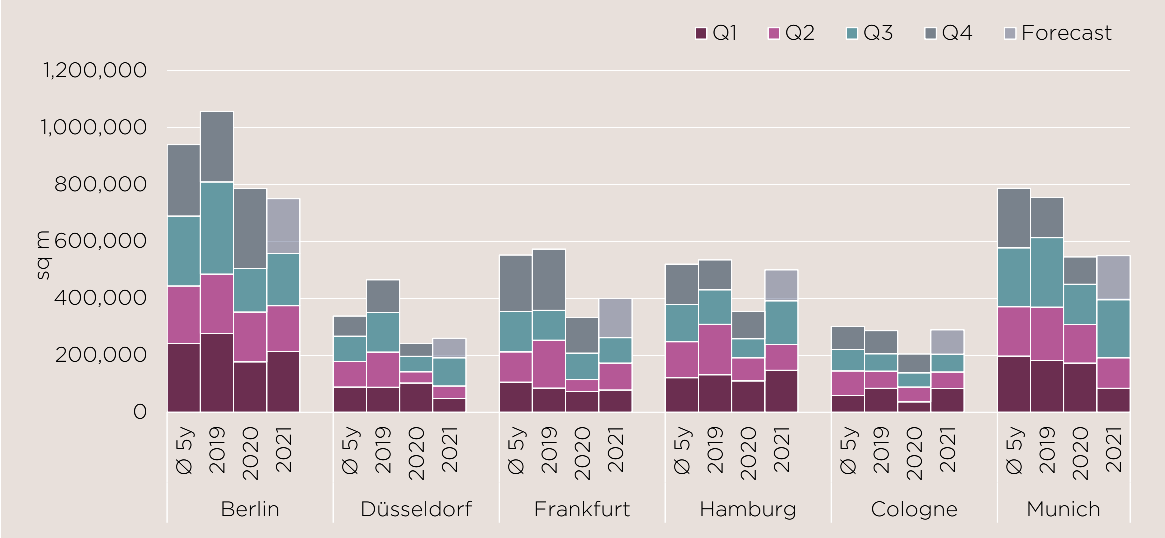
MARKET IN MINUTES
Savills Research

Germany Office Letting – October 2021

# Top 6 Office Markets

savills

### Graph 1: Take-up in the top 6 markets




**Source** Savills / Note: Ø5y = average last 5 years

## Focus on selected figures

**700,000 sq m**
Vacancies in the top six office markets have risen by around 700,000 sq m since the outbreak of the pandemic.

**€18 per sq m**
The median rent across all lease deals stands at €18 per sq m, which is the highest figure since data collection commenced in 2009.

# Why rents are rising

Total take-up over the first three quarters of 2021 stood at approximately 2 million sq m, representing an increase of 14% year on year. Only Düsseldorf and Munich witnessed marginal declines in take-up compared with the corresponding period last year. The vacancy rate across all top six markets at the end of September stood at 4%, which was 0.1 percentage points higher than in the previous quarter and 0.6 percentage points higher than in the corresponding quarter last year. Düsseldorf has the highest vacancy rate (7%), while Berlin shows the lowest (2.3 %). Office vacancies have risen by some 700,000 sq m since the beginning of the pandemic.

In view of the rising vacancy rates, it would be reasonable to expect a decline in rents. In reality, both average and prime rents have shown a moderate increase over the last 18 months. The average prime rent across the top six cities stood at €35.60 per sq m at the end of September (+/-0% quarter on quarter), while the median rent stood at €18.00 per sq m (+3%). There are a number of factors that might explain this increase. Firstly, the proportion of pre-lets among the take-up figures was significantly higher than the long-term average and offices in new developments are naturally expensive.

Secondly, there is generally an increasing preference among companies for high-quality space and central locations. A

### Table 1: Office market indicators at a glance

| | Take-up (sq m) | | Vacancy rate (%) | | Prime Rent (€ per sq m/month) | | Median Rent* (€ per sq m/month) | | Average Rent (€ per sq m/month) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 - Q3 2021 | against Q3 2021 | 2021 Q3 | against Q3 2021 | 2021 Q3 | against Q3 2021 | 2021 Q3 | against Q3 2021 | 2021 Q3 | against Q3 2021 |
| Berlin | 557,600 | +10.3% | 2.3 | +10bps | 40.00 | +0.3% | 25.00 | +/-0% | 26.80 | +0.8% |
| Düsseldorf | 191,200 | -2.9% | 7.0 | +10bps | 28.50 | +/-0% | 16.00 | +3.2% | 16.75 | +3.1% |
| Frankfurt | 262,200 | +26.1% | 6.5 | +/-0bps | 48.00 | +/-0% | 17.50 | +2.9% | 22.50 | +3.4% |
| Hamburg | 392,000 | +51.6% | 3.9 | +20bps | 31.25 | +0.8% | 15.00 | +/-0% | 18.00 | +1.7% |
| Cologne | 203,900 | +47.1% | 2.8 | -10bps | 27.00 | -0.9% | 15.50 | +3.3% | 18.25 | +1.4% |
| Munich | 395,000 | -12.1% | 3.7 | +10bps | 39.00 | +/-0% | 19.90 | +1.3% | 20.50 | +2.5% |
| Top 6 | 2,001,900 | +13.9% | 4.0 | +10bps | 35.63 | +/-0% | 18.00 | +2.9% | 20.47 | +2.1% |

**Source** Savills / * The median rent is the average rent across all letting transactions. Hence, 50% of all lettings lie above the median rent and 50% lie below it. When calculating the median rent, the size of the space in each letting is not factored into the weighting.

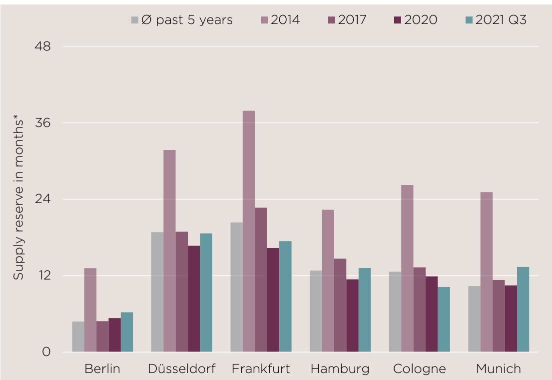
third factor that could account for the rising rents is the recent drastic increase in building and fit-out costs which, combined with the higher space requirements of companies, are inevitably causing rents on existing space to rise.

Finally, a fourth factor could be responsible for the increase in rental levels. The average lease term has become shorter since the outbreak of the pandemic and, in particular, the proportion of leases with a maximum term of five years has increased. Aside from the fundamental requirement of many companies for more flexible leases with special rights of termination or partial termination, many have consciously negotiated very short lease renewals on their space in view of the pandemic, in order to create time for strategic decisions regarding their future space requirements. They are also paying something of a flexibility premium for this.

The relatively high proportion of agreed leases with a short term could also result in an unusually high number of requirements in the market competing for high-quality space from the second half of next year. In most locations, these requirements would be met with higher completion volumes than in this year. A total of approximately 1.55 million sq m of office space is expected to be completed in the top six markets this year (already pre-let: 1.2 million sq m or 76%), compared with approximately 2.05 million sq m next year (already pre-let: 0.9 million sq m or 44%). However, the completion volume is expected to decline again significantly in the following year. Against this background, we see no noteworthy potential for a decline in rents, at least in the prime segment.

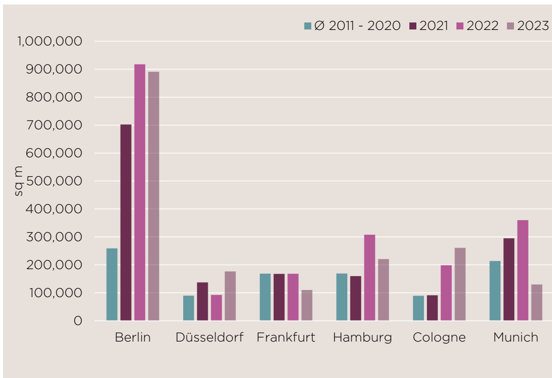
**Download the charts and raw data here**

### Graph 2: Supply reserve



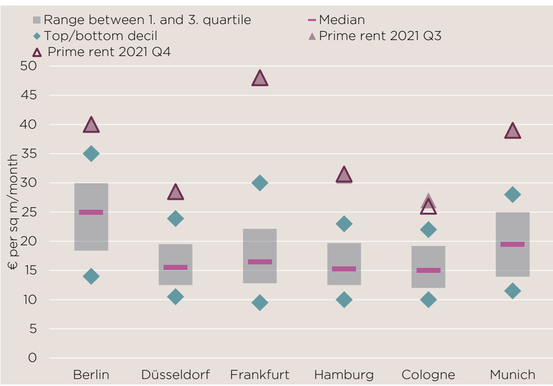

**Source** Savills / relation between supply (= current vacancy rate) and demand (= average space take-up over the last 3 years)

### Graph 3: Pipeline



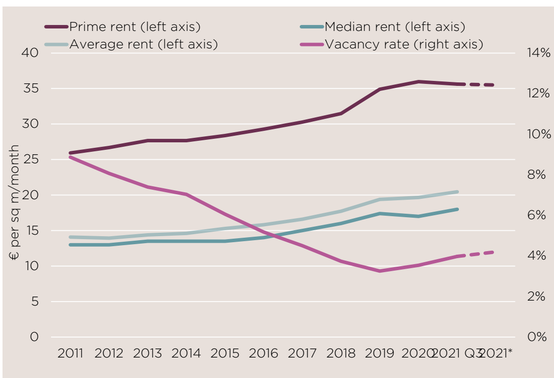

**Source** Savills

### Graph 4: Rental level




**Source** Savills / Note: 1./3. quartile - 25% of all lease transactions happen to rents below/above this value; bottom/top decile - 10% of all lease transactions below/above this value

### Graph 5: Development of rents and vacancy*




**Source** Savills / * on the average of the top 6

## Savills Team

Please contact us for further information

**Jan-Niklas Rotberg**
Director / Head of Office Agency Germany
+49 30 726 165 400
jrotberg@savills.de

**Matthias Pink**
Director / Head of Research Germany
+49 30 726 165 134
mpink@savills.de