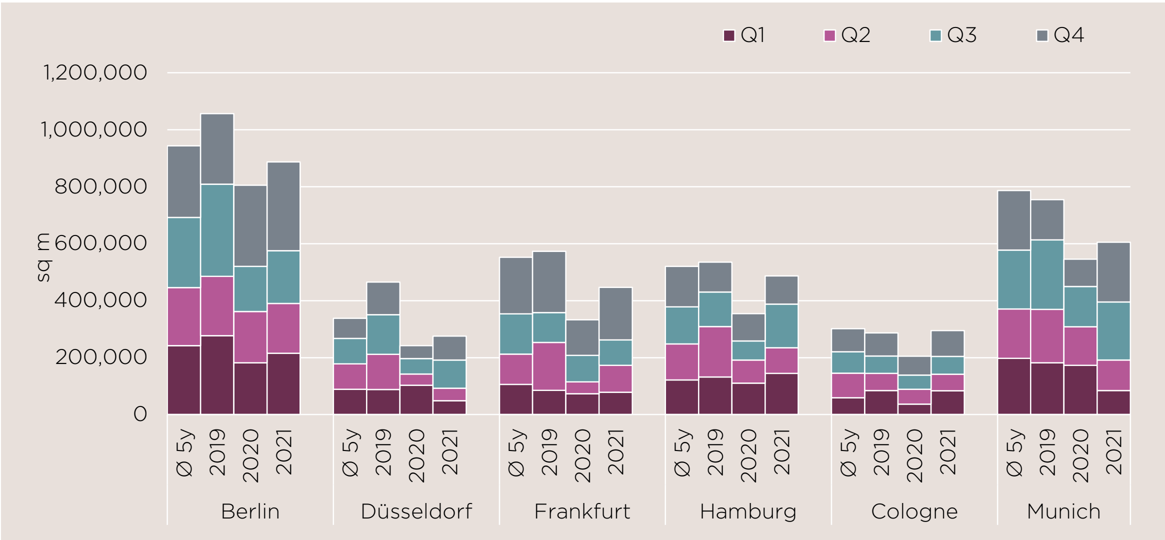
Germany Office Letting – January 2022

MARKET IN MINUTES
Savills Research

Top 6 Office Markets

savills

Graph 1: Take-up in the top 6 markets



Source Savills / Note: Ø5y = average last 5 years

Desire for quality drives rental growth

The top six office markets continued their recovery in the final quarter of 2021. Take-up totalled approximately 1 million sq m in the last three months alone, producing an annual take-up of almost 3 million sq m. This is a fifth higher than in 2020 but a fifth lower than in the years prior to the COVID-19 pandemic. While take-up remains below average by long-term comparison, the rising demand leads us to expect further growth in the coming year. Vacancies increased by around a quarter of a million square metres in the fourth quarter of 2021, with the vacancy rate standing at 4.3% (Table 1). Despite the higher vacancy rate, rents predominantly rose, with the prime rent increasing by some 3% on the previous quarter to €36.70 (Graph 4).

It is still predominantly major occupiers, such as international corporations, that are being more reticent than prior to the pandemic. By way of example, the average size of all office space leased last year was smaller than in previous years in all markets with the exception of Cologne. The deferral of leasing decisions by some major occupiers also means that some development projects that will be completed this year or next year still have no anchor tenant. In both years, more than 2 million sq m of new office space is scheduled to come to the market, which is twice the 10-year average (Graph 3). Since more than 2.5 million sq m in these developments remains unlet (approx. 1.1 million sq m in 2022 and 1.6 million sq m in 2023),

Focus on selected figures

21 %
Public administration accounted for the highest take-up of any sector in the top six office markets in 2021 with 21%.

+24 %
The median rent in Cologne rose by 24% in 2021. No other top six city witnessed such strong rental growth across the market.

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 - Q4 2021	against Q3 2021	2021 Q4	against Q3 2021	2021 Q4	against Q3 2021	2021 Q4	against Q3 2021	2021 Q4	against Q3 2021
Berlin	886,800	+10%	2.5	+20bps	43.70	+ 9.3 %	25.00	+ 0.8 %	27.80	+ 3.7 %
Düsseldorf	275,500	+14%	7.1	+10bps	28.50	+/- 0 %	16.00	+ 3.2 %	17.00	+ 1.5 %
Frankfurt	446,800	+34%	7.5	+100bps	48.00	+/- 0 %	18.50	+ 5.7 %	21.90	- 2.7 %
Hamburg	486,900	+37%	3.9	+/-0bps	31.25	+/- 0 %	15.50	+ 3.3 %	18.10	+ 0.6 %
Cologne	294,800	+44%	3.0	+20bps	26.50	- 1.9 %	16.80	+ 6.5 %	17.60	- 3.6 %
Munich	605,000	+11%	4.0	+30bps	42.50	+ 9.0 %	19.90	- 0.5 %	22.70	+ 10.7 %
Top 6	2,995,800	+21%	4.3	+30bps	36.74	+ 3.1 %	18.00	+/- 0 %	20.85	+ 1.9 %

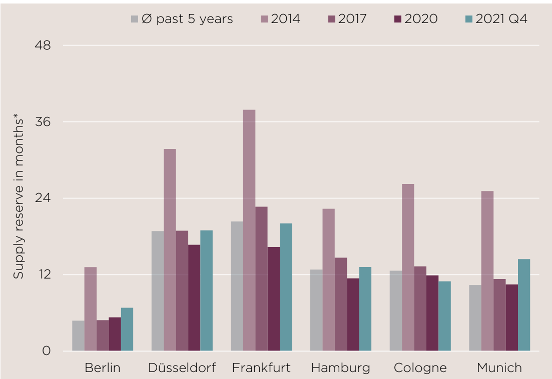
Source Savills / * The median rent is the average rent across all letting transactions. Hence, 50% of all lettings lie above the median rent and 50% lie below it. When calculating the median rent, the size of the space in each letting is not factored into the weighting.

we expect vacancies to rise further at least during the current year.

However, the increase in vacancies will be less pronounced in new builds than in older, unmodernised existing properties. Overall, there is a significantly increased preference for high-quality office space. In the case of major occupiers, this frequently means new build or extensively refurbished space since only such properties can ensure ESG compliance. Furthermore, such space offers higher quality than in existing properties in comparable locations. One measurable indicator for the stronger preference of office occupiers for modern space in good locations is the sharp increase in the median rent (Graph 5). It increased by almost 6% within a year, which is significantly stronger than the prime rental growth during the same period (+2%). In addition to the rising requirements in terms of the quality of space and location, demands on flexibility are also increasing. This applies both to the layout of the space and the drafting of leases, with occupier requests for special rights of termination and partial termination, as well as generally the most flexible lease terms possible, becoming more common. Conversely, owners want the greatest possible long-term planning certainty, not least owing to the sharp increase in construction and fit-out costs. Flexible workspace providers can be part of the solution here by bringing together these conflicting requirements.

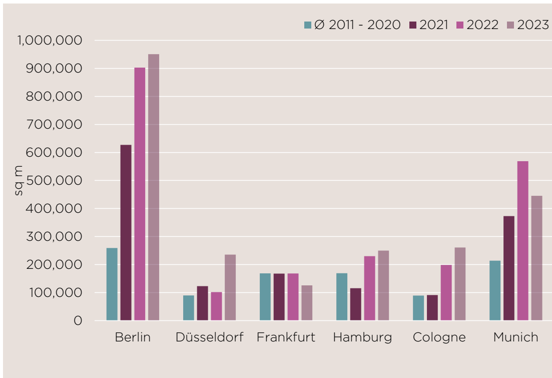
Download the charts and raw data here

Graph 2: Supply reserve



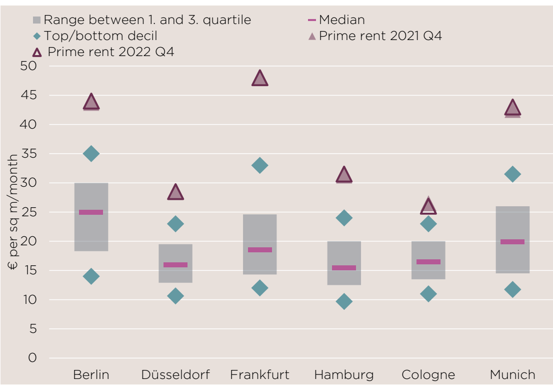
Source Savills / relation between supply (= current vacancy rate) and demand (= average space take-up over the last 3 years)

Graph 3: Pipeline



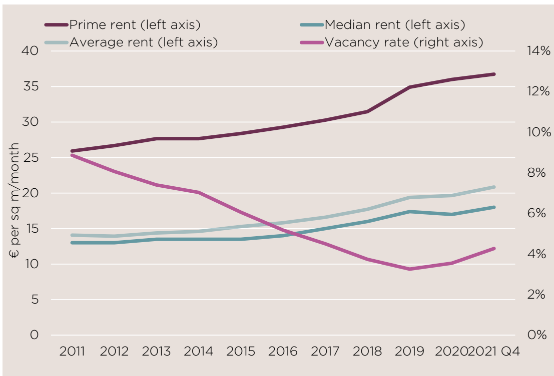
Source Savills

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