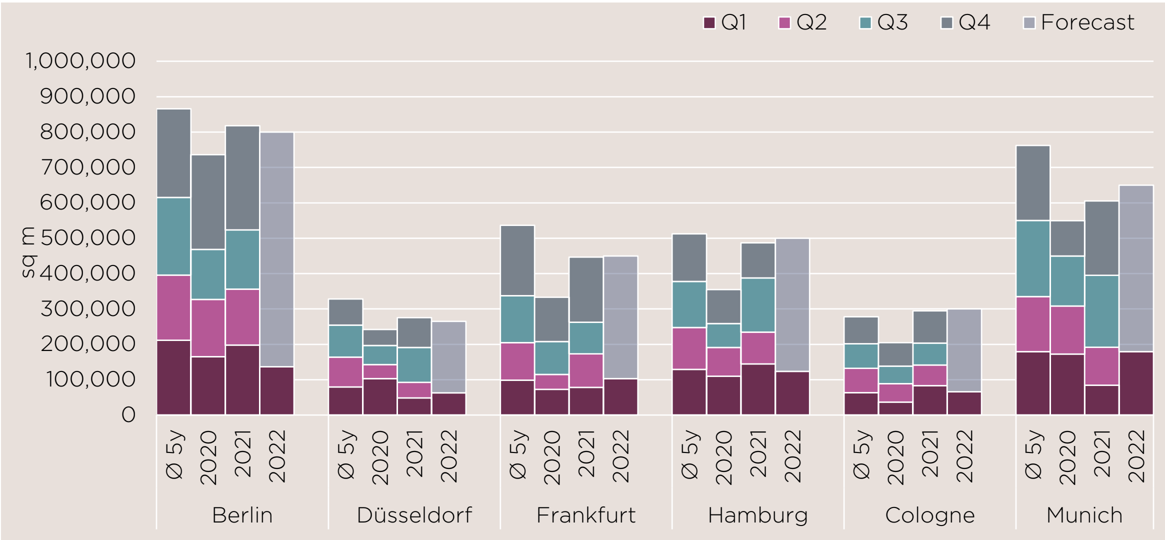
Germany Office Letting – April 2022

Top 6 Office Markets

savills

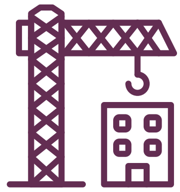
Graph 1: Take-up in the top 6 markets



Source Savills / Note: Ø5y = average last 5 years

Focus on selected figures

4.5%
The vacancy rate in the top six office markets stands at 4.5%, which is the highest level for more than four years.



2.2 million sq m
The completion volume this year is expected to come in at almost 2.2 million sq m. This would be the highest figure for twenty years.

More demand, more supply

The six largest German office letting markets fundamentally continue to recover from the shock of the pandemic two years ago. However, the environment has become more challenging for both owners and occupiers. The bare figures read as follows. Take-up totalled around 670,000 sq m, which was 5% higher than in the corresponding quarter last year. This covered a spectrum from a doubling of investment volume in Munich to a decline of one third in Berlin. Vacancy rates rose moderately further in most markets, with only those in Hamburg and Cologne remaining unchanged in the last three months. Overall, the vacancy rate has risen by 30 basis points to 4.5% since the end of last year. Both prime and average rents remained unchanged. While there were notable individual increases (Munich) and decreases (Cologne), stagnation prevailed in most markets. The expected completion volume for this year totals almost 2.2 million sq m, which would be almost 700,000 sq m or 45% more than in 2021.

Even if demand is increasingly rising according to our observations, it remains the case that large companies are the most reticent. The general trend is that, the larger the company, the more question marks there are in terms of future space requirements. This is no doubt also related to the fact that the increased geographical flexibility in working has far-reaching consequences for larger organisations and the

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 22	against Q1 21	Q1 22	against Q4 21	Q1 22	against Q4 21	Q1 22	against Q4 21	Q1 22	against Q4 21
Berlin	136,600	-31.1%	2.7	+20bps	44.00	+0.7%	25.00	+/-0%	27.80	+/-0%
Düsseldorf	63,100	+29.3%	7.5	+40bps	28.50	+/-0%	16.00	+/-0%	17.00	+/-0%
Frankfurt	103,300	+32.1%	8.0	+50bps	48.00		18.00	-2.7%	22.30	+1.8%
Hamburg	123,600	-14.6%	3.9	+/-0bps	31.25	+/-0%	16.00	+3.2%	18.10	+/-0%
Cologne	66,200	-20.7%	3.0	+/-0bps	25.00	-5.7%	15.00	-6.3%	17.20	-2.3%
Munich	179,400	+112.0%	4.4	+40bps	42.50	+/-0%	21.00	+5.0%	23.15	+2.0%
Top 6	672,200	+5.4%	4.5	+30bps	36.54	-0.5%	18.50	+2.5%	20.93	+0.4%

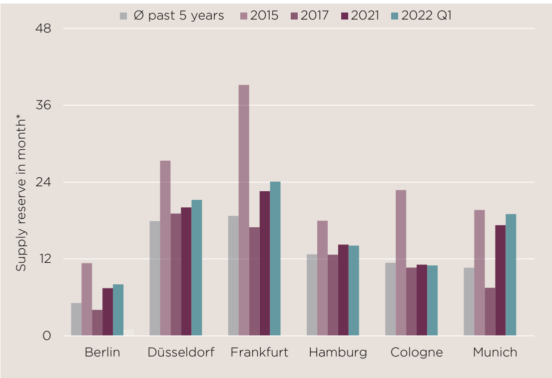
Source Savills / * The median rent is the average rent across all letting transactions. Hence, 50% of all lettings lie above the median rent and 50% lie below it. When calculating the median rent, the size of the space in each letting is not factored into the weighting.

transformation process is, therefore, more complex and time-consuming than it is for small and medium-sized companies. For major companies who already have clarity regarding their future space requirements, it is becoming increasingly clear that they are planning to occupy less space per employee than prior to the pandemic. We can now observe this across all markets and, to some extent, in completed lettings. From our perspective, there is more and more evidence to suggest that the pandemic effect can be described most accurately as ‘less space but higher quality’. At least among large companies, office demand per capita appears to have declined overall since the pandemic, while demands on the quality of space and location have increased. The changing requirements are resulting in an increase in vacant office space, albeit the wrong space from many occupiers’ perspectives. This, in turn, is increasing pressure on owners to invest in their space.

Overall, from our perspective, the indications are for the remainder of the year and possibly beyond that, while the environment will remain landlord-friendly, competition on the provider side will intensify. Demand and willingness to pay for high-quality office space has possibly never been higher than at present and, in view of increased requirements, such space is likely to remain scarce for the foreseeable future. For space outside of the top segments, on the other hand, the market situation is likely to see increasing relief from an occupier’s perspective. We consider it very difficult to make any quantitative projections on either the supply or demand side in the current environment. The Ukraine crisis is placing stress on the German economy and the uncertainty surrounding the crisis is already resulting in instances of postponed letting or relocation decisions. We currently expect a total annual take-up of approx. 3 million sq m and, hence, a marginal increase on last year’s figure. On the supply side, too, there are numerous factors that make projections difficult. In particular, the combination of rising interest rates and construction costs could result in planned development projects being abandoned or at least deferred. This would have no impact this year but would reduce the pipeline for the coming years, with 2 million sq m of completed office space currently expected in both 2023 and 2024.

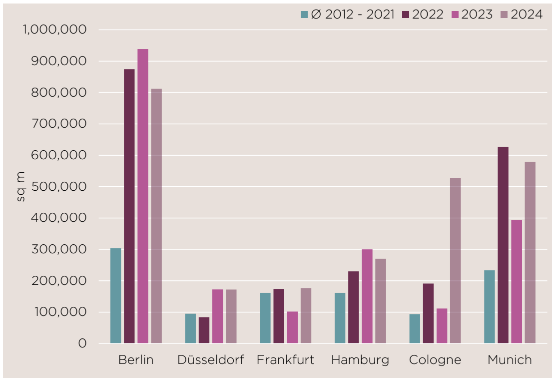
Download the charts and raw data here

Graph 2: Supply reserve



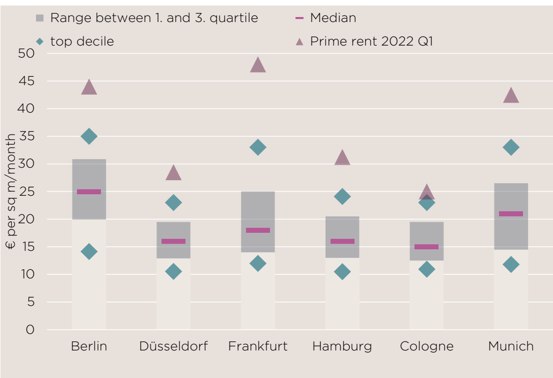
Source Savills / relation between supply (= current vacancy rate) and demand (= average space take-up over the last 3 years)

Graph 3: Pipeline



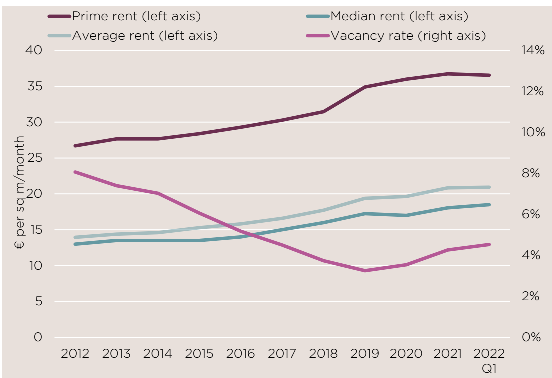
Source Savills

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

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