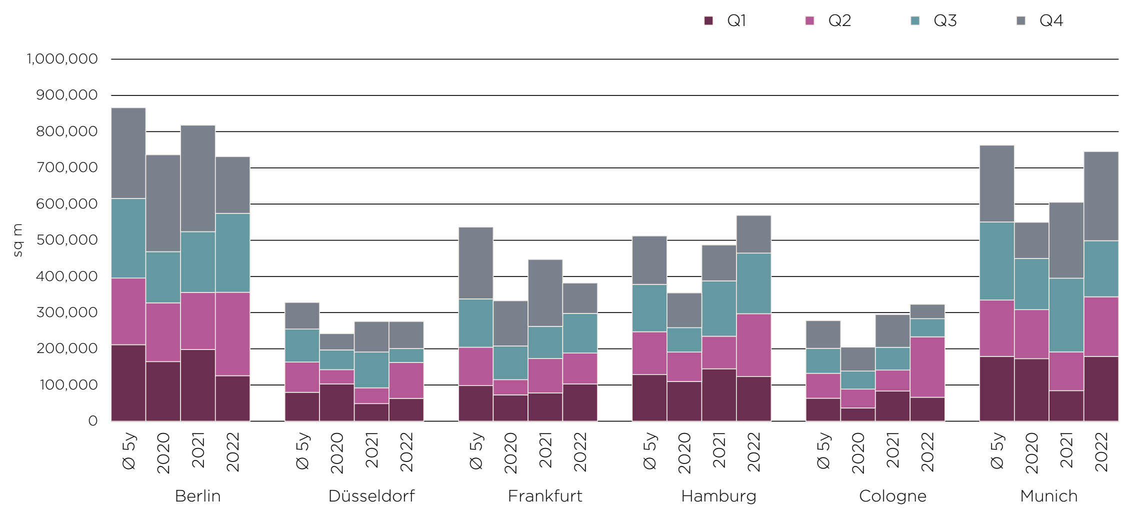
Germany Office Letting – January 2023

Top 6 Office Markets

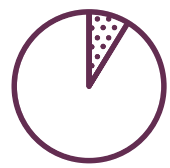
savills

Graph 1: Take-up in the top 6 markets

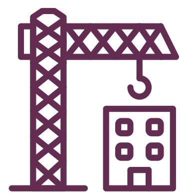


Source Savills / Note: Ø5y = average last 5 years

Focus on selected figures



3%
The share of manufacturing companies in take-up last year was only 3%. The 5-year average is 11%.



2 million sq m
Almost 2 million sq m of office space is expected to be completed this year. This would be the highest volume of completed space in twenty years.

Emptier and yet more expensive

As expected, the top 6 office letting markets lost momentum in the final quarter of 2022. Nevertheless, take-up for the year as a whole was just above the previous year's level. Take-up of a good 3 million sq m represents a 3% increase in take-up compared to 2021. Vacancy rates and rents also saw an upward trend. The vacancy rate climbed by 0.5 percentage points over the course of the year to an average of 4.8%, while the absolute vacancy rate rose by a good 400,000 sq m or 12%. Prime rents rose by an average of 7%, median and average rents even more strongly at 11% and 8% respectively. Against the background of the uncertain economic environment, many occupiers have become noticeably more cautious in their leasing decisions and some have postponed their space requests for the time being. Large companies in particular are acting more cautiously. But when the decision is made to move to a new office space, this is usually accompanied by increased demands on the property or the location – often even both. While the qualitative demands on offices are increasing, the quantitative demand is decreasing. It is now unmistakable that it is precisely the large occupiers who are planning with a sometimes significantly lower per head office space requirement.

Tenants are becoming more cautious, landlords are granting more incentives

According to our observation, the greater caution of office

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 2022	y-o-y change	2022 Q4	q-o-q change	2022 Q4	q-o-q change	2022 Q4	q-o-q change	2022 Q4	q-o-q change
Berlin	730,800	-10.6%	3.1	+20bps	45.00	+/-0%	26.45	+1.7%	27.23	-1.4%
Düsseldorf	275,800	+0.1%	7.9	+20bps	33.50	+11.7%	16.50	+1.2%	19.45	+5.7%
Frankfurt	381,800	-14.5%	8.3	+/-0bps	48.00	+/-0%	18.50	+2.8%	23.00	+/-0%
Hamburg	568,600	+16.8%	3.7	+/-0bps	34.00	+/-0%	18.50	+5.7%	20.90	+1.0%
Cologne	323,000	+9.6%	3.0	+/-0bps	28.90	+1.4%	15.00	+/-0%	17.80	+2.3%
Munich	744,900	+23.1%	4.8	+10bps	45.50	+2.2%	22.40	+1.8%	25.00	+2.0%
Top 6	3,024,900	+3.4%	4.8	+10bps	39.15	+2.1%	20.00	+/-0%	22.23	+1.3%

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.

occupiers is also reflected in an increasing number of lease extensions. Since landlords are inclined to keep their existing tenants in the property in the current market environment, they are granting them renewal offers, some of which are very attractive. In general, the willingness of landlords to grant incentives to their (potential) tenants has increased. Nevertheless, most occupiers are confronted with rising space costs. The often higher nominal rents are compounded by the massive increase in energy costs. This is also a major driver for the increasing number of subleases we are seeing in the market.

Properties with a low energy standard are in danger of falling structurally vacant

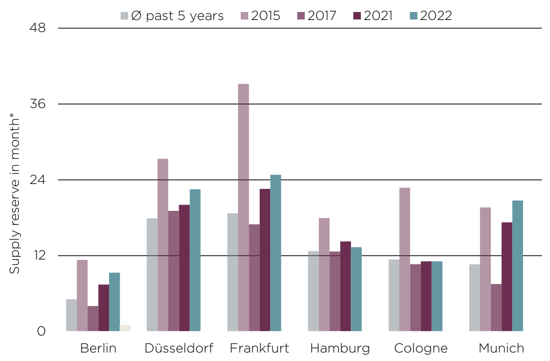
The rising energy costs are also being felt by the landlords, especially those of office properties with low energy standards. According to our observations, such properties are becoming increasingly difficult to let. It is possible that a considerable part of the currently unrented office space will become vacant if it is not upgraded in terms of energy efficiency and also upgraded to meet the changed user requirements. In any case, the rent differential between Grade A and Grade B and C office space will become steeper.

Economy weighs on the markets this year

The negotiating position of tenants is likely to improve further in the course of 2023. Although the economic outlook has brightened recently, a recession is still considered inevitable. Without exception, all recessions in the last thirty years have been accompanied by a decline in take-up on the major office markets. Against this backdrop, we also anticipate a decline in take-up in 2023 compared to the previous year, although it is likely to be in the low double-digit percentage range at most and thus moderate. At the same time, the volume of completed space will reach its highest level for many years at just under 2 million sq m and vacancies will continue to rise in our estimation. In view of rising supply and falling demand, downward pressure on rents will increase. Away from the modern office segment, we expect rents to fall in 2023. The prime segment may be able to escape this development against the backdrop of increased qualitative and energy requirements of the occupiers. However, even in the event that nominal rents fall, office space will remain scarce from the point of view of most occupiers and will tend to become even more expensive, as high inflation will offset any savings in cold rent through higher costs elsewhere.

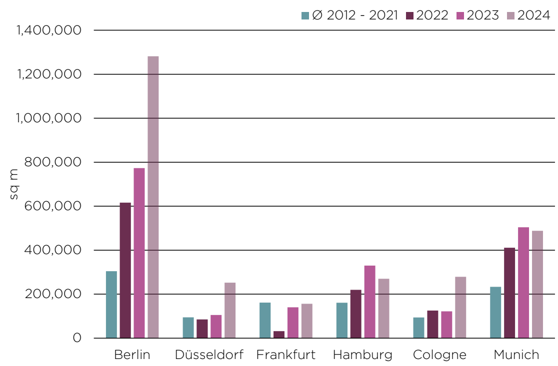
Download the charts and raw data here

Graph 2: Supply reserve



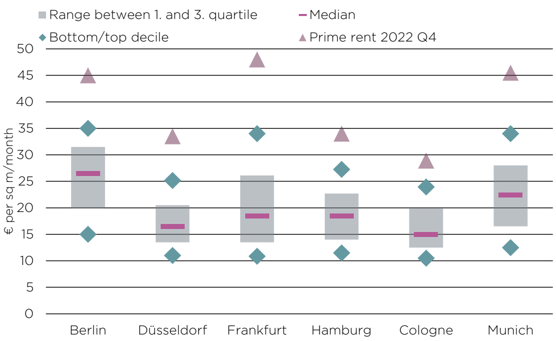
Source Savills / relation between supply (= current vacancy rate) and demand (= average space take-up over the last 3 years)

Graph 3: Pipeline



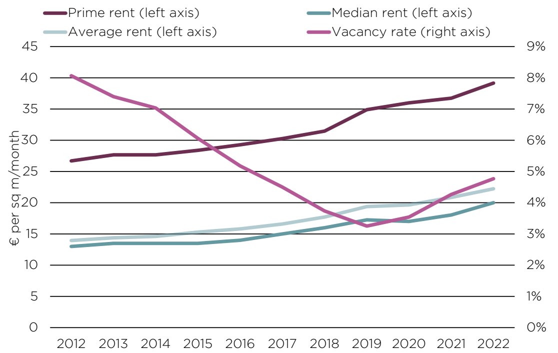
Source Savills

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