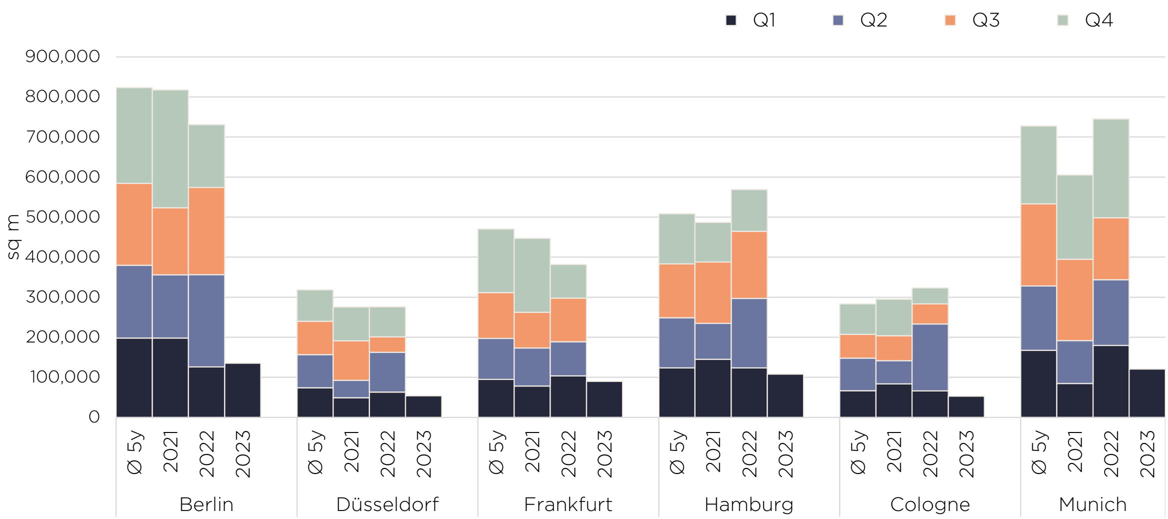
Top 6 Office Markets

savills

Graph 1: Take-up in the top 6 markets



Source Savills / Note: Ø5y = average last 5 years

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€40/sq m

For the first time ever, the top rent on average in the top 6 markets exceeded the €40/sq m mark.

15 %

Management consultancies and companies in the information and communications sector each accounted for 15% of take-up in the last twelve months. The average for the last five years was only 11% and 12% respectively.

Falling take-up, rising rents

While take-up in the top 6 office letting markets continued to decline in Q1 2023, rents continued to rise. A take-up of approx. 560,000 sq m represents a decline of 15% compared to the same quarter last year. Prime and average rents rose by 2% and 5% respectively on average across all six markets in the last three months. The vacancy rate remained unchanged at 4.8 %. Beyond the numbers, this means that the market environment is challenging for owners and occupiers alike. Many owners, for example, are faced with increasing demands from occupiers and have to upgrade their space accordingly to remain competitive - and this with drastically increased development costs. Owners of Grade C buildings, especially in less attractive locations, suffer from rising vacancies. Occupiers, in turn, are burdened by rising rents and ancillary costs, and many are still in the process of managing the transformation to the post-Corona working world and defining their future office space needs.

New build space in central locations in focus for occupiers

The fact that rents continued to rise is probably largely due to the ongoing focus of many occupiers on higher-quality space and, above all, on attractive locations. For many large companies in particular, there seems to be almost no alternative to new-build space. The fact that usually only such spaces have sustainability certification also plays a role

Table 1: Office market indicators at a glance

	TAKE-UP (sq m)		VACANCY RATE (%)		PRIME RENT (EUR/M²/MONTH)		MEDIAN RENT* (EUR/M²)		AVERAGE RENT (EUR/ M²/MONTH)	
	Q1 23	Y-O-Y CHANGE	Q1 23	Q-O-Q CHANGE	Q1 23	Q-O-Q CHANGE	Q1 23	Q-O-Q CHANGE	Q1 23	Q-O-Q CHANGE
BERLIN	135,000	+7.2%	3.3	+20bps	45.00	+/-0%	26.50	+1.9%	28.10	+3.2%
DÜSSELDORF	54,000	-14.4%	8.0	+10bps	38.00	+13.4%	17.00	+3.0%	21.10	+8.5%
FRANKFURT	89,700	-13.2%	8.2	-10bps	44.00	-8.3%	19.50	+4.0%	25.60	+11.3%
HAMBURG	108,000	-12.6%	3.7	+/-0bps	34.00	+/-0%	18.50	+/-0%	20.90	+/-0%
COLOGNE	53,000	-19.9%	3.0	+/-0bps	34.00	+17.6%	16.50	+10.0%	18.70	+5.1%
MUNICH	120,700	-32.7%	4.8	+/-0bps	45.50	+/-0%	21.40	-2.7%	25.00	+/-0%
TOP 6	560,400	-15.3%	4.8	+/-0bps	40.08	+2.4%	20.00	+/-0%	23.23	+4.5%

Source Savills

and can even be decisive. In our observation, a move to a better location often goes hand in hand with a reduction in office space because the space requirements of many users have decreased against the background of mobile working. Although some users pay significantly higher rents per square metre after moving to a better location, they may still be able to manage with their previous budget due to the reduction in space. Large companies in particular no longer cover their office space needs exclusively with their own office space, but often supplement this with flexible workspaces.

Substantial shadow vacancy due to underutilised offices

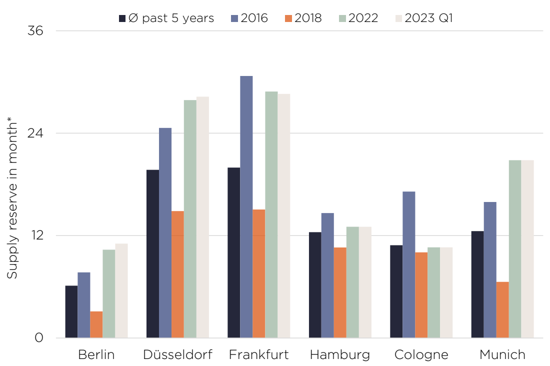
While central locations are enjoying rising demand, vacancies in peripheral locations are increasing. Older, energy-inefficient spaces in particular are finding it increasingly difficult to find occupiers here. All office locations, whether peripheral or central, are probably confronted with another type of vacancy. Even three years after the start of the pandemic, many offices are far from being fully occupied. The limited data available suggests that occupancy is below 50% on average for all offices. These half-empty offices do not show up in the vacancy statistics and remain invisible to them. In fact, however, the persistently low occupancy of many offices is likely to have built up a shadow vacancy that will materialise over the next few years. One indication of this is the sharp rise in the volume of space for subletting, which we have registered above all in Berlin.

Space completion peak ahead

It is not only the increase in space for subletting that is likely to cause vacancies to rise over the rest of the year. In the next two years the peak of the completion cycle will be reached in many markets. On the one hand, this high volume of space completions helps to reduce the surplus demand in the modern space segment, but on the other hand it is likely to ensure that the supply of office space initially grows faster than demand and that vacancy rates rise accordingly. Even if the market remains owner-friendly overall, the negotiating position of occupiers should improve over the course of the next two years. We are already noticing that incentives are being granted more frequently and many owners want to retain their existing tenants for as long as possible.

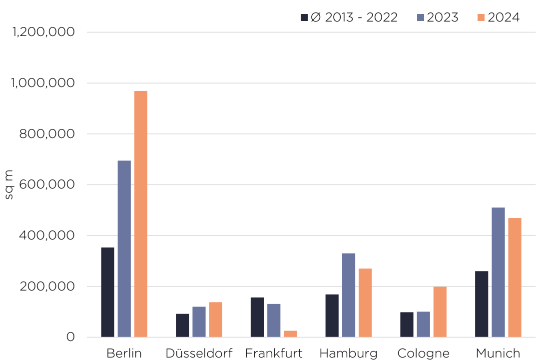
Download the charts and raw data here r

Graph 2: Supply reserve



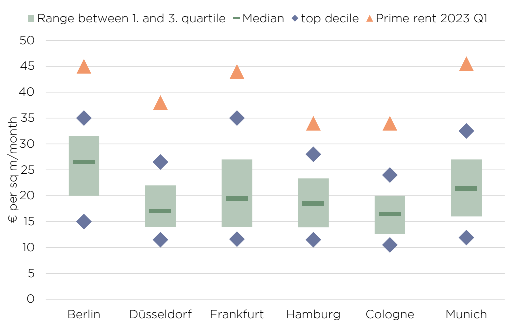
Source Savills / relation between supply (= current vacancy rate) and demand (= average space take-up over the last 3 years)

Graph 3: Pipeline



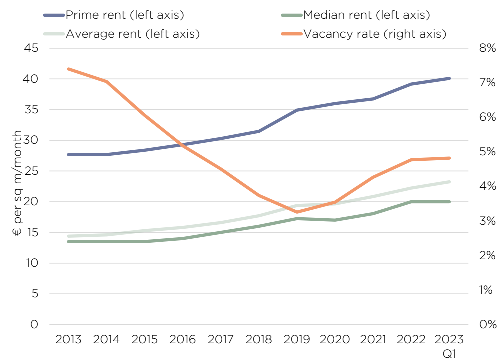
Source Savills

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 valu

Graph 5: Development of rents and vacancy



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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