MARKET IN MINUTES

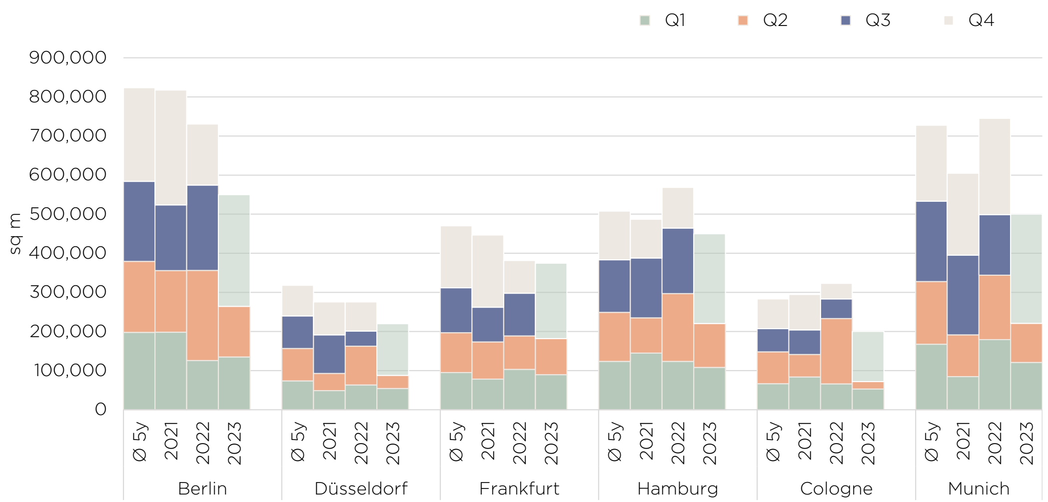
Savills Research

Germany Office Letting - July 2023

Top 6 Office Markets

savills

Graph 1: Take-up in the top 6 markets



Source Savills / Note: Ø5y = average last 5 years

Without momentum

For a long time, office markets were remarkably robust in the face of many stress factors, such as the pandemic, inflation and recession. However, it is now becoming increasingly clear that hybrid working has permanently changed the office world and that the demand for office space has structurally declined due to the establishment of working from home. The decline in demand for space in the top six office letting markets, which has already been observed since last autumn, accelerated in Q2 2023. A take-up of around 486,000 sq m between April and June is tantamount to one of the weakest quarters in terms of take-up in recent years.

Large offices shrink

Take-up in H1 2023 was at around 1.05m sq m, a third lower than H1 last year. The decrease affected all markets. One reason for the decline is the low number of lettings in the large-space segment. Leases of 10,000 sq m or more were particularly rare: only 0.3% of all lettings were in this size segment. On average over the last ten years, this share was approx. 1.0%, i.e. about three times higher. In our opinion, the unusually low number of large lettings is probably due to two main reasons: Firstly, large companies in particular are reluctant to take on space due to the difficult and uncertain economic environment and shy away from additional costs, such as relocation costs. Secondly, the space-saving

FOCUS ON SELECTED FIGURES

1 of 300

Only one out of about three hundred lettings in the year to date has been in the size category of 10,000 sq m or more. In the last ten years the proportion was three times as high.

5 %

For the first time in six years, the vacancy rate in the top six exceeded the 5% mark. A further increase is foreseeable.

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 - Q2 2023	Y-O-Y CHANGE	Q2 23	Q-O-Q CHANGE	Q2 23	Q-O-Q CHANGE	Q2 23	Q-O-Q CHANGE	Q2 23	Q-O-Q CHANGE
BERLIN	264,200	-26%	3.9	+60bps	45.00	+/-0%	26.50	+/-0%	28.00	-0.4%
DÜSSELDORF	87,600	-46%	7.9	-10bps	38.00	+/-0%	17.00	+/-0%	21.05	-0.2%
FRANKFURT	181,800	-4%	8.7	+50bps	44.00	+/-0%	20.00	+1.3%	24.17	-5.6%
HAMBURG	220,400	-26%	3.7	+/-0bps	34.00	+/-0%	18.50	+/-0%	21.50	+2.9%
COLOGNE	71,700	-69%	3.2	+20bps	34.50	+1-5%	16.50	+/-0%	18.45	-1.3%
MUNICH	220,700	-36%	4.9	+10bps	49.75	+9.3%	21.80	+1.4%	25.00	+/-0%
TOP 6	1,046,400	-34%	5.1	+20bps	40.88	+2.0%	20.15	+0.8%	23.03	-0.9%

Source Savills

potential associated with mobile working tends to be greater the larger the office. In a sense, the typical corporate office has shrunk. While the first cause is temporary, the second is structural and could lead to large leases playing a lesser role in the future.

Rental growth becomes the exception

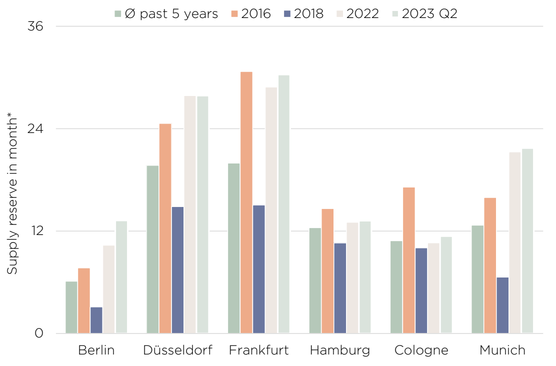
The fact that the space requirements of many companies are structurally lower in the new world of work also contributes to the continuing rise in vacancies. Across all top 6 markets, the vacancy rate rose by 0.2 percentage points, exceeding the 5% mark for the first time since 2017. The absolute vacancy rate has increased by two-thirds since its last low before the start of the pandemic to approx. 4.4m sq m. Parallel to this, rents have also risen so far because companies' demands in terms of location and space quality have been higher since the pandemic in an effort to attract their employees to the office. In the last three months, however, rising rents have only been observed in isolated cases. The average rent fell in four of the six markets in the second quarter compared to the previous quarter. Across all markets, the decline was just under 1%. The prime rent rose by 2% compared to the first quarter, but mainly due to a very strong increase in Munich. In four markets it also did not rise further for the time being. At the same time, we are observing rising incentives, so that the achievable effective rents are likely to have fallen for the most part in recent months.

Outlook: Falling average rents and more structural vacancies

In view of the fact that demand for space is likely to remain low for the time being while completion volumes remain high, we assume that at least rents outside the top segment are likely to come under pressure from now on. It remains to be seen to what extent prime rents will be able to decouple themselves from this. However, the growth momentum will also slow down here, especially since the completion volume will be above average until 2025 and the pre-letting rates are still quite low. This will affect space in less attractive locations in particular. Here, demand has already declined noticeably, especially for low-quality space. Since upgrading these spaces is often not economically viable for many landlords, the question of a suitable subsequent use will arise here sooner or later.

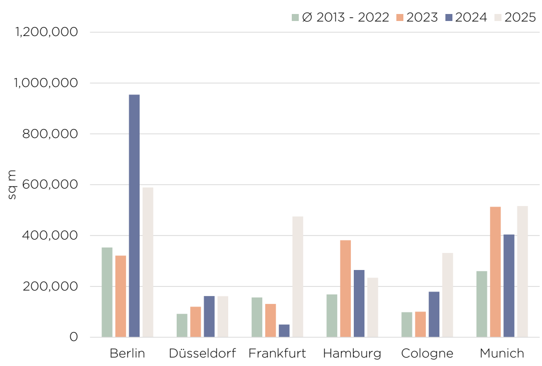
Download the charts and raw data here

Graph 2: Supply reserve



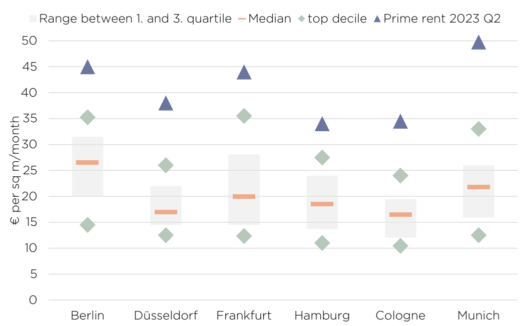
Source Savills / relation between supply (= current vacancy rate) and demand (= average space take-up over the last 3 years)

Graph 3: Pipeline



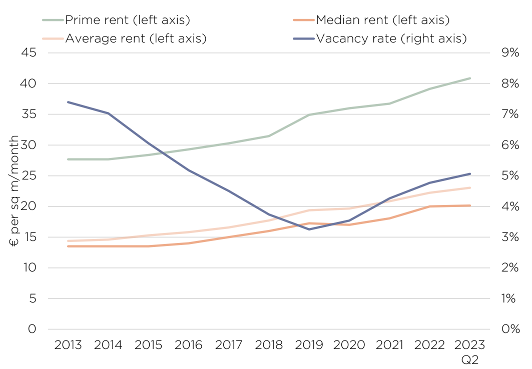
Source Savills

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

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