Germany Office Letting - April 2024

MARKET IN MINUTES
Savills Research

Top 6 Office Markets

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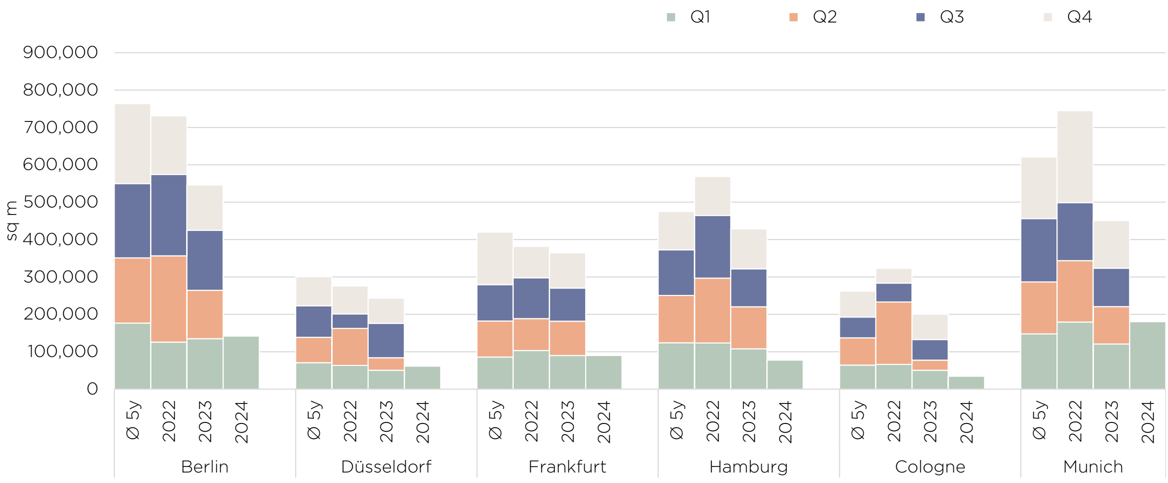
Graph 1: Take-up in the top 6 markets



Source Savills / Note: Ø5y = average last 5 years

Competitive market for landlords opens up opportunities for tenants

After the office lettings markets have faced numerous challenges over the past three years, more occupiers appear to be looking for new space again since the beginning of this year. Since the start of the COVID-19 pandemic, many have extended their leases by three to five years, which are now expiring. There is still uncertainty among occupiers, but for many the time is opportune to look for new space as owners make attractive offers in the face of rising vacancy rates. Tenants continue to focus on high-quality space and improving the location. The associated higher prices per square metre can often be offset by a reduction in space. Most users do this when they relocate. As a result, the overall costs often do not increase.

Demand for office space falls by 5 million sq m due to the shift to hybrid working

The number of lettings could rise again in the medium term, but as occupiers require less space, the overall demand for office space is falling. This is also reflected in the average size of space per rental: between January 2023 and March 2024, an average of around 910 sq m was rented. Between 2018 and 2022, the average figure was 1,060 sq m.

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0.59 million sq m

Take-up in the 1st quarter stabilised at the level of last year's quarterly average. This sideways movement is likely to continue

5 million sq m

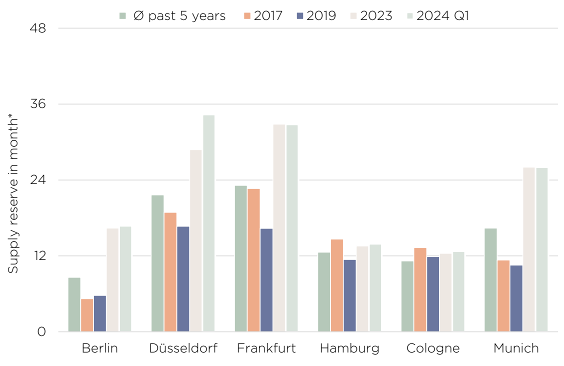
Demand for office space in A-cities will fall by around 5 million sq m in our baseline scenario as a result of the shift towards a hybrid working environment.

Table 1: Office market indicators at a glance

	TAKE-UP (sq m)		VACANCY RATE (%)		PRIME RENT (EUR/ SQ M/MONTH)		MEDIAN RENT (EUR/SQ MONTH)		AVERAGE RENT (EUR/ SQ M/MONTH)	
	Q1 2024	Y-O-Y CHANGE	2024 Q1	Q-O-Q CHANGE	2024 Q1	Q-O-Q CHANGE	2024 Q1	Q-O-Q CHANGE	2024 Q1	Q-O-Q CHANGE
BERLIN	142,000	5.2%	4.5	+10bps	47.00	+/-0%	26.00	-1.9%	28.10	-1.6%
DÜSSELDORF	61,400	22.1%	7.9	-30bps	42.00	5.00%	16.50	-2.9%	20.85	-2.1%
FRANKFURT	90,000	0.3%	9.7	+/-0bps	45.00	+/-0%	20.00	+/-0%	23.05	-2.9%
HAMBURG	77,700	-28.1%	4.0	+10bps	35.50	4.40%	20.40	4.6%	21.50	+/-0%
COLOGNE	34,200	-32.1%	3.6	+10bps	29.00	-14.50%	16.50	-2.7%	18.25	-6.4%
MUNICH	180,500	49.6%	5.5	+/-0bps	50.25	1.00%	21.15	0.7%	23.75	-3.1%
TOP 6	585,800	5.7%	5.7	+20bps	41.46	-0.40%	20.35	-0.7%	22.58	-2.6%

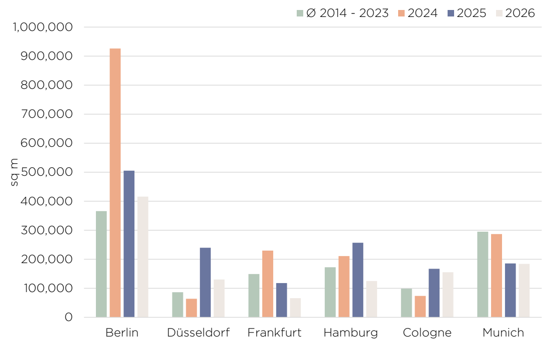
Source Savills

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

In a scenario analysis we have calculated that demand for office space in Germany's A-cities will fall by around two to fifteen million square metres as a result of the shift towards hybrid working. In our most likely scenario, the demand for office space will shrink by five million square metres. Although this does not threaten to destabilise the office markets, individual submarkets will be disproportionately affected. For example, the large office space segment is likely to become less important.

Owners offer additional incentives

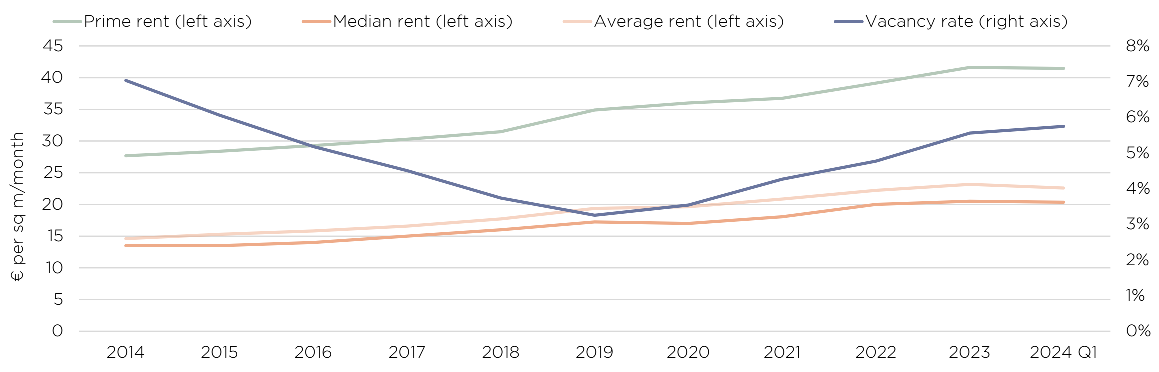
In the 1st quarter of 2024, take-up amounted to 585,800 sq m, slightly above the quarterly average of 558,000 sq m in the previous year. Between 2018 and 2022, however, the quarterly average was significantly higher at 783,000 sq m. The lower demand for office space is also having an impact on the vacancy rate: It has been rising since the 2nd quarter of 2020 and has now reached 5.7% on average in the top 6 cities. Rents have been relatively robust so far and this still applies to prime rents. Although they fell by 0.4% on average in the top 6 cities compared to the previous quarter, the main reason for this was the sharp drop in Cologne (- 14.5%). In the other five cities, prime rents remained at least stable. Average rents, on the other hand, fell by an average of 2.6% compared to the fourth quarter of 2023. Effective average rents are also likely to have been declining for some time due to rising incentives. Many landlords are more willing to negotiate given the market situation. Even landlords of new buildings are more willing to offer shorter lease terms. In addition to building cost subsidies and rent-free periods, subsidies that are not tied to a specific purpose are also being granted again. Owners are also observed to be more open to alternative uses such as hospitality and serviced accommodation.

Outlook: Stable take-up with increasing number of lettings

In the coming months, the environment for tenants is likely to improve and the number of lettings should also increase. However, overall demand is not expected to increase and the letting market is likely to become more competitive for landlords. Take-up of space is estimated to stabilise at the previous year's level over the course of the year. Despite the expected further increase in vacancies, prime rents could at least remain stable or rise slightly in some cases, as high-quality space will remain in short supply for the time being. The development of average rents remains to be seen. Rising vacancy rates and incentives point to a further decline.

Download the charts and raw data here

Graph 4: Development of rents and vacancy



Source Savills

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