Germany Office Letting - October 2024

MARKET IN MINUTES

Savills Research

Top 6 Office Markets

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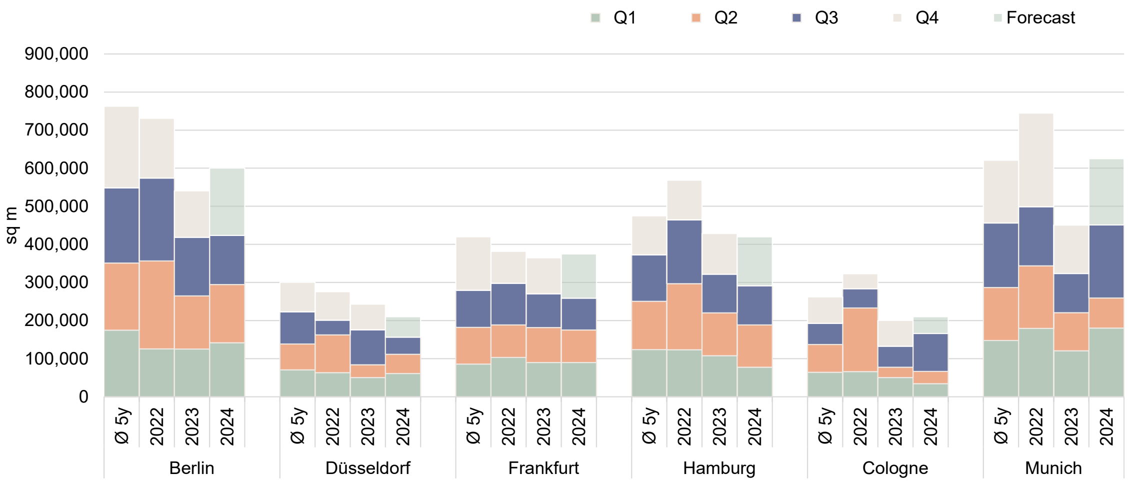
Graph 1: Take-up in the top 6 markets



Source Savills / Note: Ø5y = average last 5 years

Landlords compete for (large) occupiers

Take-up in the top 6 office letting markets has totalled 1.7 million sq m so far this year. This is 22% below the 10-year average. In the third quarter, take-up amounted to 651,380 sq m, up 10% on the same period last year. This quarter thus follows the trend of previous quarters: take-up is higher than last year, but below the long-term average. Two factors are responsible for the below-average take-up. First, the number of transactions so far this year, at approximately 1,810, is lower than the long-term average of 2,420 transactions (2014-2023, Q1-Q3). Secondly, the average transaction size of 950 sq m is under the 10 year average of 990 sq m. So not only are offices being rented less frequently, but tenants are also renting less space.

Average office size decreases

When looking at the traditional letting market, excluding owner occupiers, the reduction in space is even clearer. In the first three quarters of 2024, the average size of lettings was 860 sq m. This is below the 10-year average of 940 sq m and has been declining since 2021. This is partly due to the low level of activity in the over 10,000 sq m segment. With fourteen lettings over 10,000 sq m between January and September 2024, there were more transactions than in the same period of the previous year with seven transactions, but the long-term average of 22 transactions was not reached (2014-2022, Q1-Q3). This is partly due to the economic uncertainty, which is holding back large-scale lettings. However,

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860 sq m

Looking at traditional lettings, excluding owner-occupiers, there has been a trend towards smaller spaces. The average size for the year to date has been 860 sq m, well below the long-term average of 940 sq m.

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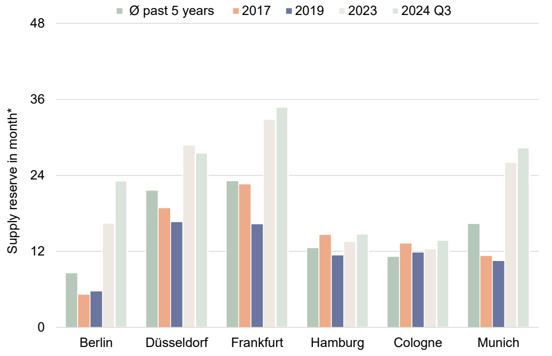
Between the first and third quarters, 14 lettings of over 10,000 sq m were recorded. Competition among landlords is increasing as fewer occupiers are renting large spaces.

Table 1: Office market indicators at a glance

	TAKE-UP (SQ M)		VACANCY RATE (%)		PRIME RENT (EUR/ SQ M/ MONTH)		MEDIAN RENT (EUR/ SQ M/ MONTH)		AVERAGE RENT (EUR/ SQ M/ MONTH)	
	Q1 - Q3 2024	Y-O-Y CHANGE	2024 Q3	Q-O-Q CHANGE	2024 Q3	Q-O-Q CHANGE	2024 Q3	Q-O-Q CHANGE	2024 Q3	Q-O-Q CHANGE
BERLIN	423,400	+1.2%	6.2	+100bps	45.00	+/-0%	25.50	-1.9%	24.90	-10.1%
DÜSSELDORF	156,500	-10.9%	7.8	-10bps	43.50	+2.4%	16.50	+/-0%	20.55	-0.5%
FRANKFURT	258,600	-4.4%	10.3	+30bps	46.00	+2.2%	19.50	-2.5%	24.80	-0.8%
HAMBURG	291,300	-9.4%	4.3	+/-0bps	35.50	+/-0%	20.50	+2.5%	21.50	+/-0%
COLOGNE	166,200	+25.5%	3.9	+10bps	32.60	+9.2%	17.00	+/-0%	18.75	+2.2%
MUNICH	451,300	+39.5%	6.0	+20bps	53.00	+1.9%	22.00	+4.8%	24.80	+5.8%
TOP 6	1,747,300	+6.4%	6.3	+40bps	42.60	+2.3%	20.00	+/-0%	22.55	-1.0%

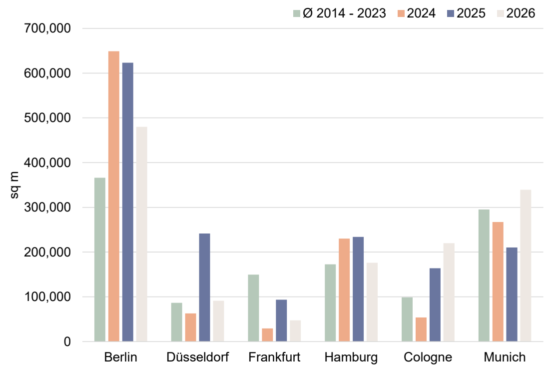
Source Savills

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 our view, this is also due to the fact that the large spaces, in particular, are underutilized as a result of hybrid working, and the companies affected are therefore looking to downsize.

Increasing competition for large occupiers

Occupiers renting large spaces over 10,000 sq m are becoming rarer and for owners seeking to lease out these large spaces, this declining demand is leading to higher competition. As a result, landlords are increasingly trying to entice large tenants to (re)let their space successfully. This is because these owners prefer to lease to a single anchor tenant to avoid the fragmentation of space and the additional work and costs associated with this. Whether this strategy works for everyone remains to be seen. Alternatively, owners could consider offering smaller units of space, thereby accepting fragmentation but avoiding potential vacancies.

Limited number of tenants in the prime segment

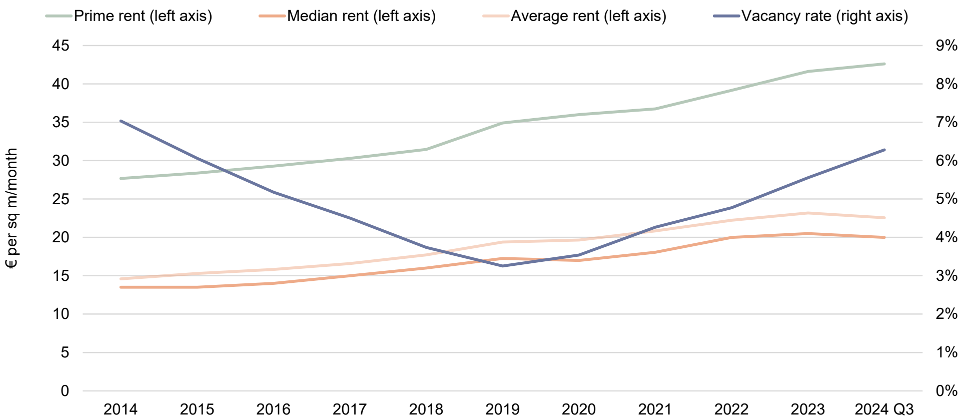
The growing competition among landlords is reflected, among other things, in the continued granting of generous incentives, both for existing properties and for project developments. This is because it is also becoming increasingly challenging to fully let space in new-build projects, especially if they are not located in the centre. In addition to the structurally lower demand for (large) office space, this is also due to the rent levels. Occupiers continue to be very cost-conscious and the number of potential tenants willing or able to pay the high prices is limited. Nevertheless, prime rents have risen by 2.3 % compared to the previous quarter, which is mainly due to higher construction costs. But growth could be limited in the future. Average rents are already coming under pressure and have fallen by -1.0% compared to the previous quarter. At the same time, the vacancy rate in the top 6 cities rose again by 40 basis points, reaching an average of 6.3%.

Outlook: Increasing supply of large spaces while demand falls

As more large occupiers are likely to downsize their office space in the future, the supply of space over 10,000 sq m could continue to increase. At the same time, demand is expected to be lower, which could provide attractive opportunities for large occupiers. Across all size segments, we expect total take-up in 2024 to be slightly above last year's level, based on expected deals in Q4 2024. As vacancy rates are likely to rise further, average rents in particular are assumed to remain under pressure and may even fall in some submarkets.

Download the charts and raw data here

Graph 4: Development of rents and vacancy



Source Savills

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