MARKET IN MINUTES

Savills Research

Germany Office letting – July 2019

Top-6 Office Markets

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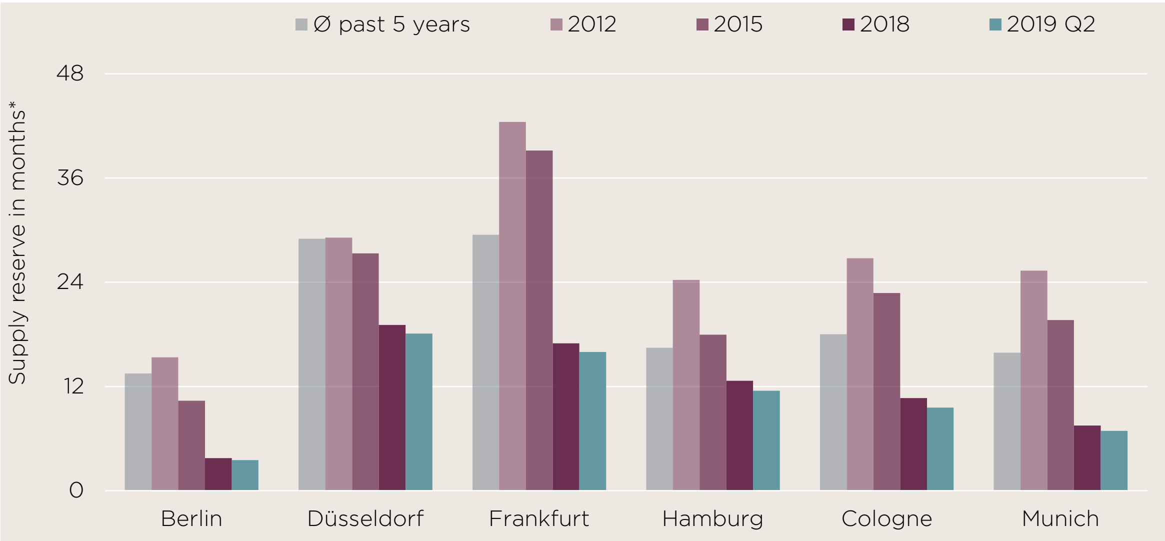
Graph 1: Supply reserve in the top-6 markets



Source Savills / * Ratio of supply (= current vacancy) and demand (= average take-up of past 3 years)

Office markets are defying the economy

The situation in the German office markets remains strained. Current vacancies across the top six markets total 2.9 million sq m of office space, representing a vacancy rate of 3.5%. This is 110,000 sq m, or 10 basis points, lower than at the end of the first quarter. Consequently, the supply reserve (the number of months within which current vacancies would be let) remains marginally below last year's record level in all markets (Graph 1). Berlin has by far the lowest reserve of 3.5 months. Frankfurt and Düsseldorf at least have reserves in excess of a year, with figures of 16 and 18 months respectively. There is a particularly acute supply shortage in the highly sought-after locations such as city centres and B-locations with good infrastructure. Hence, in retail locations in cities, space on upper floors that has been used by retailers to date is now being converted to office space. This is a logical consequence of two opposing trends. On the one hand, brick-and-mortar retail is having to contend with declining revenues, which makes retail space above the ground floor difficult to exploit. On the other hand, office space is particularly scarce in central locations and rents on such space are witnessing significant growth. However, such conversions can only resolve the supply shortage to a limited degree.

Even the appreciable deterioration in the economy and the threat of a recession on the horizon have not produced a collapse in demand to date. Take-up rose across all markets,

Focus on selected figures

+66%

The prime rent in Berlin has increased by two thirds over the last five years from €22.00 in mid-2014 to its current level of €36.50.

262,000 sq m

In Hamburg, there have been 10 transactions (lettings and owner occupiers) for more than 10,000 sq m, totalling 262,000 sq m, over the last 12 months. This is the highest figure across all top six cities.

Table 1: Office market indicators at a glance

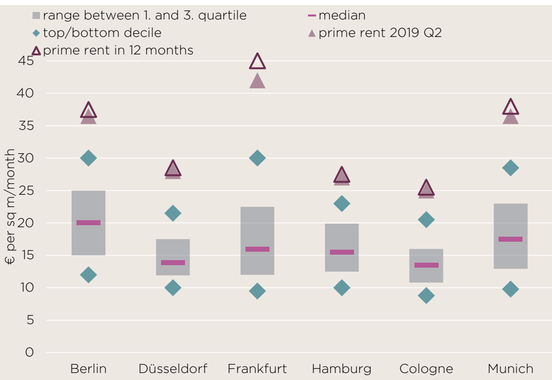
	Take-up (sq m)				Vacancy rate (%)		Prime Rent (€ per sq m/month)		Average Rent (€ per sq m/month)	
	H1 19	against H1 18	Q3 18-Q2 19	against Q2 18 - Q1 19	Q2 19	against Q1 19	Q2 19	against Q1 19	Q2 19	against Q1 19
Berlin	454,300	+2.9%	927,300	+0.9%	1.4	-10bps	36.50	+1.1%	24.40	+4.7%
Düsseldorf	211,500	+22.3%	370,500	+4.7%	6.5	-30bps	28.00	+1.8%	16.35	+2.2%
Frankfurt	265,700	+4.2%	628,700	+10.7%	6.6	-20bps	42.00	+3.7%	20.50	+2.5%
Hamburg	309,000	+46.0%	692,600	+11.6%	4.0	-20bps	27.00	+1.9%	15.80	+2.6%
Cologne	142,700	+8.6%	318,200	-3.2%	3.5	-10bps	25.00	+0.4%	15.20	+1.3%
Munich	369,300	-13.4%	925,700	-2.1%	2.2	+/-0bps	36.50	+/-0%	18.90	+/-0%
Top 6	1,752,500	+6.9%	3,863,000	+3.4%	3.5	-10bps	32.50	+1.6%	18.53	+2.3%

Source Savills

with the exception of Munich, and in some cases significantly (Table 1). By the end of the year, take-up in the individual markets should be close to last year's totals, while Berlin and Düsseldorf are even likely to show modest increases. Rental levels increased sharply, with prime rents rising by 1.6% to €32.50 per sq m, and the direction of rental growth is unlikely to change materially over the coming 18 months. While the completion volumes of 1.3 million sq m in 2019 and 2.0 million sq m in 2020 mean that significantly more new office space will come to the market than the 10-year average (0.95 million sq m), the majority of this space is already pre-let. Completion volumes across all markets will exceed the 10-year average during the three years up to and including 2021, with Berlin standing out significantly with completion figures of approximately 800,000 sq m in both 2020 and 2021. Hamburg and Munich will also see significant increases (Graph 3). However, the pre-letting rate across the markets for 2019 to 2021 ranges between 60% (Düsseldorf) and 72% (Frankfurt). Berlin is an exception in this case once again. The pipeline in the capital until the end of 2021 totals just over 2 million sq m, of which 44% is pre-let. However, the majority of the space remaining available will not be completed until 2021. The pre-letting rates for 2019 and 2020 are significantly higher at 77% and 53% respectively. However, this will not inevitably produce an oversupply since the supply shortage in Berlin is particularly acute with a vacancy rate of 1.4% (= 280,000 sq m). The growth prospects in the German capital are also very positive (Table 2). With GDP growth of 2.1% over the coming twelve months and a projected increase in the number of office employees of more than 14,000, demand for office space will remain strong.

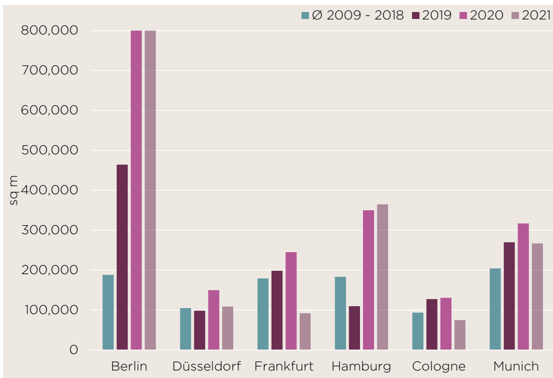
Since demands can be expected to remain consistently strong despite the dip in the economy, there is no relief to the strained market situation in sight for tenants for the time being. For more and more occupiers, therefore, extending their leases on their existing space is a sensible option, provided that this space continues to meet their requirements in terms of size and fit-out. Tenants seeking new space, meanwhile, should allow for a prolonged search. On the other hand, expanding the search to B-locations with good infrastructural connections and local amenities in the immediate vicinity can increase the selection of leasing options. Fundamentally, however, competition among potential tenants will remain strong over the coming 18 months.

Graph 2: 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 3: Pipeline



Source Savills

Table 2: Development of office market indicators in the next 12 month

	Prime Rent	Vacancy rate	Office space	GDP growth	Office employees
Berlin	+2.7%	-10bps	+1.8%	+2.1%	+14,200
Düsseldorf	+1.8%	-20bps	+0.8%	+1.4%	+2,800
Frankfurt	+7.1%	-60bps	+1.1%	+1.6%	+3,300
Hamburg	+1.9%	-30bps	+0.3%	+1.5%	+4,400
Cologne	+2.0%	-30bps	+1.2%	+1.4%	+3,800
Munich	+4.1%	-50bps	+0.7%	+1.9%	+8,100
Top 6	+3.6%	-36bps	+1.0%	+1.5%	+36,400

Source Savills , Oxford Economics / Note: office employees = only sectors in which a proportion of office employees of more than 50% is assumable

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