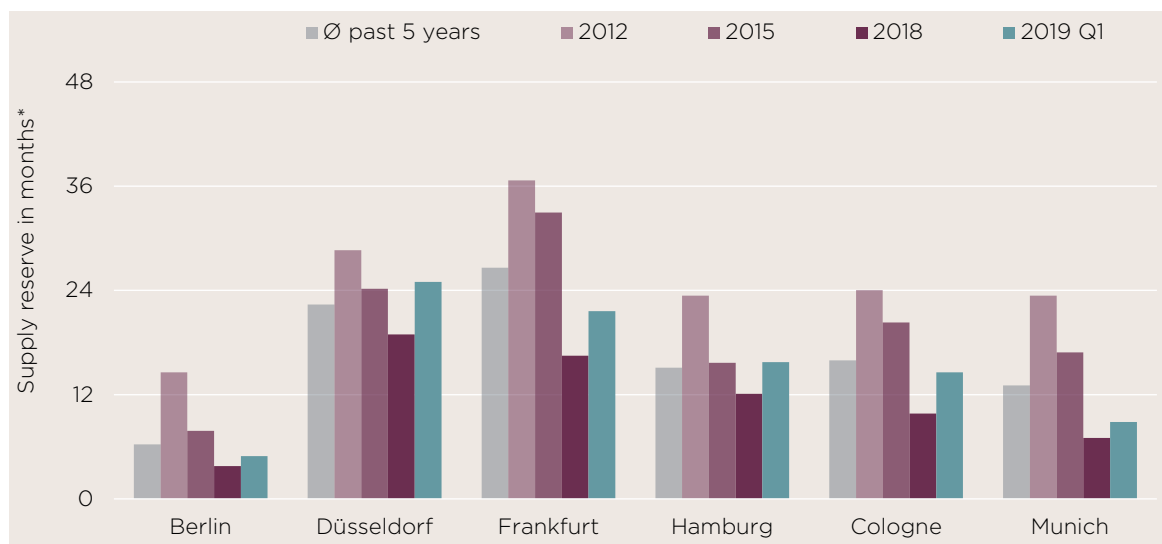


# Top-6 Office Markets



Graph 1: Supply reserve in the top-6 markets



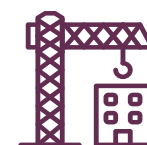
Source Savills / \* Ratio of supply (= current vacancy) and demand (= average take-up of past 3 years)

## Focus on selected figures



### 2.5%

Providers of flexible workspaces leased approximately 21,000 sq m of office space in top six markets in the first quarter of 2019, representing 2.5% of the overall take-up (2018: 4.2%).



### 790,000 sq m

In Berlin, 790,000 sq m of new office space is scheduled to come to the market next year. The last time the Berlin office market grew by more than 700,000 sq m was in 1997.

## Supply is scarce, the pipeline is growing

The deteriorating economic outlook had no noticeable impact on the performance of the German office markets in the first quarter of 2019, with the familiar contrast of high demand meeting with low supply. Accordingly, the top six office markets continue to be characterised by declining vacancy rates and rising prime rents (Table 1).

This is impressively demonstrated in Hamburg and Cologne. Take-up in both cities significantly exceeded that in the corresponding quarter last year by almost 24% and 36% respectively, despite low vacancy rates of 4.2% and 3.6%. Prime rents reacted accordingly, gaining 3.9% and 8.3% compared with the previous quarter. In Düsseldorf, take-up also increased by 33% compared with the first quarter of

last year. However, the city's vacancy rate of 6.8% provides tenants with far more alternatives, causing the prime rent to remain stable compared with the fourth quarter of 2018.

This picture is not expected to change appreciably for the remainder of the year. While this year's completion volume of 1.2 million sq m in the top six cities will be the highest total since 2010, at least two thirds of this space in each city is already pre-let. Berlin will witness the largest increase in space, adding twice the 10-year average with more than 400,000 sq m. Moreover, this will increase further over the coming years to 790,000 sq m in 2020 and 640,000 sq m in 2021. Owing to the low vacancy rate of currently just 1.5% and

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)	
	Q1 19	against Q1 18	Q2 18-Q1 19	against Q1-Q4 18	Q1 19	against Q4 18	Q1 19	against Q4 18	Q1 19	against Q4 18
Berlin	254,800	-1.1%	906,200	-0.3%	1.5	+/-0bps	36.10	+0.8%	23.30	+5.9%
Düsseldorf	88,000	+33.3%	354,000	+6.6%	6.8	-10bps	27.50	+/-0%	16.00	+/-0%
Frankfurt	85,000	-37.0%	568,000	-8.1%	6.8	-20bps	40.50	+/-0%	20.00	+2.6%
Hamburg	132,000	+23.7%	620,600	+4.2%	4.2	-20bps	26.50	+3.9%	15.40	+/-0%
Cologne	83,400	+35.5%	328,800	+7.1%	3.6	-30bps	24.90	+8.3%	15.00	+0.7%
Munich	181,700	-17.0%	945,500	-3.8%	2.2	-20bps	36.50	+/-0%	18.90	+2.2%
Top 6	824,900	-2.5%	3,723,100	-0.6%	3.6	-10bps	32.00	+1.7%	18.10	+2.2%

Source Savills

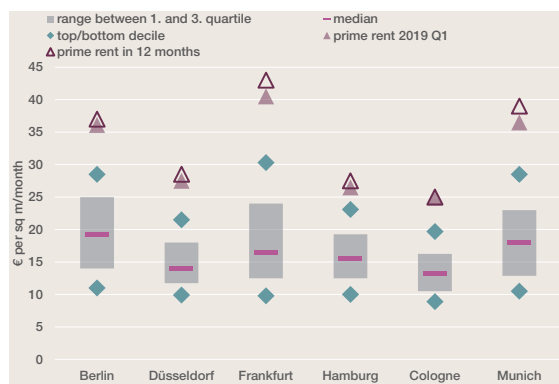
the 70% pre-let status for 2019, however, this will only bring marginal relief to the Berlin office market. By way of further illustration, more than 50% of the approximately 1.8 million sq m scheduled for completion in the Berlin office market by 2021 is already pre-let. The overall completion volume for the top six markets will total approximately 2 million sq m in 2020 and 1.6 million sq m in 2021.

Until then, the scarce supply of space will be an increasing hindrance to growth for companies. The supply reserve in all markets is at its lowest point in the current cycle (Graph 1), ranging from 3.8 months in Berlin to 18.4 months in Düsseldorf. This means that, assuming take-up remains unchanged and no new office space comes to the market, the current vacancies in Berlin would be completely let within less than four months. Even if this is only a theoretical figure, it nevertheless illustrates the difficulty faced by companies when seeking new space. Consequently, companies requiring additional space are often restricted to either using their current office space more efficiently or relocating part of their team elsewhere. This, in turn, is driving the increasing prominence of flexible workspaces and their offerings.

Moving to peripheral locations is not an alternative for many companies, since a good city-centre location is indispensable in order to compete for new personnel. Up-and-coming office locations with particularly good infrastructural connections to the city centre and adequate local amenities are also benefiting from the current situation. These include Südkreuz and Ostkreuz in Berlin, the Werksviertel in City East and Sendling in City South in Munich and the Niederrad and Eschborn submarkets in Frankfurt.

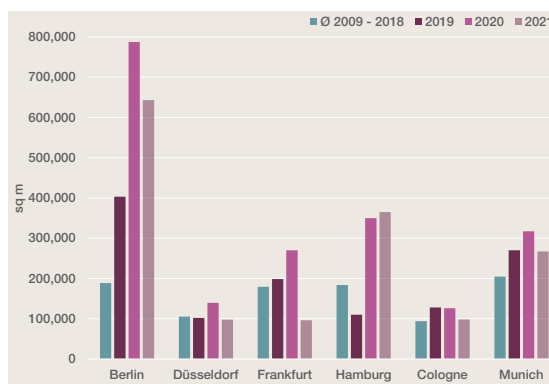
Over the coming twelve months, activity in the top six office markets is likely to continue unchanged. Take-up should remain robust and in line with last year despite the deteriorating economic outlook. The number of office employees across the top six markets is projected to grow by almost 40,000 (Table 2). Prime rents will continue to rise, with Munich and Frankfurt expected to witness the highest growth of more than 6% over the next twelve months (Graph 2). Despite the increasing completion volume, vacancy rates in all markets are expected to fall further for the time being.

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, gif e.V.

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

	Prime Rent	Vacancy rate	Office space	GDP growth	Office employees
Berlin	+2.5%	-20bps	+1.5%	+2.0%	+13,800
Düsseldorf	+3.6%	-50bps	+0.8%	+1.6%	+3,200
Frankfurt	+6.2%	-80bps	+1.1%	+1.8%	+3,600
Hamburg	+3.8%	-50bps	+0.3%	+1.6%	+5,200
Cologne	+0.4%	-40bps	+1.2%	+1.5%	+4,300
Munich	+6.8%	-54bps	+0.7%	+2.1%	+9,100
<b>Top 6</b>	<b>+4.2%</b>	<b>-50bps</b>	<b>+0.9%</b>	<b>+1.8%</b>	<b>+39,200</b>

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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