



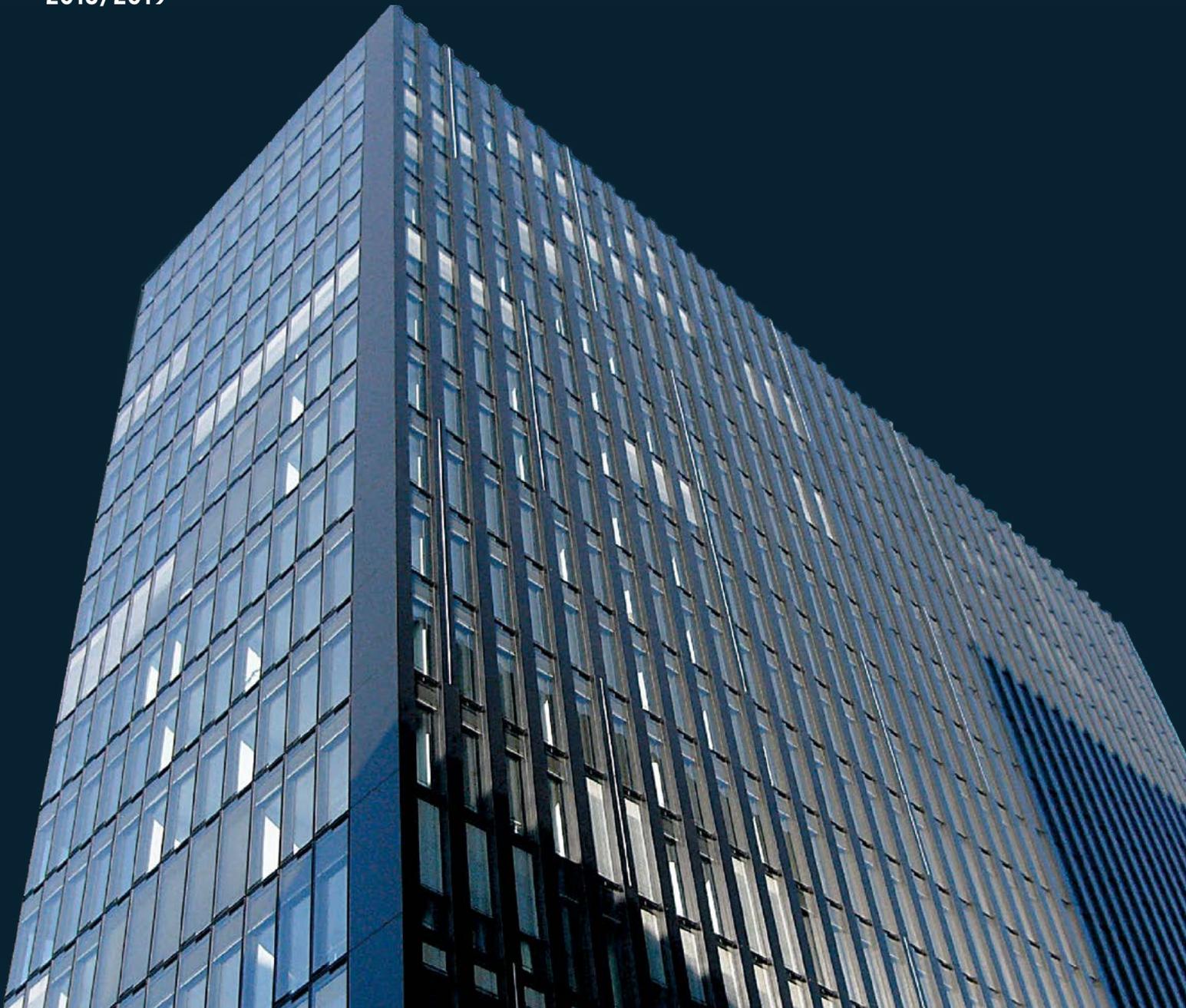
DÜSSELDORF

# MARKET REPORT

OFFICE LEASING AND INVESTMENT MARKET

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2018/2019



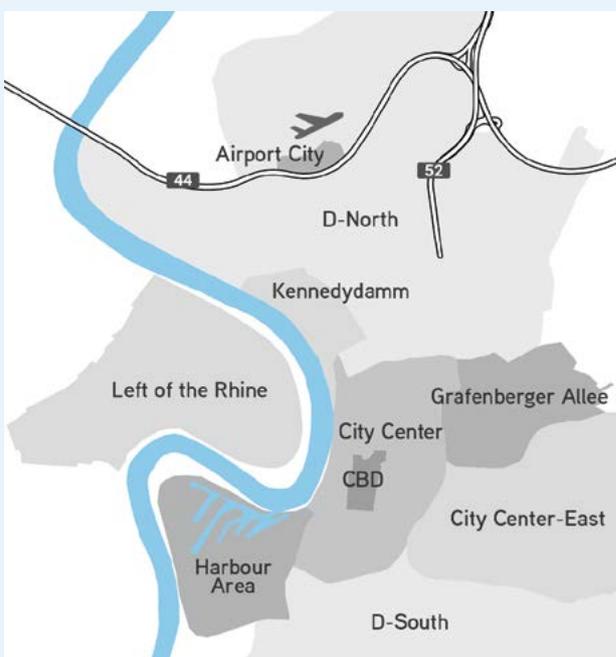


## CITY FACTS DÜSSELDORF

Population in 1,000	617
Employees Paying Social Security Contributions in 1,000	416
Unemployment Rate in %	6.5
Per Capita Disposable Income in €	28,317

## Fast Facts

Office Leasing Düsseldorf	2018	Change year-on-year
Office Space Take-up	338,000 sqm	1.5 %
Leasing Take-up	332,700 sqm	0.2 %
Prime Rent	28.00 €/sqm	3.7 %
Average Rent	16.20 €/sqm	5.2 %
Vacancy Rate	6.4 %	-60 bp
Office Space Stock	7.69 million sqm	1.2 %



## Achieved Rents in €/sqm

Submarket	Prime Rent	Average Rent
CBD	28.00	22.80
City Center	26.50	16.60
Harbour Area	24.00	18.50
Kennedydamm	24.00	18.40
Left of the Rhine	18.00	12.80
Düsseldorf-North	18.40	15.20
Airport City	16.00	15.90
Grafenberger Allee	13.50	12.20
City Center-East	14.00	11.50
Düsseldorf-South	11.50	9.00

# OFFICE LEASING

## Take-up

Activity on the Düsseldorf office leasing market (Düsseldorf municipal area) remained lively in 2018 with a take-up volume of 338,000 sqm, coming in slightly above both 2017 results and the 5-year average. The large-scale lease signed by Deloitte for around 35,500 sqm at the Heinrich Campus property development in Derendorf shaped the market in H1 but remained the only lease signed in the segment of over 10,000 sqm.

Activity on the small-space segment of under 1,000 sqm remained stable while the mid-range space segment of between 2,000 sqm and 5,000 sqm generated particularly strong take-up results. This segment posted an impressive yoy increase of 69% to 81,300 sqm with significant deals including the leases signed by Schüßler-Plan and FrieslandCampina. The north of Düsseldorf attracted a number of new tenants in 2018, accounting for 82,100 sqm in take-up thanks in part to the

major Deloitte deal. Lively market activity in downtown Düsseldorf was responsible for 61,100 sqm in take-up, also boasting numerous leases signed for space at the Momentum development. This is a good example of how the market quickly absorbs speculative developments in good downtown locations. The Left of the Rhine submarket including Seestern also remained a popular office location in 2018 with 46,500 sqm in take-up.

## Rents

Prime rents were up 4% yoy to €28.00 per sqm. This trend can primarily be attributed to increasing shortage of space in the CBD, with the vacancy rate in the submarket (excluding sublets) already under 4%. Investor focus is increasingly shifting to a limited number of high-end property developments as a result. Average rents posted a 5% increase yoy to a current €16.20 per sqm.

FIGURE 1: Office Space Take-up in 1,000 sqm

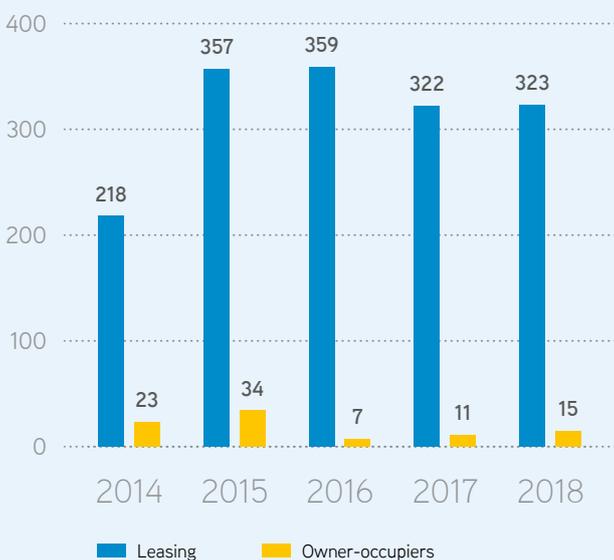
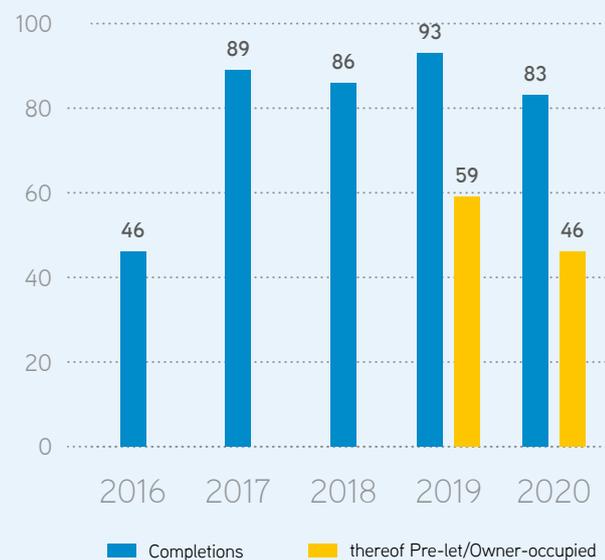


FIGURE 2: Completion Volume in 1,000 sqm



## Supply and Vacancy

Vacancy continued to drop near year-end following a short breather in H1 2018, coming in just shy of the 500,000-sqm mark. That puts the city's vacancy rate at a current 6.4%, down 0.6 percentage points yoy.

## Key Developments

Roughly 93,000 sqm is scheduled for completion in 2019, with just under two-thirds of this space already let. The most popular submarkets in 2019 will include the CBD, City Center and Kennedydamm. Increasing shortage of supply in good locations will also cause developers to add new locations to their search profile.

## Summary and Outlook

Activity on the Düsseldorf office leasing market in 2018 remained strong. We can expect 2019 to also exceed the long-time average and post take-up results of at least 340,000 sqm. This combined with the high pre-leasing rates we are seeing at property developments will continue to fuel the downward vacancy trend, although the drop in vacancy will likely slow down somewhat compared to past years. This trend could cause rent levels to again rise moderately.

FIGURE 3: Vacancy Rate in % and Vacancy in 1,000 sqm

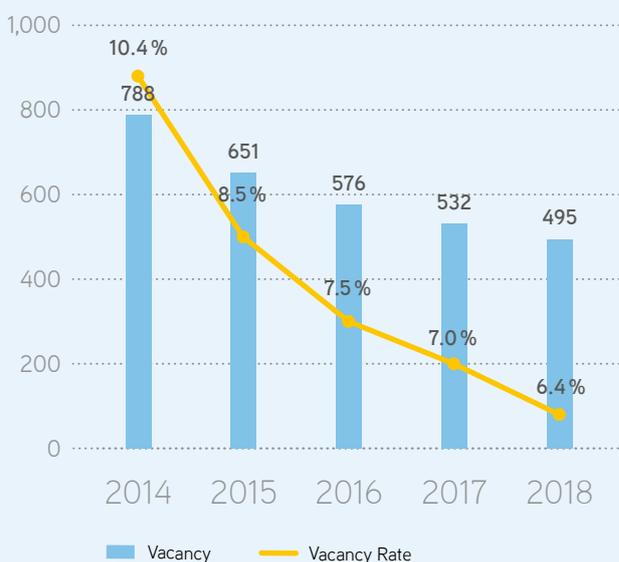


FIGURE 4: Prime and Average Rents in €/sqm



# INVESTMENT

## Transaction Volume

Düsseldorf's commercial investment market posted a new record high of €3.4bn in 2018, exceeding the €3bn-mark for the first time. Not only did the city's new record result reflect an impressive 25% yoy increase, it also managed to beat out the 5-year average by just over 50%. If we also include all of the deals signed in the city outskirts, particularly in Ratingen and Neuss, transaction volume for Greater Düsseldorf comes in just shy of the €4bn-mark.

This new record result was bolstered in part by 9 high-volume deals in the nine-figure range, including two deals involving the sale of Metro and IKB headquarters, the sale of the Infinity Office asset in the Kennedydamm submarket and the Stadttor deal in the Harbour submarket. Activity in the mid-volume segment was lively as well with 30 deals changing hands in the €30m to €100m range, contributing their fair share to the city's all-time high.

## Fast Facts

Investment Düsseldorf	2018	2017
Transaction Volume	3,420 million €	2,740 million €
Portfolio Transactions	30%	19%
Share by International Buyers	41%	56%
Share by International Sellers	22%	50%
Most Important Property Type	Office 66%	Office 80%
Prime Yield Office	3.50%	3.75%

FIGURE 5: Transaction Volume in million €

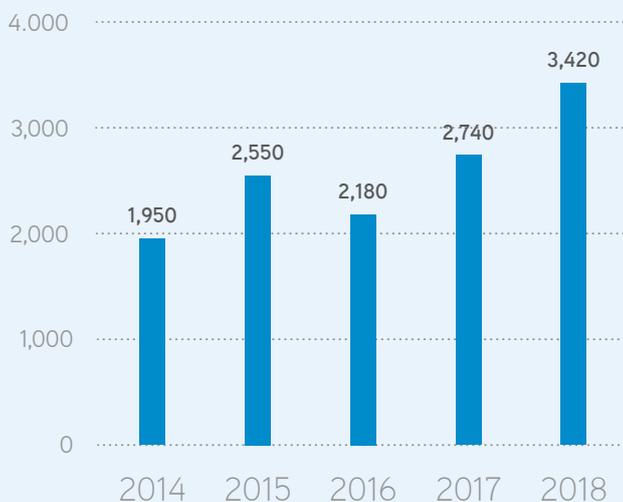
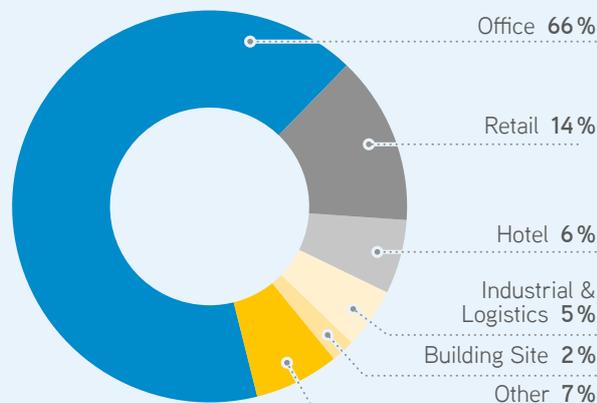


FIGURE 6: Transaction Volume by Type of Property 2018 share in %



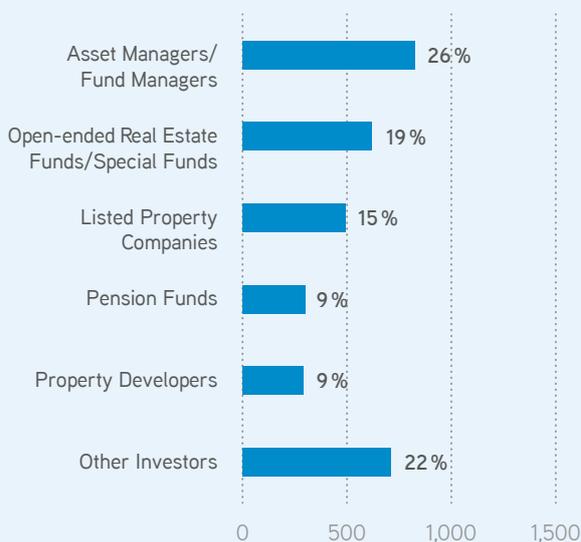
## Supply and Demand

Office deals were again dominant in 2018, accounting for 66% of total transaction volume. The 20 largest transactions involved office assets with only 5 exceptions. Retail assets followed in the ranks, boosted by the merger of Kaufhof and Karstadt plus affiliated transactions with roughly €464m claimed by this asset class. Hotel assets were also in high demand, generating respectable results at just under €200m.

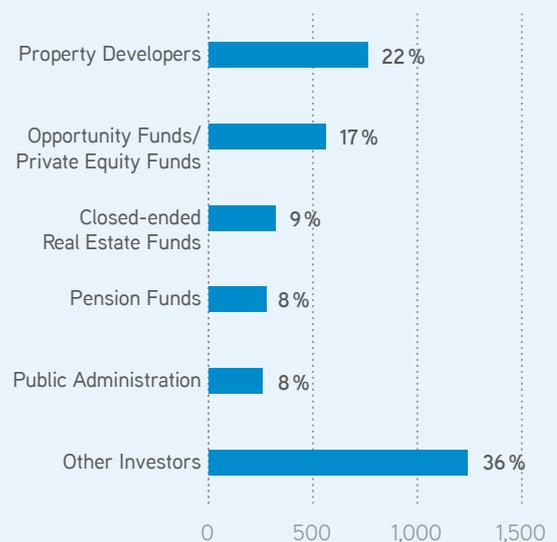
Investment activity was fairly balanced in terms of location. The two centrally located City Center and CBD submarkets accounted for roughly €1.2bn in transaction volume. The Kennedydamm and Left of the Rhine submarkets took 2nd place, also posting a high transaction volume of roughly €500m each. Investors also showed considerable interest in the Grafenberger Allee, Düsseldorf North and Harbour submarkets, all of which posted a transaction volume of between €300m and €400m.

German and foreign asset/fund managers dominated buy-side with just under €830m in transaction volume. Open-ended real estate funds and special funds generated a similar result at €620m. Foreign investors proved less active in 2018, accounting for around €1.4bn, or a 41% share in total transaction volume. Property developers/development companies generated the highest transaction volume sell-side with roughly €760m, followed by opportunity funds/private equity funds with just over €560m. Very few foreign investors were active sell-side in 2018, claiming only 22% of total transaction volume.

**FIGURE 7: Transaction Volume by Buyer Groups**  
in million €, share in %



**FIGURE 8: Transaction Volume by Seller Groups**  
in million €, share in %



## Yields

Following a steep drop in prime yields for office assets over the course of the previous year, 2018 saw a slowdown of further yield compression to a current 3.50%, reflecting a yoy decrease of 25 bps. Although this applies exclusively to absolute prime CBD locations, gross initial yields of up to 3.65% are realistic in very good downtown locations as well. Prime assets in top locations in the Kennedydamm and Harbour submarkets are also offering yields of up to 3.65%. Düsseldorf retail assets posted a slight drop in prime yields to a current 3.20% and yields are down even further in the city's prime Königsallee location.

Despite these new record figures, yields for commercial assets in Düsseldorf seem to have bottomed out. Despite the fact that liquidity remains high and the ECB has yet to adjust its zero-interest policy, we do not expect to see further yield compression, even though increasing construction costs, high land site prices and, in many cases, challenging local policies are likely to continue to impact pricing. However, we also do not expect yield levels to rise anytime soon.

## Summary and Outlook

Following 2017's record high, demand for real estate investment opportunities in all asset classes on the Düsseldorf market remained high in 2018, fueled by unexpected momentum and posting a new all-time. What's more, the city managed to reach this record transaction volume without the help of high-volume office deals in the CBD and despite the ongoing shortage of supply in the core segment.

We can expect activity on the Düsseldorf investment market to remain exceptionally lively in 2019 even though it will be difficult to match 2018's record result. As such, a transaction volume of roughly €2.8bn appears realistic for 2019.



*The Düsseldorf investment market posted a new record result in 2018. This is the first time that the Düsseldorf municipal area has managed to top the €3bn-mark.*

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