STUTTGART

MARKET REPORT

OFFICE LEASING AND INVESTMENT MARKET

2018/2019

STUTTGART

CITY FACTS STUTTGART

Population in 1,000	633
Employees Paying Social Security Contributions in 1,000	413
Unemployment Rate in %	4.0
Per Capita Disposable Income in €	26,837

Fast Facts

Office Leasing Stuttgart	2018	Change year-on-year
Office Space Take-up	216,100 sqm	– 19.5 %
Leasing Take-up	150,300 sqm	– 29.3 %
Prime Rent	23.00 €/sqm	– 5.4 %
Average Rent	14.00 €/sqm	4.5 %
Vacancy Rate	2.3 %	20 bp
Office Space Stock	7.95 million sqm	0.6 %

Achieved Rents in € / sqm

Submarket	Prime Rent	Average Rent
City	23.00	18.30
Center	17.50	13.00
Zuffenhausen/Feuerbach	13.00	13.00
Weilimdorf	11.50	10.10
Bad Cannstatt/Wangen	15.50	13.70
Vaihingen	16.50	13.30
Degerloch	13.00	11.00
Möhringen	12.50	12.00
Fasanenhof	14.50	11.60
Leinfelden-Echterdingen	13.00	12.60

OFFICE LEASING

Take-up

2018 was a calm year on the Stuttgart office leasing market (including Leinfelden-Echterdingen) with take-up of roughly 216,100 sqm not reaching its full potential due to limited supply and down almost 20% yoy. The number of leases signed was down yoy as well to 212 in total. These low take-up levels can particularly be attributed to limited supply of available space, which has been unable to meet the tremendous demand for years now. Scarcity of space could especially be felt in the segment of over 3,000 sqm. Large-scale owner-occupiers also contributed a significant share to total take-up, which would have experienced an even more pronounced yoy drop without owner-occupier activity. An owner-occupier development in Stuttgart-Feuerbach by Robert Bosch accounted for 50,000 sqm alone. The State of Baden-Württemberg was responsible for another 10,800 sqm with plans to move into the previously acquired Ledererbau building on Kriegsbergstraße in early 2019.

Consulting firms were particularly active in 2018 with 54 leases signed, primarily for smaller units near the city center. IT firms were next in line with 33 leases signed. Companies from the manufacturing industry, on the other hand, are traditionally on the market for large-scale space with a mere 22 leases generating 88,800 sqm, or a 40% share of total take-up, as a result.

Rents

Tenants are proving willing to pay higher rents in light of tight supply. Significantly fewer leases were signed in the lower-price segment of under €12.50, with the trend, however, boosting average rents to a new record high of €14.00 per sqm. Prime rents were down yoy to €23.00 per sqm at year-end, a development that can also be attributed to limited supply of high-priced rental space.

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

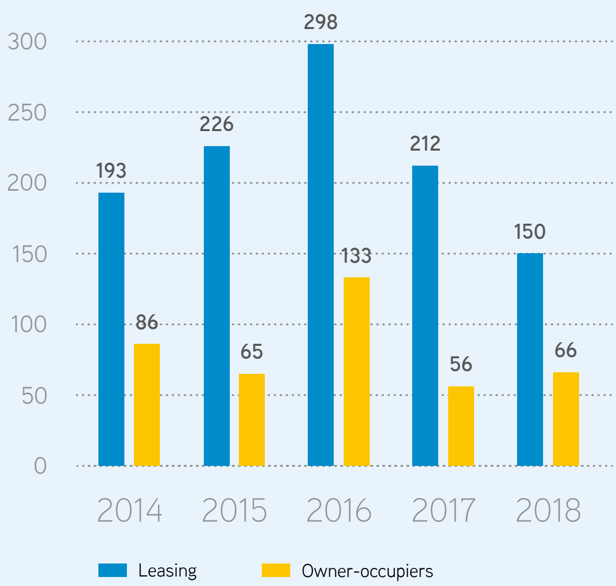
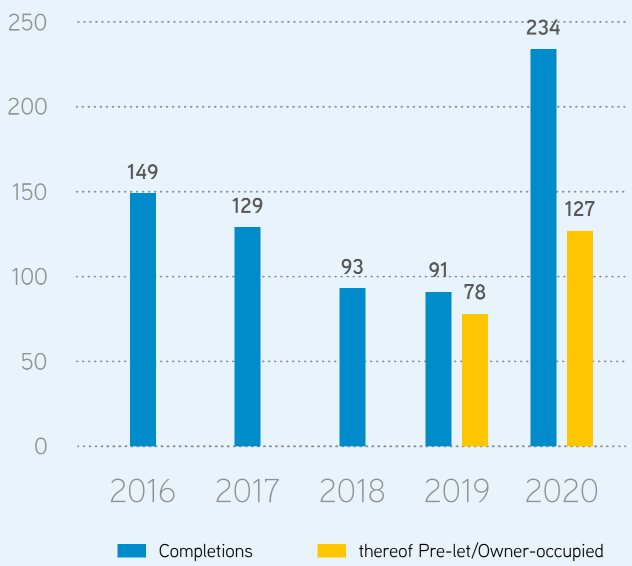


FIGURE 2: **Completion Volume** in 1,000 sqm



Supply and Vacancy

Although vacancy had increased slightly by mid-2018, it was down again by the end of the year. With roughly 7.95 million sqm in stock and only 185,400 sqm available as at 31 December 2018, the city recorded a vacancy rate of just 2.3%.

Key Developments

Similar to 2017, the majority of property developments were situated in peripheral areas due to the lack of available space in central locations. A total of 92,800 sqm was completed on the Stuttgart office leasing market in 2018. Developments will continue to focus on peripheral sub-markets in coming years with pre-leasing rates high in line with previous year levels.

Summary and Outlook

Just like previous years, 2018 saw significant excess demand for office space. In view of the high pre-leasing rates at new-build developments, we do not expect the vacancy rate to increase significantly in the next 1 to 2 years. Based on these general conditions, 2019 will likely bring with it rather subdued leasing activity while rent levels will remain high.

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

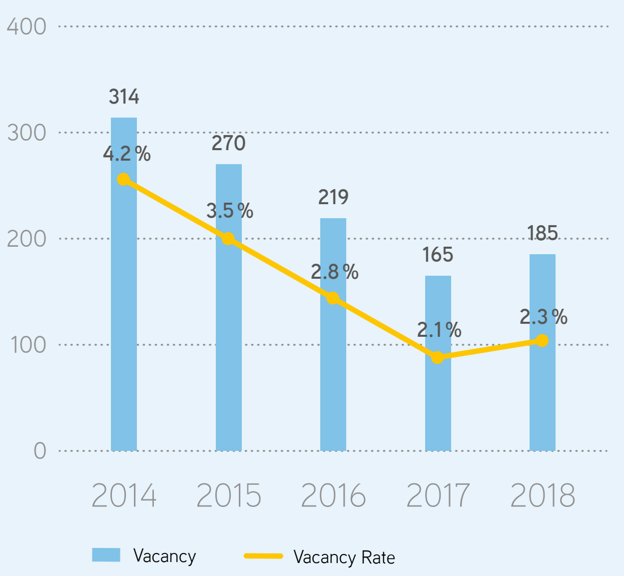
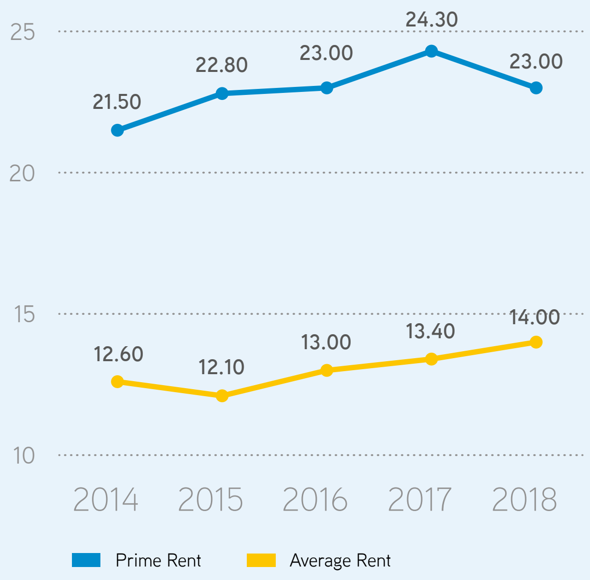


FIGURE 4: **Prime and Average Rents** in €/sqm



INVESTMENT

Transaction Volume

The Stuttgart real estate investment market posted a new record high in 2018 with a transaction volume of €2.3bn. The commercial asset class accounted for the lion's share with over €2.2bn. This is the highest transaction volume Stuttgart has ever seen.

2018's record result can be attributed to numerous high-volume single-asset deals as well as a high number of transactions (75 deals) with activity on the market once again by far exceeding previous year levels (68 deals). Activity in Q4 was particularly lively with a transaction volume of over €910m, the highest quarterly result ever recorded on the Stuttgart investment market.

Fast Facts

Investment Stuttgart	2018	2017
Transaction Volume	2,206 million €	1,200 million €
Portfolio Transactions	14 %	25 %
Share by International Buyers	19 %	49 %
Share by International Sellers	23 %	47 %
Most Important Property Type	Office 67 %	Office 80 %
Prime Yield Office	3.40 %	3.80 %

FIGURE 5: **Transaction Volume** in million €

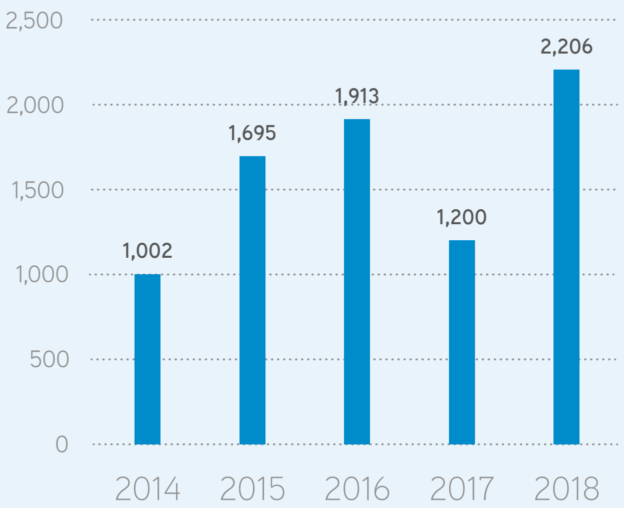
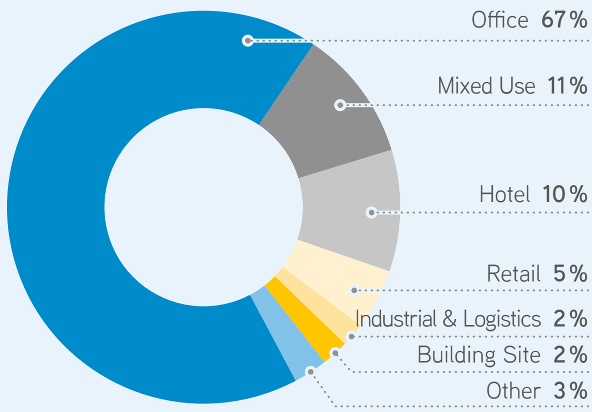


FIGURE 6: **Transaction Volume by Type of Property 2018** share in %



Supply and Demand

Office assets were once again the strongest asset class on the Stuttgart market, accounting for about 67% of total transaction volume. As in the previous year, this large share can primarily be attributed to high-volume investments. Examples include Officefirst's sale of the Allianz-occupied Karlshöhe and UhlandCarré office ensembles for over €560m. Both properties hold considerable development potential in the next few years following Allianz's relocation to Stuttgart-Vaihingen. Other high-volume transactions in the office segment include the Albplatzforum deal in Stuttgart-Degerloch and the sale of Office One in Stuttgart-Vaihingen. Retail assets and buildings featuring a retail/office mix, or mixed-use assets, comprised the 2nd most popular asset class, claiming over €350m, or 16% of total transaction volume. Similar to 2017, hotel deals generated a significant share of total transaction volume, with a total of 5 hotels changing hands in Stuttgart, including the downtown Motel One and SI Hotel and the Ibis Styles in the south of the city.

The Stuttgart real estate market offered attractive investment opportunities to market players from a variety of risk classes. The range of investors was diversified as a result with asset/fund managers, property developers and open-ended real estate funds picking up the largest share. Asset/fund managers were very active sell-side in 2018. Had they acted independently, foreign investors would have claimed quite a significant share of transaction volume. However, most of their investments were placed via asset/fund managers.

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

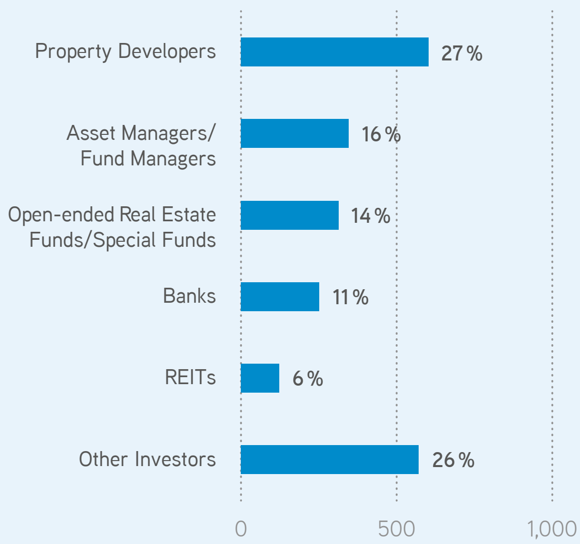
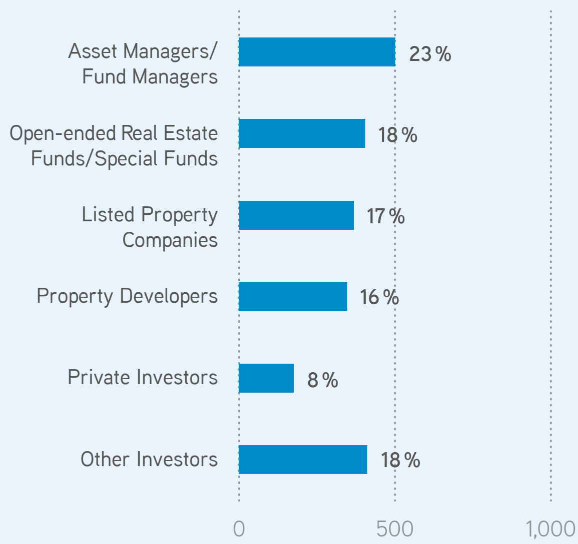


FIGURE 8: **Transaction Volume by Seller Groups**
in million €, share in %



Yields

Stuttgart continued to attract investors in 2018 with rent and yield levels in the city still moderate compared to other German cities in combination with ongoing low office vacancy rates of only 2.3% and limited development potential. Prime office yields continued to drop modestly as a result to a current 3.40% in Stuttgart City and only slightly higher in good city submarkets at 3.60%. Yields of 3.10% were most recently posted for buildings featuring a retail/office mix. Interest in logistics assets remained high among German as well as foreign investors with initial yields for the few new-build assets on the market coming in at up to 4.50%. Even though some investors are choosing to cash-in on value appreciation in a market characterized by ongoing yield compression, we are not seeing enough new product being added to the market to relieve current tension.

Summary and Outlook

Demand on the Stuttgart investment market is set to remain high in 2019 across all asset and risk classes. This ongoing trend can be attributed to the general conditions on the investment market, which remain favorable, a lack of alternative investments and solid overall economic conditions. The German economy continues to grow and the job market remains expansive. We can expect to see an ongoing, moderate drop in prime yields in the office and logistics asset classes as well as in the core and core+ segments. Yields for retail assets in prime pedestrian area locations and in the food sector will stabilize at their current low levels and, in some cases, begin again to climb. We do not expect 2019 transaction volume to match 2018's results due to limited supply. However, we do expect it to come in high at around €1.5bn.

Although supply bottlenecks are limiting office take-up results in Stuttgart, they are also attracting investors with higher rents.

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