



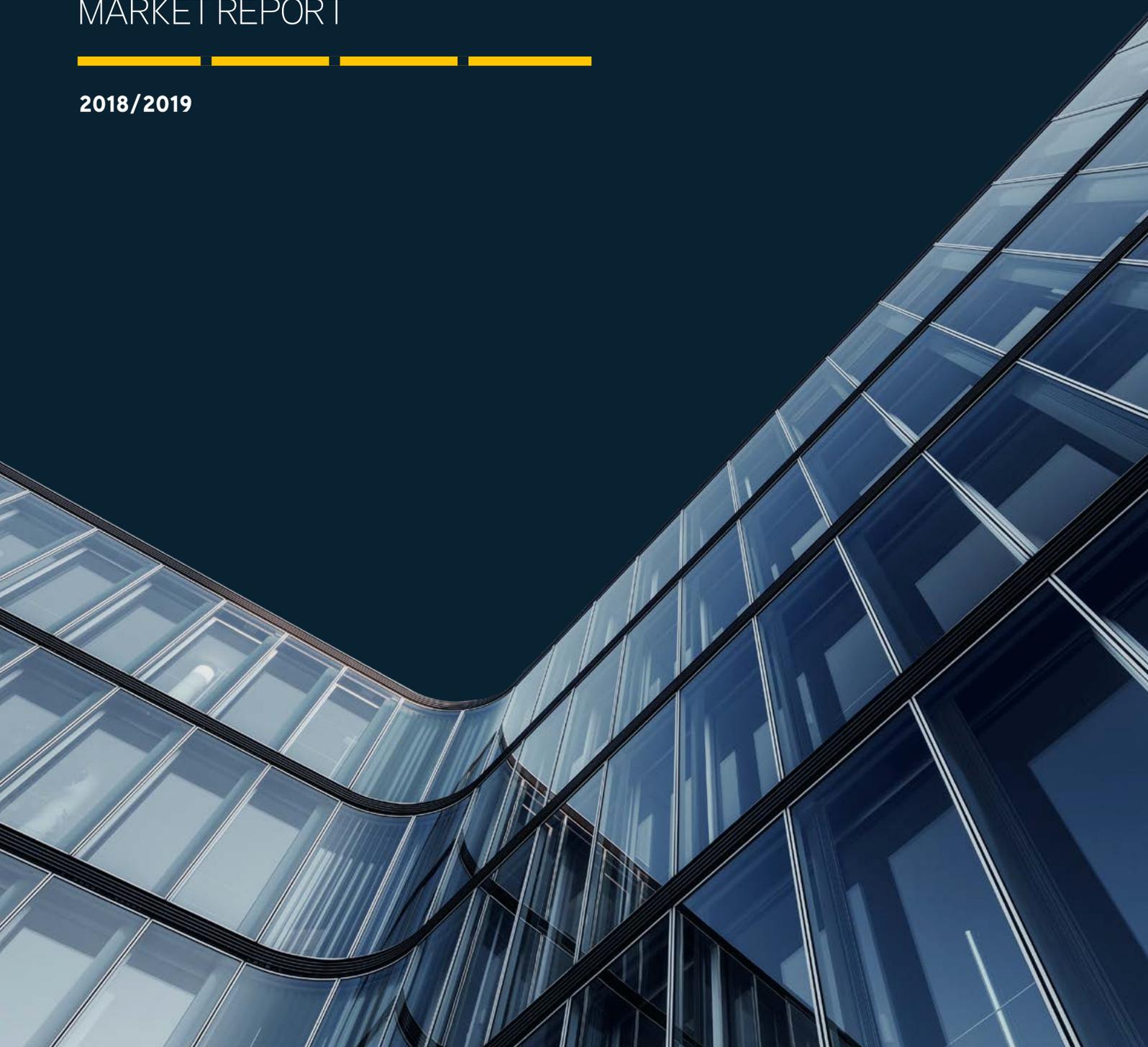
GERMANY

# OFFICE LEASING AND INVESTMENT

MARKET REPORT

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2018/2019



## OFFICE LEASING

### Take-up

The German office leasing market experienced a robust 2018. Germany's 7 office hubs again posted above average take-up results of 3.8 million sqm in the wake of 2017's record high. Even though just shy of setting a new record, 2018's result is still the third-best we have seen since the turn of the millennium and managed to surpass the 10-year average by 17%.

Frontrunner Munich posted roughly 979,300 sqm in take-up, a seamless continuation of its previous year result of over 984,000 sqm. Berlin also came in strong with 791,000 sqm, 18% above the 10-year average. Dropping vacancy rates and the absence of large-scale leases, however, kept results short of 2017's record high. The absence of major deals also impacted results in Frankfurt, which still managed to beat the 10-year average by 30% with a transaction volume of 618,000 sqm.

Hamburg defended its 4th-place ranking with 564,000 sqm, with leases signed for mid-sized units of between 1,000 sqm and 5,000 sqm dominating activity. Düsseldorf was the only city to improve its results yoy, posting 338,000 sqm in take-up. A major lease signed by a consulting firm combined with wide-spread demand contributed to this increase.

The shortage of stock space was particularly tangible in Cologne and Stuttgart. Cologne came in just shy of 2017 results with 290,000 sqm while Stuttgart posted 216,100 sqm, limited over the course of the year as the shortage of space intensified. These cities are a far cry away from being able to meet current high demand for office space.

### Rents

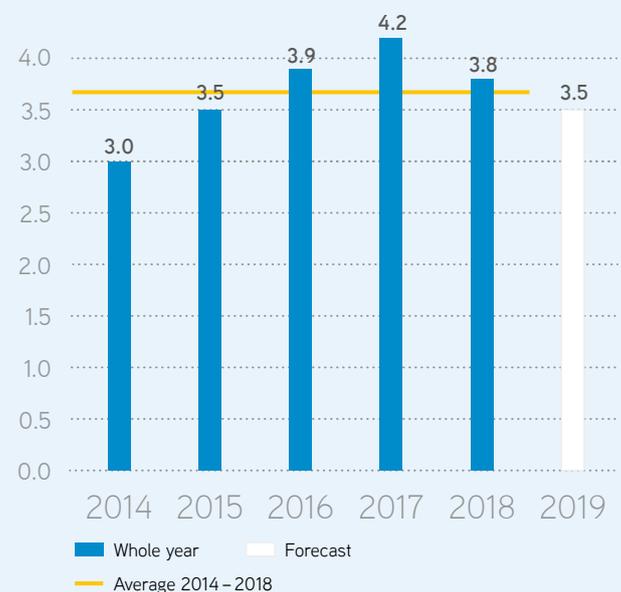
Rent levels continued to rise in line with ongoing high demand and vacancy reduction. Prime rents in Berlin spiked over the course of 2018, coming to €35.10 per sqm

### Fast Facts

Office Leasing TOP 7	2018	Change year-on-year
Office Space Take-up in sqm	3,796,400	-8.7%
Vacant Floor Space in sqm	2,887,700	-21.2%
Vacancy Rate in %	3.1	-100 bp*
Office Space Stock in million sqm	91.54	1.1%

\* basis points

FIGURE 1: Office Space Take-up in the TOP 7 in million sqm



at year-end. Frankfurt and Munich continue to lead the pack, however with €42.00 per sqm and €36.00 per sqm, respectively. Prime rents generally increased markedly slower in many markets than during the previous year, a trend that can be attributed to the shortage of prime assets needed for these rent levels.

Average rents rose much more rapidly in contrast. The strong momentum seen in Berlin in 2017 continued (+13%), with the city posting the highest average rent among the Big 7 at €21.70 per sqm. That put Frankfurt down a notch into 2nd place with average rent at €20.30 per sqm.

Average rent in Munich comes to a current €19.00 per sqm, reflecting a 10% increase. Increases in Düsseldorf (€16.20 per sqm) and Hamburg (€15.70 per sqm) were slower, up yoy 5% and 2%, respectively. Stuttgart (€14.00 per sqm) and Cologne (€13.80 per sqm) brought up the pack practically neck-and-neck.

## Supply and Vacancy

Ongoing high demand for office space caused vacancy in the Big 7 to shrink to under 3 million sqm. With only 2.9 million sqm of space vacant, the Big 7 are currently looking at a vacancy rate of 3.1%, a drop of 100 bps within 12 months.

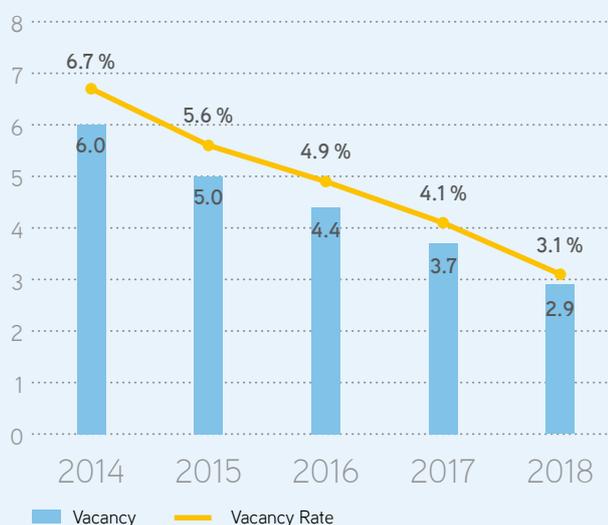
Although Frankfurt continued to post the highest vacancy rate, vacant office space had dropped by more than 320,000 sqm, or 280 bps, by the end of 2018. That put Frankfurt's vacancy rate at 6.8%, or 783,800 sqm. Düsseldorf followed in the ranks with a vacancy rate of 6.4%, with vacancy coming in below the 500,000-sqm mark at 495,400 sqm. Munich and Hamburg managed to beat the 500,000-sqm mark as well.

Vacancy in Munich was down by almost one-fourth to 410,600 sqm with the vacancy rate at a low 1.8%. Hamburg posted 488,000 sqm of vacant space with a vacancy rate of 3.6%. Shortage of supply is intensifying in the German capital as well. Only 304,500 sqm was available in

**FIGURE 2: Completions of Office Properties in the TOP 7 in total in 1,000 sqm**



**FIGURE 3: Vacancy Rate in the TOP 7 in % and Vacancy in million sqm**





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Berlin at year-end, giving the city a vacancy rate of 1.5%, the lowest recorded in Germany in 2018.

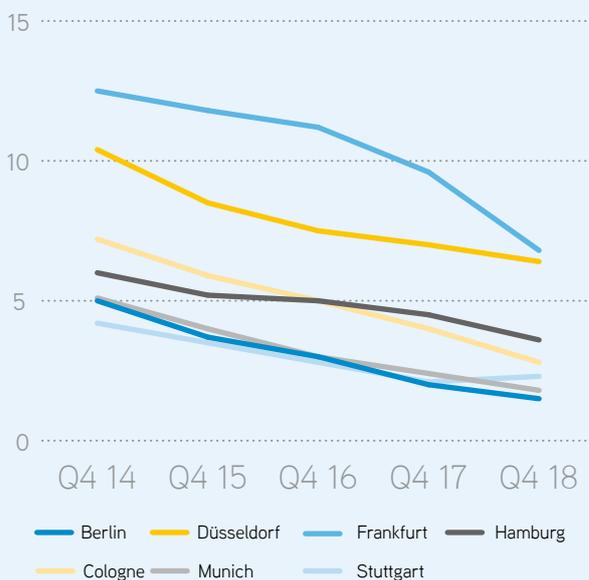
Cologne and Stuttgart have also been struggling for some time now to produce the amount of space necessary to meet the 5% vacancy mark. Vacancy in Cologne fell to 220,000 sqm, putting the vacancy rate down 120 bps to 2.8%. Stuttgart posted a vacancy rate of 2.3%, or 185,400 sqm, at end of 2018.

Supply is poised to increase tangibly as just under 3.3 million sqm of new-build space is scheduled for completion in 2019 and 2020. In view of excess demand, however, the pipeline is still far from being full, not to mention that almost two-thirds of this space has already been pre-let. With this in mind, the situation on the market is not expected relax significantly any time soon.

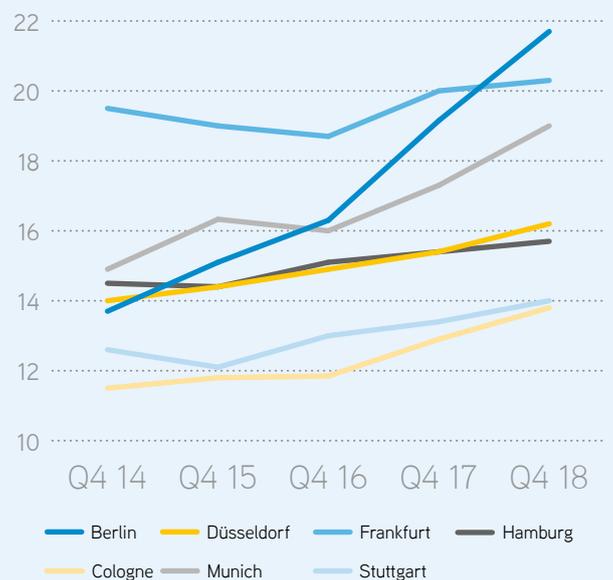
## Summary and Outlook

With the economic outlook for 2019 favorable, we can expect slightly weaker but still very robust growth in Germany and Europe. Corporate investment in Germany will remain high, however, thanks to stable general conditions and the strength of the domestic economy. We expect demand for office space to remain high throughout 2019 as a result. Ongoing vacancy reduction, on the other hand, will continue to pose a challenge despite additional space being added to the market. With demand still high, we expect take-up to again reach levels of up to 3.5 million sqm in 2019.

**FIGURE 4: Vacancy Rate in the TOP 7 in %**



**FIGURE 5: Average Rents in the TOP 7 in €/sqm**



# INVESTMENT

## Transaction Volume

Transaction volume wrapped up the year at an all-time high in terms of commercial asset investment in Germany, exceeding the €60bn-mark for the very first time. 2018 commercial transaction volume topped 2017's 10-year record high by 6% and managed to surpass the 10-year average by 81%.

In contrast to strong record years 2015 and 2017, 2018 was characterized by investment activity focused on landmark properties in Germany's top 7 investment hubs, which recorded €36.3bn, a new all-time high. All of the Big 7 exceeded the long-term average in 2018, ranging from 70% in Berlin to 163% in Frankfurt.

Frankfurt took the lead among the country's top cities with an exceptional result of just under €9.7bn. Frankfurt also set the stage for the year's two largest deals, the OMNITURM deal, which went for just shy of €700m, and TRIANON, which changed hands for over €650m.

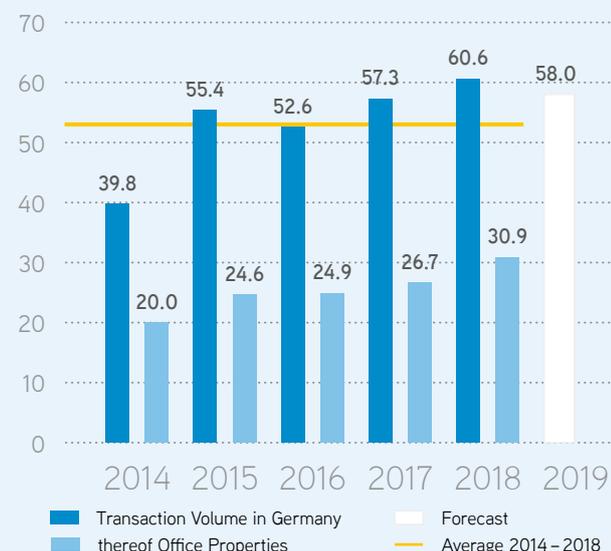
Numerous office high-rises were sold in the city as well. Germany's other top cities also posted major deals in the mid-9-figure range. Berlin came in just shy of €7bn with transaction volume in Munich at over €6.5bn. Hamburg took 4th place with €5.7bn, posting an all-time high, as did Düsseldorf (€3.4bn, and €3.9bn including the city outskirts) and Stuttgart (€2.2bn). Cologne fell shy of the previous year's high by 7% with €1.9bn.

More than one fourth of transaction volume was generated by mega deals exceeding €250m. The largest deal was transacted within the scope of the merger of Karstadt and Kaufhof, with Signa Prime Selection acquiring a total of 59 Kaufhof department stores offered by previous owner Hudson's Bay Company in collaboration with other participating companies for just under €2bn. Portfolio deals accounted for a total of €17.6bn, reflecting a market share of 29%. The largest share by far was claimed by single-asset deals with €43.0bn, or 71%.

### Fast Facts

Investment	2018	2017	Change
Transaction Volume in million €	60,593	57,289	5.8 %
<i>Total Top 7</i>	<i>36,305</i>	<i>29,954</i>	<i>21.2 %</i>
<b>Type of transaction</b>			
Individual Transactions	43,003	36,808	16.8 %
<i>Share in the TOP 7</i>	<i>29,978</i>	<i>24,527</i>	<i>22.2 %</i>
Portfolio Transactions	17,590	20,482	-14.1 %
<i>Share in the TOP 7</i>	<i>6,327</i>	<i>5,427</i>	<i>16.6 %</i>
<b>Source of capital</b>			
Share by International Buyers	24,116	25,612	-5.8 %
<i>Share in the TOP 7</i>	<i>15,104</i>	<i>14,752</i>	<i>2.4 %</i>
Share by International Sellers	20,997	24,761	-15.2 %
<i>Share in the TOP 7</i>	<i>13,010</i>	<i>11,058</i>	<i>17.7 %</i>

FIGURE 1: Total and Office Transaction Volume in Germany in billion €



## Supply and Demand

The liquidity available on the market thanks to the ongoing low interest rate environment and Germany's crisis-resistant economy, which has boosted rent levels in almost all asset classes, motivated both domestic and foreign investors to keep an eye out for sustainable products promising investment value in 2018. At the same time, numerous vendors took advantage of the opportunity to tap upside potential before the current market cycle reaches its peak. More players looking to sell property developments and stock properties as a result, boosting activity on a market characterized by limited supply.

Similar to 2017, this activity profile positions asset/fund managers for the moment as the market's main players, with this investor group in high demand as intermediaries both buy and sell-side in the current market environment. They continued to defend their pole position with €15.1bn, or 25%, followed by open-ended real estate and special funds (€10.7bn, or 18%). The two groups came in neck-and-neck sell-side with 13% and 12%, respectively. Their efforts, however,

fell short of the transaction volume generated by property developers (21%, or €12.6bn), who benefited strongly as sources of rare core products.

Foreign investors were particularly able to beat out the domestic competition when it came to the year's mega deals. Even though the total share of foreign capital involved in 2018 market activity was down yoy by 5 percentage points to €23.7bn, or 40%, foreign investor participation in mega deals accounted for 53% of transaction volume, a significant climb yoy.

## Yields

Despite historically low yields, investors see higher prices as justified due to ongoing increases in rents, which are particularly strong on the office market. Prime yields for office assets in many locations dropped slightly at year-end. The lowest gross yields for prime office assets were recorded in Munich at 3.00%. Berlin, Hamburg, Frankfurt, Stuttgart and Düsseldorf followed in the ranks, each with a difference of 10 bps. Even Cologne, the smallest of the Big 7 markets, is

FIGURE 2: Transaction Volume by Size Category 2018 share in %

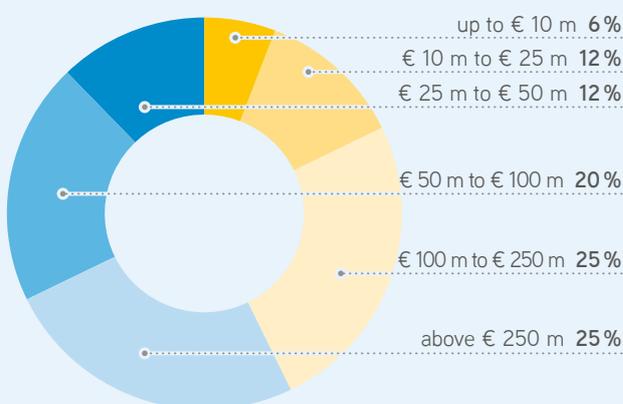
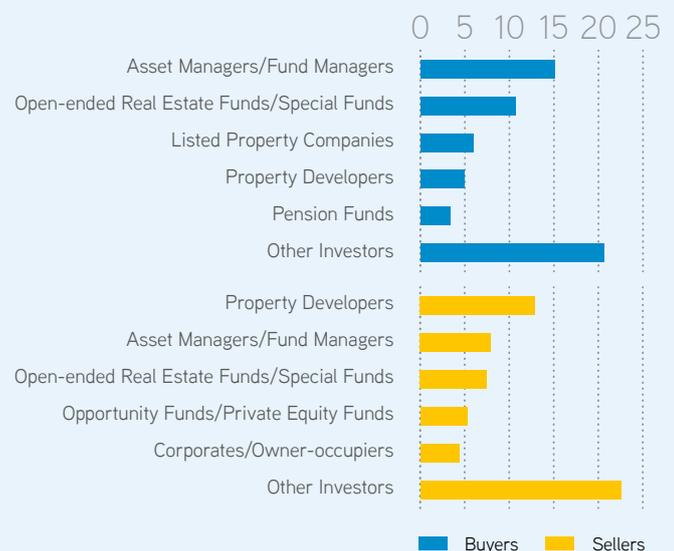


FIGURE 3: Buyer and Seller Groups in Germany in billion €



currently under the 4%-mark at 3.75%. Retail parks and retail warehouse portfolios with food focus proved particularly popular with investors looking for reasonable yields, with yields for many of these assets comparably attractive at around 5.00%. Following a recent significant drop in yields for logistics assets in established locations to a current 4.50%, industrial assets in comparable locations are turning investors' heads with gross yields at 5.70%

### Office Investment

The large number of landmark deals in 2018 particularly boosted the office segment. Numerous opportunities to invest put the market share claimed by this most popular asset class at a high the likes of which hasn't been seen in years with the office asset class claiming €30.9bn, or more than half of total capital invested.



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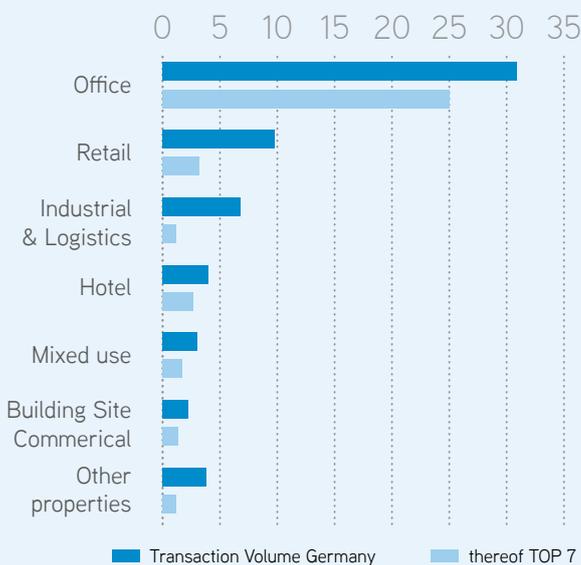
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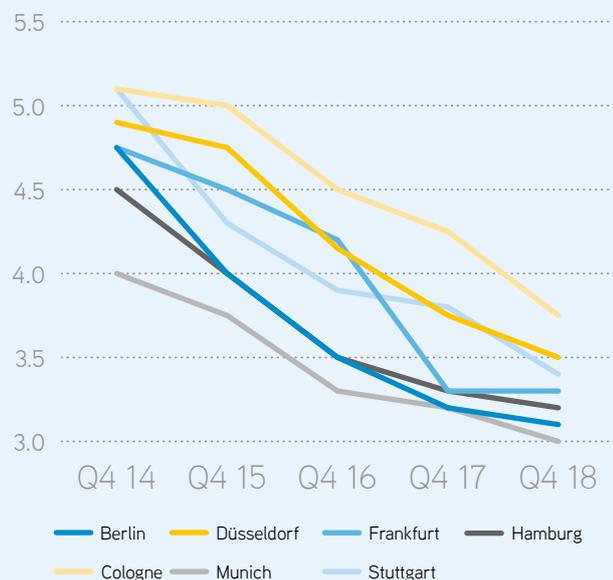
### Summary and Outlook

Current signs on the market indicate above-average investment activity in 2019. We expect total transaction volume to come in at around €58bn, not far behind 2018 results. Even after the marathon of the past several months, there are still deals in the pipeline. Pressure to invest will continue at least into the second half of the year under the impact of the ECB's zero-interest policy and a lack of investment alternatives. Investors looking at a shortage of popular core and core+ stock products will in part be consoled by increasing re-sales and increased opportunity for forward deals. Investors looking to clean out their portfolios will be met with higher willingness to take risk buy-side. Yields will continue to drop, particularly for quality assets in secondary locations. The current prime yield cycle appears to have almost bottomed out.

**FIGURE 4: Transaction Volume by Type of Property in billion €**



**FIGURE 5: Office Prime Yield in the TOP 7 in %**



# MARKET DATA

## Office Leasing

	TOP 7	Berlin	Düsseldorf	Frankfurt	Hamburg	Cologne	Munich	Stuttgart
Stock of Office Space in million sqm	91.54	20.30	7.69	11.46	13.74	7.85	22.55	7.95
Office Space Take-up 2018 in sqm	3,796,400	791,000	338,000	618,000	564,000	290,000	979,300	216,100
Change year-on-year in %	-8.7	-15.6	1.5	-13.0	-9.3	-4.0	-0.5	-19.5
Forecast for 2019	▼	▶	▶	▶	▶	▼	▼	▼
Office Space Take-up in sqm Average 2008–2017	3,235,000	669,900	318,000	475,300	509,500	289,200	718,500	254,600
Prime Rent in €/sqm		35.10	28.00	42.00	27.00	23.00	36.00	23.00
Forecast for 2019		▲	▲	▲	▲	▲	▲	▶
Average Rent in €/sqm		21.70	16.20	20.30	15.70	13.80	19.00	14.00
Forecast for 2019		▲	▶	▲	▲	▲	▲	▲
Vacant Office Space in sqm	2,887,700	304,500	495,400	783,800	488,000	220,000	410,600	185,400
Vacancy Rate in %	3.1	1.5	6.4	6.8	3.6	2.8	1.8	2.3
Change year-on-year in bp*	-100	-50	-60	-280	-90	-120	-60	20
Forecast for 2019	▼	▶	▶	▼	▼	▼	▼	▼

The data for Berlin, Düsseldorf, Hamburg and Cologne are related to the respective city area. The data for Frankfurt, Munich and Stuttgart are related to each of the respective markets on the whole.

\* basis points

## Investment

	Germany	TOP 7	Berlin	Düsseldorf	Frankfurt	Hamburg	Cologne	Munich	Stuttgart
Transaction Volume 2018 in million €	60,593	36,305	6,959	3,420	9,664	5,665	1,860	6,531	2,206
Change year-on-year in %	5.8	21.2	-7.5	24.8	39.8	66.1	-7.0	5.9	83.8
Forecast for 2019	▼	▼	▶	▼	▼	▼	▼	▶	▼
Transaction Volume in million € Average 2008–2017	33,470	18,258	4,091	1,582	3,672	2,803	1,109	4,051	950
Prime Yield Offices in %			3.10	3.50	3.30	3.20	3.75	3.00	3.40
Prime Yield High Street Retail in %			3.20	3.20	2.80	3.20	3.30	2.75	3.10
Prime Yield Industrial & Logistics in %						4.50**			

\*\* Refers to the defined logistics market areas

## CONTACT

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