GERMANY

Office Market Snapshot

Second Quarter | 2019

CUSHMAN & WAKEFIELD

MARKET INDICATORS

Market Outlook

Prime Rents:	Expected to increase due to lack of available modern space in central locations with solid level of demand.	
Prime Yields:	Expected to maintain current low level due to strong demand with potential for slight compression.	
Supply:	Completion volume will increase in 2019. High levels of pre-leases will keep modern space availability at a low level.	
Demand:	Solid demand is expected to be sustained in all top-5 markets.	

Prime Office rents – June 2019

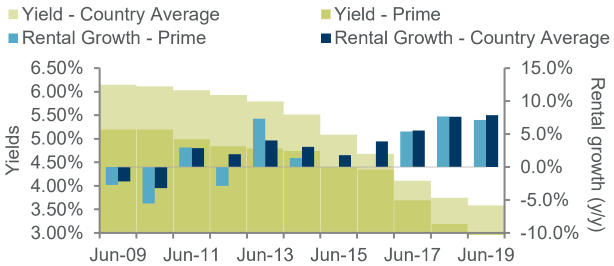
LOCATION	€ SQ. M MTH	€ SQ. M YR	US$ SQ.FT YR	GROWTH % 1YR	GROWTH % 5YR CAGR
Berlin (CBD)	37.00	444	49.8	17.5	10.7
Berlin (Decentralised)	20.00	240	26.9	12.7	12.7
Frankfurt (CBD)	45.00	540	60.6	7.1	4.0
Frankfurt (Decentralised)	18.50	222	24.9	12.1	5.7
Hamburg (CBD)	27.50	330	37.0	5.8	2.8
Hamburg (Decentralised)	17.00	204	22.9	7.3	5.5
Munich (CBD)	38.50	462	51.8	5.5	3.4
Munich (Decentralised)	21.50	258	29.0	10.3	7.5
Dusseldorf (CBD)	28.00	336	37.7	1.8	0.4
Dusseldorf (Decentralised)	15.00	180	20.2	7.1	5.5

Prime Office yields – June 2019

LOCATION (FIGURES ARE NET, %)	CURRENT Q	LAST Q	LAST Y	10 YEAR HIGH	LOW
Berlin	3.05	3.10	3.10	5.50	3.05
Frankfurt	2.80	2.90	3.20	5.20	2.80
Hamburg	2.90	2.90	3.10	5.20	2.90
Munich	2.50	2.50	2.80	5.10	2.50
Dusseldorf	3.30	3.30	3.50	5.20	3.30

With respect to the yield data provided, in light of the changing nature of the market and the costs implicit in any transaction, such as financing, these are very much a guide only to indicate the approximate trend and direction of prime initial yield levels and should not be used as a comparable for any particular property or transaction without regard to the specifics of the property.

Recent performance



Overview

Despite the global uncertainties the German economy began the year well. GDP increased by 0.7% compared to the first quarter of last year and is forecast to continue on a similar path. However, if trade tensions are not resolved and the Brexit process remains uncertain, among other issues, the economy could stagnate as resilience of domestic demand is tested to the limit.

Occupier focus

In the first half of 2019, take-up volume of 1,642,500 sq.m was registered in the top-5 markets. Compared to the previous year's equivalent figure, this is an increase of 6%. Strong results in Berlin (395,500 sq.m; plus 3%) and Hamburg (322,900 sq.m; plus 31%) made a particularly significant contribution to the overall increase in take-up. Düsseldorf (240,500 sq.m; plus 25%) and Frankfurt (260,200 sq.m; plus 1%) also performed more strongly than a year earlier. Only Munich, while ranking first among the top-5 with 423,400 sq.m of take-up, faced a decline of 11%, not least due to almost exhausted supply in the market. The high level of take-up in the main five markets reduced the amount of office space available for new tenants. Compared to end of June 2018, the aggregate vacancy rate declined by seven percentage points from 4.5% to 3.8%. Due to the acute shortage and the unrelenting demand for high-quality office space, prime rents in four of the top-5 markets rose in H1 2019.

Investment focus

Office investment began 2019 with a quarterly investment volume of €5.8 bn and increased to €11.85 bn to the end of June. Constituting half of all commercial transaction volume office property remains at the top of investors' shopping lists. Large single-asset opportunities in the main markets attracted investors most strongly with the sale of Frankfurt office building Die Welle for more than €600 million flagging the largest deal so far. In the second quarter, prime yields remained static in three markets and compressed in Berlin and Frankfurt.

Outlook

According to latest information from Oxford Economics, GDP growth is forecast at 0.9% in 2019. The economic upturn of recent years is slowing due to the ongoing risks and uncertainties. Take-up in the top-5 markets is expected to decline year-on-year, but nevertheless remain at a solid level, forecast at almost 3.1 million sq.m for the year. Prime rents will increase in the top-5 locations.

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LOCATION	BUILT STOCK (SQ. M)	AVAILABILITY (SQ. M)	VACANCY RATE (%)	TAKE-UP (SQ. M)	FSTAKE-UP YTD (SQ. M)	UNDER CONSTRUCTION (SQ. M)
Berlin	18,727,800	262,100	1.4%	172,700	395,500	1,424,000
Frankfurt	11,680,000	824,700	7.1%	177,100	260,200	489,800
Hamburg	14,796,300	500,600	3.4%	184,000	322,900	588,900
Munich	20,771,600	565,200	2.7%	229,700	423,400	1,459,600
Dusseldorf	9,012,400	660,000	7.3%	145,900	240,500	326,300
Germany Top 5 Markets (Overall)	**74,988,100**	**2,812,600**	**3.8%**	**909,400**	**1,642,500**	**4,288,600**

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ. M)	TRANSACTION TYPE
City Campus	Berlin	Bundesbehörde	14,000	New-Lease
Bötzow Brauerei	Berlin	WeWork	9,000	Pre-Lease
DekaBank	Frankfurt	DekaBank Deutsche Girozentrale	46,200	Pre-Lease
OTTO	Hamburg	OTTO	40,000	Owner Occupation
Fernmeldeamt	Hamburg	City Hamburg	52,000	Pre-Lease
ProSiebenSat.1 Campus	Munich	ProSiebenSat.1 Media SE	26,000	Owner Occupation
Mizal	Dusseldorf	WPP Deutschland Holding	36,800	Pre-Lease

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER
Die Welle	Frankfurt	Norges Bank JV Axa Investment / Invesco Real Estate
Siemens-Campus (60%)	Munich	Gingko Tree / Aroundtown JF RFR
T 8	Frankfurt	Mirae Asset Global Investments / Wirtgen Group

Source: Cushman & Wakefield, Real Capital Analytics

Ursula-Beate Neißer
Head of Research, Germany
Rathenauplatz 1, 60313 Frankfurt am Main, Germany
Tel: +49 (0) 69 5060 73 140
ursula-beate.neisser@cushwake.com
cushmanwakefield.com