

GERMANY Office Market Snapshot

Third Quarter | 2017



MARKET INDICATORS

Market Outlook

Prime Rents:	Expected to increase due to shortage of modern space in central locations and stable demand.	▼
Prime Yields:	Falling due to strong demand and low supply in particular of super prime properties in core locations.	▲
Supply:	Declining due to high absorption levels and the limited amount of larger speculative developments.	▲
Demand:	Strong demand is expected to be sustained in all major office markets in the remainder of the year.	►

Prime Office rents – September 2017

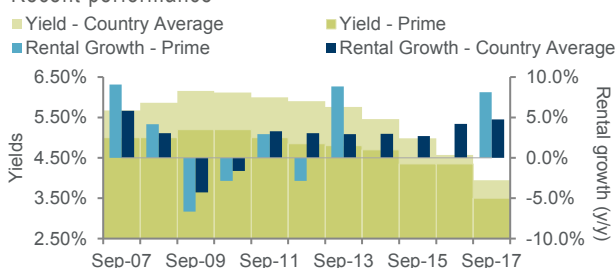
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Berlin (CBD)	27.50	330	36.4	10.0	4.3
Berlin (Decentralised)	13.80	165.6	18.3	6.2	5.6
Frankfurt (CBD)	40.00	480	52.9	8.1	3.3
Frankfurt (Decentralised)	15.50	186	20.5	0.0	3.6
Hamburg (CBD)	25.50	306	33.7	2.0	1.6
Hamburg (Decentralised)	15.00	180	19.8	3.4	6.4
Munich (CBD)	35.50	426	47.0	4.4	2.4
Munich (Decentralised)	18.50	222	24.5	8.8	5.7
Dusseldorf (CBD)	26.50	318	35.1	0.0	1.6
Dusseldorf (Decentralised)	12.25	147	16.2	0.0	3.1

Prime Office yields – September 2017

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Berlin	3.10	3.25	3.85	5.50	3.10
Frankfurt	3.50	3.70	4.35	5.20	3.50
Hamburg	3.40	3.40	3.80	5.20	3.40
Munich	3.00	3.00	3.20	5.10	3.00
Dusseldorf	3.75	3.90	4.35	5.20	3.75

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

The momentum of the German economy has remained robust in Q3. The ifo business climate index was at 115.2 points in September which is significantly above the long term average of 102.1 points. At the same time consumer sentiment, as measured by the GfK Consumer Climate Index, consolidated at a high level of 10.9 points. The positive sentiment is partly due to the healthy labour market: More than 44 million persons were in employment at the end of Q3 setting a new record. In 2017 growth in employment of more than 500,000 is expected. The unemployment rate is at 5.5% at the end of September. Positive economic conditions were reflected in the market in the form of strong take-up and investment appetite in Q3.

Occupier focus

Demand for office space remained strong across all major office markets. In Q3 take-up in the top-5 markets amounted to 2,449,600 sq.m, which lifted the Q1-Q3 result 11% above last year's excellent performance. All of the top-5 markets had exceeded last year's result after three quarters. Berlin and Munich recorded particularly strong demand, contributing more than 50% to cumulative take-up between January and the end of September. The aggregated vacancy rate in the top-5 markets continued to decline to 5.0% (Q3 2016: 6.0%) with an acute shortage of large-scale modern office spaces in central urban locations. Considering the vigorous market activity, the completions are at a low level: Some 420,600 sq.m of new office space has been added to total stock in the top-5 markets so far in 2017. Due to persistent lively demand for modern office space, construction activity is increasing. Currently 2,165,400 sq.m of new office space is under construction, some 22% above the volume at this point last year.

Investment focus

Appetite for office assets remained strong in Q3 with investors focusing on the major economic hubs, especially when it comes to large-scale single asset transactions. The three largest office deals of the quarter took place in Berlin. Together they represent a purchase volume of almost €1.9 bn of which the Sony Center was worth €1.1 bn. Total German office transaction volume in Q3 amounted to €7.2 bn, bringing the result for Q1-Q3 up to €17.7 bn. Yields will remain under pressure and are expected to compress.

Outlook

GDP growth in 2017 is forecast at 2.1% year-on-year according to Oxford Economics, which would be the strongest since 2011. Occupier markets and investment markets will profit from these conditions which is expected to result in new record figures in term of take-up at the end of the year.

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LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Berlin	18,487,400	472,200	2.6%	292,000	704,000	667,200
Frankfurt	11,945,200	964,400	8.1%	190,900	430,600	274,200
Hamburg	14,629,700	737,400	5.0%	156,800	453,000	280,200
Munich	20,436,900	788,100	3.9%	188,900	622,600	696,200
Dusseldorf	8,928,200	745,500	8.3%	69,900	289,400	247,600
Germany Top 5 Markets (Overall)	74,427,400	3,707,600	5.0%	898,500	2,499,600	2,165,400

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Königliche Direktion (Royal Directorate)	Berlin	Institute for Federal Real Estate (BIMA)	15,200	New Lease
Factory Start-up Campus	Berlin	Factory Berlin	14,000	Owner Occupation
Mainblick3	Frankfurt	Hessische Landesbank (Helaba)	27,500	Owner Occupation
FOUR	Frankfurt	Baker & McKenzie	8,000	Pre-Lease
Gruner + Jahr HQ	Hamburg	Gruner + Jahr	34,000	Pre-Lease
HS24	Munich	Mindspace	7,300	New Lease
Highlight Towers	Munich	Amazon	6,800	Pre-Lease
Seestern Office Center	Dusseldorf	Athlon	8,500	New Lease

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Sony Centre	Berlin	Oxford Properties JV Madison International Realty / NPS	n/a	1 110
Axel-Springer HQ (under construction)	Berlin	Norges /Axel Springer	n/a	425
Grand Central (planned)	Frankfurt	Amundi Real Estate/ Phoenix JV Groß und Partner	n/a	130
Eschborn Plaza	Frankfurt	Aurec / CommerzReal	n/a	236
LoopSite	Munich	Amundi Real Estate / Quantum JV Blackstone	n/a	180

Source: Cushman & Wakefield, Real Capital Analytics

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