

MARKET INDICATORS

Market Outlook

Prime Rents:	Expected to increase due to shortage of modern space in central locations and stable demand.	▶
Prime Yields:	Stable with some potential for compression for super prime properties in core locations.	▶
Supply:	Supply for pre-leasing increases, modern supply in stock will remain at a low level.	▶
Demand:	Lively demand is expected to be sustained in all major office markets.	▶

Prime Office rents – June 2018

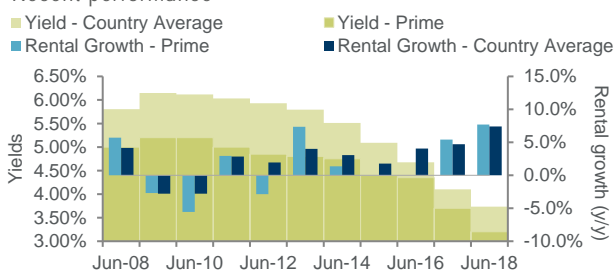
LOCATION	€	€	US\$	GROWTH %	
	SQ.M MTH	SQ.M YR	SQ.FT YR	1YR	5YR CAGR
Berlin (CBD)	31.50	378	41.1	18.9	7.2
Berlin (Decentralised)	14.75	177	19.2	8.5	7.0
Frankfurt (CBD)	42.00	504	54.8	7.7	2.8
Frankfurt (Decentralised)	16.50	198	21.5	6.5	3.3
Hamburg (CBD)	26.00	312	33.9	2.0	1.6
Hamburg (Decentralised)	15.85	190.2	20.7	5.7	5.7
Munich (CBD)	36.50	438	47.6	4.3	3.0
Munich (Decentralised)	19.50	234	25.4	8.3	6.1
Dusseldorf (CBD)	28.00	336	36.5	5.7	1.1
Dusseldorf (Decentralised)	14.00	168	18.3	14.3	4.9

Prime Office yields – June 2018

LOCATION (FIGURES ARE NET, %)	CURRENT	LAST	LAST	10 YEAR	
	Q	Q	Y	HIGH	LOW
Berlin	3.10	3.10	3.25	5.50	3.10
Frankfurt	3.20	3.30	3.70	5.20	3.20
Hamburg	3.10	3.10	3.40	5.20	3.10
Munich	2.80	2.80	3.00	5.10	2.80
Dusseldorf	3.50	3.50	3.90	5.20	3.50

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 German economy began Q2 2018 on a weak note. According to the Ifo Institute, industry was influenced negatively by slowing global growth and worries over tariffs weighing on investment intentions. It appears that industrial firms have begun to cut investment plans due to the threat of a trade war. Companies were less satisfied with their current business situation than in previous months, although sentiment was still positive. Expectations were also down; to their lowest level since Q1 2016. However, GDP is expected to grow by 0.5% in Q2 due to robust domestic demand and the solid state of the labour market with the unemployment rate declining further to 5.0% at the end of June.

Occupier focus

Office leasing performed strongly in the German top-5 markets in the first half of 2018 with take-up volume of 1,553,300 sq. m including 758,900 sq. m. leased in Q2 (49%). The result is only 2.5% below last year's excellent performance. Munich saw particularly strong demand (475,600 sq. m), contributing more than 30% to total take-up. However, an acute shortage of availability has become the limiting factor: At the end of H1 a mere 3,361,100 sq. m was available at short notice. Particularly the most sought-after office markets are experiencing an acute shortage of modern office space with vacancy rates down to 3.3% in Munich and 2.2% in Berlin. The aggregated vacancy rate in the top-5 declined to 4.5% at the end of June (Q2 2017 5.2%). Prime rents have increased in all top-5 markets since this point last year (Berlin: +€5.00, Frankfurt: +€3.00). Completions remained at a low level and will not satisfy the expected strong demand in the remainder of 2018.

Investment focus

Investor appetite for office investments remained at a high level. By the end of H1 2018 investment volume reached €11.49 bn which is 9% above the result of the first six months of last year. The 5 main markets attracted investors most, with large-volume opportunities and contributing more than 70% of the national office volume. Prime yields remained stable, only in Frankfurt did they compress by 10 basis points.

Outlook

The GDP growth forecast for 2018 was slightly revised down to 2.0% year-on-year according to Oxford Economics; Occupier and investment markets will profit from these stable conditions and are expected to remain at a high level.

GERMANY Office Market Snapshot

Second Quarter | 2018



LOCATION	BUILT STOCK (SQ.M)	AVAILABILITY (SQ.M)	VACANCY RATE (%)	TAKE-UP (SQ.M)	TAKE-UP YTD (SQ.M)	UNDER CONSTRUCTION (SQ.M)
Berlin	18,559,000	416,900	2.2%	160,000	383,500	1,083,900
Frankfurt	11,738,100	885,200	7.5%	98,300	255,000	260,900
Hamburg	14,758,800	660,900	4.5%	140,000	246,300	326,500
Munich	20,529,600	682,300	3.3%	242,100	457,600	928,400
Dusseldorf	8,972,100	715,800	8.0%	118,500	192,900	290,100
Germany Top 5 Markets (Overall)	74,557,600	3,361,100	4.5%	758,900	1,553,300	2,844,800

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ.M)	TRANSACTION TYPE
Vattenfall HQ	Berlin	Vattenfall	29,900	Pre-Lease
OPS 35	Frankfurt	German Finance Agency	8,300	Sublease
Oper 46	Frankfurt	TOG – The Office Group	6,500	New Lease
Olympus Campus	Hamburg	Design Offices	8,600	Pre-Lease
Die Macherei	Munich	Design Offices	15,000	Pre-Lease
Art Deco Palais	Munich	WeWork	11,600	Pre-Lease
Heinrich Campus	Dusseldorf	Deloitte	35,500	Pre-Lease

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	YIELD	PRICE € MILLIONS
Gallileo	Frankfurt	Triuva/ Capitaland	n/a	356
Theodor-Stern-Kai 1	Frankfurt	Office First / Credit Suisse AM	n/a	297
Olympus Campus	Hamburg	Zech / Ärzteversorgung Westfalen-Lippe JV Hines	n/a	250
Edge Grand Central	Berlin	Edge Technologies / TH Real Estate	n/a	139
Campus West	Munich	Quantum / Versorgungswerk	n/a	105

Source: Cushman & Wakefield, Real Capital Analytics

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