

GERMANY

Office Market Snapshot

Third Quarter | 2018



MARKET INDICATORS

Market Outlook

Prime Rents:	Expected to increase due to shortage of modern space in central locations and high level of demand.	▼
Prime Yields:	Some further compression expected in particular markets due to strong demand.	▲
Supply:	Modern supply of stock will remain at a low level in the remainder of 2018.	▶
Demand:	Strong demand is expected to be sustained in all top-5 markets.	▶

Prime Office rents – September 2018

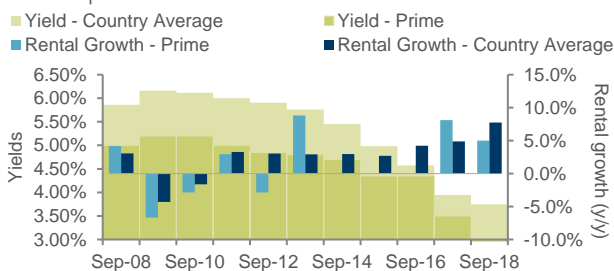
LOCATION	€		US\$	GROWTH %	
	SQ. M MTH	SQ. M YR	SQ. FT YR	1YR	5YR CAGR
Berlin (CBD)	32.00	384	41.6	16.4	7.5
Berlin (Decentralised)	15.00	180	19.5	8.7	7.4
Frankfurt (CBD)	42.00	504	54.7	5.0	2.6
Frankfurt (Decentralised)	16.50	198	21.5	6.5	3.3
Hamburg (CBD)	26.50	318	34.5	3.9	2.0
Hamburg (Decentralised)	16.00	192	20.8	6.7	5.9
Munich (CBD)	38.00	456	49.5	7.0	3.8
Munich (Decentralised)	21.00	252	27.3	13.5	7.7
Dusseldorf (CBD)	28.00	336	36.4	5.7	0.4
Dusseldorf (Decentralised)	14.00	168	18.2	14.3	4.9

Prime Office yields – September 2018

LOCATION	CURRENT	LAST	LAST	10 YEAR	LOW
(FIGURES ARE NET, %)	Q	Q	Y	HIGH	
Berlin	3.10	3.10	3.10	5.50	3.10
Frankfurt	2.95	3.20	3.50	5.20	2.95
Hamburg	3.00	3.10	3.40	5.20	3.00
Munich	2.70	2.80	3.00	5.10	2.70
Dusseldorf	3.40	3.50	3.75	5.20	3.40

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

GDP growth was 0.4% in Q1 and 0.5% in Q2, due to robust and broad-based gains in investment and consumption. External risks such as trade tensions are posing a risk for German exporters. However, underlying trends remain strong, domestic demand is particularly robust due to the strong labour market with the unemployment rate at 5.0% at the end of September.

Occupier focus

Demand for office space was strong in the German top-5 markets with take-up volume of 2.4 million sq. m over the first nine months of the year. Q3 contributed 869,400 sq. m. making it the strongest quarter so far (36%). The cumulative result is only 2.5% below last year's excellent performance. Particularly strong demand was seen in Munich (699,900 sq. m) and Berlin (591,200 sq. m), together contributing more than 50% to total take-up. However, shortage of availability has become a limiting factor preventing an even stronger result: At the end of Q3 a mere 3 million sq. m was available at short notice in the top-5 markets, which is a decrease of 18.3% in comparison to this point last year. The aggregated vacancy rate declined to 4.0% at the end of September. Due to the acute shortages and strong demand for high quality office space, prime rents per sq. m/month increased in Munich (+€1.50). Berlin (+€0.50) and Hamburg (+€0.50) in the third quarter. Completions remained at a low level (495,100 sq. m) and failed to satisfy demand.

Investment focus

Office investments rank first on investors' target lists. To the end of September 2018 investment volume reached €19.3 bn which is 9% above the result of the first nine months of last year. The main markets attracted the most investor interest largely due to their large-volume opportunities. Prime yields compressed by 10 to 25 basis points in four of the main five markets.

Outlook

The GDP growth forecast is 1.8% for 2018 and 1.6% for 2019 year-on-year according to Oxford Economics. Solid growth, an increasing number of people in employment and low bond yields will continue to provide stable conditions for occupier and investment markets. Office take-up in the main five markets is expected to come close to 3.3 million sq. m by the end of 2018 with the annual transaction volume for office buildings and office development sites to reach €23 million-plus.

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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	18,638,100	307,200	1.6%	207,700	591,200	993,200
Frankfurt	11,699,000	820,200	7.0%	178,300	436,200	408,900
Hamburg	14,772,000	584,900	4.0%	167,500	413,800	408,400
Munich	20,569,500	643,300	3.1%	224,300	699,900	793,700
Dusseldorf	8,991,800	674,300	7.5%	91,600	284,500	247,600
Germany Top 5 Markets (Overall)	74,670,400	3,029,900	4.1%	869,400	2,425,600	2,851,800

Source: Cushman & Wakefield

Key Occupier Transactions

PROPERTY	SUBMARKET	TENANT	SIZE (SQ. M)	TRANSACTION TYPE
B:HUB	Berlin	Deutsche Bahn AG	13,000	Pre-Lease
Cielo	Frankfurt	Commerzbank AG	36,100	New Lease
Global Tower	Frankfurt	Spaces	9,200	Pre-Lease
Beiersdorf HQ	Hamburg	Beiersdorf	48,000	Owner Occupation
Bramfelder Spitze	Hamburg	Akquinet	12,000	Pre-Lease
iCampus	Munich	Serviceplan Group	38,600	Pre-Lease
Business IN-West	Dusseldorf	Lowell Financial Services	9,200	New Lease

Source: Cushman & Wakefield

Key Investment Transactions

PROPERTY	SUBMARKET	SELLER / BUYER	PRICE € MILLIONS
Omniturn (under construction)	Frankfurt	Tishman Speyer / CommerzReal	690
DB Brick & DB Tower (under construction)	Frankfurt	Aurelis Real Estate / Warburg-HIH-Invest	390
Garden Tower	Frankfurt	Curzon Capital Partners CCP IV / GEG German Estate	275
HQ Metro-Group	Dusseldorf	Triuva / Arminius	270
Zalando Campus (under construction)	Berlin	L'Étoile Properties JV Capstone AM / Hines	233

Source: Cushman & Wakefield, Real Capital Analytics

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