

## **German office markets in 2006 – Upturn taking effect**

The German economy finds itself in an upturn. Turnover and profits of the companies are increasing. The gross domestic product (GDP) in 2006 increased by 2.5 % compared with the previous year. A higher rate of growth was reached by Germany after the reunification only in the years 1994 and 2000. The unemployment rate is going down as jobs return. In December there were almost 600,000 fewer unemployed in Germany than a year ago, which pushed the unemployment rate down to 9.6 %. Consequently the level of economic activity also affected the office market.

### **Take-up**

The market report by Colliers PropertyPartners for the office property markets Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart reveals that the total take-up of ca. 2.72 million m<sup>2</sup> of office space represents around 330,000 m<sup>2</sup> (+ 13.8 %) more let than in the year 2005. All of these locations except for Stuttgart were able to improve their result for the year in comparison with the previous year.

The surprise winner is Berlin. The German capital bettered its performance of the previous year by 27 % (ca. 137,500 m<sup>2</sup>) with an office space take-up of ca. 652,500 m<sup>2</sup>. It should be noted however that there is a high percentage of owner-occupation of ca. 120,000 m<sup>2</sup> in these figures, caused above all by the Federal Intelligence Agency (*Bundesnachrichtendienst*). Munich came close behind Berlin, with a letting volume of ca. 631,200 m<sup>2</sup> and an increase of 9 % (ca. 52,200 m<sup>2</sup>). In Frankfurt 12 % (ca. 59,500 m<sup>2</sup>) more office space was let with ca. 548,000 m<sup>2</sup>. With an increase of 14 % (ca. 59,000 m<sup>2</sup>) Hamburg also improved its result for the year with ca. 479,000 m<sup>2</sup> taken up. The Düsseldorf office space take-up of ca. 268,000 m<sup>2</sup> rose by 10 % (ca. 25,000 m<sup>2</sup>) in comparison with the previous year. Stuttgart had to suffer a loss of 3 % (ca. 4,000 m<sup>2</sup>) to ca. 141,000 m<sup>2</sup>.

In Berlin the public administration was the main source of demand for office space. Even adjusted for the major owner-occupier, the Federal Intelligence Agency, still just under 20 % (34 % including the FIA) of the space let went to this sector. In Düsseldorf business-to-business services were the sector with the strongest take-up with a share of 41 % and in Stuttgart it was the same with 39 %. In Frankfurt the greatest demand was generated by the financial services companies with a share of 36 % of the take-up, in Hamburg the greatest demand came from the banking and insurance sector with 18 % of the total. In Munich the EDP and telecommunications sector proved to be particularly willing to sign leases and accounted for 30 % of the total.

The smallest category of leases, for units up to 500 m<sup>2</sup>, contributed most to the total take-up of office space with 30 % in Düsseldorf, 25 % in Munich and 29 % in Stuttgart. The major contributors to the take-up besides this were leases signed for units between 500 m<sup>2</sup> and 1,000 m<sup>2</sup> with 22 % in Düsseldorf, in Munich for units over 5,000 m<sup>2</sup>, also with 22 %, and in Stuttgart with 20 % for units between 2,000 m<sup>2</sup> and 5,000 m<sup>2</sup>. Leases for units over 5,000 m<sup>2</sup> accounted for 43 % without FIA (52% with FIA) in Berlin, for 48 % in Frankfurt and for 26 % in Hamburg.

## **Rents**

In comparison with the previous year the top rent in Düsseldorf rose by 0.10 € to 21.10 €/m<sup>2</sup>/month and in Hamburg by the same amount to 21.00 €/m<sup>2</sup>/month. Higher rises were the 1.00 € to 35.00 €/m<sup>2</sup>/month in Frankfurt and 2.00 € to 30.00 €/m<sup>2</sup>/month in Munich. The top rent dropped by 3.00 € to 20.50 €/m<sup>2</sup>/month in Berlin. In Stuttgart the top rent went down by 0.50 € to 16.50 €/m<sup>2</sup>/month.

All cities registered an increase in the average rent: in Frankfurt a strong rise of 1.00 € to 15.50 €/m<sup>2</sup>/month, in Munich a rise of 1.15 € to 14.42 €/m<sup>2</sup>/month and in Stuttgart a rise of 1.11 € to 11.86 €/m<sup>2</sup>/month. There were smaller increases in the average rent in Berlin, by

0.44 € to 10.60 €/m<sup>2</sup>/month, in Düsseldorf by 0.30 € to 12.70 €/m<sup>2</sup>/month and in Hamburg by 0.38 € to 12.35 €/m<sup>2</sup>/month.

In Berlin 52 % of all leases were signed for rents of 10.00 €/m<sup>2</sup>/month or less. In Düsseldorf this price segment also had the most leases with 33 %, although the price category between 10.00€/m<sup>2</sup>/month and 12.50 €/m<sup>2</sup>/month followed close behind with a share of 29 %. In Frankfurt 30 % of all leases were signed between 10.00 €/m<sup>2</sup>/month and 12.50 €/m<sup>2</sup>/month, and the same percentage in the category of 20.00 €/m<sup>2</sup>/month and over. In Hamburg, Munich and Stuttgart leases in the lowest category up to 10.00 €/m<sup>2</sup>/month were the most popular with 38 %, 29 % and 46 % respectively of the total.

Leases for 10.00 €/m<sup>2</sup>/month and less had the highest share of the take-up in Hamburg and Stuttgart with 37 % and 40 % respectively. In the capital city of Baden-Württemberg the price category between 10.00 €/m<sup>2</sup>/month and 12.50 €/m<sup>2</sup>/month also made a considerable contribution with 36 %. Leases signed in this price category made the biggest contribution in Düsseldorf with 28 %. Besides this leases at lower rents and also leases between 10.00 €/m<sup>2</sup>/month and 15.00 €/m<sup>2</sup>/month had a share in the volume of letting of 27 % and 25 % respectively. In Munich there were almost equal shares for the price categories of up to 10.00 €/m<sup>2</sup>/month and between 10.00 €/m<sup>2</sup>/month and 12.50 €/m<sup>2</sup>/month, with a share of 24 % and 25 % respectively. The price category between 12.50 €/m<sup>2</sup>/month and 15.00 €/m<sup>2</sup>/month accounted for 32 % of the total in Berlin, the highest volume of lettings. Rent agreements up to 10.00 €/m<sup>2</sup>/month were also strongly represented with 28 % of the total. In Frankfurt leases in the category 20.00 €/m<sup>2</sup>/month took first place with a share of 29 % of the total.

## **Vacancy**

In Berlin, Düsseldorf, Frankfurt, Hamburg and Munich the whole of the office vacancy\* has gone down in comparison with the previous year. The amount of space standing empty (including space available for sub-letting) in the national capital decreased by ca. 51,000 m<sup>2</sup>

(- 3 %) to ca. 1,495,000 m<sup>2</sup>, in the Rhine metropolis by ca. 21,000 m<sup>2</sup> (- 3 %) to ca. 739,000 m<sup>2</sup>, in the Hesse banking city (without Eschborn and Kaiserlei) by ca. 93,000 m<sup>2</sup> (- 5 %) to ca. 1,781,000 m<sup>2</sup>, in the north German port city only slightly by ca. 2,500 m<sup>2</sup> (- 0,2 %) to 1,040,500 m<sup>2</sup> and in the city on the Isar by ca. 211,700 m<sup>2</sup> (- 12 %) to ca. 1,491,300 m<sup>2</sup>.

In Stuttgart vacancy rose by ca. 61,000 m<sup>2</sup> (+ 15 %) to ca. 467,000 m<sup>2</sup>. This is based on an office market study by the research institute Bulwien Gesa with an analysis of the Stuttgart office market. The new guidelines set out there for the assessment of vacancy explain the change compared with the previous year. Vacancy nation-wide thereby decreased by ca. 318,000 m<sup>2</sup> (- 4 %) and stands at present at ca. 7,014,000 m<sup>2</sup>. The supply of space available for subletting continued to lose its importance and dropped in the course of the year by 15% to ca. 461,000 m<sup>2</sup>.

\*To facilitate comparison, vacancy are given with the inclusion of space available for subletting.

Except for Stuttgart the vacancy rate (including space available for subletting) dropped in all cities: in Berlin by 0.4, in Düsseldorf by 0.3 and in Hamburg by 0.1 percentage points. Frankfurt and Munich enjoyed a vacancy rate which was lower by 1.1 percentage points. In Stuttgart however vacancy rose by the same amount. If we rank these in order the following picture emerges: Frankfurt leads with a rate of 15.6 % (without Eschborn and Kaiserlei). Düsseldorf follows with 10.6 % and Berlin with 8.2 %. In Hamburg and Munich the rate is 7.9 % and 7.0 % respectively. Stuttgart shows the lowest rate at 6.5 %.

## **PropertyIndex**

The PropertyIndex illustrates the development in the supply and demand situation in the office market. It represents the ratio of the supply in the next 12 months to the take-up in the last 12 months.

By this method of calculation the demand in Frankfurt is faced by supply almost four times as much. In Stuttgart supply exceeds the demand by a factor of three and a half. In Düsseldorf the ratio stands at 2,9, in Hamburg and Munich both 2,7. The most favourable factor is enjoyed by Berlin with 2,2. For Berlin, Düsseldorf, Hamburg and Munich this means an improvement on the situation compared with the previous year.

### **Conclusion and forecasts**

Berlin continues to be fashionable. Even without the engagement of the Federal Intelligence Agency and other owner-occupiers amounting to around 120,000 m<sup>2</sup> the annual result which then comes to ca. 530,000 m<sup>2</sup> of space let approaches the take-up of the record year 2000. According to Colliers partner Geske Immobilien GmbH in Berlin a lasting upturn can now be assumed. The letting performance in the western part of the city which is low this year too at 29,000 m<sup>2</sup> is not due to a lack in demand but to the present lack in the supply. Large, flexibly designed office space with a contemporary and modern specification is still hardly available. This is due on the one hand to the traditional older-building structure and on the other hand to the almost non-existent capacity for new projects. Since some larger projects – particularly in East Berlin – have been completed in 2006, vacancy could only be reduced by 3 %. The figure for space in reserve however includes also the “residual vacancy” of no longer contemporary and thus no longer lettable space. This space will only find new occupants with great difficulty in the future also. The structure of the demand has hardly changed. Besides the naturally few leases of units in the size category of 5,000 m<sup>2</sup> and over the market is still dominated by companies who need office space of up to 500 m<sup>2</sup>.

The Düsseldorf office market was able to continue its course of recovery, so that nearly 60 % of the total office space take-up in the city area of Düsseldorf took place in the second half of 2006. Since the bulk of economic researchers are convinced that the upturn will continue, Colliers partner Trombello Kölbel Immobilienconsulting GmbH expects a letting performance of ca. 300,000 m<sup>2</sup> for the year 2007. The increased rents, particularly in the sub-markets Kennedydamm, Grafenberger Allee and Düsseldorf North resulted in a slightly

increased average rent for the whole market. Particularly for new buildings the trend to higher rents will continue in 2007. Not only has the supply of space available for subletting dropped but also the purely vacant space decreased. The drop in vacancy for the first time since the year 2000 caused a positive net absorption. Further office space developments will be very few during the next two years in the Düsseldorf market. On present indications the completion of ca. 90,000 m<sup>2</sup> of new office space is planned by the end of 2008. Of this 70% is already either pre-let or destined for owner-occupation. Thus with the level of economic activity continuing, it can be assumed that vacant space will be further absorbed.

The inner city area with Banking District, City and Westend registered 40 % of the total office space take-up in Frankfurt. Here the financial services companies with a share of 36 % have once more shown the heaviest concentration. Particularly new buildings such as “Skyper”, the “MainBuilding” and properties in Westhafen have contributed to the good result. Peripheral locations such as Niederrad, Eschborn, Frankfurt East with Hanauer Landstrasse enjoyed very little demand in 2006. The Airport has also developed so well as a new office location (just under 10% of the take-up) that it has been accepted as a new sub-market. Major lettings such as for example Deutsche Bank with ca. 36,300 m<sup>2</sup>, KPMG with ca. 35,000 m<sup>2</sup> and the Swiss bank UBS with 31,000 m<sup>2</sup> have contributed to the extraordinarily good result in Frankfurt. Of the new buildings begun in the last year some have already been completed this year and several are up to ca. 50% let. For the year 2007 Colliers partner Schön & Lopez Schmitt GmbH expects the take-up to remain the same with a drop in vacancy and a rise in rents.

The office space take-up of ca. 479,000 m<sup>2</sup> is the second highest result ever achieved in Hamburg. Letting was concentrated as already in the previous year in the Hamburg city centre. Stable demand for office space and several large leases in negotiation caused Colliers partner Grossmann & Berger GmbH to forecast a volume of letting around 450,000 m<sup>2</sup> for 2007 also. The average rent shows a clear upward tendency. The figure still stood at ca. 11.50 €/m<sup>2</sup>/month (net) on 30. June 2006 but recovered by the 4th quarter. In 2007 a

further moderate rise in the average rent and a stable top rent because of the lasting demand for exclusive office space can be expected. The low absorption of vacant space in 2006 will not accelerate in 2007 either, since in view of a volume of completion of new buildings amounting to ca. 260,000 m<sup>2</sup> the supply of space will not significantly decrease.

With a letting performance of around 631,000 m<sup>2</sup> in Munich the figure forecast at the beginning of the year 2006 was even exceeded. The major part of the lettings (85 %) took place within the city boundaries. A satisfactory feature in this connection is above all the reduction of the vacant space by 13 % in comparison to 2005, which is due to a high net absorption. Until new projects are developed in the central locations Colliers partner Immobilien-Kontor Schauer & Schöll GmbH expects a further reduction in the supply of large-area, city centre space. In the central locations one expects this to be accompanied by rising rents.

The office space take-up of ca. 141,000 m<sup>2</sup> in Stuttgart was slightly above the forecast figure. By the end of 2008 ca. 106,000 m<sup>2</sup> of office space will be completed. Of this 91 % are already let. The high volume of completions is due to the relocation of the EnBW headquarters with around 60,000 m<sup>2</sup> from the city into the south. Towards the end of the year 2006 it was already becoming clear that qualified enquiries for large-area units can no longer be satisfied by the existing supply of office space. Colliers partner Bräutigam & Krämer GmbH & Co. KG assumes that the first project lettings worth mentioning will again be made in the 1st quarter of 2007. As before the Stuttgart city centre is the area with the biggest project developments. In autumn of 2006 the “Phoenixbau” project started on Königstrasse. With around 10,000 m<sup>2</sup> of retail space and ca. 7,000 m<sup>2</sup> of office space it is the largest project which will be completed in the following two years. In summer 2007 a start will be made with the construction of the “Windows” project on Theodor-Heuss-Strasse. There around 10,000 m<sup>2</sup> of office space and 800 m<sup>2</sup> of retail space will be built. The opening of the new trade fairground in the south of Stuttgart in 2007 will not only bring with it the construction of many new hotels around the trade fair complex, but new hotel buildings can also be expected in the city centre.