

The German office markets in the first six months of 2005

The Colliers PropertyPartners market report for the first six months of the year 2005 concentrates on the office real estate markets in Berlin, Duesseldorf, Frankfurt, Hamburg, Munich and Stuttgart

Office Space Take-up

All cities apart from Duesseldorf were able to increase their office space take-up in comparison with the first six months of 2004. The performance of the state capital of North Rhine-Westphalia in terms of leasing amounted to 90,000 sqm of office space, thereby dropping by nearly 13% (approx. 13,000 sqm). The clear winner in the competition for the biggest increase in take-up is Frankfurt. The financial city achieved a rental volume of approx. 282,000 sqm and thus a profit of 137 % (+ 163,300 sqm). In Berlin around 46 % (70,500 sqm) more were leased with 225,000 sqm. Hamburg was able to achieve a growth of approx. 33 % (+ 52,000 sqm) with approx. 212,000 sqm of rented office space. Munich gained a rise of approx. 14 % (33.900 sqm) with a result of approx. 227,000 sqm. Stuttgart increased its rental volume of approx. 71,000 sqm by about 43 % (+ 20,000 sqm) versus the same period in the previous year. Frankfurt has the highest take-up, closely followed by Munich. Berlin and Hamburg come next. Duesseldorf and Stuttgart come 5th and 6th, leaving a considerable gap.

The largest share in the overall office space take-up in Berlin, Frankfurt, Hamburg and Stuttgart was generated by contracts covering as of 5,000 sqm. This size class achieved a share of 43 % in the Federal capital and 48 % in "Mainhattan" (Frankfurt). Rentals in this class in the north German harbour city amounted to a share of 35 % and to 30 % in the state capital of Baden-Wuerttemberg. In Duesseldorf and Munich, however, the contracts covering up to 500 sqm claimed the largest share. In the city on the river Rhine, the smallest size class achieved a share of 32 % and in the metropolis on the river Isar 29 %.

Strongest industry in office space take-up in Frankfurt and Munich proved to be EDP and telecommunications with a share of 23 % and 25 %, respectively. In Duesseldorf and Stuttgart the office services industry, media and advertising, was the most active with a share of 27 % and 20 %, respectively. The area of public administration, organizations and associations came strongest in Berlin with a share of 42 %. The banking business and insurances secured the highest rental share in Hamburg with 25 %.

Rents

Only Stuttgart was in a position to increase the top rental level. In comparison with the same period in the previous year, the top rent increased by € 0.50 to € 17.00 per sqm per month. In Hamburg, Frankfurt and Munich it remained nearly unchanged at €19.83 per sqm per month, € 31.50 per sqm per month and € 28.00 per sqm per month, respectively. In Berlin the top rent fell by € 0.50 to 20.50 per sqm per month and in Duesseldorf by € 2.00 to € 21.00 per sqm per month. Frankfurt noted the highest top rental. Places two to six were occupied in corresponding order by Munich, Duesseldorf, Berlin, Hamburg and Stuttgart.

The average rent increased only in Munich by € 0.74 to € 13.33 per sqm per month. While it stagnated in Frankfurt at € 14.00 per sqm per month, it eased in the other four cities. In Hamburg it dropped by € 0.32 to € 12.07 per sqm per month and in Duesseldorf by € 1.00 to € 11.70 per sqm per month. In Berlin the average rent fell by € 1.39 to € 10.20 per sqm per month and in Stuttgart by € 1.88 to € 9.60 per sqm per month.

Office Space Vacancy

Versus the first six months of last year the entire office space vacancy* in Berlin and Hamburg has decreased. Including sublet space, the vacancy in the city on the river Spree was reduced by approx. 49,000 sqm to approx. 1,675,000 sqm (- 3 %) and in the city on the Alster by approx. 54,000 sqm to 1,066,000 sqm (- 5 %). Frankfurt in turn, yet again had to mas-

ter the highest increase. In the financial city in the state of Hesse the vacancy grew by approx. 292,000 sqm (+ 16 %) to approx. 2,067,000 sqm in office space. In Munich there was also a significant increase of approx. 204,000 sqm (+ 13 %) in vacancy from approx. 1,766,000 sqm. Duesseldorf reported a smaller growth. Vacancy in the metropolis on the Rhine increased by approx. 21,500 sqm (+ 3 %) to approx. 763,000 sqm. Stuttgart achieved a mere increase of approx. 1,000 sqm (+ 0.3 %) with office space vacancy amounting to 398,000 sqm.

*Office space vacancy includes sublet space for reasons of comparability.

When differentiating into pure office space vacancy sublet space, it becomes clear that the pure vacancy has declined in Berlin and Hamburg and in Stuttgart as well. Office space offered for subletting has also decreased in Berlin by approx. 15,000 sqm (- 23 %), in Duesseldorf by approx. 15,500 sqm (- 15 %), in Frankfurt by approx. 163,000 sqm (- 32 %) and in Hamburg by approx. 49,000 sqm (- 61 %). Sublet space added to the results in Munich amounted to 15,000 sqm (+14 %) and in Stuttgart it increased by 25,600 sqm (+ 48 %).

On the basis of ranking according to the office space vacancy rate including sublet space the following image is discernable: Frankfurt is at the top with a rate of 16.8 %. Duesseldorf follows with 13.4 %. Place three is taken by Berlin with 9.3 %. Munich and Hamburg are next with similar rates of 8.4 % and 8.2 %. The smallest rate shows Stuttgart with 5.5 %. The vacancy rate has only increased in Duesseldorf and Frankfurt. It fell in Berlin, Hamburg and Munich*. Stuttgart's rate remained unchanged at 5.5 %.

* The vacancy rate dropped in Munich despite the increase of office space vacancy in real terms. The reason is a new collection of inventory data by BulwienGesa AG. They found resources of 21 million sqm in office space. Up to then resources of 18.3 million sqm had been considered.

PropertyIndex

The PropertyIndex outlines the development of the supply and demand situation on the office market. It forms the relation between the supply within the next 12 months and the

office space take-up in the last 12 months. According to the index, Frankfurt is struggling with a nearly five-fold offer. Duesseldorf and Munich are facing a supply of three and a half times the demand. For Berlin, Hamburg and Stuttgart this relation is 3.3 and 3.2 respectively.

New Requests

The situation regarding newly received requests in the first six months is especially pleasing in Duesseldorf, Hamburg and Munich. Requests to the total amount of approx. 225,700 sqm, approx. 24,700 sqm and approx. 367,100 sqm, respectively, surfaced on the market. Also Frankfurt noted renewed movement on the market with new requests in the size class of around 127,900 sqm. The volume of recent requests in Berlin is significantly smaller with 78,000 sqm and in Stuttgart with 70,000 sqm.

Conclusion and Forecasts

Despite the office space take-up in the first six months exceeding the results of the same period in the previous year in Berlin, moves to the city contribute only insignificantly. The rental rates have stabilized in the meantime. Positive demand and ongoing negotiations are prompting the Berlin-based real estate specialist Geske Immobilien GmbH to forecast a take-up for the current year of approx. 450,000 sqm. The rock bottom situation seems to have been overcome on the Berlin market. However, increased demand due to the favourable rent level combined with a smaller growth in space on offer will not show any visible effects before the next year.

The restrained start into the new year surprisingly continued its development in the second quarter. Considerably increased demand since the beginning of the current year failed to have an influence on the take-up of office space in this respect as companies' decisions on renting need a lot more time than in the last years. Therefore, there has been no clear change on the Duesseldorf office market. The Duesseldorf-based Colliers partner Trombello Kölbel Immobilienconsulting GmbH feels that a major share of requests will only come to

fruition at the end of the year or later and that therefore the annual result can be considered at around 220,000 sqm. Rents eased with few exceptions, but showed rising tendency in some areas within the last three months. The development of office space vacancy declined in its dynamic.

The Frankfurt-based Colliers partner Schön & Lopez Schmitt GmbH is still facing pressured rental rates on the Frankfurt office market. The reason being that despite the high take-up the vacancy has not declined in the same measure – amongst other things the consequence of a continuously slightly negative absorption. According to a survey by Schön & Lopez Schmitt around 650,000 sqm of the entire vacancy can only be leased with great difficulty or not at all due to the architectural structure of the office buildings.

The Hamburg office market notes a supply of office space on short term to the amount of approx. 1.07 million sqm. The dynamic development in demand and several promising negotiations regarding larger lease contracts prompt Colliers partner Grossmann & Berger GmbH to expect a similarly high office space take up for the second half of the year as in the first half.

In Munich hopes are high for the second half of the year to be at least as strong as the first half due to imminent decisions on conclusions of larger lease contracts. According to observations by the Munich-based Colliers partner Immobilien-Kontor Schauer & Schöll GmbH the development on the market is rather differentiated. Whereas in the city center strong and partially demand for larger spaces provides for a high take-up and an absorption of existing and newly developed office space, the suburban regions and the administrative district are facing a situation of fierce competition. This has also been causing continuously declining rental rates in the last months in these areas.



The office market in Stuttgart is still characterized by interested parties looking for high office quality at most favourable rents possible. Although the total office space vacancy is more or less stagnating, the supply in high-quality office space in the city is decreasing. The nearly unchanged vacancy can be explained with the increase in sublet space. The Stuttgart-based Colliers partner Braeutigam & Kraemer GmbH & Co. KG is assuming a stable office space take-up for the second half of the year, too. Considering the rental rates, the real estate consultant is not expecting essential changes in the coming months.