

German office markets in the third quarter of 2006

The Colliers PropertyPartners market report for the third quarter of 2006 covers the office property markets Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart.

Take-up

Altogether rather more than 1.7 million m² of office space were taken up in the six cities. This is around 62,000 m² (-4%) less than in the third quarter of 2005. In doing this the smaller of the six locations were able to improve their quarterly result compared with the same period last year. The take-up of office space in the Rhine metropolis was 18% (ca. 29,000 m²) higher than last year at ca. 190,000 m². The city on the Neckar achieved an increase of around 8,600 m² (+10%) with a letting volume of ca. 99,000 m². Hamburg and Munich only just fell short of their respective figures from the same quarter last year. In the north German port city only ca. 4,000 m² (- 1%) less was taken up with a letting performance of ca. 321,000 m². The take-up of office space of ca. 434,800 m² in the Bavarian state capital was 3% (ca. 15,200 m²) below the level of last year. In Berlin the letting figure of ca. 304,100 m² was 35,900 m² (- 11%) less. Frankfurt also had to suffer a loss of 11% (ca. 43,800 m²) with its volume of ca. 359,200 m².

In five cities the letting was concentrated in the city centre area – in Berlin in the City Centre East with 30%, in Düsseldorf in the City Centre with 34%, in the Banking District in Frankfurt with 23% and in Hamburg and Stuttgart in the City with 31% and 30% respectively. In Munich there was no clear winner. The submarkets with the highest take-up were the City N-W with 15%, the City N-E with 13%, the City Centre and the City Centre N-W with 12% each and the Periphery N-E with 11%.

The economic sectors with the highest take-up were business-to-business services in Berlin with 23%, in Düsseldorf with 39 %, in Hamburg with 17 % and in Stuttgart with 37 %. In

Frankfurt financial services companies leased 39% of the space taken up. In Munich the greatest demand came from EDP and telecommunications with a share of 34% of the take-up.

Leases for units up to 500 m² made the biggest contribution to total office space take-up in Düsseldorf and Stuttgart with 33% and 32% respectively. In Berlin, Hamburg and Munich the highest share of office space was also taken up in this size category with 28%, 24% and 26% respectively, but here there were also leases for larger units making a more considerable contribution to the take-up. A clear winner was in Frankfurt: the leases for units of over 5,000 m² with a share of 41%.

Rents

In comparison with the third quarter of 2005 the top rent rose in Berlin, Frankfurt, Hamburg and Munich: in the federal capital and the financial metropolis each by 0.50 € to 21.00 €/m²/month and 31.50 €/m²/month, in the Hansa city by 1.48 € to 22.23 €/m²/month and in the city on the Isar by 2.30 € to 29.80 €/m²/month. In Düsseldorf the top rent stayed at 21.00 €/m²/month. In Stuttgart it went down slightly by 0.50 € to 16.50 €/m²/month.

In the cities Berlin, Düsseldorf, Frankfurt and Munich the average rent went up: in the Spree city by 0.81 € to 10.47 €/m²/month, in the North Rhine-Westphalia state capital by 0.30 € to 12.40 €/m²/month, in Manhattan by 1.90 € to 15.40 €/m²/month and in the Bavarian metropolis by 0.93 € to 14.08 €/m²/month. In Hamburg the average rent remained more or less unchanged at 12.17 €/m²/month. In Stuttgart it fell by 0.45 € to 10.31 €/m²/month.

In Berlin most leases (33%) were signed in the price category between 12.50 €/m²/month and 15.00 €/m²/month. In Düsseldorf 32% of all leases were in the price segment up to 10.00 €/m²/month and around the same amount with 31% in the price range between 10.00 €/m²/month and 12.50 €/m²/month. The same applies for Munich. Here the smallest price category of up to 10.00 €/m²/month came to 28% and the price category above it of up to

12.50 €/m²/month rose to 26%. In Frankfurt three price categories lay close together: in 23% of all leases signed rents agreed were from 20.00 €/m²/month upwards, in 22% of them between 10.00 €/m²/month and 12.50 €/m²/month, and in 20% of all lease agreements up to 10.00 €/m²/month. In Hamburg and Stuttgart leases were concluded in the price category up to 10.00 €/m²/month with 39% and 50% respectively.

Leases up to 10.00 €/m²/month achieved the highest share of the take-up in Hamburg with 41% and in Stuttgart with 53%. In Düsseldorf and in Munich there was almost an equal distribution in the price categories up to 10.00 €/m²/month with a share of 28 % each and between 10.00 €/m²/month and 12.50 €/m²/month with 30% and 26% respectively. In Berlin the price category between 10.00 €/m²/month and 12.50 €/m²/month made the most significant contribution to the take-up of office space with 33%. In Frankfurt leases from 20.00 €/m²/month attained the highest share of the take-up with 28%.

Vacancy

In the three cities Berlin, Düsseldorf, Frankfurt and Munich the total vacant office space* dropped in comparison with the third quarter of last year. Including the space available for subletting the volume of space standing empty in the federal capital decreased by ca. 103,000 m² (- 6%) to ca. 1,525,000 m², in the banking city (excluding Eschborn and Kaiserlei) by ca. 5,500 m² (- 0.3%) to ca. 1,814,500 m² and in the most southern German state capital by ca. 141,700 m² (- 8%) to ca. 1,575,300 m².

In Hamburg vacancy rose by ca. 12,600 m² (+ 1.2%) to ca. 1,051,600 m² and in Stuttgart by ca. 30,200 m² (+ 8%) to ca. 422,200 m². With this the amount of vacant space across the nation decreased overall by ca. 232,000 m² (- 3%) and stands at present at 7,144,000 m². In all cities the vacancy was reduced in the last three months of the current year. The supply of the space available for subletting continued to decline in importance and dropped by almost a third to ca. 496,000 m².

*For ease of comparison vacancy figures are stated with the inclusion of space available for subletting.

If we rank the cities according to their vacancy rate including space available for subletting the following picture appears: Frankfurt leads with a rate of 15.9% (without Eschborn and Kaiserlei). Places two and three are taken by Düsseldorf with 11.0% and Berlin with 8.4%. In Hamburg and Munich the rate stands at 8.0% and 7.4% respectively. Stuttgart has the lowest rate with 5.7%.

PropertyIndex

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

According to this Frankfurt at present has to struggle with a supply which is more than four and a half times the demand. In Berlin, Düsseldorf, Munich and Stuttgart demand is faced by a supply which is three times as large. The most favourable ratio is offered by Hamburg with a factor of 2.7. For Berlin, Düsseldorf and Munich this means a more favourable ratio than in the same period last year.

Conclusion and forecasts

Berlin is registering continuously good demand for office space. In particular high-quality properties in the submarkets City East and Potsdamer Platz/Leipziger Platz and around Friedrichstrasse and Gendarmenmarkt are enjoying great popularity. Precisely in these areas square-metre prices of up to 21.00 €/m²/month are paid. The biggest lease so far with ca. 17,000 m² has been signed by the Federal Commissioner for the documents of the state security service (German initials: STASI) of the former German Democratic Republic. Despite this deal the public purse has seldom acted as a tenant this year. The strongest demand up till now has been companies from the services sector and the media industry and also lawyers and auditors. For the whole year the Colliers partner Geske Immobilien GmbH reckons with a take-up of office space between 460,000 m² and 500,000 m².

The Düsseldorf office market finds itself on the road to recovery. There was no vacuum in the summer, since the third quarter alone accounted for 42% of the total take-up of office space in the Düsseldorf city area. The increased rents in the submarkets Grafenberger Allee, City Centre East, and Düsseldorf North and South provided a slightly increased average rent for the overall market. Not only has the supply for space available for sub-letting dropped but the continuous upward trend in the amount of vacant space seems to have stopped. The declining vacancy provided a positive net absorption in the third quarter according to an analysis of the market by the Colliers partner Trombello Kölbel Immobilienconsulting GmbH. Demand is also positive. In the third quarter there have again been several enquiries for large units.

Step by step the vacancy in Frankfurt is decreasing. Space available for subletting is being offered with sometimes high deductions from the rent but only as a rule for short periods. For many companies this is hardly of interest, since after the sublease expires market prices are again demanded by the landlord. A further ca. 700,000 m², according to investigations by the Colliers partner Schön & Lopez Schmitt GmbH, are no longer marketable. They have overwhelming building defects and would have to be either expensively refurbished or even demolished, in order to satisfy the requirements of the prospective tenants making enquiries. Precisely such space is the winner of the year and is being let today at higher prices than was estimated at the beginning of the year by developers and owners. Now the time is exactly right, even with only a low percentage of pre-lettings, in the city centre after close examination even without pre-letting – to build high-quality office space. The existing queries allow one to reckon optimistically even this year with a take-up of space approaching 500,000m².

The economic growth in Hamburg which is above the national average is reflected, according to Colliers partner Grossmann & Berger GmbH, in a dynamic year of market activity in the office property market. Thus the number of signed leases has risen by 10% on the same period last year. In particular office space units of an order of size of 100 m² to 500 m² are in demand. The major lease taken out by HSH Nordbank of ca. 18,000 m² in the Europa-

Passage affected not only the take-up figures for office space but also the average rent. Despite the satisfactory letting performance the vacancy rate remains at 8%, and there are still ca. 1,050,000 m² available to let at short notice. This is caused not least by the 210,000 m² of new office space which is coming onto the market this year.

The weaker third quarter in the Munich office market dampened the previous total result for the current year. The forecast take-up of space of 600,000 m² can only now be reached by a very strong 4th quarter. On the supply side there is as before a picture showing two clear trends. According to observations by the Colliers partner Immobilien-Kontor Schauer & Schöll GmbH space in the city-centre locations is growing sometimes scarce, whereas in the peripheral areas and the environs big problems are emerging with the high level of vacancy. This development also has an effect on the rents. They have risen by ca. 6% in the city-centre locations in the overall year 2006 so far, and in the environs have fallen by ca. 3.5%.

In Stuttgart the third quarter showed itself to be considerably stronger than the two preceding quarters. Above all in the segment between 2,000 m² and 5,000 m² a whole series of leases were signed. Thus the Colliers partner Bräutigam & Krämer GmbH & Co. KG also continues to expect a total letting performance for 2006 of around 140,000 m². As before major enquiries by the public purse are in the market which will end in the conclusion of leases in the coming months. In October the decision will be announced on whether the infrastructure project Stuttgart 21 will be implemented. A positive decision on this will have a favourable effect on the market for office space, since many companies will settle in the state capital Stuttgart.