

German office markets in the first half of 2006

This Colliers PropertyPartners market report for the first half of 2006 covers the office property markets Berlin, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart.

Take-up

In the six cities taken together a total of over 1 million m² of office space was let. This is 150,000 m² (13 %) less than in the first half of 2005. Of the above cities Munich and Düsseldorf were able to improve their half-yearly result compared with the same period last year. The city on the Isar, with a letting volume of ca. 309,700 m², achieved an increase of 32,700 m² (12 %) and the city on the Rhine increased its take-up by ca. 21,000 m² (23 %) to ca. 110,000 m². Berlin with a letting volume of ca. 200,600 m² fell short by ca. 24,900 m² (11 %) of its result for the first half of 2005 and Hamburg with 190,000 m² missed its letting output for the same period by 22,000 m² (10 %). The heaviest drop of ca. 139,300 m² (49%) was suffered by Frankfurt with a volume of ca. 142,700 m². In Stuttgart the figure of ca. 53,000 m² was around 18,000 m² (25 %) less.

In five cities letting was concentrated in the city-centre area – in Berlin the City-East with 26 %, in Düsseldorf the City Centre with 40 %, in Frankfurt the Banking District with 21 %, and in Hamburg and Stuttgart the inner City with 25 % and 33 % respectively. The sub-market “City N-W“ in Munich achieved the highest percentage with 19%. *

*This includes the districts of the Munich city area north-west of the centre.

The sector with the strongest take-up was business-to-business services in Berlin, Düsseldorf and Stuttgart with a share of 26 %, 33 %, and 37 % respectively. In Frankfurt almost a third (31 %) of the space taken up was let to financial services companies. In Hamburg manufacturing industry had the biggest share with 19 %. EDP and telecommunications showed themselves to be eager to sign leases in Munich with 35 % of the total.

Leases for units up to 500 m² had the largest share of the take-up in Düsseldorf and Stuttgart with 30 % and 37 % respectively. In Berlin, Hamburg and Munich this size category accounted for 29 %, 27 % and 24 %. In the north German port city leases for units between 2,000 m² and 5,000 m² had a share of 25 %. In the federal capital and the Bavarian state capital leases for 5,000 m² and over made a considerable contribution to the letting volume with 26 % and 25 % respectively. In Frankfurt the three size categories: from 1,000 m² to 2,000 m², from 2,000 m² to 5,000 m² and over 5,000 m² lay close together with a share of 24 %, 21 % and 20 % respectively.

Rents

In comparison with the first half of 2005 the top rents in Berlin, Hamburg and Munich increased: in the city on the Spree by 0.50 € to 21.00 €/m²/month, in the Hansa city by 2.10 € to 21.90 €/m²/month and in the Bavarian metropolis by 1.80 € to 29.80 €/m²/month. In Düsseldorf and Frankfurt the top rent stagnated at 21.00 €/m²/month and 31.50 €/m²/month respectively. It dropped slightly in Stuttgart by 0.50 € to 16.50 €/m²/month.

In all cities except for Hamburg the average rent increased: in Berlin to 10.50 €/m²/month, in Düsseldorf to 12.50 €/m²/month, in Frankfurt to 15.40 €/m²/month, in Munich to 14.80 €/m²/month and in Stuttgart to 10.70 €/m²/month. In Hamburg it dropped to 11.40 €/m²/month.

Most leases were signed in the price category up to 10.00 €/m²/month: in Berlin these accounted for 50.0 %, in Hamburg 40.0 %, in Munich 28.5 % and in Stuttgart 48.9 %. In Düsseldorf leases in the price range between 10.00 €/m²/month and 12.50 €/m²/month were the most frequently signed (33.0 %). In Frankfurt this price category was on the same level at 22.8 % as the price category from 20.00 €/m²/month upwards at 22.9 %. The highest share of the take-over was reached by leases up to 10.00 €/m²/month in Hamburg (47.6 %) and Stuttgart (57 %). The price category between 10.00 €/m²/month and 12.50 €/m²/month

made the biggest contribution to the take-up of office space in Düsseldorf (28.8 %) and Frankfurt (30.3 %). In Berlin it was the category between 12.50 €/m²/month and 15.00 €/m²/month with 36.4 %. In Munich the price categories were almost evenly distributed: 23.0 % up to 10.00 €/m²/month, 25.0 % between 10.00 €/m²/month and 12.50 €/m²/month and 24 % for leases signed from 20.00 €/m²/month upwards.

Vacancy

In the three cities Berlin, Hamburg and Munich the total office space vacancy* has dropped in comparison to the first half of 2005. Including space available for sub-letting the volume of space standing empty decreased in the federal capital by ca. 125,000 m² (7%) to ca. 1,550,000 m², in the north German Hansa city by ca. 13,000 m² (1%) to ca. 1,053,000 m², and in the Bavarian metropolis by ca. 177,500 m² (10%) to ca. 1,588,500 m². In the three other cities vacancy increased. In Düsseldorf it rose by ca. 38,000 m² (5%) to ca. 801,000 m², in Frankfurt (excluding Eschborn and Kaiserlei) by ca. 53,300 m² (3 %) to ca. 1,907,300 m² and in Stuttgart by ca. 37,000 m² (9 %) to ca. 435,100 m². Overall the vacancy for all cities decreased by ca. 187,000 m² (3 %) and stands at present at 7,335,000 m².

*For purposes of comparison the vacancy figures are given including the space available for sub-letting.

If we rank the cities according to their vacancy rate including space available for sub-letting the following picture emerges: Frankfurt leads with a figure of 16.9 %, Düsseldorf follows in second place with 11.5 % and Berlin follows with 8.6 %. In Hamburg the rate stands at 8.1% and in Munich at 7.5 %. The lowest rate is 5.9 % for Stuttgart.

PropertyIndex

The PropertyIndex illustrates the growth of the supply and demand situation in the office market. It shows the relationship between the supply in the next 12 months and the take-up of the last 12 months.

According to this Frankfurt is “exposed“ to a supply more than five and a half times more than the demand. Stuttgart has a supply three and a half times the demand. In Berlin, Düsseldorf, Hamburg and Munich demand is confronted by a supply three times as large. For Berlin, Düsseldorf and Munich this means a more favourable ratio than in the same period last year.

Conclusion and forecasts

If we consider the fact that the public authorities, which leased a very large amount of space in 2005, are currently playing a minor role, the Berlin result must be seen in a very positive light. The consulting sectors such as services companies, media and lawyers, tax consultants and auditors alone increased in Berlin particularly this year. They accounted for over half of the lettings. The distribution of the lettings according to location shows a clear shift to the good and very good locations of the city centre, whereby here particularly one is struck by the change at Potsdamer Platz and Leipziger Platz. This shift has caused rents to rise slightly. For the second half of 2006 the Colliers partner Geske Immobilien GmbH continues to assume positive growth. Since foreign companies in particular have discovered the Berlin market for themselves the location is expected to become increasingly international.

The satisfactory start into the new year has continued for the Düsseldorf market. The strong rise in demand last year continues to bear fruit. Above all companies with their enquiries from the first half of 2005 have now decided on a lease. The general downward trend of rents has stopped for the time being in the opinion of the Colliers partner Trombello Kölbel Immobilienconsulting GmbH. In some areas rents have risen. The supply of space available for sub-letting continues to decrease. The slight growth in vacancy is due essentially to expiring sub-leases and the concentration in fewer locations of some large tenants. With expiring leases a large part of the companies is increasingly inclined to claim the one year period allowed for extension. They are not really prepared to think about a move until they are “bursting at the seams” in their present premises. This is reflected also in the slightly lower number of new enquiries towards the end of the half year.

A reason for the almost 50 % drop in the volume of letting in Frankfurt is the lack of large lettings. Particularly noticeable is the drop in take-up in the sub-markets Banking District, Westend and City, also by around 50 %. The low take-up achieved by lettings is causing vacancy to stagnate at a continuing high level. Because of the high volume of vacancy rents are also continuing to be under enormous pressure, whereby here the Colliers partner Schön & Lopez Schmitt GmbH has observed a so-called “market in a market”. The rents in the high-quality properties (as-new properties and new buildings) are not increasing but the incentives – which are granted by the landlords – are decreasing noticeably. These buildings, irrespective of their location, will have good chances of letting in the future too.

For the Hamburg office market the Colliers partner Grossmann & Berger GmbH estimates a year-end result of over 450,000 m². This expectation rests on a number of larger leases which are now in the final stages of negotiation and which could be signed before this year is over. Rental growth in Hamburg is decided at present by two trends. On the one hand the average rent figure has declined again because of leases in peripheral and cheap locations where a large area taken up. On the other hand, particularly in the prime locations of the City and HafenCity, leases are increasingly being achieved with rents considerably over 20.00 €/m²/month (net of VAT and service charges). From the volume of new building completions, which is again rising, a sideward movement in the growth of office space vacancy is resulting.

With the Munich overall letting performance in the first half of 2006 of rather more than 300,000 m² the Colliers partner Immobilien-Kontor Schauer & Schöll GmbH sees the expectations of the market as having been fulfilled. The outlook is cautiously subdued as a result of slightly receding growth in enquiries within the last 12 months. The growth in taken-up and rents is taking place very differently at present in Munich. Whereas there is again a scarcity arising, particularly for large-area leased premises, City S-E and the peripheral areas have to fight with obstinate vacancy.

The good demand in Stuttgart for office space in the first quarter of 2006 has weakened rather in the second quarter. The Colliers partner Bräutigam & Krämer GmbH & Co. KG is continuing to assume that at the end of the year the take-up of office space will stand at ca. 140,000 m². Particularly in the public authorities area there are still some larger enquiries where a lease can be concluded in the coming months. The IT sector is again expanding and requires new space. Office space vacancy has risen slightly to 5.9 % as a result of two larger properties becoming empty. Both buildings were previously used by banks which have now moved their employees into their own buildings. By the end of the year the vacancy rate will again go down slightly.