

German office markets in the first quarter of 2006

The present Colliers PropertyPartners market report for the first quarter of 2006 deals with the office property markets in Berlin, Düsseldorf, Frankfurt, Hamburg, Munich und Stuttgart.

Take-up

Except for Frankfurt and Berlin all of the cities were able to show a better result in the first quarter of 2006 than in the same period the year before. The biggest jump in take-up of ca. 34,700 m² (+ 25 %) brought Munich to a letting volume of ca. 175,100 m². Düsseldorf achieved an increase of ca 21,000 m² (+ 60 %) with a take-up of office space amounting to ca. 56,000 m². The rise was less considerable in Hamburg and Stuttgart however. In the Alster metropolis around 7,000 m² (+ 8 %) more was taken up with a letting performance of 96,000 m². A quarterly figure of ca. 34,000 m² in the city by the Neckar represented only 1,800 m² (+ 6 %) more space let. Berlin remained with a volume of ca. 67,500 m² around 63,500 m² (- 48 %) below its performance in the first quarter of last year. Frankfurt had to suffer a drop of ca. 64,900 m² (- 55 %) with its ca. 54,100 m² of leased office space.

In five cities lettings were concentrated in city-centre areas – in Berlin the Berlin East (prime location) with 27 %, in Frankfurt, Hamburg and Stuttgart with 21 %, 22 % and 39 % respectively, and in Düsseldorf the city centre with 49 %. The submarket “City North West” in Munich achieved the highest proportion with 33 %.*

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

The business-to-business services sector had the highest take-up in Berlin and in Stuttgart with a share of 36 % and 26 % respectively. In Düsseldorf the unions, associations and government institutions accounted for a third of the take-up with 32 %. The financial services companies achieved the highest share in Frankfurt with 38 %. The most active sector in

Hamburg was manufacturing industry with a share of 24 %. In Munich the computer and telecommunications sector contributed more than half of all the take-up with 51 %.

Leases for units of 500 m² and less and for 5,000 m² and over contributed the most to the entire office space take-up in Düsseldorf with 30 % and 29 % respectively. In Frankfurt however it was clearly the smallest size category with a share of 41 %. Leases for up to 500 m² and leases for units between 500 m² and 1,000 m² each accounted for a quarter of the take-up in Hamburg. The clear winner in Berlin and Munich was leases in the size category of 5,000 m² and upwards with a share of 39 % and 29 % respectively. In Stuttgart the two strongest size categories of 500 m² and below and between 1,000 m² and 2,000 m² were close together with 30 % and 28 % respectively of the total take-up.

Rents

In comparison with the first quarter of the previous year the top rent rose in Hamburg and Munich, in the Hansa city by 1.20 € to 21.30 €/m²/month, and in the Bavarian state capital by 2.00 € to 29.50 €/m²/month. In Düsseldorf and Stuttgart it remained steady at 20.50 €/m²/month and 16.50 €/m²/month respectively. The top rent in Frankfurt went down slightly by 0.50 € to 31.00 €/m²/month but dropped heavily in Berlin by 4.50 € to 16.00 €/m²/month.

The average rent in Munich rose to 15.72 €/m²/month and just slightly in Düsseldorf to 12.00 €/m²/month. In Stuttgart it remained almost unchanged at 10.97 €/m²/month. In the other cities it gave way only slightly and in Berlin arrived at a figure of 9.80 €/m²/month, in Frankfurt of 15.10 €/m²/month and in Hamburg of 11.73 €/m²/month.

In Berlin, Düsseldorf, Hamburg and Munich most leases were signed in the price category up to 10.00 €/m²/month. In Frankfurt leases were signed most frequently in the price range between 10.00 and 12.50 €/m²/month. These two price categories were of equal importance

in Stuttgart. The highest percentage of take-up was achieved in Berlin, Düsseldorf, Hamburg and Stuttgart by leases for 10.00 €/m²/month and below. In Frankfurt the price category between 10.00 €/m²/month and also the category from 20.00 €/m²/month upwards made the most considerable contribution to the take-up of office space. The last-named price category accounted for the highest take-up in Munich.

Vacancy

In the three cities Berlin, Hamburg and Munich the total area of office space * has dropped in comparison with the first quarter of 2005. Including the space available for subletting, the amount of space standing empty in the federal capital decreased by ca. 187,000 m² (- 11 %) to ca. 1,545,000 m², in the north German port city by ca. 52,500 m² (- 5 %) to ca. 1,028,500 m² and in the Bavarian metropolis by ca. 138,000 m² (- 8 %) to ca. 1,646,200 m². In three other cities vacancy increased. In Düsseldorf it rose by ca. 27,000 m² (+ 4 %) to ca. 774,000 m², in Frankfurt by ca. 7,000 m² (+ 0.3 %) to 2,112,000 m² and in Stuttgart by ca. 42,800 m² (+ 11 %) to ca. 441,100 m².

*For purposes of comparison the vacancy figures include space available for subletting.

If we make a distinction between pure vacancy and space available for subletting it can be seen that in Berlin, Hamburg and Munich pure vacancy has dropped. There was also a decrease in the supply of space available for subletting in all cities except for Stuttgart.

If we draw up a league table of vacancy rates including space available for subletting the following order emerges: Frankfurt leads with a rate of 16.9 %. Düsseldorf comes second with 11.1 % and Berlin follows with 8.3 %. Almost neck-and-neck are the vacancy rates of Hamburg with 7.9 % and Munich with 7.8 %. The lowest rate belongs to Stuttgart with 5.6 %.

PropertyIndex

The PropertyIndex illustrates the development of the supply and demand situation in the office market. It shows the relation between the supply in the next twelve months and the absorption of space by the market in the last twelve months. According to this Frankfurt is struggling at present with a supply rather more than five times the demand. In Berlin, Düsseldorf, Munich and Stuttgart demand is confronted with a supply more or less three times as large. Hamburg's supply is rather more than two-and-a-half times the demand. For all office locations except for Stuttgart this means a more favourable ratio than in the same period last year.

Conclusion and forecasts

The weaker letting performance in the Berlin office market in the first quarter of this year is due to the decreased take-up of space by the public purse. For the second quarter the Colliers Partner Geske Immobilien GmbH reckons with a considerably higher letting performance, since several major enquiries have been postponed into this quarter and increased demand has been registered. In comparison with the whole of 2005 rents have stabilised, with a tendency towards a slight increase. For this reason cautious optimism is appropriate for the Berlin office market as far as the coming months are concerned.

The start into the new year took a very satisfactory form for the Düsseldorf office market. The strong increase in demand last year is now bearing fruit. Particularly companies who made enquiries in the first half of 2005 have now decided to lease. This trend will continue in the view of the Colliers Partner Trombello Köbel Immobilienconsulting GmbH, since the high level of demand is unbroken and continues with a considerably larger volume of space. Rents have in general declined. The reason for this is mainly that over 80 % of the leased space is to be found in existing buildings. For new buildings in good locations rents which lie considerably above the average have been agreed in leases. The supply of space available for

subletting continues to grow smaller. The slight rise in vacancy is due particularly to expiring subleases and in the concentration of some major tenants into fewer locations.

A comparison with the first quarter of last year shows that in the first three months of the current year there have been no major leases signed in Frankfurt. Nevertheless the Colliers Partner Schön & Lopez Schmitt is looking optimistically towards the near future, since the monthly letting performance has risen continuously since the beginning of the year. Vacancy remains unchanged at a high level. There has been a noticeable decrease in the last 1 to 1.5 years in the share of space available for subletting at 15.3 % of the total vacancy. There have hardly been any changes in rents. However it must be stated that in particularly sought-after properties (mainly new buildings in the Banking Quarter and Westend areas) the readiness to offer extraordinary incentives (rent-free periods etc.) is discernibly decreasing. Here the trend of the last few years in the demand for high-quality space continues.

The Hamburg office market achieved a solid start in the new year. The continuing dynamic demand rests at present particularly on manufacturing industry but also on the advertising sector and also business-to-business services. The slow but sure decline in the supply of space available at short notice has continued. The top rent has shown a rise in three successive quarters. In the pipeline there are still several major leases under negotiation which have excellent prospects for signature of a lease. Against this background the Colliers Partner Grossmann & Berger GmbH expects take-up this year of around the same level as last year (ca. 400,000 m²).

The year 2006 began in Munich with a fanfare of trumpets. O₂ is leasing 50,000 m² in up-town Munich and is therefore making a large contribution to the now once more remarkable net absorption of office space, according to the Colliers Partners Immobilien-Kontor Schauer & Schöll GmbH. The total letting performance of around 175,000 m² within the first three months of 2006 has been mainly achieved by letting take-up in the city area.

In Stuttgart also the new year began well. In particular the letting to a well-known German industrial company of ca. 7,000 m² in Stuttgart-Vaihingen is very satisfactory. This company left Stuttgart a few years ago and has now returned. The reasons for this lie in the better infrastructure and the proximity to the airport. Because of the current demand situation and the improved overall economic figures the Colliers Partner Bräutigam & Krämer GmbH & Co. KG assumes that this positive start will continue and that the situation in the office market will continue to improve.