OFFICE MARKET GERMANY
1st Half 2018

CATELLA

Berlin	Munich	Hamburg	Frankfurt	Dusseldorf	Cologne	Stuttgart
Office stock in million:						
19.00 sqm	14.10 sqm	13.70 sqm	11.90 sqm	7.70 sqm/8.20 sqm*	7.80 sqm	7.80 sqm
373,060 sqm ↘	429,133 sqm ↗	238,117sqm ↘	257,450 sqm ↗	182,167 sqm ↘	125,840 sqm ↘	119,567 sqm ↗

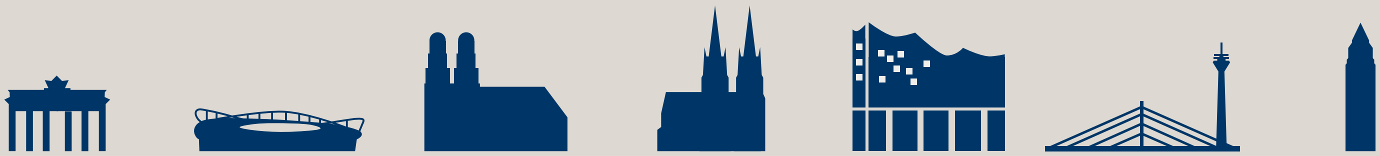
*Rhine-Ruhr: Dortmund, Essen, Duisburg

TOP 7 Office take-up (total): 1,725,333 sqm

The office take-up volume in the German Top 7 markets decreased by approx. 6 % to 1.72 million sqm in the first half of 2018. The slight decrease is mainly due to the low supply of office space, as especially larger and cohesive floor areas with modern standards are scarce. In addition, office completion figures are still below average. Only take-up volumes in Munich, Frankfurt and Stuttgart register relatively low growth rates. With a decrease of 20 % in take-up volume, Hamburg registers the strongest decrease of all Top 7 markets. The largest transaction of the year to date is the owner-occupied office development for Bosch GmbH with 50,000 sqm in Stuttgart. For the second half of 2018, we anticipate a moderate demand, while inner-city office spaces still remain the most sought after. By the end of the year a total take- up volume of approx. 3.55 million sqm is feasable.

↘ –6.1 %
COMPARED TO 1ST HALF 2017

→
FORECAST 2018



Berlin	Stuttgart	Munich	Cologne	Hamburg	Dusseldorf	Frankfurt
1.92 % ↙	2.20 % ↙	2.43 % ↙	3.28 % ↙	4.37 % ↙	7.52 % ↙	7.92 % ↙

TOP 7 Vacancy (average): 4.23 %

The vacancy rate decreased in all Top 7 markets by one percentage point and averaged at 4.23 % in the first half of 2018. Berlin achieved a new record low, even below the 2 % mark. The most notable decrease in vacancy rates was registered in Frankfurt due to high take-up activities in nearly all floor sizes and moderate completion of constructions. Additionally, the conversion of old office stock into modern residential spaces is increasing. By the end of the year, Catella predicts the vacancy rate to fall below the 4 % mark for the first time.

↙ –1.0 percentage points
COMPARED TO 1ST HALF 2017

↘
FORECAST 2018

Frankfurt	Munich	Berlin	Dusseldorf	Hamburg	Stuttgart	Cologne
40.60 €/sqm ↗	37.00 €/sqm ↗	33.20 €/sqm ↗	27.00 €/sqm ↗	26.50 €/sqm →	24.00 €/sqm ↗	22.00 €/sqm →

TOP 7 Prime rents (average): 30.04 €/sqm

Office prime rents have increased in nearly all locations to an average of approx. 30.00 €/sqm. Berlin is the overperformer with a growth rate of 19 % within the last year. The prime rent is achieved in the submarkets City West and City Ost. Solely prime rents in Cologne and Hamburg stay unchanged. Until the end of 2018, the rent growth is defined by the healthy economic development in Germany, however growing scarcity of office spaces in project developments and CBD locations will continue to drive rents higher.

↗ +4.1 %
COMPARED TO 1ST HALF 2017

↗
FORECAST 2018

↗ Change to 1st half 2017 (increased/decreased)

Source: Catella Research 2018

INVESTMENT MARKET GERMANY
1st Half 2018

CATELLA

Frankfurt	Munich	Berlin	Hamburg	Dusseldorf	Stuttgart	Cologne
EUR 3.38 bn ↗	EUR 3.19 bn ↗	EUR 3.14 bn ↗	EUR 2.26 bn ↗	EUR 1.21 bn ↗	EUR 0.86 bn ↗	EUR 0.70 bn ↗

Transaction volume commercial in EUR Bn

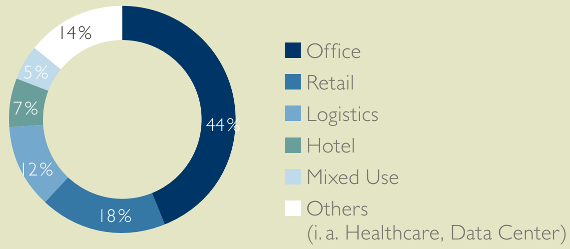
TOP 7 EUR 14.73 bn + 28.74 %*

GERMANY EUR 25.50 bn – 1.53 %*

FORECAST 2018 TRANSACTION VOLUME GERMANY ↘

The German commercial investment market benefited from strong market dynamics and achieved a transaction volume of approx. 25.5 € billion in the first half of 2018. Especially the outstanding volume in the Top 7, which is supported by a huge number of large single transactions, is to be highlighted. The sale of Frankfurts „Behördenzentrum“ for 500 € million to Aroundtown Property was the largest transaction in this segment. Nationwide, office properties remain the most sought after asset for investors, while, in turn, the volume in the retail sector is declining. The number of transactions of logistics properties is increasing, merely the low number of large portfolio transactions prevented a higher total investment volume. The share of foreign investors decreased slightly compared to the first half of 2017, primarily due to lower investments from the US and Asia.

Transaction volume by asset classes 1st half 2018



Frankfurt	Munich	Hamburg	Dusseldorf	Stuttgart	Berlin	Cologne
81 % ↙	65 % ↗	62 % ↗	60 % ↙	54 % ↙	51 % ↙	48 % ↗

Strongest asset class office

TOP 7 ⌀ 60 % – 7.0 percentage points*

GERMANY ⌀ 44 % + 3.0 percentage points*

FORECAST OFFICE 2018 ↗

FORECAST RETAIL 2018 →

FORECAST LOGISTICS 2018 ↗

Berlin	Munich	Hamburg	Frankfurt	Dusseldorf	Stuttgart	Cologne
2.90 % ↙	2.95 % ↙	3.15 % ↙	3.15 % ↙	3.30 % ↙	3.35 % ↙	3.60 % ↙

TOP 7 Prime yield (net, average): 3.20 %

The sustained lack of supply in core office products, lead to further yield compression in the Top 7 to an average of 3.20 %. For the first time ever, Berlin surpassed Munich, where the office prime yield achieves a new record low of 2.90 %. The strongest yield compression is recorded in Dusseldorf with a decrease of 40 basis points, followed by Frankfurt with a drop of 35 basis points. By the end of the year, office prime yields in some markets are forecasted to decline further, but at a modest rate due to ongoing demand shifts towards B-locations. In general, we predict prime yields to remain stable at a record low level in the segment of CBD and core office properties, despite a weaker Q4 2018. Further yield compression is forecasted for core-plus or value-add properties. Investors should also keep an eye on the expected measures through active asset management in the location/property/use-structure and pursue a core strategy. The current yield gap of approx. 150 basis points between core and value-add shows no signs of market distortion.

↙ – 0.23 percentage points *

FORECAST 2018 ↘

* Change to 1st half 2017

↗ Change to 1st half 2017 (increased/decreased)

Source: Catella Research 2018 Contact: research@catella.de