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# Liquidity meets subdued economic outlook as research from Catella reveals 1.87 million sq m let in top seven German office markets in the first half of 2019 with net initial yields falling to 3%

Take-up of office space in the top seven German office locations of Munich, Frankfurt, Berlin, Düsseldorf, Hamburg, Cologne and Stuttgart rose to 1.87 million m² during the first half of 2019, a figure of around 9% year-on-year according to the latest market report by Catella Research.

Numerous large deals and an above-average office turnover in Hamburg are the main reasons for the high-levels of letting activity according to the latest market report from Catella Research. All seven locations recorded growth in take-up apart from Munich, which recorded a decline of 9%. The Bavarian capital remains the location with the second highest office space turnover.

Vacancy rates fell in all top seven German markets and currently averages 3.6%, 0.6 percentage points lower than in the first half of 2018. However, the pace of vacancy reduction is slowing due to rising construction activity. In addition to Berlin, Munich and Stuttgart are now also approaching the 2% threshold. In Duesseldorf and Frankfurt the vacancy rate significantly higher at around 7%.

In the past twelve months, top office rents have continued to rise in all top seven markets, albeit to varying degrees. The average rent at the end of the first half of 2019 was 31.61 €/sqm, about 5% above the previous year's level. Berlin continues to be one of the locations with strong rent increases (+8.4%). The strongest rise in prime rents was in Cologne. Here it is currently 24.75 €/sqm, which corresponds to an increase of 12.5%. The lowest growth rates of 0.50 €/sqm were observed in Munich and Stuttgart.

With transaction volumes in the German commercial investment market reaching €24.3 billion in the first six months of the year, the market remains highly dynamic.

"Despite a slight decline of around 5% compared to the previous year, this result is extremely positive due to the ongoing trade dispute between the USA and China and a weakening economic dynamic," said Prof. Dr. Thomas Beyerle, Head of Research Group at Catella. "Particularly noteworthy are the above-average turnover and the number of large-volume individual transactions. With an equally high but slightly declining transaction volume, the top seven markets achieved a very positive half-year result," he added.

With a total transaction volume of € 13.22 billion within the top seven markets, the decline compared to the previous year is only about 10%. This is the second highest result of the past ten years. With a record result of € 5.13 billion (+63%), the Berlin investment market has the decisive share of this.

Irrespective of the slightly lower investment volume, national and international demand for commercial real estate remains high. "An increasing shift to the 'value-add' risk class is evident in the half-year figures in the individual analysis," Beyerle continued.

Due to the continuing supply shortage in the core office segment, the net initial yields in the top seven markets fell to an average of 3.03 %. In addition to Berlin and Munich, Frankfurt has now also fallen below the yield threshold of 3%. The peak yield fell most sharply in Cologne (-35 basis points) and, at 3.25 %, is now almost at the Stuttgart level.

Describing the mixed situation with a view to the period up to the end of the year Beyerle said: "There are still good arguments in favour of the stability and attractiveness of the commercial asset class. At the same time, we will receive a number of sentiments and forecasts in the coming weeks and months regarding an impending trend reversal of the economic indicators on the financial and capital markets, that are ahead of the real estate markets."

"In a nutshell: Liquidity meets economic slowdown," he added.

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