

RESEARCH



GERMANY

OFFICE MARKET OUTLOOK
Q1 2016



OCCUPIER TRENDS

INVESTMENT TRENDS

MARKET OUTLOOK

KEY FINDINGS

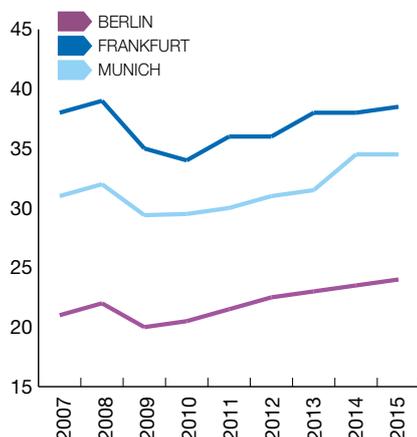
Economic forecasts for 2016 suggest steady growth for Germany, with real GDP expected to increase by 1.8%.

In the top five cities, cumulative office take-up for 2015 was up 20% annually, falling just short of the record take-up volume set in 2007.

Prime office rents in Berlin, Hamburg and Munich reached their 10-year highs, while forecasts suggest Düsseldorf and Frankfurt could reach their peaks this year.

Germany's office sector was again the most active commercial market in 2015, with investment totalling €19.7 billion. Of this, 71% was located within the big five cities.

FIGURE 1
Prime office rents
€ per sq m per month



Source: Knight Frank Research

OCCUPIER MARKET

Germany's big five office markets performed strongly in 2015, with prime rents approaching or surpassing their 2008 market peaks.

Total annual office take-up in the big five German cities was just under 3 million sq m for 2015 – up 20% on the previous year. Munich, which has historically led take-up activity, came second with a total volume of 750,000 sq m, behind Berlin, where a record 820,000 sq m was leased owing to an excellent final quarter. Hamburg followed, with take-up totalling 520,000 sq m, matching levels achieved in 2014, while Düsseldorf ended the year with take-up levels of approximately 470,000 sq m, up 46% annually. As well as having the lowest figure of 391,000 sq m, Frankfurt also experienced slow year-on-year growth of just 3.4%, compared with 34% in Berlin and 17% in Munich.

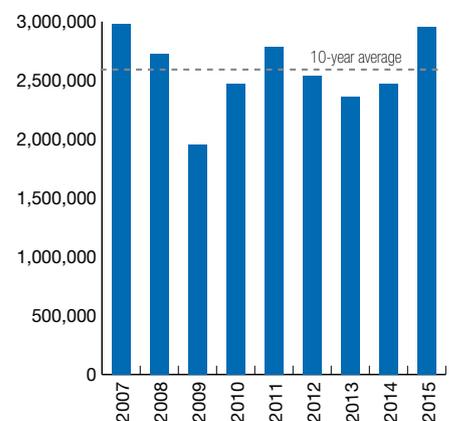
Berlin has increasingly become a popular location for occupiers in Germany, encouraging development activity in the city, with a large volume of new office stock entering the market in 2015 and an even larger pipeline scheduled for 2016. Berlin's prime rents of €23.50 per sq m per month, as at Q4 2015, are relatively low when compared to top rents of €34.50 in Munich. Although demand remains high, leasing activity in Munich falling to second place can be attributed to the low availability of stock – the city-wide vacancy rate of 3.8% in Q4 2015 is the lowest of the five cities.

In Munich and Berlin, activity was greatest in the IT&C sector, as was the case in

Düsseldorf, although this was largely due to Telekom's commitment of 28,000 sq m. Frankfurt saw the usual trend of financial services and consultancy firms both accounting for the bulk of take-up, together taking a 27% market share.

Frankfurt continued to show signs of positive rental growth, as it has done in recent years, with prime office rents rising modestly to €38.50 per sq m per month in Q4 2015 – the highest of all the German cities. While prime office rents in Berlin, Hamburg and Munich reached their 10-year highs, forecasts suggest that rents in Düsseldorf and Frankfurt could peak in 2016.

FIGURE 2
Big five cities office take-up
sq m



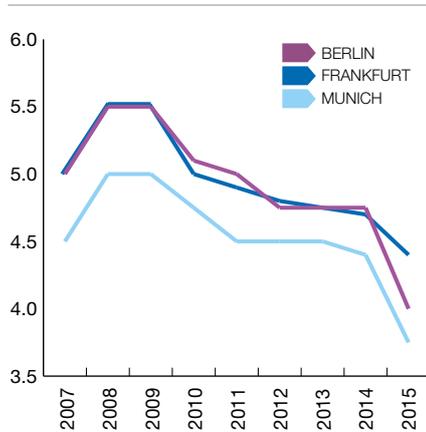
Source: Knight Frank Research

Key office leasing transactions in 2015

Quarter	City	Address	Tenant	Size (sq m)
Q4	Berlin	Rudower Chaussee	Allianz	47,000
Q4	Hamburg	Friedensallee	Euler Hermes	39,000
Q1	Frankfurt	Windmühlstraße	Deutsche Vermögensberatung AG	32,000
Q3	Düsseldorf	Am Seestern 3	Telekom	28,000
Q2	Munich	Richard-Wagner-Straße	Steelcase Werndl AG	13,000

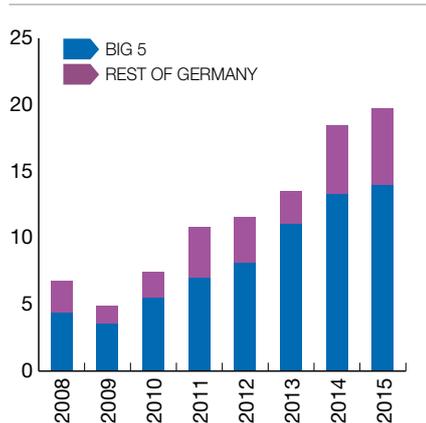
Source: Knight Frank Research

FIGURE 3
Prime office yields
%



Source: Knight Frank Research

FIGURE 4
Office investment volumes
€ billion



Source: Knight Frank Research / Real Capital Analytics



INVESTMENT MARKET

Commercial real estate in Germany performed well over the course of 2015, with investment volumes increasing by 27% year-on-year to reach €44.7 billion, on the back of a steadily growing German economy. Office transactions took the largest share, totalling €20 billion, of which 71% were located within the top five cities. Office volumes in Frankfurt were the highest at €4.6 billion, with sales during the first half of the year amounting to approximately €3.0 billion and boosting final totals. Munich and Berlin followed, with volumes of €3.1 and €2.9 billion for the year respectively, with the capital showing the greatest year-on-year growth of almost 22%.

Of the top ten single-asset office deals in the country last year, nine were located in Germany's top five cities, emphasising their dominance in the market. The largest transaction took place in Frankfurt, when NorthStar purchased the Trianon office building for €552.6 million in Q2. The

acquisition of the Stella portfolio for €370 million by German institutional investor Corpus Sireo in Q4 was the biggest office portfolio deal in 2015, with the portfolio consisting of 26 assets distributed across the country. Though domestic demand for office assets was high, cross-border interest edged slightly ahead, accounting for approximately 55% of Germany's office investment volumes in 2015, with activity highest from UK equity funds and US institutional investors.

Prime office yields hardened across Germany's top five cities in 2015, with the largest year-on-year shift of 75 bps taking place in Berlin, which is now at 4.0%. In Munich, yields fell by 65 bps to 3.75% – the first time office yields in Germany have fallen below the 4.0% threshold. Although office investment stock is low in Frankfurt, and volumes are the highest of the five cities, prime yields are the highest amongst the big five cities at 4.3%, reducing by 40 bps in 12 months.

Key office investment transactions in 2015

City	Property	Seller	Buyer	Approx. price (€million)
Frankfurt	Trianon	Madison International / Art Invest / Morgan Stanley	NorthStar Realty Finance	552.6
Munich	Siemens Campus	HHH / RFR Realty	Pramerica / Gingko Tree	400.0
Hamburg	Berliner Tor Center	Morgan Stanley	Zurich Financial	270.0
Berlin	Stettiner Carree	Global Asset Capital	Allianz	210.0
Düsseldorf	Theodor Haus	AXA Group	IKB	183.8

Source: Knight Frank Research / Real Capital Analytics

KNIGHT FRANK VIEW

Following three years of accelerated growth, Germany's commercial investment market is expected to stabilise in 2016. Investor confidence will remain positive, and as a result, office investment in 2016 will mirror that seen during the same period of 2015. The economic uncertainties noted in the wider global markets is expected to have only a limited impact on German investment activity.

The occupier markets, whose growth has generally lagged that of the

investment markets, are expected to record positive trends in 2016. Evidence at the tail end of 2015 suggests that with city-wide vacancy rates in the major cities approaching historical lows, there will be opportunities for rental premiums to be commanded in the new developments due to enter the market this year, particularly in the cities of Berlin, Frankfurt and Munich where demand for offices is high.



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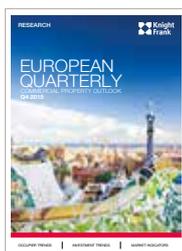
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