

GERMAN OFFICE AND INVESTMENT MARKET IN Q3 2018:

- **Strong demand continues in the third quarter: take-up only just below last year's record**
- **Markets remain in excellent condition: investment turnover of just over 42.8 bn €**

In the first three quarters of 2018 office space take-up was just over 2.86 million m² in the eight main German locations Berlin, Cologne, Düsseldorf, Essen, Frankfurt, Hamburg, Leipzig and Munich. Take-up was only around 2.5 % short of the record set in the previous year. On the investment side, 42.8 bn € was invested nationwide in commercial property. The previous year's turnover was improved once again by over 8 %.

OFFICE MARKET

- **Second best interim result of all time; only 2.5 % short of the previous year's record**
- **Vacancy rate reduction continues; -17 % across all locations**
- **Rent increases across the board; top rent up by an average of just over 5 %, average rents up by just under 7.5 %**
- **Outlook for 2018: Very high take-up and continued increase in rents again expected**

"In the third quarter the German office markets maintained the high level of demand seen in the first half-year. Up to the end of September 2018 a take-up of just over 2.86 million m² was registered. This is the second best result of all time and only 2.5 % short of the record set in the previous year," explains **Riza Demirci, Managing Director of BNP Paribas Real Estate Germany and Head of National Office Advisory**.

However, there have been some very different developments in the individual locations. **Munich again had by far the biggest take-up, registering a result of 689,000 m²**. The capital of Bavaria not only improved on the previous year's result by almost 16 %, it also set a new record.

This was also achieved by Frankfurt, where a take-up of 477,000 m² (+3 %) also represents a new record. The banking metropolis impressed in particular in the third quarter with over 200,000 m². The third record-breaker is Leipzig, where 110,000 m² (+12 %) also means a new all-time high and for the first time the 100,000-m² mark was exceeded after nine months. **Behind Munich in second place among the big cities is Berlin with a result of 575,000 m²**. Take-up is therefore down by around 18 % in the capital compared to the previous year. In particular the inadequate supply of space is responsible for this, and as result not all property searches can be satisfied. Nevertheless, it is still the third best result ever recorded.

Average vacancy rate only 4.5 %

The reduction in vacant space has continued. **Across all locations included, the current volume of vacant space is 17 % lower than one year ago at 4.27 million m²**. Supply has fallen across all cities, albeit at different rates. The biggest reduction was recorded by Cologne, where the amount of vacant space is down by almost 28 % compared to the previous year and now totals just 213,000 m². The vacancy rate has therefore fallen below the fluctuation reserve to 2.7 %. There was a similar percentage reduction in volume in Munich (-27 %). With a take-up of 540,000 m², the vacancy rate in the overall market is therefore only 2.6 %. The amount of vacant space has also fallen in Frankfurt by 21 % to 1.19 million m², with the result that the vacancy rate has fallen below 8 % for the first time in 15 years to 7.7 %.



Rents increase significantly

The very good take-up and simultaneous fall in supply are reflected in an increase in rents. **Top rents have risen in the past 12 months by an average for all cities of just over 5 %.** With the exception of Essen, where the figure has remained unchanged at 15 €/m², all locations have benefited from this development. **Berlin proved to be particularly dynamic, with the top rent rising by almost 10 % to currently 34 €/m².** It is expected that this trend will continue in a similar fashion in the capital in the next year. The top rent has also risen significantly in Frankfurt by 7.5 % to its highest level since 2001, 43 €/m².

Average rents have risen by even more, by 7 % across all locations compared to the previous year, clearly underlining the trend of rising rents in all locations and market segments.

INVESTMENT MARKET

- **New record result for single deals of just over 31.1 bn € (+11 %)**
- **Total transaction volume of just over 42.8 bn €**
- **Second best investment turnover of all time in the first three quarters**
- **Portfolio sales also increase to 11.7 bn € (+2 %)**
- **Office investments again number one with 44 %**
- **Prime yields fall further in several cities**
- **Almost 1,300 recorded transactions**
- **Share of foreign buyers around 40 %**

“With an investment turnover of just over 42.8 bn €, the previous year’s very good result was improved once again by 8 %. More was only invested in the first three quarters in 2007, although this was driven by a lot of large-volume portfolio sales. Investment in single properties, on the other hand, reached an unprecedented level: With just over 31.1 bn €, the record set only last year was beaten once again by 11 %. There is therefore currently no sign of a drop in investor interest » explains **Piotr Bienkowski, CEO of BNP Paribas Real Estate Germany.**

Office remain investors’ darling

Office properties, which account for just over 18.7 bn € and 44 % of total turnover, remain by far the most popular asset class. The biggest contributor to this asset class with 17.28 bn € were single transactions, which set a new record with an increase of almost 16 %. This development was driven not least by several large-volume deals with high-rises in Frankfurt, including the sales of the properties Gallileo, Garden Tower, Pollux and OmniTurm.

In second place are retail properties, which contribute with just under 8.9 bn € almost 21 % to the result. Here it needs to be taken into account, though, that the properties sold as part of the Kaufhof/Karstadt merger alone are responsible for over 1.8 bn € of the result. The volume with retail properties is around the previous year’s level with around 4.95 bn €.

The top three is completed by logistics investments, which account for just under 12 % (5.01 bn €). Due to the huge investor interest, turnover in this market segment could be increased significantly if an adequate supply were available. Hotels also achieve an exceptionally good result with a share of almost 7 % and are just below the record set last year with just over 2.9 bn €. Also worthy of note is the high share of care homes with just over 6 % (2.6 bn €), which are increasingly becoming an important asset class and are attracting more and more investors. **This trend also shows that investors are willing to tap into new markets, because they believe in the fundamental and long-term stability of Germany.**



Share of foreign buyers around 40 %

Deals involving foreign investors are also relatively stable as at the end of the third quarter with 40 %. This is down by around seven percentage points on the previous year's figure. The volume invested by them has also fallen slightly in absolute terms. However, this should not to be interpreted as a drop in interest, because the share often fluctuates slightly due not least to the available supply in the large-volume portfolio segment. **European buyers were the busiest with 19.5 %, followed by North American investors, who contribute just under 10 % to the result.** Asian investors take third place with almost 5 % and therefore finish just ahead of buyers from the Middle East, who reach 4 %.

“In particular the major German A locations Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich and Stuttgart have benefited and, due to their good prospects and noticeably growing populations, are still the first choice for the majority of investors, especially with office investments. With a transaction volume of just over 26.2 bn €, they have not only beaten the previous year's exceptionally good result by almost 27 %, but again set a new record,” states **Marcus Zorn, Deputy CEO of BNP Paribas Real Estate Germany.**

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